Sasken Communication Technologies Limited

Annual Report 2003

Contents

Board of Directors

Mr. Rajiv C Mody	Chairman and Managing Director
Dr. Ashok Jhunjhunwala	Director
Shri Bansi S Mehta	Alternate Director to Mr. Shirish B Mody
Mr. J B Mody	Director
Mr. Krishna J Jhaveri	Whole-time Director
Mr. Mahendra J Jhaveri	Alternate Director to Mr. Suresh Dholakia
Mr. Pranabh D Mody	Whole-time Director
Professor J Ramachandran	Director
Mr. Shirish B Mody	Director
Mr. Suresh Dholakia	Director

Committees of the Board

Audit Committee

Shri Bansi S Mehta	Chairman
Professor J Ramachandran	Member
Dr. Ashok Jhunjhunwala	Member

Compensation Committee

Professor J Ramachandran	Chairman
Dr. Ashok Jhunjhunwala	Member

Share Transfer and Investor Grievance Committee

Mr. Rajiv C Mody	Chairman
Mr. Pranabh D Mody	Member

Management Council

Dr. G Venkatesh	Vice President and Head, Semiconductor Business Division
Mr. Hari Iyer	Vice President, People and Processes
Mr. Krishna J Jhaveri	Whole-time Director and President, North America
Mr. KSG Shankar	Vice President, Operations and Quality
Mr. Kumar Prabhas	Vice President and Head, Networks Business Division
Ms. Neeta Revankar	Vice President, Finance
Mr. Pranabh Mody	Whole-time Director and Head, Terminal Devices Business Division
Mr. Rajiv C Mody	Chairman and Managing Director

Company Secretary

V Ramachandran

Statutory Auditors

S R Batliboi & Co.

Chartered Accountants

Internal Auditors

S B Billimoria & Co.

Chartered Accountants

Bankers and Financial Institutions

Citibank N A

Dena Bank

Union Bank of India

Solicitors and Attorneys

Dua Associates

Wilson Sonsini Goodrich and Rosatti

Registered and Corporate Office

Sasken Communication Technologies Limited

No. 139/25

Domlur Layout

Ring Road, Domlur P O

Bangalore 560 071

The Year at a Glance

(in million)

For the Year	31-Mar-03 Rs.	31-Mar-03 US$	31-Mar-02 Rs.	31-Mar-02 US$
Exports	991.24	20.49	1,015.23	21.39
Domestic Sales	101.31	2.09	71.04	1.50
Other Income	1.35	0.03	14.91	0.31
Profit before Interest, Depreciation and Taxes (PBIDT)	202.25	4.18	106.14	2.24
PBIDT as a Percentage of Revenue	19%	19%	10%	10%
Profit / (Loss) before Taxes (PBT)	40.24	0.83	(116.87)	(2.46)
Profit / (Loss) after Tax (PAT)	12.73	0.26	(156.39)	(3.30)
Earnings per Share ... Weighted Average (in Rs. / US$)+	0.50	0.01	(6.20)	(0.13)
Earnings per Share ... Diluted (in Rs. / US$)+	0.50	0.01	(6.16)	(0.13)
Capital Expenditure	63.54	1.34	328.92	6.76
PBT as a Percentage of Average Net Worth*	5%	5%	-12%	-12%
PAT as a Percentage of Average Net Worth*	1%	1%	-16%	-16%
Revenue per Person Year**	1.27	26,309	1.07	22,300
At the End of the Year				
Total Assets	1280.08	26.98	1,259.16	25.87
Fixed Assets (Net)	823.49	17.35	894.92	18.38
Working Capital	455.15	9.59	330.70	6.79
Investment	1.44	0.03	33.54	0.69
Total Debt	267.54	5.64	353.93	7.27
Net Worth	1012.55	21.34	905.23	18.60

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

- at the average conversion rate for all revenue items

- at the closing rate for all Balance Sheet items

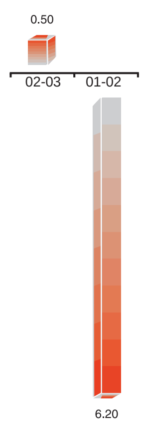
- at actual rates for sales

* Share application money is excluded

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

\+ Face value of Rs.5 per share

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



Financial Performance – A Seven Year Snapshot

Particulars	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Rs. in million except in "Other Information" sub-section							
1) Revenue Account							
Sales / Revenue	162.57	284.07	470.36	759.16	1,428.33	1,086.27	1,092.55
Other Income	1.70	7.94	10.06	42.73	11.29	14.91	1.35
Total Revenue	164.27	292.01	480.42	801.89	1,439.62	1,101.18	1,093.90
PBIDT	64.25	109.24	207.48	346.69	429.35	106.14	202.25
Depreciation	9.24	21.18	61.21	87.83	80.83	179.05	125.79
PBIT	55.01	88.06	146.27	258.86	348.52	(72.91)	76.46
Interest	4.04	3.47	3.38	8.82	13.64	43.96	36.22
Miscellaneous Expenditure Written off	0.01	0.01	–	–	–	–	–
Profit / (Loss) before Tax	50.96	84.58	142.89	250.04	334.87	(116.87)	40.24
Income Tax (including withholding taxes)	6.66	5.60	20.62	101.43	53.81	39.52	27.51
Profit / (Loss) after Tax	44.30	78.98	122.27	148.61	281.06	(156.39)	12.73
Dividend	13.28	17.28	47.24	51.39	55.19	–	–
2) Capital Account							
Share Capital	40.00	100.00	107.94	124.75	125.65	126.69	127.10
Share Application Money	–	–	–	–	–	0.01	164.28
Reserves and Surplus	31.88	62.34	136.87	634.72	891.27	778.53	721.17
Loan Funds	36.32	40.65	140.72	8.56	317.65	353.93	267.54
Gross Block	96.61	154.51	308.24	479.93	1014.42	1304.87	1317.48
Net Block	76.42	112.77	207.58	291.43	753.19	894.92	823.49
Investment	0.02	2.98	2.98	190.54	18.62	33.54	1.44
Net Current Assets	31.77	87.23	174.97	286.07	562.77	330.70	455.15
3) Other information							
Total Number of Shareholders	38	44	160	441	572	659	709
Number of Employee Shareholders (including ex-employees)	2	2	120	218	317	394	432

Particulars	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
4) Ratios								
a) Profitability / Efficiency								
Operating Turnover / Total Turnover (%)	99.2%	99.0%	97.3%	97.9%	94.7%	99.2%	98.6%	99.9%
Other Income / Total Turnover (%)	0.8%	1.0%	2.7%	2.1%	5.3%	0.8%	1.4%	0.1%
PBIDT / Total Turnover (%)	32%	39%	37%	43%	43%	30%	10%	18%
PBIT / Total Turnover (%)	24%	33%	30%	30%	32%	24%	-7%	7%
PBT / Total Turnover (%)	18%	31%	29%	30%	31%	23%	-11%	4%
PAT / Total Turnover (%)	18%	27%	27%	25%	19%	20%	-14%	1%
Return on Average Net Worth (%)*	49%	79%	67%	60%	30%	32%	-16%	1%
* (PAT / Average Net Worth)(%)								
Return on Average Capital Employed (pre-tax)*	33%	61%	57%	50%	45%	33%	-6%	6%
* (PBT+ Interest) / (Average Capital Employed)(%)								
Return on Average Capital Employed (post-tax)*	33%	53%	53%	43%	27%	28%	-9%	4%
* (PAT+ Interest) / (Average Capital Employed)(%)								
Sales to Average Net Working Capital*	4.20	5.76	4.77	3.59	3.29	3.37	2.43	3.52
Total Revenues to Average Total Assets*	1.40	1.81	1.88	1.63	1.39	1.37	0.85	0.92
Fixed Assets Turnover	1.31	1.68	1.84	1.53	1.58	1.41	0.83	0.83
b) Liquidity								
Net Working Capital to Total Assets	0.34	0.29	0.43	0.45	0.37	0.42	0.26	0.36
Average Collection Period (days)	113	137	117	187	126	127	98	104
Current Ratio	3.31	1.53	2.62	2.27	3.18	3.48	2.90	3.93
c) Leverage								
Debt-Equity Ratio	0.80	0.51	0.25	0.57	0.01	0.31	0.39	0.26
Interest Cover	4.34	11.97	23.76	37.17	17.85	21.60	(2.56)	1.35
Total Assets / Net Worth	1.80	1.51	1.25	1.57	1.01	1.31	1.39	1.26
d) Growth								
Growth in Operational Turnover (%)	134%	105%	75%	66%	61%	88%	-24%	1%
Growth in Total Turnover (%)	136%	106%	78%	65%	67%	80%	-24%	-1%
Net Profit Growth (%)	55%	204%	78%	55%	22%	89%	-156%	108%

It is with immense pride that I present this year's annual report.

Rajiv C Mody,
Chairman and Managing Director

Sasken has not only risen to the many challenges of the past few years we have used the experience to test our vision, our values and our business models as rigorously as it is possible to imagine and found that they work. So, as well as pride, this gives me immense confidence in the future of our business.

Before going on to examine our business, markets and opportunities, I would like to go back three years and quickly revisit the four key objectives that we put down then as a matter of record.

These were:

- to focus exclusively on the telecommunications domain;
- to continue to develop a fusion business model that combines the value of intellectual property with a range of services;
- to continue to strengthen our delivery mechanisms;
- to constantly strive to achieve the highest levels of Corporate Governance practices.

I am pleased to say that we are exactly on plan to achieve all four of these objectives.

This year, with its difficult business conditions, yielded revenues of Rs.1092.55 million, relatively flat compared to fiscal 2002. However, from a net loss of 14% in fiscal 2002, we have returned 1% profits in fiscal 2003.

Our preferred space within telecom – wireless – continues to be the most dynamic in the sector, largely as a result of accelerating voice and data convergence, but also because of the expected future rewards from wireless access in the operator and enterprise space.

Sasken's fusion business model, offering our customers cost and time to market advantage combined with our core strength of knowledge in embedded systems, continues to create enormous interest. Today, success in developing embedded systems depends not only on the availability of intellectual property components, but also on being able to integrate these components effectively so that the systems work. This is, without doubt, at the heart of our business and gives us critical competitive advantage on which we expect to build our future success.

We have continued to focus on strengthening our customer interactions and the means of solutions delivery through our Sales, Marketing and Engineering account teams. Creating an organisational structure that focuses on vertical customer groups has helped create greater market understanding and even higher levels of dedication in serving the customers of our individual business divisions.

At Sasken, we are setting our goal to be the number one R&D software provider operating out of India. With large scale R&D outsourcing emerging as a significant trend in the global telecom and semiconductor sectors, the prospects of a world class organization like ours, capable of delivering Intellectual Property components as well as services to our customers worldwide, is looking very bright. We are creating a revised organization structure from the first quarter of next financial year with a senior management team focussed on achieving the objectives we have set for ourselves. Prabhas Kumar, previously heading the Networks business division at Sasken, will assume the responsibility of Chief Operating Officer. He will take overall operational responsibility for all Sasken business divisions, Sales and Marketing, Human Resources and Facilities.

Further management changes are as follows.

G Venkatesh, previously head of Semiconductors business division, will take up the new position of Corporate Vice President, Strategy and report to me. We are creating a separate business division for our Wireless Protocol Stack business, under the leadership of Murlikrishnan G, Vice President. Pranabh Mody, Vice President and Head, currently of Terminals Devices business division will now also have additional responsibilities for the Networks business division. Aiming to continue with our success in semiconductor market, Shrikrishna Gokhale will be appointed as Vice President and Head, Semiconductors business division.

In establishing focused business divisions within Sasken, we are creating a structure that creates stronger ownership and clearer accountability. In turn, this will allow Sasians to make decisions based on customer needs and relevant business-value criteria.

We have streamlined our processes and planning, culminating in Sasken achieving SEI CMM Level 5 certification. Recognised globally as the highest process quality certification for software companies, this is a landmark achievement of which all Sasians are enormously proud.

Over the last three years, we have made considerable progress in deepening our understanding of our customer markets and realigning our product and service offerings accordingly. Although a major part of our services have been traditionally associated with network equipment manufacturers, we

It is our goal to create an awareness of Sasken as a leading communication technology provider. Over time, the Sasken brand has come to be recognised for innovation, quality and reliability.

made a concerted drive to extend our offering to terminal equipment manufacturers. Focused research into their needs led to solution-driven services being taken up by a raft of new customers in this developing area.

This research also showed us that test and measurement companies were a critical link in the wireless telecom value chain, particularly where new technologies were to be implemented. We now tailor many of our existing products for this market segment and, as a result, have forged strong partnerships with leading businesses through our work on both network and terminal solutions, while bringing others on board as customers. These efforts are starting to produce new royalty revenue streams for us, with first payments being recorded during this year.

We also set out to build on partnerships that could take us into new markets and open up new opportunities. Notable successes in this respect have been Symbian, a leader in the market for wireless handset operating systems, and Texas Instruments which has certified us as an independent OMAP™ Technology Centre.

The OMAP™ family of semiconductor application processors has been specifically designed for use in 2.5G and 3G wireless communication and application processing. We provide OMAP™ licensees access to unmatched expertise and knowledge of the OMAP™ platforms, which compliments our activities with a wide range of terminal equipment manufacturers.

We have also made significant progress in developing global partnerships in the semiconductor sector, including relationships with Intel, National Semiconductors and Philips Semiconductors in the wireless space.

Success has not been limited to the major players, and there is a wealth of partnerships in place with emerging specialist semiconductor developers to leverage our experience in the IC design and wireless protocol segments.

Moving on, through our international offices in Canada, China, Japan, Sweden, UK and US, we are now working with many different types of customers. This offers us opportunities to learn how business is managed in a plethora of cultures, including those of China, Korea and Taiwan.

Our new headquarters in Bangalore acts as a symbol of our aspirations and commitment to our people. Having now grown our staff to more than 950, we understand and believe in the value of an effective work environment, and will work to ensure that we maintain our commitment to provide Sasians with the best possible facilities.

At Sasken, when we say our people are our strongest asset, we mean it. We have been recognised within the industry – and beyond – for our outstanding achievements in HR. In 2002, as well as winning the National HRD Network Forum award for our pioneering people practices, we were also selected as one of India's top 25 employers by the prestigious BT Hewitt survey.

It is our goal to create an awareness of Sasken as a leading communication technology provider. Over time, the Sasken brand has come to be recognised for innovation, quality and reliability. Most recently, this reputation has been enhanced through achievements in the wireless protocol stack market. The recognition of Sasken as a major global player in a space dominated by world class companies is reflected in our forging important new relationships with many of these players. This can only increase the value of our business in the future and strengthen our position as preferred partner in many instances.

To sum up, we have more than weathered the storm that has rocked our industry. Indeed, we have emerged through two difficult years with confidence and with faith in our business models, so much so that the last twelve month period can be summarised as a series of tangible achievements:

- entry into new segments, such as test and measurement companies offering alternative business models with new revenue streams;
- new partnerships forged, for example with Symbian and TI;
- a realigned organization with new customers in the territories of China, Korea and Taiwan;
- an increasing brand strength as a result of the partnerships we are creating;
- National HRD Forum award for lifetime achievement in the field.

Out of all telecom segments, we have seen how the wireless and ethernet areas emerged as those least affected by the global slowdown, and were the quickest to recover. As these are the areas in which we have the greatest exposure, we are confident of benefiting most from the predicted upturn.

At the same time, we have been able to exploit our strengths in intellectual property to acquire many customers for our services

Throughout every project we aim to embed our passion for excellence at the heart of the relationship as firmly as we embed our technology in our customers' products.

business. In R&D, customers and potential partners are not simply looking for resources that offer exceptional value for money, but facilities dedicated to service and closely focused on their needs.

More generally, the spectacular collapse of leading players in our market will lead to changes to GAAP, a much sharper focus on Corporate Governance and pressure to demonstrate transparency in all regulatory matters. This is bound to impinge on how partnerships are formed and bonds of trust maintained.

Looking to the future, without pretending to ignore obstacles on the road ahead, we see real opportunities in front of us. R&D outsourcing to India is set to increase considerably over the next few years, and through our India Development Centre (IDC), we are well positioned to take full advantage of the trend. Already proving to be a success, the IDC delivers a groundbreaking service that integrates intellectual property with services and operates as a seamless extension of our customers' own engineering facilities.

The brand strength that we have built in the protocol stacks business will help us move into related markets. The FTA stamp of approval will allow us to penetrate the market with increased numbers of our stacks.

The continued growth in handset demand alongside the growth of embedded software will see our business with handset manufacturers grow. We will also be able to leverage our relationships with semiconductor vendors to expand our customer base. Mixed signal and analog design services, a core Sasken strength, are in great demand. As network equipment manufacturers demand more value for every dollar spent, we anticipate that our focus on operational efficiencies will win us more business in this important area. We are confident that our business in the T&M segment will develop, as our researches have indicated strong opportunities for growth.

Throughout every project we aim to embed our passion for excellence at the heart of the relationship as firmly as we embed our technology in our customers' products. This passion has helped us succeed despite the prevailing market conditions and emerge the other side a stronger and more confident company. We are now poised to take full advantage of the hard work put in over the past few years, while our faith in our model has been confirmed through a steady growth in business and a return to profitability.

On behalf of the entire management team I wish to thank you for your continued support.

Rajiv C Mody

Chairman and Managing Director

Technology and Markets

The recession in telecommunication markets has forced the industry to shift its main point of focus from technology to business fundamentals.

Market Overview

A combination of sound strategy and human resource development has allowed Sasken to take in its stride the resulting delay in the roll-out of new technologies and the extended life for existing ones.

Wireless

With a large number of Sasken's engineers involved in wireless, any trends in wireless technologies have an immediate impact on the business.

A major development has been the delay in rolling out commercial UMTS deployments in Western Europe, with operators focusing on limited trial deployments essentially to meet contractual requirements. By deploying UMTS aggressively in UK, Europe and Australia, Hutchison Whampoa stands out as an exception. In this climate, GPRS become the technology of choice for providing wireless data services by operators. Deutsche Bank estimates that 18% of all GSM phones shipped in 2002 were GPRS enabled, and this number is expected to rise to 33% in 2003.

This provided Sasken with real opportunities. Our technological strength allowed us to mount a serious and highly effective challenge on the established market leaders. Our GSM / GPRS protocol stack underwent both Class B and Class C Full Type Approval (FTA) during the year, and became India's first telecom software product to receive global regulatory approval from GCF(Global Conformance Forum).

On the network side, Sasken's services business fell by 13% this year, as the extended commercial life of GSM-GPRS networks forced network infrastructure providers to give aggressive support to operators. At the same time, the TDD 3G standard grew in importance. Sasken's portfolio of services and products now spans all possible 3G technologies and puts us in a strong position to take advantage of the 3G rollouts expected in 2004-2005.

Handsets

Advances in handset technology are the key to a healthy wireless market. This year, two important developments gave Sasken important opportunities to strengthen our position, particularly through our proven ability to build communication-intensive multimedia applications such as MMS and Video-telephony, for handheld devices.

In the first place, the convergence between PDA and mobile phones continued. Personal organiser features, traditionally reserved for high end phones, were increasingly seen in the mid-range. At the same time, PDA manufacturers continued to add wireless communication capability to their devices. We believe that this trend will create a demand for communication-intensive applications for PDAs well into 2003.

Secondly, uptake of color screen and camera phones in 2002 rose dramatically with color screens emerging as the prime driver for replacement demand in the European holiday season. Current levels of market penetration, currently standing at 15%, are expected to touch 97% by 2008, and retail prices are set to fall over the next twelve months from above US$300 to about US$100. With around 18 million camera phones selling last year, all the trends indicate that multimedia capability will be an integral feature of handsets in the future, creating a market for both mobile multimedia components as well as content. The worldwide market for polyphonic ring tones is already estimated to be about US$ 1.4 billion.

Semiconductors

In the semiconductor business, the key trend was the move to single chip solutions for handsets. The downward pressure on ASPs has forced semiconductor vendors to respond by reducing Bill of Materials in handsets. At Sasken, we anticipate exciting opportunities as the multiple chips that handle baseband, RF, memory, PLL along with other functions, are replaced with a single mixed signal chip in order to cut packaging and silicon costs.

Testing

In both validation and terminal testing, we have seen increasing demand that we are fully committed and geared up to meeting.

As silicon vendors move towards more complex design, engineers sacrifice design time by focusing on design and IP re-use. However, this does nothing to reduce validation times and this emerging "validation gap" will create significant services opportunities for us.

This same trend is visible in terminal vendors. A dull phones market forces manufacturers to stimulate consumer interest by marketing an ever-increasing number of models – each of which requires rigorous testing.

Market Trends

Overview

Since Sasken operates in several distinct segments of the telecom market, analysis of market movements gives the clearest indication of the business's potential. These segments are:

1. Capex spends by operators;
2. R&D spend by network infrastructure vendors;

Our technological strength allowed us to mount a serious and highly effective challenge on the established market leaders.

3. Mobile phone shipment volumes;

4. Semiconductor unit shipments into convergence market.

In the depressed world economy, capex spend tended to mirror shrinking revenues, especially in North America where several operators, of which WorldCom was the most prominent, were caught in a pincer movement of mounting debt and regulatory problems.

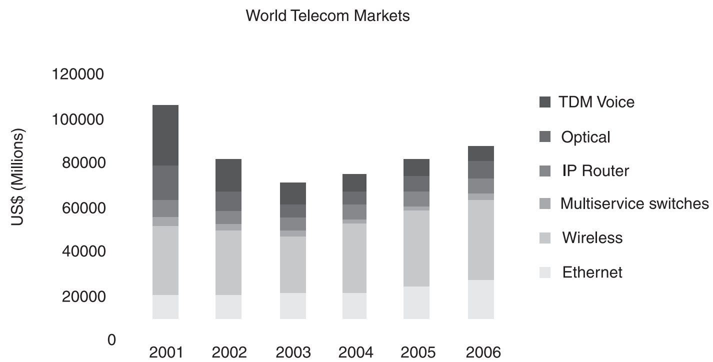
In Europe, operators managed to restructure debt more aggressively, putting themselves on a sounder financial footing. But demand has not caught up with the peak of capex to revenue ratio in 2001, and the overhang in capacity still casts a long shadow. A recovery in operator capex is expected only in the second half of 2004.

In terms of roll-out of new technologies, North American operators showed no interest in 3G, opting instead for EDGE and Wireless Lan (WLAN or WiFi). In Europe, operators continued to focus on GPRS roll-out, only conducting basic tests of UMTS for licensing and regulatory reasons. The exception to this was 3G, undergoing pre-commercial trials in UK, some continental territories and Australia. In Japan, where FOMA, the world's first commercial 3G service, was launched, customer uptake has not been aggressive.

As a sharp contrast, the roll-out of mobile internet services in Japan, I-mode, was a marked success. In the wake of this, operators across the world introduced similar services: “mLife” in the US from AT&T Wireless and “Vodafone Live!” in Europe. In March 2003 Vodafone reported that it had hit its target of 1 million subscribers on schedule.

Network Providers

The network providers market has two primary segments – operators and enterprise. Carrier spending is likely to remain depressed until the second half of 2004 but the enterprise segment is expected to pick up by the end of 2003.



The Chart **(source: J P Morgan)** shows the trends in the world telecom markets in terms of product categories. Sasken is well positioned to exploit growth in ethernet and wireless, the two most attractive product categories in these sectors.

The shift in focus from “best technology” to business should be noted. With consolidation a near inevitability, the competitive pressures to invest in R&D will diminish with a knock-on effect on R&D budgets and a growing concern among customers to see R&D translate into results.

Outlook

Over the last year, most revenues were generated through wireless technology, the area in which Sasken is most clearly differentiated from its competitors.

Semiconductors

The semiconductor industry is expected grow at approximately 8-12% in 2003, down from historical rates of 17%. Growth in the convergence semiconductor market is expected to be lower at about 4% this year, stabilizing at approximately 5% in the long term. Wireless continues to be the strongest sector, with growth projected at 10% this year and 6% in the long term.

It is now accepted that the semiconductor industry as a whole is cyclical. The downturn in the industry's fortunes that began in 2000 saw a reversal in 2002, in spite of the prevailing economic gloom. Between July 2001 and November 2002, worldwide semiconductor revenues grew 21% from US$8.8 to US$11.7. While unit shipments grew, the economic slowdown has led to reduced ASPs, offsettting increases in unit shipments. As result, unit shipment growth has not been reflected in revenue growth, while concern is growing that a possible inventory build-up will further drive down sell-ins and R&D investments.

Outlook

India’s success in software services is well known, and Sasken intends to replicate this success in IC design, leveraging their basic similarities.

Sasken has built strong brand equity in the terminal space over the past few years and we will exploit this by working on solutions with silicon partners.

A provider of IC design services to semiconductor companies since our inception, we will expand these offerings to include full chip design services by fully exploiting our existing design and verification services. During the past year, we have made inroads into competition accounts and expanded our business significantly by establishing strategic relationships with Tier 1 semiconductor companies. We intend to reinforce these relationships further in the coming year, and focus on providing additional IC design services to existing customers of other Sasken business divisions. Still more value for the customer will be created by optimizing EDA tool usages.

Terminal Devices

The handset and terminal devices market escaped the worst of the downturn in telecommunications. The handset market stayed buoyant through 2002, while GPRS phone shipments picked up in line with the extended life for the 2.5G technologies. About 20% of the GSM phones shipped last year were GPRS enabled and this figure is expected to rise to 33% in 2003. Initial shipments of UMTS phones also began in the second half of 2002.

The outstanding feature of 2002 was the growing importance of Asian markets, particularly China and India both as end consumer markets and handset designer / manufacturers. Contract manufacturers are moving into ODMs, which are aspiring to brand their own products. Sasken is well placed to develop these important territories and exploit the growing demand for color handsets, as software increases as a proportion of total costs.

Outlook

Sasken has built strong brand equity in the terminal space over the past few years and we will exploit this by working on solutions with silicon partners. We shall push forward with the development of UMTS and dual mode protocol stacks to take best advantage of the 3G rollouts expected in 2004-2005.

