ANNUAL REPORT 2006-07

firstsource

Registered office: Firstsource Solutions Limited. 6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400013
Statutory Auditors: BSR & Co. Chartered Accountants. KPMG House, Kamala Mills Compound, 448, Senapati Bapat Marg, Lower Parel, Mumbai 400013
Registrar & Transfer Agents: 3i Infotech Limited. Tower # 5, 3rd to 6th floors, International Infotech Park, Vashi, Navi Mumbai 400703

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MESSAGE FROM THE CHAIRMAN

Firstsource (earlier known as ICICI OneSource) was started the way ICICI started all its new businesses – with a clear vision, a strong management team, ambitious targets and complete autonomy coupled with clear accountability. The vision was to be a leading player in the offshore Business Process Outsourcing (BPO) industry.

From modest beginnings in the late 1990s, the Indian BPO industry has taken enormous strides and has an exciting future. The NASSCOM-McKinsey Report (December, 2005), estimates that the Indian BPO industry will be worth US $25 billion by 2010. As one of India's top three pure-play BPO companies, we will continue to grow and enhance our strong position in the industry. Over the last four years your company's revenue has grown at a CAGR of 82% and in fiscal 2006-07 had reached well over Rs. 8,000 million. With over 14,000 employees and a service delivery capability across the US, UK, Argentina, Philippines and India, your company has a profile that global companies look for in their outsourcing partners.

The Company's growth has been catalyzed by organic as well as inorganic expansion. Organic growth has been achieved by attracting the right customers and building excellent relationships with them through committed delivery and performance. Our acquisition strategy has focused on targets that enable the company to expand its service offering in a systematic manner. The objective of your company has been to acquire profit making companies that mirror our commitment to service and organizational goals. Beginning as an offshore provider of services, Firstsource has successfully become a provider of services onshore and nearshore as well. This has increased the attractiveness of the company to a larger pool of potential clients and Firstsource today has an enviable list of global clients. Currently the Company's core markets are in the US & UK but we are ideally positioned to spread to other geographies.

The reason that Firstsource can plan for such ambitious expansion is because it has built a senior management leadership team that has the vision, the experience and the execution capability to build a truly world-class company. This leadership is complemented by a young and dedicated workforce. All the members of the Firstsource family need to be complimented and their efforts acknowledged in making the Company an international brand in the outsourcing space. Their dedication, quality of performance and commitment to delivery are indeed commendable. Technology, Process Excellence and Human Resources management are the three pillars on which successful delivery of BPO services depends. The company today is an early adopter in using technology effectively to improve its service proposition, has built a strong process excellence culture with a focus on productivity improvement—the use of global standards and certifications like COPC, ISO 270001 and ISO 15000 are testimony to these practices— and a robust recruitment, training and employee engagement framework. From its inception, and well before it became a publicly listed company, Firstsource has been adopting global best practices in Corporate Governance. The Firstsource Board composition with a good mix of independent, shareholder representative and working directors incorporates global best practices. Firstsource is an Equal Opportunity employer and has a whistleblower policy in place. The company's principal commitment is to serve its customers, shareholders, employees and the society in which it operates.

Firstsource Solutions will continue to strive to maintain and enhance its globally recognized leadership position as a preferred provider of offshored BPO services

Dr. Ashok Ganguly
Chairman

MESSAGE FROM THE CEO

In 2002 when the ICICI group set up Firstsource (then called ICICI OneSource), the Business Process Outsourcing (BPO) industry was still in a nascent stage of its evolution. We joined a whole host of other Indian companies who were seeking to become providers of BPO services to the world. Today, five years later, we have moved up from relative obscurity to become one of India's leading companies in this industry. With FY 2006-07 revenues at Rs. 8,400 million, over 14,000 employees and operations in India, US, UK, Argentina and Philippines, we are positioned among India's top BPO companies and as a well-known player in the global offshore services industry. The company has today reached a size and scale which allowed it to make the transition from a private company to a publicly listed one and it completed a very successful IPO earlier this year.

The last five years has been a phase when the foundation for the company's future was being put in place, brick by brick. In this phase, our vision was to establish ourselves as one of India's top BPO companies and our strategy was to focus on three key aspects:

- Build scale quickly
- Build domain expertise
- Build an extremely customer focused organizational culture

Most businesses benefit from economies of scale, but this is perhaps far more pronounced in the BPO industry. Scale enhances the attractiveness and credibility of a BPO company as a business partner, drives efficiencies and enables continued investment in the market and in capabilities. Our focus on building scale quickly has resulted in our revenues growing at a CAGR of 82% (2003-07) which makes us one of the fastest growing companies in this space. This has been a result of strong organic growth complemented by strategic acquisitions to acquire domain knowledge, experience and key customer relationships. We have a dedicated Mergers and Acquisitions team which concentrates on identifying appropriate acquisition targets to ensure that our services are constantly expanding and our market access is increasing.

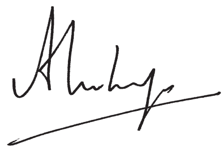
We believed from the very beginning that generic outsourcing organizations built on the back of pure cost arbitrage would not create sustainable competitive advantage, as customers increasingly look for business partners who understand their industry and have demonstrated capabilities in the services they are offering. In an industry which is still in a very early stage in its evolution and opportunities are many, the real challenge is not only in identifying the right segments to focus on but having the discipline of not being distracted by, often equally tempting, opportunities in other segments. We have decided to focus primarily on three industries — Banking Financial Services & Insurance (BFSI), Telecommunications & Media, and Healthcare. The NASSCOM-McKinsey Report identifies the banking, insurance and telecom industries as representing 55-61% of the total potential global offshore BPO market. The high cost of servicing a large number of small-sized customer accounts in these industries makes outsourcing a compelling strategic need. We have built a comprehensive suite of services in each of these verticals providing us competitive advantage and a strong platform for growth.

The third pillar of our growth has been a single-minded focus on meeting and exceeding client expectations. The business critical nature of most of the services we provide require our client relationships to be far deeper than in a conventional customer – vendor relationship. We look for clients who are clear about their outsourcing goals and who recognize that the relationship has to be a true partnership. We have built a robust operational delivery model across people, process and technology with a strong focus on superior process management and continuous productivity improvement. We have some of the top companies in the world as our customers and we take pride in these customer relationships and take ownership of business processes we perform for them. Much of our business growth is a direct result of this attitude with existing clients accounting for as high as 94% of the revenues in FY 2007. We are also increasing not only the volume of our business with our clients, but the width and complexity of the nature of work we do for them. Our present levels of business with many of our clients, who are global giants in their industries, is still relatively small compared to the potential and we see this as a huge opportunity for continued business growth.

The last year has been a year of both significant growth and one where we made several important strategic moves. During the year our revenues grew from Rs 5,495.2 million to Rs 8,399.3 million, a growth of 52.8%. At the same time our profitability continued to improve with EBITDA at Rs 1,745.5 million and net profits at Rs 972.5 million showing significant growth over the previous year. At the beginning of the year we entered into a strategic partnership with Metavante Corp., one of the top providers of technology services to the banking industry in North America. This partnership enables us to approach the market with a completely new proposition, combining technology platforms with process management, to offer an end-to-end solution for the industry. We took major initiatives to strengthen our global delivery proposition by opening up new centers in UK, USA, Argentina and Philippines and today can offer clients a global delivery proposition that embraces all outsourcing options: onshore, nearshore and offshore. We enhanced our domain capabilities and value proposition in the healthcare industry by acquiring a US-based claims adjudication company called BPM Inc. and entered the increasingly attractive domestic BPO opportunity

As we look at the outsourcing landscape, we see even more opportunity today than when we first set out. According to the NASSCOM-McKinsey Report, the global offshore BPO industry potential is estimated to be between US$120 billion and US$150 billion. It is estimated that BPO providers have to date captured less than 10% of the total market opportunity. The industry is expected to grow at a 37% compound annual rate, from US$11.4 billion in 2005 to US$55.0 billion by 2010. India - based companies today have a dominant share of this market at 46% and this market leadership is projected to continue. This translates into a tremendous growth opportunity for companies such as us who have created an early leadership position. The economic and business logic for outsourcing and offshoring continues to be as strong as ever. Companies are being forced everyday to create newer and more innovative products and to offer better and more channels of customer service. This is forcing companies to examine their core competencies afresh and bring in business partners who can help them deliver other, often equally critical, processes with greater efficiencies. At the same time, the rapid maturing of independent BPO companies like Firstsource is enabling companies to consider the benefits of outsourcing.

Our strategic vision is to maintain our leading position in the high-growth offshore BPO industry. We believe we have built the right foundation of domain expertise and service capabilities, strong corporate governance, an enviable roster of clients and a motivated and talented workforce and are well poised to take advantage of the growth opportunities we see in front of us. We have received tremendous support and understanding from our shareholders in this journey and look forward to continuing to receive this in the future.



Ananda Mukerji
Managing Director and CEO

Our strategic vision is to maintain our leading position in the high-growth offshore BPO industry. We believe we have built the right foundation of domain expertise and service capabilities, strong corporate governance, an enviable roster of clients and a motivated and talented workforce and are well poised to take advantage of the growth opportunities we see in front of us.

BOARD OF DIRECTORS

Dr. Ashok Ganguly, Chairman

Ananda Mukerji, Managing Director & CEO

Raju Venkatraman, Joint Managing Director & COO

Charles Miller Smith

Dinesh Vaswani

Donald W. Layden Jr.

K. P. Balaraj

Lalita D. Gupte

Shailesh Mehta

Shikha Sharma

Y. H. Malegam

SENIOR MANAGEMENT

John Cutrone, President - North America

Matthew Vallance, MD - Europe

Aashu Calapa, EVP - Human Resources

Anthony Pino, EVP - Healthcare

Rahul Basu, EVP - Collections

Rajesh Subramaniam, Chief Financial Officer

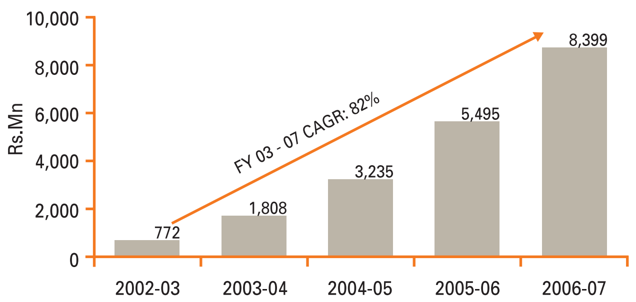
Sanjiv Dalal, Chief Technology Officer

Santanu Nandi, EVP - Operations

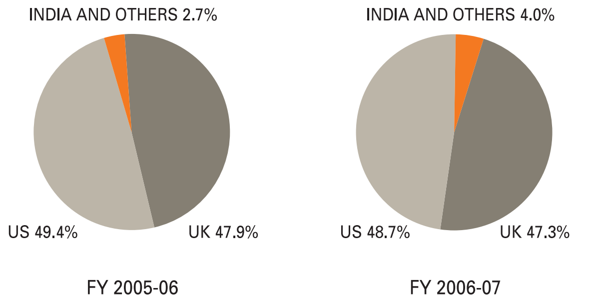
Sanjay Gupta, Company Secretary

FINANCIAL HIGHLIGHTS

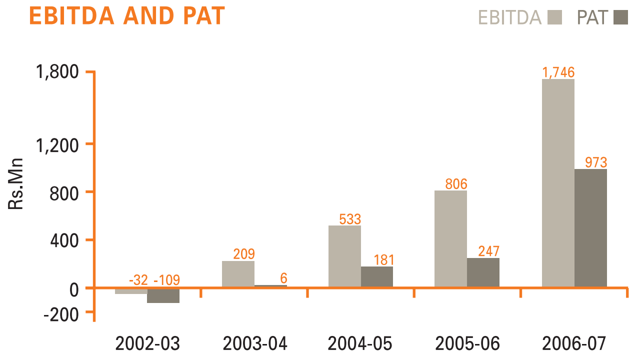
TOTAL INCOME



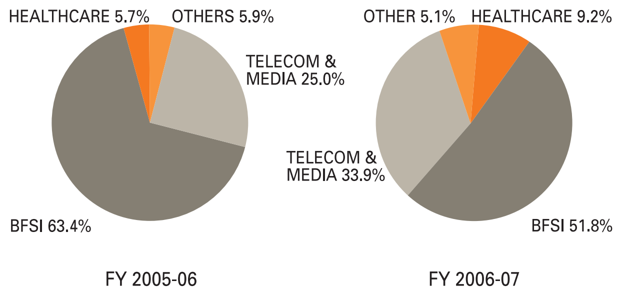
REVENUE BY GEOGRAPHY



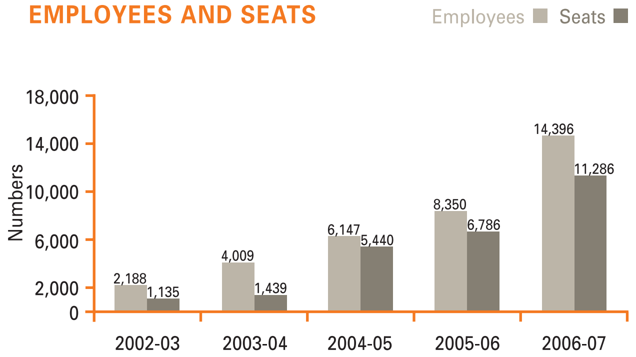
EBITDA AND PAT



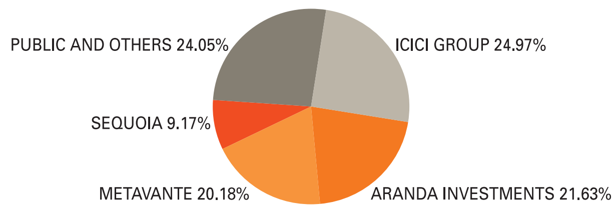
REVENUE BY VERTICAL



EMPLOYEES AND SEATS



SHAREHOLDING PATTERN AS ON MARCH 31, 2007



All numbers in all above graphs pertain to Firstsource Solutions Limited and its subsidiaries on a consolidated basis.

NOTICE

NOTICE is hereby given that the Sixth Annual General Meeting of the Members of the Firstsource Solutions Limited will be held on Tuesday, August 14, 2007 at 4.00 p.m. at Ravindra Natya Mandir, Sayani Road, Prabhadevi, Mumbai 400 025, to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the audited Balance Sheet as at March 31, 2007, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To re-appoint **Mr. Shailesh J Mehta** as a Director of the Company, who retires by rotation and being eligible, offers himself for re-appointment.
3. To re-appoint **Mrs. Shikha Sharma** as a Director of the Company, who retires by rotation and being eligible, offers herself for re-appointment.
4. To consider and, if thought fit, to pass, with or without modifications, the following resolution as an **Ordinary Resolution:**

   "RESOLVED THAT M/s. BSR & Co., Chartered Accountants, be and are hereby appointed as the Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting (AGM), on a remuneration to be fixed by the Board of Directors (which term shall include any committee of the Board) of the Company."

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution:**

   "RESOLVED THAT Mr. Y. H. Malegam, who was appointed as an Additional Director pursuant to Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company, subject to retirement by rotation, in accordance with the provisions of Section 257 and other applicable provisions, if any, of the Companies Act, 1956 and the Articles of Association of the Company."
6. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution:**

   "RESOLVED THAT Mrs. Lalita D. Gupte, who was appointed as an Additional Director pursuant to Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company, subject to retirement by rotation, in accordance with the provisions of Section 257 and other applicable provisions, if any, of the Companies Act, 1956 and the Articles of Association of the Company."
7. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution:**

   "RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, 311, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government, if required, approval of the Company be and is hereby accorded to the terms of remuneration of **Mr. Ananda Mukerji,** Managing Director and Chief Executive Officer of the Company for a period of 5 years, effective from April 1, 2007 as set out in the Explanatory Statement annexed hereto.

   RESOLVED FURTHER THAT the aggregate amount of remuneration payable to Mr. Ananda Mukerji in a particular financial year will be subject to the ceiling limit laid down in Schedule XIII to the Companies Act, 1956.

   RESOLVED FURTHER THAT the Board of Directors of the Company including any Committee thereof be and are hereby authorized to increase/ alter/ modify/ vary the terms of remuneration of Mr. Ananda Mukerji within the ceiling limit laid down in Schedule XIII to the Companies Act, 1956."
8. To consider and, if thought fit, to pass with or without modification(s), the following resolution as an **Ordinary Resolution:**

   "RESOLVED THAT Mr. Raju Venkatraman, who was appointed as an Additional Director pursuant to Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company in accordance with the provisions of Section 257 and other applicable provisions, if any, of the Companies Act, 1956 and the Articles of Association of the Company.

   RESOLVED FURTHER THAT pursuant to the provisions of Sections 198, 269, 309, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to approval of Central Government, if required, approval of the Company be and is hereby accorded to the appointment of Mr. Raju Venkatraman, as Joint Managing Director and Chief Operating Officer for a period of five years w.e.f April 26, 2007 on a remuneration and on terms and conditions as set out in the Explanatory Statement annexed hereto.

   RESOLVED FURTHER THAT the aggregate amount of remuneration payable to Mr. Raju Venkatraman in a particular financial year will be subject to the ceiling limit laid down in Schedule XIII to the Companies Act, 1956.

   RESOLVED FURTHER THAT the Board of Directors of the Company including any Committee thereof be and are hereby authorized to increase/ alter/ modify/ vary the terms of remuneration of Mr. Raju Venkatraman within the ceiling limit laid down in Schedule XIII to the Companies Act, 1956."

9. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a **Special Resolution:**

   "RESOLVED THAT the draft Articles of Association of the Company, a copy of which is placed before this meeting, duly initialed by the Chairman, be and are hereby approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all the existing Articles."

10. To consider and, if thought fit, to pass, with or without modification(s), the following Resolution as a **Special Resolution:**

    "RESOLVED THAT in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ('SEBI Guidelines') including any statutory modifications or re-enactment thereof for the time being in force, consent of the Shareholders be and is hereby accorded to the Board of Directors of the Company for ratification of Employee Stock Option Schemes of the Company in force prior to the Initial Public Offer viz. ICICI OneSource Employee Stock Option Scheme, 2002 and ICICI OneSource Employee Stock Option Scheme, 2003.

    RESOLVED FURTHER THAT consent of the shareholders be and is hereby accorded for changing the name of ICICI OneSource Employee Stock Option Scheme, 2002 to Firstsource Solutions Employee Stock Option Scheme, 2002 ("ESOS 2002") and ICICI OneSource Employee Stock Option Scheme, 2003 to Firstsource Solutions Employee Stock Option Scheme, 2003 ("ESOS 2003") and for amending the said schemes.

    RESOLVED FURTHER THAT consent of the Shareholders be and is hereby accorded for ratification of 24,20,000 Options granted on February 19, 2007 and 1,10,000 Options granted on April 26, 2007 to the employees, by the Compensation cum Board Governance Committee of the Board of Directors under ESOS 2003.

    RESOLVED FURTHER THAT consent of the Shareholders be and is hereby accorded for ratification of the decision taken by the Board of Directors of the Company at their meeting held on November 20, 2006 to increase the Stock Option pool under Company's Employees Stock Option Schemes by 81,82,000 options i.e. from the then existing pool of 4,81,59,517 Stock Options to 5,63,41,517 Stock Options (net of stock options cancelled /lapsed and forfeited).

    RESOLVED FURTHER THAT the Board be and hereby authorized to re-issue the Stock Options which are cancelled/lapsed/forfeited under any of the Employee Stock Option Schemes of the Company.

    RESOLVED FURTHER THAT in accordance with the provisions of Section 81 and all other applicable provisions, if any, of the Companies Act, 1956 ("the Act") and SEBI Guidelines or any statutory modification(s) or re-enactment of the Act or the Guidelines, the provisions of any other applicable laws and regulations, the Articles of Association of the Company and Listing Agreements entered into by the Company with the Stock Exchanges where the securities of the Company are listed and subject to any applicable approval(s), permission(s) and sanction(s) of any authorities and subject to any condition(s) and modification(s) as may be prescribed or imposed by such authorities while granting such approval(s), permission(s) and sanction(s) and which may be agreed to and accepted by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall include any Committee of the Board), consent of the Company be and is hereby accorded to the Board of Directors of the Company to create, offer, issue, allot equity shares and/or equity linked instruments which could give rise to the issue of equity shares (hereinafter referred to collectively as "the Securities") under ESOS 2002 and ESOS 2003 to such permanent employees of the Company whether working in India or out of India and Directors of the Company whether Wholetime Directors or otherwise (hereinafter referred to collectively as the "Employees") within 12% (twelve percent) of the issued Equity Share capital of the Company on fully diluted basis i.e upto 5,63,41,517 shares including equity shares allotted/to be allotted under the said schemes at such price, in one or more tranches and on such terms and conditions as may be fixed or determined by the Board in accordance with the SEBI Guidelines or other provisions of the law or guidelines issued by the relevant authority or as may be prevailing at that time.

