Annual Report 2004

sasken

Sasken is a world-class telecom software solutions provider offering a unique combination of complementary IP software components, research and development consultancy as well as software services to many of the leading semiconductor manufacturers, network equipment companies, and global wireless handset developers. Sasken has filed the highest number of patents among Indian IT companies and is an SEI-CMM Level 5 company.

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Board of Directors

Mr. Rajiv C Mody	Chairman & 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
Mr. Vinod Dham	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
Mr. Vinod Dham	Member

Share Transfer and Investor Grievance Committee

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

Management Council Members

Mr. Colin Aitken	Vice President, Marketing and General Manager, Europe
Mr. Edwin Moses	Vice President, Head World Wide Sales
Mr. G Murlikrishnan	Vice President, Head Mobile Platform Solutions
Dr. G Venkatesh	Vice President, Strategy Officer
Mr. Hari Iyer	Vice President, Culture Officer
Mr. Krishna J Jhaveri	Whole-time Director and President, North America
Mr. K S G Shankar	Vice President, Operations and Quality
Mr. Kumar Prabhas	Vice President, Chief Operating Officer
Ms. Neeta Revankar	Vice President, Chief Financial Officer
Mr. Pranabh Mody	Whole-time Director & Head of Terminal & Network Business Division
Mr. Rajiv C Mody	Chairman & Managing Director
Mr. Shrikrishna G Gokhale	Vice President, Head Semiconductor Business Division
Mr. Surendra Saxena	Vice President, Head Key Customer Business Division

Company Secretary

N Venkatramani

Statutory Auditors

S R Batliboi & Co.

Chartered Accountants

Internal Auditors

S B Billimoria & Co.

Chartered Accountants

Bankers & Financial Institutions

Citibank N.A.

Dena Bank

HDFC

ICICI

Union Bank of India

Solicitors and Attorneys

Dua Associates

Wilson Sonsini Goodrich and Rosatti

Registered and Corporate Office

Sasken Communication Technologies Limited

No. 139/25,

Domlur Layout,

Ring Road, Domlur P.O.,

Bangalore 560 071.

Letter to Shareholders

Letter to Shareholders

Mr. Rajiv C Mody
Chairman &
Managing Director

Dear Shareholder,

It is indeed with great pleasure that I present to you the performance of your company for the financial year 2003-04.

The year gone by was marked by a return to growth in revenue and profits for your company. As you are aware, this follows a period of two tough years of negative to low growth. Let me first take you through the numbers after which I will try to give you a feel for our business from where these numbers originate.

For the year that has ended, we have seen our revenues surge from Rs. 109 crores to Rs. 166 crores – a growth of 52% in rupee terms and from US$ 22.6 million to US$ 36.4 million, a growth of 61% in dollar terms. Services grew at 92% contributing 76% of our revenues, while our IPR related revenues contributed 24% to the total. Our onsite: offshore revenue ratio for the year is at 36:64. Our revenue per person stood at US$ 32,810.

The profits grew from Rs. 1.27 crores to Rs. 18.33 crores during the year. From our profit and loss statement, I would like to highlight that we have returned to a path of double digit operating profits of 11% primarily through economies of scale (as reflected in a lower SG&A of 23% compared to 32% in the previous year). We received Rs. 4.73 crores as tax refunds during the year. I believe that this is a one time item and do not expect that this will be a regular feature on the statement.

If you take a close look at our balance sheet, you will notice that we are nearly a debt free company. During the year we repaid the term loans that we had taken for constructing the Sasken corporate office, and optimized our use of working capital loans to ensure that our interest costs are low. You will also notice that the capitalized software during the year has come down from Rs. 5.76 crores to Rs. 1.15 crores and inventorized software during the year has come down from Rs. 2.46 crores to Rs. 55 lakhs. From our cash flow statement you can see that we generated Rs. 26 crores from operations and were vigilant with new capital investments restricting it to Rs. 10 crores.

After giving you the tour of the financials for the year, let me now take you through our business that generates these numbers. I would like to start by taking you back to our earlier Annual Reports, in which I had laid down Sasken's key objectives:

- Focus exclusively on the communication market space, addressing the different segments that make up the entire value chain – semiconductors, network equipment OEMs, operators and terminals;
- Continue to develop a fusion business model that combines the value of intellectual property (IPs) with a range of services;
- Continue to strengthen our delivery mechanisms;
- Achieve the highest levels of corporate governance practices.

We track our business by revenues generated from services and IPR separately. Our services business has been growing handsomely over the last 8 quarters at 21% growth per quarter. We expect the trend to continue going forward. Our revenues from the IPR business continues to show choppiness quarter on quarter, and will remain like that for the coming 4 to 6 quarters till the IPR offerings are mature and start yielding royalties. Beyond this, revenue and profit growth can be sustained quarter on quarter and will bear a direct relation to the end user markets. We have made a conscious attempt this year to manage the mix of services and product revenues so that we can deliver double digit profits on a sustained basis.

Getting briefly into details on our services side of the business, we have seen sustained aggressive growth both in our semiconductor business, network equipment OEM business and terminal devices business. We have established ourselves as a formidable player in each of these segments and are now well respected for our ability to deliver on increasingly complex projects to customers through our communication technology orientation clubbed with the best in class people and processes.

Our IPR side of the business achieved several milestones last year. Our DSL IPR is deployed today in approximately 400,000 lines. We have seen our first royalty flows coming during the year (you may recollect that we sold our first DSL license in 1997 – and yes, it does take that long to convert IPR into sustainable revenues.) A phone that uses our GSM/GPRS protocol stack has been launched in the China market and has been tested in several networks worldwide. We are really proud of this achievement, since this was one of the key objectives for us during the year. Our multimedia application suites (under the brand name of Strawberra) is now present on 9 – 10 different handset models launched in the Japan, China, UK, Australia and Hong Kong markets. We expect this trend of increasing market deployment of our IPR to continue in the coming year and that these deployments will produce sustained, predictable and very high quality royalty revenues quarter on quarter in around 4 – 6 quarters time. We at Sasken request your support until we reach this predictability.

Your company continues to invest on the technology and R&D front. Last year, our R&D expenses were about 1% of the revenues. In the coming year, we expect to ramp this spend up to around 3%. Your company differentiates itself in the market place by developing technology and technical expertise. I would like to re-emphasize that to sustain this differentiation, continued investments in R&D are a must. This strategy has succeeded handsomely for us in the past and we will continue to pursue it. During the year we were granted 2 patents out of the 30 that we have filed for. You can read more about this in the 'Technology and Market' segment.

The entire communication value chain is geared to provide products and services to the operators. A key weakness in your company's focus on the communication space has been the lack of an offering to address the operator space. In order to address this weakness, we have created a separate subsidiary called Sasken Network Systems, which is headed by capable individuals. This initiative has already started yielding results and in the coming years we expect healthy growth in this segment. On the people front, we grew from a team size of 851 at the beginning of the year to 1437 on March 31. The performance orientation culture is strongly driven and we are seeing results on the same. You will read more of this in the People First segment.

The growth in team size meant that our infrastructure needed to grow as well. Last year, your company set up two new development sites in Bangalore and one in Pune. We are also expanding our development activities, in a small way, in Europe. We also opened an office in Germany during the year to service our European customers better.

During the year we prepared for the TL9000 audit and certification and we are proud to say that we were successful. We are the only telecom company in India, certified for TL9000, and only the third Indian company overall.

So to sum it up, I would like to state that even during tough times your company stayed the course and results are visible. Going forward, we do have challenges and I am sure we will overcome them. I am proud of each and every Sasian worldwide who has delivered this result. I am also thankful to you for supporting the management of this company.

3.0%

"In the coming year, we expect to ramp up our R&D spend to around 3.0%"

Thanking you,

Rajiv C Mody
Chairman & Managing Director

People First

People First

"The Sasken values system is entrenched in us and it forms the basis for inducting new recruits into the organization."

" Organizational conscience is the essential bedrock of a company with character."

"The life blood of any knowledge organization is its collective competence."

"Commitment is the primary condition for building a collective enterprise."

We toughened our forces

A future in growth demands tougher people.
Being on the upswing meant adding muscle and fortifying our forces. As our Human Resources strategy for 2003 states, we had to 'Prepare For and Manage Growth.'

There was only one way to keep up with Sasken's growth: Recruit more people. The challenge lay in appointing them quickly without sacrificing on quality. We conducted interviews across cities and campuses and even held a career fair. By the end of 2003 – 2004, the tally was an impressive add-on of 700 people.

Recruitments aside, we had to strengthen our employees. We had to toughen them for growth. Keeping in line with our 'People First' policy and our conviction in our 3C Model – Competence, Commitment and Character, our people programs for 2003 were primarily segmented into three action areas: Building an organization with character; developing technical and leadership competencies; and ensuring commitment through employee engagement.

Managing Change – Maintaining character

Once the i-RISE Principles were in place, we had to ensure that it was implemented across Sasken. Using the Values Manual, we helped employees refine their work and client-handling procedures. The values system is now so entrenched in us that it forms the basis for inducting new recruits into the organization.

We also conducted a large group intervention program using a methodology called 'Appreciative Inquiry'. About 125 employees participated in personal visioning and organizational visioning in a two-day program. The output of this initiative was the operationalization of organizational vision, and the alignment of business units and group goals to the organizational vision.

Developing Competencies – Enhancing Strengths

Technical Competency Development

A key focus area in 2003 was the setting up of a Technical Competency Development framework. All necessary skill sets were classified into 11 competency baskets. Training modules in each basket were defined and operationalized. Now, we can implement any training program within 10 days of a request. We also reduced the time needed for ramp-up of lateral and fresh hires.

Integration using People Soft

We integrated our competency development framework, career-pathing and management programs, and our training need analysis method. It has helped us identify competency gaps in each employee and define individual development plans. The integration helped us manage aspirations of both the organization and individuals. It formed the data for finalizing the organization's training calendar.

Leadership Development

We started three major initiatives for leadership development: Mentoring; Leadership Education for Project Leaders; and Leadership Forum for Program and Project Managers.

Those who were in middle management were assigned a mentor from senior management teams. The mentoring route was designed to help managers inculcate the organization's values in team leaders, and to help them face the challenges of growth.

Leadership Education for Project Leaders focused on developing leadership competencies through sustained effort. It covered 10 themes over a period of 20 weeks, with 10 half-day modules. Over 90% of our project leaders were trained under this program. We are now focusing on other prospective project leaders.

The Sasken Leadership Forum for Program and Project Managers is an internal initiative built on the success story of the Leadership Education for Project Leaders. It covered 15 themes over 30 weeks, with 15 half-day modules.

The challenge was to strike a balance between developing and relying on internal trainers, and in bringing in external expertise for training. We were able to reduce training expenditure without compromising on quality.

Training Numbers:

Training Data for the year	Person Days	Cost in $ (US)
Technical Training	6,142	89,881
Non-Technical Training	4,357	1,12,836
Total	**10,499**	**2,02,717**

Retaining Talent – Ensuring Commitment

We initiated various recognition measures in all business units. We concentrated on transition and promotion of deserving employees, and even offered opportunities for job rotation based on individual readiness and aspiration.

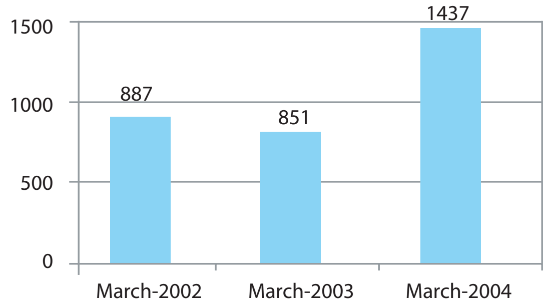
We strengthened the role of employee relations managers for our business units. An area we focused on was Employee Touch Time by employee relations managers. This was done through one-on-ones and skip-level meetings.

We focused on the three dimensions of an employee's life: The professional, the personal and a balance between the two. We encouraged employees to pursue their academic interests through continuous education programs such as M.S. programs from BITS, Pilani, and the PGSM program from IIM, Bangalore. We revamped the crèche. The gymnasium was re-designed with excellent facilities. Fun events were organized for employees and their families. We celebrated Dandiya, Children's Day and Holi. Several Sasken employees participated in the Inter-Division cricket tournament.

Our career-pathing and management initiative has reached the next level of implementation, wherein employees understand their career anchors and choose their growth options based on their motivation and their potential.

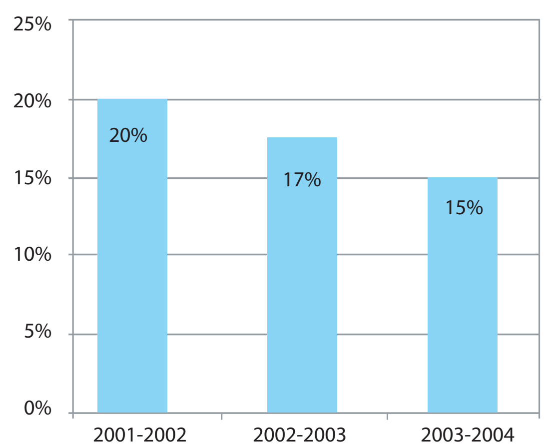
Final Tally

Sasken Strength



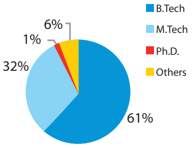
Our initiatives led to a growth in the number of employees, based on our business growth.

Attrition Rate



We have reduced the attrition rate over the years, though the percentage of annual salary hikes has been reduced.

Sasken Employee Profile



We have been able to maintain the culture and character of the organization and the employee profile.

Technology and Markets

Technology and Markets

"Last year was great for Sasken. Our determined investments in the wireless segment, DSL and multimedia applications have paid off."

5.0%

2003 was a year of return to growth for telecom markets worldwide. The overall market grew at 5%.

We saw the Future

2003 truly was a year of return to growth for telecom.

The overall global telecom market grew at 5% from US$ 1.235 trillion in 2002 to US$ 1.298 trillion in 2003. Most of this growth came from sale of telecom services to end consumers.

The telecom equipment market though, which is Sasken's market, continued to shrink but showed signs of stabilizing. Following a negative growth at 14% in 2002 (over 2001), the market shrunk further at -0.5% in 2003 (from US$ 267.8 billion in 2002 to US$ 266.4 billion in 2003). Nevertheless, we expect the telecom equipment market to return to growth in 2004.

Some great news came from the mobile segment: It grew at an outstanding 11%. The total mobile market, which includes services and equipment, grew from US$ 494.7 billion to US$ 549.4 billion. Given our focus on wireless equipment, this is great news for Sasken. We expect it to expand further, and visualize a CAGR of 6.1% until 2008.

Another exciting feature of 2003 was the contribution from emerging markets to the telecom growth. The Asia-Pacific region, including China and India, registered a growth rate of 9.2%, while Central and Eastern Europe recorded a 9.8% growth rate. The mature markets, North America and Western Europe, recorded significantly lower growth rates at -0.2% and 6.5% respectively.

We expect this distinction between emerging and mature markets to continue in 2004. Growth in Asia-Pacific will stabilize at a healthy 7.1%, while the Central and Eastern European markets will continue to grow at 9.8%. The growth in mature markets will likely be about 3.3% to 3.4%.

In our Annual Report 2003, we had predicted 3G rollouts in 2004-2005. We stand by that view. In fact, we now expect pre-commercial or trial 3G networks to be operational in Western Europe markets and developed Asian markets by the end of 2004. These networks, we expect, will go commercial in 2005. However, technology maturity issues continue to dog these systems, and these could pose a risk to Sasken's business.

Wireless Network Infrastructure Providers

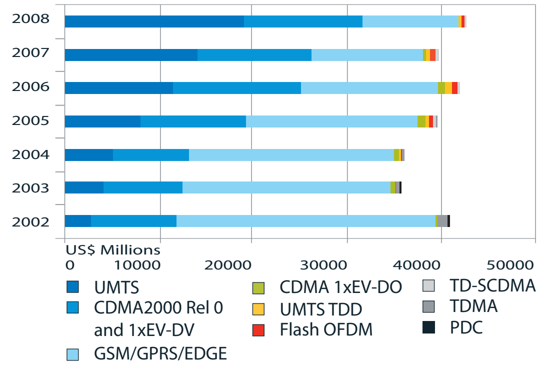


Figure 1 Wireless Telecom Equipment Forecast by Technology

Wireless Network Infrastructure Providers

We expect a slim and irregular growth in the wireless telecom market till 2005. It will however peak in 2005-2006. Though the wireless market continued to shrink in 2003, customers in this space had better visibility on future revenues as the year ended.

Figure 1 illustrates that some wireless telecom technologies will either outperform or perform below the market. We expect that by 2008 the market will pre-dominantly consist of UMTS, CDMA2000 and GSM/GPRS/EDGE equipment. Older technologies such as PDC and TDMA are likely to die by 2005. Variants of leading 3G standards, such as UMTS-TDD, flash OFDM and TD-SCDMA, are expected to serve niche markets and form a small but important slice of the entire market in 2008.

The consolidation we had expected among network equipment vendors in 2003, did not happen. Instead, the year saw the emergence of new Asian vendors on the global stage, particularly from China. We still stand by our assertion that competitive R&D among vendors led to bloated R&D budgets. We thus continue to expect consolidation among customers in this space.

Another development in 2003 was that as the end market in the wireless segment stabilized, customers began to approach outsourcing once again. They have started adding to their list of approved partners, particularly specialists in specific telecom areas. Our strategy to remain focused on wireless RAN, enterprise, and network edge elements has paid off. As a result, Sasken's business with key accounts in this space continues to grow.

Semiconductor Forecast

The cyclical nature of the semiconductor industry had led to its recovery from recession in 2002. This recovery gathered steam in 2003, particularly in the second half, and was driven primarily by supply constraints.

The supply constraints were exacerbated by the disinclination of silicon vendors to loosen capital expenditure budgets for fabs until 4Q2003. Total semiconductor shipments grew at 14%, rising from US$ 155.6 billion in 2002 to US$ 177.4 billion in 2003. The growth was primarily led by customers in the Asia-Pacific region, which is growing at 24%. North America, on the other hand, was a noticeable laggard, growing at a mere 1%. We expect this growth to continue in the second half of 2005. A cyclical downturn is likely in 2006.

The primary driver for this recovery was an increased demand for ASICs and ASSPs (Application Specific Signal Processors) for wireless applications.

Applications Growth

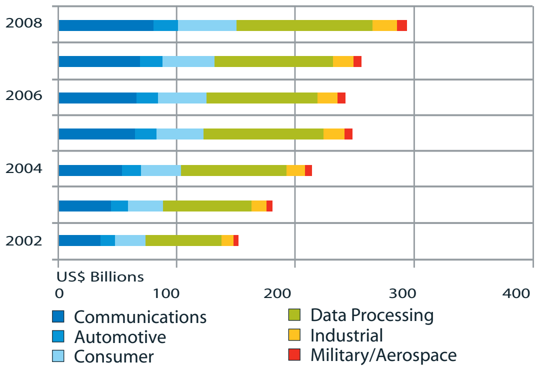


Figure 2 Semiconductor Market Forecast by Application

The application space that led the semiconductor recovery last year was communications. This trend will likely continue until 2007. Within the communications space, wireless is proving to be the fastest growing segment. We expect it to register a CAGR of 14%.

Trends in Device Type

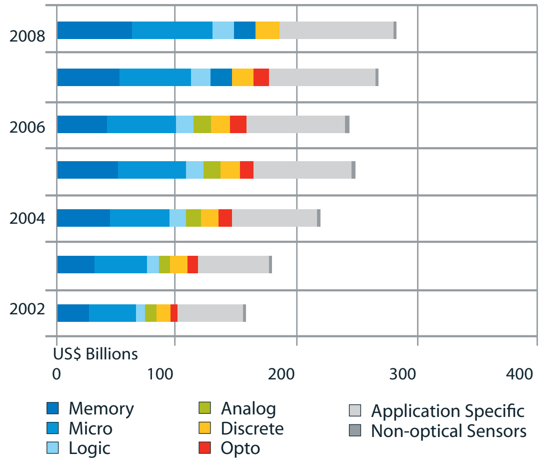


Figure 3 Semiconductor Market Forecast by Device Type

The segment for application-specific devices forms a significant aspect of the semiconductor market. We expect it to grow rapidly over the next couple of years.

Sasken's strategy of partnering with wireless handset baseband vendors is positioned well to gain from both trends. We had mentioned last year that as silicon vendors are moving towards more complex solutions, SoC verification needs are growing faster than design complexity. Year 2003 saw a continuation of this trend. We expect verification services to be an important component of our offerings in this segment in 2004.

Outsourcing to India continues to be a steady trend in this sector. Venture capitalists insist that new semiconductor start-ups establish development centres in India.

> "Sasken's strategy to remain focused on wireless RAN, enterprise, and network edge elements has paid off. As a result, Sasken's business with key accounts in this space continues to grow."

DSL Investments

2003 was a landmark year for DSL. We saw the first large-scale deployments of the DSL technology across the world.

Sasken has started to realize royalty streams from its investments in DSL. Our soft DSL technology is now deployed in 1% of the world CPEs. We expect to experience further growth in host-based DSL deployments. We will thus continue to invest in creating the next versions of our host DSL solution supporting ADSL2 and ADSL2+.

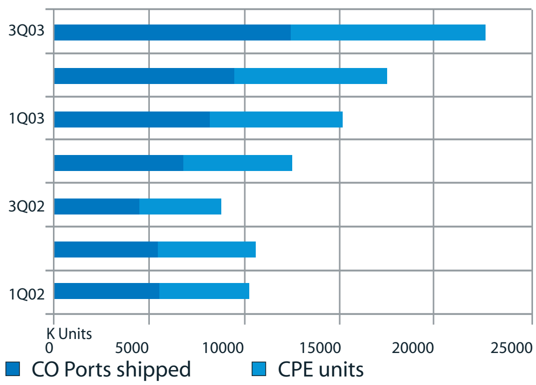


Figure 4 DSL Equipment Shipments

Terminal Devices

he handset market had a relatively slow start in 2003. Growth in 1Q2003 was hampered by inventory concerns, and in 2Q2003 by the incidence of the SARS virus in key East Asian markets. The market made up for this sluggish start by advancing at a blistering pace in the second half of 2003. By the end of the year, the handset market had grown to 520 million units, at a growth rate of over 30%.

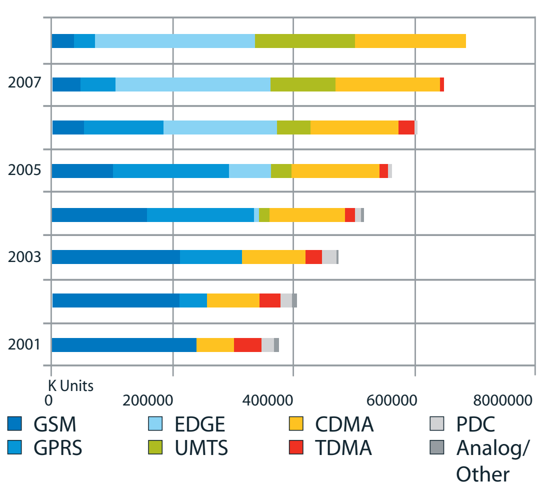


Figure 5 Handset Shipment Forecast by Technology

The graph illustrates the impressive growth of the GSM family of standards worldwide. We expect EDGE to be a default feature in most GSM handsets. This will enable operators to drive EDGE adoption rates aggressively. The pattern reflects our belief that pre-commercial 3G networks will be operative in Europe and East Asia by the second half of 2004. Commercial 3G networks will be operative only next year.

It is clear from Figure 6 below that the emerging markets of China, India, developing parts of Asia (including Indonesia and Malaysia), and South America (including Brazil), will dominate handset shipments. We expect this geographic shift in key markets to drive lower-cost phones, and create new challenges for our customers.

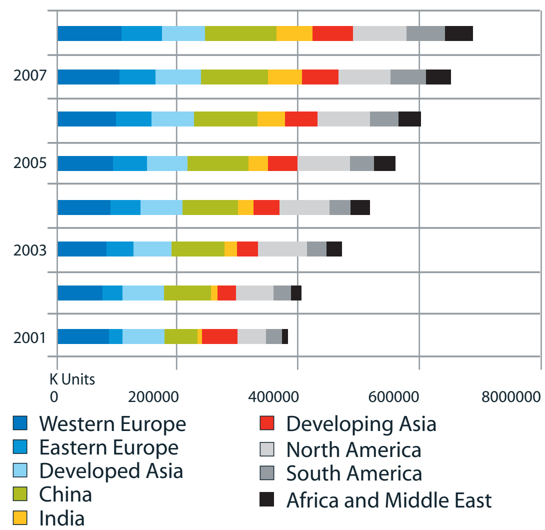


Figure 6 Handset Shipment Forecast by Geography

Another interesting consequence of this geographic transition is the emergence of new handset vendors. Last year, we saw Taiwanese and Chinese handset vendors selling handsets in China under their own brand name. These vendors are traditionally strong in hardware design.

Sasken sees a great opportunity to collaborate with them in the software space.

The other two trends we wrote about in our previous annual report – viz. adoption of camera phones and colour screens – continued to gather steam in 2003. These two features will be the key drivers of replacement buying in mature markets. In light of this, we continue to expect strong demand for mobile multimedia applications.

The growth in complexity of applications means the emergence of greater integration of handsets as a key technology trend. Software in handsets is increasing. We can use the memory in handsets as a proxy for software content. The average memory content in a mobile phone grew to 7 MB in 2003. The software that occupies this memory typically comes from different sources and should be integrated and tested. This is a growing requirement and a big pain area for our customers.

Our investment in multimedia applications over the past 10 years has paid off here. We had invested in creating various multimedia applications, including video telephony. Our MMS is deployed through an OEM and our multimedia codecs are present about10 devices worldwide. We see our revenues from this space increasing due to the vast potential in licensing software modules and in providing integration and test services.