Our mobile multimedia business thrived in the past year, with several key handset vendors selecting it as a codec supplier for their handsets. We also established a Texas Instruments OMAP Technology Center to offer customers multimedia solutions based on the Texas Instruments OMAP platform.

In the coming year, we will pursue a threefold strategy. We will ramp revenues while managing costs aggressively; invest heavily in marketing for our products and build and nourish strategic relationships with key customers.

People First

sasken

The keynote for the year 2002-03 was consolidation for Sasken. We concentrated on fully utilising our existing resources through developing people and optimising processes.

Last year, staff numbers grew by 11% to reach a total of 950. We recruited cautiously, concentrating instead on achieving higher productivity though more effective use of resources.

Our conviction that people are our biggest strength has been carried through into clear and concrete policies that include rolling initiatives on training, performance management and career planning. The Training and Education spend over the period was approximately $150,000, including technical training of approximately $50,000 and non-technical training of approximately $100,000.

Human resources were also seen as the way to build a strong organization that supported and demonstrated competence, character and commitment in its culture. Organizational culture was identified as a great competitive strength, central to driving future growth and success, while helping the business respond dynamically to the challenge of constant and rapid change.

Last year, Sasken's innovative HR policies and practices were recognised once again. The National Academy of Human Resource Development of India awarded us the HRD Excellence Award 2002 for outstanding corporate achievement. This lifetime award is given once every two years in recognition of excellent and innovative HR Practices that make a real contribution to human resource development in India.

Sharing the vision

In order to increase operational effectiveness, we set ourselves the challenge of ensuring that vision, objectives and goals were both clearly identified and shared across the organization. Without compromising the spirit of enterprise that existed in our outward-facing business divisions, we needed to ensure that all were working with a common purpose.

To create the necessary buy-in, an in-house program, known as the Large Scale Interactive Program (LSIP) was designed. More than 100 participants from across the organization participated, with senior and top management's active involvement providing impetus. As a result, the various business divisions developed a clearer understanding of the objectives and functional areas of operations. This was then crystallized into a single, common mission.

To build on this success and ensure the organization kept moving forwards, Small Scale Interactive Programs were organized for Working Groups, Project Groups and business divisions. These met the objectives of stimulating teams to sustain higher levels of achievement over longer periods through the optimal use of available resources.

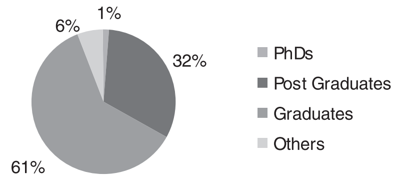
After attaining the highest quality certification of SEI CMM Level 5, a second program was organized to underpin the commitment to quality.

Building competence

Our belief that high levels of competency deliver competitive advantage prompted the development four years ago of a competence-based Human Resource Management System. Successfully implemented, this is now delivering results.

A comprehensive job / family framework now identifies the required competencies for each role within the business. This will give a major impetus to our performance culture by providing greater objectivity in expectations setting, assessments, resource utilisations and movement across jobs. The competence framework now links all HR systems: recruitment; training, career planning and management.

To enable employees to plan their careers, we publish information on roles and associated competencies on our Intranet and have invested in the PeopleSoft ERP package for effective implementation of the competence-based human resource system.



Educational profile of our people

Creating a quality environment

Sasken is committed to the belief that a good working environment supports performance, staff retention and recruitment. All improvements are rigorously tested for their impact on performance, so investment can be measured and justified. To reinforce this commitment, we launched and maintained many new initiatives during the last year:

- a professionally managed crèche and Montessori school within the premises;
- an on-site fully equipped Gymnasium and Health Center;
- major sports tournaments telecast for employees in the 500 seat auditorium;
- entertainment, including collage competitions and play back theatre;
- employee health camps.

Directors' Report

Your Directors have pleasure in presenting their report on the business and operations of the Company along with the Audited Accounts for the financial year ended March 31, 2003.

Financial Results (Rs. in million)

Year ended March 31,	2003	2002
Revenues	1092.55	1086.27
Gross Profits	371.43	465.17
Non Operating Income	1.35	14.91
Profits / (Loss) before Tax	40.24	(116.87)
Income Tax	(27.51)	(39.52)
Profits / (Loss) after Tax	12.73	(156.39)
Appropriation:		
Proposed Equity Dividend	–	–
Transfer to General Reserve for the Year	–	–

Results of Operations

The telecom industry's protracted period of financial correction and structural change continued in fiscal 2003, limiting our opportunities for financial growth. The revenues for the year increased by 0.6 % to Rs.1092.55 million from Rs.1086.27 million registered last year. In dollar terms there was fall from US$ 22.89 million to US$ 22.58 million, a decrease of 1.3 %. Expenses however, were lower by 13.1 % over fiscal 2002. The net profits were 1.16 % of revenues.

The challenges in the coming year will be to continually improve our financial model, with low operating leverage, low financial leverage, high liquidity and sustainable revenue growth models. We will drive growth in each of our businesses in line with customer priorities, continually improve our gross margins and spending efficiencies and maintain a safe cash position. Improving the effectiveness of our investments in product development will be a priority area, and we will continue to ensure that they fit the company's purpose and strategy, and make a superior contribution to our need to be profitable and viable.

Further Issue of Equity

During the year the company offered 3.3 million shares of Rs.5 each at a price of Rs.30 per share including a premium of Rs.25 per share to the existing shareholders of the company. This issue closed on March 31, 2003. The issue was over subscribed. The company also offered 1.6 million shares of Rs.5 each and warrants for 3.3 million shares to an existing investor. The amount received from the applicants is reflected as Share Application money in the audited accounts and the effect on share capital will be reflected in the next financial year upon completion of allotment.

The proceeds of the equity issues will be used to repay the existing term loan and to augment the company's long-term working capital needs.

Borrowings

During the year under review, the Company commenced repayment of the term loan, taking the year-end balance of the term loan to Rs.134.39 million. The company also increased the utilization of packing credit limits during the year on account of increased working capital needs.

Dividend

The company's need to conserve cash, being significant, your directors have decided not to recommend any dividend for the year based on the results posted for the year.

Sasken Employee Stock Option Plan

During the year, the company allotted 80,000 equity shares of face value of Rs.5 each to the employees pursuant to the conversion of H series debentures into equity shares on October 1, 2002. Further, a total of 1203 equity shares were allotted to employees of the company pursuant to the exercise of vested options, under the Sasken Esop-2000 scheme.

With effect from December 31, 2002, the company had cancelled the unexercised stock options granted under the Sasken Esop-2000 scheme. This was on account of the fact that the options were significantly out of the money and employees were therefore not exercising them. The details required under SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as of December 31, 2002 are given as an annexure to this Report.

Patents

Sasken began to develop intellectual property in 1997. Since then, a number of applications have been filed. Till the end of the last financial year, the company had filed a total of 37 applications for patents, 10 provisional applications were filed in India, 22 non-provisional applications and 5 Patent Co-operation Treaty applications were filed in USA. The company intends to continue the emphasis on patenting of intellectual property resulting in potential business opportunities in future.

Award

Your company is appreciated in the industry for its progressive HR practices. We are happy to inform you that the National HRD Network conferred the Life Time HRD Excellence Award for excellent and innovative HR practices to Sasken. This was another validation of our superior people practices, the earlier one being the BT-Hewitt award conferred last year.

Conservation of Energy, Technology Absorption and Foreign Exchange Outgoing

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

Particulars of Employees

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

Corporate Governance

The guidelines on corporate governance focus on director independence and expertise, together with board processes and responsibilities. However, governance requires more than just a checklist of criteria to be met and this has been the mindset at Sasken. Your company has been on this path of good governance for years now, even though it is yet closely held, and as such, under no legal compulsion to comply.

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

Dematerialization of Equity Shares

Effective March 1, 2002, the company's shares have been approved for dematerialization by the National Securities Depositories Limited (NSDL). As a result it is possible to convert physical share certificates of the company into electronic form by opening an account with a Depository Participant of NSDL. This is an investor friendly move and the investors are expected to benefit from this facility.

Directors' Responsibility Statement

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

Auditor's Qualifications

With reference to para no. 5 of the Auditor's Report, the remuneration paid to one of the Whole-time Director is subject to the approval of the Central Government, which is awaited.

Directors

Mr. Pranabh D Mody and Dr. Ashok Jhunjhunwala retire by rotation at the ensuing Annual General Meeting, and being eligible offer themselves for re-appointment.

During the year, Mr. Ajay Relan, retired as Director on the Board of your company. Your directors have not yet inducted a director in place of Mr.Relan.

Contribution to Society

During the year the company continued to provide support for various social, educational and charitable causes. This reinforces our belief that we at Sasken are a part of the society and we can contribute our mite to the betterment of the society. Sasken also contributed in generating resources for various other social causes through book fairs, blood donation camps, help for disabled children etc.

Deposits

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

Auditors

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

Acknowledgement

Your directors would like to place on record, their appreciation to customers, shareholders, vendors, Union Bank of India, Citibank N.A., Dena Bank, HDFC Bank, the STPI Bangalore, RBI and all Governmental and statutory agencies for their cooperation and invaluable support. Your directors would also like to thank the employees for doing their best during one more challenging year for the company.

For and on behalf of the Board of Directors

Place : Bangalore

Date : April 11, 2003

Rajiv C Mody

Chairman and Managing Director

Annexure to the Directors' Report

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

The Energy conservation measures adopted through the last year using the 'Define, Measure, Analyze, Improve, and Control' technique have brought in very good results in reduced power consumption by 20%. We will continue our focus on energy conservation through waste reduction.

B) Research and Development and Technology Absorption

With the vertical market based business unit organization structure coming into effect, each of the activities of Corporate R&D group were moved to the respective business units where the activity made the most significant impact.

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

Patents:

Filing of patents continues to be a significant aspect of Sasken's business strategy. Patents help in increasing the value of the licensed IP, and it also helps in defending against IP infringement claims. Till the end of the last financial year, the company had filed a total of 37 applications for patents, 10 provisional applications were filed in India, 22 non- provisional applications and 5 Patent Co-operation Treaty applications were filed in USA.

Last year the areas under which patents were filed were:

Baseband algorithms:

(i) Development of a WLAN transmitter and receiver subsystems based on the 802.11a standards.

(ii) Development of baseband algorithms for diffused optical systems and for increasing the capacity of laser based optical systems.

Since most of the patentable ideas in communications are related to the baseband algorithms used, R&D in this area will continue to help Sasken strengthen its patent portfolio.

Protocol stacks:

(i) Feasibility study to examine integration of Bluetooth and 802.11 functionality within our wireless protocol stack suite.

(ii) Performance enhancement of the protocol stacks through innovation in algorithms for buffer management and flow control.

C) Foreign Exchange Earnings and Outgoing (Rs. in million)

Foreign exchange earnings	1082.56
Foreign exchange outgo	373.64
(Including capital goods purchased)	

D) Particulars of Disclosures as Required under SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines 1999

During the year 2000-2001, the company had instituted a stock option plan called Sasken Employee Stock Option Plan 2000 (the plan). The plan provides for grant of options to employees to acquire shares in the company over a period of 1 to 6 years at a predetermined price. The company did not grant any option during the year 2002-03 and the position of stock options under Sasken ESOP 2000 scheme as of 31.12.2002 (after cancellation) is as follows.

1.	Total Options granted	Nil
2.	Total Options vested (but not exercised) cumulative till 31.12.02	Nil
3.	Total Options exercised	3237
4.	Total number of shares arising as a result of exercise of options (Cumulative till 31.12.2002)	3237

5.	Total Options lapsed (excluding 270814 options cancelled as of 31.12.2002)	466493
6.	Money realized by the exercise of options	488550
7.	Total number of Options in force (since the beginning)	1263940
8.	Variation of terms of options	N.A
9.	Options granted but not exercised have been cancelled with effect from 31.12.2002	7,94,210
10.	Pricing formula for the grant price: Price based on valuation of the shares as may be determined by the Compensation Committee from time to time	
11.	Employee-wise details of options granted to:	
	a. Employees who were in receipt of grants amounting to 5% or more of total options granted during the year	N.A
	b. Employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	N.A
	c. Employee-wise details of options granted to senior managerial personnel during the year under review	N.A
12.	Diluted Earning Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard (IAS) 33 is Rs.0.50 per share and as per the Indian Accounting Standard	Rs.0.50 per share

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

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

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

In the preparation of the annual accounts, the directors have selected such accounting policies and applied them consistently and made 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 loss of the company for the year.

The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

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

For and on behalf of the Board of Directors

Place : Bangalore — Rajiv C Mody

Date : April 11, 2003 — Chairman and Managing Director

Corporate Governance

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

Corporate Governance refers to the system of allocation of authority and responsibilities amongst a company's shareholders, board of directors and management. The shareholders elect the Board and vote on extraordinary matters. The Board is the Company's governing body, responsible for appointing, overseeing and evaluating management, and management runs the company's day to day operations. The system should enhance goal setting, decision making and appropriate monitoring of compliance and performance within a framework of strong corporate values.

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

Corporate Values

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

a) Customer Intimacy

b) Innovation

c) Integrity

d) Respect for Individual

e) Excellence

Role of the Board

The Board of Directors accepts and acknowledges that the responsibility for governing the company primarily rests with itself. In order to effectively discharge this responsibility, the Board understands that it needs to maintain high standards of character and competence amongst its members individually, and as a team. It demonstrates through its operations the uncompromising integrity and professionalism in the conduct of our business.

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

1. Board Composition and Membership

Board members are expected to possess the requisite expertise and experience to be able to guide your company. Expertise and depth of experience in one or more of strategy, finance, technology and human resource matters is essential. They are not expected to be associated either in an executive or in an independent position, in any company that is in direct competition with Sasken.

Another requirement for Board membership is independence, based upon the absence of relationships and interests that could compromise, or could be perceived as compromising the ability of a director to exercise judgment in the best interests of the Company. Subject to Board review and modification in specific instances, criteria that could vitiate such independence would include:

- Current or previous (within five years before) employment with the Company or any of its affiliates. This criterion will not apply to Executive directors.
- Member of the immediate family of an Executive Officer or Director of the Company.
- Any business relationship with the Company or interest in any significant transactions involving the Company, except as a director or shareholder or as a supplier or customer in the ordinary course of business. Board members would retire on reaching 75 years of age, or earlier if so required by law.

The Board of Directors of the company consists of eight members and two alternate directors. Following is the board's composition:

Founder / Promoter Directors:

Sl. No.	Name	Designation	Category
1	Mr. Rajiv C Mody	Chairman and Managing Director	Founder Director
2	Mr. Pranabh D Mody	Whole-time Director	Founder Director
3	Mr. Krishna J Jhaveri	Whole-time Director	Founder Director
4	Mr. J B Mody	Director	Founder Director
5	Mr. Mahendra J Jhaveri	Alternate Director	Founder Director
6	Mr. Shirish Mody	Director	Founder Director
7	Mr. Suresh Dholakia	Director	Founder Director

Non-Executive and Independent Directors:

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

* During the year Mr. Ajay Relan who was a nominee of Citicorp Finance (India) Limited (Citi) ceased to be a director of the company pursuant to his exit as a shareholder.

The Board comprises of three executive directors, viz., a Managing Director and two Whole-time Directors. The remaining directors are non-executive directors who bring in a wide range of experience and skills in the fields of strategy, finance, technology and management. Three of the non-executive directors are independent directors, one of whom is an alternate director. The Board believes that it has the right amount of independence for the current size of the company. It is committed to increasing the proportion of independent directors, based on the need.

2. Profile of the Independent Directors

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

Dr. Ashok Jhunjhunwala

Dr. Jhunjhunwala, a Padma Shri awardee is a Professor at the department of Electrical Engineering at the Indian Institute of Technology (IIT), Madras. He is also associated with the Telecommunications and Computer Networks Group (TeNet) of IIT Madras. His research interests are in telecommunications network, optical networks, computer networks and wireless communication systems.

Dr. Jhunjhunwala is an authority on Telecommunications and is associated with the group involved in telecom task force under the Ministry of Communications and Information Technology, Government of India and is also a director of Videsh Sanchar Nigam Limited (VSNL) and Bharat Sanchar Nigam Limited (BSNL).

Shri Bansi S Mehta

Shri Bansi Sunderlal Mehta is a practicing Chartered Accountant of repute. He was the President of the Institute of Chartered Accountants of India from 1981 to 1982 and has been a member of various committees of accounting bodies worldwide. He is an authority on financial management, accounting and taxation issues. He is also on the board of several large public companies and statutory bodies.

Professor J Ramachandran

Professor J Ramachandran is BOC professor of business policy at the Indian Institute of Management (IIM), Bangalore. A qualified chartered accountant and a cost accountant, Professor J Ramachandran obtained his doctorate from the Indian Institute of Management (IIM), Ahmedabad. His major research interests are in the areas of corporate transformation and competitive strategy. Prior to joining the faculty at IIM, Bangalore, Professor J Ramachandran was Vice President (Management Services) at Reliance Industries Limited, one of India's largest private sector firms. In addition to his teaching and publishing credits, Professor J Ramachandran has served as a consultant to various Indian and multinational companies. He is also a member of the Board of Directors of a number of technology and start up firms.

3. Membership Term

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

4. Board Processes

Board Meeting and Deliberations.

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

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

Board Meetings and Procedures.

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

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

5. Chairman of the Board and the Chief Executive Officer

The chairman of the board, Mr. Rajiv C Mody is a founder director and also the Chief Executive Officer of the company. The company believes that, considering its current size of operations, there is no need for a non-executive chairman currently. However, with effect from April 1, 2003, Kumar Prabhas has been appointed Chief Operating Officer.

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

The COO is responsible for all operational matters, which includes achievement of the annual business plan.

6. Relationship with the Management

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

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

7. Remuneration of the Board Members

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

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

Name	Designation	Salary	QPIC
Mr. Rajiv C Mody	Chairman and Managing Director, CEO	Rs.3.20 million	Nil
Mr. Pranabh D Mody	Executive Director	Rs.2.40 million	Rs.0.314 million
Mr. Krishna J Jhaveri	Executive Director	US$ 1,60,000 (approximately Rs.7.752 million)	Nil

The amount of remuneration exceeds the limits mentioned in Schedule XIII of the Companies Act, 1956 in case of Mr. Krishna J Jhaveri and such remuneration is subject to the approval of the Central Government.

The amended Schedule XIII to the Companies Act, 1956, which was notified by the Central Government on 16th January, 2002 allows companies with inadequate profits or loss to pay managerial remuneration at specified rates within the ceiling mentioned therein based on the effective capital of the company. Such payments can be made without the approval of the Central Government after complying with the disclosure requirements mentioned therein. The following information forms part of the disclosure requirements mentioned in Schedule XIII of the Companies Act, 1956. The payment of remuneration to Mr. Rajiv C Mody and Mr. Pranabh D Mody is within the limits mentioned in the amended schedule XIII. The following information should be read with the explanatory statement of the special resolutions passed by the members of the company on June 21, 2002 approving the payment of remuneration to Mr. Rajiv C Mody and Mr. Pranabh D Mody. While the following paragraphs provide the details about the remuneration for the year ended March 31, 2003, the remuneration proposed from April 1, 2003 as per the notice sent to shareholders is also read in conjunction with the following details, to the extent applicable.

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

The remuneration payable to the executive directors is broken into three parts viz., fixed pay, QPIC and variable pay. QPIC, the Quarterly Performance Indexed Compensation and variable pay are 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. Variable pay is an annual payout, based on the company's annual performance. The compensation committee periodically reviews the performance of the executive directors. QPIC was paid for two of the quarters to Mr. Pranabh D Mody, Whole-time Director. There was no payout of variable pay during the year.

Apart from the pay to the executive directors as mentioned above, they are not entitled to any other benefits including stock options, bonuses and commissions, etc. Contribution towards provident and superannuation funds is as per the company's policy on the same and forms part of the fixed pay.

The company compensates the independent directors who have been co-opted to various committees of the board for the quality time and professional advice these eminent personalities bring to the organization. The non- executive directors are presently paid sitting fees for attending the board meetings. Remuneration for professional services rendered by the directors Shri Bansi S Mehta, Professor J Ramachandran and Dr Ashok Jhunjhunwala is paid from time to time. Payment of professional fees has been approved by the Central Government and the shareholders of the company. Details of professional fees paid / payable to the independent directors is as follows:

S.No.	Name of the Independent Director	Amount* (Rs.)
1	Shri Bansi S Mehta	12 lakhs
2	Professor J Ramachandran	12 lakhs
3	Dr. Ashok Jhunjhunwala	12 lakhs

* excluding service tax

(ii) Details of fixed component and performance linked incentive along with performance criteria for the year ended 31st March 2003:

Particulars	Rajiv C Mody	Pranabh D Mody	Krishna J Jhaveri
Fixed Pay – Proposed**	Rs.32 lakhs	Rs.24 lakhs	US$ 1,60,000
Fixed Pay – Paid	Rs.32 lakhs	Rs.24 lakhs	US$ 1,60,000
QPIC – Proposed **	Rs.16 lakhs	Rs.8 lakhs	US$ 40,000
QPIC – Paid	Nil	Rs.3.14 lakhs	Nil
Variable Pay – Proposed	Rs.22 lakhs	Rs.10 lakhs	US$ 40,000
Variable Pay – Paid **	Nil	Nil	Nil
Total Remuneration Paid	Rs.32 lakhs	Rs.27.14 lakhs	US$ 1,60,000

**as per shareholder approved

(iii) Service Contracts, notice period, severance fees:

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

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

None of the directors have been granted any options to purchase equity shares in the company at later date. There are no outstanding options allowing directors to apply for and get allotted equity shares. None of the directors is allotted any equity shares under the company's ESOP schemes.

8. Board Meetings

The board normally meets once in a quarter. Additional meetings are held as and when required. For the financial year ended March 31, 2002, the Board met 5 times viz., April 12, 2002, June 21, 2002, July 12, 2002, October 18, 2002 and January 13, 2003.

9. Committees of the Board

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

1. Audit Committee

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

The Audit Committee, and the Compensation Committee consist entirely of non-executive, independent directors. The Share Transfers and Investor Grievance Committee consist of Executive directors.

Audit Committee

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

S. No.	Name	Title	Financial Expertise / Literacy	Status
1	Shri Bansi S Mehta	Chairman of Audit Committee	Expertise	Independent, Alternate Director
2	Dr. Ashok Jhunjhunwala	Member	Literacy	Independent, Non-executive Director
3	Professor J Ramachandran	Member	Expertise	Independent, Non-executive Director

During the year, Mr. Ajay Relan had resigned from the membership of the board and the audit committee and Dr. Ashok Jhunjhunwala was appointed as a member of the audit committee at the board meeting held on October 18, 2002. The terms of reference of the audit committee are as follows:

1. Regular review of accounts, accounting policies, disclosures etc
2. Review of the major accounting entries based on exercise of judgment by management and review of significant adjustments arising out of audit
3. Review of 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 Director's 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. To look into any related party transactions i.e., transactions of the company of material nature, with promoters or management, their subsidiaries or relatives etc. that may have potential conflict with the interests of company at large
11. Appointment and remuneration of statutory and internal auditors
12. Such other matters as may from time to time be required by any statutory, contractual or other regulatory requirements to be attended to by the Audit Committee

The audit committee met 3 times during the year on July 12, 2002, October 18, 2002, and January 13, 2003. The audit committee meeting on April 12, 2002 could not be commenced due to absence of quorum and is not counted in the number of meetings held.

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

Name of Director	July 12, 2002	October 18, 2002	January 13. 2003
Shri Bansi S Mehta	Yes	Yes	No
Dr. Ashok Jhunjhunwala **	No	No	Yes
Professor J Ramachandran	Yes	Yes	Yes

During the year Mr. Ajay Relan ceased to be a director and a member of the Audit Committee.

*** During the year Dr. Ashok Jhunjhunwala was appointed as a member of the Audit Committee.*

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

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

The committee recommended to the Board, the appointment of M/s S R Batliboi & Co, Chartered Accountants, as the statutory auditors of the Company for the fiscal year ending March 31, 2004. The appointment of M/s Ernst and Young has been recommended for carrying out the audit under US GAAP. The committee also recommended the appointment of M/s S B Billimoria and Co as the internal auditors of the company for the fiscal year ending March 31, 2004.

Compensation Committee

The committee's goal is to ensure that the company attracts and retains highly qualified employees in accordance with its business needs, 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 member of the committee is Dr. Ashok Jhunjhunwala. During the year, Mr. Ajay Relan had resigned from the membership of the Board and the Compensation committee.

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

1. To determine the remuneration, review performance and decide on QPIC and variable pay of executive directors
2. To determine the number of stock options to be granted under the company's Employees Stock Option Schemes and administration of the stock option plan
3. Such other matters as may from time to time be required by any statutory, contractual or other regulatory requirements to be attended to by the Compensation Committee
4. Establishment and administration of employee compensation and benefit plans

The compensation committee met twice on May 15, 2002 and August 5, 2002. The minutes of the Compensation Committee meetings are placed before the Board at the succeeding Board meeting for information. Attendance of compensation committee meetings is as follows:

Name of Director	May 15, 2002	August 5, 2002
Dr. Ashok Jhunjhunwala	No	Yes
Professor J Ramachandran	Yes	Yes

During the year, Mr. Ajay Relan ceased to be a director and a member of the Compensation Committee. However he attended the meeting held on May 15, 2002.

The committee reviewed the performance of all the Executive directors and approved the remuneration of the Executive Directors for fiscal 2003 and 2004, within the overall limits approved by the shareholders. The committee also recommended to the Board, the cancellation of the outstanding stock options.

