

SONATA SOFTWARE

Sonata Software Limited

P e r f o r m a n c e H i g h l i g h t s

Rs. in millions

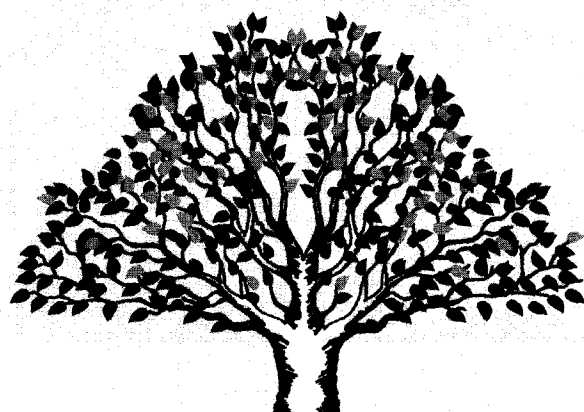
PARTICULARS	Quarter ended 31.03.05	Quarter ended 31.03.04	Quarter ended 31.03.05	Quarter ended 31.03.04	Year ended 31.03.05	Year ended 31.03.04	Year ended 31.03.05	Year ended 31.03.04
	CONSOLIDATED				CONSOLIDATED			
TOTAL INCOME	827.02	750.07	281.64	203.07	3,337.31	2,240.93	1,013.25	714.10
EXPORTS	356.20	226.88	270.64	194.41	1,319.95	830.10	970.10	696.84
EBIDT	76.70	48.11	61.61	39.29	269.98	181.83	217.08	143.45
PROFIT AFTER TAX	45.39	27.04	45.20	33.15	160.87	100.50	164.01	113.87
FIXED ASSETS	301.35	192.16	228.74	91.04	301.35	192.16	228.74	91.04
TOTAL DEBT	51.14	123.96	-	-	51.14	123.96	-	-
NET WORTH - CLOSING	1,527.95	1,444.37	1,609.90	1,523.18	1,527.95	1,444.37	1,609.90	1,523.18
EQUITY	105.16	105.16	105.16	105.16	105.16	105.16	105.16	105.16

RATIOS

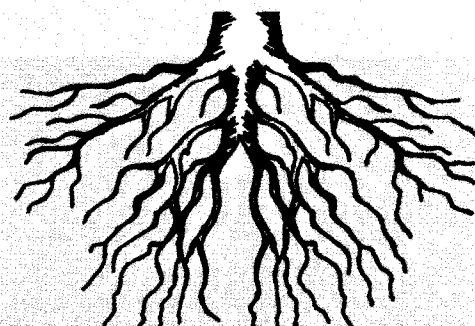
PARTICULARS	Quarter ended 31.03.05	Quarter ended 31.03.04	Quarter ended 31.03.05	Quarter ended 31.03.04	Year ended 31.03.05	Year ended 31.03.04	Year ended 31.03.05	Year ended 31.03.04
	CONSOLIDATED				CONSOLIDATED			
EXPORTS INCOME/TOTAL INCOME	43.07%	30.25%	96.10%	95.74%	39.55%	37.04%	95.74%	97.58%
DOMESTIC INCOME/TOTAL INCOME	55.57%	68.37%	-	-	59.12%	62.11%	-	-
OTHER INCOME/TOTAL INCOME	1.36%	1.39%	3.90%	4.26%	1.34%	0.86%	4.26%	2.42%
OPERATING EXPENSES/TOTAL INCOME	41.83%	36.55%	78.73%	84.80%	38.91%	42.32%	74.43%	82.75%
EBIDT/TOTAL INCOME	9.27%	6.41%	21.88%	19.35%	8.09%	8.11%	21.42%	20.09%
PAT/TOTAL INCOME	5.49%	3.61%	16.05%	16.32%	4.82%	4.48%	16.19%	15.95%
DEBT: EQUITY ¹	0.033	0.086	-	-	0.033	0.086	-	-
DEBTORS NO. OF DAYS	76	79	82	113	75	105	92	126
RETURN ON AVG. NETWORTH ²	11.90%	7.47%	11.24%	8.70%	10.82%	7.06%	10.47%	7.61%
RETURN ON AVG. CAPITAL EMPLOYED ³	12.16%	7.74%	11.24%	8.70%	10.80%	7.04%	10.47%	7.61%
EPS (Annualised) (on Rs.1/per share) ⁴	1.73	1.03	1.72	1.26	1.53	0.96	1.56	1.08
BOOK VALUE PER SHARE - (Rs) ⁵	14.51	13.78	15.29	14.50	14.13	13.54	14.90	14.23

