

# Fourteenth Annual Report 2002

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	<b>Bankers</b> Canara Bank Deutsche Bank
	<b>Legal Advisors</b> Dua Associates
	<b>Registrar &amp; Share Transfer Agents</b> M/s. Karvy Consultants Limited TKN Complex No. 51/2 Vanivilas Road, Opp. National College, Basavanagudi, Bangalore 560 004.

## NOTICE TO MEMBERS

**Notice is hereby given that the 14th Annual General Meeting of KRONE Communications Limited will be held on at Monday, April 28, 2003 at 3.00 p.m at Hotel Atria, No. 1, Palace Road, Bangalore 560 001 to transact the following business :**

### ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the year ended 31st December 2002, the Balance Sheet as at that date and the Reports of the Directors and the Auditors thereon.
2. To declare dividend
3. To appoint a Director in place of Mr. G. Subramaniam who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration. The retiring auditors M/s. Deloitte Haskins & Sells, Chartered Accountants, being eligible, offer themselves for re-appointment.

### SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modification, the following resolutions as Ordinary Resolutions :  
 "RESOLVED that Mr. S. Rajagopalan be and is hereby appointed a Director of the Company."  
 "RESOLVED that Mr. Bhaskar Rao be and is hereby appointed a Director of the Company."  
 "RESOLVED that Mr. Philip Hewes be and is hereby appointed a Director of the Company."
6. To consider and, if thought fit, to pass with or without modification, the following resolution as Ordinary Resolution :  
 "RESOLVED that pursuant to Article 132 of the Articles of Association of the Company, and the provisions of Section 309 (4) and other applicable provisions, if any, of the Companies Act, 1956, the non Whole-time Independent Directors of the Company be paid, commencing from January 1, 2002, an annual commission of an amount not exceeding 1% of the net profits of the Company and computed in the manner laid down in Section 198, 349 and 350 of the Companies Act, 1956 and this amount to be distributed amongst the non whole-

time independent Directors in such manner as the Board may from time to time determine, provided, however, the commission paid to a Director of the Company pursuant to this resolution shall in no event exceed Rs. 1,50,000/- (Rupees One Lakh Fifty Thousand Only) including sitting fees, for or in respect of any one financial year of the Company".

**By Order of the Board**

**R. Ganesh**

Vice President - Finance  
and Company Secretary

Place : Bangalore

Date : March 10, 2003

### NOTES:

1. The relative Explanatory Statements pursuant to Section 173 (2) of the Companies Act, 1956 in respect of Special Business under Sl.No. 5 are annexed hereto.
2. A member entitled to attend and vote at this Meeting is entitled to appoint a Proxy to attend and vote instead of himself and Proxy need not be a Member of the Company.
3. The instrument appointing a Proxy should be deposited at the Corporate Office of the Company not less than 48 hours before the meeting.
4. The Register of members and the Share Transfer Books of the Company will be closed from 16.04.2003 to 28.04.2003 (both days inclusive).
5. Members are requested to notify immediately any change in their addresses directly to Company's Registrar.

### EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT 1956

#### Item No. 5

- Mr. S. Rajagopalan was appointed as Additional Director with effect from April 24, 2002 and vacates his office at this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Articles of Association of the Company. A notice under Section 257 of the said act has been received

from a Member signifying his intention to propose the name of Mr. S. Rajagopalan for appointment as a Director of the Company. Mr. Rajagopalan has filed with the Company his consent to act as a Director.

The Directors recommend his appointment as a member of the Board in the interest of the Company.

None of the Directors except Mr. Rajagopalan are concerned or interested in the resolution.

- Mr. Bhaskar Rao was appointed as Additional Director with effect from October 24, 2002 and vacates his office at this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Articles of Association of the Company. A notice under Section 257 of the said act has been received from a Member signifying his intention to propose the name of Mr. Bhaskar Rao for appointment as a Director of the Company. Mr. Bhaskar Rao has filed with the Company his consent to act as a Director.

The Board of Directors recommend his appointment as a member of the Board in the interest of the Company.

None of the Directors except Mr. Bhaskar Rao are concerned or interested in the resolution.

