



firstsource

Firstsource Solutions Limited

FINANCIAL STATEMENTS TOGETHER WITH THE AUDITORS' REPORT FOR THE YEAR ENDED

MARCH 31, 2009

AUDITORS' REPORT

To the Members of Firstsource Solutions Limited

We have audited the attached Balance Sheet of Firstsource Solutions Limited ('the Company') as at 31 March 2009 and the related Profit and Loss Account and 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.

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.

1. Without qualifying our opinion, we draw attention to Schedule 30 to the financial statements. During the year, the Company has changed the accounting policy relating to premium payable on redemption of Foreign Currency Convertible Bonds ('FCCB' or 'the bonds'). Accordingly, the premium payable on redemption of FCCB is now amortised on a pro-rata basis over the period of the bonds by debiting Securities premium account as against the earlier policy of charging the entire premium payable on redemption to the Securities premium account upfront in the year of issue of the bonds. Had the Company continued to follow the earlier policy, the balance in Securities premium account as at 31 March 2009 would have been lower by Rs. ('000) 3,305,913 and Current liabilities (Premium payable on redemption of FCCB) would have been higher by Rs. ('000) 3,305,913.
2. Without qualifying our opinion, we draw attention to Schedule 30 to the financial statements that describes the adoption by the Company of Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurements, read with AS-31, Financial Instruments – Presentation, as applicable, along with prescribed limited revisions to other accounting standards, issued by the Institute of Chartered Accountants of India, as in management's opinion, it more appropriately reflects the nature/ substance of the related transactions. The Company has accounted for assets and liabilities as per requirements of AS-30 including prescribed limited revisions to other accounting standards. On 1 July 2008, the Company designated the FCCB as hedging instrument to hedge its net investments made through a subsidiary in a non-integral foreign operation. Also, the Company has accounted for embedded derivative option included in FCCB and revalued the same as at year-end. Further, the difference between present value of non-interest bearing deposits and original amount of deposit has been disclosed as 'Unamortized cost' under Loans and Advances, which is charged to the Profit and Loss Account over the period of the related lease. Correspondingly, interest income accrued on the interest free deposits, using the implicit rate of return, over the period of lease is recognized under 'Interest income'.

In accordance with the transitional provisions of AS-30, income of Rs. ('000) 691,875 on account of reduction in option valuation of FCCB and charge of Rs. ('000) 4,949 on account of fair valuation of deposits have been accounted through General Reserve.

AS 30 is not yet notified/prescribed under the Companies (Accounting Standards) Rules, 2006, and therefore, can be applied only to the extent that it does not conflict with other accounting standards notified/ prescribed under the said rules.

Had the Company not accounted for the transactions referred to above as per AS-30 and the related limited revisions, profit after taxation for the year ended 31 March 2009 would have been lower by Rs. ('000) 1,533,730, Reserves and Surplus would have been lower by Rs. ('000) 2,495,701, Investments would be lower by Rs. 1,778,551, Unsecured loans would have been lower by Rs ('000) 469,683, Current liabilities would have been higher by Rs. ('000) 1,192,982 and Current assets would have been higher by Rs. ('000) 6,149.

3. *As more fully explained in Schedule 21 to the financial statements, an application has been made to the Central Government seeking approval for remuneration to the Managing Director and the Joint Managing Director in excess of the limits prescribed under the Act, for which approval is awaited.*
4. As required by the Companies (Auditor's Report) Order, 2003 ('the Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
5. 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 purposes 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 cash flow 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 cash flow statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act *except for the matters stated in paragraph 2 above*;
 - e) On the basis of written representations received from directors of the Company as at 31 March 2009 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2009 from being appointed as a director in terms of Clause (g) of sub-section (1) of Section 274 of the Act; and

- f) In our opinion, and to the best of our information and according to the explanations given to us, read with paragraphs 1 and 2 above and *subject to paragraph 3 above and consequent adjustments, if any*, the said accounts give the information required by the Act in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:

- i) in the case of the balance sheet, of the state of affairs of the Company as at 31 March 2009;
- ii) in the case of the profit and loss account, of the profit of the Company for the year ended on that date; and
- iii) in the case of the cash flow statement, of the cash flows of the Company for the year ended on that date.

For BSR & Co.
Chartered Accountants

Akeel Master
Partner

Mumbai
28 April 2009

Membership No.: 046768

ANNEXURE TO THE AUDITORS' REPORT – 31 MARCH 2009

(Referred to in our report of even date)

1. (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner annually. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) Fixed assets disposed off during the year were not substantial and, therefore, do not affect the going concern assumption.
2. The Company is a service Company, primarily rendering contact centre, transaction processing and debt collection services. It does not hold any physical inventories. Accordingly, paragraph 4(ii) of the Order is not applicable.
3. (a) The following are the particulars of loans granted by the Company to parties covered in the register maintained under Section 301 of the Act:

Name of Party	Relationship with Company	Amount Rs. ('000)	Year end balance Rs. ('000)	Maximum balance outstanding Rs. ('000)
FirstRing Inc., USA	Subsidiary	885,250.45	885,250.45	885,250.45

- (b) In our opinion, the rate of interest and other terms and conditions on which the loan has been granted to the party listed in the register maintained under Section 301 of the Act are not, *prima facie*, prejudicial to the interest of the Company.
- (c) In accordance with the terms of the loan, interest and principal are repayable on demand. According to the information and explanations given to us, payment of interest and repayment of principal have not been demanded during the year.
- (d) According to the information and explanations given to us, there is no overdue amount of loans granted to parties listed in the register maintained under Section 301 of the Act.
- (e) According to the information and explanations given to us, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, paragraphs 4(iii)(f) and 4(iii)(g) of the Order are not applicable.
4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and with regard to the sale of services. The activities of the Company do not involve purchase of inventory and sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.
5. (a) 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 the register maintained under Section 301 of the Act have been so entered.
- (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs. 5 lakh in respect of any party during the year are for the Company's specialized requirements for which suitable alternate sources are not available to obtain comparable quotations. However, on the basis of information and explanations provided, the prices appear reasonable.
6. The Company has not accepted any deposits from the public.
7. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
8. The Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Act for any of the services rendered by the Company.

9. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues have been generally regularly deposited during the year with the appropriate authorities. As explained to us, the Company did not have any dues on account of Sales tax, Excise duty and Investor Education and Protection Fund.

There were no dues on account of cess under Section 441A of the Act, since the date from which the aforesaid section comes into force has not yet been notified by the Central Government.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues were in arrears as at 31 March 2009 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, the following dues of Income tax have not been deposited by the Company on account of disputes:

Name of the Statute	Nature of the Dues	Amount Rs ('000)	Period to which the amount relates	Forum where dispute is pending
Income-tax Act, 1961	Transfer pricing demand	40,929.13	2002-03	Commissioner of Income Tax - Appeals
Income-tax Act, 1961	Assessment under Section 143	39,728.49	2003-04	Commissioner of Income Tax - Appeals
Income-tax Act, 1961	Assessment under Section 143 (3)	15,621.20	2004-05	Deputy Commissioner of Income Tax
Service Tax Rules, 1994	Demand notice	23,574.28	2007-08	Commissioner of Service Tax

10. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers, bondholders or to any financial institutions.
12. 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 Company is not a chit fund/ nidhi/ mutual benefit fund/ society.
14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
15. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are, *prima facie*, not prejudicial to the interest of the Company.
16. In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purpose for which they were raised.
17. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
18. In our opinion and according to the information and explanation given to us, the Company has not made preferential allotment of shares to parties covered in the register maintained under Section 301 of the Act.
19. According to the information and explanations given to us, the Company has not issued any secured debentures during the year.
20. The Company has not raised any money by public issues during the year.
21. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For **BSR & Co.**
Chartered Accountants

Akeel Master
Partner

Mumbai
28 April 2009

Membership No: 046768

BALANCE SHEET AS AT 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	Schedule	2009	2008
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	3	4,281,897	4,273,130
Reserves and surplus	4	6,290,008	2,019,662
		<u>10,571,905</u>	<u>6,292,792</u>
Loan funds			
Secured loans	5	1,342,434	103,991
Unsecured loans	6	12,084,993	11,137,356
		<u>23,999,332</u>	<u>17,534,139</u>
APPLICATION OF FUNDS			
Fixed assets			
Gross block	7	3,754,470	2,956,966
Less: Accumulated depreciation and amortisation		<u>2,386,288</u>	<u>1,869,766</u>
Net block		1,368,182	1,087,200
Add: Capital work in progress (including capital advances)		69,271	60,873
		<u>1,437,453</u>	<u>1,148,073</u>
Investments	8	18,647,006	17,011,767
Deferred tax assets	9	246,171	193,056
Current assets, loans and advances			
Sundry debtors	10	1,436,739	1,086,740
Unbilled receivables		319,972	195,073
Cash and bank balances	11	153,124	311,763
Loans and advances	12	1,981,591	1,504,266
		<u>3,891,426</u>	<u>3,097,842</u>
Less: Current liabilities and provisions			
Current liabilities	13	1,161,833	571,780
Provisions	14	197,612	4,481,540
		<u>1,359,445</u>	<u>5,053,320</u>
Net current assets		2,531,981	(1,955,478)
Amalgamation deficit adjustment account		1,136,721	1,136,721
		<u>23,999,332</u>	<u>17,534,139</u>
Significant accounting policies	2		
Notes to accounts	19 – 36		

The schedules referred to above form an integral part of this balance sheet.

As per our report attached.

For BSR & Co.