EXPLANATORY NOTES :

¹ Debt divided by Closing Shareholders funds² Profits divided by Average Networth³ Profit after tax + Interest on term loan divided by Average Capital employed
(Capital employed = Capital + Reserves + Borrowed funds - Miscellaneous Expenditure)⁴ Profits divided by weighted average no. of equity shares⁵ Average Networth divided by no. of equity shares



What is growth? Is it unidirectional... just one peak to the next? Or is it more holistic? At Sonata, we believe growth as achievements more complete and whole. It means growth across all spheres, so that it's proven and solid. Which is why, we give ourselves a round of applause. We're better than in 2003-04 across five facets. New clients and businesses. Partnerships accorded to us. Geographic growth. Our greatest asset – our people. And the most important, our financials. It means we did really well in 2004-05. What it also promises is that we'll do even better in the years to come. And isn't that what real growth is supposed to be?



New Clients and Businesses

We approached every engagement with the perspective of building a relationship and translating it into a long-term alliance. A partnership. It's with this in mind that we have invested into building a multi-dimensional customer-relationship model. Our offerings and services have been so positioned, that instead of a project-to-project engagement, what we see today is an "Offshore Development Centre" model, ensuring revenues on a committed basis.

Partnerships

We have expanded the scope and depth of our partnerships with technology leaders. Case in point - Microsoft. From offering solutions on their platforms and reselling their products in India, we have grown to be their key global ally this year. Now, we are a Microsoft Gold Certified Partner and one of their Global Systems Integrators, which entitles us to work closely with Microsoft on Go-To-Market initiatives for ISV Platform adoption, Application re-platforming, Microsoft Business Solutions and Business Intelligence. Similar partnerships are in place with other technology leaders such as Micro Focus and Mercury Interactive. We are members of the Micro Focus' Migration & Transformation Consortium (MTC), jointly working on Legacy modernization offerings to Enterprise customers. We have a distribution tie-up with Mercury Interactive in India, gaining expertise on their Business Transformation and Software Testing tools and leveraging it for our global clients.

Geographic Growth

And how have we grown in the last year?

We added to our geographical reach with a new development center at Hyderabad.

What's more, we established a new office in Germany. It takes us closer to our European clients, and also expands our presence there.

People

An increase of 44% in Human Resources.

That's fortifying strength across the domains and technologies that we operate in. Most importantly, this growth has created significant opportunities for our team. This underlying transformation also offers newer and more exciting challenges for our people.

Report



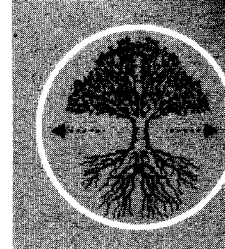
junction.com

Financials

Consider this. Our consolidated revenue now stands at Rs.3,293.07 million. A healthy 48% growth in income, and an impressive 60% growth in profits over the previous year. Made possible by our focus and commitment to new technologies, to development and to strong customer associations. It's accelerated growth. It's wind in the sails for the coming years.

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Sonata Software Limited

DIRECTORS' REPORT

TO THE MEMBERS OF SONATA SOFTWARE LIMITED

Your Directors have pleasure in presenting the Tenth Annual Report of your Company together with the Audited Statement of Accounts for the financial year ended 31st March, 2005.

