SASKEN ANNUAL REPORT 2005 – 2006

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Sasken has always believed in looking for new, uncommon ways of doing things. In taking the path less trodden. Which, as so many great people have shown us, is the way to make history.

Inspiring figures like Ekalavya, King Ashoka, Tansen, Columbus, Emperor Shah Jahan and Sun Tzu, to name a few, possessed traits of single-mindedness, leadership, talent, perseverance, a passion for excellence and the spirit of winning.

They sharpened and nurtured these traits and through them made a difference.

In the world of telecom Sasken too seeks to make a difference.

We concluded, the best way we can do that is by taking a leaf from great lives.

By getting inspired by these iconic figures. By following in their legendary footsteps.

So we too encourage single-mindedness, leadership, talent, the ability to persevere, the pursuit of excellence and a winning spirit.

Because if we're going to make a difference what better way to do that than by emulating those who have made a difference.

Table of Contents

Board of Directors

Mr. Rajiv C Mody	Chairman & Managing Director
Mr. Pranabh D Mody	Director
Mr. Krishna J Jhaveri	Whole-time Director
Mr. J B Mody	Director
Prof. J Ramachandran	Director
Dr. Ashok Jhunjhunwala	Director
Mr. Bansi S Mehta	Director
Mr. Vinod K Dham	Director
Dr. G Venkatesh	Whole-time Director
Mr. Sanjay M Shah	Director
Mr. Shirish B Mody	Alternate Director to Mr. J B Mody

Committees of the Board

Audit Committee

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

Compensation Committee

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

Share Transfer and Investor Grievance Committee

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

Management Council Members

Mr. Rajiv C Mody	Chairman & Managing Director
Dr. G Venkatesh	Whole-time Director, CTO, Chief Strategist & Head, Products
Mr. Hari Iyer	Vice President, Culture Officer
Mr. Krishna J Jhaveri	Whole-time Director & President, North America Operations
Mr. Kumar Prabhas	Chief Operating Officer & Head, Services
Ms. Neeta S Revankar	Chief Financial Officer
Mr. Swami Krishnan	Chief Marketing Officer

Chief Financial Officer

Ms. Neeta S Revankar

Company Secretary & Compliance Officer

Mr. R Vittal

Statutory Auditors

S.R. Batliboi & Co.
Chartered Accountants

Internal Auditors

S.B. Billimoria & Co.
Chartered Accountants

Bankers

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

Registered and Corporate Office

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

The making of a true leader

King Ashoka

King Ashoka has come to be regarded, even among western historians, as one amongst the ideal rulers in the history of the world. In 262 B.C., Ashoka's armies attacked and conquered Kalinga (roughly modern Orrisa). The loss of lives caused by battle so touched Ashoka, that it brought about a complete sea change in him. Ashoka dedicated the rest of his reign to the welfare of his subjects. He built free hospitals, rest houses and wells; he planted fruit and shade trees; promoted education, fair trials, truthfulness, purity of heart, etc. He erected pillars stating his lofty aims all over the kingdom.

The government of India has honoured the memory of this great ruler by adopting the Ashoka Chakra as a national symbol.

Letter to Shareholders

Letter to Shareholders

Mr. Rajiv C Mody
Chairman and Managing Director

Dear Shareholder,

It is with great pleasure that I present to you the business results of your Company for the Financial Year 2005-06. This has been a landmark year for Sasken in many ways.

Sasken has seen robust growth; revenues have increased by 27% in rupee terms, from Rs. 241.77 crore in 2004-05 to Rs.308.13 crore in 2005-06. Software Services, including Network Engineering Services, grew at 35%, contributing 91% to the revenues, while the Software Products revenues contributed 9%. Our onsite-offshore revenue ratio for the year was 18:82. Revenue per person stood at US $28,529. The net profits grew from Rs. 22.78 crore to Rs. 22.92 crore during the year after an exceptional item, which was a provision against a sum awarded in an arbitration with a customer with whom a licensing agreement had been made. The net profits before this exceptional item stood at Rs. 29.68 crore, registering a growth of 30%.

A key milestone during the year was that Sasken went public and listed on the Bombay Stock Exchange and the National Stock Exchange in September 2005. We received an overwhelming response to our IPO, an oversubscription of 76 times. We thank each and every one of you for believing and investing in Sasken.

The proceeds from the IPO are being channelised towards the construction of a 2000-seater campus in Bangalore. The preliminary work has already begun and we should see this pick up momentum in the coming year.

From a strategic perspective, we continue to focus on the telecom marketplace. Our aim here is to connect all the dots in the telecom value chain and derive synergistic benefits from our ability to work with global Tier 1 customers. Our business strategy, therefore, continues to be one of entrenching key accounts and entering into new ones to increase our share of wallet. In the year gone by, we acquired five new key accounts, scaled one account to US $3 Million+ and another to US $20 Million + in terms of annualized revenues.

Sasken also took significant steps towards becoming a truly global company. A key development was the launch of our Mexico development centre in keeping with our proximity-to-markets strategy for delivering to customers. This center is now up and running, and recruitment efforts are on full swing. Your company also incorporated a development centre in China. Both these centers have a strong anchor lead customer and we expect these to grow in manpower terms in the coming financial year.

A significant operational highlight of the year gone by was a sharp increase in our utilization rates on the services side from 64% in FY05 to 76% in FY06. This has come about primarily due to greater focus on internal efficiencies and reflects our maturity as a services organization. We focused on new offerings last year and launched a new vertical aimed at global telecom Service Providers. More offerings are being tested for market acceptance and should be launched next year.

From the products perspective, it was an important year, even though we continue to be in an investment mode. We had taken a conscious decision to move to a royalty-based model on the products side and it has started paying off, with royalty revenues starting to be realized from a global Japanese 3G handset manufacturer. We expect this revenue stream to mature and scale by the fourth quarter of 2006-07.

We also launched a new Integrated Solutions suite, and followed it up by demonstrating a full functional phone using the same at the 3GSM World Congress, a prestigious event in the global telecom industry. Your company also signed an agreement with IXI to obtain the IP of Connect OS™, which was a significant breakthrough. Further to this agreement, Sasken will combine the IXI-Connect OS™ with existing Sasken IP to offer its customers a competitive and comprehensive solution in terms of footprint, price and performance.

On the people front, we grew from a consolidated team size of 2,121 at the beginning of the year to 2,575 on March 31, 2006. You will read more of this in the People First segment. Your company operates in the knowledge industry where there is an ongoing "war for talent". In addition to this, there is a challenge to meet the annual increase in employment costs. The management is cognizant of these challenges and has initiated a number of innovative measures to address these issues.

I am concluding on the note that there is strong market acceptance of your Company's offerings. There are going to be challenges that we will have to face as we continue to grow globally, but I look at these as opportunities. I am sure that we are well poised to tap these opportunities and deliver a robust financial performance.

I am proud of each and every Sasian worldwide who has contributed in delivering this performance last year. I am also thankful to you for supporting the management of this Company and look forward to continually receiving the same.

Thanking You,

Rajiv C Mody

Chairman and Managing Director

The pursuit of excellence

Emperor Shah Jahan

The reign of Emperor Shah Jahan has been widely acclaimed as the golden period of the Mughal dynasty. Like his grandfather, Akbar the Great, Shah Jahan too was passionate about architecture. He rebuilt the Red Fort, built the Shahjahanabad palaces, laid out many beautiful gardens and constructed the magnificent Taj Mahal. The last in memory of his beloved queen, Mumtaz Mahal. Material for the Taj Mahal's construction was brought in from Sri Lanka, China, Arabia, Tibet, Afghanistan and all over India using a fleet of 1000 elephants. It took 20,000 workers 22 years to complete the Taj Mahal at a cost of 40 million rupees (or half a billion US dollars today).

People First

People First

Sasken's corporate credo is "People First". It is built on the three pillars of Competence, Commitment and Character, which are manifested in all that we do.

This philosophy is pervasive at Sasken and each employee, called Sasian, strengthens it further by his participation and suggestions. This is evinced by the fact that 32 percent of new recruits come to us through our Internal Referral Program. We now have 2500+ motivated employees working with us across the globe. Most of our people policies and initiatives are carved out of employee ideas.

Mutual trust and respect define our employee relationships. We endeavor to create a work environment that is flexible, informal, supportive and empowering. Our flexi time policy allows Sasians to achieve work-life balance. There is no enforced dress code – we understand that attire has little bearing on your integrity or competence. We provide several amenities – open 24 hours a day, our office has cafeterias, exclusive ATMs, a fitness center, medical center, Montessori childcare center, creche and a 24 / 7 travel desk.

Our Group Medical Insurance Policy is tailor-made to help all Sasians include a maximum of 5 dependants. The premium for the policy is equally borne by the company and the employee.

After four years of service, an employee becomes eligible for six weeks of hibernation leave, in addition to all other paid leave. The entire company takes a week-long Christmas vacation each year.

Various industry fora have consistently recognized Sasken's unique policies, over the years. In the last year, we were:

- Ranked 2nd by the Business Today – Mercer – TNS India survey on the Best Companies to Work For in India
- Ranked 8th by the Businessworld – Grow Talent survey on Great Places to Work For in India

These awards only inspire us to keep working and engaging ourselves to address, satisfy and improve on the ever increasing expectations of all our stakeholders.

Hi-Tech. Hi-Touch

The Company and its subsidiaries, had net adds of around 450 people during 2005-06, taking the total number of employees to 2500+ by the end of the year. This excludes people who are engaged with us on a contract basis. Over 73% of the new employees had work experience, and the rest were freshers recruited from campuses across India.

Employee Strength – Consolidated

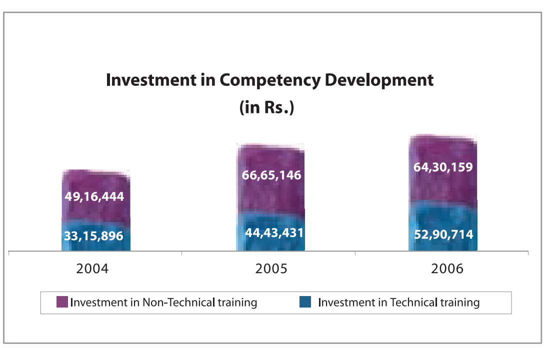
Year	Nos.
2004	1454
2005	2121
2006	2575

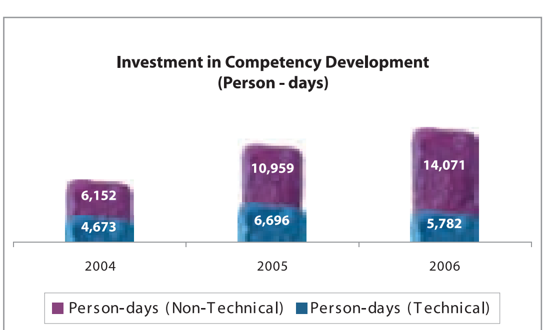
Competency Development

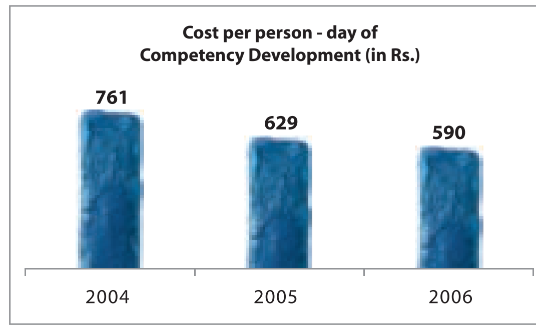
Sasken is a knowledge-driven company that values transparent business practices, and provides comprehensive solutions to help businesses achieve their goals of rapid product innovation and profitability, through learning. Training, for Sasken, is a means for continuous learning. This year, about 20,000 person-days of training were imparted, which represents an increase of about 9% over the last year. The company invested more than Rs.11.5 million in training. Nearly 70% of the training was on technical competencies, while the rest was on non-technical competencies. The training included an wareness program on Intellectual Property Rights across the organization. Programs like On Becoming a Leader (OBL), Udaya and Sparsh, which were developed completely in-house with active involvement of line managers, continued to be imparted across the organization.

We also believe in encouraging people to upgrade their knowledge through educational programs. Our policies facilitate employees to take a Sabbatical, wherein on completion of two years of service, all employees, regardless of position, grade or designation are eligible to take a one-year break from service to pursue higher studies or learning.

We encourage learning in all forms. As part of Sasken's thrust towards quality global education, the company sponsored two senior managers last year for the International Masters Program in Practicing Management.







Leadership

Last year, we started the Development Assessment Center wherein each manager's leadership requirements are mapped. And then, based on the assessed requirements, development programs are designed and administered. The Development Assessment Center is an extendesd activity of our Career Planning and Management initiative. The information derived through this initiative will be used for the organizational hierarchy to enable employees to take the lead in the management of their own development and career progression within the organization. Based on the assessed requirements, development programs in specific areas are conducted.

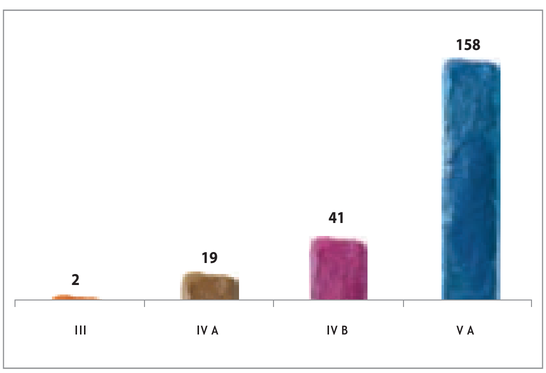
Performance Management

In the last year, the Performance Management System, which was migrated to PeopleSoft, stabilized and was effectively used across the organization. The KPAs for many roles were further standardized. Various on-going team and individual rewards, to recognize significant contributions, continued.

Cascading, a process to align the goals of the organization with the individuals, has been piloted in a few functions / Business Units. A campaign to create awareness on the significance of performance management was also launched. This campaign included talks by the management council members, rewards for process adherence, and information dissemination on the performance management system through different media and an exhibition on the "Concept of Goal".

The transition and promotion policy has been designed to give equal opportunities to all employees. The policy emphasizes that each individual chalks out his or her own career path for which all support and guidance is provided by Sasken.

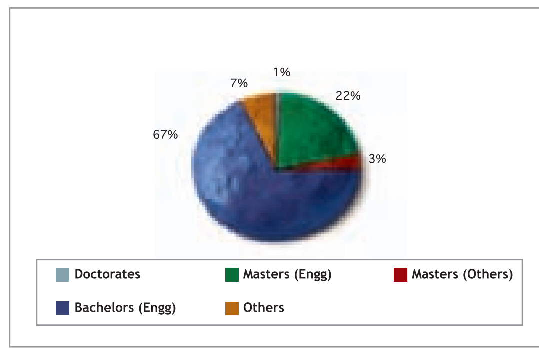
Number of movements to higher bands



Employee Communication

Sasken is a strong advocate of two-way employee communication processes, which are built on Transparency and Trust. Platforms such as performance planning and appraisal facilitate effective communication between a manager and her team. We do have General Information Sharing (GIS) sesssions to share operational metrics and unit-wise performance details with all managers. Organization-wide Quarterly Business Meets are held, wherein our top management shares the company's standing and progress. Touch-time meets between the HR and individuals, one-on-one meetings between the employee and the reporting manager, and skip-level meetings, are some of the other fora for employee communication that continued last year. Regular updates on media reports related to Sasken, information on activities in and around Sasken, and highlights on "Star Sasians" were initiatives that continued.

Sasken Employee Profile



Work-Life Balance

A team that laughs together lives together. Continuing our emphasis on work-life balance, softer entertainment and recreational programs for employees and their families were held on an on-going basis. Among other things, we continue to have a professionally-run Sasken creche, housing about 17 children cared for by trained people. We also have professionally run medical centers at 4 of our facilities.

We have state of the art, well-equipped fitness centers at two of our facilities. We have trained personnel to guide and help employees through aerobics and yoga, apart from the normal exercises. Regular sessions on stress management and health awareness programs, periodic health camps for employees and their dependants, and recreational activities are also part of the work-life balance initiatives that happen on a regular basis.

The rewards of perseverance

Christopher Columbus

One of the world's best-known explorers, Christopher Columbus discovered America in 1492. Today he is revered by history, but it was not all smooth-going for Columbus. Columbus planned to find a shorter sea route to India by sailing westwards from Europe. He first took his plan to Portugal where he was denied funds, then he went to Spain. After seven years of untiring lobbying, King Ferdinand and Queen Isabella finally granted him the ships and money for his voyage. His troubles weren't over as yet. Legend has it that after weeks of sailing the crew grew so homesick that they threatened to sail back to Spain. Columbus pleaded with them to stay on course. Five weeks later his faith and perseverance paid off - he had discovered the Americas. Columbus wrote of his journey, "God gave me the faith, and afterwards the courage."


AMERICA

Technology and Markets

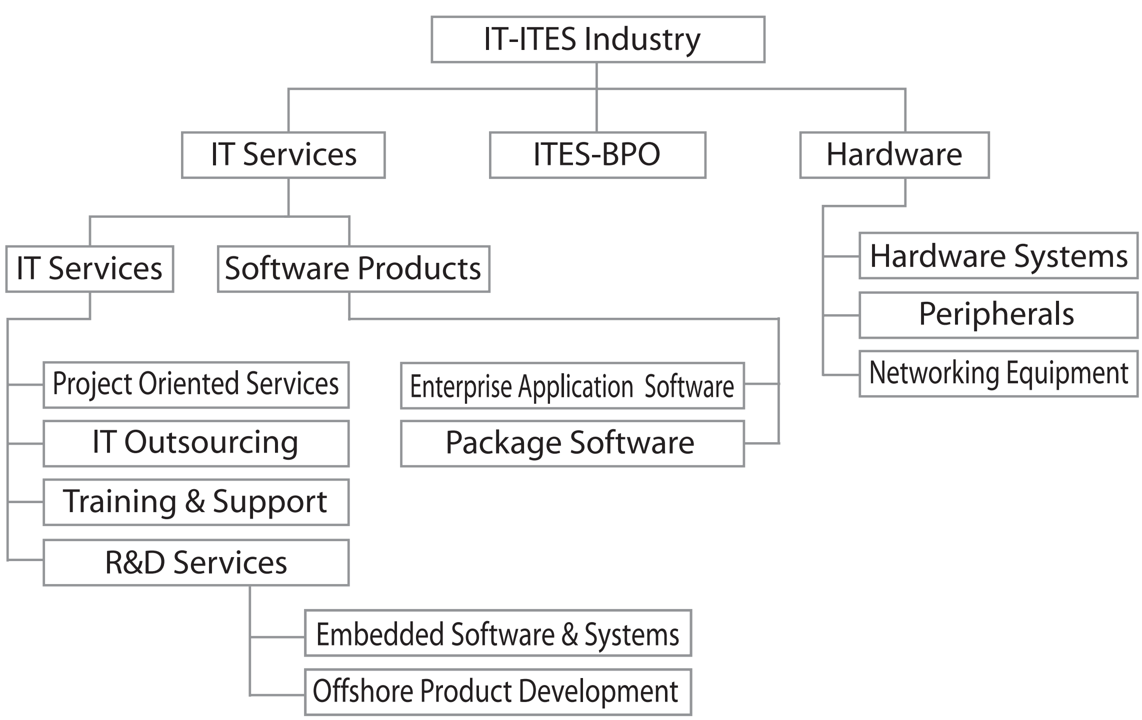
Technology and Markets

Overview

Sasken is a focussed communication software company with a particular presence in the broadband and wireless software space. The core expertise of Sasken lies in developing embedded communication software for companies across the communication value chain – Network Equipment Manufacturers (NEMs), Semiconductor Vendors, Terminal Device Vendors and Operators. Our growth strategy is focused on connecting all the dots in the telecom value chain and creating competitively priced software solutions that help our customers increase their revenue base.

In the context of the Indian IT industry structure, Sasken's services fall under the R & D services category, which in turn, is a part of IT Services.

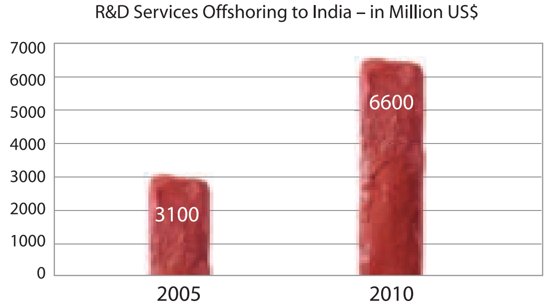
Structure of the Indian IT-ITES industry



Indian R&D Services

The Indian R & D services market, though at a nascent stage, is undergoing a quiet change. Currently valued at US $3.1 billion (barely 1.5 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 the Indian R & D Services and Software Products market to grow at a CAGR of 16%.

R&D Services Offshoring to India – in Million US$



Source: Industry Reports

Sasken – Services

Our services can broadly be termed as embedded R & D outsourcing services. We currently provide services, solutions and technologies to customers who are large network equipment manufacturers (both wireless and wireline), semiconductor manufacturers, terminal device vendors, test and measurement equipment providers, and operators worldwide. Our subsidiaries extend our offerings to network equipment manufacturers to service their non-embedded or non-R & D outsourcing requirements.

Sasken – Products

Sasken's products are primarily targeted at the mobile handset space. The three product lines are:

- **Wireless Modem Solutions** (Protocol stacks for GSM / GPRS / EDGE and WCDMA based phones)
- **Application Solutions** (Multimedia and messaging subsystems for smartphones)
- **Integrated Solutions** (full software bundle including Sasken and 3rd party components for feature phones).

Sasken works closely in conjunction with leading semiconductor companies; maturing its phone software with semiconductor platform providers, Sasken jointly licenses these to phone manufacturers – OEMs or ODMs – on a royalty model.

Segment-wise Market Trends

Network Equipment Manufacturers

The leading vendors in the market are Nortel, Lucent and Motorola from North America, and Ericsson, Nokia, Siemens and Alcatel from Europe. The market is split across two competing technologies – CDMA 2G / 3G and GSM(2G) / UMTS(3G). GSM / UMTS is the dominant technology. 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.

Challenges

Even as revenues from legacy technologies like 2G decline, equipment vendors have to continue to support commitments to a huge installed base. At the same time, equipment vendors need to commit resources to develop 3G products to ensure their future success. Given that the overall markets are expected to remain flat, vendors need to strike a balance between new product development and support costs. Vendors have responded to this challenge by outsourcing the legacy product software maintenance and upgrade to lower cost offshore centers such as India, China and Eastern Europe. The NEMs through such outsourcing arrangements are able to optimize team size and cost, even as they fulfill their support and product development requirements with a lower budget overall.

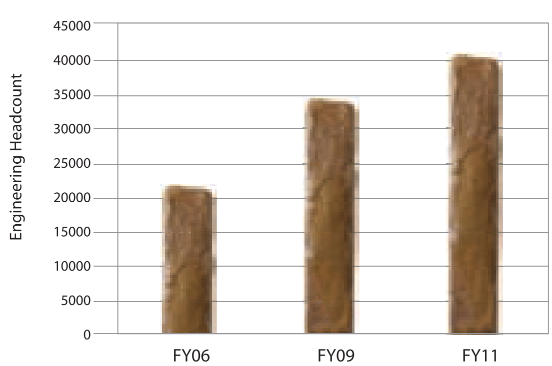
Key Trends in the Worldwide NEM Market

• **Consolidation** – with the recently announced merger of Lucent and Alcatel, we believe that consolidation is certainly here to stay. Overall, the key trend has been the need to improve R & D efficiencies through aggregation and offshoring, which has a positive impact on Sasken's R & D services business. However, there could be consolidation of R & D activities in India as well. This is unlikely to impact Sasken's business in the medium term as most product lines would continue post consolidation due to contractual / other reasons.

• **Software Focus** – A large percentage of future spend by infrastructure players is expected to be in software and solutions. Going forward, even with traditional infrastructure such as switching, software will be the value driver. Next generation networks, and therefore, next generation vendors will be very different from the present ones.

• **Asian Dominance** – Asian vendors, especially Korean ones, have started taking a stronghold on the market. In the new environment, they are growing rapidly by leveraging domestic technical partnerships.

NEMs Offshoring Composition to India



Source: Industry Reports, Sasken estimates
Headcount includes captive headcount

Semiconductors

The worldwide semiconductor market revenue touched $235 billion in 2005 and is likely to increase by about 106% to around $258 billion in 2006. It is estimated that for the next two years the market will post single-digit revenue growth, after which there will be market cyclicity.

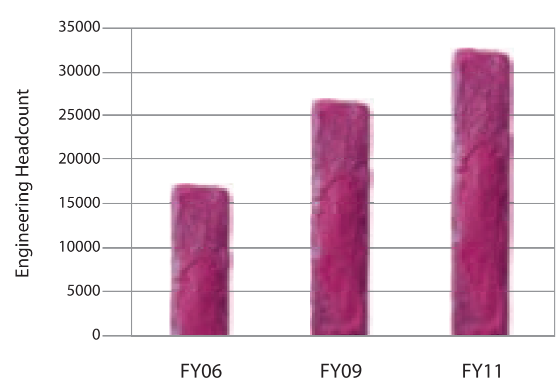
Sasken's Segment Business Strategy

- Focus on application specific integrated circuits and programmable devices
- Focus on the communications, consumer, and data processing segments
- Increase share of wallet with customers by offering both Integrated Chip Design Services and Silicon Platform Software Services, depending on customers' needs across the product and technology life cycles

Key Trends in the Worldwide Semiconductor Market

- Greater focus on SoC integration for mobile phones and consumer devices like set top boxes
- Offshoring to India has picked up pace
- Formation of SemIndia and SIA
- Semiconductor companies have started to look at India more strategically and are seeking partnerships with software IP firms – this will have a positive impact on Sasken's products business

Semiconductors Offshoring Composition to India



Source: Industry Reports, Sasken estimates
Headcount includes captive headcount

Terminal Devices

In 2005, an estimated 817 Mn mobile phones were sold and it is estimated that in 2006 that number will grow to 900+ Mn. The top six vendors – Nokia, Motorola, Samsung, LG, Sony Ericsson and BenQ – gained market share, while vendors outside the top six collectively lost market share in 2005.

The terminal devices market can be segmented into four broad categories. The categories and the challenges associated with each category, in our opinion, are detailed below:

Global Players:

This segment constitutes the leading handset vendors who sell in almost all, if not all markets worldwide. Typically, these companies have extensive in-house R & D capabilities and control over the entire supply chain of hardware and software components that go into the phone. The challenge for vendors in this segment is to retain and improve market shares, for which they need to launch more and more phone models and customize them for different consumer requirements in various regions.

Regional Players:

These consist of local brands, which meet the needs of the local market only. The strongest markets for local brands are in Japan and Taiwan. China has a number of emerging brands. Regional players look for ready-to-manufacture phone solutions and are typically agnostic to technology or platforms. The challenge for this segment is to retain market share in the local market in the face of competition from the global players. This segment is challenged further by the lack of large R & D budgets and has to rely on external technology suppliers.

Operator-driven handset suppliers:

These consist of ODMs (Original Design Manufacturers) and OEMs (Original Equipment Manufacturers) who design handsets to specifications defined by cellular operators, ODMs and OEMs. The phones are delivered through operator outlets. Operators want to deliver services closely aligned with consumer needs and hence would like to define technical specifications of handsets that can deliver such services. By defining the look and feel of the handset user interface, operators would like to create mindshare among consumers. However, this creates conflict with the global players, who would like the look and feel to be aligned with their brands.

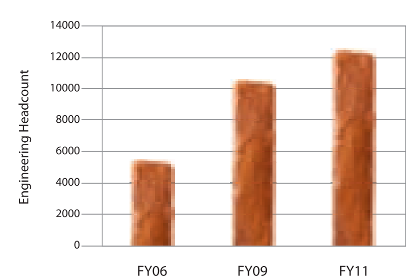
Operator-branded handset suppliers:

Operator-branded handsets are similar to operator-driven handsets in that the operators drive the phone specification. But in addition, the phone is branded with the operator's brand. The phones are designed and manufactured by ODMs who are geared to meet more stringent operator specification compliance requirements.

Key Trends in the Worldwide Terminal Devices Market

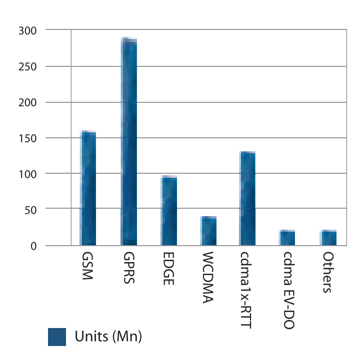
- 3G phones beginning to pick up especially in Japan and with it, the market for smartphones
- Price war started between mobile phone manufacturers
- Feature phones are a strongly growing segment
- Software integration and testing is the key challenge – Sasken benefiting from integration / testing services and from licensing software IP

Terminal Devices R & D Offshoring to India



Source: Industry Reports, Sasken estimates
Headcount includes captive headcount

Global Terminal Devices Market – Technology Cut – 2005



Source: Various industry reports, Sasken estimates. Please note that these are only estimates and not accurate numbers.

The gift of talent

Tansen

One of the legendary figures in the history of Indian classical music, Tansen was a revered musician in the court of Mughal Emperor Akbar. It is believed that Tansen and his guru Swami Haridas started the Drupad style of singing. Tansen, one of the navratnas (or nine jewels) in Akbar's court, is also credited with creating many ragas. Stories and legends about Tansen's musical powers abound. For instance, it is said that he was able to create rain by singing Megh raga. And that he once lit lamps in the court by singing Deepak raga. To this day, every year in Gwalior, near Tansen's tomb, a highly popular music festival is held.

A Seven Year Snapshot
The Year at a Glance

Financial Performance – A Seven Year Snapshot

In Retrospect – Consolidated

Rs. in Lakhs

Particulars	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1) Revenue account							
Revenue	7,591.56	14,283.34	10,862.70	10,938.19	16,613.01	24,177.00	30,812.79
PBIDTA	3,039.61	4,180.60	912.32	2,038.43	2,757.69	3,551.46	4,818.11
Depreciation & Amortisation	878.31	808.31	1,790.47	1,257.92	1,187.79	1,419.04	1,790.85
PBIT & Exceptional item	2,161.30	3,372.29	(878.15)	780.51	1,569.90	2,132.42	3,027.26
Other income	427.34	112.86	149.08	(15.93)	130.45	367.08	640.72
Interest	88.18	136.44	439.62	362.23	79.84	47.32	14.30
Exceptional item	–	–	–	–	–	–	676.08
Profit / (Loss) before tax	2,500.46	3,348.71	(1,168.69)	402.35	1,620.51	2,452.18	2,977.60
Income tax (including withholding taxes and FBT)	1,014.34	538.07	395.17	275.09	(213.20)	174.15	685.98
Profit / (Loss) after tax	1,486.12	2,810.64	(1,563.86)	127.26	1,833.71	2,278.03	2,291.62
Dividend	463.01	500.80	–	–	379.02	505.42	838.09
2) Capital account							
Share capital	1,247.47	1,256.53	1,266.94	1,271.00	1,516.09	1,684.72	2,793.64
Share application money	–	–	0.06	1,642.76	–	25.49	–
Reserves and surplus	6,347.17	8,912.74	7,785.29	7,211.71	9,858.70	12,483.59	35,708.37
Loan funds	85.63	3,176.47	3,539.34	2,675.35	42.68	145.59	115.04
Gross block	4,799.25	10,144.22	13,048.69	13,174.82	13,716.82	16,102.72	19,289.87
Net block (Including Capital work in progress)	2,914.28	7,531.87	8,949.20	8,234.87	7,805.35	8,773.95	10,111.79
Capitalised software product costs (net of amortisation)	–	–	–	576.40	115.03	–	1,413.45
Investments	1,905.38	186.18	335.41	14.42	264.29	55.95	18,651.01
Net current assets	2,860.61	5,627.69	3,307.02	3,975.12	3,232.80	5,509.49	8,440.80
3) Other information							
Total number of shareholders	441	572	659	709	788	935	28,498
Number of employee shareholders (including ex-employees)	218	317	394	432	467	463	1,371

Financial Performance – A Seven Year Snapshot (Contd.)

Particulars	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
4) Ratios							
a) Profitability / Efficiency							
Operating turnover / Total income (%)	95%	99%	99%	100%	99%	99%	98%
PBIDTA / Total turnover (%)	40%	29%	8%	19%	17%	15%	16%
PBIT & Exceptional item/Total turnover (%)	28%	24%	-8%	7%	9%	9%	10%
PBT / Total turnover (%)	33%	23%	-11%	4%	10%	10%	10%
PAT / Total turnover (%)	20%	20%	-14%	1%	11%	9%	7%
Return on average net worth (%)	30%	32%	-16%	1%	17%	18%	9%
(PAT / average net worth)(%)							
Return on average capital employed (pre-tax)	45%	33%	-6%	6%	14%	19%	11%
(PBT+ Interest) / (average capital employed)(%)							
Return on average capital employed (post-tax)	27%	28%	-9%	4%	16%	18%	9%
(PAT+ Interest) / (average capital employed)(%)							
Sales to average net working capital	3.3	3.4	2.4	3.0	4.6	5.5	4.4
Total Revenues to average total assets	1.4	1.4	0.9	0.9	1.4	1.9	1.2
Fixed Assets turnover	1.6	1.4	0.8	0.8	1.2	1.5	1.6
b) Liquidity							
Net working capital to total assets	0.4	0.4	0.3	0.3	0.3	0.4	0.2
Average collection period (days)	126	127	98	104	74	82	77
Current ratio	3.2	3.5	2.9	3.9	2.6	2.6	3.2
c) Leverage							
Debt-Equity ratio	0.0	0.3	0.4	0.3	0.0	0.0	0.0
Interest cover	17.9	21.6	(2.6)	1.4	24.0	49.1	161.3
Total assets / net worth	1.0	1.3	1.4	1.3	1.0	1.0	1.0
d) Growth							
Growth in operational turnover (%)	61%	88%	-24%	1%	52%	46%	27%
Growth in PBITDA (%)	47%	38%	-78%	123%	35%	29%	36%
Net profit growth (%)	22%	89%	-156%	108%	1341%	24%	1%

The Year at a Glance – Consolidated

For the year	31-Mar-06		31-Mar-05	
	Rs. Lakhs	K US $	Rs. Lakhs	K US $
Exports Revenues	24,190.55	54,680.27	22,411.02	49,979.97
Domestic Revenues	6,622.24	14,968.90	1,765.98	3,938.41
Other income	640.72	1,448.28	367.08	818.64
Profit before interest, taxes, depreciation and amortisation (PBITDA)	4,818.11	10,890.85	3,551.46	7,920.29
PBITDA as a percentage of revenue	15.6%	15.6%	14.7%	14.7%
Profit before taxes (PBT)	2,977.60	6,730.56	2,452.18	5,468.73
Profit after tax (PAT)	2,291.62	5,179.97	2,278.03	5,080.35
Earnings per share ... Weighted Average (in Rs. / US $)+	9.08	0.21	13.94	0.31
Earnings per share ... Diluted (in Rs. / US $)+	8.87	0.20	13.53	0.30
Equity Dividend percentage	30%	30%	30%	30%
Equity Dividend amount	838.09	1,894.42	505.42	1,127.16
Investment in fixed assets (Gross)	3,030.40	6,792.33	2,428.14	5,551.30
PBT as a percentage of average net worth*	11.3%	11.3%	19.3%	19.3%
PAT as a percentage of average net worth*	8.7%	8.7%	17.9%	17.9%
Revenue per person year**	1.26	28,529	1.28	28,636
At the end of the year				
Total assets	38,617.05	86,556.20	14,339.39	32,783.24
Fixed assets (net)	10,111.79	22,664.55	8,773.95	20,059.33
Working capital	8,440.80	18,919.20	5,509.49	12,596.00
Investment	18,651.01	41,804.35	55.95	127.91
Total debt	115.04	257.85	145.59	332.85
Net worth	38,502.01	86,298.35	14,193.80	32,450.39

To facilitate comparison figures in US $ have been arrived at by converting Rupee figures as follows:

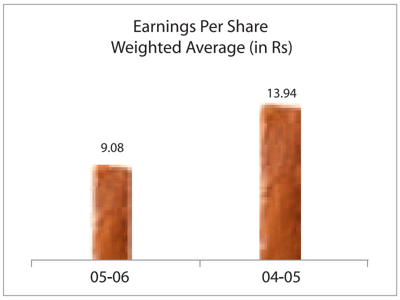
– at the average conversion rate for all revenue items

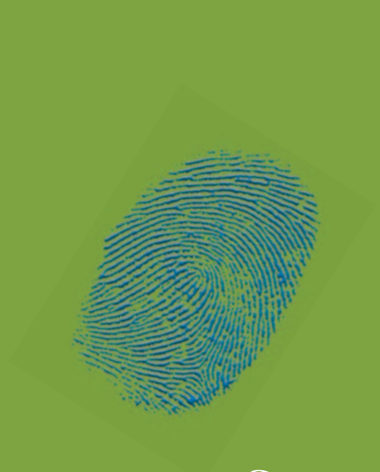
– at the closing rate for all Balance Sheet items

* Share application money is excluded

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

+ Face value of Rs. 10 per share





Single-minded vision

Ekalavya

A much-loved character in the Mahabharata, Ekalavya was born a prince in a tribal kingdom. Obsessed with archery, he tried to persuade the famed teacher, Drona to teach him, but the guru who was teaching the royal Pandavas, refused to do so. Ekalavya then returned to the jungle and made a statue of Drona before which he practiced rigorously daily. With only this inanimate statue as a teacher he soon became the best archer in the land renowned for his amazingly accurate aim. Across India, Ekalavya is even today regarded a shining example of single-minded concentration and focus.