    RESOLVED FURTHER THAT Stock Options to be granted to the Non-Executive Directors of the Company including Independent Directors shall not exceed 0.25% of the paid up equity share capital in a financial year and 0.50% of the paid up equity share capital in aggregate.

    RESOLVED FURTHER THAT the securities may be allotted in accordance with the said Scheme either directly or through an existing trust or a trust which may be set up in any permissible manner and that the Scheme may also envisage for providing any financial assistance to the trust to enable the trust to acquire, purchase or subscribe to the securities of the Company.

    RESOLVED FURTHER THAT any new equity shares to be issued and allotted as aforesaid shall rank pari passu inter-se with the then existing equity shares of the Company in all respects.

    RESOLVED FURTHER THAT the Board be and is hereby authorised to take necessary steps for listing of the Securities allotted under the said schemes on the Stock Exchanges where the securities of the Company are listed as per the provisions of the Listing Agreements with the Stock Exchanges concerned, the Guidelines and other applicable laws and regulations.

    RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary, expedient or proper and to settle any questions, difficulties or doubts that may arise in this regard at any stage including at the time of listing of the Securities without requiring the Board to secure any further consent or approval of the Members of the Company to the end and intent that they shall be deemed to have given their approval thereto expressly by the authority of this resolution."

11. To consider and, if thought fit, to pass the following resolution, with or without modification(s), as a **Special Resolution:**

    "RESOLVED THAT in accordance with the provisions of Section 81 and all other applicable provisions, if any, of the Companies Act, 1956 ("the Act") and the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") or any statutory modification(s) or re-enactment of the Act or the Guidelines, the provisions of any

    other applicable laws and regulations, the Articles of Association of the Company and Listing Agreements entered into by the Company with the Stock Exchanges where the securities of the Company are listed and subject to any applicable approval(s), permission(s) and sanction(s) of any authorities and subject to any condition(s) and modification(s) as may be prescribed or imposed by such authorities while granting such approval(s), permission(s) and sanction(s) and which may be agreed to and accepted by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall include any Committee of the Board), consent of the Company be and is hereby accorded to the Board to extend the benefits of "Firstsource Solutions Employee Stock Option Scheme, 2002 ("ESOS 2002") and Firstsource Solutions Employee Stock Option Scheme 2003 ("ESOS 2003") as referred to in the resolution under Item No. 10 in this Notice and duly passed at this Meeting, also to such permanent employees of the subsidiary companies whether working in India or out of India and Directors of the subsidiary companies whether Wholetime Directors or otherwise, as may be decided by the Board and/or such other persons, as may from time to time, be allowed under prevailing laws and regulations on such terms and conditions as may be decided by the Board.

    RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary, expedient or proper and to settle any questions, difficulties or doubts that may arise in this regard at any stage including at the time of listing of the securities without requiring the Board to secure any further consent or approval of the Members of the Company to the end and intent that they shall be deemed to have given their approval thereto expressly by the authority of this resolution."

Mumbai
July 9, 2007
Registered Office:
6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg,
Lower Parel, Mumbai 400 013

By Order of the Board of Directors

SANJAY GUPTA
Company Secretary

NOTES

1. **A member entitled to attend and vote at the Annual General Meeting (AGM) is entitled to appoint a proxy to attend, and on a poll, to vote instead of himself. Such a proxy need not be a member of the Company. Proxies, in order to be valid and effective, must be delivered at the Registered Office of the Company no later than forty-eight hours before the commencement of the AGM.**
2. The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to Special Business under Item Nos. 5 to 11 set out in the Notice is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will be closed from Tuesday, August 7, 2007 to Tuesday, August 14, 2007 (both days inclusive) for the purpose of AGM.
4. All the documents referred to in the Notice and the Explanatory Statement will be available for inspection by the Members at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on all working days up to the date of the Meeting.
5. Corporate Members intending to send their authorized representatives to attend the Meeting are requested to send a certified copy of the Board Resolution authorising their representative to attend and vote on their behalf at the AGM.
6. Members are requested to bring Attendance Slip along with their copy of Annual Report to the Meeting.
7. In case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.
8. Pursuant to the requirement of Corporate Governance Code under the Listing Agreement entered into by the Company, the information about the Directors proposed to be appointed/re-appointed is given in the Annexure to the Notice.
9. Members desirous of getting any information about the accounts and operations of the Company are requested to write to the Company at least 7 days before the meeting to enable the Company to keep the information ready at the meeting.

EXPLANATORY STATEMENT

(Under Section 173 (2) of the Companies Act, 1956)

Item Nos. 5 and 6.

Mr. Y. H. Malegam and Mrs. Lalita D. Gupte were appointed as additional Directors of the Company on July 27, 2006 and December 19, 2006 respectively by the Board of Directors of the Company. According to the provisions of Section 260 of the Companies Act, 1956, they hold office as Directors upto the date of the ensuing Annual General Meeting. As required by Section 257 of the Act, notices have been received from members signifying their intention to propose the appointment of Mr. Y. H. Malegam and Mrs. Lalita D. Gupte as Directors of the Company, along with prescribed deposit of Rs. 500 with each notice.

Brief resume of Mr. Y. H. Malegam and Mrs. Lalita D. Gupte are given in the Annexure to this Notice. Keeping in view the enriched expertise and knowledge of Mr. Y. H. Malegam and Mrs. Lalita D. Gupte, the Board considers it desirable that the Company should continue to avail their service. Their brief resume are given in the Annexure to the Notice.

The Board recommends the Resolution set out at Item Nos. 5 and 6 of the Notice for approval by the Members.

None of the Directors, except Mr.Y. H. Malegam and Mrs. Lalita D. Gupte are in any way concerned or interested in the said Resolutions.

Item No. 7

The Board of Directors at their meeting held on October 27, 2006 had renewed the appointment of Mr. Ananda Mukerji, Managing Director and the Chief Executive Officer (CEO) of the Company for a further period of 5 years from April 17, 2007 to April 16, 2012. This was confirmed by the Shareholders of the Company at their Meeting held on November 10, 2006.

Brief resume of Mr. Ananda Mukerji is given in the Annexure to this Notice.The details of the terms and conditions, pursuant to the recommendation of the Compensation cum Board Governance Committee meeting payable to Mr. Ananda Mukerji, Managing Director and CEO are as under :

Salary and fixed allowances:

An amount in the range of Rs.6,25,000 to Rs.12,50,000 per month. The Board of Directors (hereinafter referred to as the “Board” which term shall include any committee of the Board), in its absolute discretion and from time to time, will fix within the range stated above, the salary payable to Mr. Ananda Mukerji.

Perquisites:

Mr. Ananda Mukerji will also be entitled to perquisites (evaluated as per Income-Tax Rules, wherever applicable, and at actual cost to Firstsource Solutions Limited in other cases) like the benefit of electricity, water and furnishings, club fees, personal insurance, use of car, telephone at residence or reimbursement of expenses in lieu thereof, payment of income tax on perquisites by the Company to the extent permissible under the Income Tax Act, 1961 and rules framed thereunder, medical reimbursement, leave and leave travel concession, education benefits for children, provident fund, superannuation fund, gratuity and other retirement benefits, in accordance with the scheme(s) and rule(s) applicable to the senior executives of the Company from time to time, for the aforesaid benefits.

Variable Compensation including Bonus and Management Incentives :

In addition to above salary and perquisites, Mr. Ananda Mukerji will also be entitled to variable compensation including bonus and incentives under the Management Incentive Plan of the Company upto 150% of fixed salary, based on achievement of such performance parameters as may be laid down by the Board or Compensation cum Board Governance Committee and subject to such other approvals as may be neccessary.

The above remuneration is within the limits prescribed under Schedule XIII and other applicable provisions of the Companies Act, 1956. In the event of absence or inadequacy of profit in any financial year, the remuneration payable to Mr. Ananda Mukerji shall be governed by Section II of Part II of Schedule XIII of the Companies Act, 1956, or any modification(s) thereto. However, he shall not be entitled to any sitting fee for attending meetings of the Board and/or Committee of Directors. Subject to the provisions of the Act and Articles of Association of the Company, his office shall not be liable to retire by rotation. The terms and conditions as set out above may be altered or varied by the Board as it may from time to time deem fit, within the limits laid down in Schedule XIII to the Companies Act, 1956.

The above may also be treated as an abstract of the terms of appointment and remuneration of Mr. Ananda Mukerji u/s 302 of the Companies Act, 1956.

The Board recommends the resolution as set out at Item No.7 of the notice for approval by members.

Mr. Ananda Mukerji may be deemed to be interested/concerned in the resolution contained under Item No. 7 of the notice. None of the other Directors of the Company are interested or concerned in the said Resolution.

Item No. 8

Mr. Raju Venkatraman was appointed as Additional Director by the Board of Directors on April 26, 2007. He was also appointed as Joint Managing Director and Chief Operating Officer (COO) of the Company for a period of 5 years w.e.f. April 26, 2007, subject to the approval of the shareholders in the General Meeting and the Central Government, if required. According to the provisions of Section 260 of the Companies Act, 1956, he holds office as Director upto the date of the ensuing AGM. As required by Section 257 of the Act, notice has been received from a member signifying his intention to propose the appointment of Mr. Raju Venkatraman as Director of the Company, along with prescribed deposit of Rs. 500.

Brief resume of Mr. Raju Venkatraman is given in the Annexure to this Notice. The details of the terms and conditions, pursuant to the recommendation of the Compensation cum Board Governance Committee payable to Mr. Raju Venkatraman, Joint Managing Director and COO are as under:

Salary and fixed allowances:

An amount in the range of Rs.6,25,000 to Rs.12,50,000 per month. The Board of Directors (hereinafter referred to as the "Board" which term shall include any committee of the Board), in its absolute discretion and from time to time, will fix within the range stated above, the salary payable to Mr. Raju Venkatraman.

Perquisites:

Mr. Raju Venkatraman will also be entitled to perquisites (evaluated as per Income-Tax Rules, wherever applicable, and at actual cost to Firstsource Solutions Limited in other cases) like the benefit of electricity, water and furnishings, club fees, personal insurance, use of car, telephone at residence or reimbursement of expenses in lieu thereof, payment of income tax on perquisites by the Company to the extent permissible under the Income Tax Act, 1961 and rules framed thereunder, medical reimbursement, leave and leave travel concession, education benefits for children, provident fund, superannuation fund, gratuity and other retirement benefits, in accordance with the scheme(s) and rule(s) applicable to the senior executives of the Company from time to time, for the aforesaid benefits.

Variable Compensation including Bonus and Management Incentives :

In addition to above salary and perquisites, Mr. Raju Venkatraman will also be entitled to variable compensation including bonus and incentives under the Management Incentive Plan of the Company upto 150% of fixed salary, based on achievement of such performance parameters as may be laid down by the Board or Compensation cum Board Governance Committee and subject to such other approvals as may be neccessary.

The above remuneration is within the limits prescribed under Schedule XIII and other applicable provisions of the Companies Act, 1956. In the event of absence or inadequacy of net profit in any financial year, the remuneration payable to Mr. Raju Venkatraman shall be governed by Section II of Part II of Schedule XIII of the Companies Act, 1956, or any modification(s) thereto. However, he shall not be entitled to any sitting fee for attending meetings of the Board and/or Committee of Directors. Subject to the provisions of the Act and Articles of Association of the Company, his office shall not be liable to retire by rotation. The terms and conditions as set out above may be altered or varied by the Board as it may from time to time deem fit, within the limits laid down in Schedule XIII to the Companies Act, 1956.

The above may also be treated as an abstract of the terms of appointment and remuneration of Mr. Raju Venkatraman u/s 302 of the Companies Act, 1956.

The Board recommends the resolution as set out at Item No. 8 of the notice for approval by members.

Mr. Raju Venkatraman may be deemed to be interested/concerned in the resolution contained under Item No. 8 of the notice. None of the other Directors of the Company are interested or concerned in the said Resolution.

Item No. 9

As per Share Subscription Agreements and Amended and Restated Shareholders Agreement ("Agreements") among the Company and Metavante Corporation ('Metavante'), Westbridge Ventures I Investment Holdings ("Westbridge"), Aranda Investments (Mauritius) Pte Limited ("Aranda") and Western India Trustee & Executor Company Ltd. executed on March 31, 2006 and the Articles of Association of the Company. It was agreed that all rights and obligations of the parties to the Agreement would get terminated upon successful completion of IPO of the Company, except the rights relating to appointment of nominee Directors by Aranda and Metavante, which shall continue for a period of 12 months from the date of completion of IPO.

Since the IPO of the Company has successfully completed, the rights of parties to the aforesaid agreement stand terminated except the rights as stated above. Articles of Association of the Company are to be amended suitably to give effect to the said provision. Further, some Articles are to be added/ modified in terms of Listing Agreement the Company has entered with National Stock Exchange of India Limited and Bombay Stock Exchange Limited.

Shareholders' approval is required through special resolution u/s 31 of the Companies Act, 1956 for the alteration of the Articles of Association of the Company. The draft copy of the new set of amended Articles of Association of the Company is available for inspection by the Members at the Registered Office of the Company.

The Directors recommend the resolution as set out at Item No. 9 for approval by the Members.

None of the Directors, except Mr. Donald W. Layden Jr., Mr. Dinesh Vaswani, Mr. K. P. Balaraj, and Mrs. Shikha Sharma, being nominee Directors of Metavante, Aranda, Westbridge and ICICI Bank are in anyway, concerned or interested in this resolution.

Item No. 10 and 11

Stock Options have long been recognised as an effective instrument to attract talent and align the interest of employees with those of the Company and its shareholders, providing an opportunity to employees to share the growth of the Company and to create long-term wealth in the hands of employees.

Pursuant to Clause 22.2 (A) of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, ('SEBI Guidelines') any fresh grant of Options under the IPO scheme of the company in force prior to IPO can be made only if the such scheme is in conformity with SEBI Guidelines and the same is ratified by the shareholders in the general meeting subsequent to the IPO. It is also proposed to change the name of Employee stock Option Schemes of the Company to reflect the change in the name of the Company from "ICICI OneSource Limited" to " Firstsource Solutions Limited" and to amend the said schemes to enable the Company and its subsidiaries to recover tax paid on Stock Options on behalf of the employees.

As per Clause 49(I)(B) of the Listing Agreement with Stock Exchanges, shareholders' approval is sought for approving the limit, within which stock options can be granted to Non-Executive Directors including Independent Directors of the Company, in a financial year and in aggregate. Further, clause 6(1) of the SEBI Guidelines requires that any employee stock option scheme must be approved by way of a special resolution. As per Clause 6(3) of the SEBI Guidelines, a separate special resolution is required to be passed if the benefits of the scheme are to be extended to employees of the holding or subsidiary companies. Further, as the Scheme will entail further shares to be offered to persons other than existing Members of the Company, consent of Members is required by way of a special resolution pursuant to the provisions of Section 81 of the Companies Act, 1956 (the Act). Accordingly the resolutions set out at Item Nos. 10 and 11 are being placed for approval of Members pursuant to the provisions of Section 81 of the Act and Clause 6 of the SEBI Guidelines and all other applicable provisions of laws.

The salient features of the Firstsource Solutions Employees Stock Option Scheme – 2003 (hereinafter referred to as the "the Scheme") are as under –

(A) Total number of Options to be granted

The maximum number of Stock Options granted to all the Eligible Employees shall not exceed 12% of the aggregate number of fully diluted issued and paid up Share Capital of the Company i.e. 5,63,41,517 options.

(B) Identification of classes of employees entitled to participate in the Scheme

An employee of the Company (whether based in India or overseas, whether an Indian national or a foreign national); or a Director of the Company, whether a whole time director or not or an employee of a Subsidiary Company, in India or out of India, or of a Holding Company of the Company ("Employee").

A promoter and director who either by himself or through his relative or through any body corporate, directly or indirectly, holds more than 10% of the outstanding shares of the Company shall not be eligible to participate in the ESOS 2003, and would not be eligible for grant of stock option. Such director shall not be, for this purposes considered as 'Eligible Employee'.

(C) Requirements of vesting, period of vesting and maximum period of vesting

There shall be a minimum period of one year between the grant of Options and vesting of Options. The maximum vesting period may extend up to four years from the date of grant of Options, unless otherwise decided by the Compensation cum Board Governance Committee ("The Committee"). 25% of the Options granted will vest at the end of 12 months from the date of the grant and 12.5% will vest after every six months thereafter.

(D) Exercise price or pricing formula

The exercise price for the purpose of the grant of Options shall be determined by the Committee as per SEBI Guidelines in this regard.

(E) Exercise period and process of exercise

Each Stock Option shall expire in entirety upon the fifth anniversary of the date of grant of Stock Option. The Options will be exercisable by the Employees by a written application to the designated officer of the Company, in such manner, and on execution of such documents, as may be prescribed by the Committee. The Options shall lapse if not exercised any time within the exercise period.

(F) Appraisal process for determining the eligibility of employees to the ESOS

In determining the eligible Employee to receive Stock Options as well as in determining the number of Stock Options to be granted to an Option Grantee, the Committee may consider the position and responsibilities, services and accomplishments (whether direct or indirect), length of service, grade, performance, merit, present and potential contribution and conduct and such other factors as the Committee may deem relevant.

(G) Maximum number of Options to be issued per employee and in aggregate

The maximum number of Stock Options granted to any eligible Employee in any financial year shall not be more than one percent (1%) of the Issued and Paid-up Share Capital of the Company on a fully diluted Basis, unless such grant is approved by a special resolution passed by the equity shareholders of the Company. The face value of the Shares to be allotted under ESOS 2003 to all the persons resident outside India (who are eligible Employees of the Company or its subsidiary companies or Wholly Owned Subsidiary Companies outside India) shall not exceed five percent (5%) of the share capital of the Company. The maximum number of Stock Options that can be issued under the scheme to Non-Executive Directors of the Company including Independent Directors in a financial year and in aggregate shall not exceed 0.25% of the paid up equity share capital in a financial year and 0.50% of the paid up equity share capital in aggregate.The maximum number of Stock Options granted to all the Eligible Employees shall not exceed 12% of the aggregate number of fully diluted issued and paid up Share Capital of the Company i.e. 5,63,41,517 options.

(H) Accounting policies

The Company shall conform to the accounting policies specified in Clause 13.1 of the Guidelines, and/or such other guidelines as may be applicable, from time to time.

(I) Method of valuation of options

The Company shall use the intrinsic value method to account compensation expense arising from issuance of Stock Options to the employees. In case, the Company calculates the employee compensation cost using the intrinsic value of the Stock Options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognised, if it had used the fair value of the Options, shall be disclosed in the Directors' Report and impact of such difference on profits and on EPS of the Company shall also be disclosed in the Directors' Report.

The Options to be granted under the Scheme shall not be treated as an offer or invitation made to public for subscription in the securities of the Company.

The Board recommends the Special Resolutions as set out at Item Nos. 10 and 11 for approval of Members.

None of the Directors of the Company is, in any way, concerned or interested in the resolutions, except to the extent of the Options that may be offered to them under the Scheme.

By Order of the Board of Directors

Mumbai
July 9, 2007
Registered Office:
6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg,
Lower Parel, Mumbai 400 013

SANJAY GUPTA
Company Secretary

ANNEXURE TO THE NOTICE

Mr. Ananda Mukerji, 48 years has a Post Graduate Diploma in Management (PGDM) from the Indian Institute of Management (IIM), Kolkata and a Graduate Degree from the Indian Institute of Technology (IIT), Kharagpur. He has over 22 years experience. He joined the Company on February 13, 2002 as an Additional Director and was appointed as the Managing Director and Chief Executive Officer w.e.f. April 17, 2002. He has been responsible for spearheading the Company's growth over the years. Besides his experience in the outsourcing industry, he also has extensive experience in finance and strategy. During his tenure at the erstwhile ICICI Limited (since merged with ICICI Bank Limited), he set up and managed a number of new businesses for it, including the infrastructure, structured finance and advisory businesses. He also had short stints with Enron India Limited and BPL Communications Limited.