Share Transfers and Investor Grievance Committee

This committee is responsible for the smooth functioning of the share transfer process as well as redressal of shareholder grievance. Mr. Rajiv Mody is the Chairman of the Committee and Mr. Pranabh Mody is the other member of the committee. The terms of reference of the Share transfer and Investor Grievance Committee is as follows:

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

The committee met 14 times on these dates viz., April 18, 2002, June 19, 2002, August 9, 2002, September 9, 2002, November 6, 2002, December 20, 2002, January 2, 2003, January 27, 2003, January 31, 2003, February 4, 2003, February 21, 2003, March 5, 2003, March 14, 2003 and March 22, 2003.

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

The committee expressed satisfaction with the company’s performance in dealing with investor’s grievances and share transfers. It also commended the investor friendly move of dematerialization of its shares during the year.

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

Name of the Director	Board Meeting [5]
Mr. Ajay Relan @	0
Mr. Ashok Jhunjhunwala	4
Shri Bansi S Mehta *	3
Mr. J B Mody	3
Professor J Ramachandran	5

Name of the Director	Board Meeting [5]
Mr. Krishna Jhaveri	3
Mr. Mahendra Jhaveri **	2
Mr. Pranabh Mody	5
Mr. Rajiv C Mody	5
Mr. Shirish Mody	*
Mr. Suresh Dholakia	**

@ During the year Mr. Ajay Relan ceased to be a director.

* Shri Bansi S Mehta is the Alternate Director for Mr. Shirish Mody and attended on his behalf.

** Mr. Mahendra Jhaveri is the Alternate Director to Mr. Suresh Dholakia and attended on his behalf.

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

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

Rajiv C Mody

Chairman and Managing Director

10. Related Parties Disclosures

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

11. General Body Meetings

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

Year	Venue	Date	Time
2000	Taj Residency, Bangalore	May 24, 2000	5.00 p.m.
2001	Registered office of the company at Domlur, Bangalore	June 8, 2001	4.30 p.m.
2002	Registered office of the company at Domlur, Bangalore	June 21, 2002	4.30 p.m.

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

Year	Venue	Date	Time
2000	N D K Kalyana Mandapam	February 28, 2000	5.30 p.m.
2000	East Cultural Association, Indira Nagar, Bangalore	September 22, 2000	4.30 p.m.
2003	Registered office of the company at Domlur, Bangalore	February 21, 2003	4.30 p.m.

12. Distribution of Shareholding as of 31st March 2003 is as follows:

Range		Shareholders		Number of Shares			% to Total
From	To	Numbers	% to Total	Physical	Demat	Total	
1	500	274	38.65	61,119	3,178	64,297	0.25
501	1000	91	12.83	66,232	2,396	68,628	0.27
1001	2000	82	11.57	124,958	7,450	132,408	0.52
2001	3000	42	5.92	102,924	2,400	105,324	0.41
3001	4000	29	4.09	104,918	–	104,918	0.41
4001	5000	17	2.40	64,420	12,698	77,118	0.30
5001	10000	51	7.19	342,696	15,400	358,096	1.41
10000	>	123	17.35	23,451,946	1,057,302	24,509,248	96.42
Total		**709**	**100.00**	**24,319,213**	**1,100,824**	**25,420,037**	**100.00**

- There is one series of debentures, allotted to employees, pending conversion amounting to 2800 shares.
- As of date of this report 4.33 % of shares have been dematerialised by the shareholders of the company. This figure is likely to go up after the completion of the rights issue.

13. Shareholding Group wise

The break up of shareholding as of 31.3.2003 is as follows.

Category	Percentage
Promoters	80.9
Employees including ex employees	9.6
Others including strategic investors	9.5
Total	100

14. Plant Location

The Company's operations are consolidated in its Registered and Corporate office building at Domlur, Bangalore. The overseas offices of the company are located in Canada, China, Japan, Sweden, UK and USA.

15. General Shareholder Information

- AGM: Date, time and venue: July 14 , 2003, at 4.30 p.m. at the Registered Office of the company at:

  Sasken Communication Technologies Limited

  139/25, Domlur Layout, Ring Road,

  Domlur P O,

  Bangalore 560 071.
- Financial Calendar: April 1 to March 31.
- Date of Book Closure and Dividend Payment date: NA as no dividend is recommended for the current year.
- During the current year, the company had made preferential offer of shares and warrants to an existing shareholder and also made an offer of shares on rights basis to the existing shareholders of the company through the rights issue of shares. Rights issue closed on March 31, 2003 and was oversubscribed. Allotment of shares to successful allottees will be completed in April, 2003 and the share certificates will be despatched thereafter. Applicants opting for allotment in demat mode will get their shares credited to their respective demat accounts.
- During the year ended March 31, 2002, the company had split the face value of the equity shares. Shareholders holding shares as on July 17, 2001 were entitled for two equity shares of Rs.5 each for every equity share of Rs.10 each fully paid up. The process of exchanging the old share certificate for new certificates of face value of Rs.5 each is still going on. As on date of this report, most of the shareholders have exchanged their old certificates and collected the new share certificates. Shareholders who have not surrendered the old share certificates and collected the new ones are requested to do so at the earliest.
- National Securities Depositories Limited accepted the shares of the company for dematerialization with effect from March 1, 2002. Equity shares of Sasken are identified by the number (ISIN) INE231F01012. It is now possible for a Sasken shareholder to have his holdings in the company in electronic form in a DP account. Please do write to investor@sasken.com for further details on the subject.
- The following table shows the investor queries / requests received during the year and the response time.

Total requests for share transfer / split / transmission / issue of duplicate shares / demat requests received:

Category	1-15 days	16-30 days	31-40 days
Share Transfer	27	–	–
Split	28	–	–
Transmission	2	–	–
Issue of Duplicate Share Certificates	5	–	–
Demat requests	48	–	7 *

" This delay was due to legal impediments.

Other Shareholder Communication

S No.	Nature of request	No of requests	Within 24 hours	1 to 5 days	> 5 days
1	Change of Address	67	67		
2	Esop Related Queries	15	15		
3	Options Exercise	15	15		
4	Exchange of Rs.5 split certificates in lieu of Rs.10 certificates	36	36		
5	Debenture Conversion	142	142		
6	Rights Issue Related	35	35		
7	Others @@	29	29		
	Total	**339**	**339**	**Nil**	**Nil**

@@ Requests under this category include general clarifications regarding results, annual report etc which are not classified separately.

Share Transfer System:

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

Annual results are put up on the website of the company. A shareholder can access and download the Annual report as well as the latest press releases at www.sasken.com.

Address for Postal correspondence:

The Company Secretary,
Sasken Communication Technologies Limited
139/25, Domlur Layout, Ring Road, Domlur P. O. Bangalore 560 071
Ph: +91 (080) 5355501, 5355503 Fax: +91 (080) 5351309, 5351156 Email: investor@sasken.com

Financial Statements in compliance with Indian GAAP

sasken

Auditors' Report

To the Members of Sasken Communication Technologies Limited

We have audited the attached Balance Sheet of Sasken Communication Technologies Limited ("the Company"), as at March 31, 2003, the Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 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, to the extent applicable.

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

1. 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;
2. 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;
3. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
4. 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, to the extent applicable;
5. *Attention is drawn to Note 4(b) in the Notes to Accounts appearing in Schedule 17 regarding payment of remuneration to a Whole-time Director which exceeds the limits prescribed under Schedule XIII to the Companies Act, 1956 by Rs.2,952,400, which is subject to the approval of the Central Government;*
6. On the basis of written representations received from the directors, as on March 31, 2003, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2003, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
7. 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 *subject to para 5* above, 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, 2003;

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

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

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
a partner
Membership No. 35141

Place : Bangalore
Date : April 11, 2003

Annexure to the Auditors' Report

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets. The Company has a policy of verifying fixed assets at reasonable intervals. In terms of the policy, the Company has carried out a physical verification of fixed assets on a select basis during the year. No material discrepancies were noticed when compared to the book records.
2. The fixed assets of the Company have not been revalued during the year.
3. The Company did not hold any stock of finished goods, stores and spare parts and raw materials during the year. In view of the nature of activities of the Company, the provisions of 4(A) (iii), (iv) and (v) of the said Order are not applicable. The valuation of work-in-progress is fair and proper and in accordance with the normally accepted accounting principles, and is on the same basis as in the preceding year.
4. According to the information and explanations given to us, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. As informed to us, there are no companies under the same management as defined under the then applicable section 370(1B) of the Companies Act, 1956.
5. According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. As informed to us, there are no companies under the same management as defined under the then applicable section 370(1B) of the Companies Act, 1956.
6. The parties to whom loans or advances in the nature of loans have been given by the Company are generally regular in repaying the principal amounts as stipulated and interest where applicable.
7. In our opinion and according to the information and explanations given to us, having regard to the explanations that some items are of a special nature for which alternative quotations cannot be obtained, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of stores and spare parts, plant and machinery, equipment and other assets, and with regard to sale of software services.
8. As informed to us, there are no transactions for purchase of goods and materials and sale of computer software made in pursuance of contracts or arrangements entered in the Register maintained under section 301 of the Companies Act, 1956 and aggregating during the year to Rs.50,000 or more in respect of each party.
9. As informed to us, the Company has no unserviceable or damaged stores.
10. The Company has not accepted any deposits from the public, within the purview of Section 58A of the Companies Act, 1956 and the rules framed thereunder.
11. The operations of the Company do not generate any scrap or by-products.
12. In our opinion, the Company has an internal audit system, commensurate with the size and nature of its business.
13. The Central Government has not prescribed the maintenance of Cost Records under Section 209(1)(d) of the Companies Act, 1956, for the products of the Company.
14. The Company has been regular in depositing Provident Fund and Employees State Insurance dues with the appropriate authorities. There are no arrears of such dues at the year end.
15. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty outstanding as at March 31, 2003 for a period of more than six months from the date they became payable.
16. The Company has a policy of authorizing expenditure based on reasonable checks and balances. The policy is intended to ensure that expenses are authorized on the basis of contractual obligations or accepted business practices, having regard to the Company's business needs and exigencies. In terms of these observations, we have not come across any expenses charged to Revenue Account which, in our opinion and judgement and to the best of our knowledge and belief, could be regarded as personal expenses, nor have any such expenses been reported to us.
17. The Company is not a sick industrial company within the meaning of clause (o) of subsection (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

18. In respect of the Company's service activities:

i) We are informed that the Company has no significant requirement of materials or stores for its service activities. In our opinion, the Company has an adequate system for control of the total material consumed and for determination of costs of individual jobs.

ii) The Company has a reasonable system of allocating man-hours utilized to the relative jobs, commensurate with its size and the nature of its business.

iii) The Company has a reasonable system of authorization at proper levels, and an adequate system of internal control, commensurate with its size and the nature of its business, on allocation of labour to jobs.

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
a partner
Membership No. 35141

Place : Bangalore
Date : April 11, 2003

Balance Sheet as at March 31	Schedule No.	2003 Rs.	2002 Rs.
Sources of Funds			
Shareholders' Funds			
Share Capital	1	127,100,185	126,694,170
Share Application Money		164,276,473	6,600
Reserves and Surplus	2	721,170,577	778,528,934
Loan Funds			
Secured Loans	3	267,479,212	351,873,687
Unsecured Loans	4	56,000	2,060,000
Total Sources		**1,280,082,447**	**1,259,163,391**
Application of Funds			
Fixed Assets	5		
Gross Block		1,315,360,575	1,191,165,197
Less: Accumulated Depreciation		493,994,694	409,949,296
Net Block		821,365,881	781,215,901
Capital Work in Progress including Capital Advances		2,121,278	113,703,968
Total		823,487,159	894,919,869
Capitalised software product costs (net of amortization)		57,640,141	95,829,791
Investments	6	1,441,500	33,541,496
Current Assets, Loans and Advances			
Inventories	7	24,597,773	9,055,665
Sundry Debtors	8	310,301,194	292,873,991
Cash and Bank balances	9	160,346,484	28,583,318
Loans and Advances	10	57,585,623	78,231,151
Gross Current Assets (A)		552,831,074	408,744,125
Less: Current Liabilities and Provisions	11		
Current Liabilities		136,679,263	134,754,940
Provisions		18,638,164	39,116,950
Total (B)		155,317,427	173,871,890
Net Current Assets (A-B)		397,513,647	234,872,235
Total Applications		**1,280,082,447**	**1,259,163,391**
Notes to Accounts	17		

The schedules referred to above, form an integral part of the Balance Sheet
In terms of our attached report of even date

S.R. Batliboi & Co.,
Chartered Accountants

For and on behalf of the Board

per Sunil Bhumralkar	Rajiv C Mody	Pranabh D Mody	V Ramachandran
a partner	Managing Director	Whole-time Director	Company Secretary

Place : Bangalore
Date : April 11, 2003

Profit and Loss Account for the year ended March 31	Schedule No.	2003 Rs.	2002 Rs.
Revenues		1,092,545,415	1,086,269,641
Cost of Revenues	12	721,115,623	621,096,674
Gross Profit		**371,429,792**	**465,172,967**
Research and Development		11,620,942	56,772,200
Gross Profit after Research and Development		**359,808,850**	**408,400,767**
Selling and Marketing Expenses	13	206,235,616	154,416,165
Administrative and General Expenses	14	148,184,560	234,503,808
Employee Stock Option Compensation Cost (net)		(71,462,150)	42,064,540
(Refer note 6(b) in the Notes to Accounts)			
Provisions, Net of Reversals (Refer note 3(g) in the Notes to Accounts)		(30,356,470)	57,831,480
Provision for Diminution in Value of Investments		32,099,996	7,400,000
Profit / (Loss) from operations		**75,107,298**	**(87,815,226)**
Other Income	15	1,351,024	14,907,881
Profit / (Loss) before Interest and Income Taxes		**76,458,322**	**(72,907,345)**
Interest	16	36,223,082	43,961,593
Profit / (Loss) before Income taxes		**40,235,240**	**(116,868,938)**
Income Taxes (Net of Reversals / Refunds)		27,508,883	39,516,979
Profit / (Loss) after Tax		**12,726,357**	**(156,385,917)**
Add: Balance Brought Forward		240,482,484	396,868,401
Balance carried to Balance Sheet		**253,208,841**	**240,482,484**
Earnings Per share (Equity Share par value Rs.5 each)			
Basic		0.50	(6.20)
Diluted		0.50	(6.20)
(Refer Schedule 17 Note 8)			
Notes to Accounts	17		

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

In terms of our attached report of even date

S.R. Batliboi & Co.,
Chartered Accountants

For and on behalf of the Board

per Sunil Bhumralkar
a partner

Rajiv C Mody
Managing Director

Pranabh D Mody
Whole-time Director

V Ramachandran
Company Secretary

Place : Bangalore
Date : April 11, 2003

Schedules forming part of the Balance Sheet as at March 31	2003 Rs.	2002 Rs.
Schedule 1		
Authorised Capital		
50,000,000 Equity shares of Rs.5 each (At March 31, 2002, 40,000,000 Equity shares of Rs.5 each)	250,000,000	200,000,000
Total	**250,000,000**	**200,000,000**
Issued, Subscribed and Paid Up Capital		
25,420,037 Equity Shares of Rs.5 each fully paid up (At March 31, 2002, 25,338,834 Equity shares of Rs.5 each fully paid up) (Out of the above, 11,350,000 Equity shares of Rs.5 each have been alloted as fully paid up Bonus shares by capitalisation of balance in Profit and Loss Account of Rs.50,282,704 and General Reserve of Rs.6,467,296)	127,100,185	126,694,170
Total	**127,100,185**	**126,694,170**
Schedule 2		
Reserves and Surplus		
Share Premium		
Opening Balance	403,346,112	401,520,000
Add: Received during the Year	1,522,452	1,826,112
Total	**404,868,564**	**403,346,112**
General Reserve	63,093,172	63,093,172
Profit & Loss Account	253,208,841	240,482,484
Employee Stock Option Outstanding (Net of Deferred Compensation Cost) (Refer note 6(b) in Notes to Accounts)	–	71,607,166
Total	**721,170,577**	**778,528,934**

Schedules forming part of the Balance Sheet as at March 31	2003 Rs.	2002 Rs.
Schedule 3		
Secured Loans		
Term Loan from a Bank (Refer note 3(I) in the Notes to Accounts) (Secured by pari passu first charge on all movable fixed assets of the Company and an equitable mortgage of land, buildings and other fixed assets and guaranteed by the Directors of the Company) {Term loans repayable within one Year Rs.134,392,865 (At March 31,2002 Rs.168,000,000)}	134,392,865	328,588,295
Packing Credit from Scheduled Banks (Secured by a charge on the current assets including receivables, both present and future and a second charge on fixed assets of the Company, both movable and immovable properties, present and future and guaranteed by the Directors of the Company)	133,086,347	23,285,392
Total	**267,479,212**	**351,873,687**
Schedule 4		
Unsecured Loans		
10% Fully Convertible Unsecured Debentures of Rs.40 each (Convertible into Fully paid up Equity Shares of Rs.5 each, at a premium of Rs.15 per share on October 1, 2002)	–	1,988,000
10% Fully Convertible Unsecured Debentures of Rs.40 each (Convertible into Fully paid up Equity Shares of Rs.5 each, at a premium of Rs.15 per share on October 1, 2003) Note: Debentures issued to employees are redeemable at par in case the employee leaves the company or surrenders before the date of conversion as given above	56,000	72,000
Total	**56,000**	**2,060,000**

Schedules forming part of the Balance Sheet

Schedule 5 – Fixed Assets

(Amount in Rs.)

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Balance as at 1-Apr-02	Additions during the year	Deletions during the year	Balance as at 31-Mar-03	Balance as at 1-Apr-02	For the the year	Adjustments during the year	Balance as at 31-Mar-03	As at 31-Mar-03	As at 31-Mar-02
Land	91,825,836	136,700,687	–	**228,526,523**	–	–	–	**–**	**228,526,523**	91,825,836
Buildings	328,868,253	1,243,295	–	**330,111,548**	14,809,079	16,330,523	–	**31,139,602**	**298,971,946**	314,059,174
Computers	237,904,294	1,860,932	3,027,975	**236,737,251**	147,252,096	38,199,158	1,921,117	**183,530,137**	**53,207,114**	90,652,198
Intangible Assets	133,616,998	8,046,360	–	**141,663,358**	117,862,313	15,519,654	–	**133,381,967**	**8,281,391**	15,754,685
Electrical Fittings	19,982,646	202,169	12,070,987	**8,113,828**	16,290,229	666,465	10,084,626	**6,872,068**	**1,241,760**	3,692,417
Furniture and Fittings	133,004,200	5,844,611	25,968,606	**112,880,205**	34,394,600	10,881,583	22,387,536	**22,888,647**	**89,991,558**	98,609,600
Office Equipments	245,962,970	21,228,262	9,863,370	**257,327,862**	79,340,979	44,194,533	7,353,239	**116,182,273**	**141,145,589**	166,621,991
Total	1,191,165,197	175,126,316	50,930,938	**1,315,360,575**	409,949,296	125,791,916	41,746,518	**493,994,694**	**821,365,881**	781,215,901
Capital Work in Progress (including Capital Advances)	–	–	–	–	–	–	–	–	**2,121,278**	113,703,968
Total	**1,191,165,197**	**175,126,316**	**50,930,938**	**1,315,360,575**	**409,949,296**	**125,791,916**	**41,746,518**	**493,994,694**	**823,487,159**	**894,919,869**
Previous Year	569,236,872	660,398,658	38,470,333	**1,191,165,197**	261,235,006	179,047,357	30,333,067	409,949,296	894,919,869	

Notes: Additions during the year includes Rs.444,979 {Previous year (Rs.38,405)} capitalised on account of exchange rate variations.

Schedules forming part of the Balance Sheet as at March 31	2003 Rs.	2002 Rs.
Schedule 6		
Investments		
Long Term, Non Trade, Unquoted at Cost		
(i) Indira Vikas Patra	1,500	1,500
(ii) Investment in 29,764 fully paid shares of Preferred Stock of 2Wire Inc, a company incorporated in USA.	16,940,000	16,940,000
Less: Provision for diminution in Value of Investment	(15,500,000)	–
(iii) Investment in 392,285 fully Paid Equity Shares of Rs.10 each of Prime Telesystems Limited	23,999,996	23,999,996
Less: Provision for Diminution in Value of Investment	(23,999,996)	(7,400,000)
Total	**1,441,500**	**33,541,496**
Schedule 7		
Inventories		
Work-in-progress	24,597,773	9,055,665
Total	**24,597,773**	**9,055,665**
Schedule 8		
Sundry Debtors		
Debts Outstanding for a Period Exceeding Six Months		
– Unsecured, Considered Good	66,373,592	75,391,501
– Unsecured, Considered Doubtful	22,694,390	57,831,480
Other Debts		
– Unsecured, Considered Good	243,927,602	217,482,490
– Unsecured, Considered Doubtful	5,046,580	–
Less: Provisions	(27,740,970)	(57,831,480)
Total	**310,301,194**	**292,873,991**

Schedules forming part of the Balance Sheet as at March 31	2003 Rs.	2002 Rs.
Schedule 9		
Cash and Bank Balances		
(Refer notes 3(k), 3(l), 3(m) in Notes to Accounts)		
Cash on Hand	259,200	101,991
Balances with: Scheduled Banks		
– in Current Accounts	148,098,632	17,878,864
– Deposit Accounts	2,295,761	1,853,061
(Held as margin money for Bank Guarantees / Letters of Credit)		
Others		
– Barclays Bank, UK	1,220,385	3,316,673
– Bank of America, US	4,457,890	350,724
– Bank of Montreal, Canada (Can$)	2,140,856	679,960
– Bank of Montreal, Canada (US$)	–	1,689,497
– Sumitomo Bank, Japan	1,001,673	1,221,681
– Kawasaki Shinkim Bank, Japan	179,457	–
– China Minsheng Banking Corporation (USD)	9,973	780,299
– China Minsheng Banking Corporation (CNY)	5,003	24,411
– Nordbanken AB (Sweden)	677,654	686,157
Total	**160,346,484**	**28,583,318**
Maximum amount outstanding at any time during the year		
Current Accounts		
– Barclays Bank, UK	5,026,083	5,877,200
– Bank of America, US	26,416,253	22,172,931
– Bank of Montreal, Canada (Can$)	3,943,895	2,849,138
– Bank of Montreal, Canada (US$)	1,873,248	3,183,965
– Sumitomo Bank, Japan	5,860,907	8,136,517
– China Minsheng Banking Corporation (USD)	1,054,675	1,817,167
– China Minsheng Banking Corporation (CNY)	3,033,398	159,744
– Nordbanken AB (Sweden)	1,513,968	2,004,414
Deposit Account		
– Kawasaki Shinkim Bank, Japan	179,457	–
Schedule 10		
Loans and Advances		
(Unsecured, considered good)		
Advances Recoverable in Cash or in Kind or for Value to be Received	10,418,568	15,307,377
Deposits with Government Departments and others	15,350,420	38,972,052
Loans and Advances to Staff	11,483,524	10,305,897
Interest Income Accrued but not Due	72,968	88,524
Income Accrued	11,920,330	6,715,204
Other Current Assets	8,339,813	6,842,097
Total	**57,585,623**	**78,231,151**

Schedules forming part of the Balance Sheet as at March 31 and Profit and Loss Account for the year ended March 31	2003 Rs.	2002 Rs.
Schedule 11		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors for Goods, Expenses and Services		
Dues to Small Scale Industrial Units	67,447	16,799
Others	87,363,113	72,641,708
Interest accrued but not due	3,941,533	9,728,377
Other Liabilities	21,602,012	34,323,127
Advance received from Customers	23,705,158	18,044,929
Total (A)	**136,679,263**	**134,754,940**
Provisions		
Provision for Tax (Net of Advance Income Tax)	4,046,247	15,393,548
Provision for Leave Encashment	5,182,223	4,881,295
Provision for Warranty	5,879,585	18,842,107
Provision for Gratuity	3,530,109	-
Total (B)	**18,638,164**	**39,116,950**
Total (A) + (B)	**155,317,427**	**173,871,890**
Schedule 12		
Cost of Revenues		
Salaries and Bonus	438,230,863	341,196,063
Contribution to Provident and Other Funds	20,340,989	16,095,110
Staff Welfare	5,913,469	4,266,670
Recruitment and Relocation	4,425,636	2,766,773
Rent	3,117,988	23,441,961
Repairs and Maintenance		
– Plant and Machinery	13,787,665	12,784,581
– Building	5,387,436	11,647,994
– Others	4,885,510	7,716,082
Communication Expenses	3,972,892	7,549,288
Travel Expenses	59,306,129	62,133,265
Electricity and Water Charges	14,474,608	15,352,371
Professional, Legal and Consultancy Charges	18,919,423	16,299,816
Depreciation	99,124,235	111,402,187
Software Charges	14,502,029	32,639,489
Training and Conference Expenses	4,349,077	4,248,999
Warranty Expenses provided / (no longer required)	(12,269,868)	18,072,982
Sub Total	**698,468,081**	**687,613,631**
Amortization / Write off of Capitalized Software Product Costs	126,642,424	41,353,801
Add: Opening Balance of Work in Progress	9,055,665	6,160,479
Less: Closing Balance of Work in Progress	(24,597,773)	(9,055,665)
Less: Capitalized Software Product Cost	(88,452,774)	(104,975,572)
Total	**721,115,623**	**621,096,674**

Schedules forming part of the Profit and Loss Account for the year ended March 31	2003 Rs.	2002 Rs.
Schedule 13		
Selling and Marketing Expenses		
Salaries and Bonus	123,879,007	91,536,253
Contribution to Provident and Other Funds	3,314,728	3,647,308
Staff Welfare	1,246,493	494,703
Recruitment and Relocation	403,777	1,225,535
Rent	10,893,187	11,217,067
Repairs and Maintenance		
– Plant and Machinery	698,929	462,703
– Building	1,169,080	1,039,438
– Others	53,888	281,295
Communication Expenses	6,837,729	4,656,061
Travel Expenses	26,292,614	21,128,594
Electricity and Water Charges	684,277	277,969
Professional, Legal and Consultancy Charges	5,512,447	11,794,627
Agency Commission and Conference expenses	16,556,706	2,641,870
Depreciation	8,023,157	2,388,726
Training Expenses	669,597	1,624,016
Total	**206,235,616**	**154,416,165**
Schedule 14		
Administrative and General Expenses		
Salaries and Bonus	53,291,484	60,171,288
Contribution to Provident and Other Funds	4,143,461	2,882,846
Staff Welfare Expenses	973,793	3,222,341
Recruitment and Relocation Expenses	4,834,102	170,308
Rent	3,025,983	8,134,802
Rates and Taxes	4,713,672	5,373,427
Repairs and Maintenance		
– Plant and Machinery	31,409	2,819,234
– Building	5,364,553	3,621,809
– Others	1,278,619	5,514,735
Communication Expenses	1,493,169	3,614,312
Travel Expenses	3,380,997	5,886,026
Electricity and Water Charges	3,264,293	5,324,370
Depreciation	18,437,952	60,287,206
Bank Charges	3,709,337	2,477,728
Professional, Legal and Consultancy Charges	14,358,362	18,085,540
Software Charges	–	917,583
Auditor's Remuneration		
– Statutory Audit	525,000	525,000
– Taxation Matters	–	515,900
– Other Services	–	367,500
– Out of Pocket Expenses	29,847	55,339
Printing and Stationery	3,711,516	4,429,794
Training Expenses	596,906	5,910,124
Miscellaneous Expenses	18,277,495	34,196,596
Exchange Loss (net)	1,671,086	–
Loss on Sale of Fixed Assets (net)	254,209	–
Bad Debts	551,355	–
Provision for Doubtful Debts	265,960	–
Total	**148,184,560**	**234,503,808**

Schedules forming part of the Profit and Loss Account for the year ended March 31	2003 Rs.	2002 Rs.
Schedule 15		
Other Income		
Miscellaneous Income	1,247,305	6,301,396
Dividend received on Current Investments	–	572,589
Net Gain on sale of Current Investments	–	930,301
Interest income on Bank Deposits (Gross) *	37,134	393,042
– Others	66,585	1,843
Profit on Sale of Assets (net)	–	2,503,843
Exchange Gain (net)	–	4,204,867
Total	**1,351,024**	**14,907,881**
* Tax deducted at Source	–	67,075
Schedule 16		
Interest		
– On Term Loans	27,848,004	39,650,178
– On Fully Convertible Debentures	100,330	355,002
– Others	8,274,748	3,956,413
Total	**36,223,082**	**43,961,593**

Schedules forming part of the Accounts for the year ended March 31, 2003

Schedule 17

Notes to Accounts

1. Significant Accounting Policies

Basis for preparation of financial statements

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

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

Revenue Recognition

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

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

Revenue from time and material service contracts is recognised as the services are provided. Revenue from fixed price service contracts is recognised based on the contract milestones based on the percentage of completion, provided collection is probable. Revenue from maintenance is recognised ratably over the term of the maintenance arrangement.