Financials

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 31st March 2006.

Result of Operations (Consolidated)

(Rs. in Lakhs)

Particulars	Year ended March 31, 2006	Year ended March 31, 2005
Revenues	**30,812.79**	**24,177.00**
Cost of Revenues	20,115.06	14,044.41
Gross Profit	10,697.73	10,132.59
Non-operating Income	640.72	367.08
Exceptional Item	676.08	–
Profit before Income tax	2,977.60	2,452.18
Income Tax Expense / (Credit), net	685.98	174.15
Profit after Tax	**2,291.62**	**2,278.03**
Appropriation:		
Proposed Equity Dividend	838.09	505.42
Dividend Tax	117.54	70.88
Transfer to General Reserve for the year	129.05	216.98

The consolidated revenues have grown by 27.4% during the year ended March 31, 2006 to Rs. 30,812.79 Lakhs from Rs. 24,177.00 Lakhs during the year ended March 31, 2005. The software services revenues witnessed growth of 26.9% during the year to Rs. 25,823.79 Lakhs from Rs. 20,349.45 Lakhs during the previous year.

The proportion of the software services business was 83.8% of total revenue during the year as against 84.2% of total revenue during the previous year.

The revenues from network engineering services increased to 7.3% during the year from 1.8% during the previous year. The revenues from software products declined to 8.9% during the year ended March 31, 2006 from 14.0% during the year ended March 31, 2005. The decline was largely on account of the revenue decline during the year ended March 31, 2006.

The segmental profits during the year were Rs. 9,178.97 Lakhs as against Rs. 7,797.13 Lakhs during the previous year. Segmental profit margin for software services was 33.9% during the year as against 37.3% during the previous year. However the segmental losses for software products increased to 15.4% during the year ended March 31, 2006 as against a profit of 4.1% during the year ended March 31, 2005, largely on account of the revenue decline during the year ended March 31, 2006. Segmental profit for network engineering services improved to 38.2% during the year as against 13.9% during the previous year on account of volume growth in its first full year of operations.

Dividend

The Board recommends a dividend of 30% this year.

Further Issue of Equity

During the year under review, your Company successfully completed its IPO and raised Rs. 130 Crores by the issue of 5,000,000 equity shares of Rs. 10/- each at a price of Rs. 260 per share. The issue was over subscribed by about 76 times. The issue was primarily to set up a campus for software development at the premises adjacent to existing Registered Office. Your Company has already initiated the process in this regard. Utilisation of the proceeds of the IPO is detailed in the Notes forming part of Accounts.

A snapshot of the shares issued during the year is given below:

Particulars	Date of Allotment	No. of Shares
Issued on exercise of ESOP	14.04.2005	35,940
Issued to Nortel Networks Mauritius Limited, Mauritius	14.04.2005	32,28,334
Issued to Nokia Growth Partners, LP, USA	14.04.2005	6,00,000
Issued to MVC VI FVCI Limited, Mauritius	27.04.2005	18,00,000
Initial Public Offer	31.08.2005	50,00,000
Issued on exercise of ESOP	21.11.2005	287,710
Issued on exercise of ESOP	18.01.2006	86,741
Issued on exercise of ESOP	17.03.2006	50,434

Acquisition

Your Company has entered into a definitive agreement on 5th April 2006 for the acquisition of Integrated SoftTech Solutions P. Ltd. (iSoftTech), Chennai. iSoftTech is focused on providing embedded and enterprise solutions for customers in the VoIP, WLAN and Networking markets, along with a complete set of product life cycle support services for data networks customers. This acquisition will help your Company establish a development center in Chennai. iSoftTech's domain expertise and skills will also help your Company make a foray into the datacom domain.

Employee Stock Option Plan

ESOP 2000

During the year, the Company granted 3,04,050 options to its employees in April 2005. The options outstanding with employees as of 31st March 2006 are 11,41,658 options of Rs. 10 each.

ESOP 2006

At the Extraordinary General Meeting held on 25th February 2006, the members of the Company approved formation of ESOP 2006 with a kitty of 35,75,000 options to be issued over a period of time to eligible employees and Directors of the Company, its subsidiaries and holding company.

The Company's ESOP continues with the philosophy of sharing wealth with its employees and encourages the employees to be partners in the growth of the organization.

The details required under SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme), Guidelines 1999, as on 31st March 2006 are given in Annexure 1 forming part of this Report.

Awards

Members will be proud to note that your Company has received the following awards and accolades.

November 20, 2005	Ranked # 2 in "The Best Companies to Work For In India" survey by Business Today – Mercer-TNS
December 4, 2005	Ranked # 172 in the BT-500 India's Most Valuable Companies listing by Business Today
December 20, 2005	Ranked # 29 among the top 50 technology companies in India and # 409 in the Asia Pacific region in a ranking published by Deloitte Consulting.
February 6, 2006	Ranked # 8 in "The Great Places To Work For In India" survey by Businessworld – Grow Talent

Patents

Your Company encourages the employees to file for Patents, so that the R & D investment translates into economic benefit for the organization. The Company as on date has filed a total of 39 Patent applications (including 5 new patents filed during the year). Out of these 9 patents have been granted and 2 patents have been allowed by the US Patent and Trademark Office.

The Company began to develop intellectual property in 1997. Filing of patents continues to be a significant aspect of the Company's business strategy.

The patent applications granted by the USPTO during the year were:

(a) Modifications in the multi-band excitation (MBE) model for generating high quality speech at low bit rates
(b) Preprocessing modules for quality enhancement of MBE coders and decoders for signals having transmission path characteristics
(c) Method for allocating bits and power in multi-carrier communication system
(d) License management system
(e) Data decompression technique for image processing

The patents allowed for grant by the USPTO during the year are:

(a) Method for Finding Representative Vectors in a Class of Vector Spaces
(b) System and Method for Automatically Downloading Software Applications to a Remote Terminal

Corporate Governance

Your Company is committed to maintain the highest standards of Corporate Governance. Your Directors adhere to the standards set out by the Securities and Exchange Board of India's (SEBI) Corporate Governance practices and accordingly have implemented all the major stipulations prescribed. Your Company's Corporate Governance Compliance Certificate dated 14th April 2006 in line with Clause 49 of the Stock Exchange Listing Agreement is given in Annexure 2 forming part of this Report.

Directors' Responsibility Statement

As stipulated in Section 217(2AA) of the Companies Act, 1956 (the Act), your Directors subscribe to the "Directors' Responsibility Statement" and confirm that:

- In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- The Directors have selected such accounting policies and applied them consistently and made judgments 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 or loss of the Company for that period.
- The Directors have taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of the Act 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.

As mentioned in Note 3 (g) in Schedule 17 to the Financial Statements, a contract has been entered into with a customer to whom shares were allotted preferentially providing for certain assured volumes of business to be provided by that customer to the Company. Having regard to the very nature of that contract which provides for such assured business to span over a few years, it is not feasible to quantify the benefits that the Company may derive from that contract. However, insofar as it relates to orders already placed with and executed by the Company, the relevant revenue (as also the relative costs) are / will be reflected in the Profit & Loss Accounts of the respective years.

Subsidiary Companies

On 22nd November 2005, your Company incorporated a subsidiary in Mexico, viz. Sasken Communication Technologies Mexico S.A. De C.V. The subsidiary has not earned any revenue since incorporation. Apart from incorporation and similar pre-operative expenses, we have made investments in establishing the infrastructure at Mexico, so that software development work can commence soon.

On 4th January 2006, your Company incorporated a subsidiary in China, viz. Sasken Communication Technologies (Shanghai) Co. Ltd. There has been no transaction in this subsidiary till 31st March 2006.

As approved by the members, your Company has filed a petition in the Hon'ble High Court of Karnataka for amalgamating with itself, the wholly owned subsidiary – Sasken Network Systems Limited. As and when approved by the Court, the Scheme of Amalgamation will take effect from 1st April 2005 or such other date as may be decided by the Court.

As required under Accounting Standard 21, Consolidated Financial Statements incorporating the results of (a) Sasken Network Systems Limited (SNSL) (b) Sasken Network Engineering Limited (SNEL) and (c) Sasken Communication Technologies Mexico S.A. De C.V. (Sasken Mexico) are given in this Report.

As exempted by the Ministry of Company Affairs, the audited Financial Statements along with the reports of the Board of Directors and the Auditors pertaining to SNSL and SNEL have not been attached to this Report. The Financial Statements of the said subsidiaries will be kept for inspection by any investor in the Registered Office of your Company and that of the subsidiaries. Investors who want to have a copy of the above may write to the Company Secretary at the Registered Office. The Financial Statements of Sasken Mexico are given in an annexure to this Report.

Directors

Dr. Ashok Jhunjhunwala and Mr. Jyotindra B Mody retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

Mr. Sanjay M Shah was co-opted as an additional director on 10th June 2005 and as such he holds office upto the date of this Annual General Meeting. A notice under Section 257 of the Act, has been received from a member signifying his intention to propose Mr. Sanjay M Shah as a candidate for the office of Director and accordingly a resolution will be placed before the members at the forthcoming Annual General Meeting.

Remuneration payable to Executive Directors and Non-Executive / Independent Directors are detailed in the notice convening the Annual General Meeting for members' approval.

Conservation of Energy, Technology Absorption and Foreign Exchange Outgo

Information in accordance with the provisions of Section 217(1)(e) of the Act, 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 Annexure 3 forming part of this Report.

ISO 14001

Sasken is committed to be a responsible member of the communities in which we live and work. We have recently launched an Environmental initiative based on the ISO 14001 standard. This initiative will help position your Company as a good corporate citizen through commitment to achieving high standards of environmental quality, strive to conserve natural resource and provide a safe and healthful workplace for our employees, contractors and communities.

TL 9000

Sasken Network Engineering Ltd, (SNEL), a wholly owned subsidiary, earned the prestigious TL 9000 certification during the year. TL 9000 is a quality management system developed for the telecommunications industry. SNEL is the first Indian company in the network engineering space to achieve this global standard.

Particulars of Employees

The particulars of employees, as required under Section 217(2A) of the Act are given in Annexure 4 forming part of this Report. It may be noted that in accordance with the notification dated 24th March 2004 issued by the Department of Company Affairs, Government of India, particulars of employees posted and working in a country outside India, not being directors or their relatives drawing more than Rupees Twenty-four Lakhs per financial year or Rupees Two Lakhs per month as the case may be are not included in this statement but such particulars will be furnished to the Registrar of Companies. Such particulars will be made available to any shareholder on specific request made by him / her during the course of Annual General Meeting.

Deposits

Your Company has neither accepted nor renewed any deposits during the year. 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 for reappointment.

Acknowledgement

Your Directors place on record their appreciation of co-operation and support extended by customers, shareholders, vendors, bankers and all governmental and statutory agencies. Your Directors 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

Bangalore
April 14, 2006

Rajiv C Mody
Chairman & Managing Director

Annexure to the Directors' Report

Annexure 1

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

1.	Outstanding Options at the beginning of the year as on 01.04.2005	14,18,488
2.	Options granted during the year	3,04,050
3.	Total Options vested (but not exercised) cumulative till 31.03.2006	3,60,208
4.	Total Options exercised during the year	4,28,965
5.	Total number of shares arising as a result of exercise of option	4,28,965
6.	Total Options lapsed (due to resignation, etc.) as on 31.03.2006	1,51,915
7.	Money realised by the exercise of Options (in Rs.)	6,11,38,216
8.	Total number of Options outstanding as on 31.03.2006 (cumulative)	11,41,658
9.	Variation of terms of Options	Nil

10. 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. The options issued in April and June 2004, have a vesting schedule at 13 quarterly rests starting at July 2005 with a price for each quarter at Rs. 160 to Rs. 256. The options issued in February 2005 have a vesting schedule at 10 quarterly rests starting at April 2006 with a price for each quarter at Rs. 184 to Rs. 256. The options issued in April 2005, have a vesting schedule at 13 quarterly rests starting at July 2006 with a price for each quarter at Rs. 225 to Rs. 321.

11. Employee-wise details of Options granted to:

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

    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

    Details of Options granted to senior managerial personnel during the year under review:

Name of Employee	No. of Options (of Rs. 10 each)
(a) Mr. Ashok Bhaskar	3,750
(b) Mr. Ashok Desai	3,900
(c) Mr. Kush Shah	100
(d) Mr. Ramkumar Balasubramanian	3,750
(e) Mr. Ram Mohan	3,750
(f) Mr. Richard T. Hafey Jr.	3,750
(g) Mr. Shrikrishna Govind Gokhale	7,500
(h) Mr. Srinivasa Rao Kandula	3,750
(i) Ms. Sirisha Voruganti	3,750

12. Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of Option calculated in accordance with the Indian Accounting Standard (AS) 20 Rs. 5.00 per share.

Annexure 2

CORPORATE GOVERNANCE COMPLIANCE CERTIFICATE

To:
The Members,
Sasken Communication Technologies Limited,
Bangalore.

We have examined all relevant records of Sasken Communication Technologies Limited (the Company) for the purpose of certifying compliance of the conditions of Corporate Governance under clause 49 of the Listing Agreement with Bombay Stock Exchange Limited and National Stock Exchange of India Limited, for the period commencing from 9th September 2005 (date of initial listing) to 31st March 2006. We have obtained all information and explanation, which to the best of our knowledge and belief were necessary for the purposes of the certification.

The compliance of the conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof adopted by the Company for ensuring the compliance of conditions of the Corporate Governance. This certificate is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company.

On the basis of our examination of the records produced, explanations and information furnished, we certify that the Company has complied with:

(a) All the mandatory conditions of the said Clause 49 of the Listing Agreement
(b) The following non-mandatory requirements of the said Clause 49
- Constitution of Remuneration Committee (designated as Compensation Committee)
- Implementation of the Whistle Blower Policy
- Audited Financial Results for the half-year ended 30th September, 2005 were mailed to shareholders.

For jsundharesan & associates
Company Secretaries

Date : 14th April 2006
Place : Bangalore

J SUNDHARESAN
Practising Company Secretary
ACS 7990
CP No.5164

Annexure 3

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) spreading awareness among the employees on the need to conserve energy (iii) Optimizing HVAC and other plant & machinery system performance to reduce cost.

Further, the Company is implementing ISO 14001:2004 and taken an organizational objective to optimize energy utilization.

B) Research and Development and Technology Absorption

The Company continued its emphasis during the year on improving the feature content and the performance of existing products.

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

A significant milestone during the year was the licensing of ConnectOS suit of products from Israel. This software was integrated into the Application Framework being developed as part of the Integrated Solution product line directed at the feature phone market, and was successfully showcased at the 3GSM conference in Barcelona in Feb 2006.

We also undertook R & D in the areas of DSL, Multimedia codecs, Multimedia Applications, Application Frameworks for feature phones and in the area of 2.5 and 3G Mobile Protocol Stacks. The Company's ADSL host modem received certification from BSNL during the year. The multimedia codecs and applications have reached considerable maturity in terms of testing and deployments and have found very good acceptance with customers in Japan and Europe. During the year, the 3G protocol stack product has been going through extensive testing for conformance to standards, and for inter-operability with network equipment from the major providers. The Company is also developing a TDSCDMA protocol stack for the Chinese market together with a leading Chinese silicon manufacturer and the initial trials for voice calls have been carried out successfully.

C) Foreign Exchange Earnings and Outgo (Rs. in Lakhs)

Foreign exchange earnings	25,957.72
Foreign exchange outgo (including capital goods purchased, recovery of travel expenses and dividend paid in foreign currency)	9,319.62

Corporate Governance

Corporate Governance, in our view, relates to systems and processes that direct corporate resources and management strategies towards maximising value for stakeholders while ensuring accountability, probity and openness in the conduct of business within the acceptable legal and ethical framework. A good governance process should thus provide sufficient transparency over corporate policies, strategies and the decision making process while strengthening internal control systems and building relationship with stakeholders, including employees and shareholders. The adherence to good governance practices in true spirit, not just in letter, will help align interests of stakeholders, enhance investor confidence and provide access to cheaper capital, in turn facilitating the creation of superior value on a sustainable basis.

Sasken became a listed company with effect from 9th September 2005 and has been committed to the adoption of best governance practices for many years. Our governance philosophy rests on five basic values viz., Integrity, Respect, Innovation, Customer Intimacy and Excellence. Above all, our governance practices reflect the true spirit of the trusteeship that is deeply ingrained in the value system and reflected in the strategic thought process, at all times.

Your Directors present the Corporate Governance Report for the year 2005-06 based on the disclosure requirements under clause 49 of the Listing Agreement existing as of 31st March 2006.

Board of Directors

Composition

Your Company's Board consists of Executive, Non-executive and Independent Directors with considerable experience in their respective fields. The Chairman of the Board is an Executive Director. Of the entire Board, 50% of the Directors are "Independent", as defined in Clause 49 of the Listing Agreement.

Present composition of the Board is as follows:

Director	Executive/ Non-Executive/ Independent	No. of Equity Shares held as of 31st Mar 06	No. of outside Directorship held*		Outside Committees**	
			Public	Private	Member	Chairman
Mr. Rajiv C. Mody	Executive	11,113	3	1	–	–
Mr. J.B Mody	Non-Executive	368,106	5	3	1	–
Mr. Bansi S. Mehta	Independent	5,929	14	–	5	4
Prof. J. Ramachandran	Independent	1,150	5	4	1	1
Dr. Ashok Jhunjhunwala	Independent	120	5	4	2	–
Mr. Vinod K. Dham	Independent	–	1	–	–	–
Mr. Sanjay M. Shah	Independent	4,037	–	3	–	–
Mr. Pranabh D. Mody	Non-Executive	318,506	5	3	–	–
Mr. Krishna J. Jhaveri	Executive	14,556	–	–	–	–
Dr. G. Venkatesh	Executive	201,232	1	–	–	–
Mr. Shirish B. Mody	Alt. Director	1,500	5	3	–	–

* This does not include unlimited companies, foreign companies and companies under Section 25 of the Companies Act, 1956.

** Only membership in Audit and Investor Grievance Committees are considered.

Board Meetings

The Board normally meets once in a quarter. Additional meetings are held as and when required. During the current year, being an exceptional year marked by the Initial Public Offering, the Board of Sasken met as many as 9 times on 14th April 2005, 19th April 2005, 27th April 2005, 10th June 2005, 26th July 2005, 27th October 2005, 19th December 2005, 19th January 2006 and 17th March 2006.

The agenda papers along with explanatory statements were circulated well in advance of each meeting of the Board of Directors with sufficient information as required under Clause 49 of the Listing Agreement.

Director's Interest in the Company and Attendance Record

The attendance of the Directors at the Board Meetings held during the year is given below:

Director	Number of meetings held	Number of meetings attended	Details of Sitting Fee Paid (Rs.)
Mr. Rajiv C. Mody	9	9	–
Mr. J.B Mody	9	4	8,000
Mr. Bansi S. Mehta	9	7	30,000
Prof. J. Ramachandran	9	7	30,000
Dr. Ashok Jhunjhunwala	9	5	26,000
Mr. Vinod K. Dham	9	1#	2,000
Mr. Sanjay M. Shah	6*	5	26,000
Mr. Pranabh D. Mody	9	7	30,000
Mr. Krishna J. Jhaveri	9	2##	–
Dr. G. Venkatesh	9	9	–
Mr. Shirish B. Mody	2**	2	20,000

* No. of meetings held since his appointment

** Appointed as an Alternate Director for Mr. J. B. Mody effective 27th October 2005.

Participated 3 meetings through Video Conferencing

Participated 2 meetings through Video Conferencing

Directors' membership in Board / Committees

As per the Listing Agreement no director can be a member in more than 10 committees or act as Chairman of more than 5 committees across all companies in which he / she is a director.

No Director of the Company is a member in more than 10 committees or acts as Chairman of more than 5 committees across all companies, in which he is a director.

Remuneration

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. in Lakhs)
Mr. Rajiv C. Mody	Chairman & Managing Director	75.84
Mr. Krishna J. Jhaveri	Whole-time Director	94.11
Dr. G. Venkatesh	Whole-time Director	42.71

All elements of remuneration package of Executive Directors:

The remuneration payable to the Executive Directors is broken into two parts viz., fixed pay and Performance Indexed Compensation (PIC). PIC 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. PIC 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.

Apart from the remuneration to the Executive Directors as mentioned above, they are not entitled to any other benefits such as, bonuses, commissions, etc. Contribution towards provident and superannuation funds is as per the Company's policy and forms part of the fixed pay. Among the Executive Directors, Mr. Rajiv C Mody and Mr. Krishna J Jhaveri being Promoter Directors are not eligible for stock options.

The Company compensates the Independent Directors keeping in veiw the time and attention devoted by them for the Company. Other Non- Executive Directors are presently paid sitting fees for attending the board meetings. Maximum Remuneration paid / payable to Independent Directors for the year ended 31st March 2006 is as under:

Name of the independent director	Amount (Rs. in Lakhs)
Mr. Bansi S. Mehta	6.49
Professor J. Ramachandran	6.49
Dr. Ashok Jhunjhunwala	6.49
Mr. Vinod K. Dham	9.64

The remuneration proposed for the financial year 2006-07 is given in the notice convening the next Annual General Meeting, forming part of this Annual Report.

M/s. Bansi S. Mehta & Co., Chartered Accountants, in which Mr. Bansi S. Mehta, a Director of the Company is a Partner, were paid a sum of Rs. 3,85,700 for carrying out Financial Due Diligence in the matter of an acquisition.

Board Committees

As of 31st March 2006, your Company has the following committees:

(a) Audit Committee
(b) Compensation Committee
(c) Share Transfer and Investor Grievance Committee

Audit Committee

The purpose of the Audit Committee is to ensure the objectivity, credibility and correctness of the Company's financial reporting and disclosure process, internal controls, risk management policies and processes, tax policies, compliance and legal requirements and associated matters. The Audit Committee consists of four Directors, three of whom are Independent Directors:

Mr. Bansi S Mehta is the Chairman of the Audit Committee. The other members of the Committee are Prof J. Ramachandran, Dr. Ashok Jhunjhunwala and Mr. Pranabh D. Mody.

The gist of terms of reference of the Audit Committee is 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. Conducting 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 Directors' Responsibility Statement with respect to compliance with Accounting Standards and accounting policies.
9. Compliance with Stock Exchange legal requirements 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. To review the functioning of Whistle Blower mechanism.
13. 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 five times during the year on 18th April 2005, 25th July 2005, 26th October 2005, 18th January 2006 and on 17th March 2006 to deliberate on the aforesaid matters. The minutes of the meetings are placed before the Board at the succeeding Board Meeting for information.

Details of the attendance of Directors are given below:

Director	No. of Meetings		
	Held	Attended	
Mr. Bansi S. Mehta	5	5	
Prof. J. Ramachandran	5	5	
Dr. Ashok Jhunjhunwala	5	5	
Mr. Pranabh D. Mody*	2	2	

* Nominated as a Member on 27th October 2005.

Mr. Rajiv C. Mody, Chairman & Managing Director, Ms. Neeta S. Revankar, CFO and both the Internal as well as Statutory Auditors of the Company are permanent invitees to the Audit Committee. Mr. R. Vittal, Company Secretary acts as Secretary to the Committee.

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 K. Dham.

The gist of terms of reference of the Compensation Committee is given below:

1. To review performance and determine the remuneration payable to Executive Directors.
2. To determine the number of stock options to be granted under the Company's Employees Stock Option Scheme 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.

The Compensation Committee met three times on 19th April 2005, 25th July 2005 and 26th October 2005. The minutes of the meetings are placed before the Board at the succeeding Board Meeting for information.

Details of the attendance of Directors are given below:

Director	No. of Meetings		
	Held	Attended	
Prof. J. Ramachandran	3	3	
Dr. Ashok Jhunjhunwala	3	3	
Mr. Vinod K. Dham	3	1	

Share Transfer and Investor Grievance Committee

The Company has a "Share Transfer and Investor Grievance Committee" at the Board level to inter alia look into various issues relating to Investor Grievances including transfer and transmission of shares, issue of duplicate share certificates, non-receipt of dividend, Annual Report, etc. The Committee meets to approve share transfers, transmissions and issue of duplicate share certificates from time to time. The Committee consists of three Directors:

Professor J. Ramachandran is the Chairman of the Share Transfer and Investor Grievance Committee. The other members of the Committee are Mr. Rajiv C. Mody and Dr. G. Venkatesh.

The Share Transfer and Investor Grievance Committee met four times during the year on 13th April 2005, 26th July 2005, 26th October 2005 and 19th January 2006 to deliberate on the aforesaid matters. The minutes of the meetings are placed before the Board at the succeeding Board Meeting for information.

Details of the attendance of Directors are given below:

Director	No. of Meetings	
	Held	Attended
Prof. J. Ramachandran	4	4
Mr. Rajiv C. Mody	4	4
Dr. G. Venkatesh	4	4

The shares of the Company are traded on the stock exchanges only in the dematerialised form and are automatically transferred on delivery in the dematerialised form. To expedite transfer of shares in physical segment, authority has been delegated to the Company Secretary to approve such share transfers.

As on 31st March, 2006, there were no pending share transfers. Number of complaints received and redressed are highlighted in the "Shareholder Information" section of the Annual Report.

Name and Designation of the Compliance Officer: Mr. R. Vittal, Company Secretary

Management Discussion and Analysis

A Management Discussion and Analysis Report forms part of this Annual Report and is in accordance with the requirements laid out in Clause 49 of the Listing Agreement with Stock Exchanges.

General Meetings

Details of last three Annual General Meetings of the Company are given below:

Year	Venue	Date	Time
2005	Registered Office of the Company	10th June, 2005	4.30 pm
2004	Registered Office of the Company	11th June, 2004	4.30 pm
2003	Registered Office of the Company	14th July, 2003	4.30 pm

Two Executive Directors, one Non-Executive Director and Chairman of the Audit Committee attended the Annual General Meeting held on 10th June 2005.

Details of last three Extraordinary General Meetings of the Company are given below:

Year	Venue	Date	Time
2006	Registered Office of the Company	25th February, 2006	10.30 am
2005	Registered Office of the Company	28th March, 2005	5.00 pm
2004	Registered Office of the Company	16th July, 2004	4.30 pm

During the last three years, your Company passed Special Resolutions in respect of appointment and / or remuneration to Directors, alteration of Memorandum and Articles of Association, IPO, Preferential / Rights Issue of Shares, Stock Options to Employees, etc.

No resolutions were passed during the year that was required to be passed through postal ballot.

Disclosures

Related Party Transactions

Disclosures on materially significant related party transactions, i.e. transactions of the Company of material nature, with its promoters, the directors or the management, their subsidiaries or relatives, etc. that may have potential conflict with the interests of company at large:

There is no material transaction with any related party, which requires a separate disclosure. Schedule 17 of the Annual Accounts as at 31 March 2006 contains the list of related party relationships and transactions as required by Accounting Standard (AS) 18 on 'Related Party Disclosures' issued by the Institute of Chartered Accountants of India (ICAI).

Details of non-compliance by the Company, penalties and strictures imposed on the Company by Stock Exchange or SEBI or any other statutory authority, on any matter related to capital markets, during the last three years:

The Company has complied with the requirements of the Stock Exchange or SEBI on matters relating to Capital Markets, as applicable from time to time.

Means of communication

The Company's Quarterly, Half-Yearly and Annual results as well as copies of the Press Releases and Company Presentations are displayed at Company's website www.sasken.com

The financial results are generally published in Business Standard / The Financial Express (a National daily) and in Kannada Prabha (a vernacular Kannada daily).

The audited financial results for the half-year ended 30th September 2005 were sent by post to all members of the Company.

All material information about the Company is promptly sent through facsimile to the Stock Exchanges where the Company's shares are listed and released to wire services and the Press for information of the public at large. Besides, the Company disseminates information through Press meets and Analyst meets.

Code of Conduct

All the Members of the Board and Senior Management personnel have affirmed compliance with the Company's Code of Conduct.

Rajiv C. Mody
Chairman & Managing Director

General Shareholder Information

Forthcoming AGM

The next Annual General Meeting of the Company will be held on 17th June 2006 at 10.30 AM at the Registered Office of the Company at 139/25, Ring Road, Domlur, Bangalore 560 071.

Financial Calendar for 2006-07

Event	Likely Board Meeting Schedule
Financial Reporting for the quarter ending June 30, 2006	Second fortnight of July 2006
Financial Reporting for the quarter ending September 30, 2006	Second fortnight of October 2006
Financial Reporting for the quarter ending December 31, 2006	Second fortnight of January 2007
Financial Reporting for the year ending March 31, 2007	Second fortnight of April 2007

	Likely Shareholder Meeting Schedule
Annual General Meeting for the year ending March 31, 2007	June – July 2007

Book Closure dates for the purpose of dividend

The Register of Members and Share Transfer Books will remain closed from 12th June 2006 to 17th June 2006 (both days inclusive) to determine the entitlement of shareholders to receive the dividend as may be declared for the year ended 31st March 2006.

Payment of Dividend

Dividend on equity shares as recommended by the Directors for the year ended 31st March 2006, when declared at the Annual General Meeting will be paid on or before 15th July, 2006:

(a) To those members whose names appear on the Company's Register of Members, after giving effect to all valid share transfers in physical form lodged with the Company or the Share Transfer Agent – Messrs Karvy Computershare P. Ltd. on or before 10th June 2006;

(b) In respect of shares held in electronic form, to those "deemed members" whose names appear in the statement of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as on 10th June 2006.

Listing on Stock Exchange

Your Company's equity shares are listed on the following stock exchanges as of 31st March 2006:

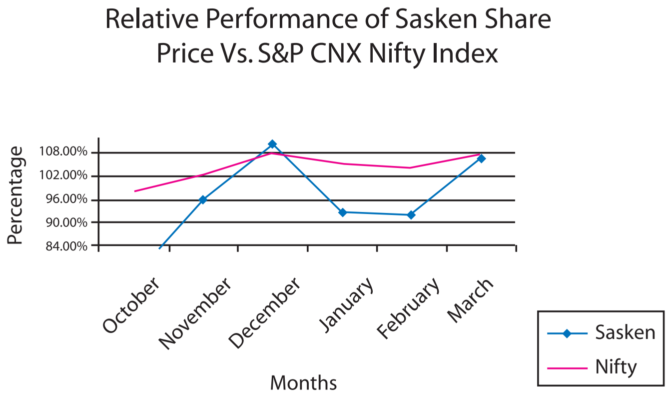
Bombay Stock Exchange Limited (BSE) Phiroze Jeejeebhoy Towers, Dalal Street Mumbai 400 023	National Stock Exchange of India Ltd. (NSE) Exchange Plaza, 5th Floor, Bandra Kurla Complex, Bandra (East) Mumbai 400 051
Stock Code 532663	Stock Code SASKEN
ISIN Number for equity shares	INE231F01020

Listing fees for the year 2006-07 have been paid to both the Stock Exchanges.

