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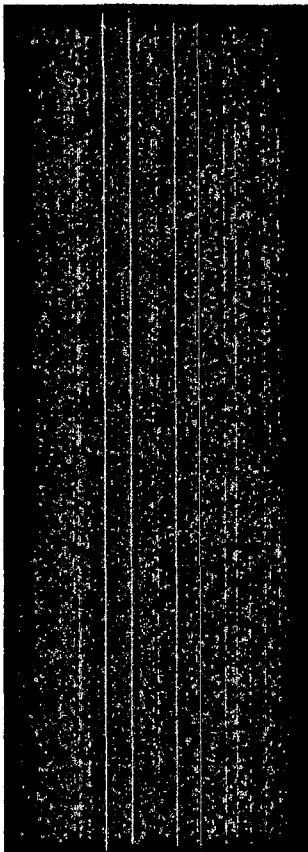
E N T E R



SONATA SOFTWARE LIMITED

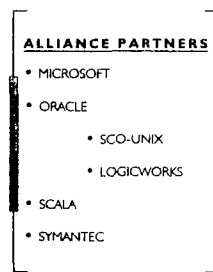
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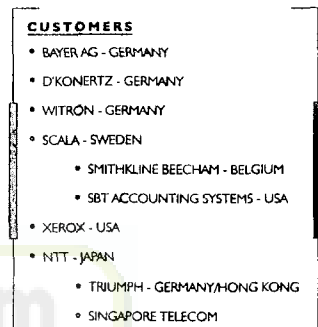
ucceeding in the software industry is a never-ending trial by fire. A saga of continuous change triggered by changes in technology and skills, in a rapidly-shrinking and fast-interacting world.

At Sonata, we aim to provide our clients with more than mere productivity tools. We aim to arm them with solutions. Solutions unique to their business. Solutions that will keep them ahead of the rest. Solutions that will help them win. Because when our clients win, we win.



To win, we recognise that we need the best people. And use their skills in the ever-changing and ever-widening field of information technology to find the right solution to every problem. Every time.

Today we have a large pool of over 600 professionals with diverse skills in cutting-edge technologies and quality systems



and processes. The ISO 9001 and Tick ✓ IT certifications are manifestations of our high quality standards.

Our experience and track record of over 12 years in the industry with a world-class software development infrastructure, coupled with a planned focus on education and training, has enabled us to give a sustained competitive edge to our customers. The phenomenal success of our world class alliance partners, combined with ours, has translated to a vast range of quality products and

services. Our loyal pan-international

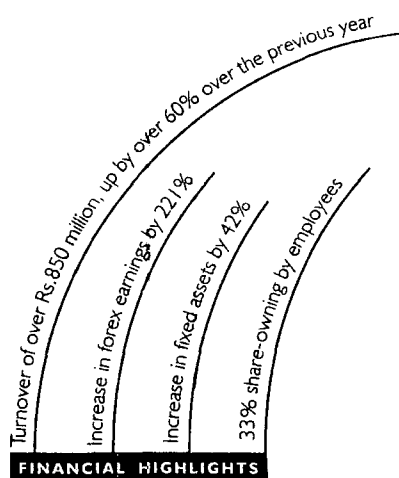
clientele and the incredible level of global goodwill we enjoy, bear testimony to it.

We believe winning is not just about our phenomenal financial success - those numbers are only a manifestation of our success. Our real success lies in the attitude of winning. For our customers. Always.

So enter. Share our success.

OFFERINGS

- PRODUCTS - MIGRATION TOOLS, REPORT GENERATORS, INDIAN LANGUAGES, AGENCY LINE
- DEVELOPMENT SERVICES - EURO SERVICES, Y2K SERVICES, VIRTUAL DEVELOPMENT CENTRE, RE-ENGINEERING, MAINTENANCE
- CONSULTING - GROUPWARE, DATAWAREHOUSING, DISTRIBUTED COMPUTING, INET APPLICATIONS, E-COMMERCE
- ERP SOLUTIONS
- CENTRE OF EXCELLENCE



Corporate office

A.P.S. Trust Building

1/4, Bull Temple Road

N.R. Colony

Bangalore 560 019

INDIA.

Tel : 91-80-6610330

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MD	✓	WKC	MP
CS	✓		N/A
RO	✓		✓
TRA	✓		✓
AGM	27th		✓
YE	✓	✓	✓

BOARD OF DIRECTORS

S.B.Ghia

Chairman

M.D.Dalal

Executive Vice Chairman

B.Ramaswamy

Managing Director & President

K.S.Rao

*Director***SECRETARY**

N.Ebenezer Devasahayam

BANKERS

Deutsche Bank AG

Global Trust Bank Limited

Union Bank of India

Syndicate Bank

AUDITORS

Messrs. N.M.Raiji & Co.

LEGAL ADVISOR

F.S.Broacha

REGISTERED OFFICE

208, T V Industrial Estate

S K Ahire Marg, Worli

Mumbai - 400 025

CORPORATE OFFICE

1/4, First Floor

APS Trust Building

Bull Temple Road

N R Colony

Bangalore - 560 019

DIRECTORS' REPORT

TO THE MEMBERS OF SONATA SOFTWARE LIMITED

Your Directors have pleasure in presenting the Third Annual Report of the Company along with the audited Statement of Accounts for the year ended 31st March 1998.