Revenue from Royalty is recognised on an accrual basis based on the terms of the agreement.

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

Interest income is recognised on an accrual basis.

Capitalisation and Amortization of Software

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

Work in Progress

Costs related to milestones that have not been met, are reported as work in progress. Work in progress is carried at cost or net realisable value whichever is lower.

Fixed Assets

Fixed Assets are stated at cost of acquisition less accumulated depreciation. The cost of an asset comprises its purchase price and any cost directly attributable to bringing the asset to its present condition for intended use.

Depreciation

Depreciation on fixed assets is provided under the straight-line method over the estimated useful lives of assets as appraised by the Management.

The estimated useful lives are as follows:

Type of asset	Estimated life (in years)
Building	20
Computers	4
Electrical Fittings	5
Furniture and Fittings	10
Office Equipments	5
Furniture and Leasehold Improvements at Leased Property	Over the lease period of the facility

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

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

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

b) Generic Computer Software – 100% in the year of purchase

c) Product Software for administration purposes – 3 years

Borrowing Costs

The borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalised to the cost of the asset. Capitalisation of such costs ceases when the asset is ready for use.

Investments

Long-term investments are stated at cost. Any decline in the carrying value, other than a temporary decline, is provided for. Current investments are stated at lower of cost and the net realisable value on a category basis.

Foreign Exchange Transactions

Transactions arising in foreign currency are recorded at average rates closely approximating those ruling at the transaction dates. Assets and liabilities in foreign currency (other than those covered by forward contracts) as at the date of Balance Sheet are re-stated at year-end exchange rate. All exchange differences arising from conversion are recognised in the Profit and Loss account, except differences on liabilities for purchase of fixed assets, which are capitalised.

In respect of transactions covered by forward exchange contracts, the difference between, the forward rate and the exchange rate at the date of the transaction is recognized as income or expense over the life of the contract, except where it relates to fixed assets, in which case it is adjusted to the cost of the corresponding asset.

Revenue items of Branch Offices are translated using the monthly average rate, fixed assets are translated at the month end rate and monetary assets and liabilities are translated at the year-end rate. The resultant exchange gain / loss is recognised in the Profit and Loss account.

Retirement Benefits to Employees

The Company contributes to a Group Gratuity Scheme, administered by a life insurance company. The contributions are charged to the Profit and Loss account. Provision is made for the difference between the actuarial valuation (determined approximately as at March 31 of every year) and the funded balance.

Provision for leave encashment benefits is made based on actuarial valuation as at March 31, every year.

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.

Warranty Expenses

The Company provides for the estimated costs that may be incurred under free warranties, as provided in licensing and service contracts.

Research and Development

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

Income Taxes

Income taxes are provided using the asset and liability method. Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or subsequently enacted at the balance sheet date.

Earnings per Share

Basic earnings per share is computed using the weighted average number of equity shares outstanding during the year. Fully diluted earnings per share is computed using the weighted average number of equity shares outstanding adjusted for the effects of all dilutive potential equity 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.

Segment Policy

Identification of Segments:

The Company's operating businesses are organized and managed separately according to the market segment in which each of its customer operates.

The analysis of geographical segments is based on the areas where the customers of the Company are located.

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.

Intersegment Revenues:

Divisions may use resources (including Intellectual Property) from other divisions. Revenue is accounted against the segment that generates the business. A pre-determined portion of such revenue is passed to the division that supplies the resource or the Intellectual Property. Such revenues are reflected as intersegment revenues.

2. Quantitative Details

a) Investments:

Details of investments purchased and sold during the previous year:

Name of the Fund	Units Purchased	Cost Rs.	Units Sold	Sale value Rs.
Zurich India Liquidity Fund – Investment Plan	3,513,302	40,000,000	3,513,302	40,336,882
Zurich India Liquidity Fund – Savings Plan	912,667	10,000,000	912,667	10,032,217
Templeton India Liquid Fund	3,060,397	40,000,000	3,060,397	40,363,881
Birla Cash Plus	1,411,034	20,000,000	1,411,034	20,187,668
Prudential ICICI Liquid Plan	535,688	7,000,000	535,688	7,014,571
Templeton India Liquid Fund	4,044,227	40,493,069	4,044,227	40,466,715
Birla Cash Plus	1,614,497	20,210,245	1,614,497	20,205,427
Zurich India Liquidity Fund – Savings Plan	6,532,579	65,699,595	6,532,579	65,731,602
Prudential ICICI Liquid Plan	1,530,891	18,104,899	1,530,891	18,099,146
Total	**23,155,282**	**261,507,808**	**23,155,282**	**262,438,109**

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

(Amount in Rs.)

	March 31, 2003	March 31, 2002
1) Earnings in Foreign Currency		
Income from Licensing and Software Development	1,033,163,727	1,085,308,608
Royalty	49,397,347	961,033
Other Income	–	5,751,612
2) Expenditure in Foreign Currency		
Travel (net of recovery)	22,052,324	49,551,833
Selling Expenses	10,576,596	–
Consultancy	9,367,311	29,243,943
Consumables	3,606,891	6,943,667
Software Charges	14,502,029	32,639,489
Expenses at Branch Office	243,162,872	119,121,593
Others	15,873,387	28,909,988
3) Value of Imports on CIF Basis Capital Goods	54,506,790	172,886,877

c) Remittance in foreign currency during the previous year on account of dividends:

	March 31, 2002
No. of Shareholders	18
No. of Shares held	2,409,294
Amount of Dividend paid (Rs.)	9,637,176
Year to which Dividends Relate	2000-01

3. Other notes

a) Research & Development expenses include Rs.206,572 (Previous year Rs.4,969,238) towards depreciation on assets used for Research & Development.

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

(Amount in Rs.)

Name of the Vendor	March 31,2003	March 31,2002
Canarys Automation Private Limited	–	10,000
Signet Computers Private Limited	–	6,799
Halda Office Systems	51,127	–
J K Paper Conversion Products	16,320	–
Total	**67,447**	**16,799**

c) Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs.2,867,829 (As at March 31, 2002 – Rs.51,051,920)

d) Contingent Liabilities not provided for, in respect of Letter of Credit and Bank Guarantees outstanding amount to Rs.13,017,550 (As at March 31, 2002 – Rs.7,168,875). Other contingent liabilities not provided for amount to Rs.7,645,865 (As at March 31, 2002 – Rs.3,156,844). There are certain claims made against the Company which, in the view of the management of the Company are not tenable and amounts are currently not ascertainable.

e) Realised and unrealised net exchange gain / (loss) on transactions relating to revenues, amounting to Rs.(1,273,203) (Previous year – Rs.14,666,677) are included under Revenues. Realised and unrealised net exchange gains / losses arising from other transactions are classified as Other Income / Administrative and General expenses, as appropriate.

f) Amounts due from Officers of the Company:

The Company provides interest free loan to its employees for various purposes. These loans are recoverable over a period ranging from 1 to 24 months. Officers of the Company avail loans under the same terms as applicable to other employees.

(Amount in Rs.)

	Amounts due	Recoverable in 12 Months
As at March 31, 2003	–	–
As at March 31, 2002	31,657	31,657

Maximum amount outstanding at any time during the year Rs.31,657 (As at March 31, 2002 Rs.135,448).

g) A ‘Provision’ of Rs.57,831,480 was made during the year ended March 31, 2002 based on the Management's review of revenues recognized in an earlier year. Of this a sum of Rs.47,533,050 has been reversed in March 31, 2003 as the same is considered as no longer required, as a result of changes in conditions prevailing as of the previous year. During the year ended March 31, 2003, additional provision of Rs.17,176,580/- has been made as a matter of prudence towards potential impairment of certain receivables.

h) During the year ended March 31, 2003, the Company entered into an agreement to license it's protocol stack to one of it's customer for a sum of Rs.27,900,000. Simultaneously, the Company entered into an agreement to purchase software at a value of Rs.27,900,000. The Company considers this transaction to be an exchange of software products to enable testing of products at both the Company’s and customer's locations. For financial reporting purpose, the Company has netted off the two transactions in its books of account. The Company has also applied to the Reserve Bank of India to approve the set off of the cash flows in this transaction.

i) During the year ended March 31, 2002, the Company vacated some of the leased premises. Management determined that the leasehold improvements installed at these premises will not be used and hence, has accelerated depreciation during the year March 31, 2002 in respect of these assets. Such accelerated depreciation included in Depreciation for the year ended March 31, 2002 is Rs.18,529,533.

j) Miscellaneous expenses for the year ended March 31, 2002 include Rs.13,500,000 towards provision for anticipated losses for commitments given by the Company towards a joint venture. The Company has paid this amount in the current year.

k) Bank balances as at March 31, 2003 include cheques on hand amounting to Rs.10,222,890 (As at March 31, 2002 Rs.Nil).

l) Bank balance includes remittances in transit amounting to Rs.14,539,912 (As at March 31, 2002 Rs.Nil) and Packing Credit is net of remittances in transit amounting to Rs.45,858,059.

m) As at March 31, 2003 unutilized monies arising out of the rights issue amounting to Rs.154,276,473 is lying in the current account of the Company's bank.

n) As at March 31, 2003, foreign exchange difference arising on account of foreign exchange forward contracts entered into by the company to be recognized in the subsequent financial period amounts to Rs.2,842,949.

4. Managerial Remuneration

a) Managerial remuneration paid to Managing Director and Whole-time Directors:

(Amount in Rs.)

Year ended March 31,	2003	2002
Salary	13,391,200	14,427,422
Contribution to Provident Fund	115,200	126,528
Provision towards Performance Incentive	200,000	–

b) The remuneration paid to one of the Whole-time Directors of the Company, for the year ended March 31, 2003 exceeds the limits prescribed under Schedule XIII to the Companies Act, 1956 by Rs.2,952,400. The Company is in the process of obtaining the approval of the Central Government as required under Schedule XIII read with Section 269 and 309 of the Companies Act, 1956. Hence, the excess managerial remuneration of Rs.2,952,400 for the year ended March 31, 2003 is subject to the approval of the Central Government.

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, 2003.

(Amount in Rs.)

Particulars		Year ended March 31, 2003
Profits before Taxation		40,235,240
Add:		
Managerial Remuneration to Directors	13,706,400	
Provision	32,099,996	
Provision for Doubtful Debts	265,960	
Depreciation as per Accounts (except Intangibles)	110,272,262	156,344,618
		196,579,858
Less:		
Warranty Expenses Reversed	12,269,868	
Employee Stock Compensation Cost Reversed	71,462,150	
Provisions, Net of Reversals	30,356,470	
Depreciation as per Section 350 of the Companies Act, 1956	55,814,498	169,902,986
Net profits as per Section 349 of the Companies Act, 1956		26,676,872

5. Provision for Taxation

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

Overseas income taxes (comprising of withholding taxes and overseas branch income taxes) amount to Rs.26,849,830 (net of refund of Rs.15,028,916) and Rs.28,137,104 (net of reversals of Rs.11,379,875) for the years ended March 31, 2003 and 2002 respectively.

6. Employee Stock Option Plan

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

a) SAS Stock Option Plan, 1997

The shareholders approved the Plan at the Extraordinary General meeting on November 20, 1997. Under this scheme, Fully Convertible Debentures (FCD's) were issued to employees of the Company, consultants and advisors. Each of these FCD's are converted into two shares of Rs.5 each (after considering the stock split of one equity share of Rs.10 each into two equity shares of Rs.5 each) over a period of time as per the details given below.

Sl.No	Date of Issue of FCD's	No. of FCD's Issued	No. of FCD's Cancelled / Extinguished	No. of FCD's Converted into Shares (Number)	Conversion Price per Share (including the face value of Rs.5 per share)
1.	31/01/98	817,800	21,400	796,400	5
2.	01/12/98	194,300	56,900	137,400	5
3.	31/03/99	200,300	86,300	112,600	20
4.	12/10/99	100,000	–	100,000	20

Summary of FCDs movement is given below:

	Year ended March 31, 2003	Year ended March 31, 2002
FCD's Outstanding at the Beginning of the Year	51,500	175,400
FCD's Issued / Granted During the Year	–	–
FCD's Forfeited	(10,100)	(20,800)
FCD's Converted into Shares	(40,000)	(103,100)
Outstanding FCD's at the End of the Year	1,400	51,500

b) Sasken ESOP 2000

During the year ended March 31, 2001 the Company had announced a Stock Option Plan in accordance with the SEBI Guidelines for Employees Stock Option Plans. This stock option plan called ESOP-2000, was approved by the shareholders at the Extra Ordinary General Meeting of the Company held on September 22, 2000. The plan covers all employees of the Company including foreign branches, employees of the subsidiaries and holding Company including its part time / full time Directors other than the promoter directors. The Plan provides for the issue of 60 lakh shares (including the shares issued / to be issued under the FCD's as per the SAS Stock Option Plan, 1997 and the shares to be issued consequent to the exercise of the options granted under the current Plan) of Rs.5 each duly adjusted for any bonus, splits, etc. A Compensation Committee comprising of three independent directors on the Board administers the scheme.

Under ESOP-2000, stock options were granted to all employees based on the period of service with the Company, performance and potential. However, the intended response to the scheme was poor as the market value of the shares, since the grant of the stock options, has had a negative impact due to the global recession and the conditions prevailing in the capital markets. In view of this, the Company, after considering other alternatives, decided to cancel the stock options remaining unexercised as at December 31, 2002.
The Compensation Committee and the Shareholders approved the cancellation of the stock options remaining unexercised w.e.f December 31, 2002.

The details of the stock options granted under ESOP – 2000 before the aforesaid cancellation was as given below:

Month of Grant	No. of Employees*	No. of Options Issued	No. of Employees Resigned	No. of Options Forfeited	No. of Employees Exercising Options	No. of Options Exercised
September, 2000	942	11,82,260	352	4,34,638	40	3,152
October, 2000	28	10,160	12	2,739	2	21
November, 2000	85	26,000	41	14,640	4	40
December, 2000	2	1,000	1	500	–	–
April, 2001	277	41,960	104	13,976	3	24
May, 2001	2	2,560	–	–	–	–
Total	**1,336***	**1,263,940**	**510****	**4,66,493**	**49**	**3,237**

Note: * The number of employees who were granted options, include some employees who were granted options, more than once. As such, the effective number of employees who were granted options is 1146 (**Net number of employees whose options lapsed is correspondingly 500).

Consequent to the cancellation of the stock options issued under ESOP 2000, the Company has written back the compensation cost amounting to Rs.71,462,150, recognized by it in the prior years.

The accounting value and the unamortized value of the options as at March 31, 2002 was Rs.122,637,150 and Rs.51,032,444 respectively.

7. Related Party Disclosures

a) Silicon Automation Systems, Inc (SAS Inc.) is a Company incorporated in the State of California. Both the Companies have three common directors.

During the year ended March 31, 2002, the Company imported capital goods and consumables amounting to Rs.772,702.

Amounts receivable from SAS Inc. towards advances given is Rs.Nil (As at March 31, 2002 Rs.3,450,467)

b) Silicon Automation Systems Kabushiki Kaisha (SAS Japan) a 100% owned subsidiary Company incorporated in Japan was liquidated during the year ended March 31, 2002 and converted to a Branch Office and assets of Rs.1,700,367 were transferred to the Company.

c) Remuneration paid to Key Managerial Personnel:

(Amounts in Rs.)

Name of the Related party	Relationship	March 31, 2003	March 31, 2002
Mr. Rajiv C Mody	Managing Director	3,200,000	3,533,334
Mr. Pranabh D Mody	Whole-time Director	2,754,000	2,636,000
Mr. Krishna Jhaveri	Whole-time Director	7,752,400	8,384,616

8. Earning per Share (EPS)

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

(Amount in Rs.)

	March 31, 2003	March 31, 2002
Profit / (Loss) for Computation of Basic and Diluted EPS	12,726,357	(156,385,917)
Weighted Average number of Shares Considered for Basic EPS	25,379,436	25,233,877
Effect of Share Application Money to the Extent Utilized by the Company	5,553	–
Weighted Average Number of Shares Considered for Diluted EPS	25,384,989	25,233,877

In computation of diluted EPS, the effect of fully convertible debentures and stock options cancelled during the year are not considered, as their effect is anti-dilutive.

9. Segment Reporting

Sasken has three divisions, each focusing on different market segments Networks, Semiconductors and Terminal Devices.

The Networks division offers products and services to network equipment manufacturers and test and measurement companies. This business division focuses on software services and solutions for convergent networks in wireless, datacom and enterprise networks.

The Terminal Devices division provides software solutions to terminal equipment manufacturers including a complete suite of next generation wireless protocol stacks multimedia codecs and applications, such as MMS client, Multimedia Player and 3G 324M Videophone.

The Semiconductors division provides solutions and services to semiconductor companies, built both around Sasken IP as well as customer specific IP.

During the current year the Company discontinued the operations of Internet Access Solutions division. The Internet Access Solutions division focused on developing Internet based products, applications and system software. It also provided turnkey product design services to companies engaged in designing next generation telecom equipment.

a) Business Segment Information

(Amount in Rs.)

As at March 31, 2003	Networks	Terminal Devices	Semi-conductors	Internet Access Solutions	Corporate and Others	Total
Segment Assets	144,626,238	131,406,255	216,310,921	–	–	492,343,414
Unallocated Corporate Assets	–	–	–	–	943,056,460	943,056,460
Total Assets	144,626,238	131,406,255	216,310,921	–	943,056,460	1,435,399,874
Segment Liabilities	12,885,117	29,148,412	15,259,727	–	–	57,293,256
Unallocated Corporate Liabilities	–	–	–	–	365,559,383	365,559,383
Total Liabilities	12,885,117	29,148,412	15,259,727	–	365,559,383	422,852,639
Capital Expenditure – Tangible and Intangible	6,473,748	20,665,187	1,057,000	–	146,930,381	175,126,316

(Amount in Rs.)

As at March 31, 2002	Networks	Terminal Devices	Semi-conductors	Internet Access Solutions	Corporate and Others	Total
Segment Assets	78,047,339	250,034,154	175,385,002	4,257,123	–	507,723,618
Unallocated Corporate Assets	–	–	–	–	925,311,663	925,311,663
Total Assets	78,047,339	250,034,154	175,385,002	4,257,123	925,311,663	1,433,035,281
Segment Liabilities	1,476,567	38,466,633	16,682,576	505,524	–	57,131,300
Unallocated Corporate Liabilities	–	–	–	–	470,674,277	470,674,277
Total Liabilities	1,476,567	38,466,633	16,682,576	505,524	470,674,277	527,805,577
Capital Expenditure – Tangible and Intangible	10,291,603	38,777,741	9,461,353	2,531,016	599,336,945	660,398,658

(Amount in Rs.)

Year ended March 31, 2003	Networks	Terminal Devices	Semi-conductors	Internet Access Solutions	Eliminations	Total
Revenue from External Customers	448,397,504	163,929,842	477,538,858	2,679,211	–	1,092,545,415
Inter-segment Revenue	24,741,643	252,540,004	18,995,855	1,327,128	(297,604,630)	–
Total Revenues	473,139,147	416,469,846	496,534,713	4,006,339	(297,604,630)	1,092,545,415
Segment Result	133,130,867	184,196,087	79,623,312	(25,520,474)	–	371,429,792
Corporate Expenses	–	–	–	–	–	296,322,494
Operating Profit	–	–	–	–	–	75,107,298
Interest Expense	–	–	–	–	–	36,223,082
Other Income	–	–	–	–	–	1,351,024
Income Taxes	–	–	–	–	–	27,508,883
Profit after Tax	–	–	–	–	–	12,726,357
Other Information						
Depreciation on Identified Segment Assets	9,271,697	18,377,583	9,767,716	1,056,480	–	38,473,476
Depreciation Allocated to Segments	21,283,369	20,358,733	16,243,153	2,765,504	–	60,650,759
Unallocated Depreciation	–	–	–	–	–	26,667,681
Amortisation of Capitalised Software Costs	–	96,909,024	29,733,400	–	–	126,642,424

(Amount in Rs.)

Year Ended March 31, 2002	Networks	Terminal Devices Solutions	Semi-conductors	Internet Access	Total
Revenue from External Customers	439,986,391	400,589,671	243,518,441	2,175,138	1,086,269,641
Segment Result	176,784,468	246,435,164	48,854,195	(6,900,860)	465,172,967
Corporate Expenses	–	–	–	–	552,988,193
Operating Loss	–	–	–	–	(87,815,226)
Interest Expense	–	–	–	–	43,961,593
Other Income	–	–	–	–	14,907,881
Income Taxes	–	–	–	–	39,516,979
Loss after Tax	–	–	–	–	(156,385,917)
Other Information					
Depreciation on Identified Segment Assets	14,112,896	25,127,460	16,938,399	1,953,515	58,132,270
Depreciation Allocated to Segments	20,414,752	18,087,217	14,317,004	450,944	53,269,917
Unallocated Depreciation	–	–	–	–	67,645,170
Amortisation of Capitalised Software Costs	–	36,490,770	4,863,031	–	41,353,801

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.)

Region	March 31, 2003	March 31, 2002
America	468,270,817	482,361,104
Europe	239,132,290	163,696,564
Asia Pacific	385,142,308	440,211,973
Total	1,092,545,415	1,086,269,641

Assets:

Sundry Debtors and Income Accrued

(Amount in Rs.)

Region	March 31, 2003	March 31, 2002
America	118,329,041	96,019,493
Europe	80,792,108	40,786,855
Asia Pacific	123,100,375	162,782,847
Total	322,221,524	299,589,195

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

10. Previous year Figures have been Re-grouped / Re-arranged, wherever necessary

Signatures to schedules 1 to 17

For and on behalf of the Board

Rajiv C Mody	Pranabh D Mody	V Ramachandran
Managing Director	Whole-time Director	Company Secretary

Place : Bangalore

Date : April 11, 2003

Cash Flow Statement for the Year ended March 31	2003 Rs.	2002 Rs.
A. Cash Flow from Operating Activities:		
Net Profit / (Loss) before Tax	40,235,240	(116,868,938)
Adjustments for:		
Depreciation	125,791,916	179,047,357
Provisions, Net of Reversals	(30,356,470)	57,831,480
Other non-cash Writeback / Charges	(38,199,947)	62,788,470
Foreign Exchange Adjustments	(1,321,917)	(2,010,883)
Interest Expense	36,223,082	43,961,593
Other Income	(1,375,172)	(5,099,787)
Operating Profit before Working Capital Changes	130,996,732	219,649,292
Adjustments for:		
(Increase) / Decrease in Sundry Debtors	14,755,804	146,761,146
(Increase) / Decrease in Capitalised Software	38,189,651	(63,621,771)
(Increase) / Decrease in Work in Progress	(15,542,108)	(2,895,183)
(Increase) / Decrease in Loans and Advances	20,642,681	91,376,736
Increase / (Decrease) in Current Liabilities and Provisions	14,958,446	5,356,629
Cash Generated from Operations	204,001,206	396,626,849
Direct Taxes Paid	(38,856,184)	(29,727,029)
Net cash from operating activities	**165,145,022**	**366,899,820**
B. Cash Flow from Investing Activities:		
Purchase of Fixed Assets	(81,183,649)	(364,201,063)
Sale of Fixed Assets	8,909,565	9,286,350
Other Income	1,247,305	1,201,577
Dividend Received	–	572,589
Interest Received	–	394,885
Sale of Investments	–	262,738,109
Investments Purchased	–	(286,323,291)
Net Cash used in Investing Activities	**(71,026,779)**	**(376,330,844)**
C. Cash Flow from Financing Activities:		
Proceeds from Issue of Shares (includes Share Application Money)	166,053,323	2,623,700
Proceeds from Long-term Borrowing	–	16,064,000
Repayment of Long-term Borrowing	(194,195,430)	–
Increase / (Decrease) in Working Capital Loans	109,800,955	23,285,392
Redemption of Debentures	(2,004,000)	(3,063,000)
Interest Paid	(42,009,925)	(34,233,218)
Dividends Paid (inclusive of Dividend Tax)	–	(55,268,160)
Net cash from / (used in) financing activities	**37,644,923**	**(50,591,286)**
Net Increase / (Decrease) in Cash and Bank balances (A+B+C)	131,763,166	(60,322,310)
Cash and Bank Balances as at the Beginning of the Year	28,583,318	88,905,628
Cash and Bank Balances at the End of the Year	**160,346,484**	**28,583,318**

In terms of our attached report of even date

S.R. Batliboi & Co.,
Chartered Accountants

per Sunil Bhumralkar
a partner

For and on behalf of the Board

Rajiv C Mody
Managing Director

Pranabh D Mody
Whole-time Director

V Ramachandran
Company Secretary

Place : Bangalore
Date : April 11, 2003

Information pursuant to Part IV of Schedule VI to the Companies Act, 1956.