Stock Market Data

The monthly high and low stock quotations during the financial year (from the month of listing) and performance in comparison to broad based indices are given below:

Month 2005-06	Price at NSE during each month (in Rs.)		Volume Traded (in 000s)	S&P CNX Nifty Index during each month		Sasken Price movement vis-á-vis previous month		S&P CNX Nifty Index movement vis-á-vis previous month	
	High	Low		High	Low	High %	Low %	High %	Low %
Sep	624.00	377.00	39217	2633.90	2441.90	–	–	–	–
Oct	426.90	316.00	1880	2669.20	2307.45	68.41	83.82	101.34	94.49
Nov	370.00	331.10	990	2727.05	2366.80	86.67	104.78	102.17	102.57
Dec	433.00	341.05	5302	2857.00	2641.95	117.03	103.01	104.77	111.63
Jan	387.95	325.95	882	3005.10	2783.85	89.60	95.57	105.18	105.37
Feb	355.25	300.25	953	3090.30	2928.10	91.57	92.12	102.84	105.18
Mar	366.50	330.00	1064	3433.85	3064.00	103.17	109.91	111.12	104.64



Investor Correspondence

The Company Secretary
Sasken Communication Technologies Limited
139/25, Ring Road, Domlur,
Bangalore 560 071.
Tel: 080 5694 4000 Extn. 4914
Fax: 080 5694 4329 / 2535 1309
Email: investor@sasken.com

Registrar and Share Transfer Agent

(For share transfers and other communication relating to share certificates, dividend and change of address)

Karvy Computershare Pvt. Ltd.
46, Avenue 4, Street No.1,
Banjara Hills, Hyderabad 500 034.
Tel: 040 2342 0816 / 817
Fax: 040 2342 0814
Email: mailmanager@karvy.com

Distribution of Shareholding as on 31st March 2006

No. of equity shares held	No. of share holders	% of share holders	No. of shares held	% share holding
1–5000	27,110	95.13	15,66,547	5.61
5001–10000	558	1.96	4,33,913	1.55
10001–20000	329	1.15	4,76,023	1.70
20001–30000	137	0.48	3,43,061	1.23
30001–40000	66	0.23	2,37,439	0.85
40001–50000	45	0.16	2,07,914	0.75
50001–100000	86	0.30	6,34,150	2.27
100001 and above	167	0.59	2,40,37,334	86.04
Total	**28,498**	**100.00**	**2,79,36,381**	**100.00**

Shareholding Pattern as on 31st March 2006

Category	No. of Shares	%
Promoters	63,00,524	22.55
Persons acting in Concert	9,06,853	3.25
Mutual Funds	5,64,236	2.02
Banks & Financial Institutions	5,600	0.02
FIIs	26,99,349	9.66
Private Corporate Bodies	16,33,912	5.85
NRIs / OCBs	22,53,536	8.07
Trusts	15,088	0.05
Foreign Venture Capital Companies	12,75,500	4.57
Indian Venture Capital Companies	6,34,575	2.27
Foreign Investors	67,32,334	24.10
Public	49,14,874	17.59
Total	**2,79,36,381**	**100.00**

Details of complaints

Nature of Correspondence	2005-06	
	Received	Redressed
Status of applications lodged for IPO	175	175
Non receipt of Refund Orders after IPO	239	239
Non receipt of Electronic Credits	72	72
Total	**486**	**486**

There are no valid requests pending for share transfers as at 31st March 2006.

Details of Public Issue and utilisation thereof

During the last financial year, your Company successfully completed its IPO and raised Rs. 130 crores by the issue of 5,000,000 equity shares of Rs. 10 each at a price of Rs. 260 per share. The issue was over subscribed by about 76 times.

Both Bombay Stock Exchange Ltd. and National Stock Exchange of India Ltd., granted approval for listing of shares and trading on the equity shares commenced on 9th September 2005. Currently Sasken shares are very actively traded on both the exchanges.

The issue was primarily to set up a campus for software development at the premises located adjacent to existing Registered Office. Your Company has already initiated the process. Out of the amount raised in the IPO, Rs. 584.31 Lakhs have been paid towards issue expenses and the balance of Rs. 12,415.69 Lakhs is held as investment in Mutual Funds as at the end of the year. The issue expenses totalling to Rs. 584.31 Lakhs have been adjusted against Securities Premium Account.

Other information useful for Shareholders

Share transfer requests are acted upon within 7–10 days from the date of their receipt at the Registered Office / Registrar. In case no response is received within 15 days of lodgement of transfer request, the lodger may write to the Company with full details so that necessary action could be taken to safeguard interests of the concerned against any possible loss / interception during postal transit.

Dematerialisation requests duly completed in all respects are normally processed within 7 days from the date of their receipt.

Electronic Clearing Service / Mandates / Bank Details

Shareholders may please note that Bank Account details given by members to their Depository Participants would be reckoned for payment of dividend under Electronic Clearing Service facility. Shareholders desirous of modifying those instructions may write to the Share Transfer Agent, Messrs Karvy Computershare Pvt. Ltd. Hyderabad (for shares held in physical form) or to their respective Depository Participants (for shares held in electronic form).

Unclaimed Dividends

Under the provisions of the Companies Act, 1956 dividends that remain unclaimed for a period of seven years from the date of declaration are required to be transferred to the Investor Education and Protection Fund (IEPF) administered by the Central Government.

During the financial year 2006-07, the unclaimed amount pertaining to the dividend declared on 24th August 1999 is required to be transferred to the IEPF on or before 23rd August 2006.

After completion of seven years no claims shall lie against the said Fund or the Company for the amounts of dividend so transferred nor shall any payment be made in respect of such claims. Members who have not encashed the dividend warrant may write to the Company and follow the procedure for claiming the amount.

Dematerialisation of Shares

Equity Shares of the Company can be traded on the Stock Exchanges only in dematerialised form and at present 72% of the shares are in demat. Considering the advantages of scripless trading including adding marketability to the shares, shareholders who are holding shares in physical form are requested to consider dematerialisation of their shareholding so as to avoid inconvenience in future.

General

Shareholders holding shares in physical form are requested to notify the Company / Registrar in writing, any change in their address / Pin Code number and Bank Account details under the signatures of sole / first joint holder. Beneficial owners of shares in demat form are requested to send their instructions regarding change of name, change of address, bank details, nomination, power of attorney, etc. directly to their Depository Participants (DP) as the same are maintained by the DPs.

Non-resident shareholders are requested to immediately notify:

- change in their residential status on return to India for permanent settlement;
- particulars of their NRE Bank Account with a bank in India, if not furnished earlier;
- Email address, if any, to the Company.

In case of loss / misplacement of share certificates, investors should immediately lodge a FIR / Complaint with the police and inform the Company / Registrar along with original or certified copy of FIR /acknowledged copy of complaint.

For expeditious transfer of shares, shareholders should fill in complete and correct particulars in the transfer deed. Wherever applicable, registration number of Power of Attorney should also be quoted in the transfer deed at the appropriate place.

Shareholders are requested to maintain record of their specimen signature before lodgement of shares with the Company to obviate possibility of difference in signature at a later date.

Shareholder(s) of the Company who have multiple accounts in identical name(s) or holding more than one Share Certificate in the same name under different Ledger Folio(s) are requested to apply for consolidation of such Folio(s) and send the relevant Share Certificates to the Company.

Nomination in respect of shares – Section 109A of the Companies Act, 1956 provides facility for making nominations by shareholders in respect of their holding of shares. Such nomination greatly facilitates transmission of shares from the deceased shareholder to his / her nominee without having to go through the process of obtaining Succession Certificate / Probate of the Will, etc. It would therefore be in the best interests of the shareholders holding shares in physical form registered as a sole holder to make such nominations. Please write to the Company Secretary for a nomination form.

Shareholders holding shares in demat form are advised to contact their DPs for making nominations.

Some of the shareholders have not yet exchanged their old share certificates for new share certificates necessitated by the consolidation of capital effected by the Company in July 2004 (i.e. consolidation of two old shares of Rs. 5 each into one new share of Rs. 10). Such holders are advised to send the share certificates immediately. If the share certificates for exchange are brought in person, the new share certificates will be provided on the spot. If the share certificates are sent by post, the new share certificates will be sent under Registered Post within 7 days from the date of receipt of the old share certificates. It is needless to mention that the old share certificate(s) cannot be submitted for dematerialisation.

Shareholders are requested to quote their E-mail IDs, Telephone / Fax numbers for prompt reply to their communication.

We solicit suggestions for improving the investor services.

Addresses of Our Offices:

139/25, Ring Road,
Domlur, Bangalore - 560 071, **India**
Tel: +91 80 55727536
Fax: +91 80 56944329
URL: www.sasken.com
Email: info@sasken.com

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Fax: +91 80 56944329

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Fax: +1 516 997 9568

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Fax: +49 699 755 4100

IDEON Scheelevägen 17
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Fax: +46 46 286 3590

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Tel: +44 1483 243 572
Fax: +44 1483 245 184

Address of our Subsidiary Companies

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Fax: +91 80 56944329

Sasken Network Engineering Ltd.
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Bangalore 560 071, **India**
Tel: +91 80 55727536
Fax: +91 80 56944329

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Shanghai 200336, **China**
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Fax: +86 21 62360676

Sasken Communication Technologies
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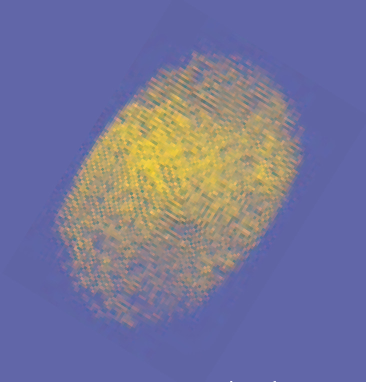
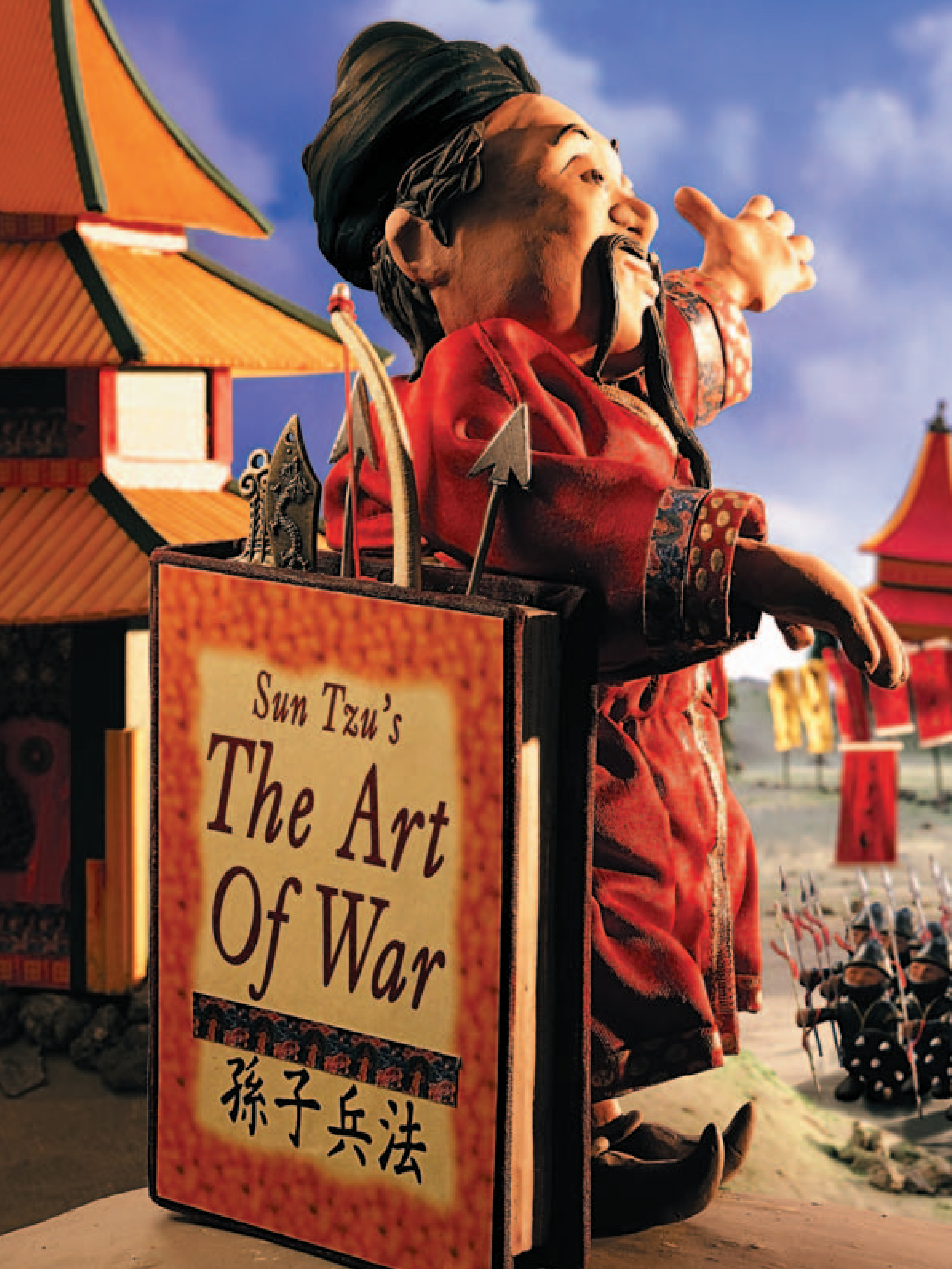
Fax: +52 81 86257420



The art of winning


Sun Tzu's
The Art Of War
孫子兵法

Sun Tzu

Sun Tzu was a general who lived in 6th century BC China, and was a contemporary of the great philosopher – Confucius. Sun Tzu was the author of the book The Art of War, a book of war tactics that is relevant and widely read even today. The book's fame reached Europe during the French revolution. Today its fame is widespread. The Art of War is these days applied to business, sports, diplomacy and personal lives. It has been popularized in business and management texts. Currently Sun Tzu may be the most frequently-quoted Chinese personality in the world.

Here is a sample quote - "The skillful tactician may be likened to the shuai-jan. Now the shuai-jan is a snake that is found in the Chung mountains. Strike at its head, and you will be attacked by its tail; strike at its tail, and you will be attacked by its head."

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, 2006, the Profit and Loss Account and the Cash Flow Statement for the year then ended 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 (Auditors' 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:
   (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 appears from our examination of those books;
   (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
   (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
   (e) On the basis of the written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
   (f) Without qualifying our opinion, we draw attention to note 3(g) in the Notes to Accounts appearing in Schedule 17, regarding Company's basis for not giving effect to the opinion of Expert Advisory Committee of the Institute of Chartered Accountants of India, in respect of accounting for 3,228,334 equity shares of Rs. 10 each issued by the Company to one of its customers at a price less than the fair value of its shares.
   (g) 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:
      (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006;
      (ii) in the case of the Profit and Loss Account, of the profit for the year then 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 S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Bangalore
April 14, 2006

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 software products and 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 Companies Act, 1956 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, customs 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 records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty and cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income taxes	5,402,918	AY 1999-2000	Commissioner of Income Tax (Appeals)
Income Tax Act, 1961	Interest on Income taxes	2,076,872	AY 2000-2001	Income Tax Appellate Tribunal
Income Tax Act, 1961	Income taxes	4,249,023	AY 2001-2002	Income Tax Appellate Tribunal
Income Tax Act, 1961	Income taxes	956,520	AY 2003-2004	The Company is in process of filing an appeal

Note: Of the above, Rs. 4,948,132 has been deposited.

(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 the 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 given guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof in our opinion are not prima-facie prejudicial to the interest of the Company.

(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) We have verified that the end use of money raised by public issue is as disclosed in note 4 in the notes to accounts.

(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 & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Bangalore
April 14, 2006

Balance Sheet

	Schedule No.	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	2,793.64	1,684.72
Share Application Money		–	25.49
Employee Stock Options Outstanding (Net of deferred compensation cost)		77.32	78.93
Reserves and Surplus	2	34,523.08	12,297.84
Loan Funds			
Secured Loans	3	–	45.03
Total Sources		**37,394.04**	**14,132.01**
APPLICATION OF FUNDS			
Fixed Assets	4		
Gross Block		18,401.74	15,629.92
Less : Accumulated Depreciation		8,959.45	7,251.65
Net Block		9,442.29	8,378.27
Capital Work in Progress including capital advances		55.08	77.41
Total		**9,497.37**	**8,455.68**
Capitalised software product costs (net of amortisation)		1,413.45	–
Investments	5	18,725.48	329.55
Current Assets, Loans and Advances			
Inventories	6	174.11	19.75
Sundry Debtors	7	5,235.30	4,536.72
Cash and Bank Balances	8	1,136.34	914.28
Loans and Advances	9	4,443.61	2,895.68
Gross Current Assets	(A)	**10,989.36**	**8,366.43**
Less: Current Liabilities and Provisions	10		
Current Liabilities		2,124.27	2,188.11
Provisions		1,107.35	831.54
Total	(B)	**3,231.62**	**3,019.65**
Net Current Assets	(A-B)	7,757.74	5,346.78
Total Applications		**37,394.04**	**14,132.01**
Notes to Accounts	17		

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 14, 2006

For and on behalf of the Board of Directors

Rajiv C Mody
Managing Director

G Venkatesh
Whole-time Director

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

Profit and Loss Account

	Schedule No.	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Revenues		26,754.43	22,299.02
Cost of Revenues	11	17,830.54	12,909.65
Gross Profit		**8,923.89**	**9,389.37**
Research and Development Expenses	12	1,518.76	2,333.46
Gross Profit after Research and Development Expenses		**7,405.13**	**7,055.91**
Selling and Marketing Expenses	13	2,094.97	2,146.69
Administrative and General Expenses	14	3,313.59	2,856.34
Employee stock option compensation cost (net) (Refer Note 8 in the Notes to Accounts)		53.59	73.70
Profit from operations		**1,942.98**	**1,979.18**
Amortisation of Non Compete Fees (Refer Note 3(h) in Notes to Accounts)		94.03	–
Other Income	15	616.52	60.59
Exchange gain (net)		33.84	339.08
Profit before Interest, Exceptional item & Income Taxes		**2,499.31**	**2,378.85**
Interest Expense	16	0.20	44.85
Exceptional Item (Refer Note 3(i) in Notes to Accounts)		676.08	–
Profit before Taxes		**1,823.03**	**2,334.00**
Income Tax expense / (credit), net		461.96	164.20
Fringe Benefit tax		70.60	–
Profit after tax		**1,290.47**	**2,169.80**
Add: Balance brought forward		5,132.63	3,756.11
Profit available for appropriations		**6,423.10**	**5,925.91**
Proposed Equity Dividend		838.09	505.42
Tax on dividend		117.54	70.88
Transfer to General Reserve		129.05	216.98
Balance carried to Balance Sheet		5,338.42	5,132.63
Earnings Per Share (EPS) (Equity Share par value Rs. 10 each)			
Basic		5.11	13.28
Diluted		5.00	12.88
Weighted average number of Equity Shares used in computation of			
Basic EPS		25,233,227	16,335,283
Diluted EPS		25,833,113	16,835,322
(Refer Note 11 in Notes to Accounts)			
Notes to Accounts	17		

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 14, 2006

For and on behalf of the Board of Directors

Rajiv C Mody
Managing Director

G Venkatesh
Whole-time Director

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

Schedules forming part of the Balance Sheet

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 1		
Share Capital		
Authorised Capital		
35,000,000 Equity Shares of Rs. 10 each		
(At March 31, 2005, 35,000,000 Equity Shares of Rs. 10 each)	3,500.00	3,500.00
Total	**3,500.00**	**3,500.00**
Issued, Subscribed and Paid Up Capital		
27,936,381 Equity Shares of Rs. 10 each fully paid up (At March 31, 2005, 16,847,222 Equity Shares of Rs. 10 each fully paid up)	2,793.64	1,684.72
(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)		
[Also, refer Note 3(g) and 8 in Notes to Accounts]		
Total	**2,793.64**	**1,684.72**
Schedule 2		
Reserves and Surplus		
Securities Premium		
Opening Balance	6,133.79	5,273.93
Add: Received during the year (refer Note 3(g) in Notes to Accounts)	22,474.71	859.86
Less: Share issue expenses (relating to initial public offer)	584.31	–
Total	**28,024.19**	**6,133.79**
General Reserve		
Opening Balance	1,031.42	814.44
Add: Transferred from Profit & Loss Account	129.05	216.98
Total	**1,160.47**	**1,031.42**
Profit & Loss Account	5,338.42	5,132.63
Total	**34,523.08**	**12,297.84**

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 3		
Secured Loans		
Packing Credit from Scheduled Banks (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)	–	45.03
Total	**–**	**45.03**

Schedule 4 – Fixed Assets

Rs. in Lakhs

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at April 1, 2005	Additions during the year	Deletions during the year	As at March 31, 2006	As at April 1, 2005	For the year	Adjustments during the year	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Land	2,287.67	–	–	2,287.67	–	–	–	–	2,287.67	2,287.67
Building	3,310.98	–	–	3,310.98	625.99	166.05	–	792.04	2,518.94	2,684.99
Leasehold Improvements	267.16	62.66	–	329.82	37.16	63.55	–	100.71	229.11	230.00
Computers	3,308.33	817.95	94.51	4,031.77	2,344.52	420.33	91.89	2,672.96	1,358.81	963.81
Electrical Fittings	147.32	56.26	–	203.58	95.24	30.49	–	125.73	77.85	52.08
Furniture and Fittings	1,616.86	146.87	–	1,763.73	509.23	174.13	–	683.36	1,080.37	1,107.63
Plant & Machinery including Office Equipments	2,965.33	406.38	–	3,371.71	2,016.89	621.43	–	2,638.32	733.39	948.44
Intangible Assets										
– Computer Software	1,726.27	1,129.67	–	2,855.94	1,622.62	229.68	–	1,852.30	1,003.64	103.65
– Non Compete Fees	–	246.54	–	246.54	–	94.03	–	94.03	152.51	–
Total	**15,629.92**	**2,866.33**	**94.51**	**18,401.74**	**7,251.65**	**1,799.69**	**91.89**	**8,959.45**	**9,442.29**	**8,378.27**
Balance as at March 31, 2005	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	–

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 5		
Investments		
A. Long term, Unquoted, Non Trade, at cost		
(a) Investment in subsidiary companies		
Sasken Network Systems Ltd.		
(i) 500,000 equity shares of Re 1 each, fully paid up	5.00	5.00
Sasken Network Engineering Ltd.		
(i) 50,000 equity shares of Rs. 10 each, fully paid up	5.00	5.00
(ii) 263,722 Optionally convertible debentures of Rs. 100 each	263.71	263.71
Sasken Communication Technologies Mexico, S.A. De C.V.		
(i) 100 equity shares of Rs. 2031.69 each, fully paid up	2.03	–
(b) Other Investments		
Indira Vikas Patra	0.02	0.02
14,584 fully paid Common Stock of 2Wire Inc, a company incorporated in USA. (As on March 31, 2005 : 29,764 fully paid Common Stock)	83.00	169.40
Less: Provision for diminution in value of investment	(50.86)	(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(f) in the Notes to Accounts)	0.23	0.23
B. Current – Non Trade, unquoted at lower of cost and net realisable value		
[also refer Note 4 in the Notes to Accounts]		
– UTI Liquid Cash Plan – Institutional Plan – Weekly Income Option [As at March 31, 2006 40,438.47 Units of Rs. 1015.534 each]; [Market value – Rs. 412.22 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	410.67	–
– GFCW Grindlays Floating Rate -ST- Super Inst Plan C- Weekly Div [As at March 31, 2006 1,649,474.30 Units of Rs. 10.000 each]; [Market value – Rs. 164.94 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	164.94	–
– TATA Floating Rate Short Term Institutional Plan – Daily Dividend [As at March 31, 2006 2,409,512.79 Units of Rs. 10.006 each]; [Market value – Rs. 241.20 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	241.10	–
– Reliance Fixed Maturity Fund – Monthly Plan – Dividend [As at March 31, 2006 9,223,581.17 Units of Rs. 10.000 each]; [Market value – Rs. 926.83 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	922.36	–

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
– Reliance Fixed Maturity Fund – Quarterly Plan – Dividend [As at March 31, 2006 5,225,083.29 Units of Rs. 10.000 each]; [Market value – Rs. 522.96 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	522.51	–
– Birla Sunlife Cash Manager – Institutional Plan – Daily Dividend [As at March 31, 2006 5,206,576.19 Units of Rs. 10.000 each]; [Market value – Rs. 520.80 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	520.70	–
– UTI – Floating Rate Fund – Short Term Plan (Dividend Option) [As at March 31, 2006 2,827,356.51 Units of Rs. 10.077 each]; [Market value – Rs. 286.02 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	284.91	–
– Birla Floating Rate Fund –Long Term – Monthly Dividend [As at March 31, 2006 4,985,658.21 Units of Rs. 10.403 each]; [Market value – Rs. 519.25 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	518.65	–
– ING Vysya Floating Rate Fund – Weekly Dividend [As at March 31, 2006 15,182,722.86 Units of Rs. 10.086 each]; [Market value – Rs. 1533.86 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,531.29	–
– Principal Floating Rate Fund SMP – Institutional Plan– Weekly Dividend [As at March 31, 2006 15,377,338.60 Units of Rs. 10.005 each]; [Market value – Rs. 1538.12 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,538.12	–
– Prudential ICICI Long Term Floating Rate Plan B – Dividend [As at March 31, 2006 15,230,898.83 Units of Rs. 10.047 each]; [Market value – Rs. 1537.95 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,530.20	–
– Principal Income Fund – Short Term – Institutional Plan – Monthly Dividend [As at March 31, 2006 10,141,960.13 Units of Rs. 10.090 each]; [Market value – Rs. 1019.98 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,019.98	–
– LIC MF FMP Series 1 Year – Growth [As at March 31, 2006 10,000,000.000 Units of Rs. 10.000 each]; [Market value – Rs. 1034.22 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,000.00	–
– JM Equity & Derivative Fund – Dividend [As at March 31, 2006 4,984,007.545 Units of Rs. 10.130 each]; [Market value – Rs. 515.62 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	504.89	–

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
– Prudential ICICI Institutional FMP – 15 Month Plan Series XXV [As at March 31, 2006 4,668,708.448 Units of Rs. 10.710 each]; [Market value – Rs. 502.34 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	500.00	–
– HSBC Fixed Term Series 1 – Growth [As at March 31, 2006 5,007,063.327 Units of Rs. 10.000 each]; [Market value – Rs. 502.86 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	500.71	–
– UTI FMP Growth Plan [As at March 31, 2006 5,000,000.000 Units of Rs. 10.000 each]; [Market value – Rs. 514.94 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	500.00	–
– LIC MF Liquid Fund [As at March 31, 2006 9,184,003.170 Units of Rs. 10.953 each]; [Market value – Rs. 1006.26 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,005.96	–
– LIC MF Liquid Fund [Quarterly] [As at March 31, 2006 20,000,000.000 Units of Rs. 10.000 each]; [Market value – Rs. 2000.00 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	2,000.00	–
– DSP Merril Lynch Floating Rate Fund [As at March 31, 2006 Nil Units]; [Market value – Rs. Nil] [As at 31st March, 2005 410,879.541 Units of Rs. 10.0275 each]; [Market value – Rs. 41.23 Lakhs]	–	41.19
– UTI Fixed Maturity Plan (Quarterly) [As at March 31, 2006 – 2,000,000 Units at Rs. 10.000 each]; [Market value – Rs. 200.29 Lakhs] [As at 31st March, 2005 Nil Units]; [Market value – Rs. Nil]	200.00	–
– ING Vysya Quarterly FMP Dividend Option [As at March 31, 2006 15,000,000.000 Units of Rs. 10.000 each]; [Market value – Rs. 1500.00 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,500.00	–
– TATA Fixed Horizon Fund – Series 5 [As at March 31, 2006 10,000,000.000 Units of Rs. 10.000 each]; [Market value – Rs. 1000.61 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,000.00	–
– Prudential ICICI FMP [As at March 31, 2006 5,003,639.449 Units of Rs. 10.000 each]; [Market value – Rs. 501.63 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	500.36	–
Total	**18,725.48**	**329.55**

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 6		
Inventories		
Work-in-progress	174.11	19.75
Total	**174.11**	**19.75**
Schedule 7		
Sundry Debtors		
(a) Debts outstanding for a period exceeding six months		
– Unsecured, considered good	82.00	73.87
– Unsecured, considered doubtful	262.12	94.02
(b) Other debts		
– Unsecured, considered good	5,153.30	4,462.85
– Unsecured, considered doubtful	34.17	–
Less: Provisions	(296.29)	(94.02)
Total	**5,235.30**	**4,536.72**

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 8		
Cash and Bank Balances		
(Refer Note 3(d) in Notes to Accounts)		
Cash on Hand	5.55	3.59
Balances with:		
Scheduled Banks		
– in Current Accounts	737.79	428.12
– in Deposit Accounts	80.28	23.44
(held as margin money for bank guarantees / letters of credit as on 31 March 2006 – Rs. 29.49 Lakhs; As on 31 March 2005 – Rs. 23.44 Lakhs)		
Other banks		
– Barclays Bank, UK	45.51	83.08
– Bank of America, USA	198.66	316.17
– Bank of Montreal, Canada (CAD)	26.72	15.86
– Summitomo Bank, Japan (JPY)	3.30	3.97
– Kawasaki Shinkim Bank,Japan	0.83	0.97
– China Minsheng Banking Corporation (USD)	4.71	4.05
– China Minsheng Banking Corporation (CNY)	1.41	0.41
– Nordbanken AB (Sweden)	7.89	16.39
– Hypo Vereins Bank, Germany	23.69	18.23
Total	**1,136.34**	**914.28**
Maximum amount outstanding at any time during the year in other banks		
Current Accounts		
– Barclays Bank, UK	153.44	172.69
– Bank of America-Texas, USA	1.11	9.94
– Bank of America, USA	683.50	528.14
– Bank of Montreal, Canada (CAD)	117.21	75.86
– Summitomo Bank, Japan (JPY)	42.27	24.40
– Summitomo Bank, Japan (USD)	–	22.45
– China Minsheng Banking Corporation (USD)	8.92	4.80
– China Minsheng Banking Corporation (CNY)	5.28	3.38
– China Minsheng Banking Corporation (RMB)	–	0.28
– Nordbanken AB (Sweden)	20.34	16.39
– Hypo Vereins Bank, Germany	132.58	116.07
Deposit Account		
– Kawasaki Shinkim Bank, Japan	2.50	1.52

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 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. 29.45 Lakhs]; [March 31, 2005 – Rs. 75.19 Lakhs]	8.02	18.08
– Sasken Network Engineering Limited – [maximum amount outstanding during the year Rs. 198.29 Lakhs]; [March 31, 2005 – Rs. 38.77 Lakhs]	198.29	38.77
Loan to Sasken Network Systems Ltd., a subsidiary company [maximum amount outstanding during the year Rs. 457.10 Lakhs] [March 31, 2005 – Rs. 457.10 Lakhs]	–	457.10
Loan to Sasken Network Engineering Ltd., a subsidiary company [maximum amount outstanding during the year– Rs. 630.00 Lakhs], [March 31, 2005 – Rs. 160.00 Lakhs]	630.00	160.00
Loan to Sasken Communication Technologies Mexico S.A. De C.V. , a subsidiary company [maximum amount outstanding during the year – Rs. 431.05 Lakhs], [March 31, 2005 – Nil]	431.05	–
Advances recoverable in cash or in kind or for value to be received	1,001.94	729.03
Deposits with Government Departments and others	1,069.75	832.83
Loans and Advances to Staff	180.29	190.18
Interest Income Accrued but not due	6.48	8.52
Unbilled Revenues	521.76	253.69
Advance Income Tax (Net of Provision for Tax)	396.03	157.48
B. Secured, considered good		
Loan to Blue Broadband Tech Pvt Ltd.	–	50.00
Total	**4,443.61**	**2,895.68**

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 10		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors for goods, expenses and services		
– Dues to Small Scale Industrial Units	4.20	0.11
– Others	1,755.75	1,363.56
Other Liabilities	98.43	468.78
Deferred Revenues	18.53	96.19
Advance received from customers	247.36	259.47
Total (A)	**2,124.27**	**2,188.11**
Provisions		
Proposed Equity Dividend	838.09	505.42
Tax on Proposed Equity Dividend	117.54	70.88
Provision for Leave Encashment	151.55	112.20
Provision for Warranty	–	26.49
Provision for Gratuity	0.17	116.55
Total (B)	**1,107.35**	**831.54**
Total (A) + (B)	**3,231.62**	**3,019.65**

Schedules forming part of the Profit and Loss Account

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 11		
Cost of Revenues		
Salaries & Bonus	12,225.84	8,595.68
Contribution to Provident and Other Funds	497.21	434.84
Staff Welfare	208.07	147.54
Recruitment and Relocation	217.25	271.94
Rent	725.93	365.16
Repairs and Maintenance		
– Plant & Machinery	284.49	215.58
– Building	209.84	128.79
– Others	147.81	47.37
Communication Expenses	249.56	173.57
Travel Expenses	964.76	515.28
Electricity and Water Charges	414.42	243.02
Professional & Consultancy Charges	276.59	460.83
Depreciation	1,163.08	909.48
Software expenses	349.04	168.50
Training and Conference Expenses	77.50	83.30
Warranty Expenses provided / (reversed)	(26.49)	(1.48)
Sub Total	**17,984.90**	**12,759.40**
Amortisation of capitalised software product costs	–	115.03
Add: Opening balance of work in progress	19.75	54.97
Less: Closing balance of work in progress	(174.11)	(19.75)
Total	**17,830.54**	**12,909.65**

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 12		
Research & Development Expenses		
Salaries & Bonus	1,230.95	1,423.80
Contribution to Provident and Other Funds	61.32	81.87
Staff Welfare	12.37	10.05
Recruitment and Relocation	8.16	6.22
Rent	92.05	98.17
Repairs and Maintenance		
– Plant & Machinery	76.63	52.47
– Building	41.45	20.47
– Others	14.93	4.39
Communication Expenses	21.91	25.73
Travel Expenses	209.35	166.93
Electricity and Water Charges	43.14	38.00
Professional & Consultancy Charges	727.28	193.98
Depreciation	354.29	191.61
Software Expenses	18.13	1.35
Training and Conference Expenses	20.25	18.42
Less: Capitalised software product costs	(1,413.45)	–
Total	**1,518.76**	**2,333.46**
Schedule 13		
Selling and Marketing Expenses		
Salaries & Bonus	1,018.98	1,132.32
Contribution to Provident and Other Funds	13.91	12.75
Staff Welfare	49.13	32.38
Recruitment and Relocation	25.27	8.62
Rent	77.30	104.82
Repairs and Maintenance		
– Plant & Machinery	6.60	5.69
– Building	27.63	11.01
– Others	5.56	2.63
Communication expenses	80.80	79.39
Travel expenses	297.59	254.70
Electricity and Water Charges	8.17	4.76
Professional, Legal & Consultancy Charges	209.91	192.18
Agency Commission (others)	69.43	95.56
Selling Expenses – others	169.21	172.21
Depreciation	29.79	25.40
Training and Conference Expenses	5.69	12.27
Total	**2,094.97**	**2,146.69**

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 14		
Administrative and General Expenses		
Salaries & Bonus	1,108.74	1,005.59
Contribution to Provident and Other Funds	71.37	92.83
Staff Welfare	50.47	37.40
Recruitment and Relocation	10.04	83.49
Rent	110.97	173.18
Rates and Taxes	41.90	201.44
Repairs and Maintenance		
– Plant & Machinery	38.71	46.60
– Building	100.12	49.96
– Others	18.93	12.23
Communication expenses	33.27	50.48
Travel expenses	147.24	117.00
Electricity and Water Charges	68.32	86.26
Depreciation	158.63	215.39
Professional, Legal & Consultancy Charges	688.19	299.61
Auditors' Remuneration *		
– Statutory Audit	8.70	8.70
– Other Services	0.25	–
– Out of Pocket Expenses (including service tax)	0.41	1.08
Training and Conference Expenses	40.14	46.91
Directors' sitting fees	1.72	0.48
Insurance	79.12	72.66
Miscellaneous	519.14	471.34
Depreciation on Current Investments (non trade)	3.72	–
Loss on sale of fixed assets (net)	–	0.13
Provision for doubtful debts, net of reversals	202.27	(87.70)
Less: Recovery of common costs from subsidiary companies	(188.78)	(128.72)
* [also, refer Note 3 (l) in Notes to Accounts]		
Total	**3,313.59**	**2,856.34**

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 15		
Other Income		
Miscellaneous income	5.43	0.02
Dividend received on current investments (non trade)	542.42	14.09
Net gain on sale of current investments (non trade)	5.96	11.39
Interest income on Bank Deposits (Gross)*	8.28	3.46
Net profit on sale of Long term investments (non trade)	26.12	–
Reversal of provision for diminution in value of Long term investments (non trade)	25.09	–
Other interest income*	3.22	4.25
Interest on Loan / Optionally Convertible Debentures to Subsidiary companies	–	27.38
Total	**616.52**	**60.59**
* Tax deducted at source	7.97	0.76
Schedule 16		
Interest Expense		
– Others	0.20	44.85
Total	**0.20**	**44.85**

Schedule 17

Notes to accounts

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, 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 during the previous year.