FINANCIAL HIGHLIGHTS

(Rs. in millions)

Particulars	Year ended 31.03.2005	Year ended 31.03.2004
1. Total Income	1013.25	714.10
2. Total Expenditure	796.17	570.65
3. Profit before Interest, Depreciation & Tax	217.08	143.45
4. Interest	-	-
5. Depreciation	33.62	18.56
6. Profit Before Tax	183.46	124.89
7. Provision for Taxation	19.46	11.02
8. Profit After Taxation	164.00	113.87
9. Appropriations:		
Proposed Dividend	36.81	31.55
Interim Dividend	31.55	21.03
Provision for Dividend Tax	8.93	6.74
Transfer to General Reserve	17.00	12.00

DIVIDEND

Keeping in mind the overall performance of the Company and the positive outlook for your Company's future, your Directors are pleased to recommend payment of a final dividend of Re.0.35/- per equity share (@35% on par value of Re.1/- each), subject to the approval of shareholders, which along with the interim dividend of Re.0.30 per equity share adds upto a total dividend of Re.0.65/- per equity share (Previous year - Re.0.50/- per equity share of Re.1/- each).

If approved, the final dividend will be paid to eligible shareholders as on 26th May, 2005 (in case of electronic shares) and as on 10th June, 2005 (in case of physical shares).

EXPANSION OF DEVELOPMENT CENTERS

During the year under review, your Company decided to setup the 3rd development center in Bangalore. This was in response to customer requirements for dedicated facilities to meet their needs. The center was setup as a new STP unit with a total area of 35,000 sq. ft. and a capacity of almost 300 people.

Multiple customer requirements for more dedicated software development facilities evoked a positive response from the Company and a new STP Unit in Hyderabad was setup with a total area of 78,000 sq. ft. and a capacity of 800 people.

Both these centers are equipped with state-of-the-art technology both for computing and IT security. Each has been designed keeping in mind flexibility and scalability and is capable of operating as a secure, dedicated offshore center for multiple clients.

QUALITY

The Quality Management System of your Company has been enhanced with new processes that are required for efficient operation of current business models. The system has undergone all periodic audits required under ISO 9001:2000 standards. During these audits, the certifying agency has specifically commented on the high level of process maturity exhibited by your Organization.

Your Company continued to receive high level of satisfaction for its services from the customers. In addition to the regular appreciation and feed-backs from its customers, the system of conducting formal customer satisfaction survey at periodic intervals and collecting inputs from them for process improvements are well established in your Organization. This method has resulted in further improvement in Company's operational efficiency.

Your Company continued the good practice of benchmarking its process with the industry. This has resulted in identifying additional best practices and its adaptation in your Organization.

SEBI REGULATION & LISTING FEES

Since SEBI has stipulated electronic filing of Annual Report, Corporate Governance Report, Shareholding Pattern, etc. on website www.sebidifar.nic.in, statements of your Company can also be accessed at this website.

The Annual listing fees for the year under review has been paid to The Stock Exchange, Mumbai, National Stock Exchange of India Ltd. and Bangalore Stock Exchange Ltd., where your Company's shares are listed.

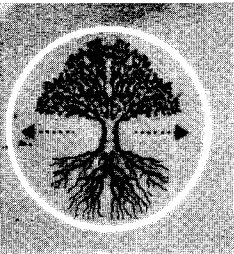
SUBSIDIARY COMPANIES

During the year under review, your Company has setup a wholly-owned German subsidiary, viz., Sonata Software GmbH, in Frankfurt. The German subsidiary has been setup with the objective of consolidating your Company's presence in the European Union, and to cater to the IT needs of the rapidly growing German & West European markets.

The statement pursuant to Section 212(1)(e) of the Companies Act, 1956 in respect of subsidiaries is attached. The Consolidated Accounts of your Company and its subsidiaries are presented as part of this Report in accordance with Accounting Standard 21.

Your Company has been exempted by the Ministry of Company Affairs, vide letter No.47/51/2005-CL-III dated 21st March, 2005 from attaching the audited accounts of overseas subsidiary companies viz., M/s Abisko Development Limited, Cyprus, Offshore Digital Services Inc., USA (ODSI) and Sonata Software GmbH, Germany for the financial year ended 31st March, 2005. Accordingly, the audited accounts of above mentioned overseas subsidiary companies are not attached. However, they are available on the Company's website www.sonata-software.com.