Statement on Balance Sheet Abstract and General Business Profile of the Company.

I. Registration Details

Registration No.	08 14226	State Code 8	
Balance Sheet Date	31 03 03		

II. Capital raised during the year

(Amount in Rs.)

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Conversion of FCD's & Stock Options	406,015

III. Position of mobilisation and deployment of funds

(Amount in Rs.)

Total Liabilities	1,280,082,447	Total Assets	1,280,082,447
Sources of Funds			
Paid-up Capital	127,100,185	Share Application Money	164,276,473
Reserves & Surplus	721,170,577	Secured Loans	267,479,212
Unsecured Loans	56,000		
Application of Funds			
Net Fixed Assets	823,487,159	Investments	1,441,500
Capitalized Software	57,640,141	Net Current Assets	397,513,647
Misc. Expenditure	Nil	Accumulated Losses	Nil

IV. Performance of the Company

(Amount in Rs.)

Turnover	1,092,545,415	Total Expenditure	1,052,310,175
Profit / (Loss)		Profit / (Loss)	
Before tax	40,235,240	After tax	12,726,357
Earnings per Share (Rs.) (Weighted average)	0.50	Dividend rate	Nil

V. Generic Names of Three Principal Products of the Company
(as per monetary terms)

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

For and on behalf of the Board

Rajiv C Mody	Pranabh D Mody	V Ramachandran
Managing Director	Whole-time Director	Company Secretary

Place : Bangalore
Date : April 11, 2003

Economic Value Added (EVA) statement

EVA, which is a measure of value created for shareholders, is the surplus left after making an appropriate charge for capital employed in the business.

EVA will increase if:

a. Operating profit is made to grow without employing more capital. (Improvement in operational efficiency)

b. Additional capital is invested in projects that return more than cost of capital (Profitable Investments)

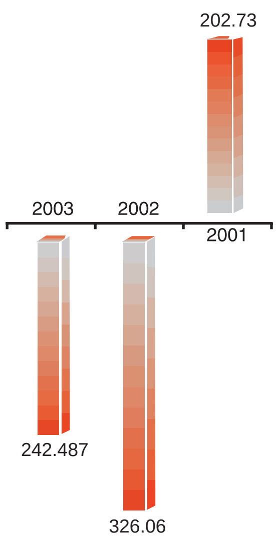
c. Capital is curtailed from projects that return less than cost of capital (Liquidation of unproductive investments)

Year ended March 31		2003 Rs.	2002 Rs.	2001 Rs.
Average Capital Employed (Rs.in million)-Adjusted	Note 1	1048.14	1341.88	646.46
Average Debt (Rs.in million)		310.73	335.79	163.11
Average Debt / Total Capital (%)		26.17%	25.89%	15.51%
Imputed Beta	Note 2	2.08	2.54	1.75
Rate of Return on Risk-free Investments	Note 3	7.00%	9.50%	11.00%
Market Risk Premium on Equity Investments	Note 4	7.00%	7.00%	8.00%
Cost of Equity (%)	Note 5	21.53%	27.26%	25.00%
Cost of Debt (post tax) (%)		10.31%	11.62%	11.41%
Weighted Average Cost of Capital (WACC) (%)		18.59%	23.21%	22.89%
Net Operating Profit after Tax (NOPAT) – Adjusted	Note 1	-47.98	-56.16	350.71
Capital Charge		194.90	269.90	147.98
Economic Value Added (EVA) [NOPAT – (Capital Charge)]		(242.87)	(326.06)	202.73
EVA as a Percentage of Average Capital Employed		-23.17%	-24.30%	31.36%

Notes:

1. For specific adjustments that are carried out this year in EVA calculations, refer to "Managements Discussion and Analysis of Financial Performance".
2. Sasken's Beta has been calculated based on Beta of comparable companies and appropriate adjustments have been made for the differing proportions of debt in Sasken's capital structure.
3. The rate of return on risk-free investments is estimated at 7% for the year.
4. This year, market risk premium has been assumed to be 7.0% based on an average return on equities over risk-free return over last 20 years or so.
5. The cost of equity for Sasken has been calculated using the formula: Cost of equity = Risk free rate + (Beta for Sasken * Market risk premium)

Economic Value Added (Rs. in million)



Management's Discussion and Analysis of Financial Performance

The 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 of Sasken Communication Technologies Limited (Sasken) accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgments used in preparing the financial statements. The forward looking statements involve risks and uncertainties, including, but not limited to risks inherent in the company's growth strategy, dependence on certain clients, dependence on availability of qualified personnel etc.

1. Overview

Established in 1989, Sasken is a leading provider of telecommunications software solutions and services to network equipment manufacturers, terminal device manufacturers, and semiconductor companies around the world. Headquartered in Bangalore, India, with offices in Canada, China, Japan, Sweden, UK and US, Sasken employs over 950 people worldwide.

In fiscal 2003 difficult business conditions for Sasken and our customers, limited our opportunities for financial growth and we ended the year with revenues of Rs.1092.55 million, relatively flat over fiscal 2002. From a net loss of 14% in fiscal 2002, we have returned 1% profits in fiscal 2003. Our investment in products continued at levels similar to the previous year. However, the postponement of 3G rollouts in most parts of the world caused an acceleration in the expensing of capitalized product development expenses. This had a depressing effect on the profits of the year. The other significant event during the year was related to stock options. Options were issued in 2000-01, when capital market valuations were at their peak. As a result of the meltdown in the capital markets, options were significantly out of the money and did not result in the advantages expected at the time of grant. As a result, the Board and the management decided to cancel the stock options issued. This resulted in a write-back of Rs.71.46 million, being the compensation cost amortized in earlier years. Strategic investments in equity of 2Wire Incorporated and Prime Telesystems Limited were written down during the year, causing another charge of Rs.32.1 million.

During the year, the National HRD Network conferred Sasken with the HRD Excellence award 2002, for outstanding corporate achievement. This lifetime achievement award is given every two years to outstanding corporates that implement excellent and innovative HR practices.

2. Results of Operations

(Rs. in million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2003 (%)	Year ended March 31, 2002	Year ended March 31, 2002 (%)	Increase / (Decrease)(%)
Revenues	1092.55	100.0	1086.27	100.0	0.6
Cost of Revenues	721.12	66.0	621.10	57.2	16.1
Gross Profit	371.43	34.0	465.17	42.8	(20.2)
Research and Development	11.62	1.1	56.77	5.2	(79.5)
Gross Profit after Research and Development	359.81	32.9	408.40	37.6	(11.9)
Selling and Marketing Expense	206.24	18.9	154.42	14.2	33.6
Administrative and General expenses	148.18	13.6	234.51	21.6	(36.8)
ESOP Compensation Cost	(71.46)	(6.5)	42.06	3.9	(269.9)
Provision, Net of Reversals	(30.36)	(2.8)	57.83	5.3	(152.5)
Provision for Investments	32.10	2.9	7.40	0.7	333.8
Profit / (Loss) from Operations	75.11	6.9	(87.82)	(8.1)	(185.5)
Other Income	1.35	0.1	14.91	1.4	(90.9)
Profit / (Loss) before Interest and Income Taxes	76.46	7.0	(72.91)	(6.7)	(204.9)
Interest	36.22	3.3	43.96	4.0	(17.6)
Profit / (Loss) before Income Taxes	40.24	3.7	(116.87)	(10.8)	(134.4)
Income Taxes	27.51	2.5	39.52	3.6	(30.4)
Profit / (Loss) after Income Taxes	12.73	1.2	(156.39)	(14.4)	(108.1)

2.1 Revenues

The Company's operating segments are Network Elements, Terminal Devices and Semiconductors. The Company derives its income from licensing and software services in the above segments. Contracts for licensing generally include multiple elements like lump sum charges for license of the technology and other customized services, both fee-based and non fee-based.

Revenues during fiscal 2003 were Rs.1092.55 million and Rs.1086.27million during fiscal 2002, an increase of 0.6%.

Most of the company's billings are denomination in US$. The impact on revenues, of the appreciation in the Rupee visa-vis, the US$ was 3% for fiscal 2003.

(Rs. in million)

Revenue by Nature of Contracts	Year ended March 31, 2003	Year ended March 31, 2003 (% of Total Revenues)	Year ended March 31, 2002	Year ended March 31, 2002 (% of Total Revenues)	Increase / (Decrease)(%)
Service Revenues	656.42	60.1	651.51	60.0	0.8
– T&M Contracts	594.74	54.4	591.72	54.5	0.5
– Offshore Revenues	340.95	31.2	379.85	35.0	(10.2)
– Onsite Revenues	253.79	23.2	211.87	19.5	19.8
Fixed Price Contracts	61.68	5.6	59.79	5.5	3.2
Product Revenues	436.13	39.9	434.76	40.0	0.3

There has been a reduction in offshore revenues by 10.2%, a decrease of Rs.38.90 million in absolute terms. Reduction in volumes caused a reduction by 1.7%, while 8.5% is on account of a drop in rates. On-site revenues have increased by 19.8% during the fiscal 2003, an increase of Rs.41.92 million in absolute terms. On-site revenues have increased by 30.5% largely on account of increased volumes and in spite of a decrease of about 10.7% in rates.

Revenues by Customers. (as a % of Total Revenues)	Year ended March 31, 2003	Year ended March 31, 2002
Top 1 customer	25.3	22.7
Top 3 customers	40.6	42.8
Top 5 customers	50.4	56.2

Revenues by Segment

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2003 (% of Total Revenues)	Year ended March 31, 2002	Year ended March 31, 2002 (% of Total Revenues)	Increase / (Decrease)(%)
Network Elements	391.00	35.8	439.99	40.5	(11.1)
Terminal Devices	405.27	37.1	400.59	36.9	1.2
Semiconductor	293.09	26.8	243.52	22.4	20.4
Internet Access Solutions	3.18	0.3	2.18	0.2	46.4
Total	**1092.55**	**100.0**	**1086.27**	**100**	**0.6**

Revenues from Network Elements business division come primarily from software services. There has been a decrease in absolute terms in the Network Elements segment by Rs.48.99 million as compared with fiscal 2002. This is mainly on account of the loss of business from a large Chinese equipment manufacturer which established its own operations in India.

Revenues from Terminals Devices business division come primarily from licensing income. There has been an increase in absolute terms in the Terminals segment by Rs.4.68 million as compared with fiscal 2002. 98% of revenues during fiscal 2002 came from products and 2% of revenues from service revenues, whereas during fiscal 2003, 85% of revenues came from products and 15% of revenues from services.

Revenues from the Semiconductor business division consist of both licensing revenues and revenues from software services. There has been an increase in absolute terms in the Semiconductor segment by Rs.49.57 million as compared with fiscal 2002. During fiscal 2003, 23.3% of revenues were from products, 76.7% of revenues were from services. During fiscal 2002 15.6% of revenues were from products and 84.4% were from services.

2.2 Cost of Revenues

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

(Rs. in Million)

	Year ended March 31, 2003	Year ended March 31, 2003 (% of Total Revenues)	Year ended March 31, 2002	Year ended March 31, 2002 (% of Total Revenues)	Increase / (Decrease)(%)
Cost of Revenues	721.12	66.0	621.10	57.2	16.1
Employment Costs	458.57	42.0	357.29	32.9	28.3
Staff Welfare	5.91	0.5	4.27	0.4	38.4
Recruitment and Relocation	4.43	0.4	2.77	0.3	59.9
Rent	3.12	0.3	23.44	2.2	(86.7)
Repairs and Maintenance	24.06	2.2	32.15	3.0	(25.2)
Communication Expenses	3.97	0.4	7.55	0.7	(47.4)
Travel Expenses	59.31	5.4	62.13	5.7	(4.5)
Electricity and Water Charges	14.47	1.3	15.35	1.4	(5.7)
Professional, Legal & Consultancy Charges	18.92	1.7	16.30	1.5	16.1
Depreciation	99.12	9.1	111.40	10.3	(11.0)
Software Charges	14.50	1.3	32.64	3.0	(55.6)
Training and Conference	4.35	0.4	4.25	0.4	2.4
Warranty Expenses	(12.27)	(1.1)	18.07	1.7	(167.9)
Net Capitalization	38.19	3.5	(63.62)	(5.9)	(160.0)
Movement in Work in Progress	(15.54)	(1.4)	(2.90)	(0.3)	435.9

Cost of revenues increased from Rs.621.1 million in the earlier year to Rs.721.12 million in the current year, an increase of 16.1%, Rs.100.02 in absolute terms.

Employments costs have increased on account of an increase in the quantum of on-site work.

Reduction in rent by Rs.20.32 million is mainly on account of the reduced incidence of rent. The Company surrendered most of its rented office premises during fiscal 2003, thereby reducing the overall expense on rentals.

In fiscal 2002, depreciation on our corporate office was charged for part of the year while during fiscal 2003 depreciation on the corporate office was charged for the whole year. In spite of that, depreciation expenses declined, mainly on account of reduction in expenses on generic software.

In the earlier years the Company had made estimates on warranty costs towards certain contracts where revenues were recognized. As is the practice, this provision is periodically reviewed and the excess provision has been reversed during fiscal 2003.

During fiscal 2002 the Company had capitalized costs amounting to Rs.104.98 million, and during fiscal 2003 the costs capitalized were Rs.88.45 million. There has been a reduction in expenses capitalized by Rs.16.53 million as the Company has stopped capitalizing its investment in one of the programs, as a result of some changes in specific market conditions. This is a prudent measure.

Expenses, however, continue to be incurred on that product and will continue in the next fiscal year until the product is complete. For the same reason, the amount of capitalized software costs amortized, showed a large increase from Rs.41.35 million during fiscal 2002 to Rs.126.6 million in fiscal 2003, an increase of Rs.85.25 million. The investments in product development were continued at the same levels as in fiscal 2002, displaying the faith that the management has in its products driving value in the longer term.

The increase in inventorization of expenses amounting to Rs.12.64 million in fiscal 2003, was on account of milestones yet to be delivered as at the end of the year.

Cost of Revenues by Segment

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2003 (% of Revenues)	Year ended March 31, 2002	Year ended March 31, 2002 (% of Revenues)	Increase / (Decrease)(%)
Network Elements	257.87	23.6	263.20	24.2	(2.0)
Terminal Devices	221.07	20.2	154.15	14.2	43.4
Semiconductor	213.47	19.5	194.66	17.9	9.7
Internet Access Solutions	28.70	2.6	9.08	0.8	216.3

There has been a decrease in the cost of revenues for Network Elements segment by Rs.5.33 million, constituting 2%. This is mainly on account of the decline in rental expenses.

Cost of Revenues for the Terminal Devices segment, where most of the product development activity is being carried out, were higher by 43.4%. This increase is largely on account of increased amortization of capitalized software costs of Rs.66.92 million, reasons for which have already been explained.

Cost of revenues for the Semiconductor segment has posted an increase of 9.7%, Rs.18.81 million in absolute terms. The increase in expenses is mainly on account of increased amortization of capitalized software costs, reduction in capitalized costs, offset by reduction in other expenses such as software tools, depreciation, and estimates for warranty.

2.3 Gross Profit

Gross Profit by Segment

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2003 (% of Revenues)	Year ended March 31, 2002	Year ended March 31, 2002 (% of Revenues)	Increase / (Decrease)(%)
Network Elements	133.13	34.1	176.78	40.2	(24.7)
Terminal Devices	184.20	45.5	246.43	61.5	(25.3)
Semiconductor	79.63	27.2	48.85	20.1	62.9
Internet Access Solutions	(25.52)	(802)	6.90	(316)	(469.8)
Total	371.43	34.0	465.17	42.8	(20.1)

Gross profit recorded during fiscal 2003 posted a decline of Rs.93.74 million, 20% over gross profit for fiscal 2002. Gross profit as a percentage of revenues was 34.0%, as compared with 42.8% recorded during fiscal 2002. The decline is largely on account of lower margins from product business during fiscal 2003. The investments in products are expected to show results from fiscal 2005 onwards.

2.4 Research and Development expenses (R&D)

Research and development expenses constituted 1.1% of the revenues during fiscal 2003, as compared with 5.2% during fiscal 2002. Two factors could explain this reduction. Firstly, the R&D programs were rationalized and moved to the respective business divisions in Q4 of fiscal 2002, so that R&D activity could also be market focused. Secondly, expenses on the IAS business division in the R&D phase during fiscal 2002, were discontinued during the current fiscal year. Expenses on product development are not accounted as R&D.

2.5 Selling and Marketing Expenses

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

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2003 (% of Total Revenues)	Year ended March 31, 2002	Year ended March 31, 2002 (% of Total Revenues)	Increase / (Decrease)(%)
Selling and Marketing Expenses	206.24	18.9	154.42	14.2	33.6
Employment Costs	127.19	11.6	95.18	8.8	33.6
Staff Welfare	1.25	0.1	0.49	0.0	155.1
Recruitment and Relocation	0.4	0.0	1.23	0.1	(67.5)
Rent	10.89	1.0	11.22	1.0	(2.9)
Repairs and Maintenance	1.92	0.2	1.78	0.2	7.9
Communication Expenses	6.84	0.6	4.66	0.4	46.8
Travel Expenses	26.29	2.4	21.13	1.9	24.4
Electricity and Water Charges	0.68	0.1	0.28	0.0	142.9
Professional, Legal and Consultancy Charges	5.51	0.5	11.79	1.1	(53.3)
Agency Commission and Conference Expenses	16.56	1.5	2.64	0.2	527.3
Depreciation	8.02	0.7	2.39	0.2	235.6
Training and Conference	0.67	0.1	1.62	0.1	(58.6)

Selling and marketing expenses were 18.9 % of revenues for fiscal 2003 as against 14.1% in fiscal 2002. The increase in absolute terms is Rs.51.82 million, mainly on account of increased employment costs, travel, agency commission and expenses on conferences.

Increased employment is mainly on account of expenses being incurred for the whole year during fiscal 2003 as against employment expense for part of the year during fiscal 2002, due to the ramping of the sales team in Q4. Increase in agency commission stems from increased assignments to selling agents on a commission basis on account of the difficult market conditions.

2.6 Administrative and General Expenses:

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

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2003 (% of Total Revenues)	Year ended March 31, 2002	Year ended March 31, 2002 (% of Total Revenues)	Increase / (Decrease)(%)
Administrative and General expenses	148.18	13.6	234.5	21.6	(36.8)
Employment Costs	57.43	5.3	63.05	5.8	(8.9)
Staff Welfare	0.97	0.1	3.22	0.3	(69.9)
Recruitment and Relocation	4.83	0.4	0.17	0.0	2741.2
Rent	3.03	0.3	8.13	0.7	(62.7)
Rates and Taxes	4.71	0.4	5.37	0.5	(12.3)
Repairs and Maintenance	6.67	0.6	11.96	1.1	(44.2)
Communication Expenses	1.49	0.1	3.61	0.3	(58.7)
Travel Expenses	3.38	0.3	5.89	0.5	(42.6)
Electricity and Water Charges	3.26	0.3	5.32	0.5	(38.7)
Bank Charges	3.71	0.3	2.48	0.2	49.6
Professional, Legal and Consultancy Charges	14.36	1.3	18.09	1.7	(20.6)
Software Charges	–	–	0.92	0.1	(100.0)
Auditors Remuneration	0.55	0.1	1.46	0.1	(62.3)
Printing and Stationery	3.71	0.3	4.43	0.4	(16.3)
Training Expense	0.6	0.1	5.91	0.5	(89.8)
Miscelleneous Expenses	18.28	1.7	34.2	3.1	(46.5)
Exchange Loss	1.67	0.2	–	–	100
Depreciation	18.44	1.7	60.29	5.6	(69.4)
Loss on Sale of Assets	0.25	0.0	–	–	–
Bad Debts and Provision for Doubtful Debts	0.82	0.1	–	–	–

Administrative and general expenses decreased by Rs.86.32 million, 36.8% approximately. Employment costs have reduced mainly on account of attrition during the year. Professional, legal and consultancy has reduced mainly on account of reduction in expenses on patents being filed. Reduction in rent is mainly on account of facilities surrendered during the year. Repairs and maintenance have reduced mainly on account of the Corporate Office becoming fully operational. Reduction in depreciation is mainly on account of accelerated depreciation on assets in facilities surrendered, accounted for in fiscal 2002. The reduction in miscellaneous expenses is mainly on account of a one-time expense in fiscal 2002, amounting to Rs.13.5 million, towards pre incorporation expenses in a Joint Venture.

The decrease in expenses was offset by an increase in recruitment and relocation by Rs.4.66 million.

2.7 Employee Stock Compensation Cost

Employees were allotted options under ESOP 2000, the Company's stock option plan, between September 2000 and May 2001. Since then the capital markets have suffered and valuations have crashed. Because Sasken is unlisted, share valuation was based on discounted cash flow and comparable company methods, and carried out by an expert in an the field of valuation. The significant fall in valuations of comparables led to a fall in the value of the company's shares. As a result, the options were significantly out of the money and employees failed to exercise them. In view of this, the Company, after considering other alternatives, decided to cancel the stock options remaining unexercised as of December 31, 2002. As a result of this cancellation, the ESOP compensation cost amounting to Rs.71.46 million booked in the earlier periods has been reversed during fiscal 2003. In fiscal 2002, the company had booked an ESOP cost of Rs.42.06 million.

2.8 Provision

The management periodically evaluates receivables from customers and makes appropriate provisions based on customer specific issues and economic factors that could impact the customer's ability to pay. The company normally provides for all amounts recoverable beyond 12 months from the balance sheet date. Amounts provided for in earlier years, on account of elongated credit provided to customers, are now recoverable within 12 months. Additionally, management has reviewed the customer's timely payment history during fiscal 2003 and believes that a provision of Rs.47.5 million is no longer necessary. Additional provisions amounting to Rs.17.1 million has been made based on an estimate of recoverability of balances due from customers as at March 31,2003. As a result a net reversal of provisions up to Rs.30.36 million has been reflected in the Profit and Loss statement.

2.9 Provision for Diminution in Value of Investment

A provision of Rs.32.10 million and Rs.7.40 million has been created during fiscal 2003 and fiscal 2002 respectively. Of the amount provided during fiscal 2003, Rs.15.50 million has been created towards diminution in the value of long term investment in 2 Wire Incorporated, an unlisted company incorporated in the USA. An amount of Rs.16.60 million and Rs.7.4 million has been provided towards diminution in the value of long term investment in Prime Tele Systems Limited, during fiscal 2003 and fiscal 2002 respectively.

2.10 Income from Operations

Operating profit for fiscal 2003 at Rs.75.11 million constituted 6.9% of revenues, as compared with an Operating Loss of 8%, amounting to Rs.87.82 million, reported for fiscal 2002.

2.11 Other Income

Other income amounting to Rs.1.35 million and 14.91 million constituted 0.1% and 1.4%,of revenues in 2003 and 2002 respectively. Miscellaneous income in fiscal 2002 includes Rs.5.7 million accrued, on account of contractual charges, receivable on contract closure.

2.12 Income before Interest and Income Taxes

Profit before interest and income taxes at 7% of revenues amounted to Rs.76.46 million in fiscal 2003, as against a loss of 6.7%, totaling Rs.72.91 million in fiscal 2002.

The rupee appreciation against US$ in the current year as compared with a depreciation in earlier years. As a result, the exchange gain during fiscal 2003 was lower by 2% of revenues for fiscal 2003.

2.13 Interest

Interest expenses charged to profits decreased from Rs.43.96 million during fiscal 2002 to Rs.36.22 million during fiscal 2003, a decrease of 17.6%. Interest represented 3.3% of revenues during fiscal 2003 and 4% of the total revenues during fiscal 2002. The decrease in interest expense on term loan amounting to Rs.11.80 million was mainly on account of regular repayment of the demand loan over the year. Also, the loan was converted into a foreign currency loan at much lower interest rates towards the end of the year. This decrease was offset by an increase amounting to Rs.4.32 million on account of an increased utilization of working capital loans.

2.14 Income Taxes

Income tax stood at 2.5% of revenues during fiscal 2003 and 3.6% during fiscal 2002. The reduction in income taxes amounting to Rs.12.01 million is mainly on account of lower taxable income and reversal of tax provisions made in the earlier years, now considered excessive.

2.15 Profit after Tax

During the year the Company has posted a profit of Rs.12.73 million as against a loss of Rs.156.39 million in the previous year. This represents 1.2% and (14.3%) of revenues during fiscal 2003 and 2002 respectively.