Mr. Mukerji holds Directorships in subsidiaries of the Company i.e. Firstsource Solutions USA, Inc. Firstsource Solutions U.K Limited, First Ring Inc., Pipal Research Corporation, Business Process Management, Inc. Firstsource Solutions S.A., Account Solutions Group. LLC., RevIT Systems Private Limited, Sherpa Business Solutions Inc, MedPlans Partners, Inc and MedPlans 2000, Inc. He holds membership of the Investors'/Shareholders' Grievance Committee of the Company. He holds 24,14,300 equity shares and 26,63,877 Stock Options in the Company.

Mr. Raju Venkatraman, 49 years, has completed Executive MBA from the Indian Institute of Management (IIM), Ahmedabad and a Graduate degree in Chemical Engineering from the Indian Institute of Technology (IIT), Chennai. He has been President and Chief Operating Officer (COO) of our Company before his appointment as Joint Managing Director and COO. He has 26 years of experience including over 20 years of experience in the field of technology outsourcing. He began his career at EDS where he spearheaded the applications outsourcing business (now called BPO) in a variety of verticals including Healthcare, Manufacturing and Federal Government. In 1991, he launched Vetri Systems, an offshore outsourcing company. Scaling his original company to nearly 4,000 employees/contractors, he sold it to Lason, Inc. in 1998. He served as the President of Data Management Services at Lason and was responsible for achieving a level of more than 7,500 employees and US$ 85 million in revenue. In early 2002, he set up RevIT, a Chennai based BPO in the Healthcare and Print & Publishing space that was acquired by the Company. He was named amongst the "Top 75 Indian Entrepreneurs in America" for the Year 2000 by 'Business India' magazine.

He holds Directorships in Polaris Software Lab Ltd., RevIT Systems Pvt. Ltd., Vetri Info Data Pvt. Ltd., Vetri Info Data LLC and Sherpa Business Solutions Inc. He is also member of Shareholders Committee of Polaris Software Lab Limited. He holds 5,59,579 equity shares and 24,75,000 stock options in the Company.

Mr. Shailesh Mehta, 57 years, has done B. Tech - Mechanical Engineering from Indian Institute of Technology, Mumbai, M.S. Operations Research, Computer Science and Ph.D in Operations Research and Computer Science from Cleveland, USA. His areas of expertise include Investments, advising and Insurance. He is president of Granite Hill Capital Ventures LLC, an investment and advisory partnership firm. He has been a general partner with Invesco funds with over US$ 7 billion under management. He has also served as operating general partner of Sequoia India with over US$ 400 million under management. He was previously Chairman and CEO of Providian Financial Corporation, a company with over US$ 30 billion in assets and over 18 million customers. He joined the founding team of First Deposit Corporation, the predecessor company to Providian, in 1986 and built it from just 80 employees to over 12,000 employees. Providian became a "Fortune 500" company, and was in the S&P 500. He also served as president and COO of Providian Corporation (only institutional investor of Providian Financial), which was the 10th largest shareholder-owned insurance company in America. He was Executive Vice President at the Ohio-based Ameritrust Corporation (now Key Corp.) before joining the founding team of Providian Financial. He has also served as an advisory board member for Arcot Systems, OSI Inc. He has received several awards for excellence in leadership as an individual and as a community leader.

He holds Directorships in Safari Industries (India) Limited, Account-now Corp and G. H. Infotech Services Pvt. Ltd. He is a member of Compensation cum Board Governance Committee of the Company. He holds 2,45,000 equity shares and 2,50,000 Stock Options in the Company.

Mrs. Shikha Sharma,47 years, has done B.A. (Hons.) and a Post Graduate Diploma in Software Technology from the National Centre for Software Technology, Mumbai and completed her Masters of Business Administration from the Indian Institute of Management, Ahmedabad. She is the Managing Director & CEO of ICICI Prudential Life Insurance Company Ltd. ICICI Prudential was amongst the first private sector companies in India to be awarded a life license in December 2000, and since its inception the company has established itself as India's leading private life insurer, offering a complete range of products to meet the varying needs of the Indian customer. She began her career with erstwhile ICICI Ltd, one of India's largest financial services providers, in 1980. She has been instrumental in setting up various group businesses for the company, including investment banking and retail finance.

She holds Directorships in ICICI Prudential Life Insurance Company Limited, ICICI Prudential Asset Management Company Limited and ACC Limited. She is also member of Audit Committee of ICICI Prudential Asset Management Company Limited. She does not hold any shares in the Company.

Mr. Y. H. Malegam, 73 years, is a Chartered Accountant in India and in England and Wales. He has been a Senior Partner of S.B. Billimoria & Co., Chartered Accountants and Co-Chairman of Deloitte Haskins & Sells, Chartered Accountants. He has been President of the Institute of Chartered Accountants of India.

His areas of expertise include Audit, Finance and Taxation. He was Chairman of the erstwhile Malegam Committee appointed by SEBI to review disclosure requirements in offer documents. He was also a member of the study group appointed by SEBI on accounting policies, net asset values and pricing of mutual funds and a member of the Kumar Mangalam Birla Committee appointed by SEBI on corporate governance. He is currently the Chairman of SEBI's Committee on Disclosures and Accounting Standards (SCODA). He is also a member of the Central Board of the Reserve Bank of India and the Chairman of its local board for the Western Region.

He holds Directorships in several Companies namely ABC Bearings Limited, Cabot India Limited, The Clearing Corporation of India Limited, Hindustan Construction Company Limited, National Securities Clearing Corp. Limited, National Stock Exchange of India Limited, Nicholas Piramal India Limited, Siemens Limited, Tata Coffee Limited, Tata Tea Limited and Bhartiya Reserve Bank - Note Mudran (P) Ltd. He is the Chairman of Audit Committee of the Company as also of Bharitya Reserve Bank - Note Mudran (P) Ltd. Siemens Limited, Tata Coffee Limited and Tata Tea Limited. He is the Member of Audit committee of Cabot India Limited, National Stock Exchange of India Limited and Nicholas Piramal India Limited and Member of Remuneration Committee of Siemens Limited and Tata Coffee Limited. He does not hold any shares in the Company. He holds 2,50,000 stock options in the Company.

Mrs. Lalita D. Gupte, 58 years, holds a Bachelor's Degree in Economics and a Master's degree in Business Management. She has retired recently as Joint Managing Director and Member of the Board of ICICI Bank Limited, India's largest private sector bank. She was responsible for setting up the International business of ICICI Bank since 2001. The International Business in a short span accounts for over 17% of the business of the Bank. She is currently Chairperson of ICICI Venture Funds Management Co. Ltd. She has more than three decades of experience in the financial sector, beginning her career with the erstwhile ICICI Limited in 1971 in the project appraisal division. Since then she has held various leadership positions in areas of Corporate and Retail Banking, Strategy, and Resources, and International Banking and other areas. She was responsible for ICICI Bank's international relationships and businesses in the retail, corporate and technology areas and for forging international alliances required for the domestic businesses.

She has received numerous awards and recognitions. In addition, Mrs. Gupte regularly addresses seminars at leading business schools. She has been on the Board of Governors of IIT, Mumbai and is presently Member of the Board of Management of Narsee Monjee Institute of Management & Higher Studies (Deemed University) and is on the Deans Advisory Board of the Rotman School of Management, University of Ontario.

She holds Directorship in Nokia Corporation, Bharat Forge Ltd., Kirloskar Brothers Ltd. and Swadhaar FinAccess, a non profit company under Section 25 of the Indian Companies Act. She is member of Audit Committee of the Company. She is also the Chairperson of Compensation and Governance Committee and Member of Audit Committee of ICICI Venture Funds Management Company Limited and Nokia Corporation. She does not hold any shares in the Company.

DIRECTORS' REPORT

Dear Members,

The Directors take great pleasure in presenting their report on the business and operations of the Company along with the Sixth Annual Report to the Members with the audited financial statements for the year ended March 31, 2007.

FINANCIAL RESULTS

The performance of the Company for the financial year 2006-07 is summarized below:

(Rs. in Million)

Particulars	Consolidated		Standalone	
	FY 2006-07	FY 2005-06	FY 2006-07	FY 2005-06
Total Income	**8,399.3**	5,495.2	**4,392.7**	3,271.6
Operating profit before Interest and Depreciation	**1,745.5**	806.3	**1,180.9**	571.5
Interest	**77.7**	85.2	**5.8**	39.0
Depreciation	**641.4**	451.5	**412.5**	355.7
Profit before tax	**1,026.4**	269.6	**762.6**	176.8
Provision for taxation	**60.2**	27.0	**19.8**	19.1
Profit after tax before minority interest	**966.2**	242.6	**742.8**	157.7
Minority interest	**-6.3**	-4.1	–	–
Net Profit after tax	**972.5**	246.7	**742.8**	157.7
Balance brought forward	**324.4**	77.7	**141.4**	-16.3
Accumulated Balance in Profit & Loss Account	**1,296.9**	324.4	**884.2**	141.4
Earnings per share (Rs.)				
- Basic	**3.67**	1.23	**2.80**	0.78
- Diluted	**2.50**	0.80	**1.91**	0.51

RESULTS OF OPERATIONS

The consolidated revenue increased from Rs. 5,495.2 million to Rs. 8,399.3 million a growth of 52.8% over the previous financial year. The Consolidated Profit before tax increased from Rs. 269.6 million to Rs. 1,026.4 million, an increase of 280.7%. The Consolidated Net Profit after tax increased from Rs. 246.7 million to Rs. 972.5 million, a growth of 294.2% over the previous financial year.

The standalone revenue increased from Rs. 3,271.6 million to Rs. 4,392.7 million a growth of 34.3% over the previous financial year. The Standalone Profit before tax increased from Rs. 176.8 million to Rs. 762.6 million, an increase of 331.3%. The standalone Profit after tax increased from Rs. 157.7 million to Rs. 742.8 million, a growth of 371% over the previous financial year. The Directors do not recommend any dividend for FY 2007.

INCREASE IN AUTHORISED SHARE CAPITAL

During the year, the authorised capital of Rs. 8,500 million comprising 450 million equity shares of Rs.10 each and 400 million preference shares of Rs. 10/- each was altered to Rs. 8,500 million comprising 600 million equity shares of Rs.10 each and 250 million preference shares of Rs. 10 each pursuant to approval of the shareholders at the Extra-ordinary General Meeting held on November 22, 2006.

ISSUE OF SHARE CAPITAL

During the year 60,000,000 shares were allotted to the Public through an Initial Public Offering. In addition, the Company allotted 10,314,498 equity shares of the face value of Rs.10/- each to employees, who exercised their options under Employees Stock Option Schemes 2002 & 2003. The Company also allotted 10,000 equity shares to Metavante Corporation ("Metavante") for cash and 152,884,798 shares to Westbridge Ventures I Investment Holdings ("Westbridge"), Aranda Investments (Mauritius) Pte. Ltd. ("Aranda") and Metavante on conversion of Participatory Optionally Convertible Preference Shares of Rs. 10/- each. As on 31st March, 2007, equity share capital stood at Rs. 4,250,842,960 divided into 425,084,296 equity shares of Rs. 10/- each. As a result of the above, the capital of the Company increased by Rs. 2,232 million during the year.

INITIAL PUBLIC OFFERING (IPO)

During the year, the Company successfully made an Initial Public Offering of 69.3 million equity shares of Rs. 10/- each at an issue price of Rs. 64 aggregating to Rs. 4,435.2 million. This consisted of fresh issue of 60 million shares by the Company and an offer for sale of 9.3 million shares by ICICI Strategic Investment Fund (SIF). The issue received an overwhelming response from the public and was oversubscribed by over 50 times. The retail tranche was oversubscribed by 11.5 times with a demand of nearly US $350 million with over 358,000 applications. The Non Institutional tranche was oversubscribed by 40.7 times and the Institutional (QIBs) tranche by 72.3 times.

BUSINESS OVERVIEW

The Company is a leading provider of offshore BPO services to clients primarily in the Banking and Financial Services Industry (BFSI), Telecommunications & Media and Healthcare industries. The Company provides a comprehensive range of services to clients in each of its focus industries. The Company is the third-largest "pure-play" BPO service provider in India (BPO service providers that are not affiliated with information technology companies) and NASSCOM ranked the Company as the fifth largest BPO service provider overall in India, in terms of revenue for fiscal 2006.

The total consolidated income of the Company has grown at a compound annual growth rate of 67% from Rs. 1,807.8 million in fiscal 2004 to Rs. 8,399.3 million in fiscal 2007. Over the same period, its consolidated Profits after Tax have increased at a compound annual growth rate of 442% from Rs. 6.1 million in fiscal 2004 to Rs. 972.53 million in fiscal 2007.

The Company (on a consolidated basis) has increased the number of its delivery centres from 4 as of March 31, 2004 to 24 as of March 31, 2007. On a consolidated basis it has grown from 4,009 full-time employees and 21 clients as of March 31, 2004 to 14,396 employees and 76 clients as of March 31, 2007. Its current clients include 5 "Fortune Global 500" banks, 2 "Fortune Global 500" telecommunication companies and 3 "Fortune 100" healthcare companies.

Strategic partnership

In March 2006, the Company entered into a strategic partnership with Metavante, a subsidiary of the Marshall & Ilsley Corporation. Pursuant to this partnership, the Company is Metavante's exclusive offshore and preferred onshore BPO service partner and has access to Metavante's banking domain consultants and preferred rights to the use of its widely-accepted technology platforms for providing outsourcing services. With certain exceptions, Metavante is also the Company's exclusive channel partner for the North American banking and financial institutions market, thereby giving it access to Metavante's clients, which include super regional, regional and local banks and financial institutions in the U.S. During the year, significant progress was made in developing a joint proposition for the market and marketing it to Metavante's customer base.

Competitive Strengths

The Company believes that the following business strengths allow it to compete successfully in the BPO industry:

- Its established early leadership in the offshore BPO market.
- Strategic positioning in the target industry sectors.
- Well established relationships with large global companies.
- A global delivery model with both onshore and offshore delivery capability.
- Well diversified revenue stream across geographies, verticals and clients.
- Experienced management team with proven track record in managing high growth.

Acquisitions and Investments

On December 29, 2006, the Company acquired 100% of the outstanding share capital of Business Process Management, Inc. (BPM), a U.S. based business process outsourcing company providing services principally to participants in the U.S. healthcare industry. As of March 31, 2007, BPM, together with its 2 subsidiaries viz. MedPlans Partners Inc. and MedPlans 2000 Inc. had 316 employees operating out of three service delivery centres located in U.S. The Company believes that the BPM acquisition will allow it to expand out service offerings to provide an end-to-end value proposition to its clients in the healthcare industry with both front-and back-office capabilities.

Global Delivery Footprint

During the year, the Company has added 13 delivery centres increasing its total number of centres to 24 as of March 31, 2007. 15 of the centres are located in 9 cities in India, 6 are in the U.S., 2 are in U.K. and 1 is located in Argentina. The Company believes that its global delivery platform offers important business advantages, including an enhanced ability to service clients that demand a multi-shore capability, physical proximity to many of its important clients and an enhanced business continuity capability. The Company is currently in the process of setting up an additional centre in India and one in Manila, Philippines.

QUALITY INITIATIVES & CERTIFICATION

The Company has employed best practices in IT Service Management and Quality by adapting Information Technology Infrastructure Library (ITIL) framework enterprise wide. During the year, one of it's centres in Mumbai was certified under ISO 20000 IT Service Management standards certification from itSMF (IT Service Management Forum) of U.K., the first pure play BPO to have secured this certification in India and 96th company in the world. The Company also got certified its centres under

ISO 27000 (formerly BS 7799). During the year its centres at Chennai, Pondicherry and Trichy received this certification. It is proposed to get other centres certified during the current year.

HUMAN RESOURCES

As on March 31, 2007, the total employee head count at the Company stood at 14,396. The growth of employment numbers was characterized by a rapid scale up in the number of employees whereby 6046 people were added during the year under review. Attrition continued to be a challenge in the whole industry and the Company also had to face it. Attrition rate for the year 2006-07 stood at 42.2%, which while high, compares well with most of the players in the industry.

The statement of particulars required pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) (Amendment) Rules, 2002 forms part of the Report. However, as permitted by the Companies Act, 1956, the Report and Accounts are being sent to all Members and other entitled persons excluding the above statement. Those interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office and the same will be sent by post. The Statement is also available for inspection at the Registered Office, during working hours until the date of the Annual General Meeting.

PUBLIC DEPOSITS

During the financial year under review, the Company had not accepted any deposits under Section 58A of the Companies Act, 1956.

DIRECTORS

During the year, ICICI Bank Limited withdrew its Nominee Director Mrs. Madhabi Puri Buch from the Board of the Company w.e.f. November 20, 2006. Further Aranda withdrew its nominee Mr. Akash Prakash w.e.f. April 27, 2006 and nominated Mr. Dinesh Vaswani from the same date. Metavante nominated Mr. Donald W. Layden Jr. as its nominee on the Board of the Company w.e.f. April 20, 2006.

The Board wishes to place on record its appreciation for the valuable service and guidance provided by Mrs. Madhabi Puri Buch & Mr. Akash Prakash during their tenure on the Board of the Company.

Mr. Y. H. Malegam and Mrs. Lalita D. Gupte were inducted as Independent Directors on the Company’s Board w.e.f. July 27, 2006 & December 19, 2006 respectively. Mr. Raju Venkatraman, the President and Chief Operating Officer (COO) of the Company was inducted into the Board of Directors of the Company as Additional Director and was also appointed as Joint Managing Director and COO. In terms of provisions of Section 260 of the Companies Act, they hold office till the conclusion of the forthcoming Annual General Meeting (AGM) of the Company and are eligible for appointment. The Company has received notice from some of the members of the Company pursuant to section 257 of the Companies Act, proposing their appointment at the forthcoming AGM of the Company, along with the requisite deposit. The Board recommends their appointment as Directors.

Mrs. Shikha Sharma and Mr. Shailesh Mehta retire by rotation at the forthcoming AGM and are eligible for re-appointment. The Board recommends their re-appointment at the forthcoming AGM. Mr. Dinesh Vaswani, Nominee Director of Aranda, Mr. K.P. Balaraj, Nominee Director of WestBridge and Mr. Donald W. Layden Jr, Nominee Director of Metavante, who are non-rotational directors, are not liable to retire by rotation.

AUDITORS

M/s BSR & Co., Chartered Accountants, who were appointed as the Statutory Auditors of the Company by shareholders at their previous AGM, shall be retiring on conclusion of the forthcoming AGM and are eligible for re-appointment. Members are requested to consider their re-appointment from the conclusion of this AGM until the conclusion of next AGM of the Company, at a remuneration to be decided by the Board of Directors.

EMPLOYEES STOCK OPTION SCHEMES

With a view to enthuse the employees to continue to contribute their best towards the growth and development of the Company, the Company had introduced ICICI OneSource Employees Stock Option Scheme in 2002 (ESOS 2002) which was replaced by a modified Stock Option Scheme, namely, ICICI OneSource Employees Stock Option Scheme, 2003 (ESOS 2003).

Disclosures in compliance with Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as amended, are given below :

Sr. No.	Description	ESOS 2002	ESOS 2003	
1.	Total number of options under the Plan	4,565,000		49,568,000
2.	Options granted during the year	Nil @		24,802,500
3.	Pricing formula	N.A.	Prior to the IPO, Fair Value calculated by an Autonomous Valuer appointed by the Compensation cum Board Governance Committee, on the date the Option is granted. This valuation exercise was being done once in a period of six months. Options granted on 19th February, 2007 were granted at a price of Rs. 64 per share, which was the issue price of shares offered under IPO.	
4.	Options vested during the year	437,500		5,217,624
5.	Options exercised during the year	1,585,125		8,565,623
6.	Total number of shares arising as a result of exercise of options during the year	1,708,875#		8,605,623#
7.	Options lapsed during the year	32,500		3,321,250
8.	Variation in terms of options during the year	Nil		Yes*
9.	Money realised by exercise of options during the year (Amount in Rs.)	19,638,606		137,875,984
10.	Total number of options in force	351,125		33,083,627
11.	Employee wise details of options granted to:			
	i) Directors and Senior Management during the year @	Nil	Ananda Mukerji	2,000,000
			Raju Venkatraman	1,600,000
			Matthew Vallance	1,300,000
			Rajesh Subramaniam	800,000
			John Cutrone	750,000
			Anthony Pino	750,000
			Ashok Ganguly	600,000
			Rahul Basu	500,000
			Sanjiv Dalal	500,000
			Aashu Calapa	500,000
			Santanu Nandi	300,000
			Charles Millers Smith	250,000
			Shailesh Mehta	250,000
			Y. H. Malegam	250,000
			Sanjeev Sinha	250,000
	ii) Any other employee, who has been granted options amounting to 5% or more of Options granted during the year.	Nil	Nil	
	iii) Identified employees who were granted options, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company during the year.	Nil	Nil	
12.	Diluted Earnings Per Share pursuant to issue of shares on exercise of option calculated in accordance (With Accounting Standard (AS) 20' Earnings Per Share')	Rs. 1.91	Rs. 1.91	
13.	Where the Company has calculated employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the	Please refer to Schedule no.19 of the Financial Statements	Please refer to Schedule no.19 of the Financial Statements	

	employee compensation cost that shall have been recognized if it had used the fair value of the options. The impact of this difference on profits and on EPS of the Company.		
14.	Weighted average exercise prices and weighted average fair values of options separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.	Please refer to Schedule no.19 of the Financial Statements	Please refer to Schedule no.19 of the Financial Statements
15.	A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted average information: (a) risk free interest rate (b) expected life (c) expected volatility (d) expected dividends and (e) the price of the underlying share in market at the time of option grant	– do –	– do –

@ No Options were granted under ESOS 2002 during the year 2006-07.