FINANCIAL HIGHLIGHTS

	Year ended 31.03.98 (Rs. mn)	Year ended 31.03.97 (Rs. mn)
Sales and Other Income	856.09	531.99
Operating Profit	96.05	61.21
Interest	26.42	15.76
Depreciation	13.77	7.80
Profit Before Tax	55.86	37.65
Profit After Tax	55.84	37.64
Appropriations :		
Proposed Dividend	6.50	4.88
Transfer to General Reserve	4.20	2.00
Balance Carried forward	121.22	76.74

DIVIDEND

Your Directors recommend a tax-free dividend of Rs.2.00 per equity share, subject to the approval of Shareholders at the Annual General Meeting.

BUSINESS REVIEW

The focused growth strategy pursued by your company has begun to bear fruit. Sales and PAT grew by 61% and 48% respectively, as compared to previous year's growth rates of 42% in sales and 6% in PAT. Further, a strong base has been established for accelerated growth during the coming years.

- Exports**

The export revenues during the year at Rs.355.71m was higher by 221%, as compared to the previous year. The customer base has expanded during the year, and now includes new customers in Japan, Belgium, Sweden and Canada. This would serve as a strong base for repeat business in the coming years as well as an expansion of customer base in these countries.

- Strategic Alliances**

Drawing on its strong track record of partnerships with the world's software majors in the Indian market, Sonata has now forged alliances that spread beyond the shores of India. The year has seen the appointment of Sonata as

- Microsoft Solution Development Network - Regional Director
- Lotus premier Business Partner
- Oracle Network Computing Initiative Alliance Partner

to name a few. Sonata is now in the process of establishing Centres of Excellence in areas of cutting - edge technology that will mutually benefit your company and its Strategic Partners.

- Indian Operations**

The strategy of offering a comprehensive range of products from leading international companies such as Microsoft, Lotus, IBM, Oracle, SCO and Symantec continued to be successful. During the year, the relationship with Oracle Corporation was expanded by the addition of new offerings in the area of Enterprise Database Management Systems and Data Warehousing.

The year saw the successful establishment of the Business Solutions Group, offering ERP Solutions around Scala. Establishing a suite of customers with fully implemented solution is an achievement that would support strong growth in this high growth segment.

As a strategy to move up the value chain, a separate business group focusing on IT Consulting has been established. Offerings in the area of Groupware, Datawarehousing and Internet saw the securing of some prestigious projects in this area.

DIRECTORS' REPORT (Contd.)

OVERSEAS BRANCHES

A branch office was established in the UK during the current year. This, along with the office in New Jersey in the USA, would help us in establishing a strong presence in these important markets, while also serving the important purpose of better co-ordination with the customers.

INFRASTRUCTURE

The first Offshore Development Centre with an area of 50,000 sq.ft., capable of housing 500 software professionals was established in Bangalore. To meet the increasing needs, a new development centre is being planned during the current year. As an interim step, a second development centre of 30,000 sq.ft. capable of housing another 300 professionals will be established by September 1998. Also, steps are being taken to establish a facility to meet the long term needs which could be scalable in line with the growth in business.

HUMAN RESOURCE DEVELOPMENT

During the year, the manpower strength increased to 617 from 394. Of the number, 450 people are deployed in the exports operations. Bulk of the increase in manpower during the current year as well as in the coming years will be in the exports business segment. As part of the concerted strategy of human resources development, a separate Education and Training Cell was established. This is to facilitate continuous cross-platform training as well as upgradation of skills in the emerging technology areas.

EMPLOYEES STOCK OPTION PLAN (ESOP)

Second allotment of shares under the ESOP was done during the financial year, the first one having been done in October 1995. This is aimed at bringing about commitment to long term success of the company with a substantive creation of wealth for the employees.

CORE RESEARCH GROUP

This group which is 50 strong, is focused on absorbing new technology and innovatively converting them into service offerings to the customers. In pursuing this goal, alliances have been forged with world leaders in technology viz. Microsoft, Oracle, Lotus, etc. In the coming years this activity will help the company to offer high value products/services to the customers based on emerging technology.

QUALITY

During the year, the recertification of the Quality System under ISO 9001 TickIT Scheme was successfully completed. As a part of the continuous improvement in processes efforts are underway to implement systems conforming to Software Engineering Institutes' Capability Maturity Model.

DIRECTORS

Mr. S.B. Ghia, Chairman, retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

At the Board Meeting held on 15th April 1998, Mr. K.S. Rao, was appointed as an Additional Director pursuant to Section 260 of the Companies Act, 1956 holding Office upto the ensuing Annual General Meeting of the Company and is not seeking election.

SHARE CAPITAL & INVESTMENTS

Your Company has invested in 140,000 Ordinary Shares in the equity capital of Offshore Digital Services Inc., USA, constituting 46.67% of the total capital pursuant to approvals obtained by the Company from the Department of Company Affairs, New Delhi.

Your Company intends going ahead with a Public Offering of Shares and for this purpose has appointed M/s. DSP Merrill Lynch Limited and M/s. ICICI Securities and Finance Company Limited as Lead Managers to the Issue.

PUBLIC DEPOSITS

The Company has not accepted any deposits from the public during the year under review.

AUDITORS

The Company's Auditors M/s. N.M. Raiji & Co., Chartered Accountants Mumbai, retire at the conclusion of the ensuing Annual General Meeting and offer themselves for re-appointment.

PERSONNEL

Information as per section 217 (2A) of the Companies Act 1956 read with the Companies (Particulars of Employees) Rules 1975, as amended, have been furnished in a separate statement forming part of the Directors' Report.