A Seven Year Snapshot
Year at a Glance

Financial Performance – A Seven Year Snapshot

(Rs. in lakhs)

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
1) Revenue Account							
Sales/Revenue	2,840.73	4,703.59	7,591.56	14,283.34	10,862.70	10,938.19	16,613.01
Other income	79.38	100.58	427.34	112.86	149.08	(15.93)	130.45
Total revenue	2,920.11	4,804.17	8,018.90	14,396.20	11,011.78	10,922.26	16,743.46
Profit before Interest, depreciation and taxes (PBIDT)	1,092.44	2,074.78	3,466.95	4,293.46	1,061.40	2,022.50	2,889.54
Depreciation	211.84	612.06	878.31	808.31	1,790.47	1,257.92	1,187.78
Profit before Interest and taxes (PBIT)	880.60	1,462.72	2,588.64	3,485.15	(729.07)	764.58	1,701.76
Interest	34.66	33.79	88.18	136.44	439.62	362.23	79.84
Miscellaneous expenditure written off	0.11	–	–	–	–	–	–
Profit/(Loss) before tax (PBT)	845.83	1,428.93	2,500.46	3,348.71	(1,168.69)	402.35	1,621.92
Income tax (including withholding taxes)	55.97	206.23	1,014.34	538.07	395.17	275.09	(213.20)
Profit/(Loss) after tax (PAT)	789.86	1,222.70	1,486.12	2,810.64	(1,563.86)	127.26	1,835.12
Dividend	172.81	472.40	513.95	551.88	–	–	427.58
2) Capital Account							
Share capital	1,000.00	1,079.39	1,247.47	1,256.53	1,266.94	1,271.00	1,516.09
Share application money	–	–	–	–	0.06	1,642.76	–
Reserves and surplus	623.38	1,368.68	6,347.17	8,912.74	7,785.29	7,211.71	9,860.11
Loan funds	406.46	1,407.16	85.63	3,176.47	3,539.34	2,675.35	42.68
Gross block	1,545.10	3,082.40	4,799.25	10,144.22	13,048.69	13,174.80	13,716.82
Net block	1,127.69	2,075.77	2,914.28	7,531.87	8,949.20	8,234.87	7,805.35
Investment	29.82	29.79	1,905.38	186.18	335.41	14.42	269.19
Net current assets	872.33	1,749.67	2,860.61	5,627.69	3,307.02	4,551.53	3,344.34
3) Other information							
Total number of shareholders	44	160	441	572	659	709	788
Number of employee shareholders (including ex-employees)	2	120	218	317	394	432	467

Financial Performance – A Seven Year Snapshot

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
4) Ratios							
a) Profitability/Efficiency							
Operating turnover/Total turnover (%)	97.3%	97.9%	94.7%	99.2%	98.6%	100.1%	99.2%
Other income/Total turnover (%)	2.7%	2.1%	5.3%	0.8%	1.4%	-0.1%	0.8%
PBIDT/Total turnover (%)	37%	43%	43%	30%	10%	19%	17%
PBIT/Total turnover (%)	30%	30%	32%	24%	-7%	7%	10%
PBT/Total turnover (%)	29%	30%	31%	23%	-11%	4%	10%
PAT/Total turnover (%)	27%	25%	19%	20%	-14%	1%	11%
Return on average net worth (%) (PAT/average net worth)(%)	67%	60%	30%	32%	-16%	1%	17%
Return on average capital employed (pre-tax) (PBT+ Interest)/(average capital employed)(%)	57%	50%	45%	33%	-6%	6%	14%
Return on average capital employed (post-tax) (PAT+ Interest)/(average capital employed)(%)	53%	43%	27%	28%	-9%	4%	16%
Sales to average net working capital	4.8	3.6	3.3	3.4	2.4	2.78	4.21
Total Revenues to average total assets	1.9	1.6	1.4	1.4	0.9	0.9	1.4
Fixed Assets turnover	1.8	1.5	1.6	1.4	0.8	0.8	1.2
b) Liquidity							
Net working capital to total assets	0.4	0.5	0.4	0.4	0.3	0.4	0.29
Average collection period (days)	117	187	126	127	98	104	74
Current ratio	2.6	2.3	3.2	3.5	2.9	3.9	2.6
c) Leverage							
Debt-Equity ratio	0.3	0.6	0.0	0.3	0.4	0.3	0.0
Interest cover	23.8	37.2	17.9	21.6	(2.6)	1.4	24.0
Total assets/net worth	1.3	1.6	1.0	1.3	1.4	1.3	1.0
d) Growth							
Growth in operational turnover (%)	75%	66%	61%	88%	-24%	1%	52%
Growth in total turnover (%)	78%	65%	67%	80%	-24%	-1%	53%
Net profit growth (%)	78%	55%	22%	89%	-156%	108%	1342%

The Year at a Glance

For the Year	31-Mar-04***		31-Mar-03	
	Rs. lakhs	US$,000	Rs. lakhs	US$,000
Exports	15,111.80	32,808.95	9,925.04	20,512.29
Domestic sales	1,501.21	3,259.25	1,013.14	2,093.89
Other income	130.45	283.21	(15.93)	(32.92)
Profit before interest, depreciation and taxes (PBIDT)	2,888.13	6,270.36	2,022.50	4,179.94
PBIDT as a percentage of revenue	17.4%	17.4%	18.5%	18.5%
Profit/(Loss) before tax (PBT)	1,620.51	3,518.26	402.35	831.55
Profit/(Loss) after tax (PAT)	1,833.71	3,981.13	127.26	263.01
Earnings per share … Weighted Average (in Rs. / US$.)+	6.07	0.13	0.50	0.01
Earnings per share … Diluted (in Rs. / US$.)+	5.77	0.13	0.50	0.01
Equity Dividend percentage	25%	25%	–	–
Equity Dividend amount	379.02	822.88	–	–
Investment in Fixed Assets (Gross)	678.61	1,554.65	1,751.26	3,690.75
PBT as a percentage of average net worth*	15.1%	15.1%	4.6%	4.6%
PAT as a percentage of average net worth*	17.1%	17.1%	1.4%	1.4%
Revenue per person year**	1.50	32,810	1.27	26,309
At the end of the year				
Total assets	11,417.47	26,156.86	12,800.81	26,977.47
Fixed assets (net)	7,805.35	17,881.67	8,234.87	17,354.84
Working capital	3,347.83	7,669.71	4,551.52	9,592.24
Investment	264.29	605.48	14.42	30.39
Total debt	42.68	97.78	2,675.35	5,638.25
Net worth	11,374.79	26,059.08	10,125.46	21,339.22

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

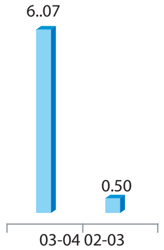
* Share application money is excluded

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

+ Face value of Rs. 5 per share

*** Consolidated

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



Financials

Directors' Report

Your Directors have pleasure in presenting the report on the business and operations of the Company along with the Audited Accounts for the financial year ended March 31, 2004.

Financial Results		**(Rs. in lakhs)**
Year ended March 31	**2004**	**2003**
Revenues	16,613.01	10,938.19
Gross profits	5,590.44	3,727.03
Non operating income	130.45	(15.93)
Profits / (Loss) before tax	1,621.92	402.35
Income tax	(213.20)	275.09
Profits / (Loss) after tax	1,835.12	127.26
Appropriation:		
Proposed equity dividend	379.02	–
Dividend Tax	48.56	–
Transfer to general reserve for the year	183.51	–

Results of Operations

Your company has seen a substantial turnaround in the telecom industry during the year, after a period of downturn during the past 2 years. The revenues of the company have increased from Rs. 10938.19 lakhs to Rs. 16613.01 lakhs in this year, an increase of 52%. In dollar terms there was an increase from US$ 22.60 million to US$ 36.40 million. The net profit has been 11% of the revenues.

Your company has also increased the employee headcount from 851 at the end of March 2003 to 1437 at the end of March 2004. Your company has set up a branch at Pune. Even in Bangalore, we have taken a few more offices on lease, to meet our growth needs. We currently operate out of 3 facilities in Bangalore, including our corporate office.

The company has also set up a Subsidiary Company, M/s Sasken Network Systems Limited to address specifically the OSS- BSS market space. This company is expected to commence operations from April 2004, after obtaining all statutory permissions & clearances.

Dividend

The board recommends a dividend of 25% (Rs. 1.25 per share) in view of good performance this year.

Further issue of equity

In the month of April 2003 (i) 33 lakh shares were allotted to the existing shareholders of the company by means of rights issue (ii) 16 lakh shares were allotted to an existing strategic investor through preferential allotment. The shares of Rs. 5 each were issued at a premium of Rs. 25 to both the investors. The company also issued warrants to strategic investor convertible into 32,66,667 shares. These warrants will be exercisable at a price as determined under FEMA regulations. The warrants are valid for a period of 24 months from April 2003.

Further the company in October 2003 converted 800 Fully Convertible Debentures into 1600 shares of Rs. 5/- at a premium of Rs. 15/- issued to some of the employees under the SAS Stock Option Plan 1997.

Borrowings

During the year under review, the company prepaid the term loan availed for construction of the facility at Domlur. Currently the company enjoys no other credit facility from banks/institutions except working capital credit.

Sasken Employee Stock Option Plan

During the year, the company allotted 1600 equity shares of face value of Rs. 5 each to the employees by converting the 'I' series Fully Convertible Debentures issued under SAS Stock Option Plan 1997. Further the company issued options totaling 592,080 under ESOP Plan 2000 to the employees on October 1, 2003. The details required under SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme), Guidelines, 1999, as on March 31, 2004 are annexed to the Report.

Further on April 2, 2004, company has extended ESOP to all the employees who were on rolls of the company as on March 31, 2004. The total number of ESOP issued under the scheme is 7,57,850.

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

Patents

The company encourages the employees to file for Patent, so that the R&D investment translates into economic benefit for the organization. The company as on date has filed a total of 30 Patent applications out of which two patents have been granted by the US Patent and Trademark Office for the inventions titled "Clock Recovery in Multi Carrier Transmission System" and "A novel memory architecture for parallel data access along any given dimension of an N Dimensional Rectangular Data Array".

Award

Your Company has been continuously striving to outperform in all spheres of telecom domain. The Board is pleased to inform you that the company has been awarded TL 9000 standard certification. By virtue of this the company will have:

(i) Competitive advantage at the bidding stage in all contracts

(ii) Benchmarking with telecom industry data is a mandatory exercise in this certification process and the company can know the current level and plan on improving the process/product performance metrics like On Time Delivery, Numbers of Problem Reports, Problem Report fix Responsiveness and Overdue Problem Report fix Responsiveness

(iii) Reduced cost of product/services and increased competitiveness

Conservation of Energy, Technology Absorption and Foreign Exchange Outgo

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

Particulars of Employees

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

Corporate Governance

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

Directors' Responsibility Statement

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

Directors

Mr. J B Mody and Mr. Suresh Dholakia retire by rotation at the ensuing Annual General Meeting, and being eligible offer themselves for re-appointment.

During the year, the company appointed Mr. Krish Prabhu as an independent additional director of the company on October 22, 2003 who later resigned on February 13, 2004 due to personal reasons. The Board has not yet inducted any director in place of Mr. Krish Prabhu.

Contribution to society

In line with the company's belief of being responsible corporate citizen, the company contributes to various social and educational causes that bring out excellence and well being of the society. Accordingly the company contributed Rs. 6.75 lakhs to various organizations in the current year.

Dematerialization of equity shares

One of the good measures that the company has initiated as an investor friendly move was dematerialization of shares, which was well appreciated by our shareholders. At present the shares of the company can be dematerialized with National Securities Depositories Limited (NSDL). As on March 31, 2004, more than 27% of the shares have been dematerialized.

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, retire at the forthcoming Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if reappointed.

Acknowledgement

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

For and on behalf of the Board of Directors

Place : Bangalore
Date : April 20, 2004

Rajiv C Mody
Chairman & 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

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

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

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

B) Research and Development and Technology Absorption

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

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

Patents

The company began to develop intellectual property in 1997.
Filing of patents continues to be a significant aspect of the company's business strategy. Patents help in increasing the value of the licensed IP, and it also helps in defending against IP infringement claims. Till the end of the last financial year, the company had filed a total of 30 applications for patents of which two patents have been granted.

Two of our patent applications, which were granted by the US Patent and Trademark Office during the year.

These are:

(a) Patent no. 6604166 (filed December 20, 1999)
"A novel memory architecture for parallel data access along any given dimension of a N-dimensional rectangular data array". This patent improves I/O performance for multimedia algorithm implementations.

b) Patent no. 6,577,690 (filed June 15, 1999)
"Clock recovery in multi-carrier transmission systems". This patent is an innovative implementation of one of the key modules in an ADSL receiver system.

C. Foreign Exchange Earnings and Outgo	Rs. in lakhs
Foreign exchange earnings	16,477
Foreign exchange outgo (Including capital goods purchased)	4,546

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

The company has been issuing Options to employees under various ESOP Schemes. All the options issued under the earlier SAS Stock Option Plan 1997 have been exercised & closed, the details of which are given in the corporate governance section of the Annual Report. In 2000-01, a fresh ESOP Plan 2000 as per SEBI guidelines was instituted. On December 31, 2002, the outstanding options were cancelled for reasons already mentioned elsewhere in this Annual Report. The total numbers of options issued were 12,63,940 whereas only 3,237 options were exercised and converted into shares.

The company has issued additional stock options under ESOP Plan 2000 formulated as per the SEBI guidelines during the month of October 2003. The various details of the scheme as at March 31, 2004, are as follows:

1. Total Options granted	5,92,080
2. Total Options vested (but not exercised) cumulative till 31.03. 2004	Nil
3. Total Options exercised	Nil
4. Total number of Options outstanding as on 31.03.04 (Cumulative till 31.03.2004)	5,92,080
5. Total Options lapsed (due to resignations as on 31.03.2004)	43,860
6. Money realized by the exercise of options	Nil
7. Total number of Options in force	5,48,220
8. Variation of terms of options	N.A

9. Pricing formula for the grant: Price is determined by the Compensation Committee from time to time based on the fair value of the shares. This amounted to Rs. 40/- per option for options issued in October 2003.

10. Employee-wise details of options granted to:

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

Sl.No.	Name	Designation	Percentage Granted
1	Kumar Prabhas	Chief Operating Officer	10.13%

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

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

Sl.No.	Employee Name	Designation	No. of Options
1	Mr. Hari Iyer	Vice President, Culture Officer	16,920
2	Mr. Kumar Prabhas	Vice President, Chief Operating Officer	60,000
3	Mr. Murlikrishnan G	Vice President, Head Mobile Platform Solution Business Division	16,920
4	Ms. Neeta Revankar	Vice President, Chief Financial Officer	12,340
5	Mr. K S G Shankar	Vice President, Operations and Quality	2,340
6	Mr. Shrikrishna G Gokhale	Vice President, Head Semiconductor Business Division	8,340
7	Dr. G Venkatesh	Vice President, Strategy Officer	21,060

The company has on April 2, 2004, further issued 7, 57, 850 options to all the employees who were on the rolls of the company as on March 31, 2004. This is in keeping with the philosophy of sharing wealth with its employees and which also encourages the employees to be partners in the growth of the organization.

11. Diluted Earning Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with International Accounting Standard (IAS) 33 is Rs. 5.77 per share and as per the Indian Accounting Standard is Rs. 5.77 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 profit of the company for the year.

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

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

For and on behalf of the Board of Directors

Place : Bangalore
Date : April 20, 2004

Rajiv C Mody
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) Integrity

b) Respect

c) Innovation

d) Customer Intimacy

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.

The Board of Directors of the company consists of nine 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	Shri Bansi S Mehta	Alternate Director	Independent Director
3	Professor J Ramachandran	Director	Independent Director
4	Mr. Vinod Dham**	Director	Independent Director

* During the year, the company also appointed Mr. Krish Prabhu as an Additional Director of the company on October 22, 2003 who later resigned on February 13, 2004 for personal reasons.

** Mr. Vinod Dham was appointed as an additional director on the Board w.e.f. May 19, 2003, and later was reappointed as Director by the shareholders at the AGM of the Company held on July 14, 2003.

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. Four 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 Mahanagar Telephone Nigam Limited (MTNL).

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 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.

Mr. Vinod Dham

Mr. Vinod Dham is a renowned personality, known for his contribution to Intel processor and especially its Pentium processor chips. He has been a pioneer in the semiconductor industry and well known for his entrepreneurial spirits. He has done his bachelors in Electrical Engineering from the Delhi College of Engineering and Masters from the United States of America.

He is also on the Board of number of companies worldwide and brings with him the technology, business acumen and entrepreneurial experience to the Board.

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 deemed necessary to transact its business. Board members normally resident overseas attend as many meetings as they conveniently can, but agree if so required and arranged for, to participate in Board deliberations through audio 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 is also the Chief Executive Officer of the company. The company believes that, considering its current size of operations, there is no need for a non-executive chairman currently. However, with effect from April 1, 2003, Mr. 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. The 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 & Managing Director, CEO	Rs. 40 lakhs	Rs. 16.39 lakhs
Mr. Pranabh D Mody	Executive Director	Rs. 30 lakhs	Rs. 7.35 lakhs
Mr. Krishna J Jhaveri	Executive Director	US$ 2,00,000	US$ 35,879

The amount of remuneration payable to executive directors is within the limits stipulated under the provisions of the Companies Act, 1956, read with schedule XIII of the Act.

The following paragraphs provide the details about the remuneration for the year ended March 31, 2004. The remuneration proposed from April 1, 2004, is as per the notice sent to shareholders which is to be read in conjunction with the following details, to the extent applicable.

(i) All elements of remuneration package such as salary, benefits, bonuses, stock options, pensions, etc., 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. Fixed pay is determined by the compensation committee within the limits set by the shareholders. QPIC payable to the executive directors for the year is determined by the compensation committee at the year-end based on the performance of the directors and also of the company. The details of the fixed pay and QPIC paid/payable for the year 2003-04 are given in the succeeding paragraphs. 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 and forms part of the fixed pay.

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

Sl.No.	Name of the Independent Director	Amount
1	Dr. Ashok Jhunjhunwala	Rs. 6 lakhs
2	Shri Bansi S Mehta	Rs. 6 lakhs
3	Professor J Ramachandran	Rs. 6 lakhs
4	Mr. Vinod Dham	US$ 17,370
5	Mr. Krish Prabhu*	US$ 6,233

* Mr. Krish Prabhu who joined Sasken's Board as an additional director on October 22, 2003, resigned from the Board w.e.f. February 13, 2004, due to personal reasons. His remuneration is subject to the approval of shareholders in general meeting.

(ii) Details of fixed component and performance-linked incentive for the year ended March 31, 2004, are as follows:

Particulars	Rajiv C Mody	Pranabh D Mody	Krishna J Jhaveri
Fixed Pay – proposed**	Rs. 40 lakhs	Rs. 30 lakhs	US$ 2,00,000
Fixed Pay – Paid	Rs. 40 lakhs	Rs. 30 lakhs	US$ 2,00,000
QPIC – proposed**	Rs. 30 lakhs	Rs. 10 lakhs	US$ 40,000
QPIC – Paid/Payable	Rs. 16.39 lakhs	Rs. 7.35 lakhs	US$ 35,879
Total remuneration	Rs. 56.39 lakhs	Rs. 37.35 lakhs	US$ 2,35,879

** Approved by shareholders

(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 3 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, 2004, the Board met 5 times viz., April 11, 2003, July 14, 2003, July 25/26, 2003, October 21/22, 2003, and January 19, 2004.

9. Committees of the Board

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

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

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

Audit Committee

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

Sl. No.	Name	Title	Financial expertise / literacy	Status
1	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

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

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

The audit committee met 4 times during the year on April 11, 2003, July 14, 2003, October 22, 2003, and January 19, 2004.

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

Name of Director	April 11, 2003	July 14, 2003	October 22, 2003	January 19, 2004
Dr. Ashok Jhunjhunwala	Yes	Yes	No	Yes
Shri Bansi S Mehta	No	No	Yes	Yes
Professor J Ramachandran	Yes	Yes	Yes	Yes

During each meeting, the Audit Committee met with the statutory auditors and the internal auditors. The Chief Financial Officer 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, 2005. 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, 2005.

Compensation Committee

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

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

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

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

The compensation committee met twice on July 26, 2003, and January 19, 2004, and through conference call on June 5 and 7, 2003. 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	05/07 June 2003	26 July 2003	19 January 2004
Dr. Ashok Jhunjhunwala	Yes	Yes	Yes
Professor J Ramachandran	Yes	Yes	Yes
Mr. Vinod Dham	Yes	Yes	Yes

The committee reviewed the performance of all the Executive directors and approved the remuneration of the Executive Directors for fiscal 2003-04, within the overall limits approved by the shareholders. The committee also approved the ESOP scheme put to them by the company and decided to issue stock options to the employees in October 2003 and again in April 2004.

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 relations committee.

The Committee met 8 times on these dates viz., April 16, 2003, June 2, 2003, July 7, 2003, September 19, 2003, October 14, 2003, December 9, 2003, January 13, 2004, and March 29, 2004.

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

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

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

Name of the Director	Board Meeting [5]
Mr. Ashok Jhunjhunwala	5
Shri Bansi S Mehta*	3
Mr. J B Mody	3
Professor J Ramachandran	5
Mr. Krishna Jhaveri	3
Mr. Mahendra Jhaveri**	3
Mr. Pranabh Mody	5
Mr. Rajiv C Mody	5
Mr. Shirish Mody	*
Mr. Suresh Dholakia	**
Mr. Vinod Dham	2

* 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
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.
2003	Registered office of the company at Domlur, Bangalore	July 14, 2003	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 on the date of the report is as follows:

Range		Shareholders		Number of Shares			% to Total
From	To	Numbers	% to Total	Physical	Demat	Total	
1	500	274	34.77	59739	6452	66191	0.22
501	1000	112	14.21	78457	6926	85383	0.28
1001	2000	93	11.80	127357	14793	142150	0.47
2001	3000	60	7.61	124592	24005	148597	0.49
3001	4000	30	3.81	97250	10740	107990	0.36
4001	5000	24	3.05	95142	14056	109198	0.36
5001	10000	58	7.36	384943	41159	426102	1.41
10000	>	137	17.39	18470486	10765540	29236026	96.41
Total		788	100.00	19437966	10883671	30321637	100.00

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

13. Shareholding Group wise

The break up of shareholding as of March 31, 2004 is as follows.

Category	Percentage
Promoters*	79.73
Employees including ex-employees	8.42
Others including strategic investors	11.85
Total	100.00

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

14. Plant Location

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

15. General Shareholder Information

- AGM: Date, time and venue: June 11, 2004, 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.
- Record date for payment of dividend: May 31, 2004
- During the current year, allotment of shares was completed to the rights issue applicants, which closed on March 31, 2003. Shares were also allotted on preferential basis to a strategic investor in April 2003.
- 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.
- The shares of the company can be de-materialized with National Securities Depositories Limited. 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	1-15 days	16-30 days	31-40 days
Share transfer	45	–	–
Split	15	–	–
Transmission	3	–	–
Issue of duplicate share certificates	1	–	–
Demat requests	81	3	–

Other shareholder queries

Sl. No.	Nature of query	No. of queries	Within 24 hours	1 to 2 days	3 to 5 days	Over a week
1	Change of address	50	50			
2	ESOP related queries	14	14			
3	Exchange of Rs. 5 split certificates in lieu of Rs. 10 certificates	2	2			
4	Debenture conversion	1	1			
5	Rights issue related	2				2
6	Others**	24	24			

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

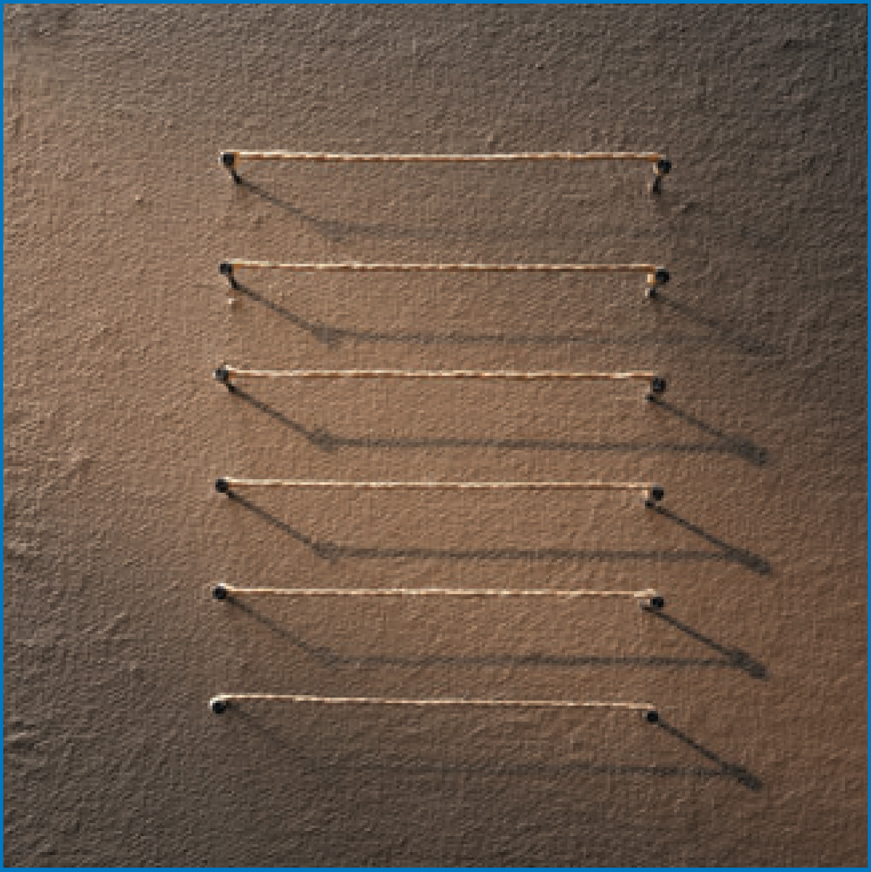
- Share Transfer System:

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

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

Address for Postal correspondence.

The Company Secretary,
Sasken Communication Technologies Limited
139/25, Domlur Layout,
Ring Road, Domlur P. O.,
Bangalore 560 071.
Ph: +91 (080) 25355501, 25355503
Fax: +91 (080) 25351309, 25351156
Email: investor@sasken.com



Financial Statements in Compliance with Indian GAAP

Auditors' Report

To

The Members of Sasken Communication Technologies Limited

1. We have audited the attached Balance Sheet of Sasken Communication Technologies Limited as at March 31, 2004 and also the Profit and Loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
   i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
   ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
   iii. The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
   iv. In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
   v. On the basis of the written representations received from the directors, as on March 31, 2004 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
   vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
      a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2004;
      b) in the case of the profit and loss account, of the profit for the year ended on that date; and
      c) in the case of cash flow statement, of the cash flows for the year ended on that date.

For S. R. BATLIBOI & COMPANY
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore
April 20, 2004

Annexure to Auditors' Report

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

Re: Sasken Communication Technologies Limited

1. The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification. There was no substantial disposal of fixed assets during the year.
2. In our opinion and according to the information and explanations given to us, in view of the nature of activities of the Company, the provisions of Clause 4(ii) relating to inventory, is not applicable to the Company.
3. As informed to us, the Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, as represented by the management that some items are of a special nature for which alternative quotations cannot be obtained, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, with regard to purchase of fixed assets. The activities of the Company do not involve purchase of inventories and sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls.
5. Based on the audit procedures applied by us, and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into register maintained under Section 301 have been so entered and, subject to representation by the management that some items are of special nature for which alternative quotations cannot be obtained, which we have relied upon, all transactions with parties, exceeding value of Rs. 5 lakhs in aggregate, per party, during the year, are at prices which are reasonable, having regard to the prevailing market price at the relevant time.
6. The Company has not accepted any deposits from the public.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
9. According to the records of the Company, the Company is generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Custom Duty, Excise Duty, Cess and other statutory applicable to it with the appropriate authorities.

   According to the information and explanations given to us, no undisputed amounts payable in respect of wealth tax, sales tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable.

According to the records of the Company, there are no dues outstanding of sales tax, income tax, custom tax, wealth tax, excise duty, cess on account of any dispute, other than the following:

Name of the statute	Nature of dues	Amount (Rs.)	Forum where dispute is pending
Income Tax Act, 1961	Income taxes	8,898,769	Commissioner of Income Tax, (Appeals), Bangalore

10. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
11. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/ mutual benefit fund/societies.
14. The Company does not deal or trade in shares, securities, debentures and other investments.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others (its subsidiaries and associates) from bank or financial institutions.
16. Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.
17. We have been informed by management that the funds raised on short-term basis have not been used for long-term investment and vice-versa, though idle/surplus funds which were not required for immediate utilization have been gainfully invested in liquid investments payable on demand.
18. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
19. In respect of debentures issued by the Company and outstanding during the year, the Company has not created any security in respect of debentures issued.
20. The Company has not raised any money through a public issue during the year.
21. Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S. R. BATLIBOI & COMPANY
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore
April 20, 2004

Balance Sheet

Balance Sheet	Schedule No.	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Sources of Funds			
Shareholders' Funds			
Share Capital	1	1,516.09	1,271.00
Share Application Money		–	1,642.76
Reserves and Surplus	2	9,860.11	7,211.70
Loan Funds			
Secured Loans	3	42.68	2,674.79
Unsecured Loans	4	–	0.56
Total Sources		**11,418.88**	**12,800.81**
Application of Funds			
Fixed Assets	5		
Gross Block		13,599.01	13,153.61
Less: Accumulated Depreciation		5,911.47	4,939.95
Net Block		7,687.54	8,213.66
Capital Work in Progress including Capital Advances		117.81	21.21
Total		**7,805.35**	**8,234.87**
Capitalised software product costs (net of amortization)		115.03	576.40
Investments	6	269.19	14.42
Current Assets, Loans and Advances			
Inventories	7	54.97	245.98
Sundry Debtors	8	3,367.82	3,103.01
Cash and Bank Balances	9	268.18	1,603.46
Loans and Advances	10	1,569.17	575.86
Gross Current Assets	(A)	**5,260.14**	**5,528.31**
Less: Current Liabilities and Provisions	11		
Current Liabilities		1,474.55	1,366.81
Provisions		556.28	186.38
Total	(B)	**2,030.83**	**1,553.19**
Net Current Assets	(A-B)	3,229.31	3,975.12
Total Applications		**11,418.88**	**12,800.81**
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

per Sunil Bhumralkar
Partner
Membership No. 35141

Place : Bangalore
Date : April 20, 2004

For and on behalf of the Board

Rajiv C Mody
Managing Director

Pranabh D Mody
Whole-time Director

Neeta Revankar
Chief Financial Officer

N Venkatramani
Company Secretary

Profit and Loss Account

Profit and Loss Account	Schedule No.	For the Year ended March 31, 2004 Rs. in lakhs	For the Year ended March 31, 2003 Rs. in lakhs
Revenues		16,613.01	10,938.19
Cost of Revenues	12	11,022.57	7,211.16
Gross Profit		**5,590.44**	**3,727.03**
Research and Development		193.80	116.21
Gross Profit after Research and Development		**5,396.64**	**3,610.82**
Selling and Marketing Expenses	13	1,890.87	1,984.83
Administrative and General Expenses	14	1,918.83	1,542.66
Employee stock option compensation cost (net) (Refer note 7(b) in the Notes to Accounts)		15.63	(714.62)
Provisions		–	(303.56)
Provision for diminution in value of investments		–	321.00
Profit from operations		**1,571.31**	**780.51**
Other Income/(Expenses)	15	130.45	(15.93)
Profit before Interest and Income Taxes		**1,701.76**	**764.58**
Interest Expense	16	79.84	362.23
Profit before Income Taxes		**1,621.92**	**402.35**
Income Tax expense/(credit), net		(213.20)	275.09
Profit after Tax		**1,835.12**	**127.26**
Add: Balance brought forward		2,532.08	2,404.82
Profit available for appropriations		**4,367.20**	**–**
Appropriations			
Proposed dividend (Rs. 1.25 Per Share)		379.02	–
Tax on dividend		48.56	–
Transfer to General Reserve		183.51	–
Balance carried to Balance Sheet		3,756.11	2,532.08
Earnings Per Share (Equity Share par value Rs. 5 each) (in Rs.)			
Basic		6.08	0.50
Diluted		5.78	0.50
Weighted average number of Equity Shares used in computation of			
Basic		30,186,957	25,379,436
Diluted		31,767,204	25,384,989
(Refer Note 11 in Notes to Accounts)			
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.