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 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 (including intangible 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 and Machinery (including Office Equipments)	20	4.75

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

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

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

1. Computer Software –
   (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.

2. Non-compete fee – over the contract period of 24 months, on a straight line basis. (Refer Note 3 (h) below).

Capitalisation and amortisation of software product costs

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 product costs are amortised on a product-by-product basis. The amortisation 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 capitalised 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 expense in the year in which they arise except those arising on liabilities pertaining to fixed assets acquired from outside India, 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. The premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract. 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 recognized as income or as expense for the year.

(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 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 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.

Impairment of assets

(i) The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal / external factors. An impairment loss is recognised wherever the carrying amount of an asset exceed its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

(ii) After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

(iii) A previously recognised impairment loss is increased or reversed depending on changes in circumstances. However the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

Warranty

The Company provides for the estimated costs based on trend of past analysis and nature of services rendered, which 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 capitalised as tangible assets. Depreciation on such assets is charged to expense as research and development costs.

Income Taxes

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit 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 period 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, determined on the date of grant. Compensation expense is amortised 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.

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 year 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 Software 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 recognised as expense in the profit and loss account on a straight-line basis over the lease term.

3. Other notes

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

Amount in Rs. Lakhs

Name of the Vendor	As at March 31, 2006	As at March 31, 2005
Halda Office Systems P Ltd.	4.09	0.11
Total	**4.09**	**0.11**

(b) Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. 45.81 Lakhs (As at March 31, 2005 Rs. 82.15 Lakhs).

(c) Contingent Liabilities

Contingent liabilities towards taxes on income not provided for amount to Rs. 126.85 Lakhs (As at March 31, 2005 Rs. 157.71 Lakhs). There are certain claims made against the Company by investee companies, which are under arbitration proceedings. In the view of the management of the Company such claims are frivolous and are not tenable. No provision has been made for such claims pending arbitration proceedings as the amount of claims are currently not ascertainable.

Amount in Rs. Lakhs

	As at March 31, 2006	As at March 31, 2005
Bank guarantees	201.43	96.95
Letters of credit	Nil	36.38

(d) Bank balances include remittances in transit amounting to Rs. Nil (As at March 31, 2005 Rs 351.18 Lakhs).

(e) Foreign exchange gain arising on account of foreign exchange forward contracts entered into by the Company to be recognised in the future financial periods amount to Rs. 61.23 Lakhs as at March 31, 2006 and Rs. 76.85 Lakhs as at March 31, 2005.

(f) The shares held in Extandon Inc, US are held by Extandon Inc as 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) The accounting treatment of a Preferential allotment of 3,228,334 equity shares of Rs.10/- each in the Company made to a business customer at the issue price of Rs. 141.63 each (after obtaining the requisite regulatory approvals) was the subject-matter of a reference to the Expert Advisory Committee ("the Committee") of the Institute of Chartered Accountants of India (ICAI), the Committee's opinions having persuasive (but not binding) force. The Committee opined that the excess of the approximately appraised equity share value of Rs. 223 per share and the paid-up value of Rs. 10/- (and not just the sum of Rs. 131.63 per share) be recognised as Securities Premium and the difference of Rs. 81.37 per share (excess of appraised value over the actual issue price) be recognised as an Intangible Asset (on the ground that benefits will accrue from the commercial contract with the allottee for his assured placement of orders with the Company) to be amortised over the term of the Contract.

The Company has been advised by its legal advisers that the foregoing recommended treatment is inconsistent with the statutory requirements of Schedule VI to the Companies Act, 1956 which advice has been confirmed by Senior Counsel on an independent reference by the Company's Audit Committee. Based on such legal advice, the Securities Premium recognised by the Company is only the sum of Rs. 131.63 per share and no recognition has been accorded to any "Intangible Asset" suggested by the Committee.

(h) Non-compete fee:

During the year ended March 31, 2006, the Company paid a non-compete fee of Rs. 246.54 Lakhs to one of its key employees at the time of termination of his services with the Company under a non-compete agreement entered into with such employee. The non-compete agreement restricts the employee from solicitation of Company's and its subsidiary's customers and employees and restricts such employee from joining as employee or otherwise providing similar services to the Company's and its subsidiary's competitor. The contract is for a period of two years. Such non-compete fee has been recorded as an intangible asset under Accounting Standard 26 – Intangible Assets and the same is being amortised over two years on a straight-line basis from the date of termination of services.

(i) Exceptional item

During the year ended March 31, 2006, the Company paid a sum of Rs. 676.08 Lakhs towards an award in arbitration in a dispute with a customer with whom a licensing agreement had been made and the same has been charged off to the profit and loss account.

(j) The Company enters into foreign exchange forward contracts to hedge its net foreign currency receivables position including its future receivables. As at March 31, 2006, the Company had foreign exchange forward contracts amounting to USD 37.40 million at an average forward exchange rate of Rs. 44.69 [March 31, 2005 USD 25.95 million at an average forward rate of Rs. 44.87]. As at the balance sheet date, the Company does not have material foreign currency receivable unhedged. As per the current policy of the Company, the Company takes foreign exchange forward contracts for currencies primarily denominated in the US Dollar.

(k) Earnings and Expenditure in Foreign Currency

Amount in Rs. Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Earnings in Foreign Currency (on accrual basis)		
Income from Licensing and Software development	25,677.04	21,393.43
Royalty	280.68	216.61
Others	–	188.67
Expenditure in Foreign Currency (on payment basis)		
Travel	890.56	855.71
Less: Recovered from customers	(640.69)	(775.75)
Selling Expenses	209.52	154.98
Professional, Legal & Consultancy Charges	1,066.41	203.40
Software Expenses	179.38	273.04
Expenses at Branch Offices	4,574.93	4,182.22
Others	1,120.60	196.52
Value of Imports on CIF Basis – Capital Goods	1,774.65	587.60
Remittance in foreign currency on account of dividends		
No. of Shareholders	33	20
No. of shares of Rs. 10 (par value per share)	4,808,559	7,416,868
Amount of Dividends paid	144.26	92.71
Year to which dividends relate	2004-05	2003-04

(l) Share issue expenses include a sum of Rs. 19.06 Lakhs (including service tax and out of pocket expenses of Rs. 2.06 Lakhs) towards fees of auditors of the Company for audit / certification work related to the initial public offering of the Company's equity shares.

4. Initial Public Offer (IPO)

In August 2005, the Company completed an Initial Public Offering (IPO) and made a fresh issue of 5,000,000 equity shares of Rs. 10 each at a price of Rs. 260 per share. Consequently, the Company's shares were listed on September 9, 2005 on the Bombay Stock Exchange and National Stock Exchange of India.

The Company proposes to utilise the proceeds from the IPO towards setting up of a new software development campus. As at March 31, 2006, the Company was in the process of taking necessary steps towards such activity. In the interim, the IPO proceeds of Rs. 12,415.69 Lakhs (net of share issue expenses of Rs. 584.31 Lakhs) have been invested in units of mutual funds as at March 31, 2006. The issue expenses of Rs. 584.31 Lakhs have been adjusted against Securities Premium Account.

5. Managerial Remuneration

(a) Managerial remuneration paid / payable to Directors.

Amount in Rs. Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Whole-time Directors		
Salaries and bonus	204.29	203.34
Contribution to Provident Fund and other Funds #	8.37	10.31
Non Whole-time Directors	29.11	26.96
Total	**241.77**	**240.61**

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, 2006.

Amount in Rs. Lakhs

Particulars		March 31, 2006
Profits before Taxation		1,823.03
Add:		
Managerial remuneration to directors	241.77	
Directors' sitting fee	1.72	
Stock compensation cost	53.59	
Provision for doubtful debts, created (net of Reversals)	202.27	
Depreciation as per accounts (except intangible assets)	1,475.98	
Warranty expenses reversed	(26.49)	1,948.84
Less:		
Depreciation as per Section 350 of the Companies Act, 1956	801.03	
Gain (net) on sale of investments (non trade)	32.08	
Reversal of provision for diminution of investments (non trade)	25.09	858.20
Net profits as per Section 349 of the Companies Act, 1956		2,913.67
Remuneration to Managing and Wholetime Directors @ 10% of the net profits (maximum)		291.37
Remuneration to Non Wholetime Directors @ 1% of the net profits (maximum)		29.14

(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, 2005.

Amount in Rs. Lakhs

Particulars		March 31, 2005
Profits before Taxation		2,334.00
Add:		
Managerial remuneration to directors	240.61	
Directors' sitting fee	0.48	
Stock compensation cost	73.70	
Provision for doubtful debts, created (net of Reversals)	(87.70)	
Depreciation as per accounts (except intangible assets)	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
Remuneration to Managing Director and Wholetime Director @ 10% of the net profits (maximum)		311.59
Remuneration to Non Wholetime Directors @ 1% of the net profits (maximum)		31.16

6. 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 reverse within the balance period of tax holiday under section 10A of the Income Tax Act, 1961.

Amount in Rs. Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Overseas income taxes (comprising of withholding taxes and overseas branch income taxes)	446.11	140.37
The above are net of refund / reversal of overseas taxes	56.89	204.54

7. Fixed Price Revenue Contracts

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

Amount in Rs. Lakhs

Particulars	Year ended March 31, 2006	Year ended March 31, 2005
Contract revenue recognised during the year	2,779.47	2,618.48
Aggregate amount of costs incurred and recognised profits (less recognised losses) up to date of balance sheet for contracts in progress as at that date	1,204.58	19.75

Amount in Rs. Lakhs

Particulars	As at March 31, 2006	As at March 31, 2005
Gross amount due from customers for contract work- presented as an asset	174.11	30.04
Gross amount due to customers for contract work- presented as a liability	–	15.72

8. Employee Stock Option Plan

Sasken ESOP 2000

On September 22, 2000, the shareholders of the Company approved Stock Option Plan [ESOP-2000] in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. The Plan covered 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 provided for the issue of 30 lakh shares (including the shares issued under the SAS Stock Option Plan, 1997) 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.

On April 2, 2004 and June 1, 2004, the Company issued 378,925 options to 1,372 employees and 971,533 options to 347 employees, respectively convertible into equity shares of Rs. 10 each. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 160 to Rs. 256 per share of Rs. 10 each 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 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.

On April 19, 2005, the Company issued 304,050 options to 1,212 employees including 25,350 options to 80 employees of SNSL and 21,100 options to 113 employees of SNEL. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 225 to Rs. 321 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.

All the options granted have an exercise period of two years from the date of vesting.

Employee Stock Options outstanding (Net of deferred compensation cost) is as follows:

Amount in Rs. Lakhs

	March 31, 2006	March 31, 2005
Total accounting value of options outstanding (A)	92.84	115.02
Deferred Compensation Cost	92.84	115.02
Less: Amortised	77.31	78.93
Net Deferred Compensation Cost (B)	15.53	36.09
(A) – (B)	77.31	78.93

The following table summarizes the Company's stock options activity for Sasken ESOP 2000:

Shares underlying options outstanding

	March 31, 2006		March 31, 2005	
	No. of Shares	Weighted average exercise price (Rs.)	No. of Shares	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,418,488	175.00	274,110	80.00
Granted during the year	304,050	238.80	1,395,723	188.00
Forfeited during the year	(151,915)	209.36	(166,475)	175.00
Exercised during the year	(428,965)	136.58	(84,870)	80.00
Outstanding at the end of the year	1,141,658	201.89	1,418,488	175.00
Exercisable at the end of the year	360,208	153.10	175,980	80.00
Weighted average remaining contractual life (in years)	2.40	–	2.83	–
Weighted average fair value of options granted	–	17.49	–	4.47

The weighted average share price during the year ended March 31, 2006 was Rs. 328.18 per share.

The estimated weighted average fair value of options granted in April 2005 grant is Rs. 17.49. This was calculated by applying the Minimum Value model with the following inputs:

	March 31, 2006	March 31, 2005
Average risk free interest rate	6.60%	5.24%
Expected life of options granted in (years)	2.40	2.83
Expected dividend yield	1.00%	Nil

The details of exercise price of Sasken ESOP 2000 is as follows:

As at March 31, 2006

Range of exercise price (Rs.)	Number of options outstanding	Weighted average remaining life of options (in years)	Weighted average exercise price (Rs.)
80	43,120	0.50	80.00
160 – 225	785,555	2.02	190.13
226 – 321	312,983	3.61	248.21

As at March 31, 2005

Range of exercise price (Rs.)	Number of options outstanding	Weighted average remaining life of options (in years)	Weighted average exercise price (Rs.)
80	175,980	1.50	80.00
160 – 225	1,027,893	2.78	177.01
226 – 256	214,615	4.87	243.79

Sasken ESOP 2006

On February 25, 2006, the shareholders of the Company approved Stock Option Plan [ESOP-2006] in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. The Plan covers all employees of the Company including foreign branches, employees of the subsidiaries and Directors other than the promoter directors. The Plan provides for the issue of 3,575,000 shares 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.

The terms of each issuance would be determined by the Compensation Committee. Consequent to the approval of ESOP 2006, no new options would be issued under ESOP 2000. As at March 31, 2006, no options have been issued under ESOP 2006.

9. Related Party Disclosures

(a) Remuneration paid to Key Managerial Personnel

Amounts in Rs. Lakhs

Name of the related party	Relationship	Year ended March 31, 2006	Year ended March 31, 2005
Mr. Rajiv C Mody	Managing Director	75.84	58.16
Mr. Pranabh D Mody	Director / Whole-time Director	–	38.13
Mr. Krishna J Jhaveri	Whole-time Director	94.11	111.58
Dr. G Venkatesh	Whole-time Director	42.71	5.78

The above does not include provision for / contribution to employee retirement and other employee benefit schemes determined on actuarial basis. Pranabh D Mody stepped down as a whole time director with effect from April 1, 2005.

(b) Sasken Network Systems Limited [SNS]

The Company established SNS, as a wholly owned subsidiary 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 had given a loan of Rs. 457.10 Lakhs (As at March 31, 2005 Rs. 457.10 Lakhs) 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). No interest is charged on such loans with effect from April 1, 2005 (March 31,2005: Rs. 21.34 Lakhs). The entire loan has been repaid by SNS during the year. The Company also extends certain common administration support to SNS towards which allocable expenses are recovered from SNS for year ended March 31, 2006 is Rs. 46.54 Lakhs (2005 – Rs. 97.90 Lakhs).

Stock compensation expense arising from options issued to employees of SNS is not cross-charged to SNS.

The details of dues from the subsidiary are as under:

Amount in Rs. Lakhs

	As at March 31, 2006	As at March 31, 2005
Receivables towards reimbursement of expenses	8.02	11.36
Receivable towards interest on loan	–	6.72
Unsecured loan due from SNS	–	457.10

On October 27, 2005 the Board of Directors approved the scheme of merger of SNS with the Company effective April 1, 2005 or such other date as approved by the High Court, pending the approval of the shareholders and the High Court of Karnataka. On February 25, 2006, in an extra-ordinary general meeting, the shareholders of the Company approved the Scheme of Merger and the same has been filed with the High Court of Karnataka. The approval of the High Court of Karnataka is awaited.

(c) 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 (March 31, 2005: Rs. 263.71 Lakhs) towards optionally convertible debentures ("OCD's"). The OCDs 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. 630.00 Lakhs (March 31, 2005: Rs. 160.00 Lakhs). An interest of 5.88% per annum (based on inter bank offer rate) was charged during the year ended March 31, 2005 on the above OCDs and loans. No interest is charged on such OCDs and loans with effect from April 1, 2005. The Company also extends certain common administrative support to SNEL towards which allocable expenses are recovered from SNEL amounting to Rs. 144.02 Lakhs (2005: Rs. 30.82 Lakhs) for the year ended March 31, 2006. 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 and guarantee against cash credit facility availed by SNEL from a bank. As at March 31, 2006 there are no obligations under such guarantees.

Stock compensation expense arising from options issued to employees of SNEL is not cross-charged to SNEL.

The details of dues from the subsidiary are as under:

Amount in Rs. Lakhs

	As at March 31, 2006	As at March 31, 2005
Receivables towards reimbursement of expenses and others	198.29	32.73
Receivable towards interest on loan	–	6.04
Unsecured loan due from SNEL	630.00	160.00
Optionally convertible debentures due from SNEL	263.71	263.71

(d) Sasken Communication Technologies Mexico, S.A.De C.V (Sasken Mexico)

On November 22, 2005, the Company established Sasken Mexico to render software development and consultancy services. The Company has invested Rs. 2.03 Lakhs towards equity capital. The operations of Sasken, Mexico has not commenced as at March 31, 2006. The Company has extended loans and advances of Rs. 431.05 Lakhs towards capital advances and certain expenses in relation to setting up the operations. The same are reflected as dues from Sasken Mexico as at March 31, 2006. The Company has provided a guarantee to a bank in respect of financial assistance extended to Sasken Mexico and to another party towards office facilities leased by Sasken Mexico. As at March 31, 2006, there are no obligations under these guarantees.

(e) Sasken Communication Technology (Shanghai) Co. Ltd., (Sasken China)

On January 4, 2006, the Company established Sasken China to render software development and providing software services including software development, sale and maintenance of networking, telecommunication related software, providing related consulting and design services. The operations of Sasken China are yet to commence as on March 31, 2006. The Company has not made any investment as at March 31, 2006. The Company has an approval from the Board of Directors for investment to fund the operations of Sasken China to the extent of US $ 500,000.

10. Segment Reporting

The business 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.

(a) Business Segment Information

Segmental Balance Sheet

Amount in Rs. Lakhs

	As at March 31, 2006	As at March 31, 2005
Segment Assets		
Software Services	6,663.75	5,179.41
Software Products	3,243.91	1,026.34
Corporate and others	30,718.00	10,945.91
Total	**40,625.66**	**17,151.66**
Segment Liabilities		
Software Services	629.16	926.20
Software Products	499.93	414.67
Unallocated Liabilities	2,102.53	1,723.81
Total	**3,231.62**	**3,064.68**
Capital expenditure – Tangible and Intangible Assets		
Software Services	382.08	376.66
Software Products	1,225.37	136.68
Corporate and others	1,258.88	1,519.41
Total	**2,866.33**	**2,032.75**
Capitalised software product costs		
Software Products	1,413.45	–
Total	**1,413.45**	–

Segmental Profit & Loss Account

Amount in Rs. Lakhs

	For the year ended March 31, 2006	For the year ended March 31, 2005
Revenues	**26,754.43**	**22,299.02**
Software Services	24,003.42	18,905.47
Software Products	2,751.01	3,393.55
Segmental Profits	**7,405.13**	**7,055.91**
Software Services	7,829.54	6,916.49
Software Products	(424.41)	139.42
Less:		
Corporate Expenses	5,462.15	5,076.73
Profit from operations	**1,942.98**	**1,979.18**
Less: Amortisation	94.03	–
Less: Interest	0.20	44.85
Add: Other Income, including exchange gain / (loss)	650.36	399.67
Less: Exceptional item	676.08	–
Profit before tax	**1,823.03**	**2,334.00**
Taxes	532.56	164.20
Profit after tax	**1,290.47**	**2,169.80**
Other information:		
Depreciation		
Software Services	1,073.01	840.18
Software Products	448.19	249.78
Corporate and others	278.49	251.92
Total	**1,799.69**	**1341.88**
Amortisation of capitalised software costs	–	115.03

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:

Amount in Rs. Lakhs

Region	Year ended March 31, 2006	Year ended March 31, 2005
North America (including Canada)	9,191.12	6,751.64
Europe	10,989.05	11,214.82
Asia Pacific (other than India)	2,196.79	2,400.76
India	4,377.47	1,931.80
Total	**26,754.43**	**22,299.02**

Assets:

Sundry Debtors and Unbilled Revenues:

Amount in Rs. Lakhs

Region	As at March 31, 2006	As at March 31, 2005
North America (including Canada)	1,794.07	1,237.49
Europe	2,379.15	2,828.45
Asia Pacific (other than India)	205.96	330.75
India	1,377.88	393.72
Total	**5,757.06**	**4,790.41**

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

11. 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:

	Year ended March 31, 2006	Year ended March 31, 2005
Profit for computation of basic and diluted EPS (Rs. in Lakhs)	1,290.47	2,169.80
Weighted average number of shares considered for basic EPS	25,233,227	16,335,283
Add: Effect of stock options and warrants	599,886	500,039
Weighted average number of shares considered for diluted EPS	25,833,113	16,835,322

12. Operating leases

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

Amount in Rs. Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Rent expenses included in profit & loss account towards operating leases	923.48	664.00

Minimum lease obligation under non-cancellable lease contracts amounts to:

Amount in Rs. Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Due within one year of the balance sheet date	521.65	720.55
Due between one to five years	50.36	248.62

13. Provisions

The following table provides disclosures in accordance with Accounting Standard (AS-29) on Provisions & Contingencies:

Amount in Rs. Lakhs

	Balances as at April 1, 2005	Additions during the period	Amounts used/ Paid during the period	Unused amounts reversed during the period	Balances as at March 31, 2006
Provision for warranty	26.49	–	–	(26.49)	–
Provision for Fringe Benefit Tax	–	70.60	76.36	–	(5.76)

14. Previous year's figures have been re-grouped / rearranged, wherever necessary to conform to the current year's presentation.

Signatures to Schedules 1 to 17

S.R. Batliboi & Co.
Chartered Accountants

Per Sunil Bhumralkar
Partner
Membership No. 35141

Place: Bangalore
Date: April 14, 2006

For and on behalf of the Board of Directors

Rajiv C Mody
Managing Director

G Venkatesh
Whole-time Director

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

Cash Flow Statement

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
A. Cash flows from operating activities:		
Net Profit before tax	1,823.03	2,334.00
Adjustments for:		
Depreciation	1,705.66	1,341.88
Amortisaton of Non Compete Fees	94.03	–
Amortisaton of Capitalised Software Costs	–	115.03
Other non-cash (writeback) / charges	211.01	(18.22)
Foreign exchange adjustments	234.49	(182.00)
Interest expense	0.20	44.85
Other income	(585.99)	(60.57)
Operating profit before working capital changes	3,482.43	3,574.97
Adjustments for:		
(Increase) / decrease in Sundry Debtors	(917.82)	(1,081.21)
(Increase) / decrease in Work in progress	(154.35)	35.22
(Increase) / decrease in Loans & Advances	(900.93)	(399.57)
Increase / (decrease) in Current Liabilities and Provisions	(180.38)	839.53
Cash generated from operations	1,328.95	2,968.94
Direct taxes (paid) / refund received, net	(771.11)	(271.46)
Net cash from operating activities	**557.84**	**2,697.48**
B. Cash flows from investing activities:		
Purchase of fixed assets and intangible assets	(2,839.08)	(1,991.77)
Capitalisation of Software product development expenses	(1,413.45)	–
Interest received	20.26	14.54
Sale / (purchase) of Investments, net	(17,827.86)	233.82
Investment in Subsidiary	(2.03)	(5.00)
Sale of Long term investments (non trade)	33.55	–
Loans /Advances given to Subsidiaries	(1,212.53)	(617.10)
Repayment of Loans by Subsidiaries	612.38	–
Optionally Convertible Debentures in Subsidiary	–	(263.72)
Net cash used in investing activities	**(22,628.76)**	**(2,629.23)**

Cash Flow Statement (Contd.)

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
C. Cash flows from financing activities:		
Proceeds from issue of shares (includes share application money), net of share issue expenses	22,914.51	1,047.93
Increase / (decrease) in working capital loans	(45.03)	2.35
Dividend Paid inclusive of dividend tax	(576.30)	(427.58)
Interest paid	(0.20)	(44.85)
Net cash from financing activities	**22,292.98**	**577.85**
Net increase / (Decrease) in Cash and Bank Balances (A+B+C)	222.06	646.10
Cash and Bank Balances at the beginning of the year	914.28	268.18
Cash and Bank Balances at the end of the year (Refer Schedule 8)	**1,136.34**	**914.28**
Supplementary non-cashflow information		
Issuance of Share Capital out of Share Application money	25.49	–
Dividends received re-invested in units of Mutual funds	542.42	14.09

As per our attached report of even date

S.R. Batliboi & Co.
Chartered Accountants

Per Sunil Bhumralkar
Partner
Membership No. 35141

Place : Bangalore
Date : April 14, 2006

For and on behalf of the Board of Directors

Rajiv C Mody
Managing Director

G Venkatesh
Whole-time Director

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

Balance Sheet Abstract

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.	U72100KA1993PLCO14226	State Code	8
Balance Sheet Date	31-03-06		

II. Capital raised during the year

(Rs. in Lakhs)

Public Issue	500	Rights Issue / Preferential Allotment	562.83
Bonus Issue	Nil	Stock Options	46.08

III. Position of mobilisation and deployment of funds

(Rs. in Lakhs)

Total Liabilities	37,394.04	Total Assets	37,394.04
Sources of Funds			
Paid-up Capital	2,793.64		
Reserves & Surplus	34,600.40		
Secured Loans	–		
Unsecured Loans	–		
Application of Funds			
Net Fixed Assets	9,497.37		
Capitalised Software	1,413.45		
Investments	18,725.48		
Net Current Assets	7,757.74		
Misc. Expenditure	–		
Accumulated Losses	–		

IV. Performance of the Company

(Rs. in Lakhs)

Turnover	26,754.43	Total Expenditure	25,463.96
Profit / (Loss) Before tax	1,823.03	Profit / (Loss) After tax	1,290.47
Earnings per share (Rs.) (Weighted average)	5.11	Dividend rate	30%

V. Generic names of three principal products of the Company

(as per monetary terms)

Item Code No.	85249009.10
(ITC Code)	
Product Description:	Computer Software

Auditors' Report

To The Board of Directors of
Sasken Communication Technologies Limited

1. We have audited the attached consolidated Balance Sheet of Sasken Communication Technologies Limited ("the Company") and its subsidiaries (collectively called "Sasken Group"), as at March 31, 2006, and also the consolidated Profit and Loss account and 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 componets. 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. We did not audit the financial statements of the subsidiaries, whose financial statements together reflect total assets of Rs. 350,958,551 as at March 31, 2006, total revenues of Rs. 405,835,844, total expenditure (including taxes) of Rs. 305,727,012 and cash inflows, net amounting to Rs. 20,578,761 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.

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

5. Without qualifying our opinion, we draw attention to note 3(f) in the Notes to Accounts appearing in Schedule 18, regarding Company's basis for not giving effect to the opinion of Expert Advisory Committee of the Institute of Chartered Accountants of India, in respect of accounting for 3,228,334 equity shares of Rs. 10 each issued by the Company to one of its customers at a price less than the fair value of the shares.

6. Based on our audit and on consideration of the reports of the other auditors on separate financial statements 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, 2006,
   (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 & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Bangalore
April 14, 2006

Consolidated Balance Sheet

	Schedule No.	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	2,793.64	1,684.72
Share Application Money		–	25.49
Employee Stock Options Outstanding (Net of deferred compensation cost)		77.32	78.93
Reserves and Surplus	2	35,631.05	12,404.66
Loan Funds			
Secured Loans	3	115.04	45.03
Unsecured Loans	4	–	100.56
Total Sources		**38,617.05**	**14,339.39**
APPLICATION OF FUNDS			
Fixed Assets	5		
Gross Block		18,946.94	16,025.31
Less: Accumulated Depreciation		9,178.08	7,328.77
Net Block		9,768.86	8,696.54
Capital Work in Progress including capital advances		342.93	77.41
Total		**10,111.79**	**8,773.95**
Capitalised software product costs (net of amortisation)		1,413.45	–
Investments	6	18,651.01	55.95
Deferred Tax Asset		19.50	–
Current Assets, Loans and Advances			
Inventories	7	334.97	19.75
Sundry Debtors	8	6,528.59	5,412.18
Cash and Bank Balances	9	1,514.49	1,086.64
Loans and Advances	10	3,852.76	2,371.14
Gross Current Assets	(A)	**12,230.81**	**8,889.71**
Less: Current Liabilities and Provisions	11		
Current Liabilities		2,663.57	2,536.05
Provisions		1,145.94	844.17
Total	(B)	**3,809.51**	**3,380.22**
Net Current Assets	(A-B)	8,421.30	5,509.49
Total Applications		**38,617.05**	**14,339.39**
Notes to Consolidated Accounts	18		

The Schedules referred to above and notes to consolidated accounts 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 14, 2006

For and on behalf of the Board

Rajiv C Mody
Managing Director

G Venkatesh
Whole-time Director

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

Consolidated Profit and Loss Account

	Schedule No.	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Revenues		30,812.79	24,177.00
Cost of Revenues	12	20,115.06	14,044.41
Gross Profit		**10,697.73**	**10,132.59**
Research and Development Expenses	13	1,518.76	2,335.46
Gross Profit after Research and Development Expenses		**9,178.97**	**7,797.13**
Selling and Marketing Expenses	14	2,114.50	2,490.26
Administrative and General Expenses	15	3,889.59	3,100.75
Employee stock option compensation cost (net) (Refer Note 8 in the Notes to Consolidated Accounts)		53.59	73.70
Profit from operations		**3,121.29**	**2,132.42**
Amortisation of Non Compete Fees (Refer Note 3(g) in Notes to Consolidated Accounts)		94.03	–
Other Income	16	616.52	33.21
Exchange gain / (loss), (net)		24.20	333.87
Profit before Interest, Exceptional item & Income Taxes		**3,667.98**	**2,499.50**
Interest Expense	17	14.30	47.32
Exceptional Item (Refer Note 3(h) in Notes to Consolidated Accounts)		676.08	–
Profit before Taxes		**2,977.60**	**2,452.18**
Income Tax expense / (credit), net			
– Current		595.07	174.15
– Deferred		(19.50)	–
Fringe Benefit tax		110.41	–
Profit After Taxes		**2,291.62**	**2,278.03**
Add: Balance brought forward		5,239.45	3,754.70
Profit available for appropriations		**7,531.07**	**6,032.73**
Appropriations			
Proposed dividend		838.09	505.42
Tax on dividend		117.54	70.88
Transfer to General Reserve		129.05	216.98
Balance carried to Consolidated Balance Sheet		6,446.39	5,239.45
Earnings Per Share (Equity Share par value Rs. 10 each)			
Basic		9.08	13.94
Diluted		8.87	13.53
Weighted average number of Equity Shares used in computation of			
Basic EPS		25,233,227	16,335,283
Diluted EPS		25,833,113	16,835,322
(Refer Note 11 in Notes to Consolidated Accounts)			
Notes to Consolidated Accounts	18		

The Schedules referred to above and the notes to consolidated accounts 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 14, 2006

For and on behalf of the Board

Rajiv C Mody
Managing Director

G Venkatesh
Whole-time Director

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

Schedules forming part of the Consolidated Balance Sheet

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 1		
Share Capital		
Authorised Capital		
35,000,000 Equity Shares of Rs. 10 each (At March 31, 2005, 35,000,000 Equity Shares of Rs. 10 each)	3,500.00	3,500.00
Total	**3,500.00**	**3,500.00**
Issued, Subscribed and Paid Up Capital		
27,936,381 Equity Shares of Rs. 10 each fully paid up (At March 31, 2005, 16,847,222 Equity Shares of Rs. 10 each fully paid up) [Of the above, 5,675,000 equity share 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] [Also, refer Note 3(f) and 8 in Notes to Consolidated Accounts]	2,793.64	1,684.72
Total	**2,793.64**	**1,684.72**
Schedule 2		
Reserves and Surplus		
Securities Premium		
Opening Balance	6,133.79	5,273.93
Add: Received during the year (refer Note 3(f) in Notes to Consolidated Accounts)	22,474.71	859.86
Less:Share issue expenses (relating to initial public offer)	584.31	–
Total	**28,024.19**	**6,133.79**
General Reserve		
Opening Balance	1,031.42	814.44
Add: Transferred from Profit & Loss Account	129.05	216.98
Total	1,160.47	1,031.42
Profit & Loss Account	6,446.39	5,239.45
Total	**35,631.05**	**12,404.66**
Schedule 3		
Secured Loans		
Cash Credit from Union Bank of India (Secured against book debts of Sasken Network Engineering Limited and corporate guarantee given by the Company)	115.04	–
Packing Credit from Scheduled Banks (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)	–	45.03
Total	**115.04**	**45.03**

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 4		
Unsecured Loans		
Cash Credit from Union Bank of India	–	100.56
Total	**–**	**100.56**

Schedule 5 – Fixed Assets

Rs. in Lakhs

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at April 1, 2005	Additions during the year	Deletions during 2006	As at March 31, 2006	As at April 1, 2005	For the year	Adjustments during the year	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Land	2,287.67	–	–	2,287.67	–	–	–	–	2,287.67	2,287.67
Building	3,310.98	–	–	3,310.98	625.99	166.05	–	792.04	2,518.94	2,684.99
Leasehold Improvements	273.70	78.34	–	352.04	37.56	69.40	–	106.96	245.08	236.14
Computers	3,369.62	848.66	94.51	4,123.77	2,355.08	439.45	91.88	2,702.65	1,421.12	1,014.54
Electrical Fittings	149.60	62.29	–	211.89	95.32	31.58	–	126.90	84.99	54.28
Furniture and Fittings	1,670.66	156.70	–	1,827.36	522.13	187.55	–	709.68	1,117.68	1,148.53
Plant & Machinery including Office Equipments	3,067.72	468.18	–	3,535.90	2,040.49	658.45	–	2,698.94	836.96	1,027.23
Vehicles	12.72	1.62	14.26	0.08	1.31	2.27	3.50	0.08	–	11.41
Intangible Assets										
– Computer Software	1,734.60	1,168.07	–	2,902.67	1,626.29	246.57	–	1,872.86	1,029.81	108.31
– Contract Rights	148.04	–	–	148.04	24.60	49.34	–	73.94	74.10	123.44
– Non Compete Fees	–	246.54	–	246.54	–	94.03	–	94.03	152.51	–
Total	**16,025.31**	**3,030.40**	**108.77**	**18,946.94**	**7,328.77**	**1,944.69**	**95.38**	**9,178.08**	**9,768.86**	**8,696.54**
Balance as at March 31, 2005	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	–