- Mr. Philip Hewes was appointed as Additional Director with effect from January 1, 2003 and vacates his office at this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Articles of Association of the Company. A notice under Section 257 of the said act has been received from a Member signifying his intention to propose the name of Mr. Hewes for appointment as a Director of the Company. Mr. Hewes has filed with the

Company his consent to act as a Director.

The Board of Directors recommend his appointment as a member of the Board in the interest of the Company.

None of the Directors except Mr. Hewes are concerned or interested in the resolution.

#### **Item No. 6**

Section 309 of the Companies Act, 1956 permits payment of remuneration to non whole-time Independent Directors subject to certain limits as laid down under this section. With the continued expansion in the activities of the Company and the increasing complexities in the Company's business, the workload and responsibilities of the non whole-time Independent Directors of the Company have also increased. This has necessitated in them spending more time on the business activities of the Company.

The Board of Directors of your Company proposes subject to the approval of the Members, payment of remuneration to non whole-time Independent Directors as set out in the resolution under item no. 6 of the notice. The aforesaid proposal was approved by the Board of Directors meeting held on July 24, 2002.

None of the Directors except Mr. G. Subramaniam and Mr. S. Rajagopalan are interested or concerned in the above resolution.

The Board of Directors recommends the resolution for your approval.

**By Order of the Board**

**R. Ganesh**  
Vice President - Finance  
and Company Secretary

Place : Bangalore  
Date : March 10, 2003

## MESSAGE FROM THE MANAGING DIRECTOR

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### Dear Shareholder,

The Indian Telecom Industry has moved from being, once a monopolistic and regulated industry into a very highly competitive and deregulated one today. The emergence of large corporate's like Reliance, Bharti and Tatas, is on the one hand reflective of the recognition by the government of the importance to telecom and on the other hand, made available a whole new world of telecom services based on 'Quality of Service'.

The increase in information, choices and expectations has tipped the tables of power in favour of buyers. What began as a cost driven process in manufacturing, where manufacturer's cost increase was passed on to buyers - has moved to a different pricing model i.e price driven costing. Manufacturers are now lowering production costs to make their products attractive to buyers. This is a radical change from the straight-through pricing model. We at Krone are aligning ourselves swiftly to the realities of the new business scenario.

It is our belief that changes in business environment will increasingly happen in less time than it takes an organization and its enterprise infrastructure to respond. This therefore places an immense responsibility on the part of the management to be able to deliver efficiency with a lot of collective agility. We have in the current year focused on the growth that is emerging within the private operators market. This calls for several changes in product designs, shorter time scales to market the product and speed in transaction.

This trend has made us focus more on "**Return on Opportunity**" which measures how rapidly an organization can execute to seize new opportunities as well as how much this effort will cost. As you can see, despite the demanding market scenario, your Company has posted growth in business during the year 2002.

With the expected deployment of more wireless technology, your Company will need to explore new opportunities in this area. Your Company has also had impressive success in the PremisNet segment in a variety of verticals viz government, banking, educational institutions, software and call centres.

The management continues to remain focused on cost control and design development. The Quality Circle and TPM activities have now crossed the learning curve and possesses an ability to deploy mature thinking in various manufacturing processes.

We believe that the strong demand for broadband which has not been penetrative in India thus far will be a key consideration for market growth in the coming years. The ability to deliver broadband services will call for applications that depend upon minimum delay and error free transmission in the physical layer. This applies both to the last mile in the Access as well as to the in-building infrastructure.

KRONE is well positioned technologically to provide solutions that will satisfy the above demand. The strong Group focus in this direction will only strengthen our ability in the local market.

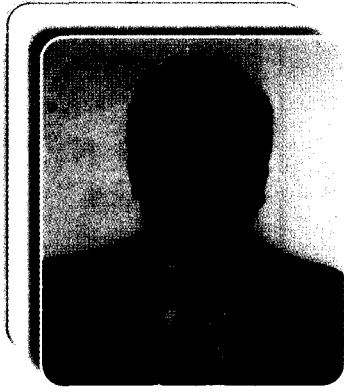
Finally 2003 marks the 75th Anniversary of the parent company – Krone GmbH. We are proud that we have had the privilege of continuing Krone's Global contribution to the field of telecommunication in India and, belong to a large global family that spans several continents. We re-dedicate ourselves to a bright future ahead with the continued support of the parent company.