For and on behalf of the Board

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place : Bangalore
Date : April 20, 2004

Rajiv C Mody
Managing Director

Pranabh D Mody
Whole-time Director

Neeta Revankar
Chief Financial Officer

N Venkatramani
Company Secretary

Schedules forming part of the Balance Sheet

	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Schedule 1		
Authorised Capital		
50,000,000 Equity Shares of Rs. 5 each	2,500.00	2,500.00
(At March 31, 2003, 50,000,000 Equity Shares of Rs. 5 each)		
Total	**2,500.00**	**2,500.00**
Issued, Subscribed and Paid Up Capital		
30,321,637 Equity Shares of Rs. 5 each fully paid up (At March 31, 2003, 25,420,037 Equity Shares of Rs. 5 each fully paid up)	1,516.09	1,271.00
(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. 502.83 lakhs and General Reserve of Rs. 64.67 lakhs)		
Total	**1,516.09**	**1,271.00**
Schedule 2		
Reserves and Surplus		
Share Premium		
Opening Balance	4,048.69	4,033.47
Add: Received during the year	1,225.24	15.22
Total	**5,273.93**	**4,048.69**
General Reserve		
Opening Balance	630.93	630.93
Add: Transferred from Profit & Loss Account	183.51	–
Total	**814.44**	**630.93**
Profit & Loss Account	3,756.11	2,532.08
Employee Stock Option Outstanding (Net of Deferred Compensation Cost)	15.63	–
(Refer note 7(b) in Notes to Accounts)		
Total	**9,860.11**	**7,211.70**

Schedules forming part of the Balance Sheet

	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Schedule 3		
Secured Loans		
Term Loan from a Bank	–	1,343.93
(Secured by pari passu first charge on all movable fixed assets of the Company and an equitable mortage of land, buildings and other fixed assets and guaranteed by the Directors of the Company)		
[Term loans repayable within one Year Rs. Nil (At March 31, 2003 Rs. 1,343.93 lakhs)]		
Packing Credit from Scheduled Banks (Ref Note 3(e) in Notes to Accounts) (Secured by a charge on the current assets including receivables, both present and future and equitable mortgage on land and buildings of the Company and hypothecation of the other fixed assets of the Company)	42.68	1,330.86
Total	**42.68**	**2,674.79**
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, 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.	–	0.56
Total	**–**	**0.56**

Schedules forming part of the Balance Sheet

(Amount in Rs. lakhs)

Schedule 5 – Fixed Assets	Gross Block				Depreciation				Net Block	
Particulars	As at April 1, 2003	Additions during the year	Deletions during the year	As at March 31, 2004	As at April 1, 2003	For the year	Adjustments during the year	As at March 31, 2004	As at March 31, 2004	As at March 31, 2003
Land	2,285.27	2.40	–	2,287.67	–	–	–	–	2,287.67	2,285.27
Building	3,301.12	9.86	–	3,310.98	311.40	157.25	–	468.65	2,842.33	2,989.72
Computers	2,367.37	265.29	181.09	2,451.57	1,835.30	299.38	170.10	1,964.58	486.99	532.07
Intangible Assets	1,416.63	124.29	3.55	1,537.37	1,333.82	182.80	3.55	1,513.07	24.30	82.81
Electrical Fittings	81.14	18.57	3.34	96.37	68.72	9.93	3.34	75.31	21.06	12.42
Furniture and Fittings	1,128.79	121.71	2.78	1,247.72	228.89	111.36	2.47	337.78	909.94	899.90
Office Equipments	2,573.29	136.49	42.45	2,667.33	1,161.82	427.06	36.80	1,552.08	1,115.25	1,411.47
Total	**13,153.61**	**678.61**	**233.21**	**13,599.01**	**4,939.95**	**1,187.78**	**216.26**	**5,911.47**	**7,687.54**	**8,213.66**
Balance as at March 31, 2003	11,911.65	1,751.26	509.30	13,153.61	4,099.49	1,257.92	417.46	4,939.95	8,213.66	

Notes: Additions during the year includes Rs. Nil (March 31, 2003 – Rs. 4.45 lakhs) capitalized on account of exchange rate variation

Schedules forming part of the Balance Sheet

	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Schedule 6		
Investments		
A. Long term, Unquoted, Non-Trade, at cost		
a) Investment in subsidiary company		
Sasken Network Systems Ltd (500,000 equity shares of Rs. 1 each, fully paid up)	5.00	–
b) Other Investments		
Indira Vikas Patra	0.02	0.02
29,764 fully paid shares of Preferred Stock of 2Wire Inc., a company incorporated in USA.	169.40	169.40
Less: Provision for diminution in value of investment	(155.00)	(155.00)
392,285 fully paid equity shares of Rs. 10/- each of Prime Telesystems Ltd.	240.00	240.00
Less: Provision for diminution in value of investment	(240.00)	(240.00)
203,500 common shares of Extandon Inc, a company incorporated in USA (Refer note 3(h) in the Notes to Accounts)	0.23	–
B. Current, Non-Trade, Unquoted, at lower of cost and net realisable value		
Templeton India Treasury Management Account	249.54	–
[15,851.483 Units of Rs. 1574.2270 each]		
[Market value – Rs. 250.74 Lakhs]		
Total	**269.19**	**14.42**
Schedule 7		
Inventories		
Work-in-progress	54.97	245.98
Total	**54.97**	**245.98**
Schedule 8		
Sundry Debtors		
a) Debts outstanding for a period exceeding six months		
– Unsecured, considered good	52.81	663.73
– Unsecured, considered doubtful	181.72	226.94
b) Other debts		
– Unsecured, considered good	3,315.01	2,439.28
– Unsecured, considered doubtful	–	50.47
Less: Provisions	(181.72)	(277.41)
Total	**3,367.82**	**3,103.01**

Schedules forming part of the Balance Sheet

	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Schedule 9		
Cash and Bank Balances		
(Refer notes 3(f) in Notes to Accounts)		
Cash on Hand	2.65	2.59
Cheques on hand and remittances in transit	–	247.63
Balances with:		
Scheduled Banks		
– in Current Accounts	156.72	1,233.35
– in Deposit Accounts	32.58	22.96
(Held as margin money for Bank guarantees / Letters of credit)		
Other banks		
– Barclays Bank, UK	28.26	12.20
– Bank of America, USA	7.71	44.58
– Bank of Montreal, Canada (Can $)	11.81	21.41
– Sumitomo Bank, Japan	1.07	10.02
– Kawasaki Shinkim Bank, Japan	0.03	1.79
– China Minsheng Banking Corporation (USD)	1.12	0.10
– China Minsheng Banking Corporation (CNY)	2.78	0.05
– Nordbanken AB, Sweden	0.78	6.78
– Hypo Vereins Bank, Germany	22.67	–
Total	**268.18**	**1,603.46**
Maximum amount outstanding at any time during the year in other banks		
Current Accounts		
– Barclays Bank, UK	85.56	50.26
– Bank of America – Texas, USA	338.26	264.16
– Bank of America – USA	764.08	–
– Bank of Montreal, Canada (Can $)	166.25	39.44
– Bank of Montreal, Canada (US$)	18.73	18.73
– Sumitomo Bank, Japan (USD)	163.16	58.61
– Sumitomo Bank, Japan (JPY)	19.11	–
– China Minsheng Banking Corporation (USD)	10.55	10.55
– China Minsheng Banking Corporation (CNY)	30.33	30.33
– Nordbanken AB, Sweden	14.45	15.14
– Hypo Vereins Bank, Germany	32.60	–
Deposit Account		
– Kawasaki Shinkim Bank, Japan	18.28	1.79

Schedules forming part of the Balance Sheet

	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Schedule 10		
Loans and Advances		
(Unsecured, considered good)		
Dues from Subsidiary Company	0.39	–
Advances recoverable in cash or in kind or for value to be received	300.00	187.59
Deposits with Government Departments and others	546.76	153.50
Loans and Advances to Staff	139.19	114.84
Interest Income Accrued but not due	0.73	0.73
Unbilled Revenues	531.89	119.20
Advance Income Tax (Net of Provision for Tax)	50.21	–
Total	**1,569.17**	**575.86**
Schedule 11		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors for goods, expenses and services		
Dues to Small Scale Industrial Units	0.18	0.67
Others	1,103.15	873.63
Interest Accrued but not due	0.08	39.42
Other Liabilities	267.67	216.04
Deferred Revenues	43.70	47.21
Advance received from customers	59.77	189.84
Total (A)	**1,474.55**	**1,366.81**
Provisions		
Provision for Tax (Net of Advance Income Tax)	–	40.46
Proposed Equity Dividend	379.02	–
Tax on Proposed Equity Dividend	48.56	–
Provision for Leave Encashment	92.43	51.82
Provision for Warranty	27.97	58.80
Provision for Gratuity	8.30	35.30
Total (B)	**556.28**	**186.38**
Total (A) + (B)	**2,030.83**	**1,553.19**

Schedules forming part of Profit & Loss Account

	For the year ended March 31, 2004 Rs. in lakhs	For the year ended March 31, 2003 Rs. in lakhs
Schedule 12		
Cost of Revenues		
Salaries & Bonus	7,077.25	4,382.31
Contribution to Provident and Other Funds	341.60	203.41
Staff Welfare	117.70	59.13
Recruitment and Relocation	188.81	44.26
Rent	52.75	31.18
Repairs and Maintenance		
– Plant & Machinery	131.13	137.88
– Building	65.70	53.87
– Others	61.76	48.86
Communication	85.58	39.73
Travel	540.86	593.06
Electricity and Water Charges	203.30	144.75
Professional & Consultancy Charges	357.12	189.19
Depreciation	1,052.17	991.24
Software Charges	73.51	145.02
Training and Conference	44.05	43.50
Warranty Expenses provided (reversed)	(23.10)	(122.70)
Sub Total	**10,370.19**	**6,984.69**
Amortization / write off of capitalised software product costs	461.37	1,266.42
Add: Opening balance of work in progress	245.98	90.56
Less: Closing balance of work in progress	(54.97)	(245.98)
Less: Capitalised software product costs	–	(884.53)
Total	**11,022.57**	**7,211.16**
Schedule 13		
Selling and Marketing Expenses		
Salaries & Bonus	860.04	1,161.27
Contribution to Provident and Other Funds	32.36	33.15
Staff Welfare	31.80	12.46
Recruitment and Relocation	16.17	4.04
Rent	90.94	108.93
Repairs and Maintenance		
– Plant & Machinery	9.24	6.99
– Building	12.12	11.69
– Others	1.15	0.53
Communication	71.26	68.38
Travel	211.53	262.93
Electricity and Water Charges	1.31	6.84
Professional, Legal & Consultancy Charges	271.23	55.12
Agency Commission	175.31	119.54
Selling Expenses – others	89.14	46.03
Depreciation	12.27	80.23
Training and Conference	5.00	6.70
Total	**1,890.87**	**1,984.83**

Schedules forming part of Profit & Loss Account

	For the year ended March 31, 2004 Rs. in lakhs	For the year ended March 31, 2003 Rs. in lakhs
Schedule 14		
Administrative and General Expenses		
Salaries & Bonus	797.06	614.94
Contribution to Provident and Other Funds	60.28	41.43
Staff Welfare	14.43	9.74
Recruitment and Relocation	40.77	48.34
Rent	26.97	30.26
Rates and Taxes	55.57	47.14
Repairs and Maintenance		
– Plant & Machinery	12.27	10.64
– Building	24.55	53.65
– Others	7.07	12.79
Communication	23.61	14.93
Travel	66.83	33.81
Electricity and Water Charges	32.71	32.64
Depreciation	116.51	184.38
Professional, Legal & Consultancy Charges	154.47	143.58
Auditors' Remuneration		
– Statutory Audit	6.20	5.00
– Other Services	0.15	–
– Out of Pocket Expenses (including service tax)	1.01	0.55
Training and Conference	56.24	5.97
Directors' sitting fees	0.44	0.16
Insurance	76.16	38.92
Miscellaneous	301.86	203.08
Net loss on sale of current investments	10.19	–
Loss on sale of fixed assets (net)	5.21	2.54
Bad debts	–	5.51
Provision for doubtful debts, net	28.27	2.66
Total	**1,918.83**	**1,542.66**
Schedule 15		
Other Income/(Expenses)		
Miscellaneous income	7.99	12.47
Dividend received on current investments	55.47	–
Interest income on Bank Deposits (Gross)	4.30	0.37
[Tax deducted at Source Rs. 0.84 lakhs (previous year Rs. Nil)]		
– Others	1.70	0.67
Exchange gain/(loss), (net)	60.99	(29.44)
Total	**130.45**	**(15.93)**
Schedule 16		
Interest Expense		
– On Term Loans	8.25	278.48
– On Fully Convertible Debentures	0.02	1.00
– Others	71.57	82.75
Total	**79.84**	**362.23**

Notes forming part of accounts

Schedules forming part of the Accounts for the year ended March 31, 2004

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

(See note 6 below)

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

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

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

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

Interest income is recognized on an accrual basis.

Work in progress

(See note 6 below)

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

Fixed Assets

Fixed Assets are stated at cost 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 & Fittings	10
Furniture and leasehold improvements at leased property	Over the lease period of the facility
Office equipments	5

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

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

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 capitalized to the cost of the asset. Capitalization of such costs ceases when the asset is ready for use.

Capitalization 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 customer. 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 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 realizable value whichever is lower.

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 realizable 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 settlement / conversion are recognized in the Profit and Loss account, except differences on liabilities for purchase of fixed assets, which are capitalized.

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. Gain or loss on cancellation/renewal of a forward cover is recognized in the Profit and Loss account for the year.

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 rate prevailing on the balance sheet date. The resultant exchange gain/loss is recognized in the Profit and Loss account.

Retirement Benefits to Employees

The Company contributes to a Group Gratuity Scheme, administered by a private insurance company. The contributions are charged to the Profit and Loss account. Provision is made for the difference between the actuarial valuation 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 on an accrual basis. The Trust guarantees a specified rate of return on such contributions of employee and employer on a yearly basis. The Company will meet the shortfall in the return, if any, and the same is charged to the profit & loss account.

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

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

Tax expense comprises both current and deferred taxes. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Deferred tax assets are recognized on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realized against future taxable profits. Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

Stock Compensation Expense

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

Earnings per Share

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

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

Segment Policy

Identification of segments:

The Company's operating businesses are organized and managed separately according to the vertical market segment.

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. a) Investments:

Details of investments purchased and sold during year ended March 31, 2004:

Name of the Fund	Units purchased	Cost (Rs. in lakhs)	Units sold	Sales Value (Rs. in lakhs)
TempletonTreasury Management Account	32,197	400.76	32,197	400.68
Kotak Mahindra Liquid Institutional Plan – Dividend	3,347,855	335.27	3,347,855	335.59
Templeton India Income Builder Institutional Plan	2,341,691	256.59	2,341,691	249.21
HDFC Income Fund – Premium Plan – Dividend	4,897,109	532.85	4,897,109	526.44
Templeton India Short Term Income Plan Growth	21,549	249.21	21,549	249.54
HDFC STP Growth Plan	2,273,479	263.25	2,273,479	263.59
JM Short Term Plan	2,492,047	263.20	2,492,047	263.62
HDFC Cash Management – Savings Plan – Growth Option	2,012,717	263.59	2,012,717	264.71
JM High Liquidity Fund – Institutional Plan – Growth	2,518,762	263.61	2,518,762	264.76
Total		**2,828.33**		**2,818.14**

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 & 4C of Part II of the Companies Act, 1956, are not furnished.

(Amount in Rs. lakhs)

		March 31, 2004	March 31, 2003
c)	Earnings in Foreign Currency		
	Income from Licensing and Software services	16,381.50	10,344.37
	Royalty	95.72	493.97
d)	Expenditure in Foreign Currency, (on payment basis)		
	Travel	584.43	633.64
	Less: Recovered from customers	(531.16)	(413.12)
	Selling Expenses	158.65	105.77
	Consultancy	132.97	93.67
	Consumables	7.05	36.07
	Software Charges	27.99	145.02
	Expenses at Branch Offices	3,824.40	2,431.63
	Others	87.37	158.73
e)	Value of Imports on CIF Basis Capital Goods	254.74	545.07

3. Other notes

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

	March 31, 2004	March 31, 2003
Salaries and Bonus	178.00	108.67
Contribution to Provident Fund and Other Funds	8.97	5.48
Depreciation	6.83	2.06
Total	**193.80**	**116.21**

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. lakhs)

Name of the Vendor	March 31, 2004	March 31, 2003
Halda Office Systems	0.18	0.51
J K Paper Conversion Products	–	0.16
Total	**0.18**	**0.67**

c) Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. 632.65 lakhs (As at March 31, 2003, Rs. 28.68 lakhs)

d) Contingent liabilities not provided for amount to Rs. 165.41 lakhs (As at March 31, 2003, Rs. 76.46 lakhs). 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. Bank guarantees and letters of credit outstanding are given below:

(Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Bank guarantees	139.56	130.18
Letters of credit	110.59	Nil

e) Packing Credit is net of remittances in transit amounting to Rs. 97.13 lakhs (As at March 31, 2003 – Rs. 458.58 lakhs).

f) As at March 31, 2003, unutilized monies arising out of the rights issue and preferential allotment amounting to Rs. 1,542.76 lakhs (As at March 31, 2004 – Rs. Nil) was lying in the current account of the Company's bank.

g) Foreign exchange gains arising on account of foreign exchange forward contracts entered into by the Company to be recognized in the subsequent financial periods amounts to Rs. 22.07 lakhs as at March 31, 2004 and Rs. 28.43 lakhs as at March 31, 2003.

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

i) During the year ended March 31, 2004, the Company (in the Terminal Devices Segment – Europe region) entered into an agreement for services rendered to one of its customers. The customer has agreed to settle the consideration by transferring certain software programs and annual maintenance services amounting to Rs. 157.14 lakhs. The company has considered this transaction to be a non-monetary exchange.

4. **a)** Managerial Remuneration (Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Salary	157.09	133.91
Contribution to Provident Fund and Other Funds #	8.99	1.15
Provision towards performance incentives	39.60	2.00
Commission to non wholetime directors**	16.83	–
Total	**222.51**	**137.06**

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

** Commission to non wholetime directors includes Rs. 2.84 lakhs that is subject to approval of the shareholders of the Company.

b) Computation of net profits under section 198 read with section 349 and section 350 of the Companies Act, 1956, for the year ended March 31, 2004 is given below:

(Amount in Rs. lakhs)

Particulars		March 31,2004
Profits before Taxation		1,621.92
Add:		
Managerial remuneration to directors	222.51	
Provision for doubtful debts	28.27	
Depreciation as per accounts (except intangibles)	1,004.98	
Loss on sale of fixed assets	5.21	
Employee stock compensation cost (net)	15.63	
Loss on sale of investments	10.19	
		1,286.79
		2,908.71
Less:		
Warranty expenses reversed	23.09	
Depreciation as per section 350 of the Companies Act, 1956	609.38	
Loss on sale of fixed assets as per section 350	28.45	
Provision for doubtful debts adjusted against debtors	123.96	
		784.88
Net profits as per section 349 of the Companies Act, 1956		2,123.83

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. lakhs)

Particulars		March 31,2003
Profits before Taxation		402.35
Add:		
Managerial remuneration to directors	137.06	
Provisions	321.00	
Provision for doubtful debts	2.66	
Depreciation as per accounts (except intangibles)	1,102.72	
		1,563.44
		1,965.79
Less:		
Warranty expenses reversed	122.70	
Employee stock compensation cost reversed	714.62	
Provisions, net of reversals	303.56	
Depreciation as per section 350 of the Companies Act, 1956	558.15	
		1,699.03
Net profits as per section 349 of the Companies Act, 1956		266.76

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 recognized on carryforward losses, as it is not virtually certain that such deferred tax asset will be realized. Further, the temporary differences arising reverse within the balance period of tax holiday under section 10A of the Income Tax Act, 1961.

Income Tax expense/(credit) comprise of:

(Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Overseas income taxes (comprising of withholding taxes and overseas branch income taxes)	249.21	268.50
The above are net of refund of overseas withholding taxes of	472.81	150.29

6. Fixed Price Revenue Contracts

During the year ended March 31, 2004, the Company adopted the revised Accounting Standard (AS 7) – Construction Contracts, in respect of fixed price contracts entered into by the Company on or after April 1, 2003. The Company has determined that the Revised AS 7 does not have a material impact on the financial statements for the year ended March 31, 2004. The Company determines percentage of completion of a particular contract based on the milestone delivered and accepted by the customer in view of the nature of contracts entered into by the Company. Costs incurred on milestones, which have not been completed as at the balance sheet date are reported as work in progress.

The following table provides disclosures in respect of contracts entered into by the Company after April 1, 2003 in accordance with the revised Accounting Standard (AS 7) – Construction Contracts:

(Amount in Rs. lakhs)

	March 31, 2004
Contract revenue recognized during the year	923.34

In respect of contracts in progress as at March 31, 2004	(Amount in Rs. lakhs)
Contract costs incurred (including work in progress) and recognized profits (less recognized losses) up to March 31, 2004	207.00
Gross amount due from customers for contract work-presented as an asset	7.23

7. Employee Stock Option Plan

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

a) SAS Stock Option Plan, 1997

The shareholders approved the above 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 were 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 Rs5 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	86,900	113,400	20
4.	12/10/99	100,000	–	100,000	20

Summary of FCDs movement is given below:

	Year ended March 31, 2004	Year ended March 31, 2003
FCD's outstanding at the beginning of the year	1,400	51,500
FCD's issued/granted during the year	–	–
FCD's forfeited	600	(10,100)
FCD's converted into shares	800	(40,000)
Outstanding FCD's at the end of the year	–	1,400

b) Sasken ESOP Plan 2000

During the year ended March 2001, the Company announced a Stock Option Plan in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. This stock option plan called ESOP-2000, was approved by the shareholders at the Extraordinary General Meeting of the Company held on September 22, 2000. It covers all employees of the Company including foreign branches, employees of the subsidiaries including its part time/ full time Directors other than the promoter directors. The Plan provides for the issue of 6,000,000 shares (including the shares issued under the FCD's as per the SAS Stock Option plan, 1997 and the shares to be issued consequent to the exercise of the options granted under the current plan) of Rs. 5 each duly adjusted for any bonus, splits, etc. A Compensation Committee comprising of three independent directors on the Board administers the scheme.

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

In October 2003 and thereafter, the Company issued 592,080 options to employees, convertible into 592,080 equity shares, with a vesting period of one year at an exercise price of Rs. 40 per share being the fair value of the Company's share as determined by the Company as at the date of grant. The details of the options issued and the position as on March 31, 2004 is provided below. None of the options have vested as on March 31, 2004.

Month of Grant	No. of employees	No. of options issued	No. of employees resigned	No. of options forfeited
October 2003	539	579,880	6	2,300
November 2003	8	12,000	8	10,060
December 2003	–	–	5	12,620
January 2004	–	–	3	1,260
February 2004	1	200	9	6,720
March 2004	–	–	13	10,900
Total	**548**	**592,080**	**44**	**43,860**

No. of options outstanding at March 31, 2004 548,220

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

On April 2, 2004 the Company issued 757,850 options covering 1,372 employees with a vesting period of one to four years at an exercise price ranging from Rs. 80 to Rs. 128 depending upon the exercise period per share being the fair value of the Company's share as determined by the Company as at the date of grant.

8. Warrant

In April 2003, 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. The warrant expires at the end of two years from the date of issue.

9. Related Party Disclosures

a) Remuneration paid to Key Managerial Personnel

(Amount in Rs. lakhs)

Name of the key Managerial Personnel	Relationship	March 31, 2004	March 31, 2003
Rajiv C Mody	Managing Director	56.39	32.00
Pranabh D Mody	Whole-time Director	37.35	27.54
Krishna Jhaveri	Whole-time Director	111.94	77.52

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

b) Sasken Network Systems Limited

During the quarter ended December 31, 2003, the Company established Sasken Network Systems Limited ('SNS'), as a wholly owned subsidiary Company to engage in the business of consultative engineering services focused on telecom operation systems. The Company has invested Rs. 5.00 lakhs towards the equity capital of the subsidiary Company as at March 31, 2004. A sum of Rs. 0.39 lakhs (Maximum amount outstanding during the year Rs. 0.39 lakhs) is receivable from the subsidiary Company towards reimbursement of expense as on March 31, 2004.

10. Segment Reporting

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

The Network Elements 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 year ended March 31, 2004, the Company has organized its segments based on the vertical market segment instead of the market segment in which the customers operated. Previous year segment information has been restated to conform to those of the current year.

a) Business Segment Information

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

	Network Elements	Terminal Devices	Semiconductors	Corporate and Others	Total
Segment assets	1,840.75	2,048.97	1,012.00	–	4,901.72
Unallocated corporate assets	–	–	–	8,547.99	8,547.99
Total assets	1,840.75	2,048.97	1,012.00	8,547.99	13,449.71
Segment liabilities	195.64	273.05	133.81	–	602.50
Unallocated corporate liabilities	–	–	–	1,471.01	1,471.01
Total liabilities	195.64	273.05	133.81	1,471.01	2,073.51
Capital expenditure – Tangible and Intangible	234.36	125.63	41.22	277.40	678.61

As at March 31, 2003 (Amount in Rs. lakhs)

	Network Elements	Terminal Devices	Semi-conductors	Corporate and Others	Total
Segment assets	1,071.58	2,234.11	1,617.74	–	4,923.43
Unallocated corporate assets	–	–	–	9,430.57	9,430.57
Total assets	1,071.58	2,234.11	1,617.74	9,430.57	14,354.00
Segment liabilities	128.85	345.01	99.07	–	572.93
Unallocated corporate liabilities	–	–	–	3,655.61	3,655.61
Total liabilities	128.85	345.00	99.07	3,655.61	4,228.54
Capital expenditure – Tangible and Intangible	64.74	206.65	10.57	1,469.30	1,751.26

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

	Network Elements	Terminal Devices	Semi-conductors	Eliminations	Total
Revenue from external customers	6,423.65	5,862.93	4,326.43	–	16,613.01
Segment Result	2,295.59	2,017.77	1,277.08	–	5,590.44
Corporate Expenses	–	–	–	–	4,019.13
Operating Profit	–	–	–	–	1,571.31
Interest expense	–	-	–	–	79.84
Other income	–	–	–	–	130.45
Income tax expense/ (credit)	–	–	–	–	(213.20)
Profit after tax	–	–	–	–	1,835.12
Other Information					
Depreciation on identified segment assets	138.90	179.87	94.89	–	413.66
Depreciation allocated to segments	283.70	236.08	118.73	–	638.51
Unallocated Depreciation	–	–	–	–	135.61
Amortization of capitalized software costs	–	461.37	–	–	461.37

Year ended March 31, 2003 (Amount in Rs. lakhs)

	Network Elements	Terminal Devices	Semi-conductors	Internet Access Solutions	Eliminations	Total
Revenue from external customers	3,714.17	4,437.03	2,738.22	48.77	–	10,938.19
Inter-segment Revenue	–	76.91	–	–	(76.91)	–
Total revenues	3,714.17	4,513.94	2,738.22	48.77	(76.91)	10,938.19
Segment Result	1,158.24	2,282.11	535.67	(248.99)	–	3,727.03
Corporate Expenses	–	–	–	–	–	2,946.52
Operating Profit	–	–	–	–	–	780.51
Interest expense	–	–	–	–	–	362.23
Other income	–	–	–	–	–	(15.93)
Income tax expense/ (credit)	–	–	–	–	–	275.09
Profit after tax	–	–	–	–	–	127.26
Other Information						
Depreciation on identified segment assets	92.71	183.78	97.68	10.56	–	384.73
Depreciation allocated to segments	212.83	203.59	162.44	27.66	–	606.52
Unallocated depreciation	–	–	–	–	–	266.67
Amortization of capitalized software costs	–	969.09	297.33	–	–	1,266.42

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.