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

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 6		
Investments		
A. Long term, Unquoted, Non Trade, at cost		
Indira Vikas Patra / National Savings Certificate	0.12	0.12
14,584 fully paid shares of Common Stock of 2Wire Inc, a company incorporated in USA. As on March 31, 2005: 29764 fullly paid Common Stock)	83.00	169.40
Less: Provision for diminution in value of investment	(50.86)	(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(e) in the Notes to Consolidated Accounts)		
B. Current – Non Trade, unquoted at lower of cost and net realisable value		
[also refer Note 4 in the Notes to Consolidated Accounts]		
– UTI Liquid Cash Plan – Institutional Plan – Weekly Income Option [As at March 31, 2006 40,438.47 Units of Rs. 1015.534 each]; [Market value – Rs. 412.22 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	410.67	–
– GFCW Grindlays Floating Rate -ST-Super Inst Plan C- Weekly Dividend [As at March 31, 2006 1,649,474.30 Units of Rs. 10 each]; [Market value – Rs. 164.94 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	164.94	–
– TATA Floating Rate Short Term Institutional Plan – Daily Dividend [As at March 31, 2006 2,409,512.79 Units of Rs. 10.006 each]; [Market value – Rs. 241.20 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	241.10	–
– Reliance Fixed Maturity Fund – Monthly Plan – Dividend [As at March 31, 2006 9,223,581.17 Units of Rs. 10 each]; [Market value – Rs. 926.83 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	922.36	–
– Reliance Fixed Maturity Fund – Quarterly Plan – Dividend [As at March 31, 2006 5,225,083.29 Units of Rs. 10 each]; [Market value – Rs. 522.96 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	522.51	–
– BirlaSunlife Cash Manager – Institutional Plan – Daily Dividend [As at March 31, 2006 5,206,576.19 Units of Rs. 10 each]; [Market value – Rs. 520.80 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	520.70	–
– UTI – Floating Rate Fund – Short Term Plan (Dividend Option) [As at March 31, 2006 2,827,356.51 Units of Rs. 10.077 each]; [Market value – Rs. 286.02 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	284.91	–

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
– Birla Floating Rate Fund – Long Term – Monthly Dividend [As at March 31, 2006 4,985,658.21 Units of Rs. 10.403 each]; [Market value – Rs. 519.25 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	518.65	–
– ING Vysya Floating Rate Fund – Weekly Dividend [As at March 31, 2006 15,182,722.86 Units of Rs. 10.086 each]; [Market value – Rs. 1533.86 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,531.29	–
– Principal Floating Rate Fund SMP – Institutional Plan- Weekly Dividend [As at March 31, 2006 15,377,338.60 Units of Rs. 10.005 each]; [Market value – Rs. 1538.12 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,538.12	–
– Prudential ICICI Long Term Floating Rate Plan B – Dividend [As at March 31, 2006 15,230,898.83 Units of Rs. 10.047 each]; [Market value – Rs. 1537.95 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,530.20	–
– Principal Income Fund – Short Term – Institutional Plan – Monthly Dividend [As at March 31, 2006 10,141,960.13 Units of Rs. 10.090 each]; [Market value – Rs. 1019.98 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,019.98	–
– LIC MF FMP Series 1 Year – Growth [As at March 31, 2006 10,000,000.000 Units of Rs. 10 each]; [Market value – Rs. 1034.22 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,000.00	–
– JM Equities & Derivative Fund – Dividend [As at March 31, 2006 4,984,007.545 Units of Rs. 10.130 each]; [Market value – Rs. 515.62 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	504.89	–
– Prudential ICICI Institutional FMP – 15 Month Plan Series XXV [As at March 31, 2006 4,668,708.448 Units of Rs. 10.710 each]; [Market value – Rs. 502.34 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	500.00	–
– HSBC Fixed Term Series 1 – Growth [As at March 31, 2006 5,007,063.327 Units of Rs. 10 each]; [Market value – Rs. 502.86 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	500.71	–
– UTI FMP Growth Plan [As at March 31, 2006 5,000,000.000 Units of Rs. 10 each]; [Market value – Rs. 514.94 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	500.00	–

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
– HSBC Fixed Term Series-7-Dividend [As at March 31, 2006 1,005,901.983 Units of Rs. 10 each]; [Market value – Rs. 100.63 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	100.59	–
– LIC MF Liquid Fund [As at March 31, 2006 10,101,962.07 Units of Rs. 10.954 each]; [Market value – Rs. 1106.83 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,106.54	–
– LIC MF Liquid Fund [Quarterly] [As at March 31, 2006 20,000,000.000 Units of Rs. 10.0000 each]; [Market value – Rs. 2000.00 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	2,000.00	–
– DSP Merril Lynch Floating Rate Fund [As at March 31, 2006 Nil Units]; [Market value – Rs. Nil] [As at 31st March, 2005 410,879.541 of Rs. 10.0275 each]; [Market value – Rs. 41.23 Lakhs]	–	41.20
– UTI Fixed Maturity Plan (Quarterly) {As at March 31, 2006 – 2,000,000 Units at Rs. 10 each]; [Market value – Rs. 200.29 Lakhs] [As at 31st March, 2005 Nil Units]; [Market value – Rs. Nil]	200.00	–
– ING Vysya Quarterly FMP Dividend Option [As at March 31, 2006 15,000,000.00 Units of Rs. 10.00 each]; [Market value – Rs. 1,500.00 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,500.00	–
– TATA Fixed Horizon Fund – Series 5 [As at March 31, 2006 10,000,000.00 Units of Rs. 10 each]; [Market value – Rs. 1,000.61 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	1,000.00	–
– Prudential ICICI FMP [As at March 31, 2006 5,003,639.449 Units of Rs. 10 each]; [Market value – Rs. 501.63 Lakhs] [As at March 31, 2005 Nil Units]; [Market value – Rs. Nil]	500.36	–
Total	**18,651.01**	**55.95**

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 7		
Inventories		
Work-in-progress	334.97	19.75
Total	**334.97**	**19.75**
Schedule 8		
Sundry Debtors		
a) Debts outstanding for a period exceeding six months		
– Unsecured, considered good	260.27	73.87
– Unsecured, considered doubtful	262.12	94.02
b) Other debts		
– Unsecured, considered good	6,268.32	5,338.31
– Unsecured, considered doubtful	34.17	–
Less: Provisions	(296.29)	(94.02)
Total	**6,528.59**	**5,412.18**

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 Rs. in Lakhs
Schedule 9		
Cash and Bank Balances		
(Refer Note 3(c) in Notes to Consolidated Accounts)		
Cash on Hand	9.99	4.61
Balances with:		
Scheduled Banks		
– in Current Accounts	1,109.87	582.46
– in Deposit Accounts	81.66	24.82
(held as margin money for bank guarantees / letters of credit as on 31st March 2006-Rs. 30.86 Lakhs; as on 31st March 2005 – Rs. 24.81 Lakhs)		
Other banks		
– Barclays Bank, UK	45.51	83.08
– Bank of America, USA	198.66	316.17
– Bank of Montreal, Canada (CAD)	26.72	15.86
– Summitomo Bank, Japan (JPY)	3.30	3.97
– Kawasaki Shinkim Bank, Japan	0.83	0.97
– China Minsheng Banking Corporation (US $)	4.71	4.05
– China Minsheng Banking Corporation (CNY)	1.41	0.41
– Nordbanken AB (Sweden)	7.89	16.39
– Hypo Vereins Bank, Germany	23.69	18.23
– Fleet Bank, USA	0.25	15.62
Total	**1,514.49**	**1,086.64**
Maximum amount outstanding at any time during the year in other banks		
Current Accounts		
– Barclays Bank, UK	153.44	172.69
– Bank of America, USA	683.50	528.14
– Bank of Montreal, Canada (CAD)	117.21	75.86
– Summitomo Bank, Japan (JPY)	42.27	24.40
– China Minsheng Banking Corporation (US $)	8.92	4.80
– China Minsheng Banking Corporation (CNY)	5.28	3.38
– Nordbanken AB (Sweden)	20.34	16.39
– Hypo Vereins Bank, Germany	132.58	116.07
– Fleet bank, USA	16.56	36.18
Deposit Account		
– Kawasaki Shinkim Bank, Japan	2.50	1.52

	As at March 31, 2006 Rs. in Lakhs	As at March 31, 2005 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	1,087.76	740.19
Deposits with Government Departments and others	1,220.15	935.12
Loans and Advances to Staff	226.91	226.17
Interest Income Accrued but not due	6.48	8.52
Unbilled Revenues	915.43	261.75
Advance Income Tax (Net of Provision for Tax)	396.03	149.39
B. Secured, considered good		
Loan to Blue Broadband Tech Pvt Ltd.	–	50.00
Total	**3,852.76**	**2,371.14**
Schedule 11		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors for goods, expenses and services		
Dues to Small Scale Industrial Units	4.20	0.11
Others	2,078.16	1,557.31
Other Liabilities	129.10	522.67
Deferred Revenues	18.53	196.49
Advance received from customers	433.58	259.47
Total (A)	**2,663.57**	**2,536.05**
Provisions		
Provision for Income Tax	14.54	–
Proposed Equity Dividend	838.09	505.42
Tax on Proposed Equity Dividend	117.54	70.88
Provision for Leave Encashment	163.53	120.04
Provision for Warranty	–	26.49
Provision for Gratuity	12.24	121.34
Total (B)	**1,145.94**	**844.17**
Total (A) + (B)	**3,809.51**	**3,380.22**

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 12		
Cost of Revenues		
Salaries & Bonus	13,764.54	9,326.30
Contribution to Provident and Other Funds	586.92	496.30
Staff Welfare	208.90	164.46
Recruitment and Relocation	226.48	304.84
Rent	1,015.08	493.01
Repairs and Maintenance		
– Plant & Machinery	285.26	217.12
– Building	212.39	129.12
– Others	150.01	49.89
Communication Expenses	264.74	182.04
Travel Expenses	1,316.10	594.33
Electricity and Water Charges	441.52	259.49
Professional & Consultancy Charges	277.69	461.74
Depreciation	1,231.59	957.04
Software expenses	349.04	170.98
Training and Conference Expenses	77.49	86.67
Warranty Expenses provided / (reversed)	(26.49)	(1.48)
Miscellaneous	49.02	2.31
Sub Total	**20,430.28**	**13,894.16**
Amortisation of capitalised software product costs	–	115.03
Add: Opening balance of work in progress	19.75	54.97
Less: Closing balance of work in progress	(334.97)	(19.75)
Total	**20,115.06**	**14,044.41**

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 13		
Research & Development Expenses		
Salaries & Bonus	1,230.95	1,425.73
Contribution to Provident and Other Funds	61.32	81.87
Staff Welfare	12.37	10.05
Recruitment and Relocation	8.16	6.22
Rent	92.05	98.17
Repairs and Maintenance		
– Plant & Machinery	76.63	52.47
– Building	41.45	20.47
– Others	14.93	4.39
Communication Expenses	21.91	25.73
Travel Expenses	209.35	166.94
Electricity and Water Charges	43.14	38.00
Professional & Consultancy Charges	727.28	197.80
Depreciation	354.29	191.62
Software Expenses	18.13	1.35
Training and Conference Expenses	20.25	14.65
Sub Total	**2,932.21**	**2,335.46**
Less: Capitalised software product costs	(1,413.45)	–
Total	**1,518.76**	**2,335.46**

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 14		
Selling and Marketing Expenses		
Salaries & Bonus	1,034.67	1,399.50
Contribution to Provident and Other Funds	14.37	32.65
Staff Welfare	49.17	32.38
Recruitment and Relocation	25.27	8.62
Rent	77.30	109.13
Repairs and Maintenance		
– Plant & Machinery	6.60	5.69
– Building	27.63	11.01
– Others	5.56	2.71
Communication expenses	80.87	85.15
Travel expenses	300.38	300.38
Electricity and Water Charges	8.17	4.76
Professional, Legal & Consultancy Charges	210.01	192.24
Agency Commission (others)	69.43	95.56
Selling Expenses – others	169.31	172.68
Depreciation	30.07	25.51
Training and Conference expenses	5.69	12.29
Total	**2,114.50**	**2,490.26**

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

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 15		
Administrative and General Expenses		
Salaries & Bonus	1,219.85	1,038.24
Contribution to Provident and Other Funds	79.48	93.52
Staff Welfare	58.72	39.76
Recruitment and Relocation	12.11	83.04
Rent	150.08	187.01
Rates and Taxes	44.42	202.83
Repairs and Maintenance		
– Plant & Machinery	38.71	46.60
– Building	100.12	49.98
– Others	20.58	12.42
Communication Expenses	45.01	54.10
Travel Expenses	163.26	122.64
Electricity and Water Charges	80.12	88.75
Depreciation	234.67	244.87
Professional, Legal & Consultancy Charges	739.57	309.56
Auditors' Remuneration*		
– Statutory Audit	8.70	8.70
– Other Services	0.25	–
– Out of Pocket Expenses (including service tax)	0.41	1.08
Training and Conference Expenses	52.58	51.35
Directors' sitting fees	1.72	0.48
Insurance	83.32	73.98
Miscellaneous	536.72	479.40
Depreciation on Current Investments (non trade)	4.33	–
Loss on sale of fixed assets (net)	6.87	0.14
Bad debts	5.72	–
Provision for doubtful debts, net of reversals	202.27	(87.70)
Total	**3,889.59**	**3,100.75**

* also refer Note 3(j) in Notes to Consolidated Accounts

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

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Schedule 16		
Other Income		
Miscellaneous income	5.43	0.02
Dividend received on current investments (non trade)	542.42	14.09
Net gain on sale of current investments (non trade)	5.96	11.39
Interest income on Bank Deposits (Gross)*	8.28	3.46
Net profit on sale of Long term investments (non trade)	26.12	–
Reversal of provsion for diminution in value of long term investments (non trade)	25.09	–
Other interest income*	3.22	4.25
Total	**616.52**	**33.21**
* Tax deducted at source	7.97	0.76
Schedule 17		
Interest Expense		
Others	14.30	47.32
Total	**14.30**	**47.32**

Schedules forming part of the Consolidated Accounts for the year ended March 31, 2006

Schedule 18

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, 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, 2006, 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. SNEL provides installation and commissioning of and project management services in cellular network. As at March 31, 2006, SNEL is a wholly owned subsidiary of the Company.

During the year ended March 31, 2006, the Company promoted Sasken Communication Technologies, S.A. De C.V.,(Sasken Mexico) a wholly owned subsidiary in Mexico. Sasken Mexico was incorporated on November 22, 2005. As on March 31, 2006, Sasken Mexico is a wholly owned subsidiary of Sasken.

During the year ended March 31, 2006, the Company promoted Sasken Communication Technologies (Shangai) Co. Ltd. (Sasken China) a wholly owned subsidiary in China. Sasken China was incorporated on January 4, 2006. Sasken China is yet to commence operations as at March 31, 2006. The Company has not made any investment in Sasken China as at March 31, 2006.

2. Significant Accounting Policies

Basis for preparation of financial statements

The accompanying consolidated financial statements include the accounts of Sasken, SNS, SNEL and Sasken Mexico (hereinafter collectively referred to as "the Group"). The financial year-end of the subsidiaries is March 31 except for Sasken Mexico for which the year-end will be December 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 during the previous year.

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.

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 (including intangible assets)

Fixed assets (including intangible 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 including Office Equipment	20-25	4.75
Vehicles	20	9.5

Leasehold improvements at leased property are depreciated over the 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 depreciated over the estimated useful life as given below:

1. Computer Software –

(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.

2. Contract Rights – over 3 years

3. Non-compete fee – over the contract period of 24 months. (Refer Note 3(g)).

Capitalisation and Amortisation of Software Product Costs

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 product costs are amortised on a product-by-product basis. The amortisation 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 capitalised 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 acquired from outside India, 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. The premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the year 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 year.

(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.

In case of the Mexican Subsidiary, the Company contributes to a Social Security as per Mexican laws and the same are remitted to Institute of Mexican Social Security in Mexico (IMSS) and Saguro De Ahorro Para El Retiro (SAR). The same is charged to the Profit and Loss account on an accrual basis.

Impairment of assets

(i) The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal / external factors. An impairment loss is recognized wherever the carrying amount of an asset exceed its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

(ii) After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

(iii) A previously recognized impairment loss is increased or reversed depending on changes in circumstances. However the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

Warranty

The Group provides for the estimated costs based on trend of past analysis and nature of services rendered, which 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 capitalised as tangible assets. Depreciation on such assets is charged to expense as research and development costs.

Income Taxes

Tax expense comprises current, deferred and fringe benefit tax. Current income tax and fringe benefit 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 period 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 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.

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 year 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 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 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 leases payments are recognized as expense in the profit and loss account on a straight-line basis over the lease term.

3. Other notes

(a) Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. 205.40 Lakhs (As at March 31, 2005 Rs. 82.15 Lakhs).

(b) Contingent Liabilities

Contingent liabilities towards taxes on income not provided for amount to Rs. 126.85 Lakhs (As at March 31, 2005 Rs. 157.71 Lakhs). There are certain claims made against the Company by Customers / investee Companies, which are under Arbitration proceedings. In the view of the management of the Company such claims are frivolous and are not tenable. No provision has been made for such claims pending arbitration proceedings as the amount of claims are currently not ascertainable.

Rs. in Lakhs

	As at March 31, 2006	As at March 31, 2005
Bank Guarantees	201.43	96.95
Letters of Credit	Nil	36.38

(c) Bank balances include remittances in transit amounting to Rs. Nil (As at March 31, 2005 Rs. 351.18 Lakhs).

(d) Foreign exchange gain arising on account of foreign exchange forward contracts entered into by the Group to be recognized in the future financial periods amount to Rs. 61.23 Lakhs as at March 31, 2006 and Rs. 76.85 Lakhs as at March 31, 2005.

(e) The shares held in Extandon Inc, US are held by Extandon Inc as 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.

(f) The accounting treatment of a Preferential allotment of 3,228,334 equity shares of Rs. 10/- each in the Company made to a business customer at the issue price of Rs. 141.63 each (after obtaining the requisite regulatory approvals) was the subject-matter of a reference to the Expert Advisory Committee ("the Committee") of The Institute of Chartered Accountants of India (ICAI), the Committee's opinions having pursuasive (but not binding) force. The Committee opined that the excess of the approximately appraised equity share value of Rs. 223 per share and the paid-up value of Rs. 10/- (and not just the sum of Rs. 131.63 per share) be recognised as Securities Premium and the difference of Rs. 81.37 per share (excess of appraised value over the actual issue price) be recognised as an Intangible Asset (on the ground that benefits will accrue from the commercial contract with the allottee for his assured placement of orders with the Company) to be amortised over the term of the Contract.

The Company has been advised by its legal advisers that the foregoing recommended treatment is inconsistent with the statutory requirements of Schedule VI to the Companies Act, 1956 which advice has been confirmed by Senior Counsel on an independent reference by the Company's Audit Committee. Based on such legal advice, the Securities Premium recognized by the Company is only the sum of Rs. 131.63 per share and no recognition has been accorded to any "Intangible Asset" suggested by the Committee.

(g) Non-compete fee

During the year ended March 31, 2006, the Company paid a non-compete fee of Rs. 246.54 Lakhs to one of its key employees at the time of termination of his services with the Company under a non-compete agreement entered into with such employee. The non-compete agreement restricts the employee from solicitation of Company's and its subsidiary's customers and employees and restricts such employee from joining as employee or otherwise providing similar services to the Company's and its subsidiary's competitor. The contract is for a period of two years. Such non-compete fee has been recorded as an intangible asset under Accounting Standard 26 – Intangible Assets and the same is being amortised over two years on a straight line basis from the date of termination of services.

(h) Exceptional item

During the year ended March 31, 2006, the Company paid a sum of Rs. 676.08 Lakhs towards an award in arbitration in a dispute with a customer with whom a licensing agreement had been made and the same has been charged off to the profit and loss account.

(i) The Group enters into foreign exchange forward contracts to hedge its net foreign currency receivables position including its future receivables. As at March 31, 2006, the Group had foreign exchange forward contracts amounting to US $37.40 million at an average forward exchange rate of Rs. 44.69 [March 31, 2005 US $27.21 million at an average forward rate of Rs. 44.89]. As at the balance sheet date, the Group does not have material foreign currency receivable unhedged. As per the current policy of the Company, the Company takes foreign exchange forward contracts for currencies primarily denominated in the US Dollar.

(j) Share issue expenses include a sum of Rs. 19.06 Lakhs (including service tax and out of pocket expenses of Rs. 2.06 Lakhs) towards fees of auditors of the Company for audit / certification work related to the initial public offering of the Company's equity shares.

4. Initial Public Offer (IPO)

In August 2005, the Company completed an Initial Public Offering (IPO) and made a fresh issue of 5,000,000 equity shares of Rs. 10 each at a price of Rs. 260 per share. Consequently, the Company's shares were listed on September 9, 2005 on the Bombay Stock Exchange and National Stock Exchange of India.

The Company proposes to utilise the proceeds from the IPO towards setting up of a new software development campus. As at March 31, 2006, the Company was in the process of taking necessary steps towards such activity. In the interim, the IPO proceeds of Rs. 12,415.69 Lakhs (net of share issue expenses of Rs. 584.31 Lakhs) have been invested in units of mutual funds as at March 31, 2006. The issue expenses of Rs. 584.31 Lakhs have been adjusted against Securities Premium Account.

5. Managerial Remuneration

Managerial remuneration paid / payable to Directors. Rs. in Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Whole-time Directors		
Salaries and bonus	204.29	203.34
Contribution to Provident Fund and other Funds #	8.37	10.31
Non Whole-time Directors	29.11	26.96
Total	**241.77**	**240.61**

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

6. 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. The temporary differences reverse within the balance period of tax holiday under section 10A of the Income Tax Act, 1961. Deferred tax asset (DTA) is recognised only where it is virtually certain that such DTA would be realised.

Income tax expense / (credit) comprises of: Rs. in Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Overseas income taxes (comprising of withholding taxes and overseas branch income taxes)	446.11	150.31
The above are net of refund / reversal of overseas taxes	56.89	204.54

The operations of SNEL are taxable under the Income Tax Act. Accordingly, SNEL has provided for DTA as at March 31, 2006. The following are the components of the DTA:

Rs. in Lakhs

Depreciation	14.75
Others	4.75
Total	**19.50**

7. Fixed Price Revenue Contracts

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

Rs. in Lakhs

Particulars	Year ended March 31, 2006	Year ended March 31, 2005
Contract revenue recognised	3,559.98	2,844.94
Aggregate amount of costs incurred and recognised profits (less recognised losses) up to date of balance sheet for contracts in progress as at that date	1,204.58	19.75

Rs. in Lakhs

	As at March 31, 2006	As at March 31, 2005
Gross amount due from customers for contract work – presented as an asset	334.97	30.04
Gross amount due to customers for contract work – presented as a liability	–	15.72

8. Employee Stock Option Plan

Sasken ESOP 2000

On September 22, 2000, the shareholders of the Company approved Stock Option Plan [ESOP-2000] in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. The Plan covered all employees of the Company including foreign branches, employees of the subsidiaries and Directors other than the promoter directors. The Plan provided for the issue of 30 lakh shares (including the shares issued under the SAS Stock Option Plan, 1997) of Rs. 10 each duly adjusted for any bonus, splits, etc. A Compensation Committee comprising of three independent directors on the Board administer the scheme.

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 convertible into equity shares of Rs. 10 each. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 160 to Rs. 256 per share of Rs. 10 each 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 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.

On April 19, 2005, the Company issued 304,050 options to 1,212 employees including 25,350 options to 80 employees of SNSL and 21,100 options to 113 employees of SNEL. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 225 to Rs. 321 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.

All the options granted have an exercise period of two years from the date of vesting.

Employee Stock Options outstanding (Net of deferred compensation cost) is as follows:

Rs. in Lakhs

	March 31, 2006	March 31, 2005
Total accounting value of options outstanding (A)	92.84	115.02
Deferred Compensation Cost	92.84	115.02
Less: Amortised	77.31	78.93
Net Deferred Compensation Cost (B)	15.53	36.09
(A) – (B)	**77.31**	**78.93**

The following table summarizes the Company's stock options activity for Sasken ESOP 2000

Shares underlying options outstanding

	March 31, 2006		March 31, 2005	
	No. of Shares	Weighted average exercise price (Rs.)	No. of Shares	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,418,488	175.00	274,110	80.00
Granted during the year	304,050	238.80	1,395,723	188.00
Forfeited during the year	(151,915)	209.36	(166,475)	175.00
Exercised during the year	(428,965)	136.58	(84,870)	80.00
Outstanding at the end of the year	1,141,658	201.89	1,418,488	175.00
Exercisable at the end of the year	360,208	153.10	175,980	80.00
Weighted average remaining contractual life (in years)	2.40	–	2.83	–
Weighted average fair value of options granted	–	17.49	–	4.47

The weighted average share price during the year ended March 31, 2006 was Rs. 328.18 per share.

The estimated weighted average fair value of options granted in April 2005 grant is Rs. 17.49. This was calculated by applying the minimum value model with the following inputs:

	March 31, 2006	March 31, 2005
Average Risk free interest rate	6.60%	5.24%
Expected life of options granted in (years)	2.40	2.83
Expected dividend yield	1.00%	Nil

The details of excercise price of Sasken ESOP 2000 is as follows:

As at March 31, 2006

Range of exercise price (Rs.)	Number of options outstanding	Weighted average remaining life of options (in years)	Weighted average exercise price (Rs.)
80	43,120	0.50	80.00
160-225	785,555	2.02	190.13
226-321	312,983	3.61	248.21

As at March 31, 2005

Range of exercise price (Rs.)	Number of options outstanding	Weighted average remaining life of options (in years)	Weighted average exercise price (Rs.)
80	175,980	1.50	80.00
160-225	1,027,893	2.78	177.01
226-256	214,615	4.87	243.79

Sasken ESOP 2006

On February 25, 2006, the shareholders of the Company approved Stock Option Plan [ESOP-2006] in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. The Plan covers all employees of the Company including foreign branches, employees of the subsidiaries and Directors other than the promoter directors. The Plan provides for the issue of 3,575,000 shares 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.

The terms of each issuance would be determined by the Compensation Committee. Consequent to the approval of ESOP 2006, no new options would be issued under ESOP 2000. As at March 31, 2006, no options have been issued under ESOP 2006.

9. Related Party Disclosures

a) Remuneration paid to Key Managerial Personnel

Rs. in Lakhs

Name of the related party	Relationship	Year ended March 31, 2006	Year ended March 31, 2005
Mr. Rajiv C Mody	Managing Director	75.84	58.16
Mr. Pranabh D Mody	Director / Whole-time Director	–	38.13
Mr. Krishna J Jhaveri	Whole-time Director	94.11	111.58
Dr. G Venkatesh	Whole-time Director	42.71	5.78

The above does not include provision for / contribution to employee retirement and other employee benefit schemes determined on actuarial basis. Pranabh D Mody stepped down as a wholetime director with effect from April 1, 2005.

10. Segment reporting

The business 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.

(a) Business Segment Information

Rs. in Lakhs

	As at March 31, 2006	As at March 31, 2005
Segment Assets		
Software Services	7,746.00	5,904.27
Software Products	3,243.91	1,026.34
Network Engineering Services	2,049.37	790.74
Unallocated corporate assets	29,387.28	9,998.26
Total	**42,426.56**	**17,719.61**
Segment Liabilities		
Software Services	711.07	1,003.10
Software Products	499.93	414.67
Network Engineering Services	972.76	384.22
Unallocated corporate liabilities	1,625.75	1,723.82
Total	**3,809.51**	**3,525.81**
Capital expenditure – Tangible and Intangible Assets		
Software Services	382.08	487.81
Software Products	1,225.37	136.68
Network Engineering Services	162.50	284.25
Corporate and others	1,260.45	1,519.40
Total	**3,030.40**	**2,428.14**
Capitalised software product costs		
Software Products	1,413.45	–
Total	**1,413.45**	**–**

Segment Results

Rs. in Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Revenues	**30,812.79**	**24,177.00**
Software Services	25,823.79	20,349.45
Software Products	2,751.02	3,393.55
Network Engineering Services	2,237.98	434.00
Segmental Profit	**9,178.97**	**7,797.13**
Software Services	8,749.07	7,597.50
Software Products	(424.41)	139.42
Network Engineering Services	854.31	60.21
Less:		
Corporate Expenses	6,057.68	5,664.71
Profit from operations	**3,121.29**	**2,132.42**
Less: Amortisation	94.03	–
Less: Interest	14.30	47.32
Add: Other Income including Exchange gain / (loss), net	640.72	367.08
Less: Exceptional item	676.08	–
Profit before tax	**2,977.60**	**2,452.18**
Taxes	685.98	174.15
Profit after tax	**2,291.62**	**2,278.03**
Depreciation	**1,944.69**	**1419.00**
Software Services	1,090.30	874.08
Software Products	448.19	249.78
Network Engineering Services	127.65	43.23
Unallocated Depreciation	278.55	251.91
Amortisation of capitalised software costs (software products)	–	115.03

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	Year ended March 31, 2006	Year ended March 31, 2005
North America (Including Canada)	10,752.94	8,138.62
Europe	11,243.24	11,271.82
Asia Pacific (Other than India)	2,199.99	2,400.76
India	6,616.62	2,365.80
Total	**30,812.79**	**24,177.00**

Assets:

Debtors and Unbilled Revenue

Rs. in Lakhs

Region	As at March 31, 2006	As at March 31, 2005
North America (including Canada)	2,075.03	1,578.03
Europe	2,474.74	2,861.25
Asia Pacific (excluding India)	209.96	330.76
India	2,684.29	903.89
Total	**7,444.02**	**5,673.93**

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

11. 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

	Year ended March 31, 2006	Year ended March 31, 2005
Profit for computation of basic and diluted EPS (Rs. in Lakhs)	2,291.62	2,278.03
Weighted average number of shares considered for basic EPS	25,233,227	16,335,283
Add: Effect of stock options and warrants	599,886	500,039
Weighted average number of shares considered for diluted EPS	25,833,113	16,835,322

12. Operating lease

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

Rs. in Lakhs

	Year ended March 31, 2006	Year ended March 31, 2005
Rent expenses included in profit & loss account towards operating leases	1,091.44	764.23

Minimum lease obligation under non cancellable lease contracts amounts to:

Rs. in Lakhs

	As at March 31, 2006	As at March 31, 2005
Due in one year of the balance sheet date	604.08	816.34
Due between one to five years	50.36	248.62

13. Provisions

The following table provides disclosures in accordance with Accounting Standard (AS 29) on Provisions & Contingencies:

Rs. in Lakhs

	Balance as at April 1, 2005	Additions during the year	Amounts used / Paid during the year	Unused amounts reversed during the year	Balance as at March 31, 2006
Provision for warranty	26.49	–	–	26.49	–
Provision for Fringe Benefit Tax	–	110.40	116.37	–	(5.96)

14. Comparatives

Previous year's figures have been re-grouped / re-arranged, wherever necessary to conform to the current year's presentation.

Signature to Schedules 1 to 18

S.R. Batliboi & Co.
Chartered Accountants

Per Sunil Bhumralkar
Partner
Membership No. 35141

Place : Bangalore
Date : April 14, 2006

For and on behalf of the Board of Directors

Rajiv C Mody
Managing Director

G Venkatesh
Whole time Director

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

Consolidated Cash Flow Statement

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
A. Cash flows from operating activities:		
Net Profit before tax	2,977.60	2,452.18
Adjustments for:		
Depreciation	1,850.66	1,419.00
Amortisaton of Non Compete Fees	94.03	–
Amortisaton of capitalised cost	–	115.03
Other non-cash writeback / charges	241.74	(18.22)
Foreign exchange adjustments	234.49	(182.00)
Interest expense	14.30	47.32
Other income	(567.98)	(33.19)
Operating profit before working capital changes	4,844.84	3,800.12
Adjustments for:		
(Increase) / decrease in Sundry Debtors	(1,335.67)	(1,956.66)
(Increase) / decrease in Work in progress	(315.21)	35.22
(Increase) / decrease in Loans & Advances	(1,420.00)	(685.43)
Increase / (decrease) in Current Liabilities and provisions	10.85	1,371.15
Cash generated from operations	1,784.81	2,564.40
Direct taxes (paid) / refund received	(937.59)	(273.33)
Net cash generated from operating activities	**847.22**	**2,291.07**
B. Cash flows from investing activities:		
Purchase of fixed assets and intangible assets	(3,305.85)	(2,386.70)
Capitalisation of Software product development expenses	(1,413.45)	–
Sale of Long term investments (non trade)	33.55	–
Interest received	2.04	–
Sale / (Purchase) of investments, net	(18,029.03)	233.82
Net cash used in investing activities	**(22,712.74)**	**(2,152.88)**
C. Cash flows from financing activities:		
Proceeds from issue of shares (includes share application money), net of share issue expenses	22,914.52	1,047.93
Increase / (Decrease) in working capital loans	(30.56)	102.91
Dividend Paid inclusive of dividend tax	(576.30)	(427.58)
Interest paid	(14.29)	(47.41)
Net cash from financing activities	**22,293.37**	**675.85**

Consolidated Cash Flow Statement (Contd.)

	For the Year ended March 31, 2006 Rs. in Lakhs	For the Year ended March 31, 2005 Rs. in Lakhs
Net increase in Cash and Bank Balances (A+B+C)	427.85	814.04
Cash and Bank balances at the beginning of the year	1,086.64	272.60
Cash and Bank Balances at the end of the year (Refer Schedule 9)	**1,514.49**	**1,086.64**
Supplementary non-cashflow information		
Issuance of Share Capital out of Share Application money	25.49	–
Dividends received re-invested in units of Mutual funds	542.42	14.09

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 14, 2006

For and on behalf of the Board

Rajiv C Mody
Managing Director

G Venkatesh
Whole-time Director

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

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

(in Rupees)

1	Name of the Subsidiary	Sasken Network Systems Limited	Sasken Network Engineering Limited	Sasken Communication Technologies Mexico S.A De C.V
2	Financial year / period of the Subsidiary ended on	31st March 2006	31st March 2006	31st March 2006
3	Holding Company's interest Equity Share Capital	100% (500,000 equity shares of Re.1 each fully paid up)	100% (50,000 equity shares of Rs. 10 each fully paid up)	100% (100 equity shares of $500 [Mexican Pesos each)
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	82,753,866	23,886,161	(6,531,195)
	– For the previous financial year of the subsidiary since it became its subsidiary	16,779,910	(6,097,496)	NA
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 within accounts of Holding Company			
	– For the financial year of the subsidiary	NA	NA	NA
	– For the previous financial year of the subsidiary since it became its subsidiary	NA	NA	NA
6	Capital	500,000	500,000	203,169
7	Reserves	99,533,776	17,788,665	(6,531,195)
8	Total Assets	108,224,779	204,937,204	37,796,568
9	Total Liabilities	8,191,003	186,648,539	44,124,594
10	Details of Investments	20,126,544	–	–
11	Turnover	182,037,579	223,798,265	–
12	Profit before Taxation	83,026,196	38,956,161	(6,531,195)
13	Provision for Taxation	272,330	15,070,000	–
14	Profit after Taxation	82,753,866	23,886,161	(6,531,195)
15	Proposed dividend	–	–	–

Rajiv C Mody
Managing Director

G Venkatesh
Whole-time Director

Place : Bangalore
Date : April 14, 2006

Neeta Revankar
Chief Financial Officer

R Vittal
Company Secretary

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.