Includes 123,750 and 40,000 Options exercised under ESOS 2002 and ESOS 2003 respectively, pending for allotment on March 31, 2006, which were allotted on April 27, 2006.

* The Compensation cum Board Governance Committee of the Company at its meeting held on April 27, 2006 amended the vesting schedule for 15,980,000 options granted on May 1, 2006 to General Managers and above grade of employees and to Non-executive Directors such that 50% of Options would vest at the end of 24 months and the balance at the end of 36 months from the date of grant.

SUBSIDIARY COMPANIES

As on March 31, 2007 the Company had 12 subsidiaries

Domestic subsidiaries:

1. RevIT Systems Private Limited
2. Pipal Research and Analytics India Private Limited (A wholly-owned subsidiary of Pipal Research Corporation, U.S.)

International subsidiaries:

1. Firstsource Solutions USA Inc., U.S.
2. Firstsource Solutions UK Ltd., U.K.
3. Firstsource Solutions S.A., Argentina
4. FirstRing Inc., U.S.
5. Account Solutions Group LLC. (A subsidiary of FirstRing Inc., U.S.)
6. Pipal Research Corporation, U.S.
7. Sherpa Business Solution Inc., U.S. (A wholly-owned subsidiary of RevIT Systems Private Ltd.)
8. Business Process Management Inc., U.S.
9. MedPlans Partners Inc.,U.S. (A subsidiary of Business Process Management Inc.)
10. MedPlans 2000 Inc., U.S. (A subsidiary of Business Process Management Inc.)

The Company has made an application to the Central Government under Section 212(8) of the Companies Act, 1956 for exemption from enclosing copies of the Balance Sheet, Profit and Loss Account, Reports of the Board of Directors and Auditors of the subsidiaries of the Company with the Balance Sheet of the Company. However, the financial data of the subsidiaries have been furnished under 'Details of Subsidiaries' forming part of the Annual Report. Further, pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India, Consolidated Financial Statements of the Company and its subsidiaries for the year ended March 31, 2007, together with reports of Auditors thereon and the statement pursuant to Section 212 of the Companies Act, 1956, are attached. The financial statement of subsidiaries and related detailed information shall be available on a request made by any member of the Company and its subsidiaries and shall also be available for inspection by any member at its Registered/Head Office of the Company and that of the subsidiary Company concerned.

CORPORATE GOVERNANCE

A detailed report on Corporate Governance pursuant to Clause 49 of the Listing Agreement is separately attached along with a report on the Management Discussion and Analysis .

STATUTORY DISCLOSURES OF PARTICULARS

(a) Conservation of Energy

The operations of the Company are not energy-intensive. The Company consumes electricity mainly for the operation of its computers. Though the consumption of electricity is negligible as compared to the total turnover of the Company, the Company has taken effective steps at every stage to reduce consumption of electricity. The Company constantly evaluates new technologies and invests to make its infrastructure more energy-efficient.

(b) Absorption of Technology

Being in the IT enabled services industry, the Company uses state-of-the-art technology to ensure superior processing and communication capabilities in its operations, leading to world-class customer service. It uses top-of-the class systems for telecommunication, and has a high redundancy capability built into its systems. Nevertheless, the Company will constantly review the status and ensure periodical technological upgradation to maintain its cutting-edge customer service.

(c) Foreign Exchange Earnings and Outgo

During the year under review, 90.3% of the Company's revenue accrued on account of exports. The Company's foreign exchange earnings and outgo during the year under review were as follows:

(Standalone Figures in Rs. Thousands)

Particulars	Fiscal 2007	Fiscal 2006
Foreign exchange earnings	39,40,289	31,71,301
Foreign exchange outgo (including capital goods and imported software packages)	2,93,970	4,87,032

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

1. That in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
2. That the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
3. That the Directors had taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
4. That the annual accounts were prepared on a going-concern basis.

ACKNOWLEDGEMENTS

The Board of Directors expresses its gratitude to the investing public and shareholders for making the initial public offer of the Company an overwhelming success. The Board also thanks the promoters and strategic equity partners- ICICI Bank Limited, Metavante Corporation, WestBridge Ventures I Investment Holdings and Aranda Investments (Mauritius) Management Company Limited and the bankers of the Company, ICICI Bank and ABN Amro Bank, N.V. The Board also places on record its appreciation of the Merchant Bankers, DSP Merrill Lynch and Deutsche Bank Group & the entire Issue management team for the success of the IPO. The Company also expresses its gratitude to the Ministry of Telecommunications, Collector of Customs and Excise, Director – Software Technology Parks of India and various governmental departments and organizations for their help and co-operation.

The Board places on record its appreciation of all the employees and members of the staff for their dedicated service. The Board is confident that with the continued support of all its stake holders, the Company will achieve its objectives and emerge stronger in the coming years.

For and on behalf of the Board of Directors

Mumbai
April 27, 2007

Dr. Ashok S. Ganguly
Chairman

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's financial statements included herein and the notes thereto. The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles (GAAP) in India. The Company's management accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgments used therein. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner the form and substance of transactions, and reasonably present the Company's state of affairs and profits for the yesar. Investors are cautioned that this discussion contains forward looking statements that involve risks and uncertainties. When used in this discussion, words like 'will', 'shall', 'anticipate', 'believe', 'estimate', 'intend' and 'expect' and other similar expressions as they relate to the Company or its business are intended to identify such forward-looking statements. The Company undertakes no obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such statements. Factors that could cause or contribute to such differences include those described under the heading "Risk factors" in the Company's prospectus filed with the Securities and Exchange Board of India (SEBI) as well as factors discussed elsewhere in this report. Readers are cautioned not to place undue reliance on the forward-looking statements as they speak only as of their dates.

Information provided in this MD&A pertains to Firstsource Solutions Limited and its subsidiaries on a consolidated basis, unless otherwise stated.

INDUSTRY STRUCTURE, DEVELOPMENTS AND OUTLOOK

Globalization of the world's economy remains the most powerful economic trend of our lifetime. It is driven by expanding technology capabilities, the relaxation of local laws and regulations that previously impeded cross-border trade, more efficient global telecommunications and the recognition by business leaders that a highly skilled global workforce can be a competitive business advantage.

The current globalization trend has contributed to increased competition for companies around the world, particularly in the established economies of North America and Europe. These dynamics have forced companies to focus on ways to improve productivity and manage costs more aggressively in order to maintain or enhance their competitive positions and increase shareholder value. As part of their response to these pressures, in recent years, business leaders began offshoring business processes to captive businesses in countries where wage levels were lower than in North America and Europe. However, while the captive BPOs faced challenges to scale and deliver the required cost savings, the economies of shared infrastructure, ability to quickly ramp up hiring and getting benefits of best-of-breed processes gave way for third party outsourcing. According to a research report by AT Kearney, the share of captive BPO units is expected to dip on a worldwide basis and is projected to account for 20% of the global offshoring market in terms of employment and 30% in terms of revenues by 2008.

Initially, India became the primary destination for offshore business process outsourcing, due to wage levels that are much lower than in the United States. In addition, India offers a large, growing and highly educated English-speaking workforce, a time zone that offers a 24-hour work cycle from a North American and European perspective, robust physical and telecommunications infrastructure, and a business and regulatory environment that is increasingly conducive to interacting with North American and European companies. However, as demand and the range of services have grown, other destinations have also become increasingly important.

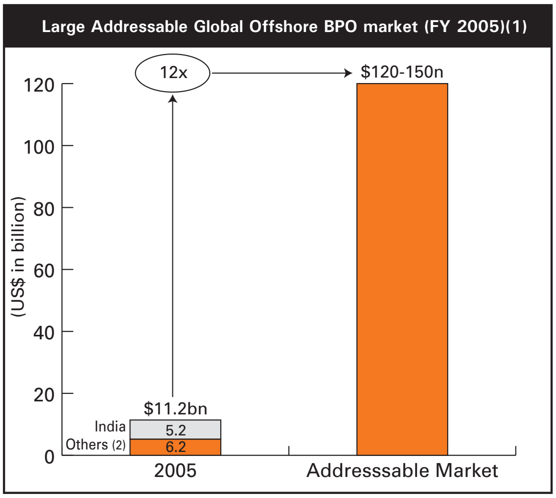
While the pace of growth in outsourcing during the last few years has been driven by global clients, the industry is also witnessing huge momentum in demand for outsourcing by domestic companies in the telecommunications and banking. As Corporate India embarks to provide better quality customer service, a whole new business opportunity is rising for the country's booming BPO industry and cost saving is no more the sole consideration. Established BPO players have been able to demonstrate that they can leverage on their domain expertise and can deliver best in class operational practices based on their international experience and add value to their Indian clients. According to NASSCOM, domestic BPO revenues doubled to $1.2 billion in 2006-07 compare to $600 million in 2005.

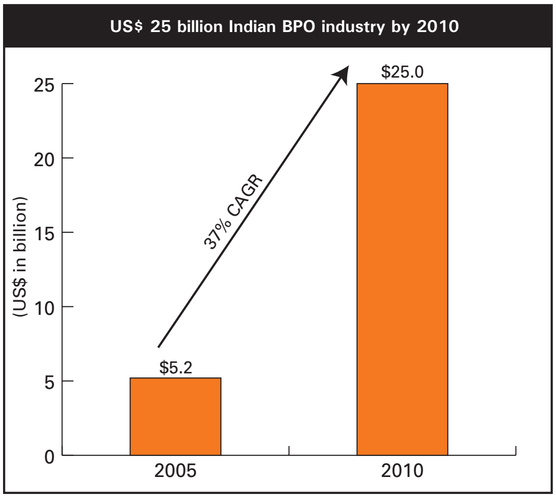
Many companies are increasingly focusing their resources on their core competencies and on brand building, as a result of which they are seeking opportunities to outsource certain of their other business processes. By collaborating with third-party BPO vendors for outsourcing these processes, companies are able to benefit from:

- access to specific skill-sets that may be in short supply in their businesses;
- improved process competency and measurable, consistent performance;
- economies of scale in operations and resultant cost advantages;
- business risk mitigation; and
- scalability.

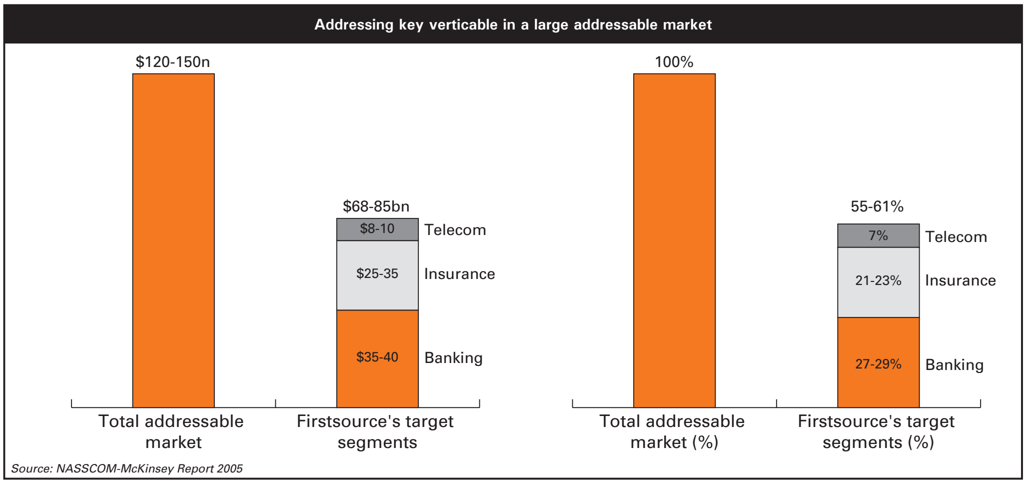
As companies increasingly rely on external BPO vendors to manage business processes that are integral to ongoing operations or to customer servicing, their relationships have evolved into close partnerships that are long-term in nature.

According to the NASSCOM-McKinsey Report, the global BPO industry was estimated to be worth between US$120 billion and US$150 billion in 2005 and it is estimated that the industry will grow at a 37.0% compound annual rate, from US$11.4 billion in 2005 to US$55.0 billion by 2010. India-based companies accounted for 46% of total offshore BPO revenue in 2005 and it is projected that India will retain its dominant position within the market. The report projects that the Indian offshore BPO market is expected to grow from US$5.2 billion in revenue in 2005 to US$25.0 billion in revenue by 2010, representing a compound annual growth rate of 36.9%.





(1) Includes addressable markets in currently offshoring industries; includes internal and external spending
(2) Includes Philippines, China, Russia, Eastern Europe, Ireland and Mexico
Source : NASSCOM McKinsey Report December 2005



The verticals the Company focuses on and has built strong operating skills and domain expertise are Banking, Financial Services and Insurance (BFSI); telecommunications and media; and healthcare. The high cost of servicing a large number of smaller-sized customer accounts make outsourcing a compelling strategic alternative for business within these industries. The NASSCOM-McKinsey Report identifies the banking and insurance industries as representing 49.6% of the potential offshore BPO market and telecommunications and media as 6.8% of India's BPO revenue in 2010 (estimated to be US$25.0 billion).

Some of the key drivers for increasing business process outsourcing in the BFSI, telecommunications and media, and healthcare industries are summarised below:

Banking, Financial Services and Insurance (BFSI)

BFSI vertical represents a large BPO opportunity. Industry estimates indicate the retail banking and insurance vertical to be a $60-75 billion opportunity and are two of the largest addressable segments of the global offshore BPO market.

The financial services industry pioneered offshoring in the early 90s and since then more and more financial firms have embraced offshoring as a part of their strategy. With the growing maturity of vendors, functions with increasing complexity are being offshored. Moreover as new destinations emerge, offshoring will spread beyond the preferred destinations of today.

This large market with the current low penetration levels offers large growth potential to BPO service providers. The key growth drivers for the BFSI offshoring market include:

- increased regulatory pressures and multiple compliance requirements such as SOX, Basel II, AML etc
- increased competition resulting in demand for enlarged and customized product offerings that is leading to increased processing complexity
- focus on servicing customers rather than back office operations
- increasing the accuracy of financial processing thereby reducing transaction costs

Telecommunications and Media

According to the NASSCOM-McKinsey Report, the addressable global offshore BPO market for telecommunications is estimated to be $8-10 billion and the current market penetration level is to the tune of 9%. Technology has radically transformed the Industry and telecom service providers in advanced markets are in the process of upgrading their networks to data intensive 3G wireless networks, which will facilitate the provision of complex data services. Key growth drivers for the telecommunications and media offshoring market include:

- the convergence of media and telecommunications, requiring companies to transform themselves and develop new competencies;
- liberalisation of regulations within the telecommunications services markets, which has increased competition and customer churn rates, forcing companies to focus more on customer service, provisioning and customer retention;
- downward pressure on average revenue per user in developed markets, requiring an increased focus on cost savings; and
- rapid consolidation in the industry

Healthcare

According to NCHC (The National Coalition on Health Care), Washington, approximately U.S.$1.8 trillion was spent on healthcare in the United States in 2004, equivalent to approximately 15.4% of the U.S. gross domestic product. NCHC projects that healthcare spending will increase to U.S.$3.6 trillion, or 18.7% of the U.S. gross domestic product, by 2014. According to NCHC, U.S. employers are increasingly involved in the management of healthcare insurance of their employees. Increasing costs of healthcare cannot necessarily be recovered through product price increases and employers face challenges of rising healthcare, workers' compensation and disability costs, the aging of the American workforce (by 2008, it is estimated that the Median age of the workforce will be 41 years old), competition from the international market and decreasing profit margins. The key growth drivers for this industry include:

- inability to scale operations in tune with business growth;
- lack of trained resources to operate complex and multiple legacy systems and platforms;
- higher claims disbursement and shrinking margins with increased competition thereby inducing pressure to reduce the overall administrative costs;
- speed to develop and market new products and services; and
- increased insurance regulation in the U.S. such as stiff turnaround times, data protection and privacy norms.

COMPANY OVERVIEW

Firstsource Solutions Limited (The Company), is a leading provider of offshore BPO services to clients primarily in the BFSI, telecommunications and media, and healthcare industries. The Company provides BPO services mostly to clients in the United States and the United Kingdom. The Company's clients include 3 of the 5 largest US b anks, 5 of 10 largest credit card companies in the U.S., 2 of the world's Top 10 telecom companies, and 3 "Fortune 100" healthcare companies. Based on the annual rankings by NASSCOM, the Company was the fifth largest BPO provider in India in fiscal 2006 in terms of revenues and the third largest "pure-play" BPO provider (BPO providers that are not affiliated with information technology companies).

The Company provides a comprehensive range of services to clients in each of its focus industries. The Company has in-depth domain knowledge in these industries with proven expertise in transferring business operations from its clients to its delivery centers and in administering, managing and further improving these processes for its clients. The Company has to date successfully transferred more than 400 processes covering a broad array of products and services to its service delivery centers.

The Company's total income has grown at a compound annual growth rate of 82% from Rs. 771.5 million in fiscal 2003 to Rs. 8,399.3 million in fiscal 2007. Over the same period of time, the profits have increased from a net loss of Rs. 109.5 million in fiscal 2003 to a profit after tax of Rs. 972.5 million in fiscal 2007. The growth in income is attributed to increased outsourcing by the Company's existing clients, both through increases in the volumes of work that they outsource to the Company under existing processes and the outsourcing of new processes and service lines to it (primarily as a result of the Company cross-selling new services to them), as well as business that the Company has won from new clients.

The Company has increased the number of its delivery centers from three as of March 31, 2003 to 24 as of March 31, 2007. Fifteen of the Company's global delivery centers are located in nine cities in India, six are in the United States, two are in the United Kingdom and one is located in Argentina. In addition, the Company has one delivery center under development in Hubli, India and in the Philippines, which it expects to become operational in the early part of fiscal 2008. The Company's operations are supported by a robust and scalable infrastructure network that can be tailored to meet its clients' specific needs. The Company has grown from 2,188 full-time employees as of March 31, 2003 to

14,396 as of March 31, 2007. In addition, The Company uses trained personnel who are contracted on an as-needed basis. The Company has grown its client base from 13 clients as of March 31, 2003 to 76 clients as of March 31, 2007.

Competitive Strengths

The Company believes the following business strengths allow it to compete successfully in the BPO industry:

- Offshore BPO market leadership

  As an early mover in the BPO industry, the Company has been able to achieve critical mass, attract senior and middle-management talent, establish key client relationships and a track record of operational excellence as well as develop robust and scalable global delivery systems.

- Strategic positioning in the target industry sectors

  The Company is strategically positioned to benefit from the growth opportunities in its key target industries – BFSI, telecommunications and media, and healthcare. The Company's key strengths within these sectors are its size, deep domain expertise, proven track record, ability to provide end-to-end services, multi-shore capabilities, partnership with Metavante in BFSI industry and its marquee client base.

- Established relationships with large global companies

  The Company worked with 76 clients as of March 31, 2007, including thirteen "Fortune 500" and "FTSE 100" companies. Many of these relationships have strengthened over time as the Company obtains ongoing work from these clients and gains a greater share of their processing expenditure.

- Strategic partnership with Metavante

  In March 2006, the Company entered into a strategic partnership with Metavante. Under the terms of the partnership the Company approaches the North America banking market jointly with Metavante. This gives the Company access to Metavante's strong customer base in the United States, particularly to super-regional, regional and local banks and financial institutions, a market that the Company feels offer significant growth opportunities.

- Multi-shore delivery model

  The Company has established a broad delivery base for its services, with 24 global delivery centers, including 15 located in nine different cities in India, six in the United States, two in the United Kingdom and one delivery center in Argentina. In addition, the Company has one delivery center under development in Hubli, India and in the Philippines.