Chartered Accountants

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly
ChairmanAnanda Mukerji
Managing Director & CEOK. P. Balaraj
DirectorAkeel Master
Partner
Membership No: 046768Shikha Sharma
DirectorMohit Bhandari
DirectorLalita D. Gupte
DirectorY. H. Malegam
DirectorShailesh Mehta
DirectorCharles Miller Smith
DirectorMumbai
28 April 2009Donald Layden Jr.
DirectorCarl Saldanha
Global CFOSanjay Gupta
Company Secretary

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	Schedule	2009	2008
INCOME			
Income from services		5,660,439	4,896,378
Other operating income		(125,455)	42,708
Other income	15	458,903	107,794
		<u>5,993,887</u>	<u>5,046,880</u>
EXPENDITURE			
Personnel costs	16	2,758,919	2,363,322
Operating costs	17	1,911,909	1,558,798
Depreciation and amortization	7	522,446	532,820
		<u>5,193,274</u>	<u>4,454,940</u>
Profit before finance charges and taxation		800,613	591,940
Finance charges, net	18	668,719	123,155
Profit before taxation		<u>131,894</u>	<u>468,785</u>
Provision for taxation			
– Current tax expense, including foreign taxes		26,235	63,969
– Fringe benefits tax		23,710	21,441
– Deferred tax release		(53,115)	(193,056)
– Minimum alternate tax credit entitlement		(16,001)	–
		<u>151,065</u>	<u>576,431</u>
Profit after taxation		<u>1,460,671</u>	<u>884,240</u>
Accumulated balance brought forward from previous year		<u>1,460,671</u>	<u>884,240</u>
Accumulated balance carried forward to the balance sheet		<u>1,611,736</u>	<u>1,460,671</u>
Earnings per share	25		
Weighted average number of equity shares outstanding during the year			
- Basic		427,914	425,858
- Diluted		427,914	464,222
Earnings per share (Rs.)			
- Basic		0.35	1.35
- Diluted		0.35	1.24
Nominal value per share (Rs.)		10	10
Significant accounting policies	2		
Notes to accounts	19 – 36		

The schedules referred to above form an integral part of this profit and loss account.

As per our report attached.

For **BSR & Co.**

Chartered Accountants

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly
Chairman

Ananda Mukerji
Managing Director & CEO

K. P. Balaraj
Director

Akeel Master
Partner
Membership No: 046768

Shikha Sharma
Director

Mohit Bhandari
Director

Lalita D. Gupte
Director

Y. H. Malegam
Director

Shailesh Mehta
Director

Charles Miller Smith
Director

Mumbai
28 April 2009

Donald Layden Jr.
Director

Carl Saldanha
Global CFO

Sanjay Gupta
Company Secretary

CASH FLOW STATEMENT AS AT 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	2009	2008
Cash flow from operating activities		
Net profit after tax	151,065	576,431
Adjustments for		
Depreciation and amortization	522,446	532,820
Provision for current tax, FBT and MAT credit entitlement	33,944	85,410
Provision for doubtful debts	13,645	1,991
(Profit) on sale of fixed assets net	(1,134)	(805)
Foreign exchange loss net	168,558	(42,708)
Interest costs	134,465	21,823
Exchange (gain)/loss on foreign currency loans	611,778	218,859
Interest and dividend income	(78,711)	(149,826)
Deferred taxes	(53,115)	(193,056)
Profit on sale on investments	(12,494)	(43,282)
Rent expenses on account of adoption of AS 30	16,085	–
Gain on FCCB buyback	(634,980)	–
Operating cash flow before changes in working capital	871,552	1,007,657
Changes in working capital		
Decrease/(Increase) in Debtors	(281,140)	47,249
Decrease/(Increase) in Loans and advances and unbilled revenue	(253,013)	(99,553)
(Decrease)/Increase in Current liabilities and provisions	261,424	(28,068)
Net changes in working capital	(272,729)	(80,372)
Income taxes paid	(137,760)	(100,730)
Net cash generated from in operating activities (A)	461,063	826,555
Cash flow from investing activities (A)		
Purchase of investment in mutual funds/government securities	(4,579,374)	(11,263,940)
Sale of investment in mutual funds	4,791,111	12,259,028
Interest and dividend income received	13,312	155,438
Capital expenditure	(752,015)	(588,453)
Sale of fixed assets	43,216	6,383
Investment in subsidiary	(55,930)	(13,564,821)
Business acquisition, net of cash acquired	(66,586)	(66,638)
Net cash generated/(used) in investing activities (B)	(606,266)	(13,063,003)
Cash flow from financing activities		
Proceeds from unsecured loan – FCCB	–	10,840,500
Proceeds from unsecured loan – Others	83,738	43,274
Repayment of secured loan	(105,800)	(509,615)
Proceeds from issuance of equity shares and share application money	23,389	(214,769)
Interest paid	(6,548)	(21,823)
Proceeds from secured loan	1,248,967	–
Repayment of unsecured loan – FCCB, including expenses	(1,257,182)	–
Net cash generated from financing activities (C)	(13,436)	10,137,567
Net (decrease)/increase in cash and cash equivalents (A + B + C)	(158,639)	(2,098,881)
Cash and cash equivalents at the beginning of the year	311,763	2,410,644
Cash and cash equivalents at the end of the year	153,124	311,763

Notes to the cash flow statement

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts.

CASH FLOW STATEMENT AS AT 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	2009	2008
Cash on hand	167	129
Remittances in transit	108,735	–
Balances with scheduled banks		
– in current accounts	2,647	9,425
– in deposit accounts *	1,524	201,416
Balances with non-scheduled banks		
– in current accounts	707	793
– in deposit accounts **	39,344	100,000
	153,124	311,763

* Includes Rs. 1,524 (31 March 2008 Rs. 1,416) under lien for bank guarantees to the Customs authorities.

** Includes Rs. 39,344 (31st March 2008: Rs. Nil) placed in Escrow account towards buy back of FCCB during the year.

As per our report attached.

For **BSR & Co.**

Chartered Accountants

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly
Chairman

Ananda Mukerji
Managing Director & CEO

K. P. Balaraj
Director

Akeel Master
Partner
Membership No: 046768

Shikha Sharma
Director

Mohit Bhandari
Director

Lalita D. Gupte
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Y. H. Malegam
Director

Shailesh Mehta
Director

Charles Miller Smith
Director

Mumbai
28 April 2009

Donald Layden Jr.
Director

Carl Saldanha
Global CFO

Sanjay Gupta
Company Secretary

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

1 Background

Firstsource Solutions Limited, ('Firstsource' or 'the Company') was incorporated on 6 December 2001 and was promoted by ICICI Bank Limited. The Company is engaged in the business of providing contact center, transaction processing and debt collection services including revenue cycle management in the healthcare industry.

The list of subsidiaries as at 31 March 2009 with percentage holding is summarised below:

Subsidiaries	Country of incorporation and other particulars	Percentage of holding by the immediate parent (%)	Year of consolidation
Firstsource Solutions USA Inc (FSL-USA)	A subsidiary of Firstsource Solutions Limited organized under the laws of State of Delaware, USA	100%	2002-2003
Firstsource Solutions Limited, UK (FSL-UK)	A subsidiary of Firstsource Solutions Limited, organized under the laws of United Kingdom.	100%	2002-2003
FirstRing Inc., USA ("FR-US")	A subsidiary of Firstsource Solutions Limited, organized under the laws of State of Delaware, USA	99.80%	2003-2004
Firstsource Advantage LLC, ('FAL')	A subsidiary of FirstRing Inc., USA, incorporated under the laws of the State of New York, USA	100%	2004-2005
Pipal Research Corporation, ("Pipal")	A subsidiary of Firstsource Solutions Limited, incorporated under the laws of the State of Illinois, USA	51%	2004-2005
Pipal Research Analytics and Information Services India Private Limited ("PRAISE")	A subsidiary of Pipal Research Corporation, incorporated under the laws of India	100%	2004-2005
Rev IT Systems Private Limited ("Rev IT")	A subsidiary of Firstsource Solutions Limited, incorporated under the laws of India	100%	2004-2005
Firstsource Solutions S.A. ("FSL-Arg")	A subsidiary of Firstsource Solutions Limited, UK, incorporated under the laws of S.A.	99.98%	2006-2007
MedAssist Holding, Inc. (MedAssist)	A Subsidiary of Firstsource Solutions Limited US, organized under the laws of State of Delaware, USA	100%	2007-2008
MedAssist Intermediate Holding, Inc. (MIH)	A Subsidiary of MedAssist Holding, Inc., organized under the laws of State of Delaware, USA	100%	2007-2008
MedAssist, Incorporated (MI)	A Subsidiary of MedAssist Intermediate Holding, Inc., organized under the laws of State of Kentucky, USA	100%	2007-2008
Twin Medical Transaction Services, Inc (Twin)	A Subsidiary of MedAssist, Incorporated, organized under the laws of Nevada Corporation, USA	100%	2007-2008
Firstsource Healthcare Advantage, Inc (FSA)	A Subsidiary of MedAssist, Incorporated, organized under the laws of State of Delaware, USA	100%	2007-2008
Business Process Management, Inc ("BPM")*	A subsidiary of Firstsource Solutions USA Inc. organized under the laws of State of Delaware, USA, merged with FSL -USA effective 1 February 2009.	100%	2006-2007
MedPlans 2000 Inc ("MPL")*	A subsidiary of Business Process Management, Inc. organized under the laws of State of Kansas, USA merged with FSL - USA effective 1 February 2009.	100%	2006-2007
MedPlans Partners ("MPP")*	A subsidiary of Business Process Management, Inc. organized under the laws of State of Delaware, USA merged with FSL - USA effective 1 February 2009.	100%	2006-2007
Sherpa Business Solutions Inc ("Sherpa")*	A subsidiary of Rev IT Systems Private Limited, incorporated under the laws of the State of Michigan, USA merged with FSL - USA effective 1 February 2009.	100%	2004-2005

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

In January 2009, RevIT transferred its entire shareholding of 1,000 shares in its wholly-owned subsidiary Sherpa, USA to the Company for a consideration of Rs. 55,930. The Company subsequently merged Sherpa with its wholly-owned subsidiary, Firstsource Solutions USA, Inc. effective 1 February 2009. Consequent to the merger, the Company was allotted 21,641,000 shares at USD 0.001 each in Firstsource Solutions USA, Inc. in exchange for the shares held by it in Sherpa.