Geographic Segment Information

Revenue (Amount in Rs. lakhs)

Region	March 31, 2004	March 31, 2003
North America (Including Canada)	6,413.94	4,688.17
Europe	5,799.30	2,394.11
Asia Pacific	2,898.55	2,842.77
India	1,501.22	1,013.14
Total	16,613.01	10,938.19

Assets

Sundry Debtors and Unbilled Revenue (Amount in Rs. lakhs)

Region	As at March 31, 2004	As at March 31, 2003
North America (Including Canada)	1,114.52	1,183.29
Europe	1,632.57	807.92
Asia Pacific	714.95	1,050.92
India	437.67	180.08
Total	3,899.71	3,222.21

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

11. Earnings Per Share (EPS)

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

(Amount in Rs. lakhs, except share data)

	March 31, 2004	March 31, 2003
Profit/(Loss) for computation of basic EPS	1,835.12	127.26
Add: Interest on Fully convertible debentures (FCDs)	0.02	–
Profit/(Loss) for computation of diluted EPS	1,835.14	127.26
Weighted average number of shares considered for basic EPS	30,186,957	25,379,436
Add: Effect of stock options and warrants	1,578,847	–
Add: Potential shares on conversion of FCDs	1,400	–*
Add: Effect of share application money to the extent utilized by the Company	–	5,553
Weighted average number of shares considered for diluted EPS	31,767,204	25,384,989

*In computation of diluted EPS for the year ended March 31, 2003, the effect of FCDs, stock options cancelled and warrants (as referred to in Note 8) have not been considered as their effect is anti-dilutive.

12. Operating lease

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

(Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Rent expenses included in profit & loss account towards operating leases	170.66	170.37

Minimum lease obligation under non cancellable lease contracts amounts to: (Amount in Rs. lakhs)

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

13. 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 Managing Director	Pranabh D Mody Whole-time Director	Neeta Revankar Chief Financial Officer	N Venkatramani Company Secretary

Place : Bangalore
Date : April 20, 2004

Cash Flow Statement

	For the Year ended March 31, 2004 Rs. in lakhs	For the Year ended March 31, 2003 Rs. in lakhs
A. Cash flow from operating activities:		
Net (Loss)/Profit before tax	1,621.92	402.35
Adjustments for:		
Depreciation	1,187.78	1,257.92
Amortisation of capitalised software costs	461.37	1,266.42
Provisions, net of reversals	–	(303.56)
Other non-cash writeback/charges	59.30	(382.00)
Foreign exchange adjustments	–	(13.22)
Interest expense	79.84	362.23
Other income	(61.47)	(13.75)
Operating profit before working capital changes	3,348.74	2,576.39
Adjustments for:		
(Increase)/decrease in Sundry Debtors	(293.08)	147.55
(Increase)/decrease in Work in progress	191.01	(155.42)
(Increase)/decrease in Loans & Advances	(943.10)	206.43
Increase/(decrease) in Current Liabilities and provisions	169.21	149.58
Cash generated from operations	2,472.78	2,924.53
Direct taxes (paid)/refund received	122.53	(388.56)
Net cash from operating activities	**2,595.31**	**2,535.97**
B. Cash flow from investing activities:		
Purchase of fixed assets	(814.55)	(811.84)
Sale of fixed assets	11.73	89.10
Software development costs capitalised	–	(884.53)
Other income	–	12.47
Interest received	6.00	–
Sale of investments	2,818.14	–
Investments purchased	(3,022.63)	–
Investment in Subsidiary	(5.00)	–
Net cash used in investing activities	**(1,006.31)**	**(1,594.80)**

	For the Year ended March 31, 2004 Rs. in lakhs	For the Year ended March 31, 2003 Rs. in lakhs
C. Cash flow from financing activities:		
Proceeds from issue of shares (includes share application money)	–	1,644.53
Refund of share application money	(172.76)	–
Repayment of long-term borrowing	(1,343.93)	(1,941.95)
Increase/(decrease) in Working capital loans	(1,288.18)	1,098.01
Redemption of Debentures	(0.24)	(4.04)
Interest paid	(119.17)	(420.10)
Net cash used in financing activities	**(2,924.28)**	**376.45**
Net increase/(Decrease) in Cash and Bank balances (A+B+C)	(1,335.28)	1,317.62
Cash and Bank balances at the beginning of the year	1,603.46	285.84
Cash and Bank Balances at the end of the year	**268.18**	**1,603.46**
Supplementary non-cash information		
Issuance of share capital out of share application money	1,470.00	–
Dividends received re-invested in units of mutual funds	55.47	–
Conversion of fully convertible debentures into equity shares	0.32	16.00

In terms of our attached report of even date.

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place: Bangalore
Date : April 20, 2004

For and on behalf of the Board

Rajiv C Mody
Managing Director

Pranabh D Mody
Whole-time Director

Neeta Revankar
Chief Financial Officer

N Venkatramani
Company Secretary

Balance Sheet Abstract

(In Rs. lakhs)

Information pursuant to Part IV of Schedule VI to the Companies Act, 1956
Statement on Balance Sheet Abstract and General Business Profile of the Company

I.	**Registration Details**			
	Registration No	08 14226	State Code 8	
	Balance Sheet Date	31 03 04		
II.	**Capital raised during the year**			
	Public Issue	Nil	Rights Issue	1,470.0
	Bonus Issue	Nil	Conversion of FCD's & Stock Options	0.3
III.	**Position of mobilisation and deployment of funds**			
	Total Liabilities	11,418.88	Total Assets	11,418.88
	Sources of Funds			
	Paid-up Capital	1,516.09		
	Reserves & Surplus	9,860.11		
	Unsecured Loans	–		
	Secured Loans	42.68		
	Application of Funds			
	Net Fixed Assets	7,805.35		
	Capitalized Software	115.03		
	Investments	269.19		
	Net Current Assets	3,229.31		
	Misc. Expenditure	Nil		
	Accumulated Losses	Nil		
IV.	**Performance of the Company**			
	Turnover	16,613.01	Total Expenditure	14,777.89
	Profit/(Loss) Before tax	1,621.92	Profit/(Loss) after tax	1,835.12
	Basic Earnings per share (Rs.)	6.08	Dividend rate	25%
	Diluted Earnings per share (Rs.)	5.78		
V.	**Generic names of three principal products of the Company**			
	(as per monetary terms)			
	Item Code No (ITC Code)	85249009.10		
	Product Description:	Computer Software		

Consolidated Financial Statements
Auditor's report

The Board of Directors

Sasken Communication Technologies Limited

We have audited the attached consolidated balance sheet of Sasken Communication Technologies Limited and its subsidiary (collectively called "Sasken Group"), as at March 31, 2004, and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We did not audit the financial statements of the subsidiary, whose financial statements reflect total assets of Rs. 451,313 as at March 31, 2004, a total revenue of Rs. Nil, total expenditure of Rs. 141,383 and cash flows amounting to Rs. 441,313 for the year then ended. These financial statements and other financial information have been audited by another auditor whose report has been furnished to us, and our opinion is based solely on the report of the other auditor.

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

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

(a) in the case of the consolidated balance sheet, of the state of affairs of the Sasken Group as at March 31, 2004;

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

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

For S. R. BATLIBOI & COMPANY
Chartered Accountants

per Sunil Bhumralkar
Membership No.: 35141

Bangalore
April 20, 2004

Consolidated Balance Sheet

	Schedule No.	As at March 31 2004 Rs. in lakhs	As at March 31 2003 Rs. in lakhs
Sources of Funds			
Shareholders' Funds			
Share Capital	1	1,516.09	1,271.00
Share Application Money		–	1,642.76
Reserves and Surplus	2	9,858.70	7,211.70
Loan Funds			
Secured Loans	3	42.68	2,674.79
Unsecured Loans	4	–	0.56
Total Sources		**11,417.47**	**12,800.81**
Application of Funds			
Fixed Assets	5		
Gross Block		13,599.01	13,153.61
Less: Accumulated Depreciation		5,911.47	4,939.95
Net Block		7,687.54	8,213.66
Capital Work in Progress including Capital Advances		117.81	21.21
Total		**7,805.35**	**8,234.87**
Capitalised software product costs (net of amortization)		115.03	576.40
Investments	6	264.29	14.42
Current Assets, Loans and Advances			
Inventories	7	54.97	245.98
Sundry Debtors	8	3,367.82	3,103.01
Cash and Bank Balances	9	272.60	1,603.46
Loans and Advances	10	1,568.78	575.86
Gross Current Assets	(A)	**5,264.17**	**5,528.31**
Less: **Current Liabilities and Provisions**	11		
Current Liabilities		1,475.09	1,366.81
Provisions		556.28	186.38
Total	(B)	**2,031.37**	**1,553.19**
Net Current Assets	(A-B)	3,232.80	3,975.12
Total Applications		**11,417.47**	**12,800.81**
Notes to Consolidated Accounts	17		

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

For and on behalf of the Board

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place : Bangalore
Date : April 20, 2004

Rajiv C Mody
Managing Director

Pranabh D Mody
Whole-time Director

Neeta Revankar
Chief Financial Officer

N Venkatramani
Company Secretary

Consolidated Profit and Loss Account

	Schedule No.	For the Year ended March 31 2004 Rs. in lakhs	For the Year ended March 31 2003 Rs. in lakhs
Revenues		16,613.01	10,938.19
Cost of Revenues	12	11,022.57	7,211.16
Gross Profit		**5,590.44**	**3,727.03**
Research and Development		193.80	116.21
Gross Profit after Research and Development		**5,396.64**	**3,610.82**
Selling and Marketing Expenses	13	1,890.87	1,984.83
Administrative and General Expenses	14	1,920.24	1,542.66
Employee stock option compensation cost (net)		15.63	(714.62)
(Refer note 7(b) in the Notes to Accounts)			
Provisions		–	(303.56)
Provision for diminution in value of investments		–	321.00
Profit from operations		**1,569.90**	**780.51**
Other Income/(Expenses)	15	130.45	(15.93)
Profit before Interest and Income Taxes		**1,700.35**	**764.58**
Interest Expense	16	79.84	362.23
Profit before Income Taxes		**1,620.51**	**402.35**
Income Tax expense/(credit), net		(213.20)	275.09
Profit after Tax		**1,833.71**	**127.26**
Add: Balance brought forward		2,532.08	2,404.82
Profit available for appropriations		**4,365.79**	**–**
Appropriations			
Proposed Dividend (Rs. 1.25 per Share)		379.02	–
Tax on dividend		48.56	–
Transfer to General Reserve		183.51	–
Balance carried to Balance Sheet		3,754.70	2,532.08
Earnings Per share (Equity Share par value Rs. 5 each) (in Rs.)			
Basic		6.07	0.50
Diluted		5.77	0.50
Weighted Average number of Equity Shares used in computation of			
Basic		30,186,957	25,379,436
Diluted		31,767,204	25,384,989
(Refer Note 11 in Notes to Accounts)			
Notes to Consolidated Accounts	17		

The Schedules referred to above, form an integral part of the Consolidated Profit and Loss Account.
In terms of our attached report of even date.

For and on behalf of the Board

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place : Bangalore
Date : April 20, 2004

Rajiv C Mody
Managing Director

Pranabh D Mody
Whole-time Director

Neeta Revankar
Chief Financial Officer

N Venkatramani
Company Secretary

Schedules forming part of the Consolidated Balance Sheet

	As at March 31 2004 Rs. in lakhs	As at March 31 2003 Rs. in lakhs
Schedule 1		
Authorised Capital		
50,000,000 Equity Shares of Rs. 5 each	2,500.00	2,500.00
(At March 31, 2003, 50,000,000 Equity Shares of Rs. 5 each)		
Total	**2,500.00**	**2,500.00**
Issued, Subscribed and Paid Up Capital		
30,321,637 Equity Shares of Rs. 5 each fully paid up (At March 31, 2003, 25,420,037 Equity Shares of Rs. 5 each fully paid up)	1,516.09	1,271.00
(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. 502.83 Lakhs and General Reserve of Rs. 64.67 Lakhs)		
Total	**1,516.09**	**1,271.00**
Schedule 2		
Reserves and Surplus		
Share Premium		
Opening Balance	4,048.69	4,033.47
Add: Received during the year	1,225.24	15.22
Total	**5,273.93**	**4,048.69**
General Reserve		
Opening Balance	630.93	630.93
Add: Transferred from Profit & Loss Account	183.51	–
Total	**814.44**	**630.93**
Profit & Loss Account	3,754.70	2,532.08
Employee Stock Option Outstanding (Net of Deferred Compensation Cost)	15.63	–
(Refer note 7(b) in Notes to Accounts)		
Total	**9,858.70**	**7,211.70**

Schedules forming part of the Consolidated Balance Sheet

	As at March 31 2004 Rs. in lakhs	As at March 31 2003 Rs. in lakhs
Schedule 3		
Secured Loans		
Term Loan from a Bank	–	1,343.93
(Secured by pari passu first charge on all movable fixed assets of the holding Company and an equitable mortage of land, buildings and other fixed assets and guaranteed by the Directors of the holding Company) [Term loans repayable within one Year Rs. Nil (At March 31, 2003 Rs. 1,343.93 lakhs)]		
Packing Credit from Scheduled Banks (Ref Note 3(e) in Notes to Accounts)	42.68	1,330.86
(Secured by a charge on the current assets including receivables, both present and future and equitable mortgage on land and buildings of the holding Company and hypothecation of the other fixed assets of the holding Company)		
Total	**42.68**	**2,674.79**
Schedule 4		
Unsecured Loans		
10% Fully Convertible Unsecured Debentures of Rs. 40 each	–	0.56
(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 holding Company or surrenders before the date of conversion as given above.		
Total	**–**	**0.56**

Schedules forming part of the Consolidated Balance Sheet

(Amount in Rs. lakhs)

Schedule 5 – Fixed Assets	Gross Block				Depreciation				Net Block	
Particulars	As at April 1, 2003	Additions during the year	Deletions during the year	As at March 31, 2004	As at April 1, 2003	For the year	Adjustments during the year	As at March 31, 2004	As at March 31, 2004	As at March 31, 2003
Land	2,285.27	2.40	–	2,287.67	–	–	–	–	2,287.67	2,285.27
Building	3,301.12	9.86	–	3,310.98	311.40	157.25	–	468.65	2,842.33	2,989.72
Computers	2,367.37	265.29	181.09	2,451.57	1,835.30	299.38	170.10	1,964.58	486.99	532.07
Intangible Assets	1,416.63	124.29	3.55	1,537.37	1,333.82	182.80	3.55	1,513.07	24.30	82.81
Electrical Fittings	81.14	18.57	3.34	96.37	68.72	9.93	3.34	75.31	21.06	12.42
Furniture and Fittings	1,128.79	121.71	2.78	1,247.72	228.89	111.36	2.47	337.78	909.94	899.90
Office Equipments	2,573.29	136.49	42.45	2,667.33	1,161.82	427.06	36.80	1,552.08	1,115.25	1,411.47
Total	**13,153.61**	**678.61**	**233.21**	**13,599.01**	**4,939.95**	**1,187.78**	**216.26**	**5,911.47**	**7,687.54**	**8,213.66**
Balance as at March 31, 2003	11,911.65	1,751.26	509.30	13,153.61	4,099.49	1,257.92	417.46	4,939.95	8,213.66	

Notes: Additions during the year includes Rs. Nil (March 31, 2003 – Rs. 4.45 lakhs) capitalized on account of exchange rate variation

Schedules forming part of the Consolidated Balance Sheet

	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Schedule 6		
Investments		
A. Long term, Unquoted, Non-Trade, at cost		
Indira Vikas Patra / National Savings Certificates	0.12	0.02
29,764 fully paid shares of Preferred Stock of 2Wire Inc, a company		
incorporated in USA.	169.40	169.40
Less: Provision for diminution in value of investment	(155.00)	(155.00)
392,285 fully paid equity shares of Rs. 10/- each of Prime Telesystems Ltd.	240.00	240.00
Less: Provision for diminution in value of investment	(240.00)	(240.00)
203,500 common shares of Extandon Inc, a company incorporated in USA	0.23	–
(Refer note 3(f) in the Notes to Accounts)		
B. Current – Non-Trade & Unquoted, at lower of cost and net realisable value		
Templeton India Treasury Management Account	249.54	–
[15,851.483 Units of Rs. 1574.2270 each]		
[Market value – Rs. 250.74 Lakhs]		
Total	**264.29**	**14.42**
Schedule 7		
Inventories		
Work-in-progress	54.97	245.98
Total	**54.97**	**245.98**
Schedule 8		
Sundry Debtors		
a) Debts outstanding for a period exceeding six months		
– Unsecured, considered good	52.81	663.73
– Unsecured, considered doubtful	181.72	226.94
b) Other debts		
– Unsecured, considered good	3,315.01	2,439.28
– Unsecured, considered doubtful	–	50.47
Less: Provisions	(181.72)	(277.41)
Total	**3,367.82**	**3,103.01**

Schedules forming part of the Consolidated Balance Sheet

	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Schedule 9		
Cash and Bank Balances		
Cash on Hand	2.65	2.59
Cheques on hand and remittances in transit	–	247.63
Balances with:		
Scheduled Banks		
– in Current Accounts	161.14	1,233.35
– in Deposit Accounts	32.58	22.96
(Held as margin money for Bank guarantees / Letters of credit)		
Other banks		
– Barclays Bank, UK	28.26	12.20
– Bank of America, USA	7.71	44.58
– Bank of Montreal, Canada (Can $)	11.81	21.41
– Sumitomo Bank, Japan	1.07	10.02
– Kawasaki Shinkim Bank, Japan	0.03	1.79
– China Minsheng Banking Corporation (USD)	1.12	0.10
– China Minsheng Banking Corporation (CNY)	2.78	0.05
– Nordbanken AB, Sweden	0.78	6.78
– Hypo Vereins Bank, Germany	22.67	–
Total	**272.60**	**1,603.46**
Maximum amount outstanding at any time during the year in other banks		
Current Accounts		
– Barclays Bank, UK	85.56	50.26
– Bank of America – Texas, USA	338.26	264.16
– Bank of America – USA	764.08	–
– Bank of Montreal, Canada (Can $)	166.25	39.44
– Bank of Montreal, Canada (US$)	18.73	18.73
– Sumitomo Bank, Japan (USD)	163.16	58.61
– Sumitomo Bank, Japan (JPY)	19.11	–
– China Minsheng Banking Corporation (USD)	10.55	10.55
– China Minsheng Banking Corporation (CNY)	30.33	30.33
– Nordbanken AB, Sweden	14.45	15.14
– Hypo Vereins Bank, Germany	32.60	–
Deposit Account		
– Kawasaki Shinkim Bank, Japan	18.28	1.79

Schedules forming part of the Consolidated Balance Sheet

	As at March 31, 2004 Rs. in lakhs	As at March 31, 2003 Rs. in lakhs
Schedule 10		
Loans and Advances		
(Unsecured, considered good)		
Advances recoverable in cash or in kind		
or for value to be received	300.00	187.59
Deposits with Government Departments and others	546.76	153.50
Loans and Advances to Staff	139.19	114.84
Interest Income Accrued but not due	0.73	0.73
Unbilled Revenues	531.89	119.20
Advance Income Tax (Net of Provision for Tax)	50.21	–
Total	**1,568.78**	**575.86**
Schedule 11		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors for goods, expenses and services		
Dues to Small Scale Industrial Units	0.18	0.67
Others	1,103.69	873.63
Interest Accrued but not due	0.08	39.42
Other Liabilities	267.67	216.04
Deferred Revenues	43.70	47.21
Advance received from customers	59.77	189.84
Total (A)	**1,475.09**	**1,366.81**
Provisions		
Provision for Tax (Net of Advance Income Tax)	–	40.46
Proposed Equity Dividend	379.02	–
Tax on Proposed Equity Dividend	48.56	–
Provision for Leave Encashment	92.43	51.82
Provision for Warranty	27.97	58.80
Provision for Gratuity	8.30	35.30
Total (B)	**556.28**	**186.38**
Total (A) + (B)	**2,031.37**	**1,553.19**

Schedules forming part of the Consolidated Profit and Loss Account

	For the year ended March 31, 2004 Rs. in lakhs	For the year ended March 31, 2003 Rs. in lakhs
Schedule 12		
Cost of Revenues		
Salaries & Bonus	7,077.25	4,382.31
Contribution to Provident and Other Funds	341.60	203.41
Staff Welfare	117.70	59.13
Recruitment and Relocation	188.81	44.26
Rent	52.75	31.18
Repairs and Maintenance		
– Plant & Machinery	131.13	137.88
– Building	65.70	53.87
– Others	61.76	48.86
Communication	85.58	39.73
Travel	540.86	593.06
Electricity and Water Charges	203.30	144.75
Professional & Consultancy Charges	357.12	189.19
Depreciation	1,052.17	991.24
Software Charges	73.51	145.02
Training and Conference	44.05	43.50
Warranty Expenses provided (reversed)	(23.10)	(122.70)
Sub Total	**10,370.19**	**6,984.69**
Amortization / write off of capitalised software product costs	461.37	1,266.42
Add: Opening balance of work in progress	245.98	90.56
Less: Closing balance of work in progress	(54.97)	(245.98)
Less: Capitalised software product costs	–	(884.53)
Total	**11,022.57**	**7,211.16**
Schedule 13		
Selling and Marketing Expenses		
Salaries & Bonus	860.04	1,161.27
Contribution to Provident and Other Funds	32.36	33.15
Staff Welfare	31.80	12.46
Recruitment and Relocation	16.17	4.04
Rent	90.94	108.93
Repairs and Maintenance		
– Plant & Machinery	9.24	6.99
– Building	12.12	11.69
– Others	1.15	0.53
Communication	71.26	68.38
Travel	211.53	262.93
Electricity and Water Charges	1.31	6.84
Professional, Legal & Consultancy Charges	271.23	55.12
Agency Commission	175.31	119.54
Selling Expenses – Others	89.14	46.03
Depreciation	12.27	80.23
Training and Conference	5.00	6.70
Total	**1,890.87**	**1,984.83**

Schedules forming part of the Consolidated Profit and Loss Account

	For the year ended March 31, 2004 Rs. in lakhs	For the year ended March 31, 2003 Rs. in lakhs
Schedule 14		
Administrative and General Expenses		
Salaries & Bonus	797.06	614.94
Contribution to Provident and Other Funds	60.28	41.43
Staff Welfare	14.43	9.74
Recruitment and Relocation	40.77	48.34
Rent	26.97	30.26
Rates and Taxes	55.57	47.14
Repairs and Maintenance		
– Plant & Machinery	12.27	10.64
– Building	24.55	53.65
– Others	7.07	12.79
Communication	23.61	14.93
Travel	66.83	33.81
Electricity and Water Charges	32.71	32.64
Depreciation	116.51	184.38
Professional, Legal & Consultancy Charges	155.06	143.58
Auditor's Remuneration		
– Statutory Audit	6.20	5.00
– Other Services	0.15	–
– Out of Pocket Expenses (including service tax)	1.01	0.55
Training and Conference	56.24	5.97
Directors' sitting fees	0.44	0.16
Insurance	76.16	38.92
Miscellaneous	302.68	203.08
Net loss on sale of current investments	10.19	–
Loss on sale of fixed assets (net)	5.21	2.54
Bad debts	–	5.51
Provision for doubtful debts, net	28.27	2.66
Total	**1,920.24**	**1,542.66**
Schedule 15		
Other Income/(Expenses)		
Miscellaneous income	7.99	12.47
Dividend received on current investments	55.47	–
Interest income on Bank Deposits (Gross)	4.30	0.37
[Tax deducted at Source Rs. 0.84 Lakhs (previous year Rs. Nil)]		
– Others	1.70	0.67
Exchange gain/(loss), (net)	60.99	(29.44)
Total	**130.45**	**(15.93)**
Schedule 16		
Interest Expense		
– On Term Loans	8.25	278.48
– On Fully Convertible Debentures	0.02	1.00
– Others	71.57	82.75
Total	**79.84**	**362.23**

Schedule 17

Notes to Consolidated accounts

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, Germany, Japan, Sweden, United Kingdom and the United States of America.

During the fiscal 2004, the Company promoted Sasken Network Systems Limited, ("SNS") a subsidiary in India. SNS would provide consultative engineering services focused on telecom operation systems. SNS was incorporated on October 20, 2003, and obtained its certificate to commence business on November 21, 2003, from the Registrar of Companies, Karnataka.

2. Significant Accounting Policies

Basis for preparation of financial statements

The accompanying consolidated financial statements include the accounts of Sasken Communication Technologies Limited and Sasken Network Systems Limited (100% subsidiary of Sasken Communication Technologies Limited) (hereinafter referred to as 'the Group'). The financial year-end of SNS is March 31.

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

All significant inter company balances and transactions between the Company and it's subsidiary have been eliminated in consolidation.

Revenue Recognition

(See note 6 below)

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

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

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

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

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

Interest income is recognized on an accrual basis.

Work in progress

(See note 6 below)

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

Fixed Assets

Fixed Assets are stated at cost 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 & Fittings	10
Furniture and leasehold improvements at leased property	Over the lease period of the facility
Office equipments	5

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

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

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 capitalized to the cost of the asset. Capitalization of such costs ceases when the asset is ready for use.

Capitalization 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 customer. 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 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 realizable value whichever is lower.

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 realizable 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 settlement / conversion are recognized in the Profit and Loss account, except differences on liabilities for purchase of fixed assets, which are capitalized.

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. Gain or loss on cancellation/renewal of a forward cover is recognized in the Profit and Loss account for the year.

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 rate prevailing on the balance sheet date. The resultant exchange gain/loss is recognized in the Profit and Loss account.

Retirement benefits to employees

The Group contributes to a Group Gratuity Scheme, administered by a private insurance company. The contributions are charged to the Profit and Loss account. Provision is made for the difference between the actuarial valuation and the funded balance.

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

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

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

Warranty Expenses

The Group 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

Tax expense comprises both current and deferred taxes. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Deferred tax assets are recognized on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realized against future taxable profits. Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

Stock Compensation Expense

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

Earnings per Share

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

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

Segment Policy

Identification of segments:

The Group's operating businesses are organized and managed separately according to the vertical market segment. The analysis of geographical segments is based on the areas where the customers of the Group 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. Investments:

Details of investments purchased and sold during year ended March 31, 2004:

Name of the Fund	Units Purchased	Cost (Rs. in lakhs)	Units Sold	Sales Value (Rs. in lakhs)
Templeton Treasury Management Account	32,197	400.76	32,197	400.68
Kotak Mahindra Liquid Institutional Plan – Dividend	3,347,855	335.27	3,347,855	335.59
Templeton India Income Builder – Institutional Plan	2,341,691	256.59	2,341,691	249.21
HDFC Income Fund – Premium Plan – Dividend	4,897,109	532.85	4,897,109	526.44
Templeton India Short Term Income Plan Growth	21,549	249.21	21,549	249.54
HDFC STP Growth Plan	2,273,479	263.25	2,273,479	263.59
JM Short Term Plan	2,492,047	263.20	2,492,047	263.62
HDFC Cash Management – Savings Plan – Growth Option	2,012,717	263.59	2,012,717	264.71
JM High Liquidity Fund – Institutional Plan – Growth	2,518,762	263.61	2,518,762	264.76
Total		2,828.33		2,818.14

3. Other notes

a) Research & Development expenses include:

(Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Salaries and Bonus	178.00	108.67
Contribution to Provident Fund and Other Funds	8.97	5.48
Depreciation	6.83	2.06
Total	193.80	116.21

b) Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. 632.65 lakhs (As at March 31, 2003, Rs. 28.68 lakhs)

c) Contingent liabilities not provided for amount to Rs. 165.41 lakhs (As at March 31, 2003, Rs. 76.46 lakhs). 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. Bank guarantees and letters of credit outstanding are given below:

(Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Bank guarantees	139.56	130.18
Letters of credit	110.59	Nil

d) Packing Credit is net of remittances in transit amounting to Rs. 97.13 lakhs (As at March 31, 2003 – Rs. 458.58 lakhs).

e) Foreign exchange gains arising on account of foreign exchange forward contracts entered into by the Company to be recognized in the subsequent financial periods amounts to Rs. 22.07 lakhs as at March 31, 2004, and Rs. 28.43 lakhs as at March 31, 2003.

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

g) During the year ended March 31, 2004, the Company (in the Terminal Devices Segment – Europe region) entered into an agreement for services rendered to one of its customers. The customer has agreed to settle the consideration by transferring certain software programs and annual maintenance services amounting to Rs. 157.14 lakhs. The company has considered this transaction to be a non-monetary exchange.

4. Managerial Remuneration

(Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Salary	157.09	133.91
Contribution to Provident Fund and Other Funds #	8.99	1.15
Provision towards performance incentives	39.60	2.00
Commission to non wholetime directors**	16.83	–
Total	222.51	137.06

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

** Commission to non wholetime directors includes Rs. 2.84 lakhs that is subject to approval of the shareholders of the Company.

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 recognized on carryforward losses, as it is not virtually certain that such deferred tax asset will be realized. Further, the temporary differences arising reverse within the balance period of tax holiday under section 10A of the Income Tax Act, 1961.

Income Tax expense/(credit) comprise of:

(Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Overseas income taxes (comprising of withholding taxes and overseas branch income taxes)	249.21	268.50
The above are net of refund of overseas withholding taxes of:	472.81	150.29

6. Fixed Price Revenue Contracts

During the year ended March 31, 2004, the Group adopted the revised Accounting Standard (AS-7) – Construction Contracts, in respect of fixed price contracts entered into by the Group on or after April 1, 2003. The Group has determined that the Revised AS-7 does not have a material impact on the financial statements for the year ended March 31, 2004. The Group determines percentage of completion of a particular contract based on the milestone delivered and accepted by the customer in view of the nature of contracts entered into by the Group. Costs incurred on milestones, which have not been completed as at the balance sheet date are reported as work in progress.