Management's discussion and analysis of financial performance

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. Industry structure and Developments

Headquartered in Bangalore, India, Sasken is a global telecom software solutions provider offering a unique combination of software services and products to global companies in the communications space. Established in 1989, Sasken employs 2,575 people, operating from state of the art research and development centers in Bangalore and Pune in India, and near shore development centers in Mexico and China, with offices in Germany, Japan, Sweden, UK and US.

We are a focused communication software company with a core expertise in developing embedded communication software for companies across the communication value chain – network equipment manufacturers, semiconductor vendors, mobile terminal vendors and operators. Our growth strategy is focused on creating competitively priced software solutions that will help our customers increase their revenue base.

Our services can broadly be termed as embedded R & D outsourcing services. We currently provide services, solutions and technologies to customers who are large network equipment manufacturers (both wireless and wireline), semiconductor manufacturers supplying to the telecom market, wireless terminal product vendors, network operators, and test and measurement equipment providers worldwide. Our subsidiaries extend our offerings to network equipment manufacturers to service their non-embedded or non R & D outsourcing requirements.

Our products are typically software components that are used by our customers to create solutions for their clients. All our product initiatives are focussed on creating components for terminals or customer premise equipments. We also license our products to semiconductor vendors who want to create reference solutions for their clients. These semiconductor vendors may license these products to their clients. Our products business principally addresses the wireless terminals space, with some revenue contribution from the wireline space as well.

In the context of the Indian IT industry structure, Sasken's services fall under the R & D services category, which in turn, is a part of IT Services. Indian R & D services market, though at a nascent stage, is undergoing a quiet change. Currently valued at US $3.1 billion (barely 1.5 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.

2. Outlook

Analysts forecast Indian R & D services and software products market to grow at a CAGR of 16%. In each of our business segments, the outlook is healthy. In the network equipment manufacturers space, the real shift is seen in terms of Asian vendors becoming dominant players in the market. The migration of various networks across the world to 3G networks seems to indicate healthy growth rates in this space. The worldwide semiconductor market revenue is likely to increase by about 10 percent to around $258 billion in 2006. It is estimated that for the next two years the market will post single-digit revenue growth, after which there will be cyclical peak. On the terminal devices side, it is estimated that in 2006, the number of handsets will grow to 900+ million. All of these, coupled with the boom in the telecom market in the developing countries like India, seem to indicate a positive outlook in this industry.

3. Key Highlights for the Year ended March 31, 2006

- Sasken recommended a dividend of 30%.
- Consolidated revenues increased by 27.4%, from Rs. 24,177.00 Lakhs in fiscal 2005 to Rs. 30,812.79 Lakhs in fiscal 2006.
- Software Services revenue grew by 26.9%, Software Products revenues declined by 18.9% and Network engineering services recorded growth of 415.7%.
- The revenue mix amongst Software Services, Network Engineering Services and Software Products was 84:7:9 in fiscal 2006 as against 84:2:14 in fiscal 2005.
- Net profit margins before exceptional item was at 9.6% in 2006 as against 9.4% in 2005.
- Consolidated Profit after Tax increased during the fiscal ended 2006 by 0.6%, from Rs. 2,278.03 Lakhs to Rs. 2,291.62 Lakhs.
- Net profit margins after exceptional item was at 7.4% in 2006 as against 9.4% in 2005.
- Consolidated basic earnings per share for fiscal 2006 was Rs. 9.08 (Rs. 13.94 – fiscal 2005) and diluted earnings per share was Rs. 8.87 (Rs. 13.53- fiscal 2005). The impact of the exceptional item on basic earnings per share was Rs. 2.68.
- Investment in R & D decreased after capitalization of development expenses by 35.0% to Rs. 1,518.76 Lakhs during fiscal 2006 from Rs. 2,335.46 Lakhs during fiscal 2005. The development expenses incurred for the integrated solution was capitalised post technological feasibility during the year amounting Rs. 1,413.45 Lakhs.
- Cash and cash equivalents (including investments) stood at Rs. 20,133.01 Lakhs as on March 31, 2006.
- Headcount of the group increased from 2,121 as on March 31, 2005 to 2,575 as on March 31, 2006.
- Global expansion: China subsidiary incorporated, Mexico centre established and business commenced.
- EPS excluding exceptional item from services business (including network engineering services) was Rs. 20.85 whereas products business was negative at Rs. 9.09 for the year March 31, 2006. The consolidated EPS excluding exceptional item was Rs. 11.76 for the year ended March 31, 2006.

4. Results of operations

Particulars	Year ended March 31, 2006 (Rs. in Lakhs)	Year ended March 31, 2006 (%)	Year ended March 31, 2005 (Rs. in Lakhs)	Year ended March 31, 2005 (%)	Increase / (Decrease) (%)
Revenues	**30,812.79**	**100.0**	**24,177.00**	**100.0**	**27.4**
Cost of Revenues	20,115.06	65.3	14,044.41	58.1	43.2
Gross Profit	10,697.73	34.7	10,132.59	41.9	5.6
Research and Development	1,518.76	4.9	2,335.46	9.7	(35.0)
Gross Profit after Research and Development	9,178.97	29.8	7,797.13	32.2	17.7
Selling and Marketing Expense	2,114.50	6.9	2,490.26	10.3	(15.1)
Administrative and General expenses	3,889.59	12.6	3,100.75	12.8	25.4
ESOP Compensation Cost	53.59	0.2	73.70	0.3	(27.3)
Profit from operations	**3,121.29**	**10.1**	**2,132.42**	**8.8**	**46.4**
Amortisation of Non-compete fees	94.03	0.3	–	–	–
Other Income	616.52	2.0	33.21	0.1	(1,756.4)
Exchange gain (net)	24.20	0.1	333.87	1.4	(92.8)
Profit before interest and Income taxes	3,667.98	11.9	2,499.50	10.3	46.7
Interest	14.30	0.0	47.32	0.2	(69.8)
Exceptional Item	676.08	2.2	–	–	–
Profit before Income taxes	2,977.60	9.7	2,452.18	10.1	21.4
Income Taxes including FBT, net	685.98	2.3	174.15	0.7	293.9
Profit after Income taxes	**2,291.62**	**7.4**	**2,278.03**	**9.4**	**0.6**

Segmental Revenue and EBITDA

(Rs. in Lakhs)

	Year ended March 31, 2006	Year ended March 31, 2005
Total Revenue	**30,812.79**	**24,177.00**
Software Services	25,823.79	20,349.45
Software Products	2,751.02	3,393.55
Network Engineering Services	2,237.98	434.00
EBITDA Margins	**4,818.31**	**3,551.53**
Software Services	6,026.60	4,180.24
Software Products	(1,739.61)	(619.52)
Network Engineering Services	531.32	(9.19)
EBITDA Margins in %	**15.6%**	**14.7%**
Software Services	23.3%	20.5%
Software Products	(63.2%)	(18.3%)
Network Engineering Services	23.7%	(2.1%)

Note: The allocation method used in compuation of EBITDA given above was not subject to audit.

The consolidated revenues have grown by 27.4% during the year ended March 31, 2006 to Rs. 30,812.79 Lakhs from Rs. 24,177.00 Lakhs during the year ended March 31, 2005. The software services revenues witnessed volume growth of 26.9% during the year ended March 31, 2006 to Rs. 25,823.79 Lakhs from Rs. 20,349.45 Lakhs during the year ended March 31, 2005. The proportion of the software services business was 83.8% of total revenue during the year ended March 31, 2006 as against 84.2% of total revenue during the year ended March 31, 2005.

The revenues from network engineering services increased to 7.3% of consolidated revenues during the year ended March 31, 2006 from 1.8% during the year ended March 31, 2005. The revenues from software products declined to 8.9% during the year ended March 31, 2006 from 14.0% during the year ended March 31, 2005, a fall of 18.9%.

EBITDA margins from software services business was 23.3% during the year ended March 31, 2006 as against 20.5% during the year ended March 31, 2005. The improvement in margins was on account of revenue growth, improvement in utilization and positive impact of scale on selling, general and administrative expenses. However wage inflation impacted the margins negatively.

EBITDA margins from network engineering services improved to 23.7% during the year ended March 31, 2006 as against negative margins of 2.1% during the year ended March 31, 2005 on account of volume growth in its first full year of operations.

EBITDA margins from software products was negative at 63.2% of revenues during the year ended March 31, 2006 as against a negative EBITDA margin of 18.3% during the year ended March 31, 2005. This was largely on account of the revenue decline during the year ended March 31, 2006.

Consolidated Revenue Model

Revenue	Year ended March 31, 2006 (Rs. in Lakhs)	Year ended March 31, 2006 (%)	Year ended March 31, 2005 (Rs. in Lakhs)	Year ended March 31, 2005 (%)
Software Services				
– Time & Material Onsite	4,928.87	19.1	4,425.01	21.7
– Time & Material Offshore	18,783.14	72.7	13,967.29	68.6
– Fixed Price	2,111.78	8.2	1,957.15	9.7
Total	**25,823.79**	**100.0**	**20,349.45**	**100.0**
Software Products				
– License fees	1,814.02	65.9	1,562.66	46.0
– Royalties	280.63	10.2	341.48	10.1
– Development and customisation fees	656.37	23.9	1,489.41	43.9
Total	**2,751.02**	**100.0**	**3,393.55**	**100.0**
Network Engineering Services				
– Time & Material Offshore	1,633.74	73.0	213.77	49.3
– Fixed Price	604.24	27.0	220.23	50.7
Total	**2,237.98**	**100.0**	**434.00**	**100.0**
Grand Total	**30,812.79**		**24,177.00**	

The software services revenues grew on the back of a 34.5% volume growth in the offshore time & material revenues during fiscal 2006. It contributed 72.7% of the revenue from the software services business during the year ended March 31, 2006 as against 68.6% during the year ended March 31, 2005. The strategy and focus in services business is to increase the share of wallet in each of the Tier 1 accounts. The numbers of Tier 1 relationships have increased from 13 to 18 during the year ended March 31, 2006. During the year, revenues from 2 of our top 5 customers increased significantly. Also, one of our Tier 1 accounts quickly scaled to over $3 million per annum.

During fiscal 2006, the Company began investing on a new product line, called the "Integrated Solution" and amounts invested in the product line have been capitalised. The other products solutions such as Wireless Modem Solutions and Application Solutions were matured on multiple platforms during the year. On account of our focus on earning revenues by royalties, which are based on volumes shipped, revenues will arise only on shipment of the phones. As a result, software products revenue declined to Rs. 2,751.02 Lakhs during the year ended March 31, 2006 from Rs. 3,393.55 Lakhs during the year ended March 31, 2005. However, the licensing revenues increased by 16.1% to Rs. 1,814.02 Lakhs during the year ended March 31, 2006 as against Rs. 1,562.66 Lakhs earned during the year ended March 31, 2005. The royalty revenues declined by 17.8% during the year ended March 31, 2006 as compared to March 31, 2005. The royalty from an earlier license of a wireline product ceased to accrue after December 2005. Shipping of 3G mobile phones bearing one of our application solutions have commenced from November in the Japanese market and this provided us royalties starting Jan 2006. To date, 8+ million phones across 31+ models have been shipped across the world.

The time & material offshore revenues in the network engineering services registered a volume growth of 664.3% to Rs. 1,633.74 Lakhs during the year ended March 31, 2006 from Rs. 213.77 Lakhs during the year ended March 31, 2005. It contributed 73.0% of the network engineering services revenues during the year ended March 31, 2006 as against 49.3% during the year ended March 31, 2005. The growth was on account of our customers being awarded contracts for wireless network rollouts across India.

The revenue earned from the various geographics are as stated:

Consolidated Geography Wise Revenue (Rs. in Lakhs)

Geography	Year ended March 31, 2006	%	Year ended March 31, 2005	%
North America (including Canada)	10,752.94	34.9	8,138.62	33.7
Europe	11,243.24	36.5	11,271.82	46.6
APAC (excluding India)	2,199.99	7.1	2,400.76	9.9
India	6,616.62	21.5	2,365.80	9.8
Total	**30,812.79**	**100.0**	**24,177.00**	**100.0**

Business from Europe did not register overall growth, since there was a decline in fixed priced projects from the region. India business has grown on account of network engineering services being India centric and the business growth in the India centers of our Tier 1 customers.

Consolidated Client Concentration (Rs. in Lakhs)

Client Concentration	Year ended March 31, 2006	Year ended March 31, 2005
Top 5 client contribution to revenues	22,322.69	16,997.06
Top 10 client contribution to revenues	25,900.08	19,887.22
Contribution of Top 10 clients to Overall Revenue	84.0%	82.3%

During fiscal 2005, we had 13 Tier 1 engagements, while we have 18 at the end of fiscal 2006. When more of these engagements scale, the customer concentration of our top 10 customer revenues would decrease.

Client Profile

Revenue Range	Number of Clients Year ended March 31, 2006	Number of Clients Year ended March 31, 2005
less than US $1 Million	50	46
more than US $1 Million less than US $3 Million	6	5
more than US $3 Million less than US $10 Million	2	1
more than US $10 Million	2	2

The total number of clients engaged during the year ended March 31, 2006 were 60 as against 54 during the year ended March 31, 2005. Revenues from our top 2 customers exceeded US $10 million each during the year ended March 31, 2006 and March 31, 2005 whereas one of the topmost customers has scaled over US $20 million during the year ended March 31, 2006.

4.1 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 utilisation by each of the segments.

Particulars	Year ended March 31, 2006 (Rs. in Lakhs)	Year ended March 31, 2006 (% of Total Revenue)	Year ended March 31, 2005 (Rs. in Lakhs)	Year ended March 31, 2005 (% of Total Revenue)	Increase / (Decrease) (%)
Cost of Revenues	**20,115.06**	**65.3**	**14,044.41**	**58.1**	**43.2**
Employment Costs	14,351.46	46.6	9,822.60	40.6	46.1
Staff Welfare	208.90	0.7	164.46	0.7	27.0
Recruitment and Relocation	226.48	0.7	304.84	1.3	(25.7)
Rent	1,015.08	3.3	493.01	2.0	105.9
Repairs and Maintenance	647.66	2.1	396.13	1.6	63.5
Communication Expenses	264.74	0.9	182.04	0.8	45.4
Travel Expenses	1,316.10	4.3	594.33	2.5	121.4
Electricity and Water Charges	441.52	1.4	259.49	1.1	70.1
Professional, Legal & Consultancy Charges	277.69	0.9	461.74	1.9	(39.9)
Depreciation	1,231.59	4.0	957.04	4.0	28.7
Software Charges	349.04	1.1	170.98	0.7	104.1
Training and Conference	77.49	0.3	86.67	0.4	(10.6)
Warranty Expenses	(26.49)	(0.1)	(1.48)	0.0	–
Miscellaneous	49.02	0.2	2.31	0.0	–
Amortisation of capitalised software product costs	–	–	115.03	0.5	(100.0)
Movement in Work In progress	(315.22)	(1.0)	35.22	0.1	–

Cost of revenues increased to Rs. 20,115.06 Lakhs during the year ended March 31, 2006 from Rs. 14,044.41 Lakhs during the year ended March 31, 2005, an increase of 43.2%, and Rs. 6,070.65 Lakhs in absolute terms. The increase in cost of revenue was driven by growth in employee strength, increased investment in infrastructure for the growth in business.

Employment costs have increased by Rs. 4,528.86 Lakhs during the year ended March 31, 2006, the increase of 46.1% in fiscal 2006 over fiscal 2005 was on account of increased headcount and wage inflation. Salaries were increased by 15% during April 2005 and about one-third of the organization was given a salary increase again in Jan 2006.

The increase in rent by Rs. 522.07 Lakhs was mainly on account of additional development facilities taken on lease during fiscal 2006, as compared with fiscal 2005. The increased facilities have also resulted in higher spend on repairs and maintenance, communication, depreciation and software charges during the year ended March 31, 2006.

Professional, Legal & Consultancy Charges have decreased by Rs. 184.05 Lakhs, significantly due to reduced consultancy charges incurred on foreign resources on overseas project execution.

Work in progress represents costs incurred 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.

Research and Development Expenses

Particulars	Year ended March 31, 2006 (Rs. in Lakhs)	Year ended March 31, 2006 (% of Total Revenue)	Year ended March 31, 2005 (Rs. in Lakhs)	Year ended March 31, 2005 (% of Total Revenue)	Increase / (Decrease) (%)
Research & Development	**1,518.76**	**4.9**	**2,335.46**	**9.7**	**(35.0)**
Employment Costs	1,292.27	4.2	1,507.60	6.2	(14.3)
Staff Welfare	12.37	–	10.05	–	23.1
Recruitment and Relocation	8.16	–	6.22	–	31.2
Rent	92.05	0.3	98.17	0.4	(6.2)
Repairs and Maintenance	133.01	0.4	77.33	0.3	72.0
Communication Expenses	21.91	0.1	25.73	0.1	(14.8)
Travel Expenses	209.35	0.7	166.94	0.7	25.4
Electricity and Water Charges	43.14	0.1	38.00	0.2	13.5
Professional, Legal & Consultancy Charges	727.28	2.4	197.80	0.8	267.7
Depreciation	354.29	1.1	191.62	0.8	84.9
Software Charges	18.13	0.1	1.35	–	1243.0
Training and Conference	20.25	0.1	14.65	0.1	38.2
Less: Capitalised software product costs	(1,413.45)	(4.6)	–	–	–

Research and Development expenses include the costs of product development, and modifications and enhancements to products that are already available to customers. The Research and Development expenses constitute 4.9% of revenues for fiscal 2006, as compared with 9.7% in fiscal 2005. In absolute terms, there has been an increase in the amount of expenses incurred in Research and Development by Rs. 596.75 Lakhs. As a result of the capitalisation of software expenses on integrated solution program, which passed the stage of technological and commercial feasibility during the year, the net Research and Development expenses appear to have declined. The related development expenses incurred for the integrated solution amounts to Rs. 1,413.45 Lakhs during the year ended March 31, 2006. The capitalised software would be amortised over its useful life or expected revenue stream which ever is more conservative.

Professional and consultancy expenses have increased on account of the use of experts in Israel and Ukraine as part of the development effort on the Integrated Solution. The depreciation increased on account of software license acquired from an Israeli company.

4.2 Gross Profit

Gross profit after Research & Development expenses increased to Rs. 9,178.97 Lakhs during the year ended March 31, 2006 from Rs. 7,797.13 Lakhs during the year ended March 31, 2005, an increase of 17.7%, and Rs. 1,381.84 Lakhs in absolute terms. Gross profit as a percentage of revenues was 29.8% during the year ended March 31, 2006, as compared with 32.2% recorded during the year ended March 31, 2005. A large factor was the fall in revenues from the software products business.

4.3 Selling and Marketing Expenses

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

Particulars	Year ended March 31, 2006 (Rs. in Lakhs)	Year ended March 31, 2006 (% of Total Revenue)	Year ended March 31, 2005 (Rs. in Lakhs)	Year ended March 31, 2005 (% of Total Revenue)	Increase / (Decrease) (%)
Selling and Marketing Expenses	**2,114.50**	**6.9**	**2,490.26**	**10.3**	**(15.1)**
Employment Costs	1,049.04	3.4	1,432.15	5.9	(26.8)
Staff Welfare	49.17	0.2	32.38	0.1	51.9
Recruitment and Relocation	25.27	0.1	8.62	0.0	193.2
Rent	77.30	0.3	109.13	0.5	(29.2)
Repairs and Maintenance	39.79	0.1	19.41	0.1	105.0
Communication Expenses	80.87	0.3	85.15	0.4	(5.0)
Travel Expenses	300.38	1.0	300.38	1.2	0.0
Electricity and Water Charges	8.17	0.0	4.76	0.0	71.6
Professional, Legal & Consultancy Charges	210.01	0.7	192.24	0.8	9.2
Agency Commission – Others	69.43	0.2	95.56	0.4	(27.3)
Selling Expense – Others	169.31	0.5	172.68	0.7	(2.0)
Depreciation	30.07	0.1	25.51	0.1	17.9
Training and conference	5.69	0.0	12.29	0.1	(53.7)

The decrease in selling and marketing expenses in absolute terms is Rs. 375.76 Lakhs. On account of rationalisation of the sales force across the world, and the impact of scale.

4.4 Administrative and general expenses

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

Particulars	Year ended March 31, 2006 (Rs. in Lakhs)	Year ended March 31, 2006 (% of Total Revenue)	Year ended March 31, 2005 (Rs. in Lakhs)	Year ended March 31, 2005 (% of Total Revenue)	Increase / (Decrease) (%)
Administrative and General expenses	**3,889.59**	**12.6**	**3,100.75**	**12.8**	**25.4**
Employment Costs	1,299.33	4.2	1,131.76	4.7	14.8
Staff Welfare	58.72	0.2	39.76	0.2	47.7
Recruitment and Relocation	12.11	–	83.04	0.3	(85.4)
Rent	150.08	0.5	187.01	0.8	(19.7)
Rates and Taxes	44.42	0.1	202.83	0.8	(78.1)
Repairs and Maintenance	159.41	0.5	109.00	0.5	46.2
Communication Expenses	45.01	0.1	54.10	0.2	(16.8)
Travel Expenses	163.26	0.5	122.64	0.5	33.1
Electricity and Water Charges	80.12	0.3	88.75	0.4	(9.7)
Depreciation	234.67	0.8	244.87	1.0	(4.2)
Professional, Legal & Consultancy Charges	739.57	2.4	309.56	1.3	138.9
Auditors remuneration	9.36	–	9.78	–	(4.3)
Training Expense	52.58	0.2	51.35	0.2	2.4
Directors' sitting fees	1.72	–	0.48	–	258.3
Insurance	83.32	0.3	73.98	0.3	12.6
Miscellaneous	536.72	1.7	479.40	2.0	12.0
Depreciation on Current Investments	4.33	–	–	–	–
Loss on sale of fixed assets (net)	6.87	–	0.14	–	–
Bad debts & provision for doubtful debts	207.99	0.7	(87.70)	(0.4)	(337.2)

Administrative and general expenses increased by Rs. 788.84 Lakhs during the year ended March 31, 2006, 25.4% higher than incurred during the year ended March 31, 2005. Employment costs have increased in line with the increased headcount. Increase in Repairs and maintenance, electricity and water charges were on account of new facilities added during the current year.

The professional and legal charges increased by 138.9% during the year ended March 31, 2006 to Rs. 739.57 Lakhs as against Rs. 309.56 Lakhs during the year ended March 31, 2005. The legal charges include those incurred for defending arbitration in the London Court of International Arbitration. The suit was finally settled during December 2005 against the company for which an amount of Rs. 676.08 Lakhs was provided as an exceptional item. The corresponding legal charges incurred prior to the award were Rs. 576.97 Lakhs.

The Company provided doubtful debts amounting to Rs. 207.99 Lakhs during the year ended March 31, 2006 as against a reversal of provision of Rs. 87.70 Lakhs during the year ended March 31, 2005. 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.

4.5 Employee Stock Compensation Cost

During the year, the Company issued 304,050 options to 1,212 employees. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 225 to Rs. 321 per share depending upon the exercise period. The exercise price was determined based on the fair value of the Company's share as determined by the Company as at the date of grant with a marginal increase each quarter. The Company accounts for stock compensation expenses based on the fair value of the options granted on the date of grant. An amount of Rs. 53.59 Lakhs was charged as compensation cost to profits during the year ended March 31, 2006 as against Rs. 73.70 Lakhs during the year ended March 31, 2005.

4.6 Profit from operations

Profit from operations for the year ended March 31, 2006 was Rs. 3,121.29 Lakhs as compared with Rs. 2,132.42 Lakhs earned during the year ended March 31, 2005. The profit from operations as percentage of revenue was 10.1% during fiscal 2006 as against 8.8% reported for fiscal 2005.

4.7 Amortisation of Non Compete Fees

During the year ended March 31, 2006, the Company paid non-compete fees of Rs. 493.08 Lakhs to two of its key employees under a non-compete and non-solicitation agreement entered into with these employees. One of the employees resigned from the services of the company during fiscal 2006 and consequently the non-compete fees paid to the employee is being amortized over a period of two years on a straight-line basis. Accordingly, an amount of Rs. 94.03 Lakhs has been charged to profits for the year.

4.8 Other Income & Exchange Gain

Other income amounted to Rs. 616.52 Lakhs and Rs. 33.21 Lakhs, constituting 2.0% and 0.1%, of total revenues during the year ended March 31, 2006 and during the year ended March 31, 2005 respectively. The increase of Rs. 583.31 Lakhs during the year ended March 31, 2006 was attributable to the dividend income from current investments.

The exchange gain amounted to Rs. 24.20 Lakhs and Rs. 333.87 Lakhs, constituting 0.1% and 1.4%, of total revenues during the year ended March 31, 2006 and during the year ended March 31, 2005 respectively. The company has revised its hedging policy effective April 2005 and has managed its forex exposures in line with this policy. The policy is not so much to make profit from currency movements but to ensure that foreign exchange exposures on exports and imports are properly monitored, limiting risks to tolerable levels. Thus, risk limitation / reduction is the prime objective.

4.9 Interest

Interest expenses charged to profits decreased by Rs. 33.02 Lakhs to Rs. 14.30 Lakhs during the year ended March 31, 2006 from Rs. 47.32 Lakhs during the year ended March 31, 2005. The decrease was on account of reducing the use of bank credit for working capital purposes. Money raised through equity issued in April 2005 was partly used to finance the working capital needs.

4.10 Exceptional item

During the year ended March 31, 2006, the honourable Arbitrator of The London Court of International Arbitration awarded against the Company, damages of US $1.15 million in favour of the claimant and reimbursement of associated legal expenses and arbitrator's fees approximating US $0.35 million. The amount of award and legal expenses totaling to Rs. 676.08 Lakhs has been charged against profits of the year.

The arbitration proceedings were in connection with a contract with a semiconductor vendor entered into during 2001, for the supply of a single mode UMTS protocol stack.

4.11 Income taxes

The current income tax expense was 1.9% of revenues during fiscal 2006, while the income tax for fiscal 2005 was 0.7% of revenues. The higher taxation has been a result of higher overseas taxation, withholding tax on products and an increase of domestic income, leading to a higher tax incidence.

4.12 Profit after tax

During the year ended March 31, 2006 the group posted a profit after tax but before exceptional item of Rs. 2,967.70 Lakhs as against a profit of Rs. 2,278.03 Lakhs during the year ended March 31, 2005 an increase of 30.3%. This represents 9.6% and 9.4% of revenues during fiscal 2006 and 2005 respectively.

During the year ended March 31, 2006 the group posted a profit after tax and exceptional item of Rs. 2,291.62 Lakhs as against a profit of Rs. 2,278.03 Lakhs during the year ended March 31, 2005 an increase of 0.6%. This represents 7.4% and 9.4% of revenues during fiscal 2006 and 2005 respectively.

5. Financial condition

5.1 Share capital

The issued capital increased to Rs. 2,793.64 Lakhs during fiscal 2006 from Rs. 1,684.72 Lakhs during fiscal 2005. In April 2005, the Company made a preferential allotment of 5,628,334 equity shares of Rs. 10 each at an average price of Rs. 176.33. In August 2005, the Company completed an Initial Public Offering (IPO) and made a fresh issue of 5,000,000 equity shares of Rs. 10 each at a price of Rs. 260 per share. Consequently, the Company's shares were listed on September 9, 2005 on the Bombay Stock Exchange and National Stock Exchange of India. The Company proposes to utilise the proceeds from the IPO towards setting up of a new software development campus.

Further 460,825 shares of Rs. 10 each at an average price of Rs. 132.67 were issued to the employees under the ESOP Scheme.

5.2 Employee Stock Options (net of deferred compensation cost)

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 304,050 options during the year to its employees under the ESOP 2000 scheme. The net decrease in the Employee Stock Option outstanding account was Rs. 1.61 Lakhs for the year ended March 31, 2006.

5.3 Reserves and Surplus

Reserves and Surplus as at March 31, 2006 increased to Rs. 35,631.05 Lakhs, as compared with Rs. 12,404.66 Lakhs as at March 31, 2005.

Share Premium

Share premium as at March 31, 2006 was Rs. 28,024.19 Lakhs, as compared with Rs. 6,133.79 Lakhs as at March 31, 2005.

The balance in the share premium increased by Rs. 21,890.40 Lakhs (net of issue expenses) during the year ended March 31, 2006 on account of (a) preferential allotment of 5,628,334 equity shares issued at an average premium of Rs. 166.33. (b) allotment of 5,000,000 shares of Rs. 10 each during the IPO at a premium at Rs. 250 per share and (c) premium received on 460,825 shares issued at an average premium of Rs. 122.67 to employees on exercise of their options.

General Reserve

During the year ended March 31, 2006 there was an addition of Rs. 129.05 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 dividend in excess of 25%.

The Profit and Loss Account Balance has increased by Rs. 1,206.94 Lakhs after appropriations on account of the profits generated during the year ended March 31, 2006.

5.4 Secured Loans

Secured Loans as at March 31, 2006 were Rs. 115.04 Lakhs as against a sanctioned limit of Rs. 300.00 Lakhs whereas the secured loans were Rs. 45.03 Lakhs as at March 31, 2005.

The limit on non-fund based facilities is Rs. 600.00 Lakhs against which the Company has utilised Rs. 201.00 Lakhs during the year ended March 31, 2006.

5.5 Unsecured Loans

There were no Unsecured Loans as at March 31, 2006 as against Rs. 100.56 Lakhs as at March 31, 2005 obtained through a cash credit facility from a scheduled bank by one of the subsidiaries.

5.6 Fixed Assets

Net Fixed Assets including capital work-in-progress represent 26.2% of the total assets as at March 31, 2006 as against 61.2% as at March 31 2005. Accumulated depreciation was 48.4% of Gross Block as at March 31, 2006 as against 45.7% as at March 31, 2005.

During the year the Company invested Rs. 3,030.40 Lakhs in assets as against Rs. 2,428.14 Lakhs during the year ended March 31, 2005, with the significant increase being in computers, furniture and fixtures and office equipment. These additions were incurred on setting up of new leased facilities and the increase in headcount over the fiscal 2006.

Deletions of fixed assets of Rs. 108.77 Lakhs and Rs. 1.84 Lakhs during fiscal 2006 and 2005 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 increased to Rs. 342.93 Lakhs as at March 31, 2006 as against Rs. 77.41 Lakhs as at March 31, 2005.

As on March 31, 2006, the contracts remaining to be executed on capital account (net of advances) amounted to Rs. 205.40 Lakhs as against Rs. 82.15 Lakhs as at March 31, 2005. The increase is due to the capital commitment towards computers and office equipments as of March 31, 2006.

5.7 Capitalised Software product costs

Costs incurred towards development of computer software products meant for sale, lease or otherwise marketed, are capitalised subsequent to establishing technological feasibility. During the year, product development expenses were capitalised towards the Integrated Solution on achieving technological feasibility amounting to Rs. 1,413.45 Lakhs. The capitalisation would continue until the completion of the development activity and the integrated solution is ready for shipment.

5.8 Investments

Investments represent 48.3% of the total assets as at March 31, 2006 as against 0.4% as at March 31, 2005.

The long-term non-trade investments increased by Rs. 17.74 Lakhs as of March 31, 2006 to Rs. 32.49 Lakhs as against Rs. 14.75 Lakhs as of March 31, 2005. During fiscal 2006, the Company sold a portion of its investment in 2Wire Inc. for Rs. 33.46 Lakhs and consequently, wrote back provision for diminution in value of investment amounting to Rs. 104.14 Lakhs.

The current non-trade portion of investments represents 99.8% of total investments during the year ended March 31, 2006 as against 73.6% during the year ended March 31, 2005. The increase of Rs. 18,577.32 Lakhs in current non-trade investments was largely on account of the IPO proceeds of Rs. 12,415.69 Lakhs (net of share issue expenses paid – Rs. 584.31 Lakhs) having been invested in units of Mutual Funds as at March 31, 2006. The company invests surplus funds in highly rated Mutual Fund papers, considering safety & liquidity as the key determinants for the investment in a fund.

5.9 Inventories

Inventories represent 0.9% of the total assets as on March 31, 2006 as against 0.1% as on March 31, 2005. Inventories constitute 2.7% of current assets as at March 31, 2006 and 0.2% as at March 31, 2005.

Costs related to project milestones that have not been met, are reported as Inventories. The increase in absolute terms during the year ended March 31, 2006 is Rs. 315.22 Lakhs.

5.10 Sundry Debtors

Sundry Debtors (Net of provision for doubtful debts) represent 16.9% of the total assets as at March 31, 2006 as against 37.7% as at March 31, 2005.

Sundry Debtors (Net of provision for doubtful debts) amounted to Rs. 6,528.59 Lakhs as at March 31, 2006 as compared with Rs. 5,412.18 Lakhs as at March 31, 2005. These debtors are considered good and realisable. The management periodically reviews the quality of receivables, customer and geography specific risks and makes provision for receivables that are doubtful. The additional provision during the year amounted to Rs. 202.27 Lakhs.

The age profile is as follows:

Period in days	As at March 31, 2006 (% of Debtors)	As at March 31, 2005 (% of Debtors)
0-30	59.8	72.9
31-60	25.0	15.6
61-90	0.7	4.7
More than 90	14.5	6.8
Total	**100.0**	**100.0**

The DSO as at March 31, 2006 was 77 days as against 82 days as at March 31, 2005.

5.11 Cash and bank balances

The cash and bank balances represent 3.9% and 7.6% of the total assets as at March 31, 2006 and 2005 respectively. However, in terms of value, there has been an increase of 39.4% over that of last year.

Out of Rs. 1,514.49 Lakhs as at March 31, 2006 Rs. 312.97 Lakhs or 20.7% was held in foreign bank accounts as against Rs. 474.75 Lakhs as at March 31, 2005 or 43.7%. Cash in foreign bank accounts are maintained to meet branch expenses.

5.12 Loans and advances

Loans and Advances represent 10.0% of total assets as at March 31, 2006 as against 16.5% of the total assets as at March 31, 2005. Loans and advances increased by 72.8% to Rs. 3,852.76 Lakhs as at March 31, 2006 from Rs. 2,371.14 Lakhs as at March 31, 2005. The increase is due to the advances paid for the various leased facilities, advance non-compete fees paid, security deposit with the stock exchange for listing, unbilled revenues and advance taxes.