- Diversified business model

  The Company's income is diversified across a range of geographies and industries and the Company is not overly reliant on a small number of customers.

- Experienced management team

  The experience of the Company's management team is a key competitive advantage. Its management team has a track record of managing high growth businesses, domain knowledge in the industries the Company serves and relevant experience in the geographies in which it operates.

- Ability to manage aggressive growth

  The Company has a demonstrated track record in managing growth in its business both through organic and inorganic means.

Business Strategy

The Company's strategic vision is to maintain its leading position in the high-growth offshore BPO industry. The Company's strategies to achieve this goal are as follows.

- Continue to aggressively grow the business

  The Company intends to grow income from existing clients by maintaining and enhancing its service quality and process excellence, continuing to invest in account and relationship management teams, expanding its service offerings to cover a broad range of services and cross-selling its various areas of expertise across different industry sectors and geographies. The Company intends to acquire new clients by capitalising on its reputation and client base, as well as by increasing its brand presence and further strengthening its sales and marketing function. The Company derives significant revenue from existing clients. In fiscal 2007, 94.2% of the income from services was derived from the existing customers, as compared to 87.1% of income from services in fiscal 2006.

- Make strategic acquisitions and alliances

  Another important element of the growth strategy is to seek out opportunities for acquisitions and strategic partnerships, as the Company has done in the past. Strategic partnerships such as the Company's relationship with Metavante can provide it with access to new and otherwise difficult to penetrate market segments or allow it to bundle its service offerings with a complementary product or service. The table below depicts the history of acquisitions since inception:

Company	Year of Acquisition	Strategic Rationale
Customer Asset India	April, 2002	Facilitated quick entry into BPO business with credible platform and high quality client base
FirstRing Inc.	July, 2003	Acquisition strengthened presence in the U.S. and added credit card servicing capabilities
Pipal Research	July, 2004	Acquisition of business research and information capabilities
Account Solutions Group (ASG)	September, 2004	Access to collections and accounts receivables market in the U.S. with a blue chip client base
RevIT Systems	March, 2005	Strengthened Transactions Processing capabilities and facilitated entry into the healthcare vertical
Business Process Management Inc.	December, 2006	Strengthens presence in healthcare vertical and provides significant expertise in complex claims adjudication and outsourcing

- Maintain focus on process excellence

  The Company uses structured process management systems to establish dashboards and metrics from the Customer Operations Performance Centre, Inc. (COPC) standards to measure performance for both its processes and its employees. In addition, the Company believes its ongoing programs to map and optimise customer processes using tools such as Six Sigma and TQM, increases its value proposition to the customer.

- Invest in middle management

  All employees are important to the Company and it believes that its middle management is particularly critical to its business, as they are responsible for managing teams, understanding its client's expectations and its contractual obligations to clients, ensuring consistent and quality service delivery and deploying the Company's process excellence framework. The Company intends to continue to invest in developing and grooming its middle management talent.

- Continue to invest in proprietary technology platforms

  The Company believes that outsourcing companies with significant process and domain knowledge will be in the best position to provide efficient and effective outsourcing solutions to their customers. The Company intends to continue to invest in developing its own proprietary technology platforms and develop capabilities around technology platforms through strategic partnerships like the one with Metavante.

Service Offerings

The Company offers comprehensive process outsourcing services to global clients in three major industries through its multi-shore delivery centers. The Company's key service offerings across its target verticals are depicted below:

BFSI	Telecommunications and Media	Healthcare
• Banking * Account enquiries and transfers * Forex transactions * Account and check processing • Card solutions * Activation and authorization * Lost and stolen card reissuance, etc. • Collections • Mortgage Banking * Loan origination processing * Loan servicing * Regulatory compliance • Insurance * Quotation requests * Policy amendment/cancellation * Data and trend analysis • Trust and asset management solutions * Middle and back office processes for debt and forex trade • Research and analytics	• Customer acquisition • Provisioning and fulfillment • Customer service • Billing support • Churn management • Collections	• Mail and document management • Claims processing, pricing • Claims adjudication and adjustment • Provider database maintenance

Key Events and Milestones

Year	Month	Key Events and Milestones
2002	May	Acquisition of Customer Asset India Private Limited
2003	March	First company to be awarded COPC certification for both voice and back office processes
2003	May	First Indian BPO company to achieve British Security Standard BS 7799 for information security
2003	July	Acquired FirstRing Inc.
2003	July	WestBridge Capital Partners, now managed by Sequoia Capital Partners, invests in the Company
2003	November	Exceeded Rs. 1,000 million in annual revenues
2004	July	Acquisition of majority stake in Pipal Research Corporation
2004	August	Aranda Investments (an affiliate of Temasek Holdings) invests into the Company
2004	September	Acquisition of Accounts Solution Group (ASG) LLC
2005	January	Exceeded 5,000 full time employees
2005	March	Acquisition of RevIT Systems India Private Limited
2006	March	Strategic partnership with Metavante Corporation
2006	March	Exceeded Rs. 5,000 million in annual revenues
2006	July	Started operations in Northern Ireland
2006	October	Started operations in Argentina
2006	November	Change of name to "Firstsource Solutions Limited"
2006	November	Exceeded 10,000 full time employees
2006	December	Acquisition of Business Process Management (BPM) Inc.
2007	February	IPO and successful listing on Indian stock markets
2007	March	Expanded Indian operations in Tier II cities
2007	March	Crossed Rs. 8000 million in annual revenue

Awards and Accolades

Year	Month	Awards and Accolades
2007	March	Firstsource was awarded second place in Healthcare category in the 8th Annual IQ Six Sigma Excellence Awards held in January 2007 at Miami, Florida.
2006	January	Ranked No. 3 in Gartner's list of call centers in 2006 based on the frequency of queries from Gartner's 10,000 global clients
2006	April	The Company was named in the Rising Stars category in the Global Outsourcing 100 list by International Association of Outsourcing Professionals (IAOP)
2006	June	The Company ranked among India's top 5 BPO companies by NASSCOM for the year 2005-06
2006	September	The Company was honored as a Giant 100 company at the CIO 100 India awards 2006 by CIO India. CIO India is International Data Group's Indian edition of CIO magazine
2005	June	The Company ranked among India's top 5 BPO companies by NASSCOM for the year 2004- 2005
2005	September	The Company won two awards from National Outsourcing Association (NOA), U.K. The awards were for "Offshoring Operation of the Year" and "Financial Services Outsourcing Project of the Year".

Human Resources

The Company's core values are Transparency, Integrity, Respect, People Centricity, Teamwork and Fun and these form the bedrock of all the Company's activities. These values are continuously reinforced in all the Company communication. Communication is key in a young company and some of the other communication channels used are the newsletter `The Source', regular letters from the CEO, training forums where senior managers are invited to address the participants and the intranet.

The change in name and the branding was an important milestone in the Company's history. It has been well accepted both internally and externally and has enhanced the Company's image in the outside world and ensured that it has distinct identity in the market place. The Company's employee strength increased from 8,350 as of March 31, 2006 to 14,396 as of March 31, 2007. The Company's reputation in the market place as a good place to work helps it recruit in a highly competitive environment with a compensation package that is conservative yet competitive in the industry that it operates in. The Company's ability to attract and retain talent rests on its positioning as an organization that provides enormous growth opportunities and it has continuously demonstrated this by 'growing its own timbre' ever since its inception.

The Company's workforce became significantly international in composition during the course of the year. The Company has two centers in Northern Ireland, one center in Buenos Aires, Argentina and six centers in the U.S. The focus is on ensuring that best practices are successfully transferred to these centers and this is being driven by appropriate transfer of senior staff from its older centers into the newer centers and by a rigorous adherence to standard operating procedures and process management practice.

Leadership & management development is a critical function and this function delivered 200 programs during the course of the year. The programs were focused on operations excellence, six sigma training, retention skills and leadership development. The Company also uses the 360 degree feedback tool to ensure that its managers get feedback on the competencies required for the job. The Company tries to align its training programs to needs thrown up in the 360 degree feedback process and the performance management process that it has branded as `ACE – Achieve, Challenge, Enable'.

OPPORTUNITIES AND THREATS

The Industry Structure, Development and Outlook section has described the potential of the BPO industry. It is important to note that the industry is still at a relatively early stage with less than 10% of the total addressable market being captured. The Company believes the following business strengths would allow it to compete and grow successfully in the BPO industry:

- Clients are more comfortable partnering with large players with scale and high operational excellence with a continuous focus on quality of service delivery, ability to manage aggressive growth and security. The Company's BPO market leadership position, it believes, is key, which will help it tap the growth potential of the industry. The Company's diversified business model with established relationships with large global companies, including thirteen "Fortune 500" and "FTSE 100" companies, also puts it at a competitive advantage compared to other offshore BPO providers.
- The NASSCOM-McKinsey Report identifies the banking and insurance industries as representing 49.6% of the potential offshore BPO market and telecommunications and media as 6.8% of India's BPO revenue in 2010 (estimated to be US$25.0 billion). The Company's strategic positioning and scale in its target industry sectors of BFSI, telecommunications and media, and healthcare puts it in a strong position for capitalizing on the growth potential.
- In order to successfully leverage the global BPO opportunity, flexibility in geographical delivery is an important factor. Some processes can't be offshored due to process complexities and regulatory requirements. Clients increasingly look for business partners who can deliver services across different geographies. The Company's established global delivery footprint enables it to deliver a wide range of services and deepen relationships with existing customers.

Competition

The market for BPO services is rapidly evolving and is highly competitive. The Company expects that the competition it faces will continue to intensify. The Company faces competition from:

- offshore BPO providers, particularly in India;
- the BPO divisions of global IT companies and global "pure play" BPO providers located in the United States;
- the BPO divisions of IT companies located in India; and
- companies, including certain of its clients, that choose to perform their own business processes internally through offshore captive business processing units established specifically for this purpose.

A number of the Company's international competitors are setting up operations in India. Further, many of the Company's other international competitors with existing operations in India are expanding these operations, which have become an important element of their delivery strategy. This has resulted in increased employee attrition among Indian BPO services companies and increased wage pressure to retain skilled employees and reduce such attrition.

Some of the Company's clients may, for various reasons including to diversify geographical risk, seek to reduce their dependence on any one country and may seek to outsource their operations to countries such as China and the Philippines. In addition, some of the Company's clients have sought to outsource their operations to onshore BPOs. Although the Company operates onshore facilities for certain of its clients in the United States and the United Kingdom, a significant increase in "onshoring" would reduce the competitive advantages the Company derives from operating out of India.

The Company however believes that the overall market size is very large and it has a strong competitive position due to the following factors:

- Deep domain expertise in its key focus industries
- End to End service offerings in key focus industries including onshore, near shore and offshore execution capabilities.
- Marquee list of satisfied customers and track record of managing large customer relationships
- Strong and experienced management team
- Continuous focus on process excellence and operational results.

RISKS & CONCERNS, RISK MITIGATION

These have been discussed in detail in the Risk Management Report in this annual report on page 28.

DISCUSSION ON FINANCIAL PERFORMANCE RELATING TO OPERATIONAL PERFORMANCE

FINANCIAL POSITION

Shareholders funds

Share Capital. The authorized share capital of the Company is Rs 8,500 million, divided into 600 million equity shares of Rs 10 each and 250 million participatory optionally convertible preference shares of Rs 10 each. The paid up share capital at March 31, 2007 stands at Rs 4,250.8 million compared to Rs 3,994.7 million at March 31, 2006.

During the year, on 22 February 2007, the Company completed initial public offering ('IPO') of its equity shares in India comprising fresh issue of 60 million equity shares of Rs 10 each at a premium of Rs 54 aggregating Rs 3,840 million, including share capital of Rs 600 million and share premium of Rs 3,240 million. The details of increase in equity share capital by Rs 2,232.0 million from Rs 2,018.8 million as at March 31, 2006 to Rs 4,250.8 million as at March 31, 2007, is as below.

As on March 31, 2007	Number of Shares (million)	Amount (Rs million)
Fresh issue of shares through Initial Public Offering (IPO)	60.00	600.0
Shares issued on conversion of series "B" POCPS	19.98	199.8
Shares issued on conversion of series "C" POCPS	81.54	815.4
Shares issued on conversion of series "D" POCPS	51.36	513.6
Shares issued by way of conversion of Options to Employees under ESOP	10.31	103.1
	223.20	2,232.0

Reserves and Surplus. The Reserves and surplus of the Company increased from Rs 327.5 million to Rs 6,414.7 million.

The addition to the Share premium account of Rs 5,320.9 million from Rs 3.1 million was on account of premium received on initial public offering of Rs 3,240 million, premium of Rs 2,026.3 million received on shares issued to series "B", "C" and "D" POCPS holders and balance on account of shares issued by way of conversion of options to employees under ESOP. Share premium utilized towards expenses on issue of shares was Rs 208.5 million.

Balance in Profit and loss account including profit for the year ended March 31, 2007 stands at Rs 1,296.9 million compared to Rs 324.4 million on March 31, 2006. Exchange translation reserve on consolidation of non-integral subsidiary Rs 2.3 million.

Minority Interest

Minority interest is created on account of 51% consolidation of Pipal Research Corporation, ("Pipal") and Pipal Research Analytics and Information Services India Private Limited ("PRAISE") (formerly known as Satvik Research and Analytics India Private Limited), a subsidiary of Firstsource Solutions Limited, incorporated under the laws of the State of Illinois, USA and a subsidiary of Pipal Research Corporation, incorporated under the laws of India respectively.

Minority interest as at March 31, 2007 decreased to Rs 43.0 million from Rs 49.2 million as at March 31, 2006.

Loan funds

Secured loans represents balance amount payable under External commercial borrowings, finance lease obligation, term loan and other secured debts. Unsecured loans represent mainly working capital demand loan, term loan and debt from others. Secured loans outstanding as at March 31, 2007 was Rs 712.0 million as compared to Rs 731.1 million as at March 31, 2006. Unsecured loans outstanding as at March 31, 2007 was Rs 1,263.9 million as compared to Rs 569.1 million as at March 31, 2006. The increase in unsecured loans was from an increase in term loan by Rs 754.0 million.

Deferred Tax Liability

Deferred tax liability, net as at March 31, 2007 was Rs 6.8 million as compared to Nil as at March 31, 2006. The significant component of deferred tax liability is amortization.

Goodwill

Goodwill as at March 31, 2007 was Rs 5,419.2 million as compared to Rs 4.072.6 million as at March 31, 2006.

The Company, during the year through its wholly owned subsidiary FSL-US acquired 100% of the common stock of BPM, a Delaware corporation, including its 100% owned US based subsidiaries MedPlans 2000 Inc ("MP2") and MedPlans Partners ("MPP") for a purchase consideration of Rs 1,393.9 million (equivalent to USD 31.5 million). BPM, together with its two subsidiary companies, MP2 and MPP are BPO companies providing services principally to customers in the Healthcare industry in transaction processing and claims adjudication. The Company incurred direct expenses related to the acquisition aggregating to Rs. 50.4 million which have been considered as part of cost of investment in BPM. The total purchase consideration of Rs 1,444.3 million after adjusting for assets taken over and liabilities assumed of Rs 99.6 million was accounted as goodwill in this fiscal. The Goodwill created on account of this acquisition was Rs 1,344.7 million. The total increase in Goodwill during the year was Rs 1,346.6 million, the balance attributable to additional payment made on account of acquisition of ASG, as per the Share purchase agreement.

Fixed Assets

The net block of fixed assets and capital work-in-progress was Rs 1,802.18 million as at March 31, 2007 as compared to Rs 1,153.6 million as at March 31, 2006, representing an increase of Rs 648.6 million. This increase constituted of capital expenditure incurred by the Company during the year of Rs 1,273.2 million, net assets added due to acquisitions amounting to Rs 21.1 million, Net assets deleted amounting to Rs 4.2 million, and depreciation for the year Rs 641.5 million. The major items of capital expenditure are Leasehold improvements, furniture and fixtures, equipments, computers and software, including fixed assets purchased in connection with the establishment of the Company's delivery centers in Belfast and Londonderry in the U.K., Technopolis facility in Kolkata, Perungudi in Chennai, Trichy, Cochin and Vijayawada in India.

Investments

The Company had investments amounting to Rs 1,152.5 million as at March 31, 2007 as compared to Nil as at March 31, 2006. The trade investment of Rs 0.1 million represents investment in Treasury bills in connection with the set up of the Company's Philippines branch. The non-trade investments of Rs 1,152.4 million are chiefly short term in nature and constitutes investments in liquid debt market mutual funds.

Deferred Tax Asset

Deferred tax asset, net as at March 31, 2007 was Rs 5.8 million as compared to Rs 3.9 million as at March 31, 2006. The significant component of deferred tax asset is business losses carried forward and difference between tax and book value of fixed assets. Deferred tax asset on business losses carried forward has been recognized only to the extent that there is virtual certainty of the realization of the assets in the future.

Current assets, loans and advances

Sundry Debtors and unbilled revenues. Sundry debtors amount to Rs 1,364.0 million (net of provision for doubtful debts amounting to Rs 35.7 million) as at March 31, 2007 as compared to Rs 1,006.9 million (net of provision for doubtful debts amounting to Rs 31.9 million) as at March 31, 2006. These debtors are considered good and realisable.

The need for provisions is assessed based on various factors including collectibility of specific dues, risk perceptions of the industry in which the customer operates and general economic factors which could affect the Company's ability to settle. Provisions are generally made for all debtors outstanding for more than 180 days as also for others, depending on the management's perception of the risk.

Debtors' days as at March 31, 2007 (calculated based on per-day sales in the last quarter) were 45 days, compared to 56 days as at March 31, 2006.

Unbilled revenues represent costs incurred and revenues recognized on contracts not billed as of year end and to be billed in subsequent periods as per the terms of the contract. The unbilled revenues as at March 31, 2007 and 2006 amounted to Rs 722.6 million and Rs 156.8 million respectively. Including the unbilled revenues, debtors represented an outstanding of 68 days as at March 31, 2007 as compared to 65 days as at March 31, 2006.

The Company constantly focuses on reducing its receivables period by improving its collection efforts.

Cash and bank balances. Cash balance represents balance in cash with the Company to meet its petty cash expenditure. The bank balances in India include both Rupee accounts and foreign currency accounts. The bank balances in overseas current accounts are maintained to meet the expenditure of the overseas subsidiaries and branches. The cash and bank balance as at March 31, 2007 was Rs 3,010.0 million as compared to Rs 170.3 million as at March 31, 2006.

Loans and advances. Loans and advances as at March 31, 2007 were Rs 583.6 million as compared to Rs 300.5 million as at March 31, 2006. Significant items of loans and advances include payment towards security deposits for various rental premises, loans to employees, prepaid expenses, advances paid for value and services to be received in future, advance income tax paid and accrued interest. The increase in loans and advances of Rs 283.0 million was chiefly on account of increase in security deposits Rs 106.4 million, increase in advances recoverable in cash or in kind or for value to be received Rs 98.7 million, increase in advance Income tax of Rs 42.0 million and increase in prepaid expenses, accrued interest and others of Rs 35.9 million.

Current liabilities and provisions

Current liabilities. Current liabilities as at March 31, 2007 was Rs 1,255.6 million as compared to Rs 1,149.8 million as at March 31, 2006, representing an increase of Rs 105.8 million. This increase was chiefly contributed by an increase in sundry creditors for expenses and purchase of capital goods by Rs 527.0 million and a decrease of Rs 442.4 million on account of payable on acquisition. Other current liabilities (net of increases and decreases) increased by an amount of Rs 21.2 million.

Provisions. Provision for taxation represents estimated income tax liabilities both in India and abroad. Provision for taxation as at March 31, 2007 was Rs 45.1 million as compared to Rs 1.4 million as at March 31, 2006. This increase was chiefly due to an increase in the Company's overseas operations in taxable jurisdictions.

In accordance with Indian regulations, the Indian entities have adopted a policy to provide for gratuity, a defined benefit retirement plan, covering all its eligible employees. Provision in respect of gratuity is determined based on actuarial valuation by an independent actuary at balance sheet date. Provision for leave encashment cost has been made based on actuarial valuation by an independent actuary at balance sheet date. Provision for gratuity valued on an actuarial basis as at March 31, 2007 was Rs 36.2 million as compared to Rs 20.7 million as at March 31, 2006. Provision for leave encashment valued on an actuarial basis as at March 31, 2007 was Rs 31.9 million as compared to Rs 19.0 million as at March 31, 2006. The increase in the actuarial valuation amounts was chiefly on account of increase in the number of employees in India.