The following table provides disclosures in respect of contracts entered into by the Group after April 1, 2003, in accordance with the revised Accounting Standard (AS-7) – Construction Contracts:

(Amount in Rs. lakhs)

	March 31, 2004
Contract revenue recognized during the year	923.34

In respect of contracts in progress as at March 31, 2004: (Amount in Rs. lakhs)

Contract costs incurred (including work in progress) and recognized profits (less recognized losses) up to March 31, 2004	207.00
Gross amount due from customers for contract work-presented as an asset	7.23

7. Employee Stock Option Plan

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

a) SAS Stock Option Plan, 1997

The shareholders approved the above 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 were 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	86,900	113,400	20
4.	12/10/99	100,000	–	100,000	20

Summary of FCDs movement is given below:

	Year ended March 31, 2004	Year ended March 31, 2003
FCD's outstanding at the beginning of the year	1,400	51,500
FCD's issued/granted during the year	–	–
FCD's forfeited	600	(10,100)
FCD's converted into shares	800	(40,000)
Outstanding FCD's at the end of the year	–	1,400

b) Sasken ESOP-2000

During the year ended March 2001, the Company announced a Stock Option Plan in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. This stock option plan called ESOP-2000, was approved by the shareholders at the Extraordinary General Meeting of the Company held on September 22, 2000. It covers all employees of the Company including foreign branches, employees of the subsidiaries including its part time/full time Directors other than the promoter directors. The Plan provides for the issue of 6,000,000 shares (including the shares issued under the FCD's as per the SAS Stock Option plan, 1997, and the shares to be issued consequent to the exercise of the options granted under the current plan) of Rs. 5 each duly adjusted for any bonus, splits, etc. A Compensation Committee comprising of three independent directors on the Board administers the scheme.

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

In October 2003 and thereafter, the Company issued 592,080 options to employees, convertible into 592,080 equity shares, with a vesting period of one year at an exercise price of Rs. 40 per share being the fair value of the Company 's share as determined by the Company as at the date of grant. The details of the options issued and the position as on March 31, 2004, is provided below. None of the options have vested as on March 31, 2004.

Month of Grant	No. of employees	No. of options Issued	No. of employees resigned	No. of options forfeited
October 2003	539	579,880	6	2,300
November 2003	8	12,000	8	10,060
December 2003	–	–	5	12,620
January 2004	–	–	3	1,260
February 2004	1	200	9	6,720
March 2004	–	–	13	10,900
Total	548	592,080	44	43,860
No. of options outstanding at March 31, 2004				548,220

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

On April 2, 2004, the Company issued 757,850 options covering 1372 employees with a vesting period of one to four years at an exercise price ranging from Rs. 80 to Rs. 128 per share depending upon the exercise period being the fair value of the Company 's share as determined by the Company as at the date of grant.

8. Warrant

In April 2003, 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. The warrant expires at the end of two years from the date of issue.

9. Related Party Disclosures

Remuneration paid to Key Managerial Personnel (Amount in Rs. lakhs)

Name of the key Managerial Personnel	Relationship	March 31, 2004	March 31, 2003
Rajiv C Mody	Managing Director	56.39	32.00
Pranabh D Mody	Whole-time Director	37.35	27.54
Krishna Jhaveri	Whole-time Director	111.94	77.52

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

10. Segment reporting

The Group has three divisions each focusing on different market segments Network Elements, Semiconductors and Terminal Devices.

The Network Elements 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 year ended March 31, 2004, the Group has organized its segments based on the vertical market segment instead of the market segment in which the customers operated. Previous year segment information has been restated to conform to those of the current year.

a) Business Segment Information

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

	Network Elements	Terminal Devices	Semiconductors	Corporate and Others	Total
Segment assets	1,840.75	2,048.97	1,012.00	–	4,901.72
Unallocated corporate assets	–	–	–	8,547.12	8,547.12
Total assets	1,840.75	2,048.97	1,012.00	8,547.12	13,448.84
Segment liabilities	195.64	273.05	133.83	–	602.52
Unallocated corporate liabilities	–	–	–	1,471.53	1,471.53
Total liabilities	195.64	273.05	133.83	1,471.53	2,074.05
Capital expenditure – Tangible and Intangible	234.36	125.63	41.22	277.40	678.61

As at March 31, 2003 (Amount in Rs. lakhs)

	Network Elements	Terminal Devices	Semiconductors	Corporate and Others	Total
Segment assets	1,071.58	2,234.12	1,617.74	–	4,923.44
Unallocated corporate assets	–	–	–	9,430.56	9,430.56
Total assets	1,071.58	2,234.12	1,617.74	9,430.56	14,354.00
Segment liabilities	128.85	345.01	99.07	–	572.93
Unallocated corporate liabilities	–	–	–	3,655.61	3,655.61
Total liabilities	128.85	345.01	99.07	3,655.61	4,228.54
Capital expenditure – Tangible and Intangible	64.74	206.65	10.57	1,469.30	1,751.26

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

	Network Elements	Terminal Devices	Semiconductors	Eliminations	Total
Revenue from external customers	6,423.65	5,862.93	4,326.43	–	16,613.01
Segment Result	2,295.59	2,017.77	1,277.08	–	5,590.44
Corporate Expenses	–	–	–	–	4,020.54
Operating Profit	–	–	–	–	1,569.90
Interest expense	–	–	–	–	79.84
Other income	–	–	–	–	130.45
Income tax expense/(credit)	–	–	–	–	(213.20)
Profit after tax	–	–	–	–	1,833.71
Other Information					
Depreciation on identified segment assets	138.90	179.87	94.89	–	413.66
Depreciation allocated to segments	283.70	236.08	118.73	–	638.51
Unallocated Depreciation	–	–	–	–	135.61
Amortization of capitalized software costs	–	461.37	–	–	461.37

Year ended March 31, 2003 (Amount in Rs. lakhs)

	Network Elements	Terminal Devices	Semiconductors	Internet Access Solutions	Eliminations	Total
Revenue from external customers	3,714.17	4,437.03	2,738.22	48.77	–	10,938.19
Inter-segment Revenue	–	76.91	–	–	(76.91)	–
Total revenues	3,714.17	4,513.94	2,738.22	48.77	(76.91)	10,938.19
Segment Result	1,158.24	2,282.11	535.67	(248.99)	–	3,727.03
Corporate Expenses	–	–	–	–	–	2,946.52
Operating Profit	–	–	–	–	–	780.51
Interest expense	–	–	–	–	–	362.23
Other income	–	–	–	–	–	(15.93)
Income tax expense/(credit)	–	–	–	–	–	275.09
Profit after tax	–	–	–	–	–	127.26
Other Information						
Depreciation on identified segment assets	92.71	183.78	97.68	10.56	–	384.73
Depreciation allocated to segments	212.83	203.59	162.44	27.66	–	606.52
Unallocated depreciation	–	–	–	–	–	266.67
Amortization of capitalized software costs	–	969.09	297.33	–	–	1,266.42

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 utilization by the respective segments, as used by management for its internal reporting purposes.

b) Geographic Segment Information:

Revenue (Amount in Rs. lakhs)

Region	March 31, 2004	March 31, 2003
North America (Including Canada)	6,413.94	4,688.17
Europe	5,799.30	2,394.11
Asia Pacific	2,898.55	2,842.77
India	1,501.22	1,013.14
Total	16,613.01	10,938.19

Assets:

Sundry Debtors and Unbilled Revenue: (Amount in Rs. lakhs)

Region	March 31, 2004	March 31, 2003
North America (Including Canada)	1,114.52	1,183.29
Europe	1,632.57	807.92
Asia Pacific	714.95	1,050.92
India	437.67	180.08
Total	3,899.71	3,222.21

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

11. Earnings per Share (EPS)

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

(Amount in Rs. lakhs, except share data)

	March 31, 2004	March 31, 2003
Profit for computation of basic EPS	1,833.71	127.26
Add: Interest on Fully convertible debentures (FCDs)	0.02	–
Profit for computation of diluted EPS	1,833.73	127.26
Weighted average number of shares considered for basic EPS	30,186,957	25,379,436
Add: Effect of stock options and warrants	1,578,847	–
Add: Potential shares on conversion of FCDs	1,400	–*
Add: Effect of share application money to the extent utilized by the Group	–	5,553
Weighted average number of shares considered for diluted EPS	31,767,204	25,384,989

* In computation of diluted EPS for the year ended March 31, 2003, the effect of FCDs, stock options cancelled and warrants (as referred to in Note 8) have not been considered as their effect is anti-dilutive.

12. Operating lease

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

(Amount in Rs. lakhs)

	March 31, 2004	March 31, 2003
Rent expenses included in profit & loss account towards operating leases	170.66	170.37

Minimum lease obligation under non cancellable lease contracts amounts to: (Amount in Rs. lakhs)

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

13. Comparatives

The current year financial statements are the consolidated financial statements of Sasken Communication Technologies Limited and Sasken Network Systems Limited, the wholly owned subsidiary company. The comparative numbers of March 31, 2003, are those of Sasken Communication Technologies Limited, as the Company did not hold investment in any subsidiary company. 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	Neeta Revankar	N Venkatramani
Managing Director	Whole-time Director	Chief Financial Officer	Company Secretary

Place : Bangalore
Date : April 20, 2004

Consolidated Cash Flow Statement

	For the Year ended March 31, 2004 Rs. in lakhs	For the Year ended March 31, 2003 Rs. in lakhs
A. Cash flow from operating activities:		
Net (Loss)/Profit before tax	1,620.51	402.35
Adjustments for:		
Depreciation	1,187.78	1,257.92
Amortisation of capitalised software costs	461.37	1,266.42
Provisions, net of reversals	–	(303.56)
Other non-cash writeback/charges	59.30	(382.00)
Foreign exchange adjustments	–	(13.22)
Interest expense	79.84	362.23
Other income	(61.47)	(13.75)
Operating profit before working capital changes	3,347.33	2,576.39
Adjustments for:		
(Increase)/decrease in Sundry Debtors	(293.07)	147.55
(Increase)/decrease in Work in progress	191.01	(155.42)
(Increase)/decrease in Loans & Advances	(942.72)	206.43
Increase/(decrease) in Current Liabilities and provisions	169.75	149.58
Cash generated from operations	2,472.30	2,924.53
Direct taxes (paid)/refund received	122.53	(388.56)
Net cash from operating activities	**2,594.83**	**2,535.97**
B. Cash flow from investing activities:		
Purchase of fixed assets	(814.55)	(811.84)
Sale of fixed assets	11.73	89.10
Software development costs capitalised	–	(884.53)
Other income	–	12.47
Interest received	6.00	–
Sale of investments	2,818.14	–
Investments purchased	(3,022.73)	–
Net cash used in investing activities	**(1,001.41)**	**(1,594.80)**
C. Cash flow from financing activities:		
Proceeds from issue of shares (includes share application money)	–	1,644.53
Refund of share application money	(172.76)	–
Repayment of long-term borrowing	(1,343.93)	(1,941.95)
Increase/(decrease) in Working capital loans	(1,288.18)	1,098.01
Redemption of Debentures	(0.24)	(4.04)
Interest paid	(119.17)	(420.10)
Net cash used in financing activities	**(2,924.28)**	**376.45**
Net increase/(Decrease) in Cash and Bank balances (A+B+C)	(1,330.86)	1,317.62
Cash and Bank balances at the beginning of the year	1,603.46	285.84
Cash and Bank Balances at the end of the year	**272.60**	**1,603.46**
Supplementary non-cash information		
Issuance of share capital out of share application money	1,470.00	–
Dividends received re-invested in units of mutual funds	55.47	–
Conversion of fully convertible debentures into equity shares	0.32	16.00

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
Partner
Membership No. 35141

Rajiv C Mody
Managing Director

Pranabh D Mody
Whole-time Director

Place : Bangalore
Date : April 20, 2004

Neeta Revankar
Chief Financial Officer

N Venkatramani
Company Secretary

Statement pursuant to Section 212

(Rs.)

Statement pursuant to Section 212 of the Companies Act, 1956 relating to Subsidiary Companies		
1	Name of the Subsidiary	Sasken Network Systems Limited
2	Financial year of the Subsidiary ended on	March 31, 2004
3	Holding Company's interest	
	Equity Share Capital	100%
4	Net aggregate amounts of the profits/(losses) of the subsidiary	
	so far as it concerns the members of the holding company and is	
	not dealt with in accounts of holding company	
	– For the financial year of the subsidiary	(1,41,283)
	– For the previous financial year of the subsidiary	
	since it became its subsidiary	Nil
5	Net aggregate amounts of the profits/(losses) of the subsidiary	
	so far as it concerns the members of the holding Company	
	and is dealt within accounts of holding company	
	– For the financial year of the subsidiary	Nil
	– For the previous financial year of the subsidiary	
	since it became its subsidiary	Nil

Rajiv C Mody
Managing Director

Pranabh Mody
Whole-time Director

Neeta Revankar
Chief Financial Officer

N Venkatramani
Company Secretary

Place : Bangalore
Date : April 20, 2004

Economic Value Added (EVA) statement

EVA is residual income after charging the Company for the cost of capital provided by lenders and shareholders. Thus, it represents, value addition in shareholders' fund by generating operating profit in excess of cost of capital employed.

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 (Liquaidation of unproductive investments)

Year ending March 31,		2004	2003	2002
Average capital employed (Rs. in millions) – Adjusted	Note 1	1,117.09	1048.14	1341.88
Average debt (Rs. in millions)		135.90	310.73	335.79
Average debt/Total capital (%)		13.04%	26.17%	25.89%
Imputed Beta	Note 2	1.61	2.08	2.54
Rate of return on risk-free investments	Note 3	5.50%	7.00%	9.50%
Market risk premium on Equity investments	Note 4	8.00%	7.00%	7.00%
Cost of equity (%)	Note 5	18.38%	21.53%	27.26%
Cost of debt (post tax) (%)		7.60%	10.31%	11.62%
Weighted Average Cost of Capital (WACC) (%)		17.00%	18.59%	23.21%
Net Operating Profit after Tax (NOPAT) – Adjusted	Note 1	223.38	-47.98	-56.16
Capital Charge		189.91	194.90	269.90
Economic Value Added (EVA) [NOPAT – (Capital Charge)]		**33.47**	**(242.87)**	**(326.06)**
EVA as a percentage of average capital employed		**3.00%**	**-23.17%**	**-24.30%**

Notes:
1. For specific adjustments that are carried out this year in EVA calculations, refer to "Management Discussions and Analysis of financial performance".
2. Sasken's Beta is calculated by averaging Asset Beta of companies that are similar in overall operations. The average value is relevant to Sasken's capital structure to impute Equity Beta.
3. Rate of return on risk-free investments is based on prevailing YTM on investments in 10 year Government securities. This benchmark is now used while arriving at risk-free rate this year.
4. This year, market risk premium has been assumed to be 8.0%.
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)

Management's Discussion and Analysis of Financial Performance

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

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

1. Overview

Headquartered in Bangalore, India, Sasken is a global telecom software solutions provider offering a unique combination of complementary IP software components, research and development, consultancy as well as software services to many of the leading semiconductor manufacturers, network equipment companies, and global wireless handset developers. Established in 1989, Sasken employs over 1400 people, operating from a state of the art research and development center in Bangalore, India with offices in Canada, China, Germany, Japan, Sweden, UK and US.

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

Key Highlights for the Year Ended March 31, 2004

- Recommended a dividend of 25%.
- Revenue increased by 51.9%, from Rs. 10938.19 lakh to Rs. 16613.01 lakh.
- Services revenue grew by 91.6%, Product revenues declined by 7.9%
- Product and Services Mix in revenue stood at 24:76 in 2004 vs 40:60 in 2003
- Royalties and sublicensing fees received from multiple product offerings.
- Consolidated Profit after Tax increased by 1340.9%, from Rs. 127.26 lakh to Rs. 1833.71 lakh.
- Net profit margins was at 11.0% in 2004 as against 1.2% in 2003
- Overseas Tax refund of Rs. 472.81 lakh was received during the year.
- Consolidated Earnings per share – basic Rs. 6.07(Rs. 0.50 – 2003) and diluted – Rs. 5.77(Rs. 0.50 – 2003).
- Investment in R & D increased by 66.8% from Rs. 116.21 lakh to Rs. 193.80 lakh
- 33 lakh shares issued to existing shareholders and 16 lakh shares issued to strategic investors by rights issue at a price of Rs. 30 per share.
- Cash and bank balance stood at Rs. 272.60 lakh as on March 31 2004.
- Entire Term loan balance of Rs. 1343.93 lakh repaid during the year.
- Headcount increased from 851 as on March 31, 2003 to 1437 on March 31, 2004.

During the current year Sasken has been certified as a TL9000 company. TL 9000 standard is a set of quality management system requirements developed by the QuEST forum (The Quality Excellence for Supplier of Telecommunications Leadership) to provide telecommunication industry specific quality standards. The benefit which accrues to the company is stated in the Directors report.

During the fiscal 2004, the Company promoted Sasken Network Systems Limited, ("SNS") a subsidiary in India. SNS would provide consultative engineering services focused on telecom operation systems. No business was transacted by SNS during the year.

2. Results of operations

Particulars	Year ended March 31 2004 (Rs. in lakh)	Year ended March 31 2004 (%)	Year ended March 31 2003 (Rs. in lakh)	Year ended March 31 2003 (%)	Increase/ (Decrease) (%)
Revenues	16613.01	100.0	10938.19	100.0	51.9
Cost of Revenues	11022.57	66.3	7211.16	65.9	52.9
Gross Profit	5590.44	33.7	3727.03	34.1	50.0
Research And Development	193.80	1.2	116.21	1.1	66.8
Gross Profit after Research and Development	5396.64	32.5	3610.82	33.0	49.5
Selling and Marketing Expenses	1890.87	11.4	1984.83	18.1	(4.7)
Administrative and General expenses	1920.24	11.6	1542.66	14.1	24.5
ESOP Compensation Cost	15.63	0.1	(714.62)	(6.5)	(102.2)

Particulars	Year ended March 31 2004 (Rs. in lakh)	Year ended March 31 2004 (%)	Year ended March 31 2003 (Rs. in lakh)	Year ended March 31 2003 (%)	Increase/ (Decrease) (%)
Provision, net of reversals	–	–	(303.56)	(2.8)	(100.0)
Provision for investments	–	–	321.00	2.9	(100.0)
Profit/(Loss) from operations	1569.90	9.4	780.51	7.2	101.1
Other Income	130.45	0.8	(15.93)	(0.1)	(918.9)
Profit/(Loss) before interest and Income taxes	1700.35	10.2	764.58	7.1	122.4
Interest	79.84	0.5	362.23	3.4	(77.9)
Profit/(Loss) before Income taxes	1620.51	9.7	402.35	3.7	302.8
Income Taxes	(213.20)	(1.3)	275.09	2.5	(177.5)
Profit/(Loss) after Income taxes	1833.71	11.0	127.26	1.2	1340.9

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, royalties, sub-license fees and other customization services.

Revenues by nature of contract	Year ended March 31 2004 (Rs. in lakh)	Year ended March 31 2004 (% of revenues)	Year ended March 31 2003 (Rs. in lakh)	Year ended March 31 2003 (% of revenues)	Increase/ (Decrease) (%)
Service revenues	12594.11	75.8	6571.83	60.1	91.6
T&M Contracts	10739.42	64.6	5954.32	54.4	80.4
Offshore revenues	6859.15	41.2	3413.47	31.2	100.9
Onsite revenues	3880.27	23.4	2540.85	23.2	52.7
Fixed price contracts	1854.69	11.2	617.51	5.7	200.3
Product revenues	4018.90	24.2	4366.36	39.9	(7.9)

Revenue from services has grown by 91.6% and in absolute terms by Rs. 6022.28 lakh. Revenues from our existing large accounts have increased substantially during the current year. Repeat business constituted 93.4% of our revenues for FY 2004, while revenues from new business accounted for 6.6% of revenues. Revenue from product has declined by 7.9% and in absolute terms by Rs. 347.46 lakh. Our product business was focused more towards ensuring that our products were deployed in mobile handsets being used in the market in large numbers so that we can earn revenues from royalties on a sustained basis over the medium to long term. A good part of current years product revenues were from royalties and sub licensing fees.

Product and Services revenue split:

	Year ended March 31, 2004	Year ended March 31, 2003
Services	76	60
Products	24	40
Total	**100**	**100**

Onsite Offshore Mix (T & M Contracts):

T&M Contracts	Year ended March 31, 2004	Year ended March 31, 2003
Onsite revenue	36	43
Offshore revenue	64	57
Total	**100**	**100**

In absolute terms, on-site revenues registered a growth of 52.7%. The company's strategy towards on-site business is largely that on-site business be used as a means to obtain off shore business, and hence the decline in proportion to off shore business.

Revenue by Top Customers:

Revenues by Customers.	Year ended March 31, 2004	Year ended March 31, 2003
(As a % of total revenues)		
Top 1 customer	27	25
Top 3 customers	48	41
Top 5 customers	57	50

Revenues from Top 1 customer increased in % terms as well as on absolute terms. The management remains focused on adding other large accounts, in order to reduce the risk to the business, on account of such dependence on a single customer. However, this is a longer term activity and the results will be evident over a period of time

Revenue from Top 3 customers has increased in % terms as well as on absolute terms. While the top 2 customers provided us with services revenues largely, the third largest customer was a user of our products.

Of the company's top 5 customers, 1 was on account of products and the remaining were predominantly on account of services revenues. The addition of a large tier 1 European customer during the year, added to the stability of the services business of the company.

Revenue Geography wise:

Region (As a % of total revenues)	Year ended March 31, 2004	Year ended March 31, 2003
North America (Including Canada)	39	43
Europe	35	22
Asia Pacific	17	26
India	9	9
Total	**100**	**100**

Revenue from North America (Including Canada) in % terms reduced during the year. Where as revenue from Europe increased. However in terms of absolute amount revenues from all the above said geographies have increased when compared with the previous year. In terms of % growth Revenue from Europe has increased by 142%, North America (Including Canada) by 37%, Asia Pacific by 2%, India by 48%. The increase in business from the European region is largely on account of the focus on the Handset Model Development services (MDS) in the European region and also on account of the growth of services business from one of our large customers in the region.

Revenue Segment wise:

Revenues by Segment	Year ended March 31 2004 (Rs. in lakh)	Year ended March 31 2004 (% of revenue)	Year ended March 31 2003 (Rs. in lakh)	Year ended March 31 2003 (% of revenue)	Increase/ (Decrease) (%)
Network Elements	6423.65	38.7	3714.17	34.0	72.9
Terminal Devices	5862.93	35.3	4513.94	41.3	29.9
Semiconductor	4326.43	26.0	2661.31*	24.3	62.6
Internet Access Solution	–	–	48.77	0.4	(100.0)
Total	**16613.01**	**100.0**	**10938.19**	**100.0**	**51.9**

*The elimination amount as mentioned in Segment reporting in the notes to accounts is removed from Semiconductor revenue.

Revenues from Network Elements business division are primarily in the nature of software services along with product licensing income. There has been an increase in absolute terms in the Network Elements segment by Rs. 2709.48 lakh as compared with fiscal 2003. This is mainly on account of growth in business volumes from existing customers and also the addition of new customers

Revenues from Terminals Devices business division consist of both licensing and software services. There has been an increase in absolute terms in the Terminals segment by Rs. 1348.99 lakh as compared with fiscal 2003. Product revenues are largely from this segment, and the degrowth in products during the current year explains the growth of revenues in this segment by only 30%, much lesser than growth in the overall revenues of the Company. The Handset Model Development Services is the flagship offering for this segment.

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. 1665.12 lakh as compared with fiscal 2003. Growth in business volumes from one of our top 3 customers is the significant reason for this growth

Internet access solution segment was closed in December 2002.

2.2 Cost of Revenues

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

Particulars	Year ended March 31 2004 (Rs. in lakh)	Year ended March 31 2004 (% of revenue)	Year ended March 31 2003 (Rs. in lakh)	Year ended March 31 2003 (% of revenue)	Increase/ (Decrease) (%)
Cost of Revenues	11022.57	66.3	7211.16	65.9	52.9
Employment Costs	7418.85	44.7	4585.72	41.9	61.8
Staff Welfare	117.70	0.7	59.13	0.5	99.1
Recruitment and Relocation	188.81	1.1	44.26	0.4	326.6
Rent	52.75	0.3	31.18	0.3	69.2
Repairs and Maintenance	258.59	1.6	240.61	2.2	7.5
Communication Expenses	85.58	0.5	39.73	0.4	115.4
Travel Expenses	540.86	3.3	593.06	5.4	(8.8)
Electricity and Water Charges	203.30	1.2	144.75	1.3	40.4
Professional, Legal & Consultancy Charges	357.12	2.1	189.19	1.7	88.8
Depreciation	1052.17	6.3	991.24	9.1	6.0
Software Charges	73.51	0.4	145.02	1.3	(49.3)
Training and Conference	44.05	0.3	43.50	0.4	1.3
Warranty Expenses	(23.10)	(0.1)	(122.70)	(1.1)	(81.2)
Amortization (Net of capitalization)	461.37	2.8	381.89	3.5	20.8
Movement in Work In progress	191.01	1.1	(155.42)	(1.4)	(222.9)

Cost of revenues increased from Rs. 7211.16 lakh in the earlier year to Rs. 11022.57 lakh in the current year, an increase of 52.9%, Rs. 3811.41 lakh in absolute terms.

Employment costs have increased by Rs. 2833.13 lakh on account of increase in headcount, annual increments & increase in the quantum of on-site work.

Increase in recruitment and relocation by Rs. 144.55 lakh was due to higher recruitment during the year

Increase in Rent by Rs. 21.57 lakh is mainly on account of additional facilities taken on lease in Bangalore and new facility taken in Pune

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

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

Professional, Legal & Consultancy Charges have increased by Rs. 167.93 lakh, significantly due to higher outsourcing

Depreciation expenses increased by Rs. 60.93 lakh, mainly on account of increase in expenses on generic software

Decline in software charges during the year was due to reduced usage of software licenses used in customer project, for a limited duration.

In the earlier years 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 2004.

Recognition of larger sub-licensing revenues during the year, also led to an increase in the proportion of capitalized product costs being charged off during the year. This is in keeping with the accounting policy of charging off capitalized product costs either on straight line basis or based on the proportion of current revenues to expected total revenues – whichever leads to a more conservative charge

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

Product Engineering Expenses

Product Engineering expenses include the costs of product development, and modifications and enhancements to products that are already available to customers, and for which revenues may or may not have been recognized during the current year. These expenses which have been charged to the respective expense heads, and the appropriate segments in the cost of revenue, when taken together, constitute 8% of revenues for FY 2004, as compared with 11% in FY 2003. In absolute terms, there has been an increase in the amount of expenses incurred in product engineering to the tune of Rs. 148 lakh. Product engineering expenses incurred on new products that have passed the stage of technological feasibility are capitalized. No costs were capitalized in fiscal 2004 on account of the fact that no new R & D initiatives had reached the stage of technological feasibility. Capitalized costs as a percentage of revenue were 8% for the fiscal 2003.

2.3 Gross Profit

Gross profit recorded during fiscal 2004 posted an increase of Rs. 1863.41 lakh, 50.0% over gross profit for fiscal 2003. Gross profit as a percentage of revenues was 33.7%, as compared with 34.1% recorded during fiscal 2003.

2.4 Research and Development expenses (R&D)

Research and development expenses constituted 1.2% of the revenues during fiscal 2004, as compared with 1.1% during fiscal 2003. Also in absolute amount R & D increased by Rs. 77.59 lakh. The R & D efforts were specifically, in the areas of DSL, multimedia codecs and applications, and mobile platform solutions as in fiscal 2003.

2.5 Selling and Marketing Expenses:

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

Particulars	Year ended March 31 2004 (Rs. in lakh)	Year ended March 31 2004 (% of revenue)	Year ended March 31 2003 (Rs. in lakh)	Year ended March 31 2003 (% of revenue)	Increase/ (Decrease) (%)
Selling and Marketing Expenses	1890.87	11.4	1984.83	18.1	(4.7)
Employment Costs	892.40	5.4	1194.42	10.9	(25.3)
Staff Welfare	31.80	0.2	12.46	0.1	155.2
Recruitment and Relocation	16.17	0.1	4.04	0.0	300.2
Rent	90.94	0.6	108.93	1.0	(16.5)
Repairs and Maintenance	22.51	0.1	19.21	0.2	17.2
Communication Expenses	71.26	0.4	68.38	0.6	4.2
Travel Expenses	211.53	1.3	262.93	2.4	(19.5)
Electricity and Water Charges	1.31	0.0	6.84	0.1	(80.8)
Professional, Legal & Consultancy Charges	271.23	1.6	55.12	0.5	392.1
Agency Commission	175.31	1.1	119.54	1.1	46.7
Selling expense – Others	89.14	0.5	46.03	0.4	93.7
Depreciation	12.27	0.1	80.23	0.7	(84.7)
Training and conference	5.00	0.0	6.70	0.1	(25.4)

Selling and marketing expenses were 11.4% of revenues for fiscal 2004 as against 18.1% in fiscal 2003. The decrease in absolute terms is Rs. 93.96 lakh, this is mainly on account of decrease in employment cost, Rent, Electricity and water charges, Travel, Training and conference and Depreciation

Decline in employment is mainly on account of rationalization of sales force in Japan, to bring the expenses in line with revenues from the region. Increase in agency commission is on account of increased product sales through commission agents. Increase in Professional, Legal & Consultancy Charges was due to hiring of consultants in overseas locations.