3. Financial Condition

3.1. Share Capital

The issued capital increased to Rs.127.10 million during fiscal 2003 from Rs.126.69 million during fiscal 2002. 81,203 shares of face value of Rs.5 each were allotted during the current year. Of this, 80,000 shares were allotted on conversion of the FCDs, held by employees under the Employee Stock Option Plan '97. Some employees exercised their stock options under ESOP-2000 scheme, as a result of which, 1,203 equity shares were issued to them during the year.

During the year, the Company made a rights issue as well as a private placement of equity shares. The issue closed on March 31, 2003 and the proceeds of the issue amounting to Rs.164.28 million is held by the Company as share application money. Of this, an amount of Rs.17.20 million, being over subscription to the rights issue, is required to be refunded.

3.2 Reserves and Surplus

Reserves and Surplus as of March 31, 2003 were Rs.721.17 million, as compared to Rs.778.53 million as at March 31, 2002.

The balance in the share premium increased by Rs.1.5 million. This was on account of premium of Rs.15 per share on conversion of debentures and Rs.268 per share on account of options exercised. There has been no change to the General Reserves. The Profit and Loss Account Balance has increased by Rs.12.73 million on account of the profits in the current year. The Employee Stock Option outstanding decreased by Rs.71.60 million as explained in the P&L section above.

3.3 Secured Loans

Secured Loans as at March 31, 2003 were Rs.267.48 million as against Rs.351.87 million as at March 31, 2002. They include the term loan as well as the working capital loan. Of the term loan, the Company has repaid an amount of Rs.194.19 million during the year. During the year, the Demand loan from the bank payable in Rupees was converted into a Foreign Currency loan denominated in US$ with repayment period etc remaining the same. This was done with a view of reducing the interest costs of the company.

During the year the company has drawn Rs.109.80 million additionally from the Packing Credit accounts to meet its working capital requirements.

3.4 Unsecured Loans

Unsecured Loans as at March 31, 2003 were Rs.0.06 million, as compared with Rs.2.06 million as at March 31, 2002.

Unsecured loans comprise of FCDs issued to employees under the Employees Stock Option Plan, at different points in time. The FCDs have been classified into different series based on the conversion dates and the price at which they will be converted into equity shares.

During the year, 40,000 FCDs were converted into 80,000 shares and 10,100 FCDs were redeemed on account of separation of the employees holding those FCDs.

3.5 Fixed Assets

Fixed Assets represent 64.3% of the total assets as at March 31, 2003 as against 71.1% as at March 31 2002.

The company added (net of capital work in progress) Rs.12.61 million during the year to its gross block, as against Rs.328.9 million added in the previous year. Capital Work In Progress represents advances paid towards acquisition of fixed assets and expenses of a capital nature incurred, but not ready for use. During the year, the balance in Capital Work in Progress decreased by Rs.111.58 million on account of capitalization of the neighboring land of 3.5 acres, registered during fiscal 2003. Deletions to gross block of fixed assets of Rs.50.9 million and Rs.38.5 million during fiscal 2003 and 2002 respectively, represent the assets that were sold / written off as a result of the movement from many leased facilities to our own corporate office.

3.6 Capitalized Software Product Costs

Capitalized software costs represent 4.5% of the total assets in 2003 as against 7.6% in 2002, a decrease of 39.9%, amounting to Rs.38.19 million. Costs incurred on development of computer software products are shown as capitalized software product costs. The decrease is on account of increased amortization of certain products during the year due to a change in the market conditions for those products.

3.7 Investments

Investments represent 0.11% of the total assets in 2003 as against 2.66% in 2002.

The company's investments as at March 31, 2003, stand at Rs.1.44 million as compared to Rs.33.54 million as at March 31, 2002. The decline in the investment in fiscal 2003 is on account of a provision of Rs.15.5 million towards a permanent diminution in the value of the investment in 2Wire Incorporated and a provision of Rs.16.6 million for Prime Tele System Limited.

3.8 Inventories

Inventories represent 1.9% of the total assets in 2003 as against 0.72% in 2002, an increase of 171.6%. Costs related to milestones that have not been met are reported as Inventories. The increase in absolute terms is Rs.15.54 million.

3.9 Sundry Debtors

Sundry Debtors represent 24.2% of the total assets in 2003 as against 23.3% in 2002.

Sundry Debtors amount to Rs.310.30 million as at March 31, 2003 as compared with Rs.292.87 million as at March 31, 2002. These debtors are considered good and realizable and adequate provisions have been created for debts which are considered doubtful. The DSO as at March 2003 is 104 days and 98 days as at March 2002. The increase is largely on account of a debt due from a large semiconductor customer out of Japan to whom the Company had extended elongated payment terms during fiscal 2002. Excluding this, the DSO would have been 81 days.

3.10 Cash and Bank Balances

The cash and bank balances represent approximately 12.5% and 2.3% of the total assets as at March 31, 2003 and 2002 respectively, an increase of 461%. The increase is mainly on account of the amounts received from the equity issues, which concluded on March 31, 2003.

3.11 Loans and Advances

Loans and advances represent 4.5% of total assets as at March 31, 2003 and 6.2% of the total assets as at March 31, 2002.

Loans and advances decreased by 26.4%, from Rs.78.23 million during fiscal 2002 to Rs.57.59 million during fiscal 2003. The decline was mainly on account of decline in deposits with respect to our leased offices which were returned during the year, amounting to Rs.23.62 million. Advances recoverable in cash or kind have reduced by Rs.4.89 million. This decrease has been offset by an increase in income accrued by Rs.5.21 million. Income accrued is the unbilled portion of revenues accrued during the year.

3.12 Current Liabilities and Provisions

Current liabilities and provisions represent 12.1% and 13.8% of total assets as at March 31, 2003 and March 31, 2002 respectively, a decrease of 10.7%.

Sundry creditors represent the amount payable to vendors / employees for the supply of goods or for services rendered. Such dues constituted 6.8% and 5.8% of the total assets as at March 31, 2003 and March 31, 2002 respectively, an increase of 20.3%.

Interest on Term Loan and Working Capital, accrued but not due amounts to Rs.3.94 million as against Rs.9.73 million in the previous year.

Other liabilities include statutory payments like TDS, PF and others, for the month of March which are payable on various dates in April.

Advances received from customers denote monies received for services yet to be rendered. Such advances constitute 1.9% and 1.4% of the total assets as at March 31, 2003 and March 31, 2002 respectively, an increase of Rs.5.66 million in absolute terms mainly on account of increased advances received during fiscal 2003.

Provision for tax is the estimated domestic and foreign tax payable, net of advance tax. The decrease of 73.7% is mainly on account of a larger provision for overseas taxes in the previous year.

Leave encashment provision has been created, based on actuarial valuation for fiscal 2003 and fiscal 2002.

During fiscal 2002 the Company created a warranty provision amounting to Rs.18.84 million towards estimated expenses in servicing the contracted warranty obligations towards customers. Simliar provision was made at the end of the year based on the estimated costs of servicing warranty obligations that may exist at end of fiscal 2003. As a result, the provision has been significantly reduced in fiscal 2003.

The Company contributes to a Group Gratuity Scheme, administered by a life insurance company. The contributions are charged to the Profit and Loss account. Provision of Rs.3.53 million represents the difference between the actuarial valuation and the funded balance as of the year end.

4. Cash Flow

The cash generated from operations decreased from Rs.366.90 million in fiscal 2002 to Rs.165.14 million in fiscal 2003. The inflow on account of operating profits before working capital changes is Rs.130.99 million in fiscal 2003 as against Rs.219.64 million in fiscal 2002, a decline of Rs.88.65 million. This decline was mainly on account of depreciation and non-cash items (such as reversal of ESOP compensation cost, reversal of provision for doubtful debts etc.) amounting to Rs.242.43 million. The decline has been offset by an inflow of Rs.157.10 million on account of profits during fiscal 2003.

The outflow on account of working capital is Rs.103.97 million as against an outflow of Rs.176.97 million in the previous year.

The cash outflow from investing activities decreased by 81.13%, from Rs.376.63 million in the previous year to Rs.71.03 million in the current year. This is mainly on account of a decrease in the capex outflow by 77.71%. Fiscal 2002 had significant capex outflows on account of the Corporate Office.

In fiscal 2003 the cash inflow from financing activities was Rs.37.64 million as against an outflow of Rs.50.59 million in fiscal 2002. The inflow in 2003 is primarily on account of proceeds amounting to Rs.163.42 million from the rights issue and an amount of Rs.86.51 million from increased withdrawals from the packing credit account. This increase has been offset by outflows towards interest repayments amounting to Rs.7.76 million and repayment of term loan installments amounting to Rs.210.25 million. During fiscal 2002 there was a repatriation of Rs.55.27 million towards equity dividend. As the Company did not declare any dividend for fiscal 2002, there has been no outflow during 2003.

5. Economic Value Added

Economic Value Added – EVA is a residual income for shareholders after subtracting an appropriate charge for capital employed in the business. EVA will increase if operating profits can be made to grow without tying up any more capital, or new capital can be invested in projects that will earn more than the full cost of capital. It is a function of the net operating profits after taxes (NOPAT), cost of capital and capital employed in the business. EVA will increase if operational efficiency is enhanced, if value adding new investments are undertaken, if capital is withdrawn from uneconomical activities and if the cost of capital is lowered.

Accounting information generally does not reflect economic reality. The gap between accounting information and economic reality stems from the extreme conservatism characterizing accounting practices. For EVA calculation to serve as a reliable measure of value creation, several adjustments need to be made to accounting earnings and accounting balance sheet, before calculating EVA. The purpose of these adjustments is to derive NOPAT and Capital employed that reflect economic reality more accurately.

Research and Development

The research and development expenses will be amortized over a period of time that represents the useful life on research and development (5 years for Sasken).

Reversal of ESOP Compensation Cost

During the year, company decided to cancel the stock options remaining unexercised as at December 31, 2002. As a result of this cancellation, the ESOP compensation cost amounting to Rs.71.46 million booked in the earlier periods has been reversed during fiscal 2003. This reversal is not considered for EVA calculation of fiscal 2003. The previous years' NOPAT has been restated after excluding ESOP compensation cost considered earlier.

Marketable Securities

Since these do not represent capital used for generating operating profit, the investment in them has been excluded in arriving at the capital employed. Similarly income from these investments has been excluded from the NOPAT.

Strategic Investments

In arriving at EVA, the capital charge on account of an investment is deducted from the time the outlay is made. In the case of investments that have a gestation period of a few years, and as a result do not produce any returns during the initial period, strategic investments are held back in a suspense account. Capital charges on the balance in the suspense account are not considered in the calculation of EVA until it starts yielding profits. The capital charge for this interim period is added to the suspense account so that the balance in that account reflects the full opportunity cost of the investment.

During fiscal 2002 and 2003, investments were made in acquiring land adjacent to the existing facility. This investment of Rs.137 million, being strategic in nature, is deducted from the capital employed.

The Economic Value eroded for fiscal 2003, after making these adjustments, was Rs.242.87 million, constituting negative 23.17% of average capital employed, as compared with the Economic Value Eroded of Rs.326.06 million and negative 24.30% of average capital employed for fiscal 2002.

6. Risk Management

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

Business Portfolio

Sasken's vision is to play a significant role in "Enriching Every Communication Experience". We provide semiconductor companies, terminal device manufacturers, network equipment vendors, and test and measurement companies around the world with superior telecommunication solutions and services.

It is our vision to play a part in enhancing global wireless communications not only for our customers, but for their customers too. All our activities revolve around this core goal.

Sasken derives revenues from products and services. Revenues from products remain at 40% of revenues in fiscal 2003 and 2002. Investments in products entail a certain amount of risk, and hence we keep such investments within manageable limits. We also make sure that such investment decisions are made carefully and are periodically reviewed. Such investments can 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. Action is continually being taken to this end. The revenues from Europe increased significantly during the year, thereby improving the geographical spread of revenues.

Likewise, a well-diversified customer base, with reduction in the proportion of revenues from its top customers, has been another goal. During the year, however, absolute revenues from its top customers declined over fiscal 2002, since those very customers continued to experience financial hardship due to the economic recession.

Customer Profile

	Year ended March 31, 2003	Year ended March 31, 2002
Number of < = $250K customers	26	16
Number of >$250K < $500K customers	14	8
Number of > $500K < $1,000K customers	6	5
Number of > $1,000K customers	5	8

Protection of Intellectual Property

Being in the knowledge industry, Sasken's most significant risk lies in the failure to protect intellectual property. The management has taken the following measures to protect this IP:

Filing of Patents

Patents are essential for any company to protect investment on R&D, win recognition and earn revenues by licensing the patents. Sasken's policy on intellectual property aims to identify patentable ideas and protect them through patenting. During the year, a total of 21 applications (12 provisional applications in India and the USA, 6 non-provisional applications in the USA and 3 Patent Co-operation Treaty applications) were filed.

Filing of Trademarks

Sasken has filed applications for the registration of its trademarks in India, USA, China, Japan, and the EU. Registration of these trademarks will ensure greater protection of the intellectual property in them.

Protection of Confidentiality

Sasken regards its software as proprietary intellectual property and relies on a combination of license agreements, confidentiality agreements with employees, non-disclosure and other contractual requirements with its clients, partners, consultants and others, to protect proprietary intellectual property rights to its software.

Contracting Process for Limitation of Liability

Sasken has an established process for drafting and review of contracts. This process focuses on evaluating the legal risks involved in a contract, ascertaining the legal obligations of the Company and on restricting its liabilities under the contracts. The management has also taken sufficient insurance cover to protect the company from possible liabilities arising from customer contracts.

Financial Risks

Most of Sasken' revenues are in US Dollars, while its expenses are in Indian Rupees. Operating profits are therefore subject to fluctuations in exchange rates. As Sasken is a net foreign currency earner, it has a natural hedge on all its foreign currency transactions. Sasken operates in the foreign currency markets only to hedge its net foreign currency exposures.

Financial leverage is maintained at conservative levels, as is the industry practice. A significant part of the long term debt was repaid during the year. Working capital debt will remain the significant portion of the debt of the company.

Financial Statements in Compliance with US GAAP

sasken

Management Report

The management is responsible for preparing the Company’s financial statements and other related information that appear in this report. The management believes that the financial statements fairly reflect the form and substance of transactions and reasonably present the Company’s financial condition and results of operations, in accordance with United States Generally Accepted Accounting Principles. The management has included in the Company’s financial statement's amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The Company maintains a system of internal procedures and controls intended to provide reasonable assurance that transactions are executed in accordance with Company policies and limits and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded.

Ernst & Young audits the Company's financial statements in accordance with generally accepted auditing standards and provides an objective, independent review of the Company's internal controls and the fairness of its reported financial condition and results of operations.

Place : Bangalore
Date : April 11, 2003

Rajiv C Mody
Chairman and Managing Director

Report of Independent Auditors

To The Board of Directors and Shareholders

We have audited the accompanying balance sheets of Sasken Communication Technologies Limited ("the Company") as of March 31, 2003 and 2002 and the related statements of income, stockholders' equity and cash flows for the years ended March 31, 2003, 2002 and 2001. 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. An audit includes examining, on a test basis, evidence supporting the amounts and the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sasken Communication Technologies Limited at March 31, 2003 and 2002, the results of its operations and its cash flows for the years ended March 31, 2003, 2002 and 2001 in conformity with accounting principles generally accepted in the United States.

Place : Bangalore

Date : April 11, 2003

Ernst & Young

Balance Sheet as at March 31 **(expressed in US dollars except share data and as otherwise stated)**

	2003	2002
ASSETS		
Current Assets		
Cash	3,330,890	549,090
Available for Sale Securities	33,172	2,841,001
Accounts Receivables, Net	6,539,540	6,016,310
Work in Progress	518,394	186,024
Unbilled Revenues	251,219	137,945
Other Current Assets	675,060	682,591
Total	**11,348,275**	**10,412,961**
Property, Plant and Equipment, Net	17,566,569	18,965,122
Capitalised Software, Net	1,230,707	2,136,255
Non-current Assets	335,740	824,618
Total Assets	**30,481,291**	**32,338,956**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	1,486,298	1,254,997
Income Taxes Payable	85,274	316,219
Advance Received from Customers	499,582	370,684
Accrued Compensation to Staff	539,896	337,849
Other Current Liabilities	662,236	1,292,116
Line of Credit	2,804,770	478,336
Current Portion of Long Term Debt	2,832,305	2,972,773
Total	**8,910,361**	**7,022,974**
Long Term Debt, Net of Current Portion	–	3,777,191
Convertible Debt	1,180	42,317
Deferred Tax Liabilities	–	404,079
Total Liabilities	**8,911,541**	**11,246,561**
Stockholders' Equity	21,569,750	21,092,395
Total Liabilities and Stockholders' Equity	**30,481,291**	**32,338,956**

See accompanying notes to financial statements

Income Statement for the Year ending March 31 **(expressed in US dollars except share data and as otherwise stated)**

	2003	2002	2001
Revenues	23,433,657	23,499,030	31,750,430
Cost of Revenues	15,757,241	13,740,398	13,899,448
Gross Profit	7,676,416	9,758,632	17,850,982
Research and Development	240,172	1,197,471	1,288,964
Gross Profit after Research and Development	7,436,244	8,561,161	16,562,018
Selling and Marketing Expenses	4,262,314	3,253,657	3,103,333
Administrative and General Expenses	2,432,306	7,307,506	6,029,092
Provision for Diminution in Value of Available for Sale Securities	663,417	152,013	–
Income / (Loss) from Operations	78,207	(2,152,015)	7,429,593
Other Income	18,726	372,369	498,875
Income / (Loss) before Interest and Income Taxes	96,933	(1,779,646)	7,928,468
Interest	748,630	926,303	299,821
Income / (Loss) Before Income Taxes	(651,697)	(2,705,949)	7,628,647
Income Taxes	568,532	832,652	1,141,260
(Net Loss) / Net Income available to Common Shareholders	(1,220,229)	(3,538,601)	6,487,387
Earnings Per Share			
Basic Earnings per Share	(0.05)	(0.14)	0.26
Weighted Shares used in Computing Basic Earnings per Share	25,379,436	25,233,877	25,040,000
Fully Diluted Earnings per Share	(0.05)	(0.14)	0.26
Weighted Shares used in Computing Fully Diluted Earnings per Share	25,379,436	25,233,877	25,390,800
Dividend Declared per Share	–	–	0.045

See accompanying notes to financial statements

Statement of stockholders equity (expressed in US dollars except share data and as otherwise stated)

	Common stock		Additional	Share	Deferred	Accumulated	Retained	Total
			paid-in	Application	Compensation	other	Earnings	Stockholders'
	Shares	Par Value	capital	Money	Cost	Comprehensive Income		Equity
Balance as at March 31,2000	24,949,400	3,240,223	9,818,917		–	991,419	5,022,526	19,073,085
Net Income							6,487,387	6,487,387
Translation Adjustment						(50,601)		(50,601)
Restatement Adjustment						(1,356,350)		(1,356,350)
Unrealized Gain on Available for Sale Securities (Net of Tax)						285,825		285,825
Total Comprehensive Income								5,366,261
Common Stock Arising on Conversion of fully Convertible Debentures	181,200	19,547	19,159					38,706
Cash Dividends Declared @ US$ 0.045 Per Share							(1,190,683)	(1,190,683)
Compensation Related to Stock Option Grants			3,979,225		(3,979,225)			–
Amortization of Compensation Costs					818,658			818,658
Balance as at March 31, 2001	**25,130,600**	**3,259,770**	**13,817,301**		**(3,160,567)**	**(129,707)**	**10,319,230**	**24,106,027**
Net Income							**(3,538,601)**	**(3,538,601)**
Translation Adjustment						**(60,988)**		**(60,988)**
Restatement Adjustment						(609,755)		(609,755)
Total Comprehensive Income								(4,209,344)
Exercise of Options	2,034	209	5,927					6,136
Common Stock Arising on Conversion of Fully Convertible Debentures	206,200	21,179	26,314					47,493
Compensation Related to Stock Option Grants			51,916		(51,916)			–
Amortization of Compensation Costs					1,142,084			1,142,084
Balance as at March 31, 2002	**25,338,834**	**3,281,158**	**13,901,458**		**(2,070,399)**	**(800,451)**	**6,780,629**	**21,092,395**
Net Income							**(1,220,229)**	**(1,220,229)**
Restatement Adjustment						**(144,690)**		**(144,690)**
Unrealized Loss on Available for Sale Securities (Net of Tax)						**(1,657,408)**		**(1,657,408)**
(refer note IX in notes to the Financial Statements)								
Total Comprehensive Income								(3,022,327)
Exercise of Options	1,203	127	3,739					3,866
Common Stock Arising on Conversion of Fully Convertible Debentures	80,000	8,430	25,290					33,720
Share Application Money Received Towards Rights and Preferential Issue				3,462,096				3,462,096
Adjustment Related to Cancellation of Stock Option Plan			(2,070,399)		2,070,399			–
(refer note II in notes to the Financial Statements)								
Balance as at March 31, 2003	**25,420,037**	**3,289,715**	**11,860,088**	**3,462,096**	**–**	**(2,602,549)**	**5,560,400**	**21,569,750**

See accompanying notes to financial statements

Statement of Cash Flows for the year ending March 31, (expressed in US dollars except share data and as otherwise stated)

	2003	2002	2001
Cash Flows from Operations			
Net Income	(1,220,229)	(3,538,601)	6,487,387
a) Non-cash Items			
Depreciation and Amortization	5,229,970	4,063,425	2,237,943
Loss / (Profit) on Sale of Assets	5,254	(51,434)	(38,147)
Employee Compensation Cost Amortized	–	1,142,084	818,658
Provision for Diminution in Value of Aavailable for Sale Securities	663,417	152,013	–
Other Non-cash Items	(633,918)	1,495,873	–
b) Items Considered Separately			
Interest Expense	748,630	926,303	299,821
Other Income	(18,726)	(320,935)	(498,875)
Income Taxes	568,532	832,652	1,141,260
(Increase) / Decrease in Account Receivables	110,687	3,453,505	(4,621,822)
(Increase) / Decrease in Other Current Assets	7,531	550,607	170
(Increase) / Decrease in Non-current Assets	488,879	445,091	(529,094)
(Increase) / Decrease in Unbilled Revenues	(113,274)	2,024,110	(1,741,495)
(Increase) / Decrease in Work In Progress	(332,370)	(53,112)	(132,912)
Increase / (Decrease) in Accounts Payable	433,348	(102,324)	149,661
Increase / (Decrease) in Other Current Liabilities	(155,826)	(947,201)	1,246,119
Increase / (Decrease) in Advance Received from Customers	128,898	209,964	(48,492)
Income Taxes Paid	(716,553)	(685,969)	(1,080,760)
Net cash from operations	**5,194,250**	**9,596,051**	**3,689,422**
Cash Flows from Financing Activities			
Cash Received from Exercise of Option / Issuance of Common Stock	3,727	27,105	38,706
Share Application Money Received	3,462,096	–	–
Line of Credit	2,326,434	478,336	–
Loans Taken	–	–	11,057,698
Repayment of Loans	(3,917,659)	(207,669)	(4,418,728)
Redemption of Debentures	(7,417)	(20,718)	(47,842)
Interest Paid	(865,406)	(729,673)	(427,616)
Dividends Paid	–	(1,190,683)	(1,182,843)
Net Cash from / (used in) Financing Activities	**1,001,775**	**(1,643,302)**	**5,019,375**
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	(1,748,500)	(6,544,701)	(10,559,659)
Additions to Capitalized Software Costs	(1,727,527)	(2,178,266)	(1,227,150)
Proceeds of Sale of Property, Plant and Equipment	187,767	218,593	142,265
Purchase of Trading Securities	–	(5,516,995)	–
Purchase of Available for Sale Securities	–	(505,688)	–
Sale of Trading Securities	–	5,529,669	3,961,684
Interest Income	1,392	8,320	–
Other Income	17,333	312,615	554,734
Net Cash Used In Investing Activities	**(3,269,535)**	**(8,676,453)**	**(7,128,126)**
Effect of Restatement on Cash Flows	(144,690)	(609,755)	(1,356,350)
Effect of Translation Adjustment	–	(60,988)	(50,601)
Total Increase / (Decrease) in Cash During the Year	2,781,800	(1,394,447)	173,720
Cash at the Beginning of the Year	549,090	1,943,537	1,769,817
Cash at the End of the Year	**3,330,890**	**549,090**	**1,943,537**

See accompanying notes to financial statements

Notes to Consolidated Financial Statements

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 Canada, China, Japan, Sweden, UK and USA. During the year ended March 31, 2001, the Company wound up its Japanese subsidiary and converted the same into a branch office.

2. Basis of Preparation of Financial Statements

The financial statements have been prepared in compliance with the accounting principles generally accepted in the United States of America (US GAAP) in Indian Rupees and have thereafter been restated in United States Dollars. The fiscal year begins on April 1 and ends on March 31 of the following year.

3. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results ultimately may differ from the estimates.

4. Consolidation

The consolidated financial statements for the year ended March 31, 2001, include the accounts of the Company and its wholly owned Japanese subsidiary. All significant inter-company accounts and transactions are eliminated from the consolidated statements.

5. Foreign Currency Transactions and Translation

Transactions arising in a currency other than the functional currency are converted into the functional currency at rates closely approximating those ruling during the relevant transaction dates. All monetary assets and liabilities in foreign currency as at the date of the financial statements are restated at the current exchange rate. All exchange differences, including those arising on foreign currency borrowings related to the acquisition of property, plant and equipment are recognized in the income statement.

In respect of transactions covered by forward exchange contracts, the difference between, the forward rate and the exchange rate at the date of the transaction is recognized as income or expense over the life of the contract.

Income Statement for the years ended March 31, 2003, 2002 and 2001 include (US$ 34,534) US$ 397,631 and US$ 466,428 respectively towards foreign exchange gain / (loss).

The functional currency of the Company is the Indian Rupee. The Company's foreign operations (subsidiary / branches) use their local currency as the functional currency. For such entities, all the balance sheet items other than property, plant and equipment are translated to Indian Rupees for the purposes of consolidation, using the rate of exchange at the year-end. Property, plant and equipment are translated at the rate of exchange prevalent at the end of the year of acquisition. Revenues and expenses are translated using a monthly simple average rate of exchange. Gains and losses from translation are included as a separate component of accumulated other comprehensive income.