The audited accounts of overseas subsidiaries are also kept for inspection by any investor at Company's registered office and copies will be made available on request to the investors of holding and subsidiary companies at any point of time.



Sonata Software Limited

DIRECTORS' REPORT (Contd.)

CORPORATE GOVERNANCE

As required under Clause 49 of the Listing Agreement, a Report on Corporate Governance is provided elsewhere in this Annual Report alongwith Auditors' Certificate on the compliance thereof.

SECRETARIAL COMPLIANCE REPORT

As a reflection of your Company's commitment to transparency, the Board is pleased to enclose the Secretarial Compliance Report for the financial year 2004-05, as part of this Directors' Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors, to the best of their knowledge and belief, state that the Company maintains proper accounting records which disclose with reasonable accuracy, the financial position of the Company.

Further, your Directors state that these accounting records have formed the basis in the preparation of financial statements of the Company in compliance with the provisions of the Companies Act, 1956, including any amendments thereto.

Your Directors also confirm that the financial statements of the Company are prepared in such manner to give a true and fair view of the state of affairs of the Company as at the end of 31st March, 2005 and of the profit of the Company for the year to that date.

Your Directors state that in preparing the aforesaid financial statements of the Company, appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates, whilst applicable accounting standards have been followed and that these financial statements have been prepared on going-concern basis.

Further, your Directors to the best of their knowledge and belief, state that appropriate internal control systems are in place which are reasonably expected to safeguard the assets of the Company and to prevent and detect fraud and irregularities.

ENERGY, TECHNOLOGY, FOREIGN EXCHANGE

Particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is annexed to this Report.

PUBLIC DEPOSITS

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

PERSONNEL

Information required to be furnished under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended is annexed to this Report.

COMMUNITY DEVELOPMENT

During the year under review, calendars and greeting cards for employees were printed in association with Dream-a-dream, an organization working for underprivileged children. Relief

material was collected from employees and a fund-raising drive was organized to raise funds for the people affected by the Tsunami disaster.

RECOGNITION

Your Company has been awarded the status of a "One Star Export House" valid upto March, 2009 by the Joint Director General of Foreign Trade, Bangalore in recognition of Company's export performance in software services. Thus, your Company will be entitled to all the benefits specified in the EXIM Policy for such status.

DIRECTORS

At the Board Meeting held on 26th July, 2004, Mr. P.Srikar Reddy, was re-appointed to the Board as Executive Vice President & COO for a further period of five (5) years with effect from 19th October, 2004, subject to approval of shareholders at the ensuing Annual General Meeting.

The Board of Directors by circular resolution passed on 30th March, 2005, have reappointed Mr. B.Ramaswamy, as President & Managing Director for a further period of five years with effect from 1st April, 2005, subject to approval of shareholders at the ensuing Annual General Meeting.

Mr.S.N.Talwar and Mr.P.Srikar Reddy, Directors, retire by rotation and being eligible, offer themselves for re-appointment at the ensuing AGM. Brief profile of these Directors are given in the notes of the Notice to the ensuing AGM.

AUDITORS

M/s N.M.Rajji & Co., Chartered Accountants, Mumbai, have expressed their willingness to continue as Statutory Auditors for FY 2005-06 and accordingly, a resolution proposing their appointment is being submitted to the Annual General Meeting.

ACKNOWLEDGEMENTS

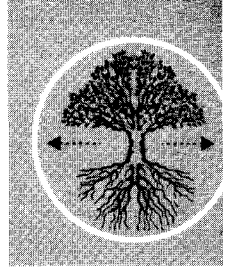
Your Directors hereby place on record their appreciation for the co-operation and continued support extended by its clients, vendors, investors, bankers, financial institutions, business associates and advisors. Your Directors also take this opportunity to thank the regulatory and government authorities for their support during the year and look forward to their continued support.