The Company also merged Business Process Management, Inc. ("BPM") along with its step down subsidiaries with "Firstsource Solutions USA, Inc." effective 1 February 2009.

2. Significant accounting policies

2.1. Basis of preparation

The financial statements have been prepared and presented under the historical cost convention, (except for certain financial instruments, which are measured on fair value basis) on accrual basis of accounting, in accordance with accounting principles generally accepted in India and comply with the Accounting Standards prescribed in the Companies (Accounting Standard) Rules, 2006 issued by the Central government in consultation with the National Advisory Committee on Accounting Standards and with the relevant provisions of the Companies Act, 1956, to the extent applicable and Accounting Standard 30, 'Financial Instruments: Recognition and Measurement' ('AS 30') read with Accounting Standard 31 - 'Financial Instruments: Presentation' issued by the Institute of Chartered Accountants of India. The financial statements are presented in Indian rupees rounded off to the nearest thousand.

2.2. Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles ('GAAP') in India requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements. Management believes that the estimates made in the preparation of financial statements are prudent and reasonable. Actual results could differ from those estimates. Any revision to accounting estimates are recognized prospectively in current and future periods.

2.3. Revenue recognition

Revenue from contact centre and transaction processing services comprises from both time/unit price and fixed fee based service contracts. Revenue from time/unit price based contracts is recognized on completion of the related services and is billed in accordance with the contractual terms specified in the customer contracts. Revenue from fixed fee based service contracts is recognized on achievement of performance milestones specified in the customer contracts. Build Operate and Transfer (BOT) contracts are treated as service contracts and accordingly, revenue is recognized as and when the services are rendered and is billed in accordance with the respective contractual terms specified in the contracts.

Unbilled receivables represent costs incurred and revenues recognized on contracts to be billed in subsequent periods as per the terms of the contract.

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

Interest income is recognized using the time proportion method, based on the underlying interest rates.

2.4. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment, if any. Cost includes freight, duties, taxes and incidental expenses related to acquisition and installation of the fixed assets. Depreciation on fixed assets is provided pro-rata to the period of use based on management's best estimate of useful lives of the assets (which are shorter than those prescribed under the Companies Act, 1956) as summarized below:

Asset category	Useful life (in years)
<i>Intangible</i>	
Software	3 – 4
Domain name	3
<i>Tangible</i>	
Leasehold improvements	Lease term or 5 years, whichever is shorter
Computers	3 – 4
Networking equipment	3 – 5
Furniture and fixtures and office equipment	3 – 5
Vehicles	2 – 5

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

Software purchased together with the related hardware is capitalised and depreciated at the rates applicable to related assets. Intangible assets other than above mentioned software are amortised over the best estimate of the useful life from the date the assets are available for use. Further, the useful life is reviewed at the end of each reporting period for any changes in the estimates of useful life and accordingly the asset is amortised over the remaining useful life.

Individual assets costing upto Rs. 5 are depreciated in full in the period of purchase.

In accordance with AS 28 'Impairment of Assets' prescribed in the Companies (Accounting Standard) Rules, 2006 issued by the Central Government in consultation with National Advisory Committee on Accounting Standards, the carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any impairment. The recoverable amount of the assets (or where applicable, that of the cash generating unit to which the asset belongs) is estimated as the higher of its net selling price and its value in use. An impairment loss is recognized whenever the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Impairment loss is recognized in the profit and loss account or against revaluation surplus where applicable.

2.5. Employee benefits

Gratuity and leave encashment

The Company's gratuity scheme with insurer is a defined benefit plan. The Company's net obligation in respect of the gratuity benefit scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The present value of the obligation under such defined benefit plan is determined based on actuarial valuation by an independent actuary using the Projected Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of the estimated future cash flows. The discount rates used for determining the present value of the obligation under defined benefit plan are based on the market yields on Government securities as at the Balance Sheet date. When the calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Actuarial gains and losses are recognized immediately in the Profit and Loss account.

Provision for leave encashment cost has been made based on actuarial valuation by an independent actuary at balance sheet date.

The employees of the Company are entitled to compensated absence. The employees can carry-forward a portion of the unutilized accrued compensated absence and utilize it in future periods or receive cash compensation at termination of employment for the unutilized accrued compensated absence. The Company records an obligation for compensated absences in the period in which the employee renders the services that increase this entitlement. The Company measures the expected cost of compensated absence as the additional amount that the Company expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

Provident fund

All employees of the Company receive benefits from a provident fund, which is a defined contribution retirement plan in which the Company and its employees, contribute at a determined rate. Monthly contributions payable to the provident fund are charged to the profit and loss account as incurred.

2.6. Investments

Long-term investments are carried at cost and provision is made when in the management's opinion there is a decline, other than temporary in nature, in the carrying value of such investments. Current investments are valued at the lower of cost and market value.

2.7. Taxation

Income tax expense comprises current tax expense, fringe benefits tax and deferred tax expense or credit.

Current taxes

Provision for current income-tax is recognised in accordance with the provisions of Indian Income-tax Act, 1961 and is made annually based on the tax liability after taking credit for tax allowances and exemptions. In case of matter under appeal, full provision is made in the financial statements when the Company accepts liability.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

Deferred taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to timing differences that result from differences between the profits offered for income taxes and the profits as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and the tax laws that have been enacted or substantively enacted at the balance sheet date. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realized in the future, however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognized only if there is virtual certainty of recognition of such assets. Deferred tax assets are reassessed for the appropriateness of their respective carrying values at each balance sheet date.

The profits of the Company are exempt from taxes under the Income tax Act, 1961, being profit from industrial undertakings situated in Software Technology Park. Under Section 10A of the Income Tax Act, 1961, the Company can avail of an exemption of profits from income tax for a period up to fiscal year 2010 in relation to its undertakings set up in the Software Technology Park at Bangalore, Kolkata and Mumbai. The Company also has operations in Special Economic Zones (SEZ's). Income from SEZ are eligible for 100% deduction for the first five years, 50% deduction for next 5 years and 50% deduction for another 5 years, subject to fulfilling certain conditions. In this regard, the Company recognised deferred taxes in respect of those originating timing differences which reverse after the tax holiday period resulting in tax consequences. Timing differences which originate and reverse within the tax holiday period do not result in tax consequence and, therefore, no deferred taxes are recognised in respect of the same.

Fringe Benefits Tax

Provision for Fringe Benefits Tax (FBT) is made on the basis of applicable FBT on the taxable value of eligible expenses of the Company as prescribed under the Income Tax Act, 1961.

2.8. Leases

Finance Lease

Assets acquired on finance leases, including assets acquired under sale and lease back transactions, have been recognized as an asset and a liability at the inception of the lease and have been recorded at an amount equal to the lower of the fair value of the leased asset or the present value of the future minimum lease payments. Such leased assets are depreciated over the lease term or its estimated useful life, whichever is shorter. Further, the payment of minimum lease payments have been apportioned between finance charge/(expense) and principal repayment.

Assets given out on finance lease are shown as amounts recoverable from the lessee. The rentals received on such leases are apportioned between the financial charge/(income) and principal amount using the implicit rate of return. The finance charge/income is recognized as income, and principal received is reduced from the amount receivable. All initial direct costs incurred are included in the cost of the asset.

Operating lease

Lease rentals in respect of assets acquired under operating lease are charged off to the profit and loss account as incurred. (refer Schedule 19)

2.9. Foreign currency transactions, derivative instruments and hedge accounting

a. Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Net exchange gain or loss resulting in respect of foreign exchange transactions settled during the period is recognized in the profit and loss account. Foreign currency denominated current assets and current liabilities at period end are translated at the period end exchange rates and the resulting net gain or loss is recognized in the profit and loss account.

b. Derivative instruments and hedge accounting

The Company is exposed to foreign currency fluctuations on net investments in foreign operations and forecasted cash flows denominated in foreign currencies. The Company limits the effects of foreign exchange rate fluctuations by following established risk management policies including the use of derivatives. The Company enters into derivative financial instruments, where the counterparty is a bank.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

The use of foreign currency forward contracts is governed by the Company's policies approved by the board of Directors, which provides written principles on the use of such financial derivatives consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes.

The Company uses foreign currency forward contracts and currency options to hedge its risks associated with foreign currency fluctuations relating to certain forecasted transactions. The Company designates these as cash flow hedges.

Foreign currency derivative instruments are initially measured at fair value, and are re-measured at subsequent reporting dates. Changes in the fair value of these derivatives that are designated and effective as hedges of future cash flows are recognised in shareholder's funds and the ineffective portion is recognized in the profit and loss account.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time for forecasted transactions, any cumulative gain or loss on the hedging instrument recognized in shareholder's funds is retained there until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in shareholders' funds is transferred to the profit and loss account for the period.

The impact of adoption of AS 30 has been described in Schedule 30 to the financial statements.

c. Non-derivative financial instruments and hedge accounting

Financial assets of the Company include cash and bank balances, sundry debtors, unbilled revenues, finance lease receivables, employee travel and other advances, other loans and advances and derivative financial instruments with a positive fair value. Financial liabilities of the Company comprise secured and unsecured loans, sundry creditors, accrued expenses and derivative financial instruments with a negative fair value. Financial assets / liabilities are recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when all of risks and rewards of the ownership have been transferred. The transfer of risks and rewards is evaluated by comparing the exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred assets.

Short-term receivables with no stated interest rates are measured at original invoice amount, if the effect of discounting is immaterial. Non-interest-bearing deposits are discounted to their present value.

The Company also designates financial instruments as hedges of net investments in non-integral foreign operations. The portion of changes in fair value of financial instrument that is determined to be an effective hedge is recognised under 'Finance charge, net' together with the translation of the related investment. Changes in fair value relating to the ineffective portion of hedges are recognised in the profit and loss account as they arise.