Thank you!

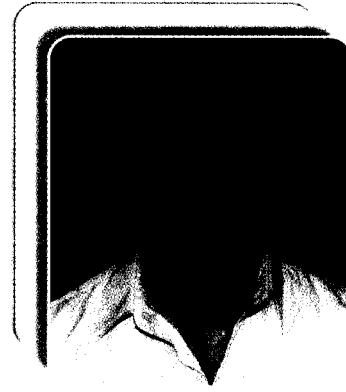
**K. Bala Chandran**  
Managing Director



## **Best Effort for Excellence**



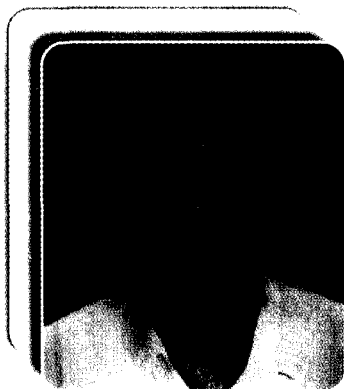
**NIKHIL S. SADARANGANI**



**SURESH S. KANTHI**



**JAYATHIRTHA RAO**



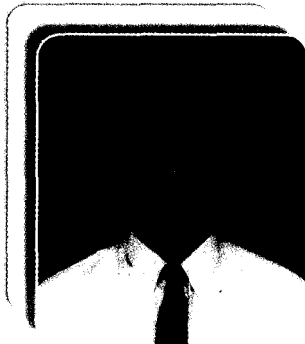
**MAHADEV S. MAGGI**



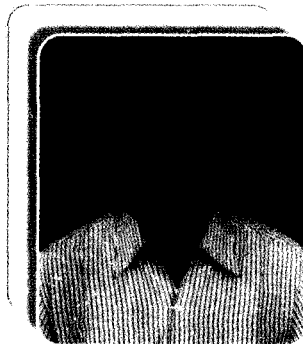
**PRASANNA KUMAR N.R**

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## Best Effort for Excellence