2.6 Administrative and General Expenses:

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

Particulars	Year ended March 31 2004 (Rs. in lakh)	Year ended March 31 2004 (% of revenue)	Year ended March 31 2003 (Rs. in lakh)	Year ended March 31 2003 (% of revenue)	Increase/ (Decrease) (%)
Administrative and General expenses	1920.24	11.6	1542.66	14.1	24.5
Employment Costs	857.34	5.2	656.37	6.0	30.6
Staff Welfare	14.43	0.1	9.74	0.1	48.2
Recruitment and Relocation	40.77	0.2	48.34	0.4	(15.7)
Rent	26.97	0.2	30.26	0.3	(10.9)
Rates and Taxes	55.57	0.3	47.14	0.4	17.9
Repairs and Maintenance	43.89	0.3	77.08	0.7	(43.0)
Communication Expenses	23.61	0.2	14.93	0.1	58.1
Travel Expenses	66.83	0.4	33.81	0.3	97.7
Electricity and Water Charges	32.71	0.2	32.64	0.3	0.2
Depreciation	116.51	0.7	184.38	1.7	(36.8)
Professional, Legal and Consultancy Charges	155.06	0.9	143.58	1.3	8.0
Auditors remuneration	7.36	0.0	5.55	0.0	32.6
Training Expense	56.24	0.3	5.97	0.1	842.0
Directors' sitting fees	0.44	0.0	0.16	0.0	175
Insurance	76.16	0.5	38.92	0.4	95.7
Miscellaneous	302.68	1.8	203.08	1.9	49.0
Net loss on sale of current investments	10.19	0.1	–	0.0	–
Loss on sale of fixed assets (net)	5.21	0.0	2.54	0.0	105.1
Bad debts & provision for doubtful debts	28.27	0.2	8.17	0.1	246.0

Administrative and general expenses increased by Rs. 377.58 lakh, 24.5% higher than the previous year. Employment costs have increased on account of increase in headcount and annual increments

Training expense has increased due to larger number of training programs being undertaken in the technical domain and in organization development field.

The management periodically reviews the quality of receivables and wherever necessary provisions for bad debts are made. In the current year under review, a provision of Rs. 28.27 lakh was made.

Professional, legal and consultancy has increased due to higher expenses on patents being filed.

Insurance costs increased since the charge for fiscal 2003 was for part of the year only, whereas for the current year the cover was there for the full year. Increase in the scope of coverage also caused some part of the increase

2.7 Employee Stock Compensation Cost

On October 1, 2003, the company issued stock options to employees at Rs. 40 per option. The Company accounts for stock compensation expense based on the fair value of the options granted on the date of grant. Rs. 15.63 lakh is the compensation cost accounted for the year 2004. Last year due to depressed market conditions we had cancelled the stock options remaining unexercised as at December 31, 2002. As a result of this cancellation the ESOP compensation cost amounting to Rs. 714.62 lakh booked in the earlier periods had been reversed during fiscal 2003.

2.8 Provision

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 provision reversed in 2003 was towards amount provided in earlier years, which, based on the agreement with customer were recoverable later.

2.9 Provision for diminution in value of investment.

A provision of Rs. 321.00 lakh was made in fiscal 2003 towards diminution in the value of investments made in 2wire and Prime Tele Systems Limited.

2.10 Income from operations

Operating profit for fiscal 2004 was Rs. 1569.90 lakh constituted 9.4% of revenues, as compared with Rs. 780.51 lakh or 7.2% reported for fiscal 2003.

2.11 Other Income

Other income amounting to Rs. 130.45 lakh and Rs. (15.93) lakh, constituted 0.8% and (0.1)%, of revenues in 2004 and 2003 respectively. Rs. 55.47 lakh were received during the year as dividend on current investments. Interest on bank deposits was Rs. 4.3 lakh against Rs. 0.37 lakh last year.

The gain on account of hedging activity is Rs. 256.01 lakh during the year. However on account of on realization of receivables and restatement of assets in foreign currency, we had a loss of Rs. 195.02 lakh.

2.12 Income before interest and income taxes

Profit before interest and income taxes was at 10.2% of revenues, amounted to Rs. 1700.35 lakh in fiscal 2004, as against 7.1%, Rs. 764.58 lakh in fiscal 2003. This is a jump of 122.4%.

2.13 Interest

Interest expenses charged to profits decreased from Rs. 362.23 lakh during fiscal 2003 to Rs. 79.84 lakh during fiscal 2004, a decrease of 77.9%. Interest represented 0.5% of revenues during fiscal 2004 and 3.4% of the total revenues during fiscal 2003. The decrease in interest expense was on account of full repayment of term loan amounting to Rs. 1343.93 lakh. There was a reduction in packing credit facility during the year to the extent of Rs. 1288.18 lakh.

2.14 Income taxes

Income tax was at (1.3%) of revenues during fiscal 2004 and 2.5% during fiscal 2003. During the year we received refunds towards taxes withheld by our overseas customers on product and service contracts in the earlier years.

2.15 Profit after tax

During the year the Company has posted a profit of Rs. 1833.71 lakh as against a profit of Rs. 127.26 lakh in the previous year an increase of 1340.9%. This represents 11.0% and 1.2% of revenues during fiscal 2004 and 2003 respectively.

3. Financial condition

3.1 Share capital

The issued capital increased to Rs. 1516.09 lakh during fiscal 2004 from Rs. 1271.00 lakh during fiscal 2003. 33 lakh shares of face value of Rs. 5 each were allotted during the current year to the existing shareholders by means of rights issue and 16 lakh shares of face value of Rs. 5 each were allotted during the current year to an existing strategic investor through preferential allotment. Further 800 FCD were also converted into 1600 shares of Rs. 5/- at a premium of Rs. 15/- issued to the employee under the ESOP Scheme.

At present the company has only one class of shares – equity shares of par value Rs. 5 each. The authorized share capital of the company is Rs. 2500 lakh divided in to 500 lakh equity shares of Rs. 5.

3.2 Reserves and Surplus

Reserves and Surplus as at March 31, 2004 was Rs. 9858.70 lakh, as compared with Rs. 7211.70 lakh as at March 31, 2003.

Share Premium

The balance in the share premium increased by Rs. 1225.24 lakh. This was on account of premium of Rs. 25 per share on 49 Lakh shares allotted by rights and preferential issue and on account of 1600 shares issued on conversion of FCD.

General Reserve

The addition of Rs. 183.51 lakh due to the transfer of 10% of the profits after tax in line with the provisions of The Companies (Transfer of Profits To Reserves) Rules, 1975

The Profit and Loss Account Balance has increased by Rs. 1222.62 lakh.

The Employee stock option outstanding (Net of Deferred Compensation Cost) represents the amount charged to the profit and loss account towards Employee stock option compensation cost.

3.3 Secured Loans

Secured Loans as at March 31, 2004 were Rs. 42.68 lakh as against Rs. 2674.79 lakh as at March 31, 2003. During the year the term loan was fully repaid from the funds received from the rights & preferential issue. The packing credit balance is down to Rs. 42.68 Lakh (Rs. 2500 Lakh is the sanctioned limit) as against Rs. 1330.86 Lakh at the beginning of the year. Further the company has not borrowed any loans during the year, apart from continuing with the packing credit facility it has with its banks

3.4 Unsecured Loans

There are no unsecured Loans as at March 31, 2004

The unsecured loans as on March 31 2003 were 1400 fully convertible debentures out of which 600 were forfeited & the balance were converted in to 1600 equity shares.

3.5 Fixed Assets

Net Fixed Assets represent 68.4% of the total assets as at March 31,2004 as against 64.3% as at March 31, 2003. Accumulated depreciation as a % of Gross block was 43.5% as at March 31 2004 as against 37.6%.

During the year the company added Rs. 678.61 Lakh to it's gross block of assets as against Rs. 1751.26 lakh in the previous year, significant one being Computers, Intangible assets and office equipments. These additions were due to increase in headcount during the year. Last year out of Rs. 1751.26 Lakh addition to gross block Rs. 1367.00 lakh was towards purchase of Land.

Deletions to gross block of fixed assets of Rs. 233.21 lakh and Rs. 509.30 lakh during fiscal 2004 and 2003 respectively, represent the assets that were sold, and those written off, since they were obsolete or their useful life was already over.

The capital work in progress represents advances paid towards acquisition of Fixed assets and the cost of assets not put to use. It increased from Rs. 21.21 lakh as on March 31, 2003 to Rs. 117.81 lakh as on March 31, 2004.

As on March 31, 2004, the company has contracts remaining to be executed on capital account (net of advances) amounting to Rs. 632.65 lakh as against Rs. 28.68 lakh as on March 31, 2003. The increase is due to the additional software development centers established by the company and higher capital expenditure requirements to fuel the growth anticipated.

3.6 Capitalized Software Product Costs

Capitalized software costs represent 1.0% of the total assets in 2004 as against 4.5% in 2003, a decrease of 80.0%, amounting to Rs. 461.37 lakh. The decrease is on account of increased amortization of certain products during the year due to higher product revenues being recognized.

3.7 Investments

Investments represent 2.4% of the total assets in 2004 as against 0.1% in 2003.

The company's investments as on March 31, 2004 stands at Rs. 264.29 lakh as compared to Rs. 14.42 lakh as on March 31, 2003. Rs. 249.54 lakhs has been invested in Templeton India Treasury Management Account, a liquid fund. During the year the company invested Rs. 0.23 lakh towards 203,500 common shares in Extandon Inc., a company incorporated in United States of America. Extandon Inc., is a lead customer for one of our offerings & this investment will help in leveraging existing relationship.

Also during the year, the company invested Rs. 5 lakh towards 5 lakh shares of Rs. 1/- each in Sasken Network System, a wholly owned subsidiary. Sasken Network System would provide consultative engineering services focused on OSS-BSS market space. This will help the company to benefit from the growth in OSS-BSS market space. Since the accounts of the subsidiary are consolidated, Investments made will be set off against share capital of the subsidiary company

The company also invests surplus funds in highly rated Mutual fund papers, considering stability & liquidity as the key determinants for the investment in a fund.

3.8 Inventories

Inventories represent 0.5% of the total assets as on March 31, 2004 as against 1.9% as on March 31 2003, a decline of 77.7%. As a % of Current assets Inventories constitute 1.0% as on March 31, 2004 and 4.4% as on March 31, 2003.

Costs related to milestones that have not been met, are reported as Inventories. The decrease in absolute terms is Rs. 191.01 lakhs.

3.9 Sundry Debtors

Sundry Debtors (Net of provision for doubtful debts) represent 29.5% of the total assets as on March 31, 2004 as against 24.2% as on March 31, 2003.

Sundry Debtors (Net of provision for doubtful debts) amount to Rs. 3367.82 lakh as at March 31, 2004 as compared with Rs. 3103.01 lakh as at March 31, 2003. These debtors are considered good and realizable. The management periodically reviews the quality of receivables, customer and geography specific risks and makes provision for receivables that are doubtful.

The age profile is as follows

As on March 31

Period in days	2004	2003
	Percentage of Debtors	
0-30	71.2	66.9
31-60	13.8	9.1
61-90	4.1	2.4
More than 90	10.9	21.6
Total	100	100

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

The DSO as at March 31, 2004 is 74 days and 104 days as at March 31, 2003. The decline in DSO is due to rigorous collection management during the year.

The unbilled revenue as on March 31, 2004 is Rs. 531.89 lakh against Rs. 119.2 lakh as on March 31, 2003. DSO including unbilled revenue, is 86 days and 108 days for 2004 and 2003 respectively.

Debtors have increased by Rs. 264.81 lakh or 8.5% against debtor balance as on March 31, 2003.

This is despite increase in Revenue (excluding accruals) by 48.6% during the year

3.10 Cash and bank balances

The cash and bank balances represent approximately 2.4% and 12.5% of the total assets as at March 31, 2004 and 2003 respectively, a decline of 83%. The cash balance as on March 31, 2003 included Rs. 1542.76 lakh of unutilized monies arising out of rights issue.

Out of Rs. 272.6 lakh as on March 31, 2004 Rs. 76.23 lakh or 28.0% is held in foreign bank account vs. Rs. 96.93 lakh as on March 31, 2003 or 6.0%. Cash in foreign bank accounts are kept to meet branch expenses.

3.11 Loans and advances

Loans and Advances represent 13.7% of total assets as at March 31, 2004 and 4.5% of the total assets as at March 31, 2003. Loans and advances increased by 172.42%, from Rs. 575.86 lakh during fiscal 2003 to Rs. 1568.78 lakh during fiscal 2004. The increase is due to increase in Deposits, unbilled revenue and advances.

Advances recoverable in cash or in kind or for value to be received has increased from Rs. 187.59 lakh as on March 31, 2003 to Rs. 300 lakh as on March 31, 2004.

Deposits with Government Departments and others has increased from Rs. 153.5 lakh to Rs. 546.76 lakh. This is due to deposits given for new software development facilities.

Loans and advances to staff increased by Rs. 24.35 lakh in the current year

Unbilled revenue represents amounts recognized based on services performed in accordance with contract terms and where billing is pending for any reason. Unbilled revenue increased from Rs. 119.20 lakh as on March 31, 2003 to Rs. 531.89 lakh as on March 31, 2004.

Advance tax of Rs. 50.21 lakh is towards taxes deducted on domestic income.

3.12 Current liabilities and provisions

Current Liabilities and Provisions represent 17.80% and 12.1% of total assets as at March 31, 2004 and March 31, 2003 respectively, an increase of 30.80% or Rs. 478.18 lakh. This increase is significantly due to dividend and dividend distribution tax.

Sundry creditors represent the amount payable to vendors/employees for the supply of goods or for services rendered. Such dues constituted 9.7% and 6.8% of the total assets as at March 31, 2004 and March 31, 2003 respectively, an increase of 26.3%.

Interest accrued but not due declined from Rs. 39.42 lakh to Rs. 0.08 lakh or 99.8%. This is due to full payment of Term loan.

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 0.5% and 1.5% of the total assets as at March 31, 2004 and March 31, 2003 respectively, a decline of Rs. 130.07 lakh in absolute terms. This is due to completion of milestones against which advance payment were made by customer.

A dividend of 25% on the paid up capital (Subject to shareholders approval at the AGM) has been provided. Provison for Dividend distribution tax has been provided.

Leave encashment provision has been created based on actuarial valuation for fiscal 2004 and fiscal 2003.

The Company creates a warranty provision towards estimated expenses in servicing the contracted warranty obligations towards customers. The warranty provision is reviewed periodically and if the contractual warranty period is over or as and when warranty efforts are expended, provision for warranty made earlier are reversed.

The Company contributes to a Group Gratuity Scheme, administered by a private life insurance company. The contributions are charged to the Profit and Loss account. Provision of Rs. 8.30 lakh represents the difference between the actuarial valuation and the funded balance as at the year end.

4. Cash Flow

The cash generated from operations increased marginally from Rs. 2535.97 lakh in fiscal 2003, to Rs. 2594.83 lakh in fiscal 2004.

The inflow on account of Operating profits before working capital changes is Rs. 3347.33 lakh in fiscal 2004 as against Rs. 2576.39 lakh in fiscal 2003, an increase of Rs. 770.94 lakh. The increase was mainly on account of higher profits before taxes, compared with that of the previous year, lower non cash write back/charges and provisions.

The outflow on account of working capital is Rs. 875.03 lakh as against an inflow of Rs. 348.14 lakh in the previous year.

The cash outflow from investing activities decreased by 37.2% from Rs. 1594.80 lakh in the previous year to Rs. 1001.41 lakh in the current year. This is mainly on account of software development cost capitalization, of one of the product, being stopped since second quarter of 2002. Also Rs. 204.59 lakh was the net outflow on account of purchase of investments.

The cash outflow from financing activities was Rs. 2924.28 lakh as against an inflow of Rs. 376.45 lakh in fiscal 2003. The outflow in 2004 is primarily on account of full repayment of term loan and repayment of Packing credit.

5. Risk Management

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

Business Portfolio

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

It is our dream 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 24% of revenues in fiscal 2004, vs 40% in fiscal 2003. Investments in products entail a certain amount of risk, and hence we keep such investments within limits. We also make sure that such investment decisions are made carefully and are periodically reviewed. Such investments are expected to yield recurring revenues in the longer term.

Sasken understands the need to be geographically diversified in order to mitigate political and economic risks on account of excessive exposure to specific regions. Specific actions are continually being taken to this end. In absolute % the revenues from Europe increased significantly during the year where as revenue from North America declined, 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 at Sasken.

Customer profile	Year ended March 31, 2004	Year ended March 31, 2003
Number of < = $250K customers	31	26
Number of >$250K < $500K customers	14	14
Number of > $500K < $1,000K customers	7	6
Number of > $1,000 K customers	7	5

Protection of intellectual property

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

Filing of Patents

The company actively encourages employees to file patents to protect its intellectual property. Apart from serving the purpose of protection, these patents, as and when granted, could lead to revenues from their licence, or to other benefits, by cross licensing of these patents, in exchange for others that we may want to use. As of now Sasken has applied for 30 patents out of which 2 has already been granted.

Filing of Trademarks

Trademarks have acquired much importance to Sasken with the software market focusing on branding of software products and services. In addition to pursuing the existing trademark applications in India, USA, EU, China, Japan etc, Sasken has filed for trade mark protection for its multimedia brand "Strawberra" in US and India during the year.

Protection of Confidentiality

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

Contracting Process for Limitation of Liability

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

Financial Risks-

Foreign exchange fluctuation risk

Most of Sasken' revenues are in US Dollars, while its expenses are in Indian Rupees. Operating profits are therefore subject to fluctuations in exchange rates. The exchange rate between the Rupee and the US Dollar has changed substantially in the recent years. During the year Rupee appreciated from Rs. 47.45 for a US Dollar as on April 1, 2003 to Rs. 43.65 for a US Dollar on March 31, 2004, an appreciation of 8%. We expect that majority of our billings in future will be in US Dollar and a significant portion of our expense will be in Indian Rupee. This will result in our operations being significantly impacted on account of Rupee appreciation. The impact of appreciation in Rupee vs the US Dollar was 1.17% during the fiscal.

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

The company periodically reviews its foreign exchange exposures and takes appropriate hedges regularly. To the extent that payments are expected to be in foreign currency, the working capital facility is also in US Dollar. Also, the move to bill customers in the European regions in the Euro has already been made.

Credit Risk

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

The ageing schedule is as follows

Period in days	2004	2003
	Percentage of Debtors	
0-30	71.2	66.9
31-60	13.8	9.1
61-90	4.1	2.4
More than 90	10.9	21.6
Total	100	100

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

The DSO as at March 31, 2004 is 74 days and 104 days as at March 31, 2003. The decline in DSO is due to rigorous collection management during the year.

Liquidity Risk

The Finance Department of the company is responsible for ensuring that the company's liquidity position is satisfactory at all times. The company's cash flow is dependent to a large extent on the credit terms given to clients and the effective recovery of dues from them. Delays in recovery of dues, has a direct impact on the company's liquidity position. Investment of surplus cash resources of the company is also an area of risk in terms of safety and liquidity and balancing this with returns.

The DSO of 74 days is the lowest we have seen during the last 7 years, although the revenue during the period has increased by more than 5 times.

The company has adequate working capital limits with its bankers, which it uses during periods where there are mismatches in the business inflows and outflows. As such, the extent of cash balance, taken together with the undrawn working capital limit, together determines the liquidity position of the company.

6. 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.

Sasken has decided to make the EVA statement more useful to its investors, both existing and potential, and therefore proposes to make the following adjustments only for the calculation of EVA.

Growth initiatives

a) 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 (3 years for Sasken).

b) Product Engineering Cost

The cost incurred in development of Products & expensed in the Profit & Loss account will be amortized over their useful life (generally, 3 years).

Interest Expense

Interest expense has been considered as financing cost and added back to NOPAT after considering the appropriate tax benefit.

Unusual Items

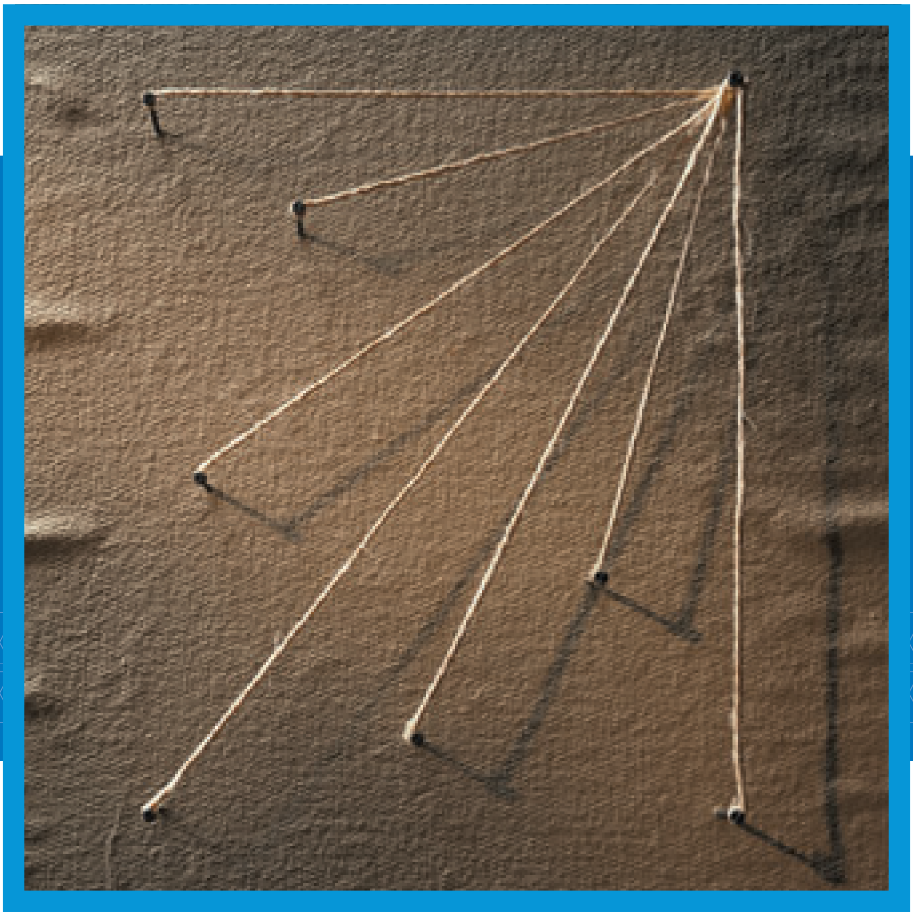
Adjustment to NOPAT has been made on account of Tax refund for earlier years & Loss on sale of fixed assets, as these items have been considered unusual.

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 & 2003, investment was made in acquiring a land, adjacent to existing facility. This investment of Rs. 137 million, being strategic in nature, is deducted from the capital employed. A facility is proposed to be constructed at this land shortly, the Company would commence the capital charge on this investment as soon as the facility is constructed and operational.

The Economic Value Added for fiscal 2004, after making these adjustments was Rs. 33.47 million, constituting 3% of average capital employed, as compared with the Economic Value Eroded of Rs. 242.87 million and negative 23.17% of average capital employed for fiscal 2003.



Sasken Network Systems Limited

Directors' Report

The Directors present with pleasure the first Annual Report and audited statement of accounts of the company for the period 20th October 2003 to 31st March 2004.

Financial Results	For the period ended 31st March 2004 (Rs.)
Loss before Income Taxes	1,41,283
Less: Provision for Taxes	0
Loss after Taxation	1,41,283
Loss carried to Balance sheet	1,41,283

Dividend

This being the first year of operations and due to the fact that the company has not started any commercial operations, the directors do not recommend any dividend.

Operations

The company was incorporated on 20th October 2003 and obtained the certificate of commencement of business on 21st November 2003. However since then the company has started no commercial operations. The loss for the period 20th October 2003 to 31st March 2004 amount to Rs. 1,41,283/-. This loss represents the writing off of preliminary expenses and other administrative expenses.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act 1956, with respect to Directors responsibilities statement, it is hereby confirmed that the management of Sasken Network Systems Limited has prepared and is responsible for the accompanying financial statements. That the directors have followed the applicable accounting standards in the preparation of the annual accounts along with proper explanation relating to material departures. That 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.

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

Directors

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

Fixed Deposits

During the year under review the company has not accepted any fixed deposits.

Personnel

The provisions of section 217(2A) of the Companies Act, 1956 is not applicable, as company does not have any employees.

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

The provisions under section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988 are not applicable to the Company, since the company has not started any commercial operations during the year.

Auditors

M/s Deloitte Haskins & Sells, Chartered Accountants, the Auditors of the Company retire at the forthcoming Annual General Meeting of the Company and are eligible for re-appointment.

Appreciation

The Directors place on record their sincere appreciation for the support and cooperation received by the company from the banks during the year and look forward to their continued support.

For and on behalf of the Board of Directors

Place : Bangalore
Date : April 20, 2004

Rajiv C Mody
Chairman

Auditors' Report

To The Members of Sasken Network Systems Limited

1. We have audited the attached Balance Sheet of Sasken Network Systems Limited, as at March 31, 2004, and also the Profit and Loss Account of the Company and the cashflow statement for the period ended on that date annexed thereto. These financial statements are the responsibility of the management of the company. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of Section 227 (4A) 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 to this Company.
4. Further, to our comments in the Annexure referred to above, we report that:
   a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
   b) In our opinion proper books of account as required by law have been kept by the Company, so far as appears from our examination of those books;
   c) The Balance Sheet, Profit and Loss Account and Cashflow Statement dealt with by this report are in agreement with the books of account;
   d) In our opinion, the Balance Sheet, Profit and Loss Account and Cashflow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
   e) On the basis of written representations received from the directors of the Company, as at March 31st, 2004 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
5. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
   a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2004 and
   b) in the case of the Profit and Loss Account, of the loss for the period ended on that date;
   c) in case of the Cash Flow Statement, of the cash flows for the period ended on that date

for Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Date : April 20, 2004

V Srikumar
Partner
M. No. 84494

Annexure to the Auditors' Report

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

(i) The provisions of clauses (i), (ii), (iv), (vi), (vii), (viii), (ix), (x), (xi), (xii), (xiii), (xiv), (xv), (xvi), (xvii), (xviii), (xix) and (xx) as contained in para 4 and 5 of the Companies (Auditors' Report) Order, 2003, are not applicable to the Company for the current period.

(ii) According to the information and explanations given to us there are no loans, secured or unsecured, granted or taken by the Company to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956.

(iii) According to the information and explanations given to us, there are no transactions that require to be entered in the register maintained in pursuance of section 301 of the Companies Act 1956

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

for Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Date : April 20, 2004

V Srikumar
Partner
M. No. 84494

Balance Sheet as at March 31, 2004

	Schedule No.	Rs.
Sources of Funds		
Shareholders' Funds		
Share Capital		
Authorised Capital – 1,000,000 Equity Shares of Rs.1 each		
Issued, Subscribed and Paid Up Capital		
500,000 Equity Shares of Rs. 1 each (all the Equity Shares are held by Sasken Communciation Technologies Limited and it's nominees)		500,000
		500,000
Application of Funds		
Investments		
Long term, non trade, unquoted, At cost		
National Saving Certificates		**10,000**
Current Assets		
Bank Balance in Current Accounts with Scheduled Banks		441,313
Current Liabilities		
Sundry Creditors (due to other than small scale industrial undertakings)		(92,596)
Net Current Assets		**348,717**
Profit & Loss Account		141,283
		500,000
Notes to Accounts	1	

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

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

For and on behalf of the Board

V Srikumar
Partner
Membership No. 84494

Rajiv C Mody
Chairman

Pranabh D Mody
Director

Neeta Revankar
Director

Place : Bangalore
Date : April 20, 2004

Profit & Loss Account for the period ended March 31, 2004

Profit and Loss Account	Rs.
Revenues	–
Administrative and General Expenses	
Consultancy charges	5,000
Registration charges	500
Auditors' Remuneration	
–Statutory Audit (inclusive of service tax)	54,000
Preliminary expenses	81,696
Miscellaneous expenses	87
Loss before Income Taxes	**(141,283)**
Income Taxes	–
Loss after Tax	**(141,283)**
Balance carried to Balance Sheet	**(141,283)**

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

For and on behalf of the Board

V Srikumar
Partner
Membership No. 84494

Rajiv C Mody
Chairman

Pranabh D Mody
Director

Neeta Revankar
Director

Place : Bangalore
Date : April 20, 2004

Notes Forming Part of Accounts

Schedules forming part of the Accounts for the year ended March 31, 2004

Schedule 1

Significant Accounting Policies & Notes to Accounts

Basis for preparation of financial statements

The financial statements have been prepared under the historical cost convention, on accrual basis, in conformity with the Accounting Standards issued by the Institute of Chartered Accountants of India, the 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.