The Company measures the financial liabilities, except for derivative financial liabilities, at amortised cost using the effective interest method. The Company measures the short-term payables with no stated rate of interest at original invoice amount, if the effect of discounting is immaterial.

2.10. Earnings per share

The basic earnings per equity share are computed by dividing the net profit or loss attributable to the equity shareholders for the period by the weighted average number of equity shares outstanding during the reporting period. The number of shares used in computing diluted earnings per share comprises the weighted average number of shares considered for deriving basic earnings per share, and also the weighted average number of equity shares which may be issued on the conversion of all dilutive potential shares, unless the results would be anti-dilutive.

2.11. Provisions and contingencies

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an economic benefit will arise, the asset and related income are recognised in the period in which the change occurs.

2.12. Onerous contracts

Provisions for onerous contracts are recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the future obligations under the contract. The provision is measured at lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

2.13. Foreign currency convertible bonds (FCCB)

- Foreign Currency Convertible Bonds are considered monetary in nature. These are designated as hedging instrument to hedge the net investment in non-integral foreign operation (Refer Schedules 29 and 30).
- Premium payable on redemption of FCCB is amortised on pro-rata basis at implicit rate of return over the period of the bonds and charged to the Securities Premium account periodically. Net gain or loss resulting from restatement of this liability at period end rates is accounted in Securities Premium Account. (Refer Schedule 30).

(Currency: In thousands of Indian rupees)

	2009	2008
3. Share capital		
Authorised		
600,000,000 (31 March 2008: 600,000,000) equity shares of Rs. 10 each	6,000,000	6,000,000
250,000,000 participatory optionally convertible preference shares ('POCPS') (31 March 2008: 250,000,000) of Rs. 10 each	2,500,000	2,500,000
	8,500,000	8,500,000
Issued, subscribed and paid-up		
428,189,682 (31 March 2008: 427,312,964) equity shares of Rs. 10 each, fully paid up	4,281,897	4,273,130
	4,281,897	4,273,130

During the year 876,718 (31 March 2008: 2,228,668) options were allotted (Refer Schedule 20).

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	2009	2008
4. Reserves and surplus		
Securities premium		
Securities premium at the beginning of the year *	607,693	5,154,807
Add : Premium on shares issued during the year	14,621	14,014
Premium applicable to periods till 31 March 2008 reversed on cancellation of FCCB on buyback (Refer Schedule 29.2)	44,810	–
Premium payable on redemption of FCCB reversed (Refer Schedule 30)	4,095,749	–
Less : Foreign exchange loss on premium payable on FCCB (Refer Schedules 2.13b and 30)	–	75,785
Premium utilised on expenses incurred for issue of FCCB	–	217,436
Premium payable on redemption of FCCB (Refer Schedules 2.13b and 30)	696,086	4,267,907
Securities premium at the end of the year	4,066,787	607,693
* Includes Rs. 39,270 (31 March 2008: Rs. 39,270) from acquisition of Customer Assets India Limited merged with the Company effective 1 April 2004.		
Profit and loss account	1,611,736	1,460,671
General reserve		
Transition adjustment on adoption of AS 30 (refer Schedule 30)	668,211	–
Hedging reserve account (Refer Schedule 33)		
Balance at the beginning of the year	(48,702)	–
Movement during the year	(8,024)	(48,702)
Hedging reserve account at the end of the year	(56,726)	(48,702)
	6,290,008	2,019,662
5. Secured loans		
External commercial borrowings (ECB)	**1,262,012	*100,300
* (Secured against fixed assets and receivables of the Company)		
** (For buyback of FCCB - Secured against pari passu charge on all assets of FSL USA)		
Finance lease obligation (Secured against assets taken on lease) (Refer Schedule 19)	80,422	3,691
	1,342,434	103,991
ECB Repayable within a year Rs. Nil (31 March 2008: Rs. 100,300)		
6. Unsecured loans		
Working capital demand loan	155,205	104,356
Foreign currency convertible bond (Refer Schedules 29 and 30) *	11,896,899	11,033,000
Loan from others**	32,889	–
	12,084,993	11,137,356

* includes Premium payable on redemption of FCCB amounting to Rs. 899,220 (31 March 2008: Rs 4,343,692 - Refer Schedule 14)

** Repayable within a year Rs. 10,718 (31 March 2008: Rs. Nil)

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

7. Fixed assets

	Gross block (at cost)				Accumulated depreciation/amortisation				Net block	
	As at 1 April 2008	Additions during the year	Deletions during the year	As at 31 March 2009	As at 1 April 2008	Charge for the year	On deletions during the Year	As at 31 March 2009	As at 31 March 2009	As at 31 March 2008
<i>Intangible assets</i>										
Domain name	6,720	–	–	6,720	2,870	2,239	–	5,109	1,611	3,850
Software	196,077	59,545	–	255,622	90,923	49,362	–	140,285	115,337	105,154
<i>Tangible assets</i>										
Computers *	683,217	123,917	(21,862)	785,272	532,411	73,696	(3,156)	602,951	182,321	150,806
Service equipment *	378,475	91,672	(20,370)	449,777	280,444	45,431	(1,403)	324,472	125,305	98,031
Furniture and fixtures and office equipment *	760,744	284,141	(6,781)	1,038,104	456,974	162,456	(1,364)	618,066	420,038	303,770
Leasehold improvements	928,244	287,242	–	1,215,486	504,201	188,559	–	692,760	522,726	424,043
Vehicles	3,489	–	–	3,489	1,943	702	–	2,645	844	1,546
Total	2,956,966	846,517	(49,013)	3,754,470	1,869,766	522,445	(5,923)	2,386,288	1,368,182	1,087,200
31 March 2008	2,475,194	548,124	(66,352)	2,956,966	1,397,722	532,820	(60,776)	1,869,766	1,087,200	

Note

* The above assets include assets taken on lease having gross block of Rs. 95,209. (31 March 2008: Rs 12,326) and net block of Rs. 81,796 (31 March 2008: Rs. 3,565).

The useful life of fixed assets has been reviewed by the management and the original estimate of the useful life of assets has been revised from three years to three to four years for computers and software and from three years to three to five years for networking equipment and leasehold improvements. However, the impact of this change (decrease in depreciation charge for the year with corresponding increase in profit before tax for the year) is not readily ascertainable (decrease in depreciation charge for the three months ended 30 June 2008 aggregated Rs. 26,821).

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	2009	2008
8. Investments		
Long-term (at cost)		
<i>Trade</i>		
Investments in subsidiaries (Unquoted)		
6,796,917,550 (31 March 2008: 6,775,276,550) fully paid-up common stock of USD 0.001 each of Firstsource Solutions USA Inc. (refer Schedule 30)	16,177,504	14,343,023
2,834,672 (31 March 2008: 2,834,672) fully paid up equity shares of GBP 1 each of Firstsource Solutions Limited, UK	18,349	18,349
40,509,637 (31 March 2008: 40,509,637) Series 'F' Convertible Preferred Stock of FirstRing Inc., US ('FR-US') of USD 0.00001 each, fully paid up	1,350,859	1,350,859
136,093 (31 March 2008: 136,093) equity shares of Pipal Research Corporation of Rs. 10 each, fully paid up.	157,260	157,260
9,088,886 (31 March 2008: 9,088,886) equity shares of Rev IT Systems Limited of Rs. 10 each, fully paid up.	941,547	941,547
	18,645,519	16,811,038
Short term (at lower of cost and fair value)		
<i>Trade (Unquoted)</i>		
In Mutual Fund (Philippines Treasury bills) *	1,487	–
<i>Non-trade (Unquoted) **</i>		
Investments in market mutual funds		
Nil (31 March 2008: 611,232) units of Kotak Liquid (institutional premium) – Growth	–	10,000
Nil (31 March 2008: 3,890,142) units of Birla Cash Plus - Institutional Premium – Growth Option.	–	50,000
Nil (31 March 2008 4,986,870) units of ING Liquid Fund Super Institutional – Growth Option	–	60,099
Nil (31 March 2008: 18,603) units of Reliance Liquid Plus Fund - Institutional Option – Growth Plan	–	20,348
Nil (31 March 2008: 3,291,382) units of Reliance Liquidity Fund – Growth Option	–	40,000
Nil (31 March 2008: 15,293) units of UTI Liquid Cash Plan – Institutional Growth Option	–	20,282
(Net assets value of unquoted investments Rs. Nil (31 March 2008 : Rs. 201,081))	1,487	200,729
	18,647,006	17,011,767

* Securities worth Rs. 1,487 (31 March 2008: Nil) have been earmarked in favour of SEC, Philippines in compliance with corporation code of Philippines.

* *Refer Schedule 31 for summary of investments purchased and sold during the year.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	2009	2008
9. Deferred tax assets		
Difference between tax and book value of fixed assets	220,681	166,433
Gratuity and leave encashment	25,490	26,623
	246,171	193,056
10. Sundry debtors		
(Unsecured)		
Debts outstanding for a period exceeding six months		
– considered good	–	–
– considered doubtful	10,666	8,521
	10,166	8,521
Others debts		
– considered good*	1,436,739	1,086,740
– considered doubtful	11,500	–
	1,448,239	1,086,740
Less: Provision for doubtful debts	22,166	8,521
	1,436,739	1,086,740
*Includes receivable from companies under the same management		
FSL - USA	250,763	163,609
FSL - UK	533,310	468,789
FAL	297,104	41,649
11. Cash and bank balances		
Cash on hand	167	129
Remittances in transit	108,735	–
Balances with scheduled banks		
– in current accounts	2,647	9,425
– in deposit accounts *	1,524	201,416
Balances with non scheduled banks**		
– in current accounts	707	793
– in deposit accounts ***	39,344	100,000
	153,124	311,763

* Includes Rs 1,524 (31 March 2008 Rs. 1,416) under lien for bank guarantees to the Customs authorities.