**PADMANABHA H.M.**



**RAVINDRA VIDUR**



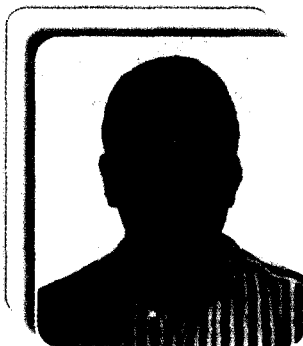
**LEANDER SANTHOSH PALLET**



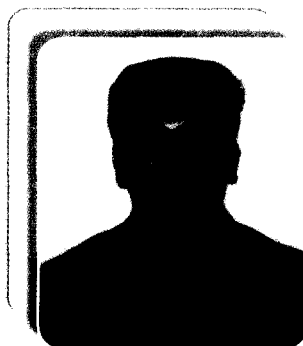
**JAYALALITHA M**



**RAMA DEVI B**



**SATYANARAYANA G**

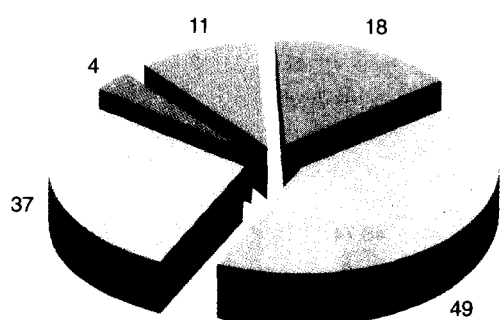


**MOHAN GANDHI**

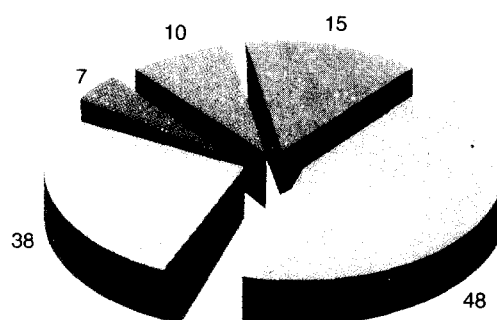


**'RAJAN P**

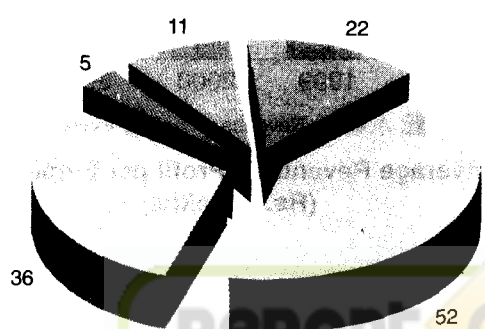
## HUMAN CAPITAL



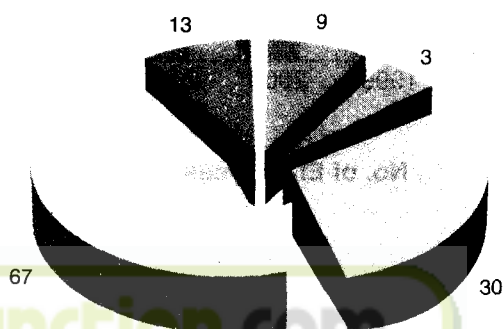
1998



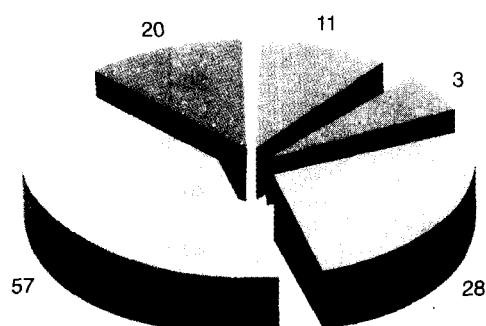
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2000



2001

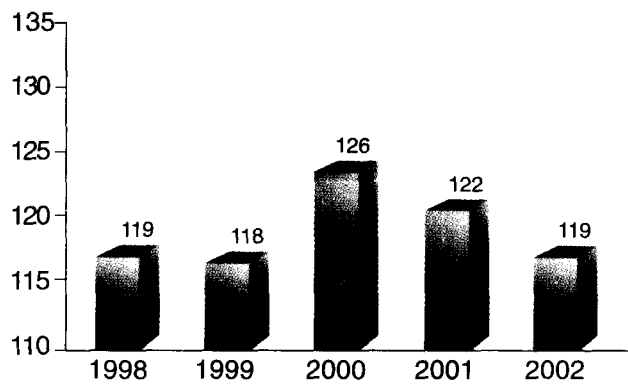


2002

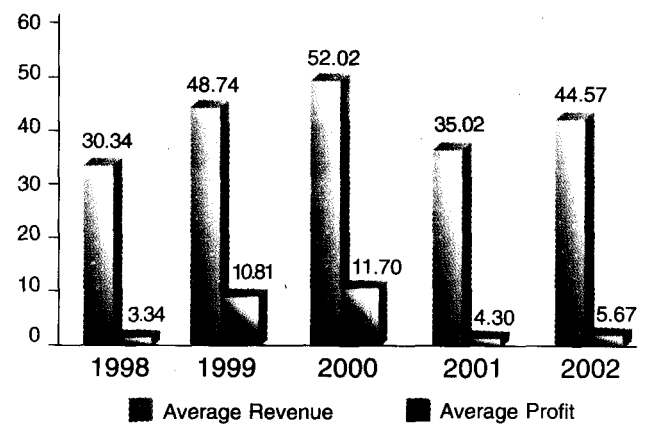
Less than 25 years      25 to 30 years  
 30 to 35 years      35 to 40 years  
 More than 40 years