Your Directors also place on record their sincere appreciation for the valuable contribution, efforts and the spirit of dedication shown by all Sonatians.

For and on behalf of the Board

Place: Bangalore
Date: 21st April, 2005

S.B.GHIA
CHAIRMAN



Sonata Software Limited

ANNEXURE TO THE DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988.

1. CONSERVATION OF ENERGY

The operations of your Company do not consume high levels of energy. Adequate measures have been taken to conserve energy by using energy-efficient equipment. Your Company is on the constant look out for newer and efficient energy conservation technologies and introduce them appropriately.

2. RESEARCH AND DEVELOPMENT (R&D)

During the year under review, your Company's CRG (Core Research Group) focused on building our own IP in vertical with the objective of increasing the sales volumes and improving delivery capability.

a) Specific areas for R&D at Sonata :

• New Technology Competency

This research initiative was to build skills on latest technology launches including Yukon, Whidbey and Oracle grid computing.

• Vertical solutions for Axapta and MS CRM

Your Company has developed vertical solutions for Axapta to capture the domain expertise of manufacturing and specifically CPG vertical and also has developed vertical frameworks for MBS (Microsoft Business Solutions) product group from Microsoft.

• Application integration framework for packaged solutions

With Microsoft's aggressive positioning of its MBS products and the diversity of technologies amongst their products, your Company has developed an application framework and solution to enable integration of applications to MBS product suite.

b) Benefits derived as a result of the above R&D

The competence built in the areas of MBS, Application Integration and Service Oriented Architecture helped your Company to strengthen the relationship with Microsoft and also win new clients in overseas markets in the ISV market segment.

c) Future plan of action

Focus of CRG in the current year is to continue with new technologies from Microsoft, IBM and Oracle and in the area of Application Integration and Service Oriented Architecture. There is also a plan to build vertical frameworks on Business Intelligence to enhance our competitiveness.

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year under review, 100% of the revenue came from exports and the Company exported developed software to USA, UK, Belgium, France, Germany, Ireland, Japan and Netherlands.

(Rs. in millions)

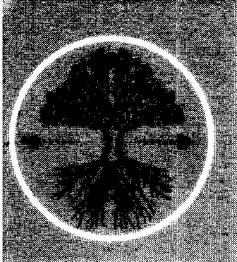
Total Foreign Exchange Earnings and Outgo	
Foreign Exchange earnings	970.10
Foreign Exchange outgo	388.05

4. A detailed Management Discussion and Analysis Report is attached.

For and on behalf of the Board

Place: Bangalore
Date: 21st April, 2005

S.B.GHIA
CHAIRMAN



Sonata Software Limited

ANNEXURE TO THE DIRECTORS' REPORT (Contd.)

Information as per section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended upto date and forming part of the Directors' Report for the year ended 31st March, 2005.

Name	Age (Years)	Qualification	Designation & Nature of Duties	Remuneration (Rs.)	Experience (Years)	Date of Joining	Previous Employment
B.Ramaswamy	51	M.Sc(Agri) PGDBM(IIM)	Managing Director & President	5,995,436	28	01-Oct-86	General Sales Manager, Voltas Ltd.
P.Srikar Reddy	47	B.E.(Electrical) PGDBM (IIM)	Executive Vice President & Chief Operating Officer	4,186,258	23	02-Apr-86	Manager Systems & Projects, Betamatics Pvt.Ltd.
Thomas K.Joseph	55	B.Com, FCA, CPA (USA)	Senior Vice President & CFO	2,840,218	30	09-Dec-96	Founder President & CEO, ICIM International Inc, USA
Sampath Iyengar*	42	B.Com, MBA	Senior Vice President-Strategy & Alliances	396,320	21	12-Jun-02	Co-Founder of Foundation Technology Services Group

Note: Remuneration includes Basic Salary, Allowances, Incentives, Commission, Company's contribution to PF, Superannuation Fund and taxable value of perquisites.

*Employed for part of the year.