RESULTS OF OPERATIONS

The table below sets forth, for the periods indicated, certain income and expense items for the Company's consolidated operations:

PARTICULARS	Fiscal 2007		Fiscal 2006	
INCOME	**Rs million**	**% Of Income**	Rs Million	% Of Income
Income from services	**8,168.5**	**97.3%**	5,487.5	99.9%
Other operating income	**129.1**	**1.5%**	-	0.0%
Other income	**101.7**	**1.2%**	7.7	0.1%
	8,399.3	**100.0%**	5,495.2	100.0%
EXPENDITURE				
Personnel costs	**4,135.6**	**49.2%**	2,832.5	51.5%
Depreciation and amortisation	**641.5**	**7.6%**	451.5	8.2%
Interest costs, net	**77.7**	**1.0%**	85.2	1.6%
Operating costs	**2,518.2**	**30.0%**	1,856.3	33.8%
	7,373.0	**87.8%**	5,225.6	95.1%
Profit before tax	**1,026.4**	**12.2%**	269.6	4.9%
Provision for taxation				
- Current tax expense (including foreign taxes)	**39.4**	**0.5%**	15.5	0.3%
- Deferred tax charge / (release)	**5.4**	**0.1%**	0.4	0.0%
- Fringe benefits tax	**15.3**	**0.2%**	11.1	0.2%
Profit after tax before minority interest	**966.2**	**11.5%**	242.6	4.4%
Minority interest	**(6.3)**	**-0.1%**	(4.1)	-0.1%
Profit after tax	**972.5**	**11.6%**	246.7	4.5%

Income

Income from services. Income from services increased 48.9% to Rs. 8,168.5 million in fiscal 2007 from Rs. 5,487.5 million in fiscal 2006. The Company recognised income from 76 clients in fiscal 2007, compared to 54 clients in fiscal 2006. The Company attributes the growth in its income to increased work from its existing clients, both through increases in the volumes of work that they outsource to the Company under existing processes and the outsourcing of new processes and service lines to it (partly as a result of the Company cross-selling new services to its existing clients). Of the increase in income from services of Rs. 2,681.0 million in this period as compared to the corresponding period in the previous year, Rs. 473.2 million was attributable to new clients, including clients added due to the acquisition of BPM in fiscal 2007.

Consolidated Revenues by Geography. The Company serves clients mainly in the United States (which, for these purposes, the Company defines to include Canada, although income from Canada accounted for less than 1% of this amount) and the United Kingdom, with these two regions generating 47.3% (fiscal 2006 48.0%) and 48.7% (fiscal 2006 49.4 %) of the income from services, respectively, in fiscal 2007. Clients in India accounted for 3.8% (fiscal 2006 2.5%) of the income from services in fiscal 2007.

The following table sets out a geographic breakdown of the income from services for the periods indicated.

(Rs. In Million)

	Fiscal Year	
	2007	2006
UK	**3,975.8**	2,631.5
USA and Canada	**3,863.7**	2,708.5
India	**310.7**	134.9
Rest of the world	**18.3**	12.5
Total	**8,168.5**	5,487.5

The proportion of the income from each of these geographic segments remained relatively stable, as the Company experienced comparable growth in its business in all of these areas.

Consolidated Revenues by Industry. BFSI, telecommunications and media, and healthcare accounted for 51.8%, 34.0% and 9.0% of its income from services, respectively, in fiscal 2007 and 63.5%, 25.0% and 5.7% of its income from services, respectively, in fiscal 2006.

The following table sets out a breakdown of its income from services for the periods indicated.

(Rs. In Million)

	Fiscal Year	
	2007	2006
BFSI	**4,229.9**	3,483.9
Telecommunications and Media	**2,781.2**	1,369.2
Healthcare	**736.7**	313.0
Others	**420.7**	321.4
Total	**8,168.5**	5,487.5

The large increase in the income from clients within the telecommunications and media sector between fiscal 2007 and fiscal 2006 was attributable to companies within this industry outsourcing more processes generally to support growth in their core businesses, as well as its better penetration of this market with a larger suite of service offerings.

Client Concentration. The following table shows the Company's client concentration by presenting income from its top five, its top 10 and its top 20 clients as a percentage of its income from services for the periods indicated:

(Rs. In Million)

	Fiscal Year			
	2007	%	2006	%
5 largest clients	**4,197.9**	**51.4**	2,779.0	50.6
10 largest clients	**5,510.2**	**67.5**	3,988.3	72.7
20 largest clients	**6,889.3**	**84.3**	4,928.0	89.8
All clients	**8,168.5**	**100.0**	5,487.5	100.0

Clients by revenue buckets. The following table shows clients by various revenue buckets by presenting number of clients who contributed less than Rs. 50 million, Rs. 50 to Rs. 250 million, Rs. 250 million to Rs. 500 million, and more than Rs. 500 million as income from services for the periods indicated:

(Rs. In Million)

	Fiscal Year	
	2007	2006
Less than Rs. 50 million	**52**	33
Rs. 50 million to Rs. 250 million	**17**	14
Rs. 250 million to Rs. 500 million	**2**	4
More than 500 million	**5**	3
Total	**76**	54

In fiscal 2007, the Company had two clients each contributing over 10% of its income from services. These two clients together accounted for 27.0% of the income from services in fiscal 2007, with the largest client contributing 14.5% of its income from services in this period. In fiscal 2006, the Company had three clients each contributing over 10% of its income from services. These three clients together accounted for 37.4% of the income from services in fiscal 2006, with the largest client contributing 16.0% of its income from services in this period.

The Company derives a significant portion of its income from a limited number of large clients. In fiscal 2007 and 2006, income from the Company's five largest clients amounted to Rs. 4,197.9 million and Rs. 2,779.0 million, respectively, accounting for 51.4% and 50.6% of its income from services, respectively. Income for services performed for ICICI Bank, the Company's major shareholder, and its affiliates, including overseas subsidiaries, amounted to Rs. 340.6 million, or 4.2% of its income from services, in fiscal 2007. Although the Company is increasing and diversifying its client base, it expects that a significant portion of its income will continue to be contributed by a limited number of large clients in the near future.

Other operating income. Other Operating income of Rs 129.1 million in fiscal 2007 pertains to operating income in the nature of a grant received in relation to the Company's business in Northern Ireland.

Other income. Other income increased to Rs. 101.7 million in fiscal 2007 from Rs. 7.7 million in fiscal 2006. The primary components of other income in fiscal 2007 were income from the sale and redemption of non-trade investments in the amount of Rs. 52.6 million and interest on deposits with banks and others in the amount of Rs. 13.6 million, foreign exchange gain of Rs 34.6 million and other miscellaneous income of Rs. 0.8 million. The primary components of other income in fiscal 2006 were profit on sale and redemption of non-trade investments in the amount of Rs. 0.1 million, dividend income, accounting for Rs 5.3 million and other miscellaneous income, accounting for Rs 2.3 million.

Expenditure

Personnel costs. Personnel costs for fiscal 2007 amounted to 49.2% of the total income for that period, as compared to 51.5% of income in fiscal 2006. Personnel costs in fiscal 2006 were higher due to the significant ramp-up of volumes from two major existing clients, an unanticipated delay in the commencement of two new contracts and an over-estimation of the number of employees that would be required for the performance of some of these contracts. Personnel costs increased by 46.0% to Rs. 4,135.6 million in fiscal 2007 from Rs. 2,832.5 million in fiscal 2006. This increase was primarily due to an increase in the Company's number of employees to 14,396 as of March 31, 2007 from 8,350 as of March 31, 2006, principally to service its increased business volumes. The Company's average wage levels were also higher in fiscal 2007 as compared to fiscal 2006.

Operating costs. Operating costs for fiscal 2007 amounted to 30.0% of the total income for that period, as compared to 33.8% of income in fiscal 2006. Operating costs increased by 35.7% to Rs. 2,518.2 million in fiscal 2007 from Rs. 1,856.3 million in fiscal 2006, generally in line with increase in the income. Most component items of operating costs increased at rates lower than, or generally in line with, increase in the revenues, with the exception of legal and professional fees which increased by 83.4% from Rs. 115.7 million to Rs. 212.1 million, due to fees paid for hired professionals and legal fees incurred towards various corporate initiatives.

Interest costs. Interest expenses, net of Interest income for fiscal 2007 amounted to 1.0% of the total income for that period, as compared to 1.6% of income in fiscal 2006. Net Interest expenses decreased by 8.8% to Rs. 77.7 million in fiscal 2007 from Rs. 85.2 million in fiscal 2006. The components of interest in fiscal 2007 were chiefly an Interest expense of Rs 121.6 million and interest income of Rs 43.9 million. The components of interest in fiscal 2006 were chiefly an Interest expense of Rs 89.3 million and interest income of Rs 4.0 million. The increase in interest expense was primarily due to an increase in loans outstanding to Rs. 1,975.9 million at the end of fiscal 2007, compared to Rs. 1,300.3 million at the end of fiscal 2006.

Depreciation. Depreciation costs for fiscal 2007 amounted to 7.6% of the total income for that period, as compared to 8.2% of income for fiscal 2006. Depreciation increased by 42.1% to Rs. 641.5 million in fiscal 2007 from Rs. 451.5 million in fiscal 2006. This increase was primarily due to commissioning of the Company's "RMZ Ecospace" facility in Bangalore in October 2005 and the addition of the "Technopolis" facility in Kolkata in August 2006.

Profit before tax

Profit before tax. As a result of the foregoing, profit before tax increased by 280.7% to Rs. 1,026.4 million in fiscal 2007 from a profit before tax of Rs. 269.6 million in fiscal 2006. Profit before tax in fiscal 2007 was 12.2% of the total income, as compared to 4.9% of the total income in fiscal 2006.

Provision for taxation. Provision for taxation increased by 122.9% to Rs. 60.1 million in fiscal 2007 from Rs. 27.0 million in fiscal 2006. This increase was primarily due to U.S. taxes amounting to Rs. 13.2 million and U.K. taxes amounting to Rs. 14.8 million in fiscal 2007, which was the result of higher taxable profits (after taking into account tax credits) relating to the Company's operations in the U.S. and in the U.K. There was no such U.S. tax due in fiscal 2006. There was also a deferred tax charge of Rs 5.4 million in fiscal 2007 compared to Rs 0.4 million in fiscal 2006. Fringe benefit taxes for fiscal 2007 amounted to Rs. 15.3 million as compared to Rs. 11.1 million for fiscal 2006.

Profit after tax before minority interest

Profit after tax before minority interest. As a result of the foregoing, profit after tax before minority interest increased to Rs. 966.2 million for fiscal 2007 from a profit after tax before minority interest of Rs. 242.6 million in fiscal 2006.

Minority interest. Minority interest was Rs. (6.3) million in fiscal 2007 as compared to Rs. (4.1) million in fiscal 2006. This was partly due to the operating losses of Pipal.

Profit after tax

Profit after tax. As a result of the foregoing, profit after tax increased by 294.2% to Rs. 972.5 million in fiscal 2007 from a profit after tax of Rs. 246.7 million in fiscal 2006. Profit after tax in fiscal 2007 was 11.6% of the total income, as compared to 4.5% of the total income in fiscal 2006.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The Company needs cash primarily to fund the technology and infrastructure requirements in its delivery centers, to fund its working capital needs, to fund acquisitions and for other general corporate purposes. The Company funds these capital requirements through a variety of sources, including cash from operations, short- and long-term lines of credit and issuances of share capital. As of March 31, 2007, the Company had cash and cash equivalents of Rs. 3,010 million. This primarily represents cash and bank balances with banks in India and abroad.

The Company's summarised statement of consolidated cash flows is set forth below:

(Rs. In Million)

	Fiscal year	
	2007	2006
Net Cash flow from Operating activities	**913.7**	370.6
Net Cash flow from/(used in) Investing activities	**(4,046.3)**	(652.8)
Net Cash flow from/(used in) Financing activities	**5,972.3**	183.2
Effect of exchange differences on cash and cash equivalents	-	(0.1)
Cash and bank balances at the beginning of the year/period	**170.3**	269.4
Cash and bank balances at the end of the year/period	**3,010.0**	170.3

Operating Activities

Net cash generated from the Company's operating activities in fiscal 2007 amounted to Rs. 913.7 million. This consisted of net profit after tax of Rs. 972.5 million and a net upward adjustment of Rs. 682.4 million relating to various non-cash items, principally depreciation of Rs. 641.5 million; a net increase in working capital of Rs. 674.1 million (including the grant of Rs. 62.6 million received in relation to the Company's delivery centers in Northern Ireland); and income taxes paid of Rs. 67.2 million. The working capital increase was due to an increase in trade and other receivables of Rs. 1,001.7 million, partly offset by an increase in trade and other payables by Rs. 327.6 million. The Company's receivables increased on account of its overall increase in business.

Net cash generated from the Company's operating activities in fiscal 2006 amounted to Rs. 370.6 million. This consisted of net profit after tax of Rs. 246.7 million, a net upward adjustment of Rs. 562.1 million relating to various non-cash items, principally depreciation of Rs. 451.5 million, a net increase in working capital of Rs. 402.8 million and income taxes paid of Rs. 35.4 million. The working capital increase was due to an increase in trade and other receivables of Rs. 522.7 million, partly offset by an increase in trade and other payables of Rs. 119.9 million. The Company's receivables increased on account of its overall increase in business.

Investing Activities

In fiscal 2007, the Company used Rs. 4,046.3 million of cash in investing activities. These investing activities primarily included Rs. 1,393.1 million (Rs. 1,444.3 million, net of cash Rs. 51.2 million) towards the BPM Acquisition, Rs. 444.3 million towards payments made for earlier acquisitions (ASG and Rev IT), net capital expenditure of Rs. 1,153.7 million, including fixed assets purchased in connection with the establishment of the Company's delivery centers in Belfast and Londonderry in the U.K., Technopolis facility in Kolkata, India, Perungudi in Chennai, Trichy, Cochin and Vijayawada, net purchase of money and debt market mutual funds amounting to Rs. 1,099.9 million. During the year, the Company received an interest and dividend amounting to Rs. 44.7 million.

In fiscal 2006, the Company used Rs. 652.8 million of cash in investing activities. These investing activities primarily included net capital expenditure incurred towards purchase of fixed assets of Rs. 587.2 million, including fixed assets purchased in connection with the establishment of the Company's RMZ Ecospace delivery center in Bangalore, which was commissioned in fiscal 2006. Rs. 72.9 million was used towards acquiring an additional 9.99% voting interest in RevIT. During the year, the Company received an interest income of Rs. 7.3 million.

Financing Activities

In fiscal 2007 cash from financing activities amounted to Rs. 5,972.3 million. This was primarily comprised of proceeds from the issuance of preference shares to investors amounting to Rs. 1,579.2 million, proceed from issuance of equity shares to investors amounting to Rs 3,821.0 million net of expenses, net repayment of secured loan of Rs. 2.0 million and net proceeds from unsecured loans of Rs. 694.8 million. There was an outflow towards interest on loans in the amount of Rs. 120.7 million.

In fiscal 2006 cash from financing activities amounted to Rs. 183.2 million. This was primarily due to the Company's incurrence of an unsecured working capital demand loan in a net amount of Rs. 170.8 million. Proceeds from external commercial borrowings in fiscal 2006 amounted to Rs. 83.2 million and proceeds from the issuance of equity shares to ESOP holders amounted to Rs. 16.4 million in fiscal 2006. These inflows were offset by interest paid on loans in the amount of Rs. 87.2 million in fiscal 2006.

Cash position

The Company funds its short-term working capital requirements through cash flow from operations, working capital overdraft facilities with commercial banks, medium-term borrowings from banks and commercial financial institutions and others. As of March 31, 2007, the Company had cash and bank balances of Rs. 3,010.0 million as compared to Rs 170.3 million as at March 31, 2006.

RISK MANAGEMENT REPORT

This report sets out the enterprise-wide risk management that is practiced by the Company. Readers are cautioned that the risks outlined here are not exhaustive and are for information purposes only. This report contains statements which may be forward-looking in nature. The business model is subject to uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Readers are requested to exercise their own judgment in assessing the risks associated with the Company and to refer to the discussions of risks in the Company's prospectus filed with the Securities and Exchange Board of India (SEBI) as well as factors discussed elsewhere in this annual report.

Information provided in this Risk Management Report pertains to Firstsource Solutions Limited and its subsidiaries on a consolidated basis, unless otherwise stated.

The BPO Industry is currently in a highly competitive and dynamic business environment, characterized by rapid technological changes, high attrition, stringent customer requirements on information and data security, and ever increasing focus on compliance measures. The global economic environment, the industry and competitive landscape continues to evolve which brings new challenges and risks.

The Company recognizes the need to have a robust risk management culture and processes. The Company has implemented a very comprehensive "Enterprise Risk Management" (ERM) framework in order to anticipate, identify, measure, mitigate, monitor and report the risks successfully to meet the strategic business objectives. The Company's ERM framework captures the following key elements:

Governance Structure

The Company has a well defined governance structure across multiple levels within the organization. Governance responsibilities for each of the level are highlighted below:

Level	Responsibilities
Board of Directors	• Oversees the risk management processes performed by the management in order to protect and enhance the value to the stakeholders.
Audit Committee	• Provides oversight on the internal control environment and review of the independent assurance activities performed by the auditors.
Risk Management Committee (RMC)	• Continuous assessment of the risks to the business and review of the risk management practice to ensure compliance with the policies.
Risk and Compliance function	• Execution of the risk management related activities across the organization as per the direction given by the risk management committee. • Provides assistance and guidance to various business and support functions in managing the risks within acceptable levels.
Business Heads	• Ownership of the risks specific to their business and responsibility to ensure compliance with the policy. • Influence and encourage the execution of the risk management practices in their units.
Internal Audit	• Conduct independent review on the effectiveness of the controls and reporting to the audit committee.

Enterprise Risk Management Process

The Company has established a risk management process that defines key activities and outcomes from risk identification to risk monitoring and reporting stage. Process highlights across various stages of risk management process is summarized below:

Stage	Activities
Risk Identification	• Risk identification exercise is done in the beginning of the fiscal year by the RMC and the senior management to create the "Risk Register" which captures the risks which can adversely impact the achievement of the business objectives. • This risk register is reviewed by the RMC on half yearly basis to capture the new risks & changes in the risk levels.
Risk Assessment	• The systemic risk assessment is done on the basis of likelihood and impact. • The risks are categorised as extreme, high, moderate and low risks in order to prioritise the response and monitoring.

Internal control systems and its adequacy

The Company and its management have ensured that adequate systems for internal control commensurate with the Company's size are in place. These ensure that its assets and interests are carefully protected; checks and balances are in place to determine the accuracy and reliability of accounting data. Well documented processes have been implemented throughout the organization to ensure that policies are promoted and adhered to. There are clear demarcation of roles and responsibilities at various levels of operations.

The Company has a dedicated internal audit team to examine and evaluate the adequacy and effectiveness of the internal control system. The team comes up with an audit plan at the beginning of the year in consultation with management and the audit committee, carries out the audit and reports audit findings to the audit committee, statutory auditors and top management. The Company has also appointed the external firms such as E&Y and Aneja Associates to selectively conduct the audits on specific areas and provide fair independent assessment of the effectiveness of the internal controls.

The Company has a rigorous business planning system to set targets and parameters for operations, which are reviewed with actual performance to ensure timely initiation of corrective action if required.

Additionally, pursuant to clause 49 of the listing agreement with stock exchanges relating to corporate governance, the Company has been required to comply with additional standards. These standards include a certification by the Company's Chief Executive Officer and Chief Financial Officer that they have evaluated the effectiveness of the Company's internal control systems and that they have disclosed to its auditors and its audit committee any deficiencies in the design or operation of the Company's internal controls of which they may become aware, as well as any steps taken or proposed to resolve the deficiencies.

Key Business Risks & Mitigation Plan

The key risks the Company faces are listed below. This report details these risk factors and the steps taken by the Company to manage the same through the process described above:

1. **Client concentration**

   The Company relies on a small number of clients for a large proportion of its income, and loss of any of these clients could adversely affect its profitability. Furthermore, major events affecting the Company's clients, such as bankruptcy, change of management, mergers and acquisitions could adversely impact its business. The Company has recognized this aspect and had undertaken multiple initiatives over the last few years to rebalance its business portfolio. As a result of these initiatives, the Company has managed to reduce the dependency on top 5 clients significantly from over 81.8% in fiscal 2003 to 51.4% now. Also, the dependency on the top client is 14.5% currently as compared to 41.6% in fiscal 2003. The management believes that it now has a well balanced mix of clients and industries and moving forward shall continuously endeavor to assess and address the risk of any over dependency.