**No. of Employees in Different Age Groups**

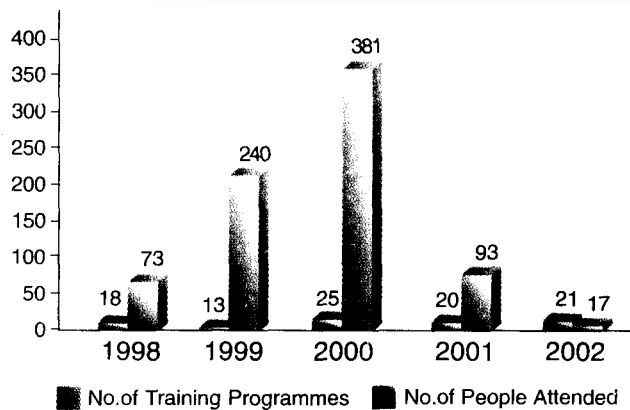




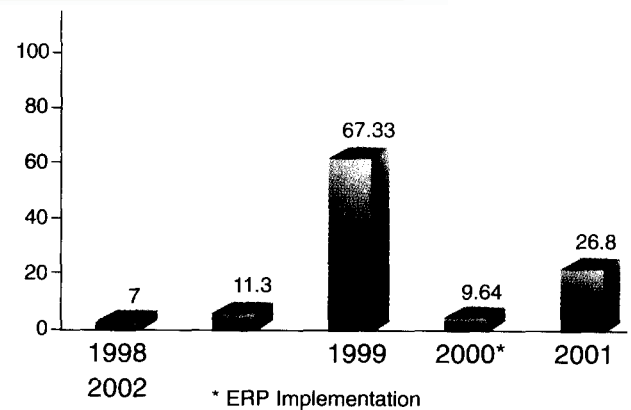
**No. of Employees**



**Average Revenue & Profit per Employee  
(Rs. in Lakhs)**



**Training Programmes**



**IT Spending (Rs. in Lakhs)**

\* ERP Implementation

## DIRECTORS' REPORT

To the Members,

The Board of Directors of your Company has pleasure in presenting the Fourteenth Annual Report on the business and operations, including the financial statements for the year-ended December 2002.

### FINANCIAL RESULTS

(Rs. in lakhs)

	Year Ended 2002	Year Ended 2001
Gross Revenue (including Excise Duty)	<b>5827.65</b>	4751.70
Profit before depreciation	<b>768.06</b>	629.07
Less : Depreciation	<b>93.72</b>	103.90
Net Profit for the year before Taxation	<b>674.34</b>	525.17
Provision for Taxation	<b>240.24</b>	167.02
Profit after tax	<b>434.10</b>	358.15
Add : Profit brought forward from previous year	<b>2724.45</b>	2460.66
Profit available for Appropriation	<b>3158.55</b>	2818.81
Appropriation General Reserve	<b>32.56</b>	17.91
Dividend Proposed	<b>82.80</b>	69.00
Income Tax on proposed dividend	<b>(7.04)</b>	7.45
Balance carried to Balance Sheet	<b>3050.23</b>	2724.45
	<b>3117.02</b>	2818.81

2002 was a year of intense telecommunication activity especially with new entrants like Reliance, Bharti and Tata Teleservices. The initiatives of the government in disinvestment and progress on reforms were strong indicators of commitment to growth within the Telecom Sector.

With the BSNL turning into a corporation, focus has shifted to profitability and revenue maximization. However, the year passed by with no fresh tenders for wireline and switching equipments. Notwithstanding this, the Company was successfully able to maximize its opportunities in the private operators market especially Reliance. This called for a major strategic ability to design and deliver some new products in large volumes which the Company did successfully. The AccessNet segment therefore resulted in a commendable growth compared to the previous year. In the PremisNet segment, the Company achieved growths which were in line with the growth in the IT sector, bearing in mind that close to 50% of the PC market was in the medium and smaller towns. The Company successfully addressed larger geographical areas through stronger channel management.

Your Company also noticeably increased its inter-company exports leveraging its ability to deliver cost effective products from India.

### DIVIDEND

Your Directors recommend a Dividend of 18% for the year ended December 2002 subject to the approval by the Shareholders, at the Annual General Meeting.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act 1956, the Board of Directors report that :

- in the preparation of annual accounts the applicable accounting standards have been followed along with proper explanation relating to material departures;
- accounting policies have been selected and applied consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period ;
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the annual accounts have been prepared on a going concern basis.