Unbilled revenue represents amounts recognized based on services performed in accordance with contract terms and where invoices have not been raised. Unbilled revenue increased to Rs. 915.43 Lakhs as at March 31, 2006 as against Rs. 261.75 Lakhs as at March 31, 2005.

Advance tax of Rs. 396.03 Lakhs was towards taxes deducted on domestic income and the withholding taxes for overseas revenue.

5.13 Current Liabilities and Provisions

Current Liabilities and Provisions represent 9.6% and 23.6% of total assets as at March 31, 2006 and March 31, 2005 respectively, an increase of 10.1% or Rs. 340.54 Lakhs. This increase is significantly due to creditors for goods and services, 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 5.4% and 10.9% of the total liabilities as at March 31, 2006 and March 31, 2005 respectively, which is an increase of 33.7%.

The other liabilities decreased by Rs. 393.57 Lakhs during the year ended March 31, 2006 over the year ended March 31, 2005, as statutory dues such as TDS on salaries were paid prior to end of the year March 31, 2006.

Advances received from customers denote monies received, for services yet to be rendered, such advances constitute 1.1% and 1.8% of the total assets as at March 31, 2006 and March 31, 2005 respectively, an increase of Rs. 174.11 Lakhs.

A dividend of 30% on the paid up capital (which will be paid on securing shareholders' approval at the AGM) along with the dividend distribution tax has been provided during the year ended March 31, 2006.

Leave encashment provision has been created based on actuarial valuation for fiscal 2006 and fiscal 2005.

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. 12.24 Lakhs represents the difference between the actuarial valuation and the funded balance as at the year-end.

6. Cash Flow

The net cash from operating activities was Rs. 847.22 Lakhs during the year ended March 31, 2006 as against Rs. 2,291.07 Lakhs during the year ended March 31, 2005.

The inflow on account of Operating profits before working capital changes was Rs. 4,844.84 Lakhs during the year ended March 31, 2006 as against Rs. 3,800.12 Lakhs during the year ended March 31, 2005, an increase of Rs. 1, 044.72 Lakhs. The increase was mainly on account of higher profits before taxes, depreciation and foreign exchange adjustments, compared with that of the previous year. The outflow on account of working capital was Rs. 3,060.03 Lakhs for the year ended March 31, 2006 as against an outflow of Rs. 1,235.72 Lakhs during the year ended March 31, 2005.

The net cash used in investing activities was Rs. 22,712.74 Lakhs during the year ended March 31, 2006 as against Rs. 2,152.88 Lakhs net used during the year ended March 31, 2005. The net cash was used towards setting up additional development facilities, investment in highly rated Mutual Fund papers and investment on the Integrated Solution during fiscal 2006.

The net cash generated from financing activities was Rs. 22,293.37 Lakhs during the year ended March 31, 2006 as against net cash generated of Rs. 675.85 Lakhs during the year ended March 31 2005. The inflow during 2006 was on account of the issuance of the share capital amounting to Rs. 22,914.27 Lakhs. The inflow during fiscal 2005 was on account of the issuance of the share capital amounting to Rs. 1,047.93 Lakhs.

7. Opportunities and Threats

We see significant opportunities in all our business segments. In the network equipment space, with a lot of standardisation happening, we believe that software and software applications will be the big value driver. In the semiconductor space, companies have started to look at India more strategically and are seeking partnerships with software IP firms; this should have a positive impact on Sasken's products business. On the terminals side, our ability to integrate and provide full phone solutions should open up a new vista of opportunities for us. Key challenges for us across segments, include the fact that we need to be able to staff and scale to meet business requirements. Another key trend has been the setting up of India captive centers by a number of global telecom players; this has meant a change in the competitive landscape, and we need to evolve fresh strategies to work with these players.

8. Material developments in HR

Our total employee headcount, excluding contractors, has increased from 2,121 in 2004-05 to 2,575 in 2005-06. We had gross additions of 1086 and net additions of 454 during the year gone by. Our attrition rate for the full year stood at 23.2%. We once again won accolades for our people practices and were ranked #2 in the Business Today – Mercer – TNS survey for "Best Companies to Work for in India" in 2005, and # 8 by the Businessworld – Grow Talent survey on "Great Places to Work for in India" in 2005. We continued our focus on training initiatives with 14071 man days of technical training and 5782 man days of non-technical training last year. More details of all relevant metrics and developments are discussed in the People First section of this Annual Report.

9. Risk and Concerns

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:

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.

Business Risks

Sasken derives revenues from software products and software services. Revenues from software products were at 8.9% of revenues in fiscal 2006, as against 14.0% in fiscal 2005. 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 India increased significantly during the year whereas the proportion of revenues from Europe declined. Likewise, a well-diversified customer base, with reduction in the proportion of revenues from its top customers, has been another goal at Sasken. To this end, we have added more Tier 1 customers during fiscal 2006 and expect to scale business with them, so that dependence on a few customers is minimal.

However, as the services business does target Tier 1 accounts across each of the 4 segments in Telecom, the number of customers is not expected to be very large. It is the dependence on the top 10 that would reduce.

Revenue Range	Number of Clients Year ended March 31, 2006	Number of Clients Year ended March 31, 2005
less than US $1 Million	50	46
more than US $1 Million less than US $3 Million	6	5
more than US $3 Million less than US $10 Million	2	1
more than US $10 Million	2	2
Total Number of engagements with Clients during the year	**60**	**54**

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 39 patents (including 5 new patents filed during the year) out of which 9 have already been granted and 2 patents have been allowed by USPTO.

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's 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 changed substantially in the recent years. During the year Rupee depreciated from Rs. 43.74 for a US Dollar as on April 1, 2005 to Rs. 44.62 for a US Dollar on March 31, 2006. The depreciation was insignificant, however during the year the Rupee had depreciated to Rs. 45.95 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 exchange fluctuations.

The following are the de-risking measures we adopt to minimise the impact of exchange fluctuations.

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.

Liquidity Risk

The Board reviews the liquidity position periodically and determines the need for infusion of equity capital into the business. During the year, the Company raised Rs. 9,924.29 Lakhs as equity for working capital and general corporate development and Rs. 13,000.00 Lakhs as equity from IPO for infrastructure expansion ensuring liquidity is adequate. Minimal debt today also provides us the flexibility to raise debt if required.

10. Internal Control Systems

During the year, the Company initiated an Enterprise Risk Management (ERM) exercise, which is mandated by Clause 49 of the listing agreement. To start with the exercise involved identifying all significant (a) locations and (b) business processes, followed by (c) documenting each of the process flows (d) creation of risk register and (e) an assessment of the controls. The risk register captures all areas of potential financial risks and operational risks and, the associated internal controls that are already in place or have been identified. As part of the assessment exercise conducted, certain new controls have been identified for matters of significant importance or relevance, for implementation in the coming periods. Further, as a good corporate governance measure, all matters of significant importance or relevance have been reported to the Audit Committee and the Company's statutory auditors.

Going forward, on an ongoing basis, the Company would do regular assessment of the risks and controls for the existing and new process flows, which would result in modification / creation of existing / new process flows and updation / creation of existing / new risk register, as may be appropriate. More importantly, the assessment is aimed at identification and implementation of appropriate corrective actions in the internal controls system.

Notes


AMERICA

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 statements 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.

Bangalore	Rajiv C Mody
April 14, 2006	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 ("the Company") and its subsidiaries (collectively referred to as "the Group") as of March 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2006. 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 Group'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 Group'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 Group at March 31, 2006 and 2005, the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with United States generally accepted accounting principles.

Bangalore

April 14, 2006

Ernst & Young

Consolidated Balance Sheets as at March 31

(expressed in thousands of US dollars except share data and as otherwise stated)

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	3,325	2,428
Available for sale securities	41,919	94
Accounts receivable, net	14,633	12,374
Work in progress	751	45
Unbilled revenues	2,052	598
Prepaid taxes, net	1,210	755
Other current assets	2,794	2,545
Total current assets	**66,684**	**18,839**
Property, plant and equipment, net	19,990	19,619
Intangible assets, net	508	282
Capitalised software, net	5,317	141
Deferred discount	4,218	–
Deferred tax asset	44	–
Other non-current assets	3,044	2,200
Total assets	**99,805**	**41,081**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	4,707	2,762
Income taxes payable, net	355	414
Advances received from customers	972	593
Deferred revenue	42	449
Accrued compensation costs	1,188	2,758
Other current liabilities	283	335
Line of credit	258	333
Total current liabilities	**7,805**	**7,644**
Total liabilities	**7,805**	**7,644**
Stockholders' equity		
Equity shares at US $0.22 par value (Rs.10 per share)		
Authorised – 35,000,000 shares (35,000,000 shares)		
Issued and outstanding – 27,936,381 and 16,847,222 shares as of		
March 31, 2006 and 2005, respectively	6,698	4,192
Additional paid in capital	72,114	16,675
Deferred stock compensation	(35)	(83)
Share subscription money	–	58
Accumulated other comprehensive loss	(1,722)	(765)
Retained earnings	14,945	13,360
Total stockholders' equity	**92,000**	**33,437**
Total liabilities and stockholders' equity	**99,805**	**41,081**
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)

	2006	2005	2004
Revenues, net	69,552	55,737	37,221
Cost of revenues	47,335	33,564	21,711
Research & development expenses	3,433	5,204	3,794
Gross profit	**18,784**	**16,969**	**11,716**
Selling & marketing expenses	4,782	5,562	4,105
Administrative & general expenses	9,065	6,962	4,169
Employee stock option cost	121	164	34
Amortisation of non compete fees	213	–	–
Legal settlement award	1,528	–	–
Income from operations	**3,075**	**4,281**	**3,408**
Other income / (expenses), net	1,175	138	1,155
Interest expense	(32)	(106)	(173)
Income before income taxes	**4,218**	**4,313**	**4,390**
Income tax expense / (credit)	1,301	388	(463)
Net Income	**2,917**	**3,925**	**4,853**
EARNINGS PER SHARE			
Basic earnings per share	0.12	0.24	0.32
Weighted average shares used in computing basic earnings per share	25,233,227	16,335,283	15,093,479
Diluted earnings per share	0.11	0.23	0.31
Weighted shares used in computing diluted earnings per share	25,833,113	16,835,322	15,883,602
See accompanying notes to consolidated financial statements.			

Statement of Stockholders' Equity for the years ended March 31, 2006, 2005 and 2004

(expressed in thousands of US dollars except share data and as otherwise stated)

	Common stock		Additional Paid-in Capital	Share Subscription Money	Deferred stock Compensation Cost	Accumulated other Comprehensive Income / (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Par Value						
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 stock 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								
– 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 stock compensation cost					164			164
Balance as at March 31, 2005	**16,847,222**	**4,192**	**16,675**	**58**	**(83)**	**(765)**	**13,360**	**33,437**
Net income							2,917	2,917
Unrealised gain on available for sale securities						189		189
Translation adjustment						(1,146)		(1,146)
Total comprehensive income								1,960
Cash dividend paid @ US $0.08 per share, including dividend tax							(1,332)	(1,332)
Common stock arising on								
– Allotment of stocks through public issue and private placement	10,628,334	2,402	49,417					51,819
– Exercise of Options (including out of share application)	460,825	104	1,278	(58)				1,324
Shares issued at discount			5,992					5,992
Compensation related to stock option grants			73		(73)			–
Amortization of stock compensation cost					121			121
Public issue expenses			(1,321)					(1,321)
Balance as at March 31, 2006	**27,936,381**	**6,698**	**72,114**	**–**	**(35)**	**(1,722)**	**14,945**	**92,000**

* Less than US $1000

See accompanying notes to consolidated financial statements.

Consolidated statement of cash flows for the years ended March 31,

(expressed in thousands of US dollars except share data and as otherwise stated)

	2006	2005	2004
Cash flows from operations			
Net income	2,917	3,925	4,853
a) Non-cash items			
Depreciation and amortization	4,396	3,508	3,672
Loss on sale of assets	16	–	11
Non cash premium on stock issued at discount	1,739	–	–
Employee compensation cost amortized	121	164	34
Provision for doubtful debts / (reversals), net	457	(201)	–
(Gain) / Loss on sale of available for sale securities	(59)	(25)	22
Dividend income on available for sale securities	(1,226)	(31)	(120)
Unrealized foreign exchange loss / (gain)	804	(591)	(872)
Other non-cash items	(40)	–	–
b) Items considered separately			
Interest expense	32	106	173
Other Income	–	(8)	(30)
Income tax expense / (credit)	1,301	388	(463)
c) Changes in working capital items			
(Increase) / decrease in account receivables	(3,019)	(4,667)	(1,176)
(Increase) / decrease in other current assets	(846)	269	(402)
(Increase) / decrease in non-current assets	(895)	(954)	(910)
(Increase) / decrease in unbilled revenues	(1,478)	620	(967)
(Increase) / decrease in work in progress	(713)	81	392
Increase / (decrease) in accounts payable	329	2,627	1,043
Increase / (decrease) in other current liabilities	(45)	(213)	(188)
Increase / (decrease) in advance received from customers	(9)	805	(263)
Income taxes (paid) / refund received	(1,870)	(615)	263
Net cash from operations	**1,912**	**5,188**	**5,072**
Cash flows from investing activities			
Purchase of property, plant and equipment	(7,473)	(4,921)	(3,330)
Acquisition of intangible assets	–	(338)	–
Capitalisaton of software product costs	(3,195)	(161)	–
Proceeds of sale of property, plant and equipment	15	–	50
(Purchase) / sale, net of available for sale securities	(40,707)	535	(477)
Interest income	–	(10)	18
Net cash used in investing activities	**(51,360)**	**(4,895)**	**(3,739)**

Consolidated statement of cash flows for the years ended March 31, (Contd.)

(expressed in thousands of US dollars except share data and as otherwise stated)

	2006	2005	2004
Cash flows from financing activities			
Shares issued, net of issuance costs	51,805	2,338	1
Share application money received / (refunded)	–	58	(364)
(Decrease) / increase in line of credit	(69)	235	(2,707)
Repayment of loans	–	–	(2,832)
Redemption of Debentures	–	–	(1)
Interest paid	(33)	(106)	(256)
Dividends paid	(1,332)	(978)	–
Net cash from / (used in) financing activities	**50,371**	**1,547**	**(6,159)**
Effect of translation adjustments on cash flows	(26)	38	2,046
Total increase / (decrease) in cash and cash equivalents during the year	923	1,878	(2,781)
Cash and cash equivalents at the beginning of the year	2,428	550	3,331
Cash and cash equivalents at the end of the year	**3,325**	**2,428**	**550**
Supplementary non cash information			
Issuance of share capital out of share application money	58	–	3,098
Dividends received re-invested in units of mutual funds	1,226	31	120
Conversion of fully convertible debentures into equity shares	–	–	1

See accompanying notes to consolidated financial statements

Notes to Consolidated financial statements

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

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 (India), 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.

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. SNEL provides installation and commissioning of and project management services in cellular network.

During the year ended March 31, 2006, the Company promoted Sasken Communication Technologies, S.A. De C.V.,(Sasken Mexico) a wholly owned subsidiary in Mexico. Sasken Mexico was incorporated on November 22, 2005. Sasken Mexico is yet to commence operations as at March 31, 2006.

During the year ended March 31,2006, the Company promoted Sasken Communication Technologies (Shangai) Co Ltd (Sasken China) a wholly owned subsidiary in China. Sasken China was incorporated on January 4, 2006.The Company is yet to make any investment in Sasken China and Sasken China is yet to commence operations as at March 31, 2006.

2. Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP) in Indian Rupees (Rs.) and have thereafter been translated to United States Dollars (US $). 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 may differ from the estimates.

4. Consolidation

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

All significant inter company balances and transactions have been 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 those ruling during the relevant transaction dates. All monetary assets and liabilities in foreign currency as at the date of the financial statements are re-measured 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 statements of income.

The consolidated statements of income for the years ended March 31, 2006, 2005, and 2004 include foreign exchange gains/(losses) amounting to US $(219), US $64 and US $(66) respectively.

The functional currency of the Company is the Indian Rupee. In respect of the Group's foreign operations (branch offices and subsidiaries) for which the functional currency is other than Indian rupee, 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 at average exchange rates prevailing during the period. 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 accordance with US GAAP, have been reported in US Dollars (US $). 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 / (loss).

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, 2006 and 2005 of 1US $ = Rs. 44.62 and Rs. 43.74 respectively. The income statement items have been translated into US $at the average exchange rates during the year ended on March 31, 2006, 2005 and 2004 of 1US $ = Rs. 44.24, Rs. 44.84 and Rs. 46.06 respectively.

7. Revenue recognition

The Group derives its revenues from product and technology licensing, software services and installation and commissioning services. The Group recognizes 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, direct and incremental costs 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 the 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.

Cost of software licenses procured in connection with specific software projects are amortized over the remaining life of the respective projects.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

9. Research and development

Research and development costs are charged to Consolidated statements of income 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 or estimated useful life, whichever is lower
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 statements of income in the year of acquisition. Purchased 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 other current assets. As at March 31, 2006 and 2005, US $69 and US $57, respectively, were held as margin money for bank guarantees with banks. These bank guarantees mature between May 27, 2006 and March 17, 2010. As at March 31, 2006 and 2005, bank balances include remittances in transit amounting to nil and US $803 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 statements of income, 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 statements of income. 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 earnings 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 have 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 line of credit approximate their respective fair values due to the short period of maturities.

18. Concentration of credit risk on financial instruments

Financial instruments that potentially subject the Group to concentration of credit risk consist principally of cash and cash equivalents, available for sale securities and accounts receivable. The Group's cash and cash equivalents and available for sale securities are invested with financial institutions and banks with high investment grade ratings. 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 and assessments of collectability based on historical information. 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, 2006 and 2005, two customers had balances exceeding 10% of the total accounts receivable (including unbilled revenues) and amounted to approximately 66% and 55%, respectively of accounts receivable (including unbilled revenues).

19. Accumulated other comprehensive income

Accumulated other comprehensive income consists of:

(a) Translation adjustment - being gain / loss, net of taxes 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.

In December 2004, SFAS No. 123(R), "Share-Based Payment", was issued, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard will be adopted by the Group effective April 1, 2006. Under the transition provisions of this standard, companies that used the minimum-value method for determining fair value of stock options would continue to account for non vested equity awards outstanding at the date of adoption of the standard under the provisions of FAS123. All awards granted, modified or settled after the date of adoption should be accounted for under the provision of the new standard. Adoption of this standard may have an impact on the Group's results of operations, although it will have no impact on the Group's overall financial position. The impact of adoption of this standard cannot be predicted at this time as it will depend on levels of share-based payments in the future.

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 eligible 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 to the consolidated statements of income. Provision is made for the difference between the actuarial valuation and the funded balance with the insurance company.

Provident Fund

Employees other than foreign branch 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, at 12% each, of the eligible employee's salary. The contributions are designated as required by regulation to a provident fund and a pension fund. The Company's contributions towards provident fund are made each month to a Provident Fund Trust established by the Company. The contributions towards the pension fund are remitted to a fund maintained by the Government of India. The contributions towards Provident Fund and Pension Fund of SNS and SNEL are remitted to a fund maintained by the Government of India. Contributions towards Provident Fund and Pension Fund are charged to the Consolidated statements of income on an accrual basis. The trust is required to provide return equivalent to return specified by the Government of India. The Company will meet the shortfall in the return, if any. At March 31, 2006 and 2005, the shortfall was estimated to be US $40 and US $103, 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.

Social Security

In the case of Sasken Mexico, the Company contributes to Social Security under the laws of Mexico and the contributions are remitted to The Institute of Mexican Social Security in Mexico (IMSS) and Saguro De Ahorro Para El Retiro (SAR). The same is charged to the profit and loss account on an accrual basis.

Leave Encashment / Compensated 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. Presentation

Certain prior year amounts have been reclassified to conform to the current year's presentation.

B. Other Notes:

1. Stockholders' equity

(a) Share warrants

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 were exercised during the previous year.

Shares which have been reserved for issuance (other than for stock options) as at March 31, 2006, 2005 and 2004 were Nil, Nil and 3,484,515 respectively.

(b) Initial Public Offering

In August 2005, the Company completed an Initial Public Offering (IPO) and issued 5,000,000 equity shares of US $0.22 each at a price of US $5.83 per share. Consequently, the Company's shares were listed on September 9, 2005 on the Bombay Stock Exchange and National Stock Exchange of India.

The Company proposes to utilize the proceeds from the IPO towards setting up of a new software development campus. The IPO proceeds of US $28,064 (net of share issue expenses paid – US $1,321) have been invested in units of mutual funds as at March 31, 2006. The issue expenses of US $1,321 have been adjusted against Additional paid in capital.

(c) Issue of shares to a customer

On April 6, 2005, the Company entered into an agreement with one of its customers to provide software development services effective January 1, 2005. Under the terms of the contract, the customer has given a commitment to the Company and its subsidiary for a guaranteed minimum level of business over a period of time commencing January 1, 2005. Simultaneously, on April 6, 2005, the Company entered into a subscription agreement with the said customer for the issuance of equity shares of US $0.22 each. Under the terms of such subscription agreement, the Company issued and allotted 3,228,334 equity shares of US $0.22 at a price of US $3.20 per share. Such price of shares is lower than the price of US $5.04 at which shares were issued to other investors near the date of allotment of 3,228,334 equity shares. In accordance with the provisions of EITF 01-9: Accounting for consideration given by a vendor to a customer (including a reseller of the vendor's products), such difference of US $1.84 per share has been recorded as discount against future revenues for the committed level of business pursuant to the terms of the agreement with the customer. The discount has been recorded as a 'deferred discount' with a corresponding credit to the additional paid in capital. Such deferred discount is being amortized over the term of the commitment in proportion of the business received during a period to the committed level of business. Accordingly the Company has amortized US $1,739 as a discount against revenues for the period January 1, 2005 to March 31, 2006.

(d) In April 2005, the Company issued 2,400,000 equity shares of US $0.22 each to certain investors by way of private placement at a price of US $5.04 per share.

(e) 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 by the shareholders on July 16, 2004. Consequently, share data had been adjusted to reflect the change.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

(f) Accumulated other comprehensive gain / (loss) (net of taxes) comprise of, as at March 31:

	2006	2005	2004
Translation adjustment	(1,911)	(765)	(803)
Unrealised gain / (loss) on available for sale securities	189	–	–
Total	**(1,722)**	**(765)**	**(803)**

2. Stock Option Plan

Sasken Option Plan 2000

On September 22, 2000, the shareholders of the Company approved Stock Option Plan [option plan-2000] in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. The Plan covered all employees of the Company including foreign branches, employees of the subsidiaries and Directors other than the promoter directors. The Plan provided for the issue of 30 Lakh shares (including the shares issued under the SAS Stock Option plan, 1997) of US $0.23 each duly adjusted for any bonus, splits, etc. A Compensation Committee comprising of three independent directors on the Board administers the scheme.

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 a vesting period 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 Network Systems Limited 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 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.

On April 19, 2005, the Company issued 304,050 options to 1,212 employees including 25,350 options to 80 employees of SNSL and 21,100 options to 113 employees of SNEL. These options carry a vesting period ranging one to four years at an exercise price ranging from US $5.04 to US $7.19 equivalent to Rs. 225 to Rs. 321 per share depending upon the exercise period.

All the options granted have an exercise period of two years from the date of vesting.

The following table summarizes the Company's stock option activity for Sasken option plan 2000:

Shares underlying options outstanding

	2006		2005		2004	
	No. of Shares	Weighted average price	No. of Shares	Weighted average price	No. of Shares	Weighted average price
Outstanding at the beginning of the year	1,418,488	4.00	274,110	1.84	–	–
Granted during the year	304,050	5.35	1,395,723	4.30	296,040	1.84
Forfeited/cancelled during the year	(151,915)	4.69	(166,475)	4.00	(21,930)	1.84
Exercised during the year	(428,965)	3.06	(84,870)	1.82	–	–
Outstanding at the end of the year	1,141,658	4.53	1,418,488	4.00	274,110	1.84
Exercisable at the end of the year	360,208	3.43	175,980	1.84	–	–
Weighted average remaining contractual life (years)	2.40	–	2.83	–	1.5	–

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

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 $0.392 per option. The Company recognized a compensation expense of US $121 and US $164 for the year ended March 31, 2006 and 2005 respectively. Other assumptions used in the computation of compensation expense are given below:

Year ended March 31,	2006	2005
Average risk-free interest rate	6.60%	5.24%
Expected life of options granted (in years)	2.51	2.83
Expected dividend rate	1.00%	Nil

The exercise price of Sasken option plan 2000 as at March 31, 2006 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	Number of options currently exercisable	Weighted-average exercise price of options currently exercisable
US $1.79	43,120	0.50	US $1.79	43,120	US $1.79
US $3.59-5.04	785,555	2.02	US $4.26	317,088	US $3.65
US $5.06-7.19	312,983	3.61	US $5.56	–	–

The exercise price of Sasken option plan 2000 as at March 31, 2005 is as given below:

Range of exercise price	Number of options outstanding	Weighted average remaining life of options (in years)	Weighted average exercise price	Number of options currently exercisable	Weighted-average exercise price of options currently exercisable
US $1.84	175,980	1.50	US $1.84	175,980	US $1.84
US $3.66-5.14	1,027,893	2.78	US $4.05	–	–
US $5.17-5.85	214,615	4.87	US $5.57	–	–

Sasken Option Plan 2006

On February 25, 2006, the shareholders of the Company approved Stock Option Plan [option plan-2006] in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. The Plan covers all employees of the Company including foreign branches, employees of the subsidiaries and Directors other than the promoter directors. The Plan provides for the issue of 3,575,000 shares each duly adjusted for any bonus, splits. A Compensation Committee comprising of three independent directors on the Board administers the scheme.

The terms of each issuance would be determined by the Compensation Committee. Consequent to the approval of option plan 2006, no new options would be issued under option plan 2000. As at March 31, 2006, no options have been issued under option plan 2006.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

3. Line of credit

The Company had a secured revolving credit facility of US $5,716 from a bank at interest rates approximating 6.5% per annum. The facilities were 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 $Nil and US $104 is outstanding as at March 31, 2006 and 2005 respectively. As at March 31, 2006 and 2005 unutilized lines of credit amounts to US $Nil and US $5,613 respectively and unutilized letters of credit and bank guarantees amounts to US $669 and US $838 respectively.

During the year 2006, SNEL has a fund based secured revolving credit facility of US $672 from a bank at interest rate approximating 9% per annum. The facilities are secured by a floating charge on the entire current assets. An amount of US $258 is outstanding as at March 31, 2006. As at March 31, 2006 unutilized lines of credit amounts to US $414.

During the year 2005, SNEL had an unsecured revolving credit facility of US $229 from a bank at interest rate of 14.25% per annum. The facility had been fully utilized as at March 31, 2005. During the year, this facility has been secured by a floating charge on the entire current assets and the revolving credit facility has been enhanced to US $672 at an interest rate approximating 9% per annum.

4. Property, plant and equipment, (net)

Property, plant and equipment, net, consist of as at March 31,

Particulars	2006	2005
Land	5,128	5,230
Building	7,421	7,570
Leasehold Improvements	789	626
Plant & Machinery including Office equipment	7,925	7,012
Computing equipment	9,253	7,714
Computer software	3,997	3,794
Electrical fittings	475	343
Furniture and fittings	4,096	3,820
Vehicles	0	29
Capital work-in-progress and capital advances	769	177
Total	**39,853**	**36,315**
Less: Accumulated depreciation	19,863	16,696
Net	19,990	19,619

5. Capitalized software costs

Year ended March 31,	Un-amortized Costs	Amortization charged to expense for the year
2006	5,317	330
2005	141	285
2004	264	983

As at March 31, 2006, US $3,195 pertains to cost of software being developed by the Company for which the amortization has not commenced in accordance with the Company's accounting policy. Amortisation for the years ended March 31, 2006, 2005 and 2004 are included in cost of revenues.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

6. Intangible Assets

(a) Contract Rights

On October 1, 2004, SNEL acquired certain fixed assets and contract rights to render services to a customer from Blue Broadband Technologies Pvt. Limited ("BBT") for a consideration of US $233 and US $338, respectively. Contract rights acquired have been recorded as an intangible asset and is being amortized 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 $111, for the year ended March 31, 2006 and US $56 for the year ended March 31, 2005.

Amortization expense is included as part of cost of revenues. The expected amortization over the next two years, is as follows:

Year ended March 31,	US $
2007	111
2008	55
Total	**166**

(b) Non Compete fees

During the year ended March 31, 2006, the Company paid a non-compete fee of US $557 to one of its key employees at the time of termination of his services with the Company under a non-compete agreement entered into with the employee. The non-compete agreement restricts the employee from solicitation of Company's and its subsidiary's customers and employees and restricts such employee from joining as employee or otherwise providing similar services to the Company's and its subsidiary's competitor. The contract is for a period of two years. Such non-compete fee has been recorded as an intangible asset and the same is being amortized over two years on a straight line basis from the date of termination of services. The Group recorded an amortization of US $213 for the year ended March 31, 2006.

7. Available-for-sale securities

Available-for-sale securities is comprised of investments in units of mutual funds.

The Company invests its surplus funds in units of mutual funds. All such investments are treated as available-for-sale securities. During the year ended March 31, 2006 and 2005, the Company recognized a gain on sale of such units amounting to US $13 (net of gains of US $30 and losses of US $17) and a loss of US $25 (net of gains of US $25 and losses of US $Nil). Dividend earned and reinvested in such units amounted to US $1226 and US $31 for the year ended March 31, 2006 and 2005 respectively.

8. Accounts receivable

	2006	2005
Accounts receivable	15,297	12,589
Less: Allowance for doubtful receivable	(664)	(215)
Total	**14,633**	**12,374**

The activity in the allowance for doubtful accounts receivable for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Allowance for doubtful accounts at beginning of the year	215	416
Additions during the year	463	56
Reversals based on amounts due and collected	(14)	(257)
Total	**664**	**215**

(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, 2006 and 2005 comprise of:

	2006	2005
Prepaid expenses	1,387	803
Other investments	73	33
Loans and advances to employees	448	456
Interest accrued but not due	15	19
Other advances	802	586
Unrealised exchange gain on forward exchange contracts	–	591
Margin money on bank guarantees	69	57
Total	**2,794**	**2,545**

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, 2006 and 2005 comprise of:

	2006	2005
Security deposits for office lease and others	2,735	2,139
Loans and advances to employees	40	61
Others	269	–
Total	**3,044**	**2,200**

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 and Euro on accounts receivable 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 $37,400 and US $25,949 as at March 31, 2006 and 2005, respectively. The contracts expire on a monthly basis through the month of March 2007. Forward contracts are carried at fair value and the resultant unrealized (loss)/gain are charged to the consolidated statements of income. Unrealized (loss)/ gain on account of carrying forward covers at fair value as at March 31, 2006 and 2005 amounted to US $(179) and US $591 respectively. The net receivable is recorded under "Other current assets" while the net payable as at March 31, 2006 is recorded under accounts payable in the Consolidated balance sheet and the gain/(loss) has been recorded under 'Other income/(expenses)' in the Consolidated statements of income.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

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.

Income tax expense comprises for year ended March 31,

	2006	2005	2004
– Domestic	290	53	22
– Foreign (net of refund)	1,011	335	(485)
Total	**1,301**	**388**	**(463)**

During the year ended March 31, 2006 and 2005, foreign taxes are net of refund / reversals recognized as an expense in earlier years amounting to US $129 and US $456 respectively. For the Company and SNS, the domestic taxes relate to taxes payable under the Minimum Alternative Tax (MAT) provisions 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. SNEL's operations are taxable under the Indian Income Tax Act, 1961. Hence, domestic taxes include the liability of SNEL.

The components of net deferred tax asset/(liability) as at March 31, are as follows:

	2006	2005
A. Deferred tax assets		
Provision for doubtful debts	36	–
Accrued retirement benefits	68	20
Depreciation and amortization	29	–
Net operating loss	80	134
Capital loss	23	21
Others	130	–
Total deferred tax assets	366	175
B. Deferred tax liabilities		
Depreciation and amortization	–	(10)
Total deferred tax liabilities	–	(10)
Less: Valuation allowance	322	165
Net deferred tax Asset	**44**	**–**

As at March 31, 2006, the Group has net operating loss of US $228 in Canada. The Group has US $219 long term capital loss in India relating to the Company. During the year ended March 31, 2006, the Group utilized net operating loss of US $583. A valuation allowance has been created, in view of the uncertainty of taxable income from the Group's domestic operations. The unabsorbed depreciation loss in Canada can be carried forward for a period of seven years.

(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:

	2006	2005	2004
Income before income taxes	4,218	4,313	4,390
Enacted tax rates in India	33.66%	36.59%	35.87%
Statutory tax provision	1,420	1,578	1,575
Tax effect of tax holiday	(1,454)	(1,745)	(1,501)
Tax effect of non taxable income	(414)	(12)	(43)
Net operating losses	(191)	(280)	(121)
Minimum income taxes payable	33	53	12
Tax effect on expenses disallowed, net	918	481	12
Valuation allowance on other temporary differences	22	–	39
Overseas taxes	1,140	769	590
Withholding tax refunds / reversal of overseas taxes	(129)	(456)	(1,026)
Total provision for current income taxes	**1,345**	**388**	**(463)**
Deferred tax credit	44	–	–
Income tax expense / (credit)	**1,301**	**388**	**(463)**
Per share effect of tax effect of tax holiday			
Basic	0.06	0.11	0.10
Diluted	0.06	0.11	0.10

13. Retirement benefits to employees

Amounts recognized in the Consolidated statements of incomes on account of retirement benefits:

Year ended March 31	Superannuation Scheme	Provident Fund
2006	–	1,424
2005	69	1,012
2004	28	580

(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, 2006, 2005 and 2004.

		2006	2005	2004
A	**Change in benefit obligations**			
	Projected benefit obligations at beginning of the year	791	444	242
	Service cost	301	364	171
	Interest cost	66	35	19
	Benefits paid	(96)	(54)	(71)
	Effect of change in assumptions	(6)	–	54
	Actuarial (gain) / loss	(44)	21	(1)
	Translation (gain) / loss	2	(19)	30
	Projected benefit obligations (PBO) at the end of the year	**1,014**	**791**	**444**
B	**Expected return on plan assets**	**46**	**35**	**9**
C	**Change in plan assets**			
	Plan assets at the beginning of the year at fair value	522	453	139
	Employer contributions	389	112	353
	Benefits paid	(96)	(54)	(71)
	Actual return on plan assets	146	27	3
	Translation gain / (loss)	26	(16)	29
	Plan assets at the end of the year, at fair value	**987**	**522**	**453**
D	**Funded status of the plan**	**(27)**	**(269)**	**9**
	Excess of actual over estimated return	100	(8)	(6)
	(Accrued) / prepaid benefits	–	–	(20)
E	**Net amount recognized**	**73**	**(277)**	**(17)**
F	**Gratuity cost for the year**			
	Service cost	300	364	171
	Interest cost	66	35	19
	Expected return on plan assets	(46)	(35)	(9)
	Transitional obligations	–	–	26
	Other	–	–	54
	Net gratuity cost	**302**	**364**	**261**
G	**Assumptions**			
	Interest rate	8.25%	7.50%	7.50%
	Discount	8.25%	7.50%	7.50%
	Estimated rate of return on plan assets	8.25%	7.50%	7.50%
	Rate of compensation increase	5.00%	5.00%	5.00%
	Attrition Rate	2.00%	2.00%	2.00%
	Retirement expectancy	60	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,	
2007	59
2008	68
2009	79
2010	90
2011	104
Five years thereafter	461

The Group's best estimate of the contributions expected to be paid to the gratuity plan during the next fiscal year is US $280.