2. **Risks related to acquisitions**

   Historically, the Company has relied on expanding some of its service offerings and gaining new clients through strategic acquisitions. It is possible that in the future the Company may not succeed in identifying suitable acquisition targets available for sale on reasonable terms, have access to the capital required to finance potential acquisitions, be able to consummate any acquisition or be able to successfully integrate any acquired business, which may affect its competitiveness and its growth prospects. The Company has an experienced M&A team who assesses all parameters before finalizing any acquisition, including, but not limited to, business fit, culture, management quality, delivery engine, customer list etc. An integration team is then constituted to enable smooth convergence of the acquired company with the Company.

3. **Country level risks**

   The Company has operations in India, the United States, the United Kingdom and Argentina and it services clients across Europe, North America and Asia. As a result, the Company is exposed to geographical, political or regulatory risks typically associated with conducting business internationally, many of which are beyond its control. To mitigate this risk, the Company has comprehensive business continuity plans in place and has a well diversified geographic spread.

4. **Long selling cycle**

   The Company has a long selling cycle for its BPO services which can range in duration from weeks to months and is subject to many risks and delays over which the Company has little or no control. The Company has clearly focused marketing and sales teams with clear goals who at all times work on a variety of opportunities along with an aggressive transition methodology that helps transition new wins very quickly into delivery mode. A significant part of the contracts with existing clients are on long term basis which ensures that there is regular and sustained business volumes from existing clients.

5. **Inability to attract and retain skilled personnel**

   The Company's success depends to a significant extent on its ability to attract, hire, train and retain qualified employees, including its ability to attract employees with needed skills in the geographic areas in which the Company operates. In order to address the threat of attrition of skilled personnel, the Company has put in place best-in-class HR policies and training and development programs to ensure that its talent pool is kept abreast of the latest developments with regard to domain knowledge, technology and constantly upgraded with other soft skills and leadership training.

6. **Wage increases**

   Due to the rapid economic growth in India, increased demand for BPO services from India and increased competition for skilled employees in India, wages for comparably skilled employees in India are increasing at a faster rate than in the United States and Europe, which to some extent reduce some of the competitive advantage India as a country has. The Company believes the value proposition offshore offers to customers in developed countries is beyond just wage arbitrage and continues to be very strong. It seeks to mitigate the impact of wage increase through better cost management, productivity improvement, setting up delivery centers in lower cost locations and where appropriate, indexation of prices with customers.

7. **Currency exchange risk**

   The exchange rate between the Indian rupee and the pound sterling and the Indian rupee and the U.S. dollar has changed substantially in recent years and may continue to fluctuate significantly in the future. Accordingly, the Company's operating results have been and will continue to be impacted by fluctuations in the exchange rate between the India rupee and the British pound and the Indian rupee and the U.S. dollar. The Company's diversification across U.S. dollar and British pound has in the past benefited it from the impact of any one currency's fluctuations. The Company actively tracks the movement in foreign currencies and has an internal risk management policy of proactively hedging exposures on regular basis through forward cover contracts. The tenure of these contracts are generally up to one year. As of March 31, 2007, the Company has outstanding forward covers of Rs. 3,215.8 million.

REPORT ON CORPORATE GOVERNANCE

(Pursuant to Clause 49 of the Listing Agreement)

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

At Firstsource Solutions Limited ("the Company"), the concept of Corporate Governance hinges on total transparency, integrity and accountability of the management team. The Company is committed to good governance practices that create long term sustainable shareholder value. With the objective of the Company to conduct its business in a highly professional and ethical manner and thereby enhance trust and confidence of all its stakeholders, the Company has devised a complete framework for compliance of Corporate Governance norms.

The Equity shares of the Company got listed on Bombay Stock Exchange Limited and National Stock Exchange of India Limited on February 22, 2007. In compliance with the disclosure requirements of Clause 49 of the listing agreement, the details are set out as herein.

2. BOARD OF DIRECTORS

The Board of Directors of the Company are entrusted with complete authority and responsibility to manage the affairs of the Company. The present Board of the Company consists of eminent persons with considerable and required professional expertise and experience in business and industry, finance, management, legal and marketing. The Board is entrusted with the task of managing the Company directly or through delegation of authority either partly or totally as may be found appropriate and reasonable to the Board.

The Company's policy is to maintain an optimum combination of Directors. The Board consists of 11 Directors out of which 9 are Non-Executive Directors. Further, 5 out of 11 Directors are Independent Directors.

Details of Composition and Category of Directors are as follows:

Name of Director	Category of Director	No. of Board Meetings Attended	No. of Board Meetings Attended through Teleconference	Directorships in other Public Companies as on 31.3.2007#	Committee Memberships/ Chairmanships in other Public Companies as on 31.3.2007 ##	
					Memberships	Chairmanships
Dr. Ashok Ganguly, Chairman	Non-Executive, Independent	9	–	5	2	–
Ananda Mukerji, Managing Director and CEO	Executive	9	–	–	–	–
* Raju Venkatraman, Jt. Managing Director and COO	Executive	–	–	1	1	–
Shikha Sharma (a)	Non-Executive, Non Independent	6	–	3	1	–
** Donald W. Layden Jr.(b)	Non-Executive, Non Independent	2	3	–	–	–
$ Dinesh Vaswani (c)	Non-Executive, Non Independent	6	1	–	–	–
K. P. Balaraj (d)	Non-Executive, Non Independent	5	3	–	–	–
$$ Y.H. Malegam	Non-Executive, Independent	7	–	10	3	3
! Lalita D Gupte	Non-Executive, Independent	2	1	3	1	–
Charles Miller Smith	Non-Executive, Independent	2	5	–	–	–
Shailesh J. Mehta	Non-Executive, Independent	3	4	1	–	–
!! Akash Prakash (c)	Non-Executive, Non Independent	2	–	–	–	–
€ Madhabi Puri Buch	Non-Executive, Non Independent	5	–	2	–	–

\# The Directorships of Indian Public Ltd. companies only have been considered. Directorships of foreign companies, Section 25 companies and Private Ltd. companies have not been considered.

\## Memberships/Chairmanships in Audit Committee and Shareholders'/Investors' Grievance Committee only of Public Limited Companies have been considered.

(a) Nominee Director, representing Promoters, ICICI Bank Ltd.
(b) Nominee Director, representing Equity Investor, Metavante Corporation.
(c) Nominee Director, representing Equity Investor, Aranda Investments (Mauritius) Pte. Ltd.
(d) Nominee Director, representing Equity Investor, Westbridge Ventures I Investment Holdings.

* Appointed on April 26, 2007
** Appointed on April 20, 2006
$ Appointed on April 27, 2006
$$ Appointed on July 27, 2006
! Appointed on December 19, 2006
!! Ceased to be a Nominee Director of Aranda w.e.f. April 27, 2006
€ Ceased to be a Nominee Director of ICICI Bank Ltd. w.e.f. November 20, 2006

At the last Annual General Meeting (AGM), except Mr. Ananda Mukerji, no other Directors were present. Corporate Governance requirements were not applicable to the Company at the time of last AGM.

The following Non-Executive Directors of the Company hold equity shares in the Company:
Mr. Shailesh J. Mehta - 2,45,000 Shares and Dr. Ashok Ganguly - 3,67,500 Shares
9 Board Meetings were held during the year 2006-07. i.e. on April 20, April 27, July 27, October 6, October 27, November 20 and December 19 in 2006, January 11 and February 19 in 2007, as against the minimum requirement of 4 meetings. Time gap between any 2 meetings was not more than 4 months.

The Company has a process to provide the information to the Board as required under Annexure IA to clause 49, which is being followed.

All the Directors have made necessary disclosures about the committee positions, they occupy in other companies.

The particulars of Directors who are proposed to be appointed/re-appointed at the ensuing AGM are given in the Notice to the AGM.

3. AUDIT COMMITTEE

The existing Audit Committee was reconstituted in line with the requirements of listing agreement on November 20, 2006. It comprises Mr. Y. H. Malegam, Chairman and Mr. Dinesh Vaswani, Mr. Charles Miller Smith & Mrs. Lalita D. Gupte as members.

5 meetings of the Committee were held during the year i.e. on April 27, July 27, October 27 in 2006 and January 11, February 19 in 2007. The time gap between any 2 meetings was not more than 4 months. Composition of Committee and details of attendance are as under:

Name of Director	Category	No. of Meetings Attended	No. of Meetings Attended through Teleconference
$ Y. H. Malegam, Chairman	Independent, Non-Executive	3	–
* Dinesh Vaswani	Nominee Director, Non Independent, Non-Executive	4	–
Charles Miller Smith	Independent, Non-Executive	2	2
! Lalita D. Gupte	Independent, Non-Executive	-	–
% Shailesh J. Mehta	Independent, Non-Executive	2	–
# K. P. Balaraj	Nominee Director, Non Independent, Non-Executive	3	–
** Akash Prakash	Nominee Director, Non Independent, Non-Executive	1	–
# Madhabi Puri Buch	Nominee Director, Non Independent, Non-Executive	3	–

$ Appointed on July 27, 2006
* Appointed as member on April 27, 2006
! Appointed as member on April 26, 2007
% Ceased to be member w.e.f. April 26, 2007
** Ceased to be a member w.e.f. April 27, 2006
# Ceased to be a member w.e.f. November 20, 2006

The terms of reference of the Audit Committee cover the matters specified under Clause 49 of the Listing Agreement as well as in Section 292A of the Companies Act, 1956 such as overseeing of the Company's financial reporting process; recommending the appointment/reappointment of statutory auditors; reviewing with the management, annual financial statements; quarterly financial statements and other matters as covered under role of Audit Committee in Clause 49.

The members of Audit Committee have knowledge on financial matters and majority of them have accounting or related financial management expertise.

The statutory auditors and finance personnel are invitees to the meetings of the Audit Committee.

The Company Secretary acts as the Secretary to the Audit Committee.

The Company has become listed w.e.f. February 22, 2007 and the Audit Committee has since been reviewing all the information that are required to be mandatorily reviewed by it under corporate governance.

4. REMUNERATION COMMITTEE

The Company has a committee named Compensation cum Board Governance Committee which acts as the Remuneration Committee of the Company. This Committee, in addition to approving the grant of options to employees/Directors, also reviews the overall compensation structure and policies of the Company and approves remuneration payable to Managing Director and CEO/Executive Directors. This Committee comprises of Dr. Ashok Ganguly, Chairman and Mr. K. P. Balaraj, Mr. Shailesh Mehta & Mr. Charles Miller Smith as members.

Four meetings of the Commiittee were held during the year i.e. on April 27, July 27, and October 27 in 2006 and February 19 in 2007.

The details of Composition of the Committee and Meetings attended are as follows:

Name of Director	Category	No. of Meetings Attended	No. of Meetings Attended through Teleconference
Dr. Ashok Ganguly, Chairman	Independent, Non-Executive	4	–
K. P. Balaraj	Nominee Director, Non Independent, Non-Executive	3	1
# Shailesh Mehta	Independent, Non-Executive	–	2
Charles Miller Smith	Independent, Non-Executive	2	2
* Dinesh Vaswani	Nominee Director, Non Independent, Non-Executive	4	–
! Madhabi Puri Buch	Nominee Director, Non Independent, Non-Executive	3	–

Appointed as member on April 26, 2007

! Ceased to be a member w.e.f. November 20, 2006

* Ceased to be member w.e.f. April 26, 2007

The details of remuneration to all the Directors for the year ended March 31, 2007 are as under:

Remuneration of Mr. Ananda Mukerji for the year 2006-07 comprised of Salary and Allowances (including Bonus which is performance linked) of Rs. 12.79 million, Perquisites of Rs. 0.17 million and Contribution towards Provident Fund of Rs. 0.42 million. No Commission is being paid.

Mr. Ananda Mukerji was appointed as Managing Director & CEO for a period of 5 years w.e.f. April 17, 2002. He has been re-appointed as the Managing Director and CEO for a further period of 5 years w.e.f. April 17, 2007, which has been approved by the shareholders at their General Meeting held on November 10, 2006. He may terminate his employment with or without cause by serving 3 months prior notice on the Company. In case of termination by the Company without any cause, the Managing Director & CEO shall be entitled to severance pay equivalent to one years' total compensation and 100% of the Options awarded to him will vest to him.

The Company does not pay any remuneration to the Non-Executive Directors of the Company except sitting fees and grant of stock options. However, Nominee Directors are not paid sitting fees for attending the Board or Committee meetings. Other Non-Executive Directors are paid sitting fees of Rs. 5,000/- for attending each Board Meeting and Rs. 2,000/- for each Committee meeting.

Details of sitting fees and Stock options granted to Directors during the year 2006-07 are as under:

Name of Director	Sitting Fees (Rs.)
Dr. Ashok Ganguly	48,000
Charles Miller Smith	18,000
Shailesh J. Mehta	19,000
Y. H. Malegam	41,000
Lalita D. Gupte	10,000

Name of Director	No. of Options Granted
Dr. Ashok Ganguly	600,000
Ananda Mukerji	20,00,000
Charles Miller Smith	250,000
Shailesh J. Mehta	250,000
Y. H. Malegam	250,000

50% of Options granted to the aforesaid Directors (except Mr. Y. H. Malegam) would vest at the end of 24 months and balance at the end of 36 months from the date of grant. Options granted to Mr. Y. H. Malegam vest over a period of 4 years with 25% options vesting after 12 months and thereafter 12.5% options vesting after every 6 months from the date of grant.

5. SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE

The Shareholders'/ Investors' Grievance Committee was constituted on October 27, 2006 in line with the requirement of listing agreement and it comprises of the following :

Name of Director	Category
Dr. Ashok Ganguly, Chairman	Independent , Non-Executive
Ananda Mukerji	Executive
Dinesh Vaswani	Nominee Director, Non Independent, Non-Executive

The Board had designated Mr. Ganapathy Sastri (upto March 31, 2007), Company Secretary as the Compliance Officer. Mr. Sanjay Gupta, Company Secretary has been appointed as the Compliance Officer w.e.f. April 1, 2007.

The Committee looks into redressal of complaints received from Shareholders and Investors like transfer of shares, non receipt of refund order, etc.

No meeting of the Committee was held during the year 2006-07. The Company became a listed Company w.e.f. February 22, 2007 and no Investor complaint was received prior to Initial Public Offer (IPO) of the Company. The total number of complaints received during the year were 1,032 out of which 70 were pending as on March 31, 2007, which were subsequently resolved.

Sharepro Services (India) Private Limited was appointed as Registrar to issue. Post IPO, the Investor complaints are being handled by Sharepro Services.

No request for transfer was pending for approval as on March 31, 2007.

6. GENERAL BODY MEETINGS

Location and time of last three Annual General Meetings:

Year	Venue	Date	Time
2003-04	6th floor, Peninsula Chambers, Ganpatrao Kadam Marg, Lower Parel (W), Mumbai 400 013	May 27, 2004	10.30 a.m.
2004-05	Same as above	August 26, 2005	11.00 a.m.
2005-06	Same as above	July 27, 2006	4.00 p.m.

Special Resolutions passed at last 3 AGMs:

a) 2003-04

i) Alteration of Articles of Association for increase in authorized share capital

ii) Conversion of Participatory Optionally Convertible Preference shares into equity shares

iii) Grant of Stock Options to Managing Director & CEO

iv) Preferential issue of shares u/s 81 (1A) of the Companies Act, 1956

v) Borrowings u/s 293 (1) (d) of the Companies Act, 1956

vi) Investment limits u/s 372A of the Companies Act, 1956

b) 2004-05

i) Increase in Stock Option Pool

ii) Increase in Stock Option Pool for Persons Resident outside India

c) 2005-06

Approval for remuneration of Managing Director & CEO

Postal ballot:

No resolution was passed last year by Postal Ballot.

No resolution is proposed to be passed at the ensuing AGM by Postal Ballot.

7. DISCLOSURES

a) Related Party Transactions

The transactions with related parties as per Accounting Standard AS-18, are set out in notes to accounts - Schedule no. 21 forming part of financial statements.

b) The Company has become a listed Company w.e.f. February 22, 2007. The Company has complied with the requirements of regulatory authorities on matters related to capital markets and no penalties/strictures have been imposed against the Company by Stock Exchanges or SEBI or any other regulatory authority on any matter related to Capital Market during the last 3 years

8. MEANS OF COMMUNICATION

The Company has become a listed Company w.e.f. February 22, 2007. The Company has made an application for obtaining User ID and password for upload of documents as required under Clause 51 of the Listing Agreement.All data related to quarterly financial results, shareholding pattern etc. would be posted on the Electronic Data Information Filing and Retrieval (EDIFAR) website www.sebiedifar.nic.in maintained by SEBI within the time frame prescribed in this regard after receipt of User ID and password.

The financial results for the year ended March 31, 2007 were published in Economic Times, Free Press Journal and Navshakti.

The Company's financial results are also displayed on the Company's website www.firstsource.com. The Company's website also displays official news releases.

There were no presentations made to the institutional investors or analysts after listing of the Company on the stock exchanges.

9. GENERAL SHAREHOLDER INFORMATION

I. Annual General Meeting

Date, Time and Venue:

Tuesday, August 14, 2007 at 4.00 p.m at Ravindra Natya Mandir, Sayani Road, Prabhadevi, Mumbai 400 025.

II. Financial Year

April 1 to March 31

Financial Calendar

First quarter results – last week of July*
Second quarter results – last week of October *
Third quarter results – last week of January *
Fourth quarter results – last week of April *
Annual General Meeting (FY 2008) – July/August*
* Tentative

III. Dates of Book Closure (both days inclusive)

Tuesday, August 7, 2007 to Tuesday, August 14, 2007.

IV. Dividend

No Dividend has been recommended by Board for financial year 2006-07.

V. Listing on Stock Exchanges and payment of Listing fees

Bombay Stock Exchange Limited (BSE), Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001.

National Stock Exchange of India Limited (NSE), Exchange Plaza, Plot no. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051.

Annual Listing fees for the year 2007-08 has been paid by the Company to NSE and BSE

VI. (a) Stock Code

BSE – 532809 ; NSE - FSL

(b) ISIN in National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL)

INE684F01012

VII. Market Price Data – The Company has become a listed Company w.e.f. February 22, 2007. Accordingly, the market price data i.e. High and Low prices of the Company's shares on NSE and BSE with performance in comparison to NSE Nifty and BSE Sensex from February 2007 to March 2007 are given below:

Month	NSE				BSE			
	Share Price (Rs.)		Nifty		Share Price (Rs.)		BSE Sensex	
	High	Low	High	Low	High	Low	High	Low
February 2007	90.10	74.10	4245.30	3674.85	88.90	75.00	14723.88	12800.91
March 2007	86.30	61.15	3901.75	3554.50	81.30	61.55	13386.95	12316.10

VIII. Registrar & Transfer Agents

3i Infotech Limited

Tower #5, 3rd to 6th Floors, International Infotech Park, Vashi, Navi Mumbai 400 703

IX. Share Transfer System

The transfer of shares in physical form is normally processed and completed by 3i Infotech Limited within a period of 15 days from the date of receipt thereof provided all the documents are in order. In case of shares in electronic form, the transfers are processed by NSDL/CDSL through respective Depository Participants. In compliance with the Listing Agreement with the Stock Exchanges, a practising Company Secretary audits the system of transfer and a certificate to that effect is issued.

X. Distribution of shareholding as on March 31, 2007 :

Shareholding of nominal value of		Shareholders		Nominal Capital	
Rs.	Rs.	Nos.	% to total	Rs.	% to total
Upto	5000	136,543	96.77	166,681,260	3.92
5001 -	10000	2,339	1.66	18,821,560	0.44
10001 -	20000	1,033	0.73	15,272,910	0.36
20001 -	30000	330	0.23	8,319,490	0.20
30001 -	40000	151	0.11	5,403,350	0.13
40001 -	50000	157	0.11	7,526,940	0.18
50001 -	100000	196	0.14	14,634,220	0.34
100001 -	above	349	0.25	4,014,183,230	94.43
Total		**141,098**	**100.00**	**4,250,842,960**	**100.00**

Categories of Shareholders as on March 31, 2007:

Category	No. of shares held	% to total share capital
Promoter's holding		
ICICI Bank Limited and its subsidiaries	106,249,999	24.99
Non-Promoter holding		
Mutual Funds and UTI	7,540,426	1.77
Financial Institutions/Banks and Insurance Companies	659,334	0.16
FIIs, FVCIs, Foreign Companies	248,521,098	58.46
Body Corporates	25,405,798	5.98
Individuals	36,707,641	8.64
TOTAL	**425,084,296**	**100.00**

XI. Dematerialization of Shares and Liquidity

Trading in the Company's shares is permitted only in dematerialized form for all investors. The Company has established connectivity with NSDL and CDSL through the Registrars, M/s. 3i Infotech Limited, whereby the investors have the option to dematerialize their shares with either of the depositories.