6. Restatement of Financial Statements

The consolidated financial statements denominated in Indian Rupees, prepared in compliance with US GAAP, have been reported in US

Dollars. For the purpose of such restatement, incomes and expenses have been restated using a monthly simple average rate of exchange for the respective periods; current assets, investments, current liabilities, long term loans and additions to common stock and property, plant and equipment at the year end rate. Gains or losses arising on the restatement of the financial statements from Indian Rupees to US Dollars are reported as restatement adjustment, a separate component of accumulated other comprehensive income.

7. 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, provided no further vendor obligations remain and collection is probable. Revenue related to customized products or technology development agreements is recognized using the percentage of completion method in accordance with SOP 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts". The Company measures progress towards completion based on the achievement and acceptance of contract milestones, provided no further vendor obligations remain and collection is probable. In order to properly match contract revenue, cost related to milestones that have not been met, are reported as work in progress. Provision for estimated contract losses are recognized when determined.

Revenue related to post contract customer support is recognized over the support period.

Revenue from time and material service contracts is recognized as the services are provided. Revenue from fixed price service contracts is recognized based on a percentage of completion method based on contract milestones, provided collection is probable. Revenue from maintenance is recognized ratably over the term of the maintenance arrangement.

Revenue from Royalty is recognized on a accrual basis based on the terms of the agreement.

8. Capitalized Software

Costs incurred towards development of computer software are capitalized subsequent to establishing technological feasibility in accordance with SFAS 86 'Accounting for the Costs of Computer Software to be sold, leased, or otherwise marketed'. Capitalized software costs are amortized on a product-by-product basis. The amortization shall be greater of the amount computed using (a) the ratio that current gross revenue for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product. The unamortized cost of software is carried at cost or net realizable value which ever is lower.

Cost of software licenses procured for products are capitalized and amortized over the remaining estimated economic life of the product including the period being reported upon. The un-amortized costs of computer software are compared with the net realizable value of that product, and the excess, if any, of the un-amortized costs over the net realizable value is written off.

Cost of software licenses procured in connection with specific software projects are amortized over the remaining life of the respective projects, including the period being reported upon.

9. Research and Development

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

10. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises of its purchase price and any cost directly attributable to bringing the asset to its present condition for intended use. The Company 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
Computing Equipment	4
Office Equipment	5
Electrical Fittings	5
Furniture and Fittings	10
Leasehold Improvements	Over the lease period of the facility

Generic Software and assets whose values are not material on acquisition (less than the US Dollar equivalent of Rs.5,000) are recognized in the Income Statement in the year of acquisition. Product Software used in administration is amortized over 3 years.

11. Impairment of Long-Lived Assets

Long-lived 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.

12. Cash

Cash includes cash on hand and with banks. Cash excludes deposit with banks held as margin money for bank guarantees, which are reflected as current assets.

13. Investments

Investments are stated at their fair values. Dividend and realized / unrealized gains and losses for securities classified as “Trading Securities” are reported in the income statement, as ‘Other income / expense’. Dividend and realized gains or losses for securities classified as ‘Available for Sale Securities’ are classified are as “Other income / expense”. Unrealized gains or losses for 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 Income Statement. The cost of securities sold is based on the specific identification method.

14. 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.

15. Fair Value of Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash, cash equivalents, accounts receivable, accounts payable and long-term debts approximate their respective fair values due to the short period of maturities.

16. Concentration of Credit Risk on Financial Instruments

The Company's cash is with scheduled banks and other large banks and are considered to be safe and highly liquid. The Company derives its revenue from reputed customers and hence, the risk on account of accounts receivables is limited. As at March 31, 2003, March 31, 2002 and March 31, 2001 the Company provided US$ 584,636, US$ 1,218,552 and US$ 41,988 towards allowances for bad and doubtful debts respectively.

17. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consist of:

a) Translation adjustment – being gain / loss arising from translation of financial statements of the Company's subsidiary / branches, into the functional currency of the Company.

b) Restatement adjustment – being gain / loss on restatement of the consolidated financial statements from the Indian Rupees to US Dollars and,

c) Unrealized gain / (loss) on "Available for sale securities", net of deferred taxes.

18. Employee Stock Options

The Company uses the fair value based method of accounting for stock-based compensation plans, in accordance with SFAS-123 'Accounting for stock based compensation'.

19. Income Tax

The Company 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 the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

20. Retirement Benefits to Employees

Gratuity

The Company provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to eligible employees at retirement or on termination of employment based on the salary of the respective employee and the years of employment with the Company.

The Company contributes to a gratuity fund maintained by an insurance company. The amount of contribution is determined based upon actuarial valuations approximately as at March 31, 2003. Such contributions are charged off in the Income Statement. Difference if any in the amount contributed compared to the actuarial valuation is charged off to the Income Statement.

Provident Fund

Employees are also eligible to receive Provident Fund benefits through a defined contribution plan in which both employee and employer make monthly contributions to the plan, @ 12% each, of the covered employee's salary. The Company has established a Provident Fund Trust to which contributions towards provident fund are made each month. The contributions towards the pension fund are remitted to the Regional Provident Fund. Contributions towards Provident Fund and Pension Fund are charged to the Income Statement. The Trust guarantees a specified rate of return on such contributions on a yearly basis. The Company will meet shortfall in the return, if any. At March 31, 2003, there was no such shortfall.

Leave Encashment

As per Company policy, employees are eligible to encash leave standing to the credit of employees subject to terms and conditions. The Company estimates the provision for leave encashment based on the actuarial valuation as of the balance sheet date.

21. Previous Years' Numbers have been Re-classified / Re-arranged to Conform to the Current Year's Presentation.

Other Notes:

I. Stockholders' equity

Stockholders' equity comprises of, as at March 31 (in US$)

Particulars	2003	2002
Authorized Shares #	50,000,000	40,000,000
Issued and Outstanding Shares #	25,420,037	25,338,834
Face Value of a Share (Equivalent to Rs.5)	0.10	0.10
Face Value of Issued Shares	3,289,715	3,281,158
Shares Reserved for Issuance's (Fcd's and Esop's)	3,703,963	3,785,166
Accumulated Other Comprehensive Income	(2,602,549)	(800,451)

Subsequent to March 31, 2003, the Company issued and allotted 4,900,000 equity shares of Rs.5 each at a premium of Rs.25 per share under the rights offer and preferential offer made to existing shareholders. Simultaneously, the Company issued warrants to one of the shareholders of the Company to purchase 3,266,667 equity shares at a price of Rs.30 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 expire at the end of two years.

Accumulated other comprehensive income (net of taxes) comprise of, as at March 31 (in US$)

	2003	2002	2001
Translation Adjustment	(87,861)	(87,861)	(26,872)
Restatement Adjustment	(2,514,688)	(2,369,998)	(1,760,243)
Unrealized gain on 'Available for sale Securities'	–	1,657,408	1,657,408
Total	**(2,602,549)**	**(800,451)**	**(129,707)**

II. Employee Stock Option Plan

SAS Stock Option Plan 1997

The SAS Stock Option Plan (Plan) established during 1997, provided for the issue of Fully Convertible Debentures (FCD's) to employees, consultants, advisors and to employees of subsidiaries. Two million equity shares were approved by the shareholders for the purpose. The FCD's are convertible into shares over a period of three years, the price and conversion date being determined on the date of allotment of the FCD's. The shares arising on conversion of the FCD's would be free of any lock-in provisions. There will be no further issue of securities under the SAS Stock Option Plan' 97.

A summary of the status of the Company's stock option plan as of March 31, 2003, 2002, and 2001, and changes during the years ending on those dates is presented below:

	2003		2002		2001	
	Shares Arising out of FCD's	Weighted Average Exercise / Conversion Price	Shares Arising out of FCD's	Weighted Average Exercise / Conversion Price	Shares Arising out of FCD's	Weighted Average Exercise / Conversion Price
Outstanding at the beginning of the year	103,000	$0.41	350,800	$0.32	640,400	$0.31
Forfeited	(20,200)	$0.41	(41,600)	$0.37	(108,400)	$0.33
Exercised / Converted into Shares	(80,000)	$0.41	(206,200)	$0.23	(181,200)	$0.21
Outstanding at the end of the year	2,800	$0.42	103,000	$0.41	350,800	$0.32

The following table summarizes information about shares arising out of FCD's outstanding at March 31, 2003:

Range of Conversion Prices	Number Outstanding at March 31, 2003	FCD's Outstanding Weighted Remaining Conversion life (months)	Weighted Average Exercise Price
US$ 0.42 (equivalent to Rs.20)	1,400	6.00	US$ 0.42

The fair value for each of the option granted under the above plan was estimated at the date of grant using Black Scholes option pricing model, assuming a volatility of 0.001 and the following weighted average assumptions:

Year ended March 31,	2003	2002
Average Risk-Free Interest Rate	10%	10%
Expected Life of Options Granted (in months)	6.00	6.42
Expected Dividend %	Nil	Nil

Sasken ESOP-2000

ESOP-2000 was approved by the shareholders at the Extra Ordinary General Meeting of the Company held on September 22, 2000.The Plan provided for the issue of 6 million shares (including the shares issued / to be issued under the FCD's as per the SAS Stock option Plan, 1997 and the shares to be issued consequent to the exercise of the options granted under the current Plan) of Rs.5 each.

Options granted under the Plan vest based on the vesting schedule as determined by the Compensation Committee and as issued at an exercise price as fixed by the Compensation Committee from time to time.

Under ESOP-2000, Stock options were granted to all employees based on the period of service with the Company, performance and potential. However, the intended response to the scheme has been poor as the market value of the shares, since the grant of the stock options, has had a negative impact due to the global recession and the conditions prevailing in the capital markets. In view of this, the Company, after considering other alternatives, decided to cancel the stock options remaining unexercised as at December 31, 2002. The Compensation Committee and the Shareholders approved the cancellation of the stock options remaining unexercised as on December 31, 2002.

The following table summarizes the Company's stock option activity:

Sasken ESOP-2000	Shares underlying options outstanding 2003	2002
Outstanding at the Beginning of the Year	1,034,530	1,131,300
Granted	–	44,520
Forfeited / Cancelled	(1,033,327)	(139,256)
Exercised	(1,203)	(2,034)
Outstanding at the End of the Year	–	1,034,530
Exercisable at the End of the Year	–	129,212
Weighted Average Remaining Contractual Life	–	3.88

The fair value for each of the option granted under the above plan was estimated at the date of grant using Black Scholes option pricing model, assuming a volatility of 0.001. The Company recognized a compensation expense of US$ 1,142,084 and US$ 818,658 for the years ended March 31, 2002 and March 31, 2001 respectively. Other assumptions used in the computation of compensation expense is given below:

Year ended March 31,	2002	2001
Average Risk-free Interest Rate	10%	10%
Expected Life of Options Granted (in years)	2.88	2.88
Expected Dividend	Nil	40%

The exercise price of Sasken ESOP 2002 as at March 31, 2002 was as given below:

	As at March 31,2002			As at March 31,2001		
Range of Exercise Price	Number of Options Outstanding	Weighted Remaining Life of Options (in years)	Weighted Average Exercise Price	Number of Options Outstanding (in years)	Weighted Remaining Life of Options Price	Weighted Average Exercise
Rs.150 (US$ 3.08)	997,050	3.88	Rs.150 (US$ 3.08)	565,650	4.88	Rs.150 (US$ 3.24)
Rs.275 (US$ 5.64)	37,480	3.88	Rs.275 (US$ 5.64)	–	–	–

III. Earnings Per Share (EPS)

Given below is a reconciliation of the net income and number of shares considered in the computation of basic and fully diluted EPS for the year ended March 31,2001:

(in US$)

	2001
Net Income for the Computation of Basic EPS	6,487,387
Potential Savings in Interest	11,257
Net Income for the Computation of fully Diluted EPS	6,498,644
Basic EPS – Weighted Average Number of Ordinary Shares Outstanding	25,040,000
Effect of Dilutive Potential Ordinary Shares	350,800
Fully Diluted EPS – Weighted Average Number of Ordinary Shares Outstanding	25,390,800

Effect of stock options and fully convertible debentures has not been considered in the computation of weighted average number of shares for diluted earnings per share since their effect is antidilutive for the years ended March 31, 2003 and 2002.

IV. Debts

Long Term Debt Comprise as at March 31, (in US$)

Particulars	2003	2002
Term loan	2,832,305	6,749,964
Less: Current Portion of Long Term-debt	2,832,305	2,972,773
Long Term-debt, Net of Current Portion	–	3,777,191

The term loan is secured by pro-rata charge by way of hypothecation of all plant and equipment and an equitable mortgage of land and guarantees given by the Directors of the Company. The Company can draw a maximum amount of US$ 8.43 million under this facility. During the year, the loan which was payable in Indian Rupees, carrying interest at 12% per annum and repayable in monthly equal installments has been converted into a foreign currency loan denominated in US Dollars. The loan now carries interest linked to LIBOR (LIBOR plus 250 basis points) and is now repayable in monthly equal installments for principal and quarterly payments for interest. The Company entered into a forward contract to buy US Dollars at each month end to satisfy the repayment. The premium related to the forward cover will be amortized over the 12 month period. The unamortized balance of premium as at March 31, 2003 amounted to US$ 58,756.

Convertible Debentures:
Unsecured 10% fully convertible debentures issued to employees under SAS Stock Option Plan 97, are convertible into 2,800 equity shares on October 1, 2003.

V. Lines of Credit

The Company has a secured revolving credit facility to the tune of US$ 4.63 million from a scheduled bank at interest rates in the range of 7% per annum. The facilities are secured by a charge on the current assets including accounts receivables, both present and future and a second charge on present and future movable and immovable properties, and are guaranteed by the Directors of the Company. An amount of US$ 2,804,770 and US$ 478,336 is outstanding as at March 31, 2003 and 2002 respectively.

VI. Property, plant and equipment (net)

Property, Plant and Equipment Consist of as at March 31, (in US$)

Particulars	2003	2002
Land	4,905,083	2,024,176
Building	6,921,602	6,895,400
Computing Equipment	5,530,533	5,555,094
Software	2,268,440	2,098,864
Office Equipment	5,642,987	5,412,850
Electrical Fittings	238,593	488,726
Furniture and Fittings	2,486,104	2,910,213
Capital Work-in-progress	44,706	2,335,742
Total	**28,038,048**	**27,721,065**
Less: Accumulated Depreciation	(10,471,479)	(8,755,943)
Net	**17,566,569**	**18,965,122**

VII. Amortization of Capitalized Software Costs

(in US$)

Year ended March 31,	Un-amortized Costs	Amounts charged to expense for amortization
2003	1,230,707	2,633,075
2002	2,136,255	871,340
2001	829,329	299,833

VIII. Available for Sale Securities

Fair value of available for sale securities as at March 31, (in US$)

	2003	2002
2Wire Inc- 29,764 Fully paid Shares of Preferred stock	33,172	2,500,000
Prime Telesystems Limited – 392,285 equity shares of Rs.10 each	–	341,001
Total	33,172	2,841,001

During the year ended March 31, 2003, the Company made a provision of US$ 320,342 towards investment made in 2 Wire Incorporated towards diminution in the value of the investment considered as “other than temporary” which has been recognized in the Income Statement. The unrealized gain amounting to US$ 1,657,408 net of taxes amounting to US$ 404,079, recognized in the prior years on 2Wire Incorporated has been reduced from, other comprehensive income, a component of Stock holders’ Equity.

In March 31, 2003 and March 31, 2002, the Company had recognized 'other than temporary diminution' in the value of investment in Prime Telesystems Limited, amounting to US$ 343,076 and US$ 152,013 respectively, which has been charged to the Income Statement.

IX. Income Taxes

The Company is mainly engaged in the development and export of software under the Software Technology Parks (STP) scheme. The Company claims deductions from income tax, with respect to its income earned from exports of computer software, under Section 10A / 80HHE of the Income Tax Act, 1961. Under the law, tax holiday for the various units under the above sections is estimated to phase out by fiscal 2009.

Income tax expense comprises of, for year ended March 31, (in US$)

	2003	2002	2001
Current			
– Domestic	46,193	57,280	(15,136)
– Foreign	521,569	775,372	1,156,396
Total	568,532	832,652	1,141,260

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

	2003	2002	2001
A. Deferred Tax Assets			
Accrued Enterprise Tax	–	–	1,850
Provision for Doubtful Debts	206	–	–
Accrued Retirement Benefit	2,680	–	62,324
Depreciation and Amortization	3,904	7,786	–
Warranty Expenses Accrued	–	6,822	–
Total	6,790	14,608	64,174
Less Valuation Allowance	(6,790)	(14,608)	(64,174)
Deferred Tax Assets, Net of Valuation Allowance	–	–	–

B. Deferred Tax Liabilities

	2003	2002	2001
Unrealized Gain on Available for Sale Securities	–	(404,079)	(452,718)
Total Deferred Tax Liabilities	–	(404,079)	(452,718)
Net Deferred Tax (Liability) / Asset	–	(404,079)	(452,718)

Balance Sheet classification of Net Deferred Tax Liabilities is as shown below:

	2003	2002	2001
Deferred Tax Liability – Non Current	–	(404,079)	(452,718)
Total Deferred Tax Liabilities	–	(404,079)	(452,718)

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:

(in US$)

Provision for tax	2003	2002	2001
Net Income Before Taxes	(651,697)	(2,705,949)	7,628,647
Enacted Tax Rates in India	36.75%	35.70%	39.55%
Statutory Tax Provision	(239,499)	966,024	3,017,130
Tax Effect on Non Taxable Income	253,333	9,457	(3,285,717)
Withholding Taxes by Overseas Customers / Foreign Taxes	814,059	775,372	1,241,291
Tax Adjustment for Subsidiary	–	–	564
Adjustment for Overseas Branches	–	(13,020)	–
Tax Effect of Expenses Disallowed			
– Employee Stock Option Cost	–	407,724	323,779
– Provision for Impairment of Investment	243,806	55,665	–
– Provision for Bad Debts	132,126	435,023	
– Reversal of Provision for Bad Debts	(360,669)	–	–
– Provision for Expenses Disallowed	29,097	–	–
– Others	2,395	128,455	(79,969)
Withholding Tax Refunds of Earlier Years	(306,116)	–	(75,818)
Total Provision for Income Taxes	568,532	832,652	1,141,260

X. Retirement Benefits to Employees

Amounts Recognized in the Income Statements on Account of Retirement Benefits: (in US$)

Year ended March 31	Provident Fund	Gratuity
2003	414,186	188,288
2002	437,308	38,932
2001	365,817	101,163

The following tables set out the funded status of the gratuity plan for the years ended March 31, 2003, 2002 and 2001: (in US$)

	2003	2002	2001
Projected Benefit Obligations (PBO) at the end of the year	241,827	214,103	202,165
Change in plan assets			
Plans Assets at the beginning of the Year at Fair Value	109,355	72,373	66,590
Employer Contributions	115,337	42,035	38,076
Benefits Paid	(96,751)	(18,192)	(38,895)
Actual Return on Plan Assets	11,192	10,376	10,240
Plans Assets at the end of the Year, at Fair Value	139,134	106,592	76,011
Funded Status of the Plan	(102,694)	(107,511)	(126,154)
Accrued Gratuity Cost	(74,396)	–	–
Net Periodic Gratuity Cost	188,288	42,035	38,076
Discount Factor	8.00%	8.00%	8.00%
Estimated Rate of Return on Plan Assets	8.00%	8.00%	8.00%
Rate of Compensation Increase	4.00%	4.00%	4.00%

XI. Transactions with Related Parties

1. Amounts due from officers and employees of the Company

The Company 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 Company avail loans under the same terms.

Loans due from officers and employees of the Company: (in US$)

Year ended March 31,	Amounts due	Recoverable in 12 months	Recoverable after 12 months
2003	242,013	229,811	12,202
2002	211,707	187,694	24,013

2. Silicon Automation Systems, Inc (SAS Inc.) is a Company incorporated in the State of California. Both the Companies have three common directors.

Till year 2001, SAS Inc. provided services to the Company in:

a) the area of marketing and distribution of the Company's technology and Network Elements segment services for which, it was paid a distributor fee.

b) procurement of certain capital equipment and other items from the United States, for the Company for which no consideration is paid other than reimbursement of the cost of such equipment and items.

The Company also provided software development services to SAS Incorporated.

Transactions with SAS Incorporated included in the financial statements of the Company:

(in US$)

Year ended March 31,	Revenues from Software Development Services	Imports	Distributor Fee
2001	52,587	599,610	378,460

As at March 31, 2003 and 2002 amounts receivable from SAS, Inc amount to US$ Nil and US$ 70,871 respectively.

XII. Segment Reporting

As at March 31, 2003, Sasken has three divisions, each focusing on different market segments Networks, Semiconductors and Terminal Devices.

The Networks division offers products and services to network equipment manufacturers and test and measurement companies. This business division focuses on software services and solutions for convergent networks in wireless, datacom and enterprise networks.

The Terminal Devices division provides software solutions to terminal equipment manufacturers including a complete suite of next generation wireless protocol stacks multimedia codecs and applications, such as MMS client, Multimedia Player and 3G 324M Videophone.

The Semiconductors division provides solutions and services to semiconductor companies, built both around Sasken IP as well as customer specific IP.

During the current year, the Company discontinued the operations of Internet Access Solutions division. The Internet Access Solutions division focused on developing Internet based products, applications and system software. It also provided turnkey product design services to companies engaged in designing next generation telecom equipment.

Geographical information

The geographical segment information given below is based on the location of the Company's customer.

(in US$)

Net Revenues	2003	2002	2001
Canada	2,488,050	2,914,727	5,027,105
US	7,854,012	7,674,899	10,647,225
France	2,072,927	1,655,802	1,515,074
Japan	4,331,627	6,416,559	9,009,032
Others	6,687,041	4,837,043	5,982,198
Total	23,433,657	23,499,030	32,180,634
Adjustment on Account of Inter-Company Revenues	–	–	(430,204)
Total revenues	**23,433,657**	**23,499,030**	**31,750,430**

Operating Segments

Year ended March 31, 2003 (in US$)

Revenues	Networks	Terminal Devices	Semi-conductors	Internet Access Solutions	Eliminations	Total
Revenue from External Customers	9,389,632	3,749,646	10,235,611	58,768	–	23,433,657
Inter-Segment Revenue	511,341	5,219,296	392,591	27,428	(6,150,656)	–
Total Revenues	9,900,973	8,968,942	10,628,202	86,196	(6,150,656)	23,433,657
Gross Margin	2,751,443	3,806,819	1,645,591	(527,437)	–	7,676,416

Year ended March 31, 2002 (in US$)

Revenues	Networks	Terminal Devices	Semi-conductors	Internet Access Solutions	Total
Revenue from External Customers	9,405,482	8,838,124	5,207,511	47,913	23,499,030
Gross Margin	3,711,698	5,175,909	1,017,349	(146,324)	9,758,632

Year ended March 31, 2001 (in US$)

Revenues	Networks	Terminal Devices	Semi-conductors	Internet Access Solutions	Total
Revenue from External Customers	10,016,531	9,445,688	11,935,796	352,415	31,750,430
Gross Margin	3,819,722	7,732,094	6,567,535	(268,369)	17,850,982

(in US$)

Assets	2003	2002
Networks	3,047,970	1,603,273
Terminal Devices	3,025,000	5,136,280
Semiconductors	4,558,712	3,602,814
Internet Access Solutions	–	87,451
Total Segment Assets	**10,631,682**	**10,429,818**
Unallocated Assets	19,849,609	21,909,138
Total Assets	**30,481,291**	**32,338,956**

The assets identifiable to segments are apportioned to the segments on a reasonable basis.

Information about Major Customers

a) Customers with whom the transactions exceed 10% of the revenue:

Year ended March 31,	% of revenue	# of Customers
2003	25%	1
2002	22%	1
2001	50%	3

b) Amount of revenues from customers with whom the transactions exceed 10% of the revenue of any one of the three fiscal years being reported:

(in US$)

Particulars	2003	2002	2001	Operating Segments
Customer 1	5,780,318	5,160,818	7,187,706	Networks
Customer 2	2,221,350	1,919,076	5,407,953	Networks, Terminal Devices and Semiconductors
Customer 3	1,515,606	2,605,678	1,106,000	Semiconductors and Terminal Devices
Customer 4	–	–	3,212,394	Networks and Terminal Devices

XIII. Commitments and Contingent Liabilities

a) The contracts remaining to be executed for purchase of fixed assets on March 31, 2003 and 2002, amounted to US$ 60,439 and US$ 1,048,725 respectively. The Company has also provided bank guarantees for certain imports. The contingent liability on such guarantees as at March 31, 2003 and 2002 are US$ 274,342 and US$ 147,265 respectively. Other Contingent Liabilities relating to Income Tax not provided for amounted to US$ 161,135 and US$ 64,849 as at March 31, 2003 and 2002 respectively. There are certain claims made against the Company which, in the view of the management of the Company are not tenable and amounts are currently not ascertainable.

b) The Company has various operating leases for office buildings and office equipment that are renewable on a periodic basis, and cancelable at its option.