The company was incorporated on 20th Oct 2003. It obtained the certificate of Business commencement on 21st Nov 2003 from the Registrar of Companies, Karnataka. Since this being the first year of Incorporation comparable figures for prior years are not available. No business was transacted by the company till March 31, 2004.

Related party disclosure

Name of the party	Relationship	Nature of Transaction	Transaction amount (Balance outstanding as on March 31, 2004) Rs.
Sasken Communication Technologies Ltd	Holding company	Preliminary expense/miscellaneous expenses	87,268 (38,596)
Rajiv Mody	Director	–	–
Pranabh Mody	Director	–	–
Neeta Revankar	Director	–	–

For and on behalf of the Board

Rajiv C Mody Chairman	Pranabh D Mody Director	Neeta Revankar Director

Place : Bangalore
Date : April 20, 2004

Audited Cash Flow Statement

Audited Cash Flow Statement	**For the period ended March 31,2004 Rs.**
A. Cash flow from operating activities:	
Net Loss before Tax	(141,283)
Operating Loss before working capital change	(141,283)
Adjustments for	
– Increase/(Decrease) in Current liabilities	92,596
cash generated from operation	**(48,687)**
– Direct Tax paid	–
Net cash from operating activities	**(48,687)**
B. Cash flow from investing activities:	
Purchase of Investment	10,000
Net cash used in investing activities	**10,000**
C. Cash flow from financing activities:	
Proceeds from issue of shares (includes share application money)	500,000
Net cash used in financing activities	**500,000**
Net increase/(Decrease) in Cash and Bank balances (A+B+C)	441,313
Cash and Bank balances at the beginning of the period	–
Cash and Bank Balances at the end of the period	**441,313**

In terms of our attached report of even date

Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the Board

V Srikumar Partner Membership No. 84494	Rajiv C Mody Chairman	Pranabh D Mody Director	Neeta Revankar Director

Place : Bangalore
Date : April 20, 2004

Balance Sheet Abstract

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

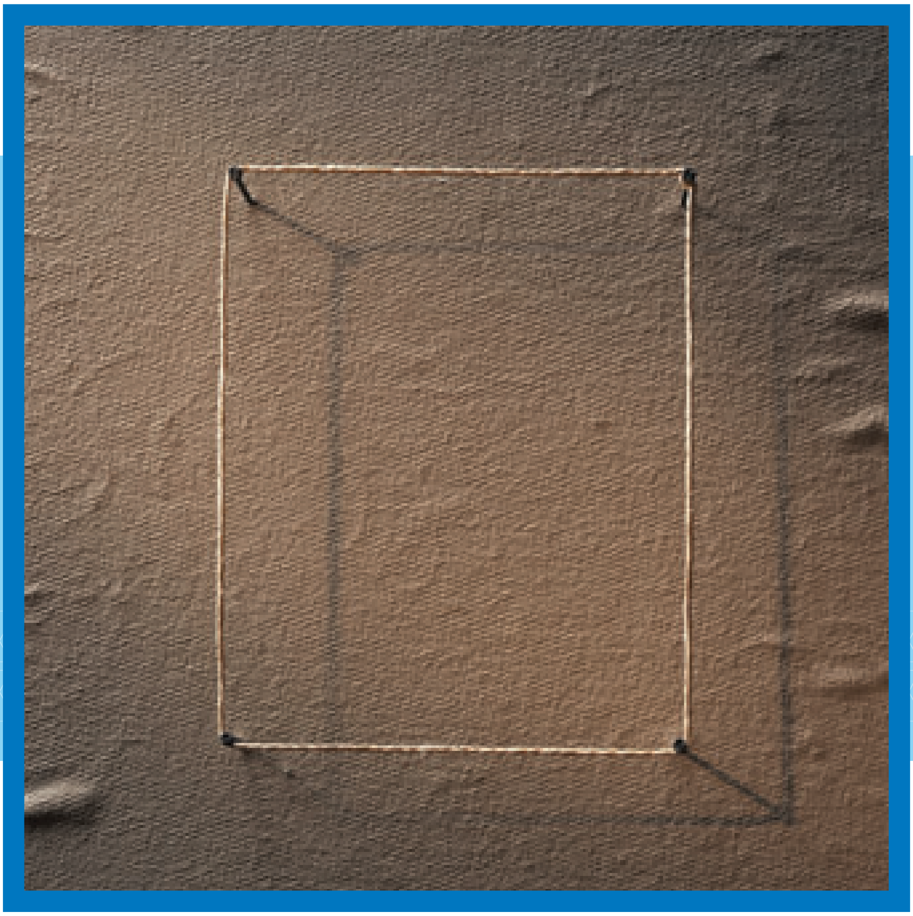
Statement on Balance Sheet Abstract and General Business Profile of the Company

I.	**Registration Details**			
	Registration No	08/32760		State Code 8
	Balance Sheet Date	31 03 04		
II.	**Capital raised during the year**			
	(Amount in Rs.)			
	Public Issue	Nil	Rights Issue	Nil
	Bonus Issue	Nil	Private placement	500,000
III.	**Position of mobilisation and deployment of funds**			
	(Amount in Rs.)			
	Total Liabilities	500,000	Total Assets	500,000
	Sources of Funds			
	Paid-up Capital	500,000		
	Reserves & Surplus	–		
	Unsecured Loans	–		
	Secured Loans	–		
	Application of Funds			
	Net Fixed Assets	–		
	Investments	–		
	Net Current Assets	348,717		
	Misc. Expenditure	–		
	Accumulated Losses	141,283		
IV.	**Performance of the Company**			
	(Amount in Rs.)			
	Turnover	–	Total Expenditure	141,283
	Profit/(Loss Before tax	(141,283)	Profit/(Loss) After tax	(141,283)
	Earnings per share (Rs.)	(0.28)	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	Neeta Revankar
Chairman	Director	Director

Place : Bangalore
Date : April 20, 2004



Financial Statements in Compliance with US GAAP

Management Report

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

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

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

Place : Bangalore
Date : April 20, 2004

Rajiv C Mody
Managing Director

Report of Independent Auditors

To

The Board of Directors and Shareholders

We have audited the accompanying consolidated balance sheets of Sasken Communication Technologies Limited and its subsidiary ("the Company") as of March 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for the years ended March 31, 2004, 2003 and 2002. 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 consolidated financial position of the Company at March 31, 2004 and 2003, the consolidated results of their operations and their cash flows for the years ended March 31, 2004, 2003 and 2002 in conformity with accounting principles generally accepted in the United States.

Place : Bangalore
Date : April 20, 2004

Ernst & Young

Consolidated Balance Sheets as at March 31

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

	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	550	3,331
Available for sale securities	572	–
Accounts receivables, net	7,506	6,540
Work in progress	126	518
Unbilled revenues	1,219	251
Prepaid taxes	576	217
Other current assets (refer note B (9))	2,205	705
Total	**12,754**	**11,562**
Property, plant and equipment, net	17,863	17,311
Capitalised software, net	264	1,242
Non-current assets	1,245	336
Total Assets	**32,126**	**30,451**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	2,529	1,486
Income taxes payable	461	302
Advance received from customers	137	400
Deferred revenue	100	101
Accrued compensation to staff	360	540
Other current liabilities	549	662
Line of credit	98	2,805
Current portion of long term debt	–	2,832
Total	**4,234**	**9,128**
Convertible debt	–	1
Total Liabilities	**4,234**	**9,129**
Stockholders' equity		
Equity shares at US$ 0.10 par value (Rs. 5 per share)		
Authorised – 50,000,000 shares		
Issued and outstanding – 30,321,637 and 25,420,037 shares as of	3,806	3,290
March 31, 2004 and 2003, respectively		
Additional paid in capital	14,514	11,859
Deferred stock compensation	(38)	–
Share application money	–	3,462
Accumulated other comprehensive loss	(803)	(2,849)
Retained earnings	10,413	5,560
Total	**27,892**	**21,322**
Total Liabilities and Stockholders' equity	**32,126**	**30,451**

See accompanying notes to consolidated financial statements

Consolidated Income Statements for the year ending March 31

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

	2004	2003	2002
Revenues	37,221	23,460	23,190
Cost of Revenues	25,084	15,757	13,740
Gross Profit	**12,137**	**7,703**	**9,450**
Research and Development expenses	421	240	1,197
Selling and Marketing expenses	4,105	4,102	3,077
Administrative and General expenses	4,203	2,566	7,485
Other than temporary impairment in value of available for sale securities	–	663	152
Income/(Loss) from operations	**3,408**	**132**	**(2,461)**
Other income/(expense), net (refer note B (11))	1,155	(34)	681
Interest expense	173	749	926
Income/(Loss) before income taxes	**4,390**	**(651)**	**(2,706)**
Income tax expense/(credit)	(463)	569	833
Net Income/(Loss) available to common shareholders	**4,853**	**(1,220)**	**(3,539)**
EARNINGS PER SHARE			
Basic earnings per share	0.16	(0.05)	(0.14)
Weighted shares used in computing basic earnings per share	30,186,957	25,379,436	25,233,877
Fully diluted earnings per share	0.15	(0.05)	(0.14)
Weighted shares used in computing fully diluted earnings per share	31,767,204	25,379,436	25,233,877

See accompanying notes to consolidated financial statements

Statement of Stockholders' Equity

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

	Common stock Shares	Common stock Par value	Additional paid-in capital	Share application money	Deferred compensation cost	Accumulated other comprehensive Loss	Retained earnings	Total stockholders equity
Balance as at March 31, 2001	25,130,600	3,260	13,817		(3,161)	(568)	10,319	23,667
Net income							(3,539)	(3,539)
Translation adjustment						(61)		(61)
Restatement adjustment						(1,199)		(1,199)
Total other comprehensive loss								(4,799)
Exercise of options	2,034	*0	6					6
Common stock arising on conversion of								
Fully convertible debentures	206,200	21	26					47
Compensation related to stock option grants			52		(52)			–
Amortization of compensation costs					1,142			1,142
Balance as at March 31, 2002	**25,338,834**	**3,281**	**13,901**	**–**	**(2,071)**	**(1,828)**	**6,780**	**20,063**
Net income							(1,220)	(1,220)
Restatement adjustment						636		636
Unrealized loss on available for sale securities						(1,657)		(1,657)
(net of tax) (refer note B(7) in notes to the								
financial statements)								
Total other comprehensive loss								(2,241)
Exercise of options	1,203	1	4					5
Common stock arising on conversion of								
Fully convertible debentures	80,000	8	25					33
Share application money received towards				3,462				3,462
rights and preferential issue								
Adjustment related to cancellation of stock			(2,071)		2,071			(0)
option plan [refer note B(2)]								
Balance as at March 31, 2003	**25,420,037**	**3,290**	**11,859**	**3,462**	**(0)**	**(2,849)**	**5,560**	**21,322**
Net income							4,853	4,853
Restatement adjustment						2,046		2,046
Total other comprehensive income								6,899
Common stock arising on conversion of								
– Fully convertible debentures	1,600	*0	1					1
– Allotment of stocks out of share								
application money	4,900,000	516	2,582	(3,098)				–
Share application money refunded				(364)				(364)
Compensation related to stock option grants			72		(72)			–
Amortization of compensation cost					34			34
Balance as at March 31, 2004	**30,321,637**	**3,806**	**14,514**	**(0)**	**(38)**	**(803)**	**10,413**	**27,892**

*Less than USD 1000

See accompanying notes to consolidated financial statements

Consolidated statement of cash flows for the year ending March 31

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

	2004	2003	2002
Cash flows from operations			
Net income	4,853	(1,220)	(3,539)
a) Non-cash items			
Depreciation and amortization	3,672	5,230	4,063
(Profit) / Loss on sale of fixed assets	11	5	(51)
Employee compensation cost amortized	34	–	1,142
Provision for diminution in value of available for sale securities	–	663	152
Provision for doubtful debts/(reversals), net	–	(634)	1,496
Loss on sale of available for sale securities	22	–	–
Dividend income on available for sale securities	(120)	–	–
Unrealized foreign exchange (gain)/loss	(872)	–	–
b) Items considered separately			
Interest expense	173	749	926
Other income	(30)	(19)	(321)
Income taxes	(463)	569	833
c) Changes in working capital items			
(Increase) / decrease in accounts receivables	(1,176)	111	3,454
(Increase) / decrease in other current assets	(402)	8	551
(Increase) / decrease in non-current assets	(910)	489	445
(Increase) / decrease in unbilled revenues	(967)	(113)	2,024
(Increase) / decrease in work in progress	392	(332)	(53)
Increase / (decrease) in accounts payable	1,043	433	(102)
Increase / (decrease) in other current liabilities	(188)	(156)	(947)
Increase / (decrease) in advance received from customers and deferred revenue	(263)	129	210
Income taxes (paid) / refund received	263	(717)	(685)
Net cash from operations	**5,072**	**5,194**	**9,597**
Cash flows from investing activities			
Purchase of property, plant and equipment	(3,330)	(2,162)	(6,221)
Additions to capitalized software costs	–	(1,829)	(2,088)
Proceeds from sale of property, plant and equipment	50	188	219
Purchase of trading securities	–	–	(5,517)
Purchase of available for sale securities	(6,939)	(266)	(329)
Sale of available for sale securities	6,462	–	–
Sale of trading securities	–	–	5,530
Interest income	18	1	6
Other income	–	17	313
Net cash used in investing activities	**(3,739)**	**(4,050)**	**(8,087)**

	2004	2003	2002
Cash flows from financing activities			
Cash received from exercise of option/issuance of common stock	1	4	27
Share application money received/(refunded)	(364)	3,462	–
Changes in line of credit	(2,707)	2,326	478
Repayment of loans	(2,832)	(3,918)	(208)
Redemption of Debentures	(1)	(7)	(21)
Interest paid	(256)	(866)	(730)
Dividends paid	–	–	(1,191)
Net cash from/(used in) financing activities	**(6,159)**	**1,002**	**(1,645)**
Effect of restatement on cash flows	2,046	636	(1,199)
Effect of translation adjustment	–	–	(61)
Total increase/(decrease) in cash and cash equivalents during the year	(2,781)	2,782	(1,395)
Cash and cash equivalents at the beginning of the year	3,331	549	1,944
Cash and cash equivalents at the end of the year	**550**	**3,331**	**549**
Supplementary non cash information			
Issuance of share capital out of share application money	3,098	–	–
Dividends received re-invested in units of mutual funds	120	–	–
Conversion of fully convertible debentures into equity shares	1	–	

See accompanying notes to consolidated financial statements

A. Significant Accounting Policies

1. Description of Business

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

Sasken has its headquarters in Bangalore, India with offices in China, Germany, Japan, Sweden, UK and US.

During the fiscal 2004, the Company promoted Sasken Network Systems Limited ('SNS' or 'the subsidiary'), a subsidiary in India. SNS would provide consultative engineering services focused on telecom operating systems.

2. Basis of Preparation of Consolidated Financial Statements

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

3. Use of Estimates

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

4. Consolidation

The consolidated financial statements for the year ended March 31, 2004 include the accounts of the Company and its subsidiary, Sasken Network Systems Limited. All significant inter-company accounts and transactions are eliminated from the consolidated financial 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 Consolidated Income Statement.

Consolidated Income Statement for the years ended March 31, 2004, 2003 and 2002 include (US$ 66), (US$ 35) and US$ 398 respectively towards foreign exchange gain/(loss).

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

6. Reporting in US Dollars

The consolidated financial statements denominated in Indian Rupees, prepared in compliance with US GAAP, have been reported in US Dollars. For the purpose of such restatement, incomes and expenses have been restated using a monthly simple average rate of exchange for the respective periods and all balance sheet items, except stockholders' equity at the year end rate. Gains or losses arising on the restatement of the financial statements from Indian Rupees to US Dollars are reported as restatement adjustment, a separate component of accumulated other comprehensive income.

The translation of rupee denominated assets and liabilities into USD for the purposes of these financial statements does not necessarily mean that the Company could realise or settle, in USD, the reported values of these assets and liabilities. Likewise, it does not necessarily mean that the Company could return or distribute the reported USD value of capital to its shareholders.

The Balance Sheet items have been translated into USD at the bank' buying rate in Bangalore on March 31, 2004 and 2003 of 1$ = Rs. 43.65 and Rs. 47.45 respectively. The Income Statement items have been translated into USD at the average exchange rates during the year ended on March 31, 2004, 2003 and 2002 of 1$=Rs. 46.06, Rs. 48.39 and Rs. 47.46, respectively.

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 proportionate performance method determined based on achievement and acceptance of contract milestones, provided collection is probable. Revenue from maintenance arrangements is recognized ratably over the term of the maintenance arrangement.

Revenue from royalty is recognized on an accrual basis under the terms of the agreement, when such royalties become due.

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

10. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises of its purchase price and any cost directly attributable to bringing the asset to its present condition for intended use. The 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 Consolidated Income Statement in the year of acquisition. 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 and Cash Equivalents

Cash and cash equivalents include cash on hand and with banks. Cash excludes deposit with banks held as margin money for bank guarantees, which are reflected as current assets. As at March 31, 2004 and 2003, US$ 75 and US$ 48, respectively, were held as margin money for bank guarantees with banks. These bank guarantees mature between May 2004 and March 2005.

13. Investments

Investments are stated at their fair values. Dividend and realized/unrealized gains and losses on securities classified as "Trading Securities" are reported in the Consolidated Income Statement, as 'Other income/ expense.' Dividend and realized gains and losses on securities classified as 'Available for Sale Securities' are reported under "Other income/expense". Unrealized gains or losses on securities classified as 'Available for sale Securities', which are temporary, are reported in Stockholders Equity, as 'Accumulated other comprehensive income', net of taxes and, the unrealized losses that are considered as "other than temporary ", are reported in the Consolidated Income Statement. The cost of securities sold is based on the specific identification method.

14. Derivative Financial Instruments

The Company accounts for all derivatives in accordance with SFAS 133, "Accounting for Derivatives Instruments and Hedging Activities", amended. All derivatives are recognized in the balance sheet at fair value. Changes in the fair value of derivatives are recorded in earnings or other comprehensive income, based on whether the instrument is designated as part of a hedge transaction. Gains or losses on derivative instruments reported in other comprehensive income are reclassified to earning in the period in which earnings are affected by the underlying hedge. Derivatives not designated as a hedge and the ineffective portion of all hedges is recognized in earnings in the current period.

15. Earnings per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share is computed using the weighted average number of common shares outstanding adjusted for the effects of all dilutive potential ordinary shares. The number of shares and per share amounts has been adjusted retroactively for all periods presented to reflect changes in capital structure arising on account of stock-dividends/stock splits.

16. Fair Value of Financial Instruments

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

17. Concentration of Credit Risk on Financial Instruments

The Company's cash is with banks and are considered to be safe and highly liquid. The Company derives its revenue from reputed customers across different geographies and hence, the risk on account of accounts receivables is limited. The Company determines allowances for uncollectible accounts receivables on specific identification basis taking into factors such as the aging of the uncollected receivables, assessments of collectability based on historical information, etc. Receivables are written off against allowances for uncollectible accounts receivable, when all collection efforts are exhausted and the receivables are no longer collectable. As at March 31, 2004 and 2003, individual customer balances exceeding 10% of the total accounts receivable (including unbilled revenues) are approximately 44% and 46%, respectively.

18. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of:

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

19. 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'.

20. 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 deferred tax assets, when it is more likely than not that the asset or a portion thereof would not be realized.

21. 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 year end. Such contributions are charged off to the Consolidated Income Statement. Provision is made for the difference between the actuarial valuation and the funded balance with the insurance company.

Provident Fund

Employees are also eligible to receive Provident Fund benefits through a defined contribution plan in which both employee and employer make monthly contributions to the plan, @ 12% each, of the covered employee's salary. The Company has established a Provident Fund Trust to which contributions towards provident fund are made each month. The contributions towards the pension fund are remitted to the Regional Provident Fund. Contributions towards Provident Fund and Pension Fund are charged to the Consolidated Income Statement on an accrual basis. The Trust guarantees a specified rate of return on such contributions on a yearly basis. The Company will meet shortfall in the return, if any. At March 31, 2004, 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.

Superannuation

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

22. Presentation

Previous years' numbers have been reclassified/rearranged to conform to the current year's presentation.

B. Other Notes:

1. Stockholders' Equity

In April 2003, the Company issued warrants to one of the shareholders of the Company, to purchase 3,266,667 equity shares at a price of US$ 0.58 (equivalent to 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 have not been exercised as at the balance sheet date. These warrants expire at the end of two years from the date of issue.

Shares which have been reserved for issuance as at March 31, 2004 and 2003, were 6,969,030 and 3,703,963 respectively.

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

	2004	2003	2002
Translation adjustment	(88)	(88)	(88)
Restatement adjustment	(715)	(2,761)	(3,397)
Unrealized gain on 'Available for sale securities'	–	–	1,657
Total	**(803)**	**(2,849)**	**(1,828)**

2. Stock Option Plan

a. SAS Stock Option Plan 1997

The SAS Stock Option Plan (Plan) established during 1997, provided for the issue of Fully Convertible Debentures (FCD's) to employees, consultants, advisors and to employees of subsidiaries. Two million equity shares were approved by the shareholders for the purpose. The FCD's were convertible into shares over a period of three years and the price and conversion date was determined on the date of allotment of the FCD's. The shares arising on conversion of the FCD's would be free of any lock-in provisions. There will be no further issue of securities under the SAS Stock Option Plan' 97 consequent to the establishment of Sasken ESOP-2000.

A summary of the movement and status of shares arising out of the FCD's issued under the above plan as of March 31, 2004, 2003 and 2002, is given below:

	2004*	2003		2002	
	Shares arising out of FCD's	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	2,800	103,000	$0.41	350,800	$0.32
Forfeited	(1,200)	(20,200)	$0.41	(41,600)	$0.37
Exercised/converted into shares	(1,600)	(80,000)	$0.41	(206,200)	$0.23
Outstanding at the end of the year	–	2,800	$0.42	103,000	$0.41

*weighted average exercise/conversion price was US$ 0.42.

The fair value for each of the options granted under the above plan was estimated at the date of grant using the minimum value method and the following weighted average assumptions:

Year ended March 31,	2003	2002
Average risk-free interest rate	10%	10%
Expected life of options granted (in months)	6.00	6.42
Expected dividend %	Nil	Nil

b. Sasken ESOP-2000

Sasken ESOP-2000 was approved by the shareholders at the Extra Ordinary General Meeting of the Company held on September 22, 2000.The Plan provided for the issue of 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 Sasken ESOP – 2000, stock options were granted to all employees based on the period of service with the Company, performance and potential. However, the intended response to the scheme was poor as the market value of the shares, since the grant of the stock options, had a negative impact due to the global recession and the conditions prevailing in the capital markets. In view of this, the Company, after considering other alternatives, decided to cancel the stock options remaining unexercised as at December 31, 2002. The Compensation Committee and the Shareholders approved the cancellation of the stock options remaining unexercised as on December 31, 2002.

In October 2003, and thereafter, the Company issued 592,080 options to employees, convertible into 592,080 equity shares, with a vesting period of one year at an exercise price of US$ 0.92 (equivalent to Rs. 40 per share) being the fair value of the Company's share on the date of grant as determined by the Company. The details of the options issued and the position as on March 31, 2004 is provided below. None of the options have vested as on March 31, 2004.

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

	Shares underlying options outstanding		
	2004	2003	2002
Outstanding at the beginning of the year	–	1,034,530	1,131,300
Granted	592,080	–	44,520
Forfeited/cancelled	(43,860)	(1,033,327)	(139,256)
Exercised	–	(1,203)	(2,034)
Outstanding at the end of the year	548,220	–	1,034,530
Exercisable at the end of the year	–	–	129,212
Weighted average remaining contractual life	2.5 years	–	3.88 years

The fair value of the option granted under the above plan was estimated at the date of grant using the minimum value method. The Company recognized a compensation expense of US$ 34 for the year ended March 31, 2004. Other assumptions used in the computation of compensation expense are given below:

Year ended March 31,	2004	2002
Average risk-free interest rate	8%	10%
Expected life of options granted (in years)	2	2.88
Expected dividend	Nil	Nil

Note: No options were issued during the year ended March 31, 2003.

The exercise price of Sasken ESOP 2000 as at March 31, 2004 is as given below:

Range of exercise price	Number of options outstanding	Weighted remaining life of options (in years)	Weighted average exercise price
US$ 0.92	548,220	2.5	US$ 0.92
(equivalent to Rs. 40)			(equivalent to Rs. 40)

3. Debt

Long term debt comprise as at March 31,

Particulars	2004	2003
Term loan	–	2,832
Less: Current portion of long term-debt	–	2,832
Long term-debt, net of current portion	–	–

a. Term loan

The term loan was 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 million under this facility. During the year ended March 31, 2003, the loan, which was repayable in Indian Rupees, carrying interest at 12% per annum and repayable in monthly equal installments, was converted into a foreign currency loan denominated in US Dollars. The foreign currency loan carried interest linked to LIBOR (LIBOR plus 250 basis points) and was 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. During the year ended March 31, 2004, the Company prepaid the loan before the due date.

b. Convertible Debt:

Unsecured 10% fully convertible debentures of US$ 1 as at March 31, 2003, issued to employees under SAS Stock Option Plan 97, were converted into 1,600 equity shares on October 1, 2003. Also refer note B(2) above.

4. Line of Credit

The Company has a secured revolving credit facility to the tune of US$ 5,727 from a bank at interest rates approximating 6.5% per annum. The facilities are secured by a charge on the current assets including accounts receivables, both present and future and a second charge on present and future movable and immovable properties. An amount of US$ 98 and US$ 2,805 is outstanding as at March 31, 2004 and 2003, respectively. As at the end of the year March 31, 2004, unutilized lines of credit, fund based amounts to US$ 5,629 and non-fund based amounts to US$ 572.

5. Property, Plant and Equipment (net)

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

Particulars	2004	2003
Land	5,241	4,816
Building	7,585	6,957
Computing equipment	5,616	4,989
Software	3,608	2,850
Office equipment	6,111	5,423
Electrical fittings	221	171
Furniture and fittings	2,858	2,379
Capital work-in-progress and capital advances	270	45
Total	**31,510**	**27,630**
Less: Accumulated depreciation	13,647	10,319
Net	**17,863**	**17,311**

6. Amortization of Capitalized Software Costs

Year ended March 31,	Un-amortizedcosts	Amounts charged to expense for amortization
2004	264	983
2003	1,242	2,633
2002	2,046	871

7. Available-for-Sale Securities

Available-for-sale securities as at March 31, are as follows:

	2004	2003
15,851.483 Units of Templeton India Treasury Management Account	572	–
Total	**572**	**–**

During the year ended March 31, 2004, the Company invested its surplus funds in units of mutual funds. All such investments are treated as available-for-sale securities. During the year ended March 31, 2004, the Company recognized a net loss on sale of such units amounting to US$ 20, (Net of gross gains of US$ 8 and gross losses of US$ 28). Dividend earned and reinvested in such units amounted to US$ 120.

8. Accounts receivable

	2004	2003
Accounts receivables	7,922	7,125
Less: Allowance for doubtful receivables	416	585
	7,506	6,540

The activity in the allowance for doubtful accounts receivable for the years ended March 31, 2004 and 2003 is as follows:

	2004	2003
Allowance for doubtful accounts at beginning of the year	585	1,219
Additions during the year	180	368
Write-off during the year	(349)	–
Reversals based on amounts due and collected	–	(1,002)
	416	585

On the basis of a customer request received during the year ended March 31, 2002, the Company agreed to extended payment terms with respect to certain revenues, which were initially recognised during the year ended March 31, 2001. Considering the length of the extended payment terms, the Company created a full allowance for this receivable of US$ 1,219 in fiscal 2002. In March 2003, US$ 1,002 of the allowance created was reversed due to amounts being due and collectible.

9. Other Current Assets

Other current assets as at March 31, 2004 and 2003 comprise of:

	2004	2003
Prepaid expenses	358	255
Other Investments	33	30
Security deposits for office lease and others	29	–
Loans and advances to employees	297	230
Interest accrued but not due	2	2
Other advances	330	140
Unrealised exchange gain on forward exchange contracts	1,081	–
Margin money on bank guarantees	75	48
	2,205	**705**

Other Investments:

The fair value of the investment in 2wire Inc at March 31, 2002, was US$ 2,500, which included unrealised gains of approximately US$ 2,061. At March 31, 2003, the fair value of the investments in 2wire Inc was US$ 30. Accordingly, the unrealised gains in accumulated other comprehensive loss was reversed and a further dimunition of US$ 320 was recorded in the Consolidated Income Statement as other than temporary dimunition in the value of investments during the year ended March 31, 2003.