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 private insurer.

14. Transactions with related parties

Amounts due from officers and employees of the Group

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:

As at March 31,	Amounts due	Recoverable in 12 months	Recoverable after 12 months
2006	488	448	40
2005	517	456	61

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 31,2006:

	2006	2005	2004
Net income for the computation of basic EPS and diluted EPS	2,917	3,925	4,853
Basic EPS – weighted average number of ordinary shares outstanding	25,233,227	16,335,283	15,093,479
Effect of dilutive stock options	599,886	202,296	46,999
Effect of dilutive share warrants	–	297,743	742,424
Effect of dilutive potential ordinary shares (FCDs)	–	–	700
Diluted EPS-weighted average number of ordinary shares outstanding	25,833,113	16,835,322	15,883,602

(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 segment provides network planning, deployment, commissioning, integration and network operations support to network equipment vendors and operators.

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, 2006

Revenues	Software Services	Software Products	Network Engineering	Total
Revenue from external customers	58,096	6,339	5,117	69,552
Cost of revenues	40,234	3,887	3,214	47,335
Research & Development	–	3,433	–	3,433
Gross profit	17,862	(981)	1,903	18,784
Other information:				
Allocated depreciation / amortization	2,465	1,013	288	3,766
Unallocated depreciation / amortization	–	–	–	630
Income tax expense	–	–	–	1,301

Year ended March 31, 2005

Revenues	Software Services	Software Products	Network Engineering	Total
Revenue from external customers	47,057	7,712	968	55,737
Cost of revenues	30,429	2,310	825	33,564
Research & Development Expense	–	5,204	–	5,204
Gross profit	16,628	198	143	16,969
Other information:				
Allocated depreciation / amortization	1,949	813	96	2,858
Unallocated depreciation / amortization	–	–	–	650
Income tax expense	–	–	–	388

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

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
Cost of Revenues	18,241	3,470	21,711
Research & development expense	–	3,794	3,794
Gross profit	9,620	2,096	11,716
Other information:			
Allocated depreciation / amortization	1,606	1,693	3,299
Unallocated depreciation / amortization	–	–	373
Income tax credit	–	–	463

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	2006	2005
Software Services	21,579	13,521
Software Products	7,272	2,346
Network Engineering	4,593	1,808
Total segment assets	**33,444**	**17,675**
Unallocated assets	66,361	23,406
Total assets	**99,805**	**41,081**

The assets indentifiable to segments are allocated to the segments

(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.

Year ended March 31,

Net Revenues	2006	2005	2004
North America (including Canada)	23,361	18,752	14,530
Europe	25,884	26,213	13,012
Asia Pacific (excluding India)	5,085	5,373	6,195
India	15,222	5,399	3,288
Rest of the world	–	–	196
Total revenues	**69,552**	**55,737**	**37,221**

(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
2006	58%	2
2005	60%	3
2004	41%	2

(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	2006	2005	2004	Operating segments
Customer 1	22,652	15,805	9,998	Software Services
Customer 2	14,313	11,146	5,151	Software Services & Software Products
Customer 3	562	6,454	1,018	Software Services & Software Products

17. Commitments and contingencies

(a) Commitments

Contracts remaining to be executed for purchase of property, plant and equipment on March 31, 2006 and 2005 amounted to US $460 and US $188 respectively.

(b) Contingent liabilities

The Group has provided bank guarantees and letters of credit for certain imports as required by the statutory authorities, amounting to US $451 and US $305, as at March 31, 2006 and 2005 respectively.

There are certain claims from income tax authorities for US $284 and US $361 as at March 31, 2006 and 2005 respectively. The Company believes that no provision for taxes needs to be created for these claims.

There are certain claims made against the Company by Customers / investee Companies, which are under Arbitration proceedings. In the view of the management of the Company such claims are frivolous and are not tenable. No provision has been made for such claims pending arbitration proceedings as the amount of claims are currently not ascertainable.

(c) Operating lease commitments

The Group has operating leases for office premises that are (a) renewable on a periodic basis and are cancellable by giving a notice period ranging from 1 month to 6 months and (b) are non cancellable for specified periods under arrangements. Rent escalation clauses vary from contract to contract. Rental expenses for operating leases included in the consolidated statements of incomes are as under:

Year ended March 31,	
2006	2,467
2005	1,704
2004	371

Minimum lease obligations payable under lease contracts having initial or remaining non cancellable period of over one year is as given below:

Year ended March 31,	
2007	1,354
2008	113
Total	**1,467**

18. Legal Settlement

During the year ended March 31, 2006 the Company paid US $1,528 to settle an arbitration. The same has been charged to the consolidated statements of income.

19. Subsequent event

On April 5, 2006, the Company acquired Integrated SoftTech Solutions Private Limited, Chennai. Integrated SoftTech Solutions provides high-end design services to product development companies and platform vendors with focus on data networking, VoIP and Wireless domains.

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. Industry Structure, developments and Outlook

Headquartered in Bangalore, India, Sasken is a global telecom software solutions provider offering a unique combination of software services and products to global companies in the communications space. Established in 1989, Sasken employs 2,575 people, operating from state of the art research and development centers in Bangalore and Pune in India, and near shore development centers in Mexico and China, with offices in Germany, Japan, Sweden, UK and US.

We are a focused communication software company with a core expertise that lies in developing embedded communication software for companies across the communication value chain – network equipment manufacturers, semiconductor vendors, mobile terminal vendors and operators. Our growth strategy is focused on creating competitively priced software solutions that will help our customers increase their revenue base.

Our services can broadly be termed as embedded R & D outsourcing services. We currently provide services, solutions and technologies to customers who are large network equipment manufacturers (both wireless and wireline), semiconductor manufacturers supplying to the telecom market, wireless terminal product vendors, network operators, and test and measurement equipment providers worldwide. Our subsidiaries extend our offerings to network equipment manufacturers to service their non-embedded or non R & D outsourcing requirements.

Our products are typically software components that are used by our customers to create solutions for their clients. All our product initiatives are focussed on creating components for terminals or customer premise equipments. We also license our products to semiconductor vendors who want to create reference solutions for their clients. These semiconductor vendors may license these products to their clients. Our products business principally addresses the wireless terminals space, with some revenue contribution from the wireline space as well.

Industry structure and developments

In the context of the Indian IT industry structure, Sasken's services fall under the R & D services category, which in turn, is a part of IT Services. Indian R & D services market, though at a nascent stage, is undergoing a quiet change. Currently valued at USD 3.1 billion (barely 1.5 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.

Outlook

Analysts forecast Indian R & D services and software products market to grow at a CAGR of 16%. In each of our business segments, the outlook is healthy. In the network equipment manufacturers space, the real shift is seen in terms of Asian vendors becoming dominant players in the market. The migration of various networks across the world to 3G networks seems to indicate healthy growth rates in this space. The worldwide semiconductor market revenue is likely to increase by about 10 percent to around $258 billion in 2006. It is estimated that for the next two years the market will post single-digit revenue growth, after which there will be cyclical peak. On the terminal devices side, it is estimated that in 2006 that number will grow to 900+. All of these, coupled with the boom in the telecom market in the developing countries like India, seem to indicate a positive outlook in this industry.

Opportunities and Threats

We see significant opportunities in all our business segments. In the network equipment space, with a lot of standardization happening, we believe that software and software applications will be the big value driver. In the semiconductor space, companies have started to look at India more strategically and are seeking partnerships with software IP firms; this should have a positive impact on Sasken's products business. On the terminals side, our ability to integrate and provide full phone solutions should open up a new vista of opportunities for us. Key challenges for us across segments, include the fact that we need to be able to staff and scale to meet business requirements. Another key trend has been the setting up of India captive centers by a number of global telecom players; this has meant a change in the competitive landscape, and we need to evolve fresh strategies to work with these players.

Risks and Concerns

We anticipate the following key risks and concerns to our business:

- Wage pressures in India may prevent the Company from sustaining its competitive advantage and may reduce its profit margins
- The inability to maintain attrition rates at acceptable levels may prevent the Company from sustaining its competitive advantage and may reduce its profit margins
- Immigration restrictions could limit the Company's ability to expand its operations in the United States and other countries
- The appreciation of the Indian Rupee against the US Dollar, GBP, Euro or Yen would have a material adverse effect on our results of operations
- Indian laws limit our ability to raise capital outside India and to enter into acquisition transactions with non-Indian companies
- An economic downturn may negatively impair the Company's operating results
- Any temporary or permanent loss of equipment or systems, or any disruptions to basic infrastructure such as power and telecommunications would impede our ability to provide services to our customers and could expose us to liability claims.
- Force majeure events, terrorist attacks and other acts of violence or war involving India, the United States or other countries could adversely affect the financial markets, result in a loss of customer confidence and adversely affect our business, results of operations, financial conditions and cash flows.
- We may be subject to economic, regulatory, political and military uncertainties in India and surrounding countries

Material developments in HR

Our total employee headcount, excluding contractors, has increased from 2121 in 2004-05 to 2575 in 2005-06. We had gross additions of 1086 and net additions of 454 during the year gone by. Our attrition rate for the full year stood at 23.2%. We once again won accolades for our people practices and were ranked #2 in the Business Today – Mercer – TNS survey for "Best Companies to Work for in India" in 2005, and # 8 by the Businessworld – Grow Talent survey on "Great Places to Work for in India" in 2005. We continued our focus on training initiatives with 14071 man days of technical training and 5782 man days of non-technical training last year. More details of all relevant metrics and developments are discussed in the People First section of this Annual Report.

Key Highlights for the Year ended March 31, 2006

- Recommended a dividend of 30%
- Revenue increased by 25% from US $55,737 thousand to US $69,552 thousand.
- Software Services revenue grew by 23%, Software Products revenues declined by 18% and Network engineering services recorded growth of 429%
- The revenue mix between Software Services, Network Engineering Services and Software Products was 84:7:9 in fiscal 2006 as against 84:2:14 in fiscal 2005
- Royalties and sublicensing fees received from multiple product offerings
- Consolidated Profit after Tax decreased by 26%, from US $3,925 thousand to US $2,917 thousand
- Net profit margins was at 4.19% in 2006 as against 7% in 2005.
- Consolidated basic earnings per share for fiscal 2006 was US $0.12 (USD $0.24 - fiscal 2005) and diluted earnings per share was US $0.11 (US $0.23 - fiscal 2005).
- Investment in R & D decreased by 34% to US $3,433 thousand during fiscal 2006 from US $5,204 thousand during fiscal 2005. The development expenses incurred for the integrated solution was capitalized post technological feasibility during the year amounting to US $2994 thousand.
- Headcount of the group increased from 2,121 as on March 31, 2005 to 2,575 as on March 31, 2006.
- Global expansion: China subsidiary incorporated, Mexico centre established and business commenced.

2. Consolidation of financial statements

The financial statements for the year ended March 31, 2006 include the accounts of the Company and its subsidiaries, Sasken Network Systems Limited, Sasken Network Engineering Limited and Sasken Communication Technologies, S.A De C.V. 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.

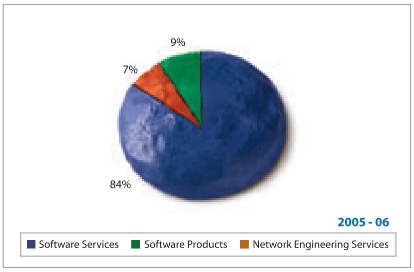
The consolidated revenues were US $69,552 thousand during fiscal 2006 as compared to US $55,737 thousand during fiscal 2005, registering a growth of 25%. The revenues for fiscal 2006 was after factoring US $1,739 thousand as "discount on the revenues for the committed level of business" arising from issue of shares to a customer at discount to the fair value.

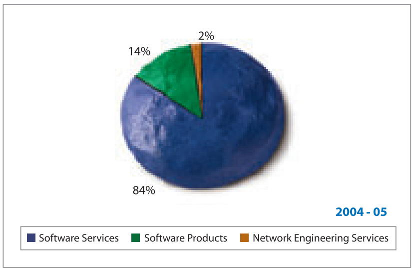
The software services revenues have grown to US $58,096 thousand during fiscal 2006 as against US $47,057 thousand during fiscal 2005. The proportion of the software services business was 84% of total revenue each during the year ended March 31, 2006 and the year ended March 31, 2005. The software services revenues grew on the back of volume growth in the offshore time & material revenues during fiscal 2006. The strategy and focus in services business is to increase the share of wallet in each of the Tier 1 accounts. The number of Tier 1 relationships have increased from 13 to 18 during the year ended March 31, 2006. During the year, revenues from 2 of our top 5 customers increased significantly. Also, 1 of our Tier 1 accounts quickly scaled to over US $3 million per annum.

However, the revenues from software products declined to 9% during the fiscal 2006 from 14% during the fiscal 2005. During fiscal 2006, the Company began investing on a new product line, called the "Integrated Solution" and amounts invested in the product line have been capitalized. The other products solutions such as Wireless Modem Solutions and Application Solutions were matured on multiple platforms during the year. On account of our focus on earning revenues by royalties, which are based on volumes shipped, revenues will arise only on shipment of the phones. As a result, the software products revenue declined. In particular, royalty revenues declined. The royalty from an earlier license of a wireline product ceased to accrue after December 2005. From November 2005, 3G mobile phones bearing one of our application solutions were shipping in the Japanese market and this provided us royalties starting January 2006. To date, 8+ million phones across 31+ models have been shipped across the world.

The revenues from network engineering services to consolidated revenues increased to 7% during the year ended March 31, 2006 from 2% during the year ended March 31, 2005. The growth was on account of our customers being awarded contracts for wireless network rollouts across India.

Pie chart of Revenues by Business Segments





2.1.2 Cost of revenue:

Cost of revenue 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 2006 was US $47,335 thousand as compared to US $33,564 thousand in the previous year. As percentage of revenues, it works out to 68% and 60% in fiscal 2006 and fiscal 2005 respectively. In absolute terms, the cost of revenues has increased by US $13,771 thousand (41%). The increase in cost of revenue was driven by volume growth of employees, increased strategic investment in infrastructure to scale the business and incubation of new services offerings.

Employment costs as a percentage of revenue, constitute 48% & 41% for the fiscal 2006 & 2005 respectively. During the year, the employment costs increased by 46%, due to increase in head count and wages.

Travel expenses as a percentage of revenue is 7% in fiscal 2006 as against fiscal 6% in fiscal 2005.

Depreciation as a percentage of revenue is 4% for the fiscal 2006 & 2005 respectively. In absolute terms, depreciation increased by 30%, mainly on account of higher infrastructure spent on new facilities during the year ended March 31, 2006.

2.1.3 Research and Development (R & D)

Research and development expenses include the cost of product development, modifications and, enhancements to products that are already available to the customers. R & D constituted 5% of the revenues during fiscal 2006 and 9% during 2005. In absolute terms, R & D decreased by 34%. As a result of the capitalization of software expenses on integrated solution program, which passed the stage of technological and commercial feasibility during the year, the net Research and Development expenses appear to have declined. The capitalized software is expected to be amortized over its useful life or revenue stream, which ever is more conservative.

2.1.4 Gross Profit

The segmental profits were US $18,784 thousand during the fiscal 2006 as against US $16,969 thousand during the fiscal 2005. Segmental profit margin for software services was 26% for fiscal year 2006 as against 30% for fiscal year 2005. However the segmental profits for software products declined to loss of 1% during the fiscal 2006 as against 1% gain during the fiscal 2005 on the back of the revenue decline during the fiscal 2005. The Segmental profit from Network Engineering grew to 3% during the fiscal 2006 as against 1% in fiscal 2005 on account of volume growth in its first full year of operations.

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 7 % of revenues for fiscal 2006 as against 10% in fiscal 2005. The decrease in absolute terms was US $781 thousand. The decrease in selling and marketing expenses was on account of rationalization of the sales force across the world, and the impact of scale.

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, training expenses and Fringe Benefit taxes.

Administrative and General expenses constituted 13% in fiscal 2006 and 12% in fiscal 2005. In absolute terms these expenses posted an increase of 30% during fiscal 2006 over the previous fiscal year.

Employment costs have increased in line with the increased headcount. Increase in Repairs and maintenance, electricity and water charges were on account of new facilities added during the current year.

There was increase in legal charges on account of costs incurred for defending the arbitration against a suit filed in the London Court of International Arbitration. The suit was finally settled during December 2005 against the company, and has been discussed under the head "Legal settlement award".

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 company provided doubtful debts amounting to US $470 thousand during the year ended March 31, 2006 as against a reversal of provision of US $196 thousand during the year ended March 31, 2005.

Fringe Benefit taxes (FBT), which was introduced in fiscal 2006, is a tax computed on certain benefits provided to a group of employees. During the current fiscal, the company provided US $250 thousand towards FBT.

2.1.7 Employee stock option compensation cost

During the year, the Company issued 304,050 options to 1,212 employees including 25,350 options to 80 employees of SNSL and 21,100 options to 113 employees of SNEL. These options carry a vesting period ranging one to four years at an exercise price ranging from US $5.04 to US $7.19 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 Company accounts for stock compensation expenses based on the fair value of the options granted on the date of grant. An amount of US $121 thousand was charged as compensation cost to profits during the year ended March 31, 2006 as against US $164 thousand during the year ended March 31, 2005.

2.1.8 Amortization of Non-compete fees

During the year ended March 31, 2006, the Company paid a non-compete fee of US $552 thousand to one of its key employees at the time of termination of his services with the Company under a non-compete agreement entered into with such employee. The same is being amortized over two years on a straight-line basis from the date of termination of services and consequently an amount of US $213 thousand has charged to income for the year.

2.1.9 Legal settlement award

During the year ended March 31 2006, the Company has received intimation from honourable Arbitrator of The London Court of Internal Arbitration awarding damages of US $1,150 thousand in favour of the claimant and reimbursement of associated legal expenses and arbitrator's fees approximating US $378 thousand. The amount of award and legal expenses totaling to US $1,528 thousand has been charged against profits of the year.

The arbitration proceedings were in connection with a contract with the semiconductor company entered into during 2001, for the supply of a single mode UMTS protocol stack.

2.1.10 Income from operations

Operating income for fiscal 2006 is US $3,075 thousand compared with US $4,281 thousand for fiscal 2005. Operating income as a proportion of revenue was 4% for fiscal 2006 as compared to 8% for fiscal 2005.

2.1.11 Other income

Other income for fiscal 2006 was US $1,175 thousand as compared to US $138 thousand for fiscal 2005. The Company raised monies of US $51,818 thousand through a Public issue and couple of private placements. The monies raised from Public issue are for construction of a development center, for which the Company is in the process of seeking approvals from various regulatory authorities. The monies have been temporarily parked in investments, categorized under the head "Available for sale of securities". The increase in other income was on account of income earned from these Investments.

The company has revised its hedging policy effective April 2005 and has managed its forex exposures in line with this policy. The policy is not so much to make profit from currency movements but to ensure that foreign exchange exposures on exports and imports are properly monitored, limiting risks to tolerable levels. Thus, risk limitation / reduction is the prime objective.

2.1.12 Interest

Interest charged against income during the fiscal 2006 was US $32 thousand as compared with US $106 thousand for fiscal 2005. The decrease was on account of very limited usage of bank credits for working capital purposes.

2.1.13 Income taxes

The Total Income taxes, during fiscal 2006, was US $1,301 thousand as compared to US $388 thousand during fiscal 2005. The taxes for the fiscal 2006, is after considering a deferred tax asset of US $44 thousand. The higher taxation has been a result of higher overseas taxation, withholding tax on products and an increase of domestic income, leading to a higher tax incidence.

2.1.14 Net income

Net income from ordinary activities and continuing operations for fiscal 2006 was US $2,917 thousand as compared to US $3,925 thousand during fiscal 2005.

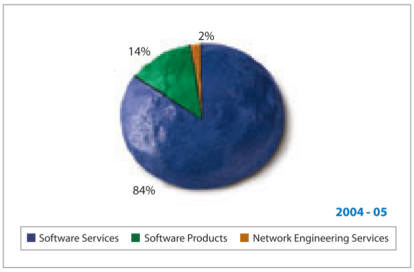
3. Results of operations for the fiscal ended March 31, 2005 compared with fiscal ended March 31, 2004

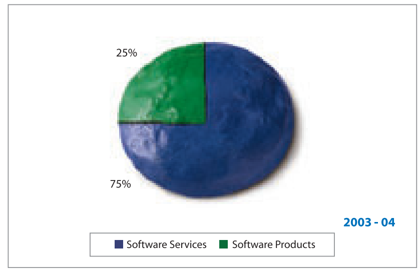
3.1.1 Revenues

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 in 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.

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 2005 was US $33,564 thousand as compared to US $21,711 thousand in the previous year. As percentage of revenues, it works out to 60% and 58% respectively in each of the fiscal period. In absolute terms, the cost of revenues has increased by US $11,853 thousand (55%).

Employment costs as a percentage of revenue, constitute 41% & 38% for the fiscal 2005 & 2004 respectively. During the year, the employment costs increased by 62%, 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 4% for the fiscal 2005 & 5% for the fiscal 2004. In absolute terms, depreciation increased by 17%, mainly on account of increase in expenses on purchase of generic software.

3.1.3 Research and Development (R & D)

Research and Development expenses includes the cost of product development, modifications and, enhancements to products that are already available to the customers, Research and Development expenses constituted 9% of the revenues during fiscal 2005 and 10% of the revenues during fiscal 2004. In absolute terms, R & D increased by 37%.

3.1.4 Gross profit

Gross profit was US $16,969 at 30% of revenues during the fiscal 2005 and US $11,717 at 31% 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.

Segmental profit margin for software services was at 30% and 26% for fiscal periods 2005 and 2004 respectively. However, the segmental profits for software products declined sharply to 1% during the fiscal 2005 as against 6% during the fiscal 2004 on the back of the revenue decline during the fiscal 2005. The fall in the software product revenues and the resulting 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.

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 10% of revenues for fiscal 2005 as against 11% in fiscal 2004. The increase in absolute terms was US $1,457 thousand. 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.

3.1.6 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.

3.1.7 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.

3.1.8 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, Administrative and General Expenses, rent on new facilities added during the year and other costs necessitated by increase in head count.

3.1.9 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 account of forward cover by US $884 thousand.

3.1.10 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.

3.1.11 Income taxes

Income taxes, during fiscal 2005, was US $388 thousand as compared to a negative amount 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.

3.1.12 Net income

Net income from ordinary activities and continuing operations for fiscal 2005 was US $3,925 thousand as compared to US $4,852 thousand during previous fiscal.

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. The Company has voluntarily decided to present its financial statements in accordance with US GAAP

Reconciliation of Net income:

(Amounts in '000 US $)

	2006	2005	2004
Net Income as per Indian GAAP	5,180	5,080	3,981
Adjustments Unrealized exchange gain (Net)	(274)	(681)	872
Discount on issue of shares to a customer	(1739)	–	–
Provision for leave availment	(250)	(475)	–
Net income as per US GAAP	2,917	3,925	4,853

5. Risk Management

This has been addressed in the relevant section of the Management's discussion on the financial performance under Indian GAAP.

SASKEN COMMUNICATION TECHNOLOGIES

MEXICO S.A De C.V

Annual Report 2005 – 2006

Directors' / Management Report

Sasken Communication Technologies Limited, a pioneer in telecom R&D outsourcing, headquartered in Bangalore, India, incorporated on November 22, 2005 this wholly owned subsidiary – Sasken Communication Technologies Mexico S.A De C.V (Sasken Mexico) – as its international Development & Support Center in Nuevo Leon (Monterrey) – Mexico. This report covers the period from the date of incorporation till March 31, 2006 (the period).

Sasken Mexico's 12,000 sq ft development and support centre in Monterrey, in the Apodaca Industrial Park will be able to accommodate 100+ engineers. The process for hiring the required engineers has already been initiated. This centre will focus primarily on Embedded Systems Software Development.

Sasken Mexico has not earned any revenue during the period. Apart from incorporation and similar pre-operative expenses, it has invested Rs. 28,782,893 (including capital advances) in establishing the infrastructure, so that software development work can commence soon. The loss for the period amounted to Rs. 6,531,195.

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 generally accepted accounting principles. The management has included in the Company's financial statements amounts that are based on estimates and judgements, which it believes are reasonable under the circumstances.

Deloitte Haskins & Sells have audited the Company's financial statements in accordance with generally accepted auditing standards in India and have provided an objective, independent review of the fairness of its reported financial condition and results of operations.

Bangalore	Rajiv C Mody	Krishna J Jhaveri
April 14, 2006	Sole Administrator	Chief Executive Officer

AUDITORS' REPORT

TO

THE BOARD OF DIRECTORS
SASKEN COMMUNICATION TECHNOLOGIES MEXICO S.A De C.V

We have audited the attached Balance Sheet of **SASKEN COMMUNICATION TECHNOLOGIES MEXICO S.A De C.V** as at 31 March 2006, 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 and have been prepared for the limited purpose of consolidation with the financial statements of the parent Company, Sasken Communication Technologies Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 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) 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;

(c) 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 as issued by The Institute of Chartered Accountants of India;

(d) 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 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, 2006;

(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

V Srikumar
Partner
Membership No.: 84494

Place: Bangalore
Date : April 14, 2006

Sasken Communication Technologies Mexico, S.A De C.V

Balance Sheet

	Schedule No.	As at March 31, 2006 Rs.
Sources of Funds		
Shareholders' Funds		
Share Capital	1	203,169
Loan Funds		
Unsecured Loans	2	22,235,067
Total		**22,438,236**
Application of Funds		
Fixed Assets	3	
Gross Block		68,261
Less: Accumulated Depreciation		5,657
Net Block		62,604
Capital Work in Progress including Capital Advances		28,720,289
Total		**28,782,893**
Current Assets, Loans and Advances		
Cash and Bank Balances	4	2,799,918
Loans and Advances	5	6,213,757
Total	(A)	**9,013,675**
Less: Current Liabilities and Provisions	6	
Current Liabilities		21,889,527
Total	(B)	**21,889,527**
Net Current Assets	(A - B)	(12,875,852)
Profit & Loss Account		6,531,195
Total		**22,438,236**
Notes to Accounts	8	

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

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

V Srikumar
Partner
Membership No. 84494

Place: Bangalore
Date : April 14, 2006

For and on behalf of the Board of Directors

Rajiv C Mody
Sole Administrator

Krishna J Jhaveri
Chief Executive Officer

Sasken Communication Technologies Mexico, S.A De C.V

Profit and Loss Account

For the period from November 22, 2005 to March 31, 2006	Schedule No.	For the Period ended March 31, 2006 Rs.
Revenues		–
Cost of Revenues		–
Gross Profit / (Loss)		–
Administrative and General Expenses	7	6,684,521
Loss from Operations		(6,684,521)
Exchange gain / (loss) (net)		153,326
Loss for the period		(6,531,195)
Balance carried to Balance Sheet		(6,531,195)
Notes to Accounts	8	

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

As per our report of even date attached

For Deloitte Haskins & Sells
Chartered Accountants

V Srikumar
Partner
Membership No. 84494

Place: Bangalore
Date : April 14, 2006

For and on behalf of the Board of Directors

Rajiv C Mody
Sole Administrator

Krishna J Jhaveri
Chief Executive Officer

Sasken Communication Technologies Mexico, S.A De C.V

Schedules forming part of the Balance Sheet

	As at March 31, 2006 Rs.
Schedule 1	
Authorised Capital	
100 Equity Shares of $500 (Mexican Pesos) each [The Capital Stock of the Company shall be variable, with a fixed minimum amounting to $50,000 (Mexican Pesos) and unlimited maximum that shall be represented by 100 registered common shares with a par value of $500 (Mexican Pesos)]	–
Total	**–**
Issued, Subscribed and Paid Up Capital	
100 Equity Shares of $500 (Mexican Pesos) each fully paid up [99 Equity Shares of $500 (Mexican Pesos) each is held by Sasken Communication Technologies Limited, India]	203,169
Total	**203,169**

Schedule 2	
Unsecured Loans	
Loan from Holding Company Sasken Communication Technologies Limited	22,235,067
Total	**22,235,067**

Schedule 3 – Fixed Assets (Amount in Rs.)

Particulars	Gross Block			Depreciation			Net Block	
	Opening Balance	Additions during the period	Closing Balance	Opening Balance	For the period	Closing Balance	As at March 31, 2006	As at March 31, 2005
Computers	–	68,261	68,261	–	5,657	5,657	62,604	–
Total	**–**	**68,261**	**68,261**	**–**	**5,657**	**5,657**	**62,604**	**–**

Sasken Communication Technologies Mexico, S.A De C.V

Schedules forming part of the Balance Sheet (contd.)

	As at March 31, 2006 Rs.
Schedule 4	
Cash and Bank Balances	
Balances with Banks:	
– in Current Accounts	2,799,918
Total	**2,799,918**

Schedule 5	
Loans and Advances	
(Unsecured, considered good)	
Advances recoverable in cash or in kind or for value to be received	1,251,851
Value added tax	4,292,069
Deposits	669,837
Total	**6,213,757**

Schedule 6	
Current Liabilities and Provisions	
Current Liabilities	
Sundry Creditors – other than dues to Small Scale Industries	21,858,744
(of which due to Holding Company Rs. 20,870,352)	
Other Liabilities	30,783
Total	**21,889,527**

Sasken Communication Technologies Mexico, S.A De C.V

Schedules forming part of the Profit and Loss Account

	For the Period ended March 31, 2006 Rs.
Schedule 7	
Administrative and General Expenses	
Salaries & Bonus	493,741
Contribution to Social Security and Other Funds	86,410
Staff Welfare	54,435
Recruitment and Relocation	62,509
Rent	776,816
Electricity & Water Charges	39,495
Communication	21,404
Repairs and Maintenance	
– Others	132,108
Depreciation	5,657
Professional, Legal & Consultancy Charges	3,303,197
Auditor's Remuneration	
– Audit Fees (including Service Tax)	100,000
Bank charges	25,688
Printing & Stationery	330,328
Books & Periodicals	8,746
Training & Conference Expenses	1,243,987
Total	**6,684,521**

Sasken Communication Technologies Mexico, S.A. DE C.V

Schedule forming part of the Accounts for the period ended March 31, 2006

Schedule 8

Notes to Accounts

1. **Significant Accounting Policies & Notes to Accounts**

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 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.

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.

The company was incorporated on November 22, 2005 under the Mexican Laws. Since this being the first year of incorporation, comparable figures for prior years are not available. No revenues were generated by the company till March 31, 2006.

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

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

Foreign Exchange Transactions

(i) Initial Recognition – All transactions are accounted initially using base currency Mexican Pesos. Foreign currency transactions are recorded in the base currency, by applying to the foreign currency amount the exchange rate between the base currency and the foreign currency approximately at the date of the transaction.

(ii) Translation/Conversion – All transactions recorded in Mexican pesos are translated in to reporting currency (Indian Rupees) using average rate for expenses and closing rate for balance sheet items.

(iii) Exchange Differences – Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expense 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.

Retirement Benefits

The Company contributes to Social Security as per Mexican laws and the same are remitted to Institute of Mexican Social Security (IMSS), in Mexico and Saguro De Ahorro Para El Retiro (SAR).

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.

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.

2. Other Notes

a. Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. 14,716,610.

b. Contingent liabilities not provided for amount to Rs. Nil.

c. The Company has not generated any taxable income during the period and hence no provision for tax has been made for the period ended March 31, 2006. No deferred tax asset has been recognised, as it is not virtually certain that sufficient future taxable income will be available against which such deferred tax assets can be realised.

3. Operating leases

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

	Period ended March 31, 2006 Rs.
Rent expenses included in profit & loss account towards operating leases (MXN 69,891.88)	295,526

Minimum lease obligation under non cancellable lease contracts amounts to:

	As at March 31, 2006 Rs.
Due in one year of the balance sheet date	8,243,107
Due between one to five years	Nil

4. Related party disclosure

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

Key Management Personnel : Mr. Rajiv C Mody (Sole Administrator) and Mr. Krishna J Jhaveri (CEO)

Nature of Transaction	**Holding Company**	**Key Management Personnel**
Loan Received during the period	22,235,067	Nil
Reimbursement of Expenses towards consultancy fee paid and bank charges,	2,004,248	Nil
Reimbursement against payments made to Sasken Communication Technologies Mexico, S.A De C.V. vendors	18,852,894	Nil
Refund due on share application money	13,210	Nil
Net Balance due as on March 31, 2006	**43,105,419**	Nil

Signatures to Schedules 1 to 8

For and on behalf of the Board of Directors

Place: Bangalore
Date : April 14, 2006

Rajiv C Mody
Sole Administrator

Krishna J Jhaveri
Chief Executive Officer

Sasken Communication Technologies Mexico, S.A De C.V

Cash Flow Statement	**For the period ended March 31, 2006 Rs.**
A. Cash flow from operating activities:	
Net Profit / (Loss) before tax	(6,531,195)
Adjustments for:	
Depreciation	5,657
Operating profit before working capital changes	(6,525,538)
Adjustments for:	
(Increase) / decrease in Loans & Advances	(6,213,757)
Increase / (decrease) in Current Liabilities and Provisions	21,889,527
Cash generated from operations	9,150,232
Direct taxes (paid) / refund received	–
Net cash from operating activities	**9,150,232**
B. Cash flow from investing activities:	
Purchase of Fixed Assets	(28,788,550)
Net cash from in investing activities	**(28,788,550)**
C. Cash flow from financing activities:	
Proceeds of Loan from Holding Company	22,235,067
Proceeds from issue of Share Capital	203,169
Net cash used in financing activities	**22,438,236**
Net increase / (decrease) in Cash and Bank balances (A+B+C)	**2,799,918**
Cash and Bank balances at the beginning of the period	–
Cash and Bank Balances at the end of the period	**2,799,918**

As per our report of even date attached

For Deloitte Haskins & Sells

Chartered Accountants

V Srikumar
Partner
Membership No. 84494

Place: Bangalore
Date : April 14, 2006

For and on behalf of the Board of Directors

Rajiv C Mody
Sole Administrator

Krishna J Jhaveri
Chief Executive Officer

Notes

INDIA
CHINA
FRANCE
GERMANY
JAPAN
MEXICO
SWEDEN
UK
USA

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