** Maximum outstanding balance during the year.

Current Account		
ABN Amro Bank	1,743	6,814
Deposit Account		
ABN Amro Bank	100,000	250,000
KBC Bank, NV, UK	511,250	–

*** Includes Rs. 39,344 (31 March 2008: Rs. Nil) placed in Escrow account towards buy back of FCCB during the year.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	2009	2008
12. Loans and advances		
(Unsecured, considered good)		
Loans to subsidiaries	905,250	720,241
Advances to subsidiaries*	210,012	239,589
Deposits (refer Schedule 30)	282,698	256,314
Prepaid expenses	60,872	48,253
Advances recoverable in cash or in kind or for value to be received	79,910	59,207
Lease rentals receivable, net (refer Schedule 19)	46,644	47,988
Advance tax and tax deducted at source	229,397	125,561
Accrued interest on loans*	57,632	7,113
Unamortised cost (refer Schedule 30)	93,175	–
Minimum Alternate Tax credit carried forward	16,001	–
	1,981,591	1,504,266
* Includes amount outstanding from companies under the same management		
FSL-USA	25,198	11,121
Rev IT	–	14,927
FAL	96,145	64,177
FSL-UK	–	108,023
FSL-Arg	31,346	25,714
BPM	22,456	19,488
MedAssist	30,282	–
Pipal	26,328	–
FR-US	940,639	7,113
Maximum outstanding balance during the year		
FSL-USA	25,198	56,363
Rev IT	–	28,236
FSL-UK	–	108,023
FAL	102,719	66,788
FSL-Arg	31,874	26,467
BPM	22,456	19,488
MedAssist	30,282	–
Pipal	26,328	–
FR-US	940,639	7,113
13. Current liabilities		
Amount payable to subsidiaries	77,635	4,289
Sundry creditors*		
– for expenses	561,836	255,796
– for capital goods	149,138	109,754
Payable on business acquisition	–	66,586
Other liabilities	58,847	51,048
Tax deducted at source payable	27,012	18,897
Interest accrued but not due	14,057	–
Exchange loss on derivatives	273,308	65,410
	1,161,833	571,780

* Based on the information and records available with the Company, no amount is payable to micro and small enterprises as at 31 March 2009 (31 March 2008: Nil). (refer Schedule 34)

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	2009	2008
14. Provisions		
Income tax (including FBT)	75,542	59,521
Gratuity	66,099	44,794
Leave encashment	55,971	33,533
Premium payable on redemption of FCCB (refer note 2.13 (b) and 30)	–	4,343,692
	197,612	4,481,540
15. Other income		
Foreign exchange gain / (loss), net*	(235,557)	–
Profit on sale/redemption of non trade investments, net	12,494	43,282
Profit on sale of fixed assets, net	1,134	805
Dividend on investments	1,187	32,300
Miscellaneous income	44,665	31,407
Gain on FCCB buy back, net (refer Schedule 29.2)	634,980	–
	458,903	107,794
* Foreign exchange loss is net of mark to market loss of Rs. 236,202 (31 March 2008 : Nil) on undesignated derivative financial instruments (refer Schedule 33)		
16. Personnel costs		
Salaries, bonus and other allowances	2,408,120	2,047,604
Contribution to provident and other funds	135,306	117,419
Staff welfare	215,493	198,299
	2,758,919	2,363,322
17. Operating costs		
Rent, rates and taxes	444,136	304,380
Legal and professional fees	136,474	104,239
Car and other hire charges	222,650	214,458
Connectivity charges	220,354	205,256
Maintenance and upkeep	252,399	185,093
Recruitment and training	79,302	68,184
Electricity, water and power consumption	169,129	146,190
Travel and conveyance	144,068	130,663
Computer expenses	72,237	64,383
Communication	42,637	39,490
Insurance	21,229	16,105
Printing and stationery	22,353	24,422
Marketing and support fees	2,689	8,175
Auditors' remuneration		
– Statutory audit	11,500	8,294
– Tax audit	403	150
– Other services	1,213	2,138
Meeting and seminar	8,898	9,264
Advertisement and publicity	1,292	2,666
Registration fees	12	–
Membership fees	1,014	1,126
Directors' sitting fees	1,280	1,250
Provision for doubtful debts	13,645	1,991
Bank charges and guarantee Commission	9,077	11,329
Miscellaneous expenses	33,918	9,552
	1,911,909	1,558,798

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

	2009	2008
18. Finance charge, net		
Interest expense		
– on External commercial borrowings and term loan	14,449	18,900
– on Working capital and demand loan	6,114	2,803
– finance charge	42	120
Amortised cost on fair value of FCCB (refer Schedule 30)	113,860	–
	134,465	21,823
Less: Interest income		
– on deposit with banks (Tax deducted at source Rs. 1,239 (31 March 2008: Rs. 15,703))	3,488	72,129
– on loan to subsidiaries	54,165	41,439
– on others	19,871	3,959
	56,941	(95,704)
Add: Exchange (gain)/loss on foreign currency loans (other than FCCB)	(166,464)	26,359
Exchanges loss on FCCB for the period 1 April 2008 to 30 June 2008 (refer Schedule 30)	778,242	192,500
Translation loss on FCCB for the period 1 July 2008 to 31 March 2008 (refer Schedule 30)	1,778,551	–
Less: Exchange gain on translation of investments (refer Schedule 30)	(1,778,551)	–
	668,719	123,155

19. Leases*Operating lease*

The Company is obligated under non-cancellable operating leases for office space and office equipment which are renewable on a periodic basis at the option of both the lesser and lessee. Rental expenses under non-cancellable operating leases for the year ended 31 March 2009 aggregated to Rs. 175,321 (31 March 2008: 175,032). Rs. 22,868 (31 March 2008: Rs. 25,744) Rs. Nil (31 March 2008: 7,999) has been attributed to expenses prior to the related asset being ready to use and, accordingly, has been included as part of the related fixed assets and capital work in progress respectively.

The future minimum lease payments in respect of non-cancellable operating leases are as follows:

	2009	2008
Amount due within one year from the balance sheet date	261,324	203,356
Amount due in the period between two year and five years	607,240	436,537
Amount due after five years	4,088	–
	872,652	639,893

The Company also leases office facilities and residential facilities under cancellable operating leases that are renewable on a periodic basis at the option of both, the lessor and lessee. Rental expenses under cancellable operating leases for the year ended 31 March 2009 aggregated Rs. 300,581 (31 March 2008: Rs. 129,348) .

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

Finance lease

The Company has acquired certain capital assets under finance lease. Future minimum lease payments under finance lease as at 31 March 2009 are as follows:

	Minimum lease payments	Finance charges	Present value of minimum lease payments
As at 31 March 2009			
Amount due within one year from the balance sheet date	38,160	5,330	32,830
Amount due between one year and five years	52,049	4,457	47,592
	90,209	9,787	80,422
As at 31 March 2008			
Amount due within one year from the balance sheet date	3,467	42	3,425
Amount due between one year and five years	268	2	266
	3,735	44	3,691

The Company has given vehicles on finance lease to its employees as per policy. As at 31 March 2009, the future minimum lease rentals receivables are as follows:

	Minimum lease payments	Finance charges	Present value of minimum lease payments
As at 31 March 2009			
Amount receivable within one year from the balance sheet date	21,193	4,220	16,973
Amount receivable in the period between one year and five years	33,429	3,758	29,671
	54,622	7,978	46,644
As at 31 March 2008			
Amount receivable within one year from the balance sheet date	17,978	3,913	14,064
Amount receivable in the period between one year and five years	37,820	3,897	33,924
	55,798	7,810	47,988

20. Employee Stock Option Plan

Stock option scheme 2002 ('Scheme 2002')

In September 2002, the Board of the Company approved the ICICI OneSource Stock Option Scheme 2002 ("the Scheme"), which covers the employees and Directors of the Company including its holding Company and subsidiaries. The Scheme is administered and supervised by the members of the Board Governance Committee (the 'Committee').

As per the scheme, the Committee shall issue stock options to the employees at an exercise price equal to the fair value on the date of grant, as determined by an independent valuer. The Scheme provides that these options would vest in tranches over a period of 4 years as follows:

Period within which options will vest unto the participant	% of options that will vest
End of 12 months from the date of grant of options	25.0
End of 18 months from the date of grant of options	12.5
End of 24 months from the date of grant of options	12.5
End of 30 months from the date of grant of options	12.5
End of 36 months from the date of grant of options	12.5
End of 42 months from the date of grant of options	12.5
End of 48 months from the date of grant of options	12.5

Further, the participants shall exercise the options within a period of nine years commencing on or after the expiry of twelve months from the date of the grant of the options.