In March 31, 2003, the Company recognized other than temporary dimunition in the value of investment in 392,285 equity shares of Prime Telesystems Limited, amounting to US$ 343, which was charged to the Consolidated Income Statement.

10. Non Current Assets

Non-current assets as at March 31, 2004 and 2003 comprise of:

	2004	2003
Security deposits for office lease and others	1,223	324
Loans to employees	22	12
	1,245	**336**

11. Derivative Financial Instruments and Hedging Activities

The Company enters into foreign exchange forward contracts to hedge foreign currency exposures on US Dollars, UK Pounds, Euro, etc. on accounts receivables and forecasted cash flows denominated in foreign currencies. The Company generally hedges forecasted transactions over a period of twelve months or less. Sasken held foreign exchange forward contracts of US$ 27,313 and US$ 1,666 as at March 31, 2004 and 2003, respectively. The contracts expire on a monthly basis through the month of January 2005. Unrealized gain on account of restatement of forward covers at fair value as at March 31, 2004 amounted to US$ 1,081. The receivable is recorded under "Other current assets" in the Consolidated Balance Sheet and the gain has been recorded under 'Other income' in the Consolidated Income Statement.

12. Income Taxes

The Company 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 of the Income Tax Act, 1961. Hence, deferred taxes to the extent of the Company's export operations are not recognized as the timing differences reverse out within the balance period of available deduction. Under the law, tax benefits for the various units under the above sections is estimated to phase out by fiscal 2009. Income earned from sale of software development services to domestic customers is taxable.

Income tax expense comprises of for year ended March 31,

	2004	2003	2002
Current			
– Domestic	22	59	58
– Foreign (net of refund)	(485)	510	775
Total	**(463)**	**569**	**833**

During the year ended March 31, 2004, the Company received refund of foreign taxes, recognized as an expense in earlier years amounting to US$ 1,026. Current domestic taxes relate to taxes payable under Minimum Alternative Tax (MAT) provision of the Income Tax Act, 1961. For determination of tax under the MAT provisions, the benefit of carry forward of business loss and unabsorbed depreciation are admissible only to the extent of unabsorbed losses as per the books of the Company.

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

	2004	2003
A. Deferred tax assets		
Provision for doubtful debts	8	–
Accrued retirement benefit	5	3
Depreciation and amortization	7	4
Warranty expenses accrued	–	–
Carry forward of unabsorbed depreciation and business loss	198	–
Carry forward of capital loss	45	–
Total	**263**	**7**
Less: Valuation allowance	(263)	(7)
Deferred tax assets, net of valuation allowance	**–**	**–**
B. Deferred tax liabilities		
Unrealized gain on available for sale securities	–	–
Total deferred tax liabilities	–	–
Net deferred tax (liability)/Asset	–	–

Pursuant to changes in the provisions of the Income Tax Act, 1961 during the year, the Company can henceforth carry forward unabsorbed depreciation and business loss arising from export operations, to be set off against future taxable business income. The Company has US$ 142 unabsorbed depreciation loss as at March 31, 2004 in India and US$ 56 unabsorbed business losses relating to foreign branches. The Company set off US$ 704 towards taxable business profits of fiscal year 2004. The valuation allowance has been created, as it is more likely than not that such deferred tax asset would not be realizable. The unabsorbed depreciation loss in India can be carried forward indefinitely.

A reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to income before income taxes is summarized below:

Provision for tax	2004	2003	2002
Net income before taxes	4,390	(651)	(2,706)
Enacted tax rates in India	35.875%	36.75%	35.70%
Statutory tax provision	1,575	(240)	(966)
Tax effect on non taxable income	(1,544)	253	9
Overseas taxes	590	814	762
Brought forward loss adjusted	(121)	–	–
Minimum income taxes payable	12	–	–
Tax effect of expenses disallowed			
– Stock option cost	12	–	409
– Provision for Impairment of investment	–	246	56
Valuation allowance on other temporary differences	39	(197)	563
Withholding tax refunds	(1,026)	(307)	–
Total provision for income taxes	**(463)**	**569**	**833**

13. Retirement Benefits to Employees

Amounts recognized in the Consolidated Income Statements on account of retirement benefits:

Year ended March 31	Superannuation Scheme	Provident Fund	Gratuity
2004	28	580	278
2003	–	414	188
2002	–	437	39

The following table sets out the funded status of the gratuity plan for the years ended March 31, 2004, 2003 and 2002.

	2004	2003	2002
a. Change in benefit obligations			
Projected benefit obligations at beginning of the year	**242**	**214**	**202**
Service cost	171	89	23
Interest cost	19	30	16
Benefits paid	(71)	(97)	(17)
Effect of change in assumptions	54	–	–
Actuarial (gain)/loss	(1)	–	–
Translation (gain)/loss	30	6	(10)
Projected benefit obligations (PBO) at the end of the year	**444**	**242**	**214**
b. Expected return on plan assets	9	9	6
c. Change in plan assets			
Plans assets at the beginning of the year at fair value	**139**	**107**	**76**
Employer contributions	353	115	4
Benefits paid	(71)	(97)	(17)
Actual return on plan assets	3	11	10
Translation gain/(loss)	29	3	(5)
Plans assets at the end of the year, at fair value	**453**	**139**	**106**
d. Funded status of the plan	**9**	**(103)**	**(108)**
Excess of actual over estimated return	(6)	3	4
Unrecognized transitional obligations	–	25	106
(Accrued)/prepaid benefits	(20)	–	–
e. Net amount recognized	**(17)**	**(75)**	**2**
f. Gratuity cost for the period			
Service cost	171	89	23
Interest cost	19	30	17
Expected return on plan assets	(9)	(9)	(6)
Transitional obligations	26	78	8
Other	54	–	–
Net gratuity cost	**261**	**188**	**42**
g. Assumptions			
Interest rate	7.50%	8.00%	8.00%
Discount	7.50%	8.00%	8.00%
Estimated rate of return on plan assets	7.50%	8.00%	8.00%
Rate of compensation increase	5.00%	4.00%	4.00%
Attrition Rate	2.00%	1.00%	1.00%
Retirement expectancy	58	58	58

The benefits expected to be paid, in each of the next five fiscal years, and, in the aggregate for the five years thereafter are given below:

Fiscal period ended March 31,	
2005	33
2006	37
2007	44
2008	53
2009	61
Five years thereafter	248

The Company's best estimate of the contributions expected to be paid to the gratuity plan during the next fiscal year is US$ 218.

The plan is managed by a private company. The plan assets are invested in Government Securities, Corporate Bonds rated AA or above, Money market and other liquid assets, Infrastructure and Social Sectors as defined by Insurance Regulatory Authority in India and, listed equities. The expected rate of return on plan assets is based on the average interest rates prevailing in the market on investments similar to those held by the company.

14. Transactions with Related Parties

Amounts due from officers and employees of the Company

The 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:

Year ended March 31,	Amounts due	Recoverable in 12 months	Recoverable after 12 months
2004	319	297	22
2003	242	230	12

15. Earnings per Share (EPS)

Given below is a reconciliation of the net income and number of shares considered in the computation of basic and fully diluted EPS for the year ended March 31, 2004:

	2004
Net income for the computation of basic EPS and fully diluted EPS	4,853
Basic EPS – weighted average number of ordinary shares outstanding	30,186,957
Effect of dilutive stock options	93,998
Effect of dilutive share warrants	1,484,849
Effect of dilutive potential ordinary shares (FCDs)	1,400
Fully diluted EPS – weighted average number of ordinary shares outstanding	31,767,204

For the years ended March 31, 2003 and 2002, stock options and FCDs have an anti-dilutive effect on the earnings per share due to the losses.

16. Segment Reporting

As at March 31, 2004, Sasken has three divisions, each focusing on different market segments-Network Elements, Semiconductors and Terminal Devices.

a) The Network Elements 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.

b) 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.

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

During the year ended March 31, 2003, the Company decided that it would not focus on products 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.

During the year ended March 31, 2004, the Company has organized its segments based on the vertical market segment instead of the market segment in which the customers operated. Previous years segment information has been restated to conform to those of the current year.

a. Operating Segments

Information on segment revenues and margins is as given below:

Year ended March 31, 2004

Revenues	Network Elements	Terminal Devices	Semiconductors	Total
Revenue from external customers	14,384	13,081	9,756	37,221
Gross profit	4,984	4,381	2,772	12,137

Year ended March 31, 2003

Revenues	Network Elements	Terminal Devices	Semiconductors	Internet Access Solutions	Total
Revenue from external customers	7,798	9,531	6,027	104	23,460
Inter-segment revenue	–	159	–	–	159
Eliminations	–	–	–	–	(159)
Total revenues	7,798	9,690	6,027	104	23,460
Gross profit	2,394	4,716	1,108	(515)	7,703

Year ended March 31, 2002

Revenues	Network Elements	Terminal Devices	Semiconductors	Internet Access Solutions	Total
Revenue from external customers	9,268	8,798	5,084	40	23,190
Gross profit	3,574	5,136	894	(154)	9,450

Note:

a) During the year ended March 31, 2003, the Company entered into an agreement to license its product to one of its customers (in the Terminal Devices segment – Europe region) for a sum of US$ 588. Simultaneously, the Company entered into an agreement to purchase software at a value of US$ 588 from the customer. The Company has considered this transaction to be a non-monetary exchange.

b) During the year ended March 31, 2004, the Company (in the Terminal Devices segment – Europe region) entered into an agreement for services rendered to one of its customers. The customer has agreed to settle the consideration by transferring certain software programs and annual maintenance services amounting to US$ 360. The Company has considered this transaction to be a non-monetary exchange.

Information on segment assets is as given below:

Assets	2004	2003
Network Elements	4,138	2,258
Terminal Devices	4,638	4,708
Semiconductors	2,244	3,409
Total segment assets	11,020	10,375
Unallocated assets	21,106	20,076
Total assets	32,126	30,451

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

b. Geographical information

The geographical segment information given below is based on the location of the Company's customer. The Company has presented the geographical information based on the continents (except India) in view of the similarity of the economic and market risks in the countries within the continents.

Net Revenues	2004	2003	2002
North America (including Canada)	14,530	10,402	10,444
Europe	13,012	4,972	3,472
Asia Pacific (excluding India)	6,195	5,936	7,728
India	3,288	2,094	1,496
Rest of the world	196	56	50
Total revenues	**37,221**	**23,460**	**23,190**

c. Information about major customers

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

Year ended March 31,	% age of revenue	# of customers
2004	41%	2
2003	25%	1
2002	22%	1

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

Particulars	2004	2003	2002	Operating segments
Customer 1	9,998	5,780	5,161	Network Elements
Customer 2	5,151	2,221	1,919	Terminal Devices and Semiconductors
Customer 3	429	1,516	2,606	Terminal Devices.

17. Commitments and Contingent Liabilities

a. Contingent liabilities:

- The contracts remaining to be executed for purchase of property, plant and equipment on March 31, 2004 and 2003, amounted to US$ 1,449 and US$ 60 respectively.
- The Company has provided bank guarantees and letters of credit for certain imports as required by the statutory authorities, amounting to US$ 573 and US$ 274, as at March 31, 2004 and 2003, respectively.
- There are certain claims from income tax authorities for US$ 379 and US$ 161 as at March 31, 2004 and 2003. The Company believes that these claims can be settled and no provision for taxes needs to be created.
- The Company is involved in litigation in the in the normal course of business and believes that none of these are probable of settlements which would have a material adverse impact on the Company.

b. Operating lease commitments

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 Consolidated Income Statements are as under:

Year ended March 31,	
2004	371
2003	352
2002	902

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

Year ended March 31,	
2005	676
2006	710
Thereafter	–
Total	**1,386**

18. Subsequent Events

On April 2, 2004, the company issued 757,850 options covering 1,372 employees with a vesting period of one to four years at an excercise price depending upon the excercise period of the options. The excercise price ranges from US$ 1.83 to US$ 2.93 (equivalent to Rs. 80 to Rs. 128).

Management's Discussion and Analysis of Financial Performance

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

The consolidated financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in the United States of America. The management of Sasken Communication Technologies Limited (Sasken) accepts responsibility for the integrity and objectivity of these 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

Headquartered in Bangalore, India, Sasken is a global telecom software solutions provider offering a unique combination of complementary IP software components, research and development consultancy as well as software services to many of the leading semiconductor manufacturers, network equipment companies, and global wireless handset developers. Established in 1989, Sasken employs over 1400 people, operating from a state of the art research and development center in Bangalore, India with offices in Canada, China, Germany, Japan, Sweden, UK and US.

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

Key Highlights for the Year Ended March 31, 2004

- Recommended a dividend of 25%.
- Revenue increased by 59% from US$ 23,460 thousand to US$ 37,221 thousand.
- Services revenue grew by 91.6%, Product revenues declined by 7.9%
- Product and Services Mix in revenue stood at 24:76 in 2004 vs 40:60 in 2003
- Royalties and sublicensing fees received from multiple product offerings.
- Consolidated Profit after Tax increased by 507%, from loss of US$ 1,194 thousand to US$ 4,853 thousand
- Net profit margins was at 13% in 2004 as against negative 5% in 2003
- Overseas Tax refund of US$ 1,026 thousand was received during the year.
- Consolidated Earnings per share-basic US$ 0.16 (negative US$ 0.05 – 2003) and diluted – US$ 0.15 (negative US$ 0.05 – 2003).
- Investment in R & D increased by 75% from US$ 240 thousand to US$ 421 thousand
- 3.3 million shares issued to existing shareholders and 1.6 million shares issued to strategic investors by rights issue, at a price of US$ 0.6 (equivalent to Rs. 30) per share.
- Cash and bank balance stood at US$ 550 thousand as on March 31, 2004.
- Entire Term loan of US$ 2,832 thousand repaid during the year.
- Headcount increased from 851 in last fiscal to 1437 in 2004.

During the current year Sasken has been certified as a TL9000 company. TL 9000 standard is a set of quality management system requirements developed by the QuEST forum (The Quality Excellence for Supplier of Telecommunications Leadership) to provide the telecommunication industry specific quality standards. The benefit which accrues to the company is stated in the Directors report.

During the fiscal 2004, the Company promoted Sasken Network Systems Limited, ("SNS") a subsidiary in India. SNS would provide consultative engineering services focused on telecom operation systems. No business was transacted by SNS during the year

2. Consolidation of financial statements

The financial statements for the year ended March 31, 2004 include the accounts of the Company and its subsidiary, Sasken Network Systems Limited. All significant inter-Company accounts and transactions are eliminated from the consolidated statements.

2.1.1 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.

The company's revenues were US$ 37,221 thousand during fiscal 2004 as compared to US$ 23,460 thousand during fiscal 2003, registering a growth of 59%. This is due to the growth in business from our existing large customers and also the addition of new customers. Repeat business from existing customers was 93.4% and the business from new customers constituted 6.6%.

During the year the company earned revenues from royalties and sub licensing fees from products licensed in the current year or in earlier years. The proportion of such income, out of our total revenues was 6.2%.

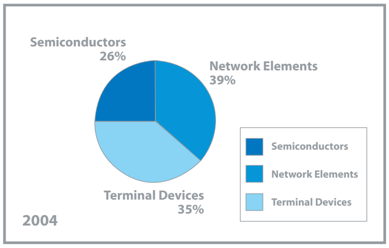
Revenues from the Network Elements Segment are primarily in the nature of software services along with product licensing income. Such revenues constitute 39% of the total revenues this year, compared to 33% during the previous year, an increase of 84%.

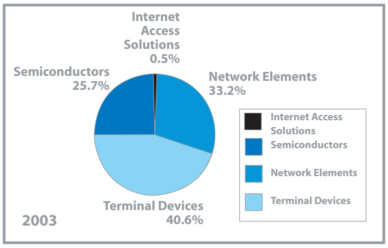
Revenues from the Terminals segment are primarily in the nature of licensing revenues and services, both around our own IP and around the customers' IP. Revenues from Terminal Devices manufacturers constitute 35% of the total revenues for fiscal 2004 as against 40% of the total revenues for fiscal 2003. The absolute increase in revenues is 37%. The increase is on account of the addition of a large customer and also on account of the sublicensing fees received from licensing of our products during the current or earlier periods.

Revenues from Semiconductor segment consists of both Licensing revenues and revenues for software services. Semiconductors constituting 26% of the revenues in each of the fiscal period, increased by 62%. This increase is largely on account of growth in the business from one of our existing large customers.

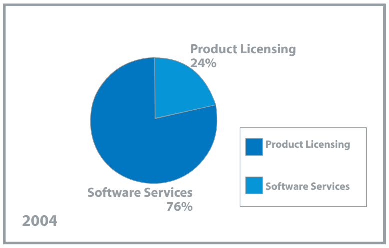
Revenues from Internet Access Solutions constitute 0.5% in fiscal 2003. There were no revenues from this segment during the fiscal 2004.

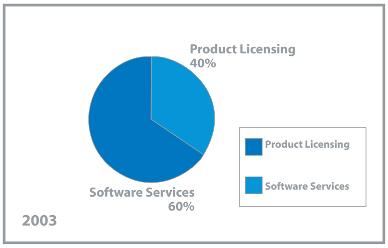
Pie chart of Revenues by Business Segments





Pie chart of Revenues by offerings





Revenues from product licensing constituted 24% of the revenues for the year, as compared with 40% during the previous year. 76% of the revenues during the year were from software services, as compared with 60% during the previous year. The significant change in the mix is on account of the growth in the services business by 91.6%, while the revenues from the products actually registered a decline of 7.9% over fiscal 2003.

2.1.2 Cost of Revenues

Cost of revenues comprises costs incurred by the business segments and operating expenses charged to the business segments, based on the related utilization by each of the segments.

The cost of revenues for fiscal 2004 was US$ 25,084 thousand as compared to US$ 15,757 thousand in the previous year. As percentage of revenues, it works out to 67% in each of the fiscal period. In absolute terms, the cost of revenues has increased by US$ 9,327 thousand (59%).

Employment costs as a percentage of revenue, constitute 43% & 41% for the fiscal 2004 & 2003 respectively. During the year, the employment costs increased by 70%, due to increase in head count, annual increments and increase in salaries paid to employees deputed overseas, on account of an increase in the quantum of on-site work.

Depreciation as a percentage of revenue is 6% for the fiscal 2004 & 9% for the fiscal 2003. This reflects the improvement in the utilization of assets by the organization. In absolute terms, depreciation increased by 12%, mainly on account of increase in expenses on purchase of generic software.

Product Engineering Expenses

Product engineering expenses include the costs of product development, and modifications and enhancements to products that are already available to customers, and for which revenues may or may not have been recognized during the current year. These expenses which have been charged to the respective expense heads, and the appropriate segments, when taken together, constitute 8% of revenues for fiscal 2004, as compared with 11% in fiscal 2003. In absolute terms, there has been an increase in the amount of expenses incurred in product engineering to the tune of US$ 322 thousand. Product engineering expenses incurred on new products that have passed the stage of technological feasibility, are capitalized. No costs were capitalized in fiscal 2004 on account of the fact that no new R & D initiatives had reached the stage of technological feasibility. Capitalized costs as a percentage of revenue, were 8% for the fiscal 2003.

2.1.3 Gross profit

Gross profit remained at 33% of revenues each during fiscal 2004 & 2003. In absolute terms, gross profit increased by 58%, on account of increase in revenues.

2.1.4 Research and Development (R & D)

Research and development expenses constituted 1% of the revenues each during fiscal 2004 and fiscal 2003. In absolute terms, R&D increased by 75%. The R&D efforts were specifically in the areas of DSL, Multimedia codecs and applications, and mobile platform solutions, as in fiscal 2003.

2.1.5 Selling & Marketing Expenses

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

Selling and marketting expenses were at 11% for fiscal 2004 as against 17% in fiscal 2003. This was largely on account of improvement in productivity of the sales team and also on account of rationalisation of the sales staff in Japan to bring them in line with revenues form the region.

2.1.6 Administrative and General Expenses (including Provision for diminution in value of Investment)

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

Administrative and General Expenses (excluding provision for diminution in value of investment) constituted 11% in each of the fiscal periods. In absolute terms these expenses posted an increase of 64% during fiscal 2004 over the previous fiscal mainly on account of increase in employment costs, training costs and insurance costs. Employment costs increased on account of increase in head count and annual increments. Training Costs increased due to larger number of training programs undertaken both in the technical domain and in organization development. The management periodically reviews the quality of receivables and wherever necessary provisions for bad debts are made. In the current year under review, a provision of US$ 416 thousand was made. Professional, legal and consultancy has increased marginally due to higher expenses on patents being filed. Insurance costs increased since the charge for fiscal 2003 was for part of the year only, whereas for the current year the cover was there for the full year. Increase in the scope of coverage also cause some part of the increase.

Provision for diminution in value of Investment was 3% during fiscal 2003 and Nil during fiscal 2004.

Employee stock option compensation cost (included in Administrative and General Expenses)

Under Sasken ESOP – 2000, on October 1, 2003, the Company issued 592,080 options to employees, convertible into 592,080 equity shares, with a vesting period of one year at an exercise price of US$ 0.92. Although the options were issued at the fair value of the shares, compensation cost arises on account of the inherent value of options. Compensation cost of US$ 34 thousand was booked during fiscal 2004, for the six month period until March 31, 2004. There was no corresponding charge during fiscal 2003, since the company had cancelled the options which were substantially out of money, during that year.

2.1.7 Income from operations

Operating income for fiscal 2004 is US$ 3,408 thousand compared with US$ 132 thousand for fiscal 2003. Operating income as a proportion of revenue was 9% for fiscal 2004 as compared to 0.6% for fiscal year 2003. Increase in the revenue base, and improvement in the proportion of selling expenses was largely responsible for this.

2.1.8 Other income

Other income for fiscal 2004 was US$ 1,155 thousand as compared to US$ 34 thousand negative for fiscal 2003. The increase was mainly on account of unrealized exchange gain on account of forward cover of US$ 1,082 thousand.

2.1.9 Interest

Interest charged against income during the fiscal 2004 was US$ 173 thousand as compared with US$ 749 thousand for fiscal 2003. The decrease in interest expense was on account of repayment of the long-term debt availed by the company during the early part of fiscal 2004, reduction in the interest rates for working capital borrowings, reduction in the utilization of the working capital limits by about 14% in fiscal 2004. Also part of the Rupee denominated line of credit was converted into a US Dollar debt at much lower interest rates towards the end of fiscal 2004, the results of which will be more visible during the coming year.

2.1.10 Income taxes

Income taxes, during fiscal 2004, was a negative amount of US$ 463 thousand as compared to US$ 569 thousand during fiscal 2003. The decrease was mainly due to lower taxable income on account of set off of carry forward losses of earlier years and refund received of US$ 1,026 thousand of excess taxes withheld in the earlier fiscal.

2.1.11 Net income

Net income from ordinary activities and continuing operations for fiscal 2004 was US$ 4,853 thousand as compared to Net loss of US$ 1,220 thousand during previous year.

3. Results of operations for the fiscal ended March 31, 2003 compared with fiscal ended March 31, 2002

3.1.1 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.

The company's revenues were US$ 23,460 thousand during fiscal 2003 as compared to US$ 23,190 thousand during fiscal 2002, registering a growth of 1.2%.

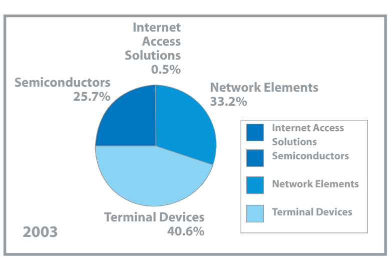
Revenues from Network Elements segment are primarily in the nature of software services along with product licensing income. Networks revenue, which constitute 33% of the total revenues this year, compared to 40% during the previous year, declined by 16%. The decline in absolute terms is mainly on account of loss of business from a large Chinese equipment manufacturer, which set up operations in India.

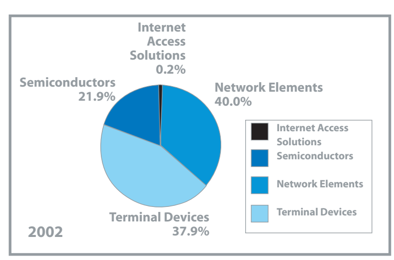
Revenues from Terminals are primarily licensing revenues. Revenues from Terminal Devices manufacturers constitute 40% of the total revenues for fiscal 2003 as against 38% of the total revenues for fiscal 2002. In absolute terms, there was an increase of 8%.

Revenues from Semiconductor segment consists of both Licensing revenues and revenues for software services. Semiconductors constituting 26% of the revenues as compared to 21% in previous year grew by 19 %. Both products and services revenues increased during the fiscal, on account of new customers added and increased billings from existing customers.

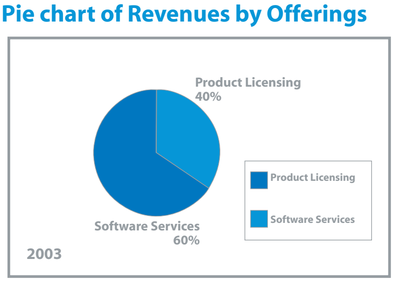
Revenues from Internet Access Solutions constitute 0.5% of the revenues in the current fiscal and 0.2% previous fiscal.

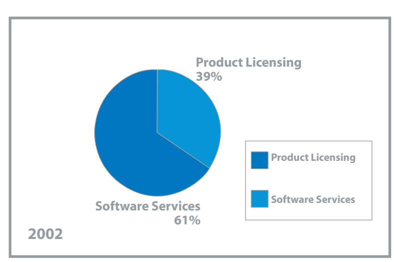
Pie chart of Revenues by Business Segments





Pie chart of Revenues by Offerings





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.

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 fiscal 2003 was US$ 15,757 thousand as compared to US$ 13,740 thousand in the previous year. As percentage of revenues, it works out to 67% and 59% 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 & 2002. There was a marginal increase in travel costs.

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.

3.1.3 Gross Profit

Gross profit recorded during fiscal 2003 posted a negative growth of 18% over gross profit for fiscal 2002. Gross profit as a percentage of revenue is 33% in fiscal 2003, as compared to 41% 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 in the future.

3.1.4 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 2003 and 5% during fiscal 2002. Two factors could explain this reduction. The R&D programs were rationalized and made market focused. Secondly expenses on the Internet Access Solutions business unit that was in the R&D phase during fiscal 2002, was discontinued during the current fiscal.

3.1.5 Selling & Marketing Expenses

Selling and marketing expenses primarily include costs related to employment expenses of the marketing and sales staff, rent for foreign offices, distributor fees, and travel expenses for marketing and sales staff. Selling and marketing Expenses are at 17% of revenues for fiscal 2003 as against 13% in fiscal 2002. The increase in absolute terms is about 33%, 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.

3.1.6 Administrative and General Expenses (including Provision for diminution in value of Investment)

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

Administrative and General Expenses constituted 11% and 32% of revenues during fiscal 2003 and 2002. In absolute terms these expenses posted a decrease of 66% 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$ 982 thousand, 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$ 982 thousand. An additional amount of US$ 355 thousand 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$ 663 thousand 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. 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. Stock options were issued at the fair value of the shares, based on this valuation exercise. Since then, the capital markets went through some real rough times, and valuations have crashed considerably. 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 substantially 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$ 1,142 thousand

3.1.7 Income from operations

Operating income for fiscal 2003 is US$ 132 thousand compared with an operating loss of US$ 2,461 thousand for fiscal 2002. Operating income as a proportion of revenue was 0.6% for fiscal 2003 as compared to 11% negative for fiscal 2002.

3.1.8 Other income

Other income for fiscal 2003 was US$ 34 thousand negative as compared to US$ 681 thousand in fiscal 2002. Other income as a percentage of revenue was 0.1% negative for the current fiscal and 3% for the previous fiscal.

3.1.9 Interest

Interest charged against income during the fiscal 2003 was US$ 749 thousand as compared with US$ 926 thousand 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.

3.1.10 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$ 569 thousand as compared to US$ 833 thousand 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.

3.1.11 Net income

Net loss from ordinary activities and continuing operations for fiscal 2003 was US$ 1,220 thousand as compared to Net loss of US$ 3,539 thousand during previous year.

4. Reconciliation between Net Income as per US GAAP and INDIAN GAAP

Sasken is registered in India and is therefore required to comply with Indian GAAP and the provisions of the Indian Companies Act. The Company has voluntarily decided to present it financial statements in accordance with US GAAP.

Reconciliation of Net Income: (Amounts in '000 US$)

	2004	2003	2002
Net Income as per Indian GAAP	3,981	263	(3,339)
Adjustments			
Unrealized Exchange gain on forward cover (Net)	872	–	–
Exchange differences capitalized	–	(9)	1
Depreciation	–	3	(2)
Income/(Loss) of Subsidiary	–	–	57
ESOP Provision as per SFAS 123	–	–	(256)
ESOP costs reversal on cancellation of the ESOP scheme	–	(1,477)	–
Net Income as per US GAAP	4,853	(1,220)	(3,539)

5. Risk Management

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