Rental expenses for operating leases included in the Income statements are as under:

(in US$)

Year ended March 31,	Amount
2003	352,080
2002	901,682
2001	741,527

XIV. Miscellaneous Notes

a) The remuneration paid to one of the whole time directors of the Company for the year ended March 31, 2003 exceeds the limits prescribed under Schedule XIII to the Indian Companies Act, 1956 by US$ 61,013. The Company is in the process of obtaining the approval of the Central Government as required under schedule XIII read with Section 269 and 309 of the Indian Companies Act, 1956. Hence, the excess managerial remuneration of US$ 61,013 is subject to the approval of the Central Government.

b) In respect of certain revenues (Semiconductor Segment – Asia Pacific region), recognized by the Company during the year ended March 31,2001, on a customer request received during the current year, the Company agreed to a staggered payment over a longer period than what was originally agreed with the customer. Considering the extended length of time over which the receivables are now due, management has, as a matter of prudence, made a provision amounting to US$ 1,218,553 during the year ended March 31, 2002. Out of this, US$ 1,000,235 is considered as no longer required as a result of changes in conditions prevailing as at March 31, 2003. Hence, the same is reversed to the Income Statement.

c) During the year ended March 31, 2002, the Company vacated some of the leased premises. Management has determined that the leasehold improvements installed at these premises will not be used and hence, has accelerated depreciation in respect of such assets. Such accelerated depreciation included in Depreciation for the year ended March 31, 2002 was US$ 397,459.

d) Administrative and General Expenses of the year ended March 31, 2002 include US$ 284,450 towards provision for anticipated losses for commitments given by the company towards investment in a joint venture. This amount has been paid during the current year.

e) During the year ended March 31, 2003, the Company entered into an agreement to license it's product to one of it's customer for a sum of US$ 587,987. Simultaneously, the Company entered into an agreement to purchase software at a value of US$ 587,987. The Company considers this transaction to be an exchange of software products to enable testing of products at both the Company's and customer's locations. For financial reporting purpose, the Company has netted off the two transactions in its books of account. The Company has also applied to the Reserve Bank of India to approve the set off of the cash flows in this transaction.

f) Bank balances as at March 31, 2003 include cheques on hand amounting to US$ 215,446 (As at March 31, 2002 US$ Nil).

g) Bank balance includes remittances in transit amounting to US$ 306,426 (As at March 31, 2002 US$ Nil) and Packing Credit is net of remittances in transit amounting to US$ 966,450 (As at March 31, 2002 US$ Nil).

Management's Discussion and Analysis of Financial Performance

The 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 of Sasken Communication Technologies Limited (Sasken) accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgments used in preparing the financial statements. The forward looking statements involve risks and uncertainties, including, but not limited to risks inherent in the company's growth strategy, dependence on certain clients, dependence on availability of qualified personnel etc.

1. Overview

Established in 1989, Sasken is a leading provider of telecommunications software solutions and services to network equipment manufacturers, terminal device manufacturers, and semiconductor companies around the world. Headquartered in Bangalore, India, with offices in Canada, China, Japan, Sweden, UK and USA, Sasken employs over 950 people worldwide.

In fiscal 2003 difficult business conditions for Sasken and our customers, limited our opportunities for financial growth and we ended the year with revenues of US$ 23.43 million, relatively flat over fiscal 2002. From a net loss of 15% in fiscal 2002, to a net loss of 5% in fiscal 2003. Our investment in products continued, at similar levels as the previous year. However, the postponement of 3G rollouts in most parts of the world caused acceleration in the expensing of capitalized product development expenses. This had a depressing effect on the profits of the year. The other significant event during the year was related to stock options. Options were issued in fiscal 2001, when capital market valuations were at their peak. Options were significantly out of the money, as a result of the meltdown in the capital markets. Options were not resulting in the advantages that were expected at the time of grant. As a result, the Board and the management decided to cancel the stock options issued. Strategic investments in equity of 2Wire Incorporated and Prime Telesystems Limited were written down during the year, causing another charge of US$ 0.66 million.

During the fiscal, the National HRD Network conferred Sasken with the HRD Excellence award 2002, for outstanding corporate. This lifetime achievement award is given every two years to outstanding corporate who implement excellent and innovative HR practices.

2. Results of Operations for the Fiscal Year ended March 31, 2003 Compared with Fiscal Year ended March 31, 2002

2.1.1 Revenues

The Company's operating segments are Networks, Terminal Devices and Semiconductors. The Company derives its income from licensing and software services in the above segments. Contracts for licensing generally include multiple elements like lump sum charges for license of the technology and other customized services, both fee based and non fee based.

The company's revenues were US$ 23.43 million during fiscal 2003 as compared to US$ 23.50 million during fiscal 2002, registering a negative growth of 0.28%.

There has been a reduction in offshore revenues by 10.2%. Reduction in volumes caused a reduction by 1.7%, while 8.5% is on account of a drop in rates. Onsite revenues have increased by 19.8% during the fiscal 2003. Onsite revenues have increased by 30.5% largely on account of increased volumes and in spite of a decrease of about 10.7% in rates.

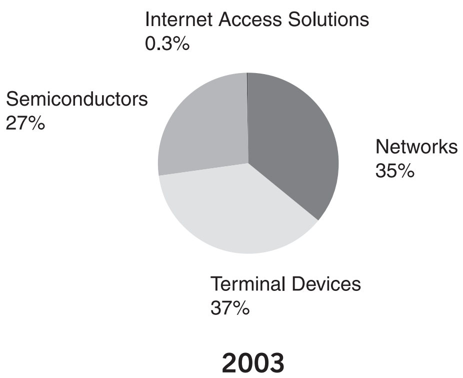
Revenues from Network Elements segment are primarily in the nature of software services. Networks revenue, which constitute 35% of the total revenues this year, compared to 40% during the previous year, declined by 13%. The decline in absolute terms is mainly on account of loss of business from a large Chinese equipment manufacturer, which set up operations in India.

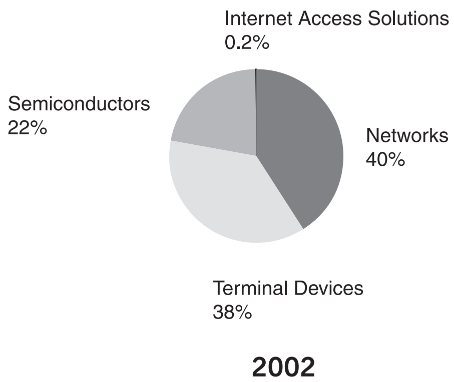
Revenues from Terminals are primarily licensing revenues. Revenues from Terminal Devices manufacturers constitute 37% of the total revenues for fiscal 2003 as against 38% of the total revenues for fiscal 2002. However, in absolute terms, there was a decline of 1%.

Revenues from Semiconductor segment consists of both Licensing revenues and revenues for software services. Semiconductors constituting 27% of the revenues as compared to 22% in previous year grew by 23%. Both products and services revenues increased during the fiscal, on account of new customers added and increased billings from existing customers.

Revenues from Internet access solutions constitute 0.3% of the revenues in the current fiscal and 0.2% previous fiscal.

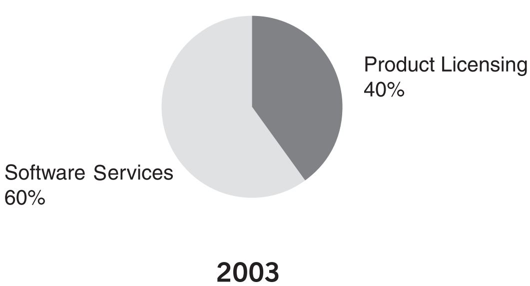
Pie chart of Revenues by Business Segments

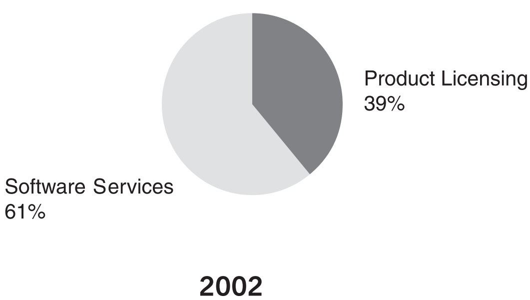




Revenues from product licensing constituted 40% of the revenues for the year, as compared with 39% during the previous year. 60% of the revenues during the year were from software services, as compared with 61% during the previous year.

Pie chart of Revenues by offerings





2.1.2 Cost of Revenues

Cost of revenues comprises of costs incurred by the Business Segments and operating costs allocated to the Business segments, based on the related utilization by each of the segments.

The cost of revenues for fiscal 2003 was US$ 15.76 million as compared to US$ 13.74 million in the previous year. As a percentage of revenues, it works out to 67% and 58% respectively. In absolute terms, the cost of revenues has increased by 15%.

Employment costs as a percentage of revenue, constitute 41% & 32% for the fiscal 2003 & 2002 respectively. During the year, the employment costs increased by 26%, mainly on account of an increase in the quantum of onsite work.

Depreciation as a percentage of revenue is 9% for the fiscal 2003 & 10% for the fiscal 2002. Depreciation reduced by 14%, mainly on account of reduction in expenses on generic software.

Travel as a percentage of revenue is 9% & 8% respectively for the fiscal 2003 and 2002. There was a marginal increase in travel costs.

Capitalized costs as a percentage of revenue, was 8% for the fiscal 2003, and 9% for the fiscal 2002. There has been a reduction in expenses capitalized as the Company has stopped capitalizing its investment in one of the programs, as a result of some changes in the market conditions for that program. This is largely as a prudent measure. Expenses however, continue to be incurred on that product and will continue in the next fiscal until the product is complete. For the same reason, the amount of capitalized software costs amortized showed a large increase of 200% in absolute terms. Amortized cost as a percentage of revenue was 11% & 4% for the fiscal 2003 and 2002 respectively. The investments in product development were continued at the same levels as in fiscal 2002 displaying the faith that the management has, in its products being the driver of value in the longer term.

The increase in inventorization of expenses in fiscal 2003 was on account of milestones yet to be delivered as at the end of the year.

In the earlier year the Company had made estimations on warranty costs towards certain contracts where revenues were recognized. As is the practice, this provision is periodically reviewed, and the excess provision has been reversed during fiscal 2003.

2.1.3 Gross profit before Research and Development

Gross profit recorded during fiscal 2003 posted a negative growth of 21% over gross profit for fiscal 2002. Gross profit as a percentage of revenue is 33%, as compared to 42% recorded during fiscal 2002. The decline is largely on account of lower margins from product business during fiscal 2003. The investment in products, are expected to show results from fiscal 2005 onwards.

Segment-wise gross profit margins are given below:

	2003	2002
Networks	34%	39%
Terminal Devices	44%	59%
Semiconductors	26%	20%
Internet Access Solutions	(762%)	(305%)

2.1.4 Research and Development (R&D)

Expenses on research and development in absolute terms were lower by 80% over the previous year. Research and development expenses constituted 1% of the revenues during fiscal year 2003 and 5% during fiscal 2002. Two factors could explain this reduction. The R&D programs were rationalized and moved to the respective business divisions in the later period of fiscal 2002, so that R&D activity could also be market focused. Secondly expenses on the Internet Access Solutions business division that was in the R&D phase during fiscal 2002, was discontinued during the current fiscal year.

2.1.5 Gross Profit after R&D

The gross profit after R&D for fiscal 2003 recorded a negative growth of 13% over that posted during fiscal 2002. As a percentage of revenues, gross profits were 32% this year, as compared with 36% in previous year.

2.1.6 Selling and Marketing Expenses

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

Selling and marketing expenses are at 18% of revenues for fiscal 2003 as against 14% in fiscal 2002. The increase in absolute terms is about 31%, mainly on account of increase in employment costs, travel, agency commission and expenses on conferences.

Increased employment is mainly on account of expenses being incurred for the whole year during fiscal 2003 as against employment expense for part of the year during fiscal 2002, mainly because the sales team was ramped up during the later part of fiscal 2002. Increase in agency commission is on account of increased assignments to selling agents on a commission basis on account of the difficult market conditions.

2.1.7 Administrative and General Expenses (including Provision for Diminution in Value of Investment)

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

Administrative, Selling and General Expenses constituted 13% and 32% of revenues during fiscal 2003 and 2002. In absolute terms these expenses posted a decrease of 58% during fiscal 2003 over the previous fiscal. Employment costs have reduced mainly on account of attrition during the fiscal. Miscellaneous expenses have reduced mainly on account of the reversal of US$ 0.98 million, booked as a one-time expense in the previous fiscal towards bad & doubtful debts. 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 normally provides for all amounts recoverable beyond 12 months from the balance sheet date. Amounts provided for in earlier years, on account of elongated credit provided to customers, are now recoverable within 12 months, as a result of which the Company has written back US$ 0.98 million. An additional amount of US$ 0.35 million has been provided based on an estimate of recoverability of balances due from customers as at March 31, 2003. Professional, legal and consultancy has reduced mainly on account of reduction in expenses on patents being filed. Reduction in rent is mainly on account of leased facilities surrendered during the year. Repairs and maintenance have reduced mainly on account of Corporate Office becoming fully operational. Depreciation decreased mainly on account of an accelerated depreciation on assets in leased facilities surrendered, accounted for, in fiscal 2002. The decrease in expenses was offset by an increase in provision of US$ 0.66 million made for diminution in the value of securities classified as "Available for sale" and, marginal increase in recruitment and relocation costs.

Employee Stock Option Compensation Cost

Employees were allotted options under ESOP 2000, the stock option plan of the Company, between September 2000 and May 2001. Since then, the capital markets have gone through some real rough times, and valuations have crashed considerably. Considering that our Company is an unlisted company, the valuation of our shares was carried out by an expert in the field of valuation based on the discounted cash flow and comparable company methods. The significant fall in valuations of comparables, led to a fall in the value of the company's shares. As a result, the options were significantly out of the money and employees were not exercising them. In view of this, during the current fiscal, the Company, after considering other alternatives, decided to cancel the stock options remaining unexercised. As a result of this cancellation, no additional ESOP compensation cost have been accounted during the fiscal. The ESOP Compensation cost accounted for the fiscal 2002 was about US$ 1.14 million.

2.1.8 Income from Operations

Operating income for fiscal 2003 is US$ 0.08 million compared with an operating loss of US$ 2.15 million for fiscal 2002. Operating income as a proportion of revenue was 0.33% for fiscal 2003 as compared to 9% negative for fiscal year 2002.

2.1.9 Other Income

Other income for fiscal 2003 was US$ 0.02 million as compared to US$ 0.37 million in fiscal 2002. Other income as a percentage of revenue was 0.08% for the current fiscal and 2% for the previous fiscal.

Other income of previous fiscal includes US$ 0.12 million accrued on account of contractual charges, receivable on contract closure.

2.1.10 Interest

Interest charged against income during the year ended March 31, 2003 was US$ 0.75 million as compared with US$ 0.93 million for fiscal 2002. As a percentage of revenues, interest charged was 3% during fiscal 2003 and 4% during fiscal 2002. The decrease in interest expense was on account of regular repayment of the long-term debt availed by the company for meeting its capital expenditure requirement. Also the Rupee denominated long-term debt was converted into a US Dollar debt at much lower interest rates towards the end of the fiscal. The decrease in interest expense was marginally offset by an increase in interest expense, on account of an increased utilization of Line of Credit for working capital needs.

2.1.11 Income Taxes

Income taxes as a percentage of revenues constituted 2% during fiscal 2003 and 4% during fiscal 2002.

Income taxes during fiscal 2003 is US$ 0.57 million as compared to US$ 0.83 million during fiscal 2002, resulting in a decrease of 32% in absolute terms. This was mainly on account of lower taxable income and reversal of tax provisions made in the earlier years, now considered excessive.

2.1.12 Net Income

Net loss from ordinary activities and continuing operations for fiscal 2003 was US$ 1.22 million as compared to Net loss of US$ 3.54 million during previous year

3. Fiscal Year ended March 31, 2002 Compared with Fiscal Year ended March 31, 2001

The consolidated income statements for the current fiscal include the accounts of the Company and its wholly owned Japanese subsidiary. All significant inter-company accounts and transactions are eliminated from the consolidated income statements.

3.1.1 Revenues

The Company's operating segments are Networks, Terminal Devices, Semiconductors and Internet Access Solutions. It derives its income from product and technology licensing and software services in the above segments. Contracts for product and technology licensing generally include license fees and customization charges. License fees may be in the form of a lump sum license fee and / or fees based on the volumes of product sales made by the licensee. Software services are generally provided on time and material basis or on milestone-based fixed price contracts.

The company's revenues during fiscal 2002 was US$ 23.50 million as compared to US$ 31.75 million during fiscal 2001, registering a negative growth of 26%.

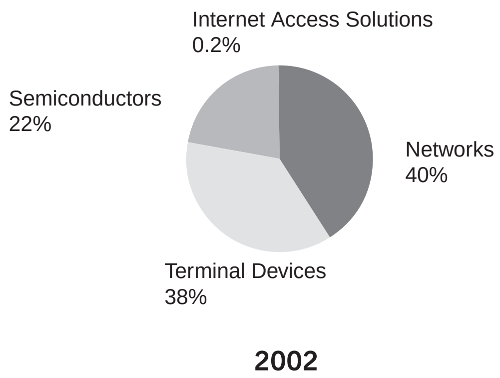
Networks revenue, which constitute 40% of the total revenues this year, compared to 31% during the previous year, decline by 6%. The reason for the increase in the share of total revenues for Networks is on account of drop in revenues being more significant for the other business segments.

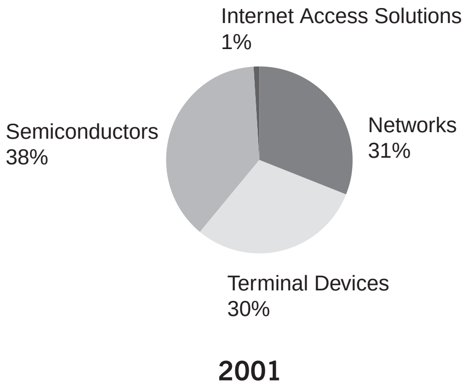
Revenues from Terminal Devices constituting 38% of the total revenues, as compared to 30% during the previous year declined by 6%.

Semiconductors constituting 22% of the revenues as compared to 38% in previous year declined by 56%.

Internet Access Solutions constituting 0.20% of the revenues in the current year and 1% previous year declined by 86%

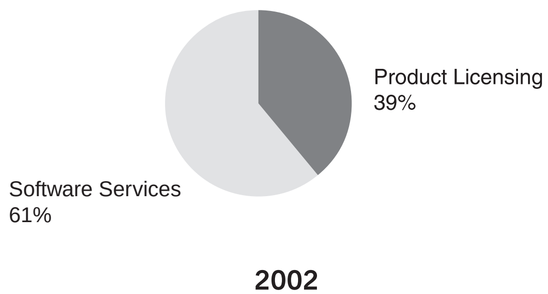
Pie chart of Revenues by Business Segments

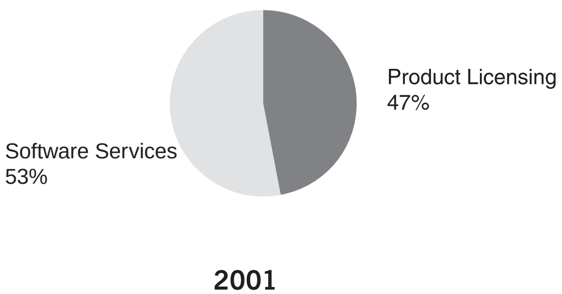




Revenues from product licensing constituted 39% of the revenues for the year, as compared with 47% during the previous year. 61% of the revenues during the year were from software services, as compared with 53% during the previous year.

Pie chart of Revenues by Offerings





Revenues from on-site work constituted 20% of the revenues of the Company, as compared with 18% during the previous year. Though onsite revenues is 20% of total revenues for fiscal 2002, the onsite revenues in absolute terms is lower than last year, on account of 24% decline in revenues of fiscal 2002 over that of fiscal 2001.

3.1.2 Cost of Revenues

Cost of revenues comprises of costs incurred by the Business Segments and operating costs allocated to the Business segments, based on the related utilization by each of the segments.

The cost of revenues for each of fiscal 2002 & fiscal 2001 was US$ 13.74 million & US$ 13.90 million respectively. As a percentage of revenues, it works out to 58% and 44% respectively. The increase in cost is mainly due to increase in employment expenses and depreciation. Increase as a percentage of revenues are due to negative growth in revenues.

During fiscal 2002, employment cost increased to 32% of the revenues from 23% in fiscal 2001. Employments costs have increased on account of an increase in person months. The engineering person months registered an increase of 33% in 2002 over 2001. This increase was offset by the 20% salary cut, and as such employment costs registered a growth of 12%.

Travel expenses, which includes cost of travel abroad for software development decreased to 8% of revenues from 9% of revenues in fiscal 2001. The decrease in travel expenses is on account of decrease in the quantum of onsite work.

Depreciation and software access charges together constitute 13% of revenues for the years 2002, compared with 4% during the previous fiscal. Increase in Depreciation is on account of increase in Generic Software and in allocated depreciation, which is mainly on account of depreciation on the Corporate Office, which has been allocated to the divisions based on the utilization by each of the divisions.

Recruitment and relocation expenses as against revenues declined from 2% of revenues to 0.25% this year. Reduction in Recruitment expenses is on account of the reduction in the extent of recruitment over 2001.

Net capitalization and Work in progress comprise of capitalized costs net of amortization, and movement in work in progress. Net capitalization expenses as a percentage of revenues increased to 6% of revenues as against 3% in the previous year. The increase in capitalized costs is on account of increased product development activities in fiscal 2002. This increase in capitalized costs has been offset by an increase in amortization costs, this is on account of amortization expenses incurred for the full year on products that were capitalized during fiscal 2001.

3.1.3 Gross Profit before Research & Development

Gross profit recorded during fiscal 2002 posted a negative growth of 45% over gross profit for fiscal 2001. Gross profit as a percentage of revenue is 42%, as compared to 56% recorded during fiscal 2001.

Segment-wise gross profit margins are given below:

	2002	2001
Networks	39%	38%
Terminal Devices	59%	82%
Semiconductors	20%	55%
Internet Access Solutions	(305%)	(76%)

3.1.4 Research and Development (R&D)

Expenses on research and development in absolute terms were lower by 7% over the previous year. Research and development expenses constituted 5% of the revenues during fiscal year 2002 and 4% during fiscal 2001.

3.1.5 Gross Profit after R&D

The gross profit after R&D for fiscal 2002 recorded a negative growth of 48% over that posted during fiscal 2001. As a percentage of revenues, gross profits were 36% this year, as compared with 52% in previous year.

3.1.6 Selling and Marketing Expenses

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

Selling and marketing expenses are at 14% of revenues for fiscal 2002 as against 10% in fiscal 2001. The increase in absolute terms is about 5%, mainly on account of increase in employment costs, travel, depreciation and communication expenses.

3.1.7 Administrative and General Expenses

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

Administrative and General Expenses constituted 32% and 19% of revenues during fiscal 2002 and 2001. In absolute terms these expenses posted an increase of 24% during fiscal 2002 over the previous fiscal. The increase is mainly attributable to increase in Miscellaneous expenses, Depreciation, Training and Conference expenses, and Consultancy charges. Miscellaneous expenses, during fiscal 2002, include US$ 1.2 million, which is a one-time expense towards bad & doubtful debts. Since the subsidiary has been converted into a branch during the year ended March 31, 2002, that year's income statement includes US$ 57,461 towards write back of previous year profits. Subsidiary expenses included in the consolidated income statements during fiscal 2001 amounted to $ 1.02 million and constituted 3% of the revenues.

Employee Stock Option Compensation Cost

The compensation cost has been determined in a manner consistent with the fair value approach in accordance with SFS 123. Of the total option discount of $ 4.03 million, $1.14 million was charged against profits of fiscal 2002 and $ 0.8 million was charged against profits of fiscal 2001 and constituted 5% and 3% of revenues of the fiscal year 2002 and 2001 respectively.

3.1.8 Income from Operations

Operating income for fiscal 2002 declined from US$ 7.43 million in fiscal 2001 to an operating Loss US$ 2.18 million, a decrease of 129%. Operating income as a proportion of revenue was a negative of 9% for fiscal 2002 as compared to 23% for fiscal year 2001.

3.1.9 Other Income

Other income for fiscal 2002 was US$ 0.37 million as compared to US$ 0.50 million in fiscal 2001. Other income as a percentage of revenue was 2% for the current fiscal and the previous fiscal.

Other income in 2002 includes US$ 0.12 million accrued on account of spin off charges being accrued on a contract closure.

Gains on account of exchange fluctuations accounted for about 1.5% of the revenues of the year.

3.1.10 Interest

Interest charged against income during the year ended March 31, 2002 was US$ 0.93 million as compared with US$ 0.30 million for fiscal 2001. As a percentage of revenues, interest charged was 4% during fiscal 2002 and 1% during fiscal 2001. The increase in interest expense was mainly on account of the demand loan availed by the company for meeting its capital expenditure. During fiscal 2001,interest was payable for only part of the year and a large part of the interest payment was capitalized, since the facility was under construction. However, since the facility was made operational in the year, the entire interest payment during the year has been charged to profits.

3.1.11 Income Taxes

Income taxes constituted 4% of revenues during fiscal 2002 and fiscal 2001.

Income taxes during fiscal 2002 is US$ 0.83 million as compared to US$ 1.14 million during fiscal 2001, resulting in a decrease of 27% in absolute terms. This was mainly on account of reversal of withholding tax of previous year determined as not payable amounting to US$ 0.40 million. The decrease was partly offset by the increase of US$ 0.09 in provision for income tax and taxes with held by customers.

3.1.12 Net Income

Net loss for fiscal 2002 was US$ 3.53 million as compared with net profit of US$ 6.48 million for fiscal 2001. Net loss, expressed, as a percentage of revenues for fiscal 2002 was 15% as compared to net profit of 20%.

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: (in US$)

	2003	2002	2001
Net Income as per Indian GAAP	263,018	(3,339,272)	6,587,102
Adjustments			
Exchange Differences Capitalized	(9,196)	788	(7,562)
Depreciation	2,872	(1,825)	1,965
Income / (Loss) of Subsidiary	–	57,461	87,790
ESOP Provision as per SFS 123	–	(255,753)	(163,991)
Accounting for Gain / (Loss) on Investments	–	–	(49,953)
Tax on Gain / (Loss) on Investments	–	–	32,036
ESOP Costs Reversal on Cancellation of the ESOP scheme	(1,476,923)	–	–
Net Income as per US GAAP	(1,220,229)	(3,538,601)	6,487,387

5. Risk Management

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

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