Employee stock option activity under Scheme 2002 is as follows:

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(Currency: In thousands of Indian rupees)

	2009	2008
Outstanding at beginning of the year	120,625	351,125
Granted during the year	–	–
Forfeited during the year	(10,000)	–
Exercised during the year	(11,250)	(230,500)
Outstanding at the end of the year (refer Note 1 below)	99,375	120,625
Vested and exercisable at the end of the year	99,375	120,625
Note 1: Exercise price range 10.00 – 14.99	99,375	120,625

Employee stock option scheme 2003 ('Scheme 2003')

In September 2003, the Board and the members of the Company approved the ICICI OneSource Stock Option Scheme 2003 ('Scheme 2003') effective 11 October 2003. The terms and conditions under this Scheme are similar to those under 'Scheme 2002' except for the following, which were included in line with the amended "SEBI (Employee stock option scheme and employee stock purchase scheme) guidelines, 1999":

- The Scheme would be administered and supervised by the members of the Compensation Committee.
- Exercise period within which the employees would exercise the options would be 5 years from the date of grant; and
- Exercise price to be determined based on a fair valuation carried out at the beginning every six months for options granted during those respective periods
- Employee stock option activity under Scheme 2003 is as follows:

	2009	2008
Outstanding at beginning of the year (refer Notes 3 and 5 below)	71,830,978	33,083,627
Granted during the year	7,770,000	42,982,712
Forfeited during the year	(23,073,097)	(2,237,193)
Exercised during the year	(865,468)	(1,998,168)
Outstanding at the end of year (refer Note 2 below)	55,662,413	71,830,978
Vested and exercisable at the end of the year	16,357,980	7,234,742
Note 2: Exercise price range 10.00 – 14.99	3,289,399	2,043,867
15.00 – 19.99	1,083,750	1,226,625
20.00 – 24.99	3,169,625	4,049,625
30.00 – 34.99	14,157,036	18,364,849
35.00 - 39.99	17,810,039	19,520,884
50.00 – 54.99	1,590,000	1,670,000
60.00 – 64.99	1,355,000	1,722,500
70.00 – 74.99	13,097,564	23,062,628
75.00 – 79.99	50,000	60,000
80.00 – 84.99	60,000	110,000
Outstanding at the end of the year	55,662,413	71,830,978

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

Note 3:

The Compensation Cum Board Governance Committee of the Company, at its meeting held on 27 April 2006, amended the vesting schedule for stock options granted on 1 May 2006 to General Managers and above grade employees and to Non-Executive Directors. The vesting schedule for 15,980,000 stock options granted pursuant to the above is set forth below:

Period within which options will vest unto the participant	% of options that will vest
End of 24 months from the date of grant of options	50.0
End of 36 months from the date of grant of options	50.0

Note 4:

The aggregate stock option pool under Employee Stock Option Scheme 2002 and Employee Stock Option Scheme 2003 is 20% fully diluted equity shares as of 31 March 2009.

Note 5:

The Compensation Cum Board Governance Committee of the Company, at its meeting held on 22 November 2007 amended the scheme to include 'Executive Options'.

50% of the vesting for 'Executive Options' is time linked and the balance 50% is performance linked.

The vesting schedule for time linked 'Executive Options' is set forth below:

Period within which Executive Options shall vest to the Option grantee	% of options that will vest
End of 24 months from date of grant of Options	20.0
End of 36 months from date of grant of Options	10.0
End of 48 months from date of grant of Options	10.0
End of 60 months from date of grant of Options	10.0

The vesting schedule for Performance Linked options is set forth below:

50% of 'Executive Options' which were performance linked shall vest in proportion to the achievement of 5 year performance targets to be decided by the Committee, with the first vesting being at the end of the second year from the date of grant of 'Executive Options'. The number of 'Executive Options' vesting at the end of each year would be in proportion to the percentage achievement against the targets and if the targets were not met, the vesting period would be extended beyond 5 years. If performance was better than targets, the Options would vest in less than 5 years.

Note 6:

The Company applies the intrinsic value based method of accounting for determining compensation cost for its stock-based compensation plan. Had the compensation cost been determined using the fair value approach, the Company's net income and basic and diluted earnings per share as reported would have reduced to the proforma amounts as indicated:

Particulars	2009	2008
Net income as reported	151,065	576,431
Less: Stock-based employee compensation expense (fair value method)	261,843	183,562
Proforma net income	(110,778)	392,869
Basic earnings per share as reported (Rs.)	0.35	1.35
Proforma basic earnings per share (Rs.)	–	0.92
Diluted earnings per share as reported (Rs.)	0.35	1.24
Proforma diluted earnings per share (Rs.)	–	0.85

The key assumptions used to estimate the fair value of options are:

Dividend yield	0%
Expected Life	3-5 years
Risk free interest rate	6.50% to 9.06%
Volatility	0% to 60%

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

22. Managerial remuneration

a)

Particulars	2009	2008
Salaries and allowances	25,595	21,192
Contribution towards retirement benefits	3,348	901
Perquisites	290	243
Total	29,233	22,336

The above does not include provision for gratuity and leave encashment benefits as the provisions for these are determined for the Company as a whole and therefore separate amounts for the directors are not available.

b) Computation of net profits in accordance with relevant provisions of the Companies Act, 1956 is as under.

	Amount
Profit after tax	151,065
Add:	
Managing Director and the Joint Managing Director remuneration	29,233
Directors sitting fees	1,280
Provision for current, fringe benefit and deferred tax	(19,171)
Provision for wealth tax	350
Less:	
Profit on sale of fixed assets	1,134
Net profit as per Section 349 of the Act	161,623
10% of Net Profit	16,162
Payment to Managing Director and the Joint Managing Director	29,233

Salary paid/payable to the Managing Director and the Joint Managing Director is in excess of the limits specified in Schedule XIII of the Companies Act, 1956. The Company has made an application seeking approval from Central Government for payment of managerial remuneration in excess of limits specified under the Companies Act, 1956 for the financial year ended 31 March 2009. The said approval is awaited.

23. Related party transactions

Details of related parties including summary of transactions entered into during the year ended 31 March 2009 are summarized below:

Parties with substantial interests	<ul style="list-style-type: none"> ICICI Bank Limited Metavante Investments (Mauritius) Limited Aranda Investments (Mauritius) Pte Limited
Subsidiaries wherein control exists	<ul style="list-style-type: none"> The related parties where control exists are subsidiaries as referred to in Schedule 1 to the financial statements.
Companies in which directors are interested	<ul style="list-style-type: none"> ICICI Prudential Life Insurance Company Limited (I-Prudential)
Key Managerial Personnel including relatives	<ul style="list-style-type: none"> Ananda Mukerji Carl Saldanha Raju Venkatraman * Rajesh Subramaniam * Rahul Basu *
Non-Executive Directors	<ul style="list-style-type: none"> Ashok Shekhar Ganguly Charles Miller Smith K. P. Balaraj Shikha Sharma Shailesh Mehta Mohit Bhandari Y. H. Malegam Donald Layden, Jr. Lalita D. Gupte Dinesh Vaswani *

* Resigned during the year

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

23. Related party transactions (Contd.)

Particulars of related party transactions during the year ended 31 March 2009

Name of the related party	Description	Transaction value during the year ended 31 March 2009	Transaction value during the year ended 31 March 2008	Receivable/ (Payable) at 31 March 2009	Receivable/ (Payable) net at 31 March 2008
FSL-USA	Income from services	176,632	357,815	250,763	163,609
	Reimbursement of expenses	28,825	40,846	25,198	11,121
	Investment in equity	55,930	13,569,982	14,398,953	14,343,024
FSL-UK	Income from services	1,603,317	1,586,122	533,310	468,783
	Reimbursement of expenses	26,083	35,987	(44,055)	108,023
	Investment in equity	–	–	18,349	18,349
FR-US	Interest Income	51,765	41,387	(55,389)	6,239
	Loan	–	175,627	885,250	700,241
	Investment in equity	–	–	1,350,859	1,350,859
FAL	Income from services	223,959	174,306	297,104	41,649
	Reimbursement of expenses	74,724	33,295	96,145	64,177
Rev IT	Reimbursement of expenses	66,852	15,973	(33,580)	14,927
	Investment in shares	–	–	941,547	941,547
Pipal	Reimbursement of expenses	8,788	4,351	4,499	(4,289)
	Loan Given	–	20,000	20,000	20,000
	Interest income	2,400	53	1,829	41
Pipal	Investment in equity	–	–	157,260	157,260
FSL-Arg	Reimbursement of expenses	6,093	18,715	31,346	25,714
	and income from services				
BPM	Reimbursement of expenses	19,488	19,488	22,456	19,488
	and income from services				
MedAssist	Reimbursement of expenses	30,282	–	30,282	–
	and income from services				
ICICI Bank Limited	Income from services	119,800	252,073	13,822	64,880
	Rent paid				
	Software Expenses & Professional Fees	651	1,498	–	(270)
	Corporate administrative expenses	–	–	–	–
	Interest expenditure	5,462	21,703	–	(533)
	Bank balance	–	–	1,067	33,015
	Bank Overdraft	–	–	(148,196)	(105,938)
	Fixed deposit placed	100,000	1,900,000	1,416	201,416
	Fixed deposit matured	300,000	2,954,456	–	–
	Interest Income on Fixed Deposit	1,641	25,905	96	548
	External Commercial Borrowings Paid	105,800	569,188	–	(100,300)
	Fees and commission	138,643	101,721	(138,643)	–
	Guarantee Commission paid	7,693	9,041	3,813	4,358
ICICI- Prudential Life Insurance Company Limited	Insurance premium paid	6,622	2,190	–	2,801
	Rent paid	23,971	22,029	–	–
Key management personnel and relatives	Income from services	178,456	182,582	15,265	67,604
	Remuneration	40,581	33,979	–	–
Non-executive Directors	Sitting fees paid	1,280	1,250	–	–

Note: Excludes forward contracts and ESOP's

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

List of transactions with Key management personnel and relatives having total value more than 10% of value of transactions with related parties.

Description	2009	2008
Remuneration paid		
Ananda Mukerji	14,289	11,712
Raju Venkatraman	14,944	10,624
Carl Saldanha	5,853	-
Rahul Basu	3,379	5,879
Rajesh Subramaniam	2,116	5,764

23. Employee Benefit

a) Gratuity Plan

The following table sets out the status of the gratuity plan as required under AS 15

Reconciliation of opening and closing balances of the present value of the defined benefit obligation and fair value of plan assets:

Particulars	2009	2008	2007
Change in present value of obligations			
Obligations at beginning of the year	46,870	30,202	21,745
Service Cost	22,613	21,000	13,942
Interest cost	3,931	2,145	1,401
Actuarial (gain)/loss	(3,416)	(3,279)	(2,831)
Benefits paid	(3,899)	(3,198)	(1,979)
Obligations at the end of the year	66,099	46,870	32,278
Change in plan assets			
Fair value of plans assets at beginning of the year,	2,076	2,076	(2,076)
Expected return on plan assets	1,358	164	(21)
Actuarial gain/(loss)	1,570	(164)	(1,958)
Contributions	45,000	3,198	-
Benefits paid	(3,899)	(3,198)	1,979
Fair value of plans assets at end of the year	46,105	2,076	(2,076)
Reconciliation of present value of the obligation and the fair value of plan assets			
Present value of the defined benefit obligations at the end of the year	66,099	46,870	32,278
Fair value of plan assets at the end of year	(46,105)	(2,076)	(2,076)
Funded status being amount of liability recognized in the balance sheet	19,994	44,794	30,202
Gratuity cost for the year			
Service cost	22,613	21,000	13,942
Interest cost	3,931	2,145	1,401
Expected return on plan assets	(1,358)	(164)	(4,788)
Actuarial (gain)/loss	(4,986)	(3,115)	(21)
Net gratuity cost	20,200	19,866	10,534
Assumptions			
Interest rate	7.86%	8.75%	7.50%
Estimated rate of return on plan assets	8.00%	7.90%	7.90%
Rate of growth in salary levels	10.00%	10.00%	10.00%
Withdrawal rate	25% reducing to 2% for over 20 year of service	25% reducing to 2% for over 20 years of service	25% reducing to 2% for over 20 years of service

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The estimates of future salary increase, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

Gratuity cost, as disclosed above, is included under 'Salaries, bonus and other allowances'. The Company expects to contribute approximately Rs. 20,000 to the gratuity trust during fiscal 2010.

b) Contribution to Provident Funds

The provident fund charge during the year amounts to Rs. 96,075 (31 March 2008: Rs. 86,688)

c) Compensated absences

Actuarial Assumptions	2009	2008	2007
Interest rate	7.86%	8.75%	7.50%
Estimated rate of return on plan assets	8.00%	7.90%	7.90%
Rate of growth in salary levels	10.00%	10.00%	10.00%

24. Other operating income

Other operating income comprises net gain/(loss) on restatement and settlement of debtor balances and related forward/options contracts.

25. Computation of number of shares for calculating diluted earnings per share

(No. of shares in '000)

	2009	2008
Number of shares considered as basic weighted average shares outstanding	427,914	425,858
Add: Effect of potential issue of shares/stock options	— *	—
Add: Adjustment for options relating to Foreign currency convertible bonds	— *	38,364
Number of shares considered as weighted average shares and potential shares outstanding	<u>427,914</u>	<u>464,222</u>
* Not considered since anti-dilutive		

26. Capital and other commitments and contingent liabilities

	2009	2008
The estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	60,097	114,515
Claims not acknowledged as debts	51,450	45,309
Guarantees and letters of credit given	<u>1,546,451</u>	<u>2,041,105</u>

Direct tax matters

Income tax demand amounting to Rs. 106,659 (31 March 2008: Rs 91,038) for the various assessment years are disputed in appeal by the Company in respect of which the Company has favourable appellate decisions supporting its stand based on the past assessment and hence, the provision for taxation is considered adequate. The Company has paid Rs. 10,381 tax under protest against the demand raised for the assessment year 2004-05.

Indirect tax matters

The service tax demand amounting to Rs. 23,574 (31 March 2008: Rs. Nil) in respect of FCCB issue expenses is disputed in appeal by the Company. The Company expects favourable appellate decision in this regard.

27. Fringe Benefits Tax (FBT)

The Finance Act, 2007 has introduced Fringe Benefits Tax (FBT) on employee stock options. The difference between the fair value of the underlying share on the date of vesting and the exercise price paid by the employee is subject to FBT. The Company recovers such tax from the employee. The Company's obligation to pay FBT arises only upon the exercise of the stock option. During the year ended 31 March 2009 the Company recognised FBT liability and related recovery of Rs. 3,523 (31 March 2008: Rs. 6,970) arising from the exercise of stock options.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

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28. Supplementary statutory information

	2009	2008
(i) <i>Value of imports calculated on CIF basis</i>		
Capital goods	97,467	91,936
(ii) <i>Earnings in foreign exchange</i>		
Income from services	3,549,432	3,669,348
Interest income	51,765	41,387
(iii) <i>Expenditure in foreign currency</i>		
Travel and conveyance	14,302	35,124
Interest	1,400	18,900
Connectivity charges	41,936	77,791
Legal fees	9,939	19,573
FCCB buy back expenses	23,597	–

29. Foreign Currency Convertible Bonds (FCCB)

29.1 Issue of FCCB:

On 3 December 2007, the Company issued US \$ 275,000,000 Zero Coupon FCCB. The terms are as under:

Issue	0% FCCB due 2012
Issued on	3 December 2007
Issue amount	USD 275,000,000
Amount outstanding as on 31 March 2009	USD 225,300,000
Face value	USD 100,000
Conversion price per share and fixed exchange rate	Rs 92.2933 Rs. 39.27 = USD 1
Number of shares to be issued if converted	95,863,212
Exercise period	On or after 14 January 2008 upto 4 December 2012
Early conversion at the option of the Company subject to certain conditions	On or after 4 December 2009 and prior to 24 November 2012
Redeemable on	4 December 2012
Redemption percentage of the principal amount	139.37%
Bonds outstanding as on 31 March 2009	2253
The proceeds from the issue of the bonds were utilised to subscribe for shares in a wholly owned subsidiary Firstsource Solutions USA Inc. (FSL-USA). FSL-USA has then utilised the funds received by it for repayment of debt taken by it in connection with the acquisition of MedAssist Holding Inc.	

29.2 Buyback of FCCB

In March 2009, pursuant to the RBI notification, the Company has bought back and cancelled 497 FCCBs of the face value of USD 100,000 each under the Automatic route. The Company has recognised a net gain of Rs. 634,980 on the said buyback which has been disclosed under 'Other income'.

30. Adoption of AS 30 and change in accounting policy

In December 2007, the ICAI issued AS 30, Financials Instruments: Recognition and Measurement which is recommendatory in respect of accounting periods commencing on or after 1 April 2009 and mandatory in respect of accounting periods commencing on or after 1 April 2011 for the Company.

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In March 2008, ICAI announced that earlier adoption of AS 30 is encouraged. However, AS 30, along with limited revision to other accounting standards, has currently not been notified under the Companies (Accounting Standard) Rules, 2006.

In accordance with the announcement dated 27 March, 2008 issued by ICAI, the Company adopted AS 30 with effect from March 2008 in so far as it relates to the derivatives. Similarly, the Company also adopted AS 30 with respect to hedging transactions with effect from 1 July, 2008. On 1 October, 2008, the Company early adopted AS 30 in its entirety, read with AS 31, effective 1 April, 2008 and the prescribed limited revisions to other accounting standards.

AS 30 states that particular sections of other accounting standards; AS 4, Contingencies and Events Occurring after Balance sheet Date, to the extent it deals with contingencies, AS 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates, to the extent it deals with the 'forward exchange contracts' and AS 13, Accounting for Investments, except to the extent it relates to accounting for investment properties, would stand withdrawn only from the date AS 30 becomes mandatory (1 April 2011). In view of the Company, on an early adoption of AS 30, accounting treatment made on the basis of the relevant sections of the Accounting Standards referred above viz. AS-4, AS-11 and AS-13 stands withdrawn as it believes that principles of AS 30 more appropriately reflect the nature of these transactions.

Pursuant to the early adoption of AS 30, the Company has discounted Non-interest-bearing deposits to their present value and the difference between original amount of deposit and the discounted present value has been disclosed as "Unamortized cost" under Loans and Advances, which is charged to the Profit and loss account over the period of related lease. Correspondingly, interest income is accrued on these interest free deposits using the implicit rate of return over the period of lease and is recognized under "Interest income".

Had the Company not early adopted AS 30 as stated above, and continued to record Non-interest-bearing deposits at transaction value, profit for the year ended 31 March 2009 would have been higher by Rs. 1,205.

In accordance with the transitional provisions of AS 30, charge of Rs. 4,948 on account of fair valuation of deposits on 1 April 2008 has been accounted through General Reserves.

As permitted by AS 30, the Company designated its FCCB along with premium payable on redemption as a hedging instrument to hedge its net investment in the non-integral foreign operations effective 1 July 2008. Accordingly, the translation loss on FCCB Rs. 1,778,551 for period ended 31 March 2009, which is determined to be effective hedge of net investment in non integral foreign operations, has been charged to the Profit and loss account. Correspondingly, the gain on translation of investment in non-integral foreign operations has been credited to Profit and loss account. The net impact for the same is Nil. The translation loss till 30 June 2008 amounting to Rs. 778,242 has been charged to Profit and loss account (refer Schedule 18). If the Company had continued to apply the provisions of AS 11 to the FCCB and not designated it as a cash flow hedge as permitted under AS 30 and the consequent limited revision to other accounting standards, the translation gain on the investment would not have been recorded in the Profit and loss account.

Further, the Company has accounted for embedded derivative option included in FCCB and revalued the same at the period end. The Company has charged Rs. 113,860 for the year ended 31 March 2009 as amortised cost on the fair value of FCCB under "Finance charges, net" towards accretion of FCCB liability using implicit rate of return method over the repayment tenor of FCCB.

In accordance with the transitional provisions of AS 30, income of Rs. 691,875 on account of reduction in option valuation of FCCB and expense of Rs. 18,716 on account of difference in fair value of interest rate and the implicit interest rate on FCCB on 1 April 2008 has been accounted through General Reserve.

During the year, the Company has changed its accounting policy relating to premium payable on redemption of FCCB. Accordingly, the premium payable on redemption is amortised on pro-rata basis over the period of the bonds by debiting Securities premium account for the year amounting to Rs. 696,086 (as permitted by Section 78 of the Companies Act, 1956) as against the earlier policy of charging the entire premium payable on redemption to the Securities Premium Account upfront in the year of issue of bonds. Consequently, the Securities Premium Account has been restated by Rs. 4,095,749 after considering the amortization on pro-rata basis till 31 March 2008.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

31. Summary of investments purchased and sold during the year

Mutual Fund Scheme Fund Name	2009		2008	
	Units purchased	Purchase value	Units purchased	Purchase value
FTP - Quarterly - Series 7 - Dividend-Payout	-	-	25,004,227	250,042
Birla Cash Plus - Institutional Premium Growth	15,956,787	210,000	16,104,494	200,000
HSBC Cash Fund - Institutional Plus - Growth	2,293,473	30,000	23,647,594	250,000
Prudential ICICI - Weekly dividend	-	-	15,223,972	152,398
Prudential ICICI Institutional Liquid Plan - Super Institutional Growth	78,218,266	955,000	353,294,228	3,988,827
Prudential ICICI - Retail dividend	-	-	18,000,733	180,007
Prudential ICICI - FMP Retail Dividend	-	-	25,000,000	250,000
Prudential - Daily dividend	-	-	25,404,165	254,047
Prudential - FMP 3 Month	-	-	25,000,000	250,000
Prudential - Flexi Income Plan	-	-	12,166,669	170,000
Reliance Medium Term Fund - Daily Dividend Plan	5,295,219	90,524	65,440,267	654,606
Reliance Liquid Plus Monthly Interval Fund	10,659,830	106,680	50,096	50,164
Reliance Liquid Plus - Institutional Growth Plan	459,333	511,834	216,642	230,427
Reliance Liquidity Fund - Growth Scheme	120,001,121	1,395,251	25,973,005	310,000
Reliance Monthly Interval Fund - Institutional Growth Dividend	9,093,720	100,000	25,304,839	253,434
DWS credit opportunities cash fund - Growth Plan	-	-	39,757,737	400,034
DWS Insta Cash Plus Fund - IP - Growth	6,262,525	80,000	23,992,800	290,000
DWS Insta Cash Plus Fund - IP dividend option	7,093,283	80,020	9,983,967	100,034
Kotak - Liquid Institutional Premium Growth	19,809,301	330,000	7,099,093	110,000
Kotak - Daily Dividend	-	-	5,783	71
Kotak - Flexi Debt Scheme - Growth	7,883,416	100,027	8,434,050	100,000
ING Vyasya - Super Institutional growth	16,160,430	200,000	88,518,682	1,020,000
ING Vyasya - Liquid Plus Growth	4,590,736	50,000	14,749,408	150,000
ING Vyasya - Liquid Plus - Daily Dividend	-	-	24,425,479	244,335
StanC - FMP Quarterly Series 5 Dividend	-	-	25,515,299	255,153
StanC - Grindlys FRF LT Inst. Plan B Daily Div	-	-	10,013,854	100,164
Fidelity - Cash Fund - Daily Dividend	-	-	11,509,423	115,094
Fidelity - Cash Fund - Super Institutional Growth	-	-	12,745,773	135,094
Templeton India Institutional Plan - Growth	38,536	50,000	4,496,841	100,009
Templeton India Institutional Plan - Super IP Growth	121,139	150,037	-	-
UTI Liquid Cash Plan Institutional - Growth	29,898	40,000	316,124	410,000
DSP ML Cash Plus Institutional - Growth Option	65,591	70,000	283,482	290,000
MIRAE Asset Liquid Fund - Institutional - Growth Option	29,057	30,000	-	-

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

Mutual Fund Scheme	2009		2008	
	Units Sold	Sale value	Units Sold	Sale value
FTP - Quarterly - Series 7 - Dividend - Payout	-	-	(25,004,227)	(253,571)
Cash Plus - Instl. Prem. Growth	(19,846,929)	(262,079)	(12,214,351)	(150,908)
HSBC Liquid Plus Fund IP Growth	(2,293,473)	(30,057)	(23,647,594)	(254,921)
Prudential ICICI - Weekly dividend	-	-	(15,223,972)	(154,602)
Prudential ICICI - Super Institutional Growth	(78,218,266)	(957,062)	(353,294,228)	(4,005,537)
Prudential ICICI - Retail dividend	-	-	(18,000,733)	(181,390)
Prudential ICICI - FMP Retail Div	-	-	(25,000,000)	(252,028)
Prudential ICICI - Daily dividend	-	-	(25,404,164)	(256,719)
Prudential ICICI - FMP 3 Month	-	-	(25,000,000)	(257,030)
Prudential ICICI - Flexi Income Plan	-	-	(12,166,669)	(170,583)
Reliance - Medium Term Fund - DAILY DIVIDEND PLAN	(5,295,219)	(91,049)	(65,440,267)	(655,970)
Reliance - Liquid plus Monthly Interval fund	(10,659,830)	(107,301)	(50,096)	(50,345)
Reliance - Liquid plus- plus instl Growth	(477,937)	(533,854)	(198,038)	(211,486)
Reliance - Liquidity Fund - Growth schemes	(123,292,503)	(1,436,331)	(22,681,623)	(270,927)
Reliance - Monthly Interval Fund - Institutional Div.	(9,093,720)	(100,698)	(25,304,839)	(256,675)
DWS credit opportunities cash fund - Growth Plan	-	-	(39,757,737)	(406,225)
DWS insta cash plus fund - IP - Growth	(6,262,525)	(80,020)	(23,992,800)	(290,257)
DWS money plus cash plus fund - IP	(7,093,283)	(80,941)	(9,983,967)	(100,069)
Kotak - Institutional Premium Growth	(20,420,533)	(340,500)	(6,487,861)	(100,017)
Kotak - Daily Dividend	-	-	(5,783)	(73)
Kotak - Flexi Debt	(7,883,416)	(100,931)	(8,434,050)	(101,975)
ING Vyasya - Super Institutional growth	(21,147,300)	(260,775)	(83,531,812)	(961,953)
ING Vyasya - Liquid Plus Growth	(4,590,736)	(50,448)	(14,749,408)	(153,013)
ING Vyasya - Liquid Plus - Daily Dividend	-	-	(24,425,479)	(248,166)
StanC - FMP Quaterly Series 5 Dividend	-	-	(25,515,299)	(258,188)
StanC - Grindlys FRF LT Inst. Plan B Daily Dividend	-	-	(10,013,854)	(100,327)
Fidelity - Cash Fund - Daily Dividend	-	-	(11,509,423)	(115,188)
Fidelity - Cash Fund - Super Institutional Growth	-	-	(12,745,773)	(135,651)
Templeton India Institutional Plan - Growth	(38,536)	(50,037)	(4,496,841)	(100,042)
Templeton India Institutional Plan - Super IP Growth	(121,139)	(150,515)	-	-
UTI Liquid Cash Plan Institutional - Growth	(45,141)	(60,916)	(300,881)	(390,709)
DSP ML Cash Plus Institutional - Growth Option	(65,591)	(70,182)	(283,482)	(290,905)
MIRAE Asset Liquid Fund - Institutional - Growth Option	(29,057)	(30,022)	-	-

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

(Currency: In thousands of Indian rupees)

32. Segmental Reporting

In accordance with paragraph 4 of Accounting Standard 17 "Segment Reporting" prescribed in the Companies (Accounting Standards) Rules, 2006, issued by the Central Government, the Company has presented segmental information only on the basis of the consolidated financial statements (refer Note 25 of the consolidated financial statements).

33. Derivatives

The Company has designated forwards contracts and options to hedge highly probably forecasted transactions on the principles of set out in AS-30, Financials Instruments: Recognition and Measurement.

As at 31 March 2009, the Company has derivative financial instruments to sell USD 98,834,044 (31 March 2008: USD 99,976,959) having fair value loss Rs. 497,649 (31 March 2008: loss of Rs. 96,279) and GBP 21,000,000 (31 March 2008: GBP 31,184,412) having fair gain of Rs. 224,340 (31 March 2008: gain of Rs. 36,506) relating to highly probable forecasted transactions. The Company has recognized mark to market loss of Rs. 56,726 (31 March 2008: Rs. 48,702) relating to derivative financial instruments that are designated as effective cash flow hedges in the Hedge Reserve account under Shareholders' funds (refer Schedule 4). At 31 March 2009, the Company has undesignated certain derivative financial instruments and recognised mark to market losses of Rs. 236,202 thereon in the Profit and loss account. (refer Schedule 15). Foreign currency exposures (other than cash and bank balances) on loans and receivables that are not hedged by derivative instruments or otherwise are Rs. 1,420,625 (equivalent to GBP 19.60 million).

34. Under the Micro Small and Medium Enterprises Development Act, 2006, (MSMED) which came into force from 2 October 2006 and on the basis of the information and records available with the Management:

	2009	2008
Principal amount and the interest due thereon remaining unpaid to any supplier as at the year end	Nil	Nil
Amount of interest paid by the Company in terms of Section 16 of the MSMED, along with the amount of the payment made to the supplier beyond the appointed day during the accounting year	Nil	Nil
Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED	Nil	Nil
Amount of interest accrued and remaining unpaid at the end of the accounting year	Nil	Nil

35. The Company is in the business of providing ITES and BPO services. Such services are not capable of being expressed in generic unit and hence, it is not possible to give the quantitative details required under paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956.

36. Prior period comparatives

Previous years figures have been appropriately regrouped / reclassified to conform to current year presentation.

As per our report attached.

For **BSR & Co.**

Chartered Accountants

For and on behalf of the Board of Directors

	Dr. Ashok S. Ganguly Chairman	Ananda Mukerji Managing Director & CEO	K. P. Balaraj Director
Akeel Master Partner Membership No: 046768	Shikha Sharma Director	Mohit Bhandari Director	Lalita D. Gupte Director
	Y. H. Malegam Director	Shailesh Mehta Director	Charles Miller Smith Director
Mumbai 28 April 2009	Donald Layden Jr. Director	Carl Saldanha Global CFO	Sanjay Gupta Company Secretary