As on March 31, 2007, 99.96% of the paid up share capital has been dematerialized.

XII. The Company has no outstanding GDRs/ADRs/Warrants or any convertible instruments.

XIII. Delivery Centres

The Company along with its subsidiaries has 24 Global delivery centres of which 15 are located in India, 6 in U.S. 2 in U.K. and 1 in Argentina.

India	Mumbai (3 centres) Bangalore (3 centres) Chennai (2 centres) Pondicherry Trichy(2 centres) Kolkata New Delhi Vijayawada Cochin	**United States of America*** **United Kingdom*** **Argentina***	Kingston, New York Amherst, New York Reno, Nevada Rockford, Illinois Fort Scott, Kansas Louisville, Kentucky Belfast, Nothern Ireland Londonderry, Nothern Ireland Buenos Aires

* Delivery centres of the subsidiaries of the Company.

XIV. Address for Correspondence

Registrar and Share Transfer Agents	**Company Secretary and Compliance Officer**
3i Infotech Limited	Sanjay Gupta
Tower#5, 3rd to 6th Floors	Firstsource Solutions Limited
International Infotech Park,	6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg,
Vashi - 400 703, Navi Mumbai,	Lower Parel (West), Mumbai – 400 013
Tel. No. 91-22-67928000	Telephone No.: 91-22-6666 0888, Fax : 91-22-66635481
	Email ID for redressal of Investors grievances: complianceofficer@firstsource.com

10. CODE OF CONDUCT

The Company has become a listed Company w.e.f. February 22, 2007. The Board has laid down Codes of Conduct for Executive Directors and Senior Management and for Non-Executive Directors of the Company at its meeting held on April 26, 2007. The Code of Conduct as applicable to them has been circulated to all the members of the Board and Senior Management and the compliance of the same has been affirmed by them. A declaration signed by Managing Director and CEO is given below:

I hereby confirm that:

The Company has obtained from all the members of the Board and Senior Management, affirmation that they have complied with the Code of Conduct as applicable to them.

Ananda Mukerji

Managing Director and CEO

11. MANAGEMENT

The Management Discussion and Analysis Report forms part of this Annual Report.

The Company has not entered into any materially significant transactions during the year under report with promoters, directors, senior management personnel etc. other than transactions, if any, entered into in the normal course of Company's business.

12. CEO/CFO CERTIFICATION

A certificate from the Managing Director & CEO and Chief Financial Officer of the Company in terms of Clause 49 (V) of the Listing Agreement was placed before the Board at the Board Meeting held on April 26, 2007.

13. NON-MANDATORY REQUIREMENTS

As stated earlier, the Company has a Committee named Compensation cum Board Governance Committee which acts as the Remuneration Committee of the Company. The Company has also framed a whistle blower policy and no personnel has been denied access to the Audit Committee. Further, Dr. Ashok Ganguly, Non-Executive Chairman, maintains an office at the Registered Office of the Company at the Company's expense.

CERTIFICATE REGARDING COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE

To the Members of

Firstsource Solutions Limited

We have examined the compliance of conditions of Corporate Governance by Firstsource Solutions Limited for the year ended March 31, 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges. The equity shares of the company got listed on Bombay Stock Exchange Limited and National Stock Exchange of India Limited on February 22, 2007.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was limited to procedures and implementation thereof adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion of the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we state that the Company has complied with most of the conditions of corporate governance as stipulated in the listing agreement and as mentioned in the Corporate Governance Report and other conditions are in the process of being implemented as the shares of the Company were listed only on 22nd February, 2007.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Parikh & Associates**
Practising Company Secretaries

P. N. Parikh
FCS: 327 CP: 1228

Mumbai
April 27, 2007

AUDITORS' REPORT

To the Board of Directors of

Firstsource Solutions Limited on the Consolidated Financial Statements of Firstsource Solutions Limited and its subsidiaries

We have audited the attached Consolidated Balance Sheet of Firstsource Solutions Limited (formerly known as ICICI OneSource Limited) ('the Company' or 'the Parent Company') and its subsidiaries (as per the list appearing in Schedule 1 to the consolidated financial statements) [collectively referred to as the 'Firstsource Group'] as at 31st March, 2007, the related Consolidated Profit and Loss Account and Consolidated Cash Flow Statement for the year ended on that date, annexed thereto. These consolidated financial statements are the responsibility of the Firstsource Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with the terms of engagement as specified by the Board of Directors of the Parent Company.

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 whether the consolidated financial statements are prepared, in all material respects, in accordance with the financial reporting framework generally accepted in India and are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that the consolidated financial statements have been prepared by the Firstsource Group's managment in accordance with the requirements of Accounting Standard (AS) 21 - 'Consolidated Financial Statements', issued by the Institute of Chartered Accountants of India ('ICAI').

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India :

i. in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of Firstsource Group as at 31st March, 2007;

ii. in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of Firstsource Group for the year ended on that date; and

iii. in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of Firstsource Group for the year ended on that date.

For **BSR & Co.**
Chartered Accountants

Mumbai
April 27, 2007

Akeel Master
Partner
Membership No: 046768

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)	Schedule	2007	2006
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	3	**4,250,843**	3,994,699
Share application money		**–**	1,960
Reserves and surplus	4	**6,414,743**	327,545
		10,665,586	4,324,204
Minority interest		**42,970**	49,167
Loan funds			
Secured loans	5	**711,963**	731,139
Unsecured loans	6	**1,263,913**	569,139
Deferred Tax liability, net	10	**6,794**	–
		12,691,226	5,673,649
APPLICATION OF FUNDS			
Goodwill on consolidation	7	**5,419,247**	4,072,606
Fixed assets	8		
Gross block		**3,891,335**	2,575,819
Less: Accumulated depreciation and amortisation		**2,171,124**	1,486,523
Net block		**1,720,211**	1,089,296
Add: Capital work in progress (including capital advances)		**81,969**	64,266
		1,802,180	1,153,562
Investments	9	1,152,534	–
Deferred tax asset, net	10	**5,844**	3,875
Current assets, loans and advances			
Sundry debtors	11	**1,363,984**	1,006,938
Unbilled revenues		**722,645**	156,809
Cash and bank balances	12	**3,009,954**	170,280
Loans and advances	13	**583,563**	300,528
		5,680,146	1,634,555
Less: Current liabilities and provisions			
Current liabilities	14	**1,255,560**	1,149,780
Provisions	15	**113,165**	41,169
		1,368,725	1,190,949
Net current assets		**4,311,421**	443,606
		12,691,226	5,673,649
Significant accounting policies	2		
Notes to accounts	20-31		

The accompanying schedules form an integral part of this Consolidated balance sheet.

As per our report attached
For **BSR & Co.**
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Mumbai
April 27, 2007

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly, *Chairman*
Ananda Mukerji, *Managing Director & CEO*
Lalita D. Gupte, *Director*
Shikha Sharma, *Director*
Dinesh Vaswani, *Director*
K.P. Balaraj, *Director*
Y.H. Malegam, *Director*
Shailesh Mehta, *Director*
Charles Miller Smith, *Director*
Donald Layden, Jr., *Director*
Rajesh Subramaniam, *CFO*
Sanjay Gupta, *Company Secretary*

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)	Schedule	2007	2006
INCOME			
Income from services		**8,168,483**	5,487,478
Other operating income		**129,126**	–
Other income	16	**101,710**	7,678
		8,399,319	5,495,156
EXPENDITURE			
Personnel costs	17	**4,135,649**	2,832,520
Operating costs	19	**2,518,199**	1,856,349
Depreciation and amortisation	8	**641,455**	451,457
Interest costs, net	18	**77,664**	85,235
		7,372,967	5,225,561
Profit before tax		**1,026,352**	269,595
Provision for taxation			
- Current tax expense (including foreign taxes)		**39,389**	15,546
- Deferred tax charge / (release)		**5,407**	378
- Fringe benefits tax		**15,334**	11,050
Profit after tax before minority interest		**966,222**	242,621
Minority interest		**(6,306)**	(4,065)
Profit after tax		**972,528**	246,686
Add: Profit/(Loss) brought forward from previous year		**324,410**	77,724
Accumulated balance carried forward to the Balance Sheet		**1,296,938**	324,410
Earnings per share			
Weighted average number of equity shares outstanding during the year	27		
- Basic		**264,852**	201,024
- Diluted		**389,278**	310,094
Earnings per share (Rs.)			
- Basic		**3.67**	1.23
- Diluted		**2.50**	0.80
Nominal value of shares (Rs.)		**10**	10
Significant accounting policies	**2**		
Notes to accounts	**20 - 31**		

The accompanying schedules form an integral part of this Consolidated profit and loss account

As per our report attached

For **BSR & Co.**

Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Mumbai
April 27, 2007

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly — *Chairman*

Ananda Mukerji — *Managing Director & CEO*

Lalita D. Gupte — *Director*

Shikha Sharma — *Director*

Dinesh Vaswani — *Director*

K.P. Balaraj — *Director*

Y.H. Malegam — *Director*

Shailesh Mehta — *Director*

Charles Miller Smith — *Director*

Donald Layden, Jr. — *Director*

Rajesh Subramaniam — *CFO*

Sanjay Gupta — *Company Secretary*

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)	2007	2006
Cash flow from operating activities		
Profit after tax	972,528	246,686
Adjustments		
Depreciation and amortisation	641,455	451,457
Deferred taxes	5,407	378
Provision for taxes	54,723	26,596
Provision for doubtful debts	5,850	(1,979)
Foreign exchange loss/ (gain), net	(32,373)	8,324
Interest costs	121,566	89,270
Interest and dividend income	(57,503)	(9,349)
(Profit) / loss on sale on investments	(52,619)	(47)
Employee stock award in a subsidiary	1,695	—
Minority interest	(6,306)	(4,065)
Loss on sale of fixed assets	469	1,469
	1,654,892	808,740
Changes in working capital		
Debtors	(952,905)	(387,501)
Loans and advances and unbilled revenue	(48,832)	(135,194)
Current liabilities and provisions	327,630	119,882
Net changes in working capital	(674,107)	(402,813)
Taxes paid	(67,119)	(35,363)
Net cash generated / (used) in operating activities	913,666	370,564
Cash flow from investing activities		
Purchase of investments in mutual funds / government securities	(7,178,372)	(55,000)
Sale of investments in mutual funds / government securities	6,078,458	55,047
Interest and dividend income received	44,677	7,269
Business acquisitions, net of cash acquired	(1,837,385)	(72,941)
Capital expenditure	(1,153,948)	(593,589)
Sale of fixed assets	285	6,418
Net cash generated / (used) in investing activities	(4,046,285)	(652,796)
Cash flow from financing activities		
Proceeds from secured loans	25,062	83,218
Repayment secured loans	(27,062)	—
Proceeds from unsecured loans	897,825	2,893,759
Repayment unsecured loans	(203,051)	(2,722,988)
Proceeds from issuance of preference shares	1,579,243	—
Proceeds from issuance of equity shares and share application money, net of expenses	3,820,977	16,385
Interest paid	(120,701)	(87,191)
Net cash generated from financing activities	5,972,293	183,183
Effect of Exchange difference on cash and cash equivalents	—	(59)

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)	2007	2006
Net (decrease) / increase in cash and cash equivalents	**2,839,674**	(99,108)
Cash and cash equivalents at the beginning of the year	**170,280**	269,388
Cash and cash equivalents at the end of the year	**3,009,954**	170,280

Notes to the Consolidated Cash Flow Statement

Cash and cash equivalents consist of cash on hand and balances with bank. Cash and cash equivalents included in the Cash Flow Statement comprise the following balance sheet amounts.

	2007	2006
Cash on hand	**989**	181
Balances with scheduled banks		
- in current accounts	**41,238**	11,919
- in deposit accounts*	**2,356,426**	6,253
- in Exchange earning in foreign currency accounts	**1,079**	961
Balances with non scheduled banks		
- in current accounts	**458,704**	118,444
- in deposit accounts**	**254,516**	145,159
Remittances in Transit	**12,874**	–
	3,125,826	282,917
Less: Current accout balance held in trust for customers in non scheduled banks	**115,872**	112,637
	3,009,954	170,280

* Includes Rs.5,870 under lien for bank guarantees to the customs authorities.

** Includes Rs.200,316 placed in Escrow account on behalf of its subsidiary FR-US towards additional acquisition cost pending finalization of earn-out payment for the year 2005. (Refer Schedule 7)

As per our report attached
For **BSR & Co.**
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Mumbai
April 27, 2007

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly — *Chairman*
Ananda Mukerji — *Managing Director & CEO*
Lalita D. Gupte — *Director*
Shikha Sharma — *Director*
Dinesh Vaswani — *Director*
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Y.H. Malegam — *Director*
Shailesh Mehta — *Director*
Charles Miller Smith — *Director*
Donald Layden, Jr. — *Director*
Rajesh Subramaniam — *CFO*
Sanjay Gupta — *Company Secretary*

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

1. Background

Firstsource Solutions Limited, formerly known as ICICI OneSource Limited ('Firstsource' or 'the Company') is incorporated on 6th December, 2001 and was promoted by ICICI Bank Limited. The Company is engaged in the business of providing business process outsourcing (BPO) services.

On 22nd February, 2007, the Company completed initial public offering ('IPO') of its equity shares in India comprising of fresh issue of 60,000,000 shares and sale of 9,300,000 equity shares by the existing shareholders.

During the year, the Company, through its subsidiary company Firstsource Solutions Limited, UK (formerly known as ICICI OneSource Limited, UK) has set up a 100% subsidiary Firstsource Solutions, S.A. (formerly known as ICICI OneSource, S.A.). During the year, the Company also opened a branch office in Philippines.

On 29th December, 2006, the Company through its wholly-owned subsidiary Firstsource Solutions USA Inc. (formerly known as ICICI OneSource Limited, USA) acquired 100% of the common stock of Business Process Management, Inc, a Delaware Corporation.

The list of subsidiaries considered in these consolidated financial statements 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") (formerly known as ICICI OneSource, USA)	A subsidiary of Firstsource Solutions Limited organized under the laws of State of Delaware, USA	100%	2002-2003
Business Process Management, Inc ("BPM")	A subsidiary of Firstsource Solutions USA Inc. organized under the laws of State of Delaware, USA	100%	2006-2007
MedPlans 2000 Inc ("MPL")	A subsidiary of Business Process Management, Inc organized under the laws of State of Delaware, USA	100%	2006-2007
MedPlans Partners ("MPP")	A subsidiary of Business Process Management, Inc organized under the laws of State of Delaware, USA	100%	2006-2007
Firstsource Solutions Limited, UK ("FSL-UK") (formerly known as ICICI OneSource, 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
Accounts Solutions Group, LLC ("ASG")	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") (formerly known as Satvik Research and Analytics India Private Limited)	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
Sherpa Business Solutions Inc ("Sherpa")	A subsidiary of Rev IT Systems Private Limited, incorporated under the laws of the State of Michigan, USA	100%	2004-2005
Firstsource Solutions S.A. ("FSL-Arg") (formerly known as ICICI OneSource, S.A.)	A subsidiary of Firstsource Solutions Limited UK, incorporated under the laws of S.A.	99.98%	2006-2007

2. Significant Accounting Policies

2.1 Basis of preparation

The consolidated financial statements of Firstsource Solutions Limited and its subsidiaries (as listed in Schedule 1 above), collectively referred to as the 'Firstsource Group' or the 'Group', have been prepared and presented under the historical cost convention, on the accrual basis of accounting, in accordance with the provisions of the Companies Act, 1956, to the extent considered necessary for the purpose of these accounts, and in accordance with the accounting principles generally accepted in India ('Indian GAAP') and comply with the mandatory Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI'), to the extent applicable. The financial statements are presented in Indian rupees rounded off to the nearest thousand.

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

2.2 Basis of consolidation

The consolidated financial statements are prepared in accordance with the principles and procedures prescribed by AS 21-'Consolidated Financial Statements' issued by the ICAI for the purpose of preparation and presentation of consolidated financial statements.

The financial statements of the Parent Company and its subsidiaries have been consolidated on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating intra-group balances/transactions and resulting unrealised profits in full. Unrealised losses resulting from intra-group transactions have also been eliminated unless cost cannot be recovered. Minority interest's share of profits or losses is adjusted against income to arrive at the net income attributable to the Company's shareholders. Minority interest's share of net assets is disclosed separately in the Balance Sheet.

The consolidated financial statements are prepared using uniform accounting policies for transactions and other similar events in similar circumstances across the Group.

2.3 Use of estimates

The preparation of the consolidated 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 consolidated financial statements. Management believes that the estimates made in the preparation of consolidated financial statements are prudent and reasonable. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

2.4 Revenue recognition

Revenue from contact center and transaction processing services comprises from both time/unit price and fixed fee based service contracts. Revenue from time/unit price based contracts is recognised on completion of the related services and is billed in accordance with the contractual terms specified in the respective customer contracts. Revenue from fixed fee based service contracts is recognised on achievement of performance milestones specified in the customer contracts. Revenue from debt collection services is recognised when debts are realised. Built

Operate and Transfer (BOT) contracts are treated as service contracts and accordingly, revenue is recognised as the services are rendered and billed in accordance with the respective contractual terms specified in the contracts.

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

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

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

2.5 Government grants

Revenue grants are recognised when reasonable certainty exists that the conditions precedent will be/are met and the grants will be realised. Revenue from these grants are included in other operating income.

2.6 Goodwill

The excess of cost to the Parent Company of its investments in the subsidiaries over its portion of equity in the subsidiaries, as at the date on which the investment was made, is recognised as goodwill in the consolidated financial statements. The Parent Company's portion of equity in the subsidiaries is determined on the basis of the book value of assets and liabilities as per the financial statements of the subsidiaries as on the date of investment.

Goodwill is reviewed for a decline other than temporary in its carrying value, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group assesses the recoverability of goodwill by reference to the valuation methodology adopted by it on the acquisition date, which included strategic and synergic factors that were expected to enhance the enterprise value. Accordingly, the Group would consider that there exists a decline other than temporary in the carrying value of goodwill when, in conjunction with its valuation methodology, its expectations with respect to the underlying acquisitions it has made deteriorate with adverse market conditions.

2.7 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. 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:

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Asset Category	Useful life (in years)
Intangible	
Software	3
Domain name	3
Tangible	
Leasehold improvements	Lease term or the estimated useful life of the asset, whichever is shorter
Office equipment	3 – 5
Computers	3
Service equipment including networks	2 – 3
Furniture and fixtures	3 – 5
Vehicles	2 – 5

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.

The Group has adopted AS 26 'Intangible Assets' issued by ICAI for capitalisation of software development cost incurred. Software product development costs are expensed as incurred during the research phase until technological feasibility is established. Software development costs incurred subsequent to the achievement of technological feasibility are capitalised and amortised over the estimated useful life of the products as determined by the management. This capitalisation is done only if there is an intention and ability to complete the product, the product is likely to generate future economic benefits, adequate resources to complete the product are available and such expenses can be accurately measured. Such software development costs comprise expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to the development of the product.

The amortisation of software development costs is allocated on a systematic basis over the best estimate of its useful life after the product is ready for use. The factors considered for identifying the basis include obsolescence, product life cycle and actions of competitors. The amortisation period and the amortization method is reviewed at the end of each reporting period. If the expected useful life of the product is shorter from previous estimates, the amortisation period is changed accordingly.

In accordance with AS 28 'Impairment of Assets' issued by ICAI, the carrying amounts of the Group'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 recognised whenever the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Impairment loss is recognised in the profit and loss account or against revaluation surplus, where applicable.

2.8 Retirement benefits

Gratuity

In accordance with Indian regulations, the Indian entities have adopted a policy to provide for gratuity, a defined benefit retirement plan, covering all its eligible employees. Provision in respect of gratuity is determined based on actuarial valuation by an independent actuary at balance sheet date.

Leave encashment

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

Provident Fund

In accordance with Indian regulations, all employees of the Indian entities receive benefits from a Government administered Provident Fund Scheme. Monthly contributions payable to the provident fund are charged to the profit and loss account as incurred.

The subsidiaries in US have a savings and investment plan under Section 401 (k) of the Internal Revenue Code of the United Sates of America. This is a defined contribution plan. Contributions made under the plan are charged to the profit and loss account in the period in which they accrue. Other retirement benefits are accrued based on the amounts payable as per local regulations.

2.9 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 the carrying value of such investments. Current investments are valued at lower of cost and market value.

2.10 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 based on the estimated tax liability computed after taking credit for allowances and exemptions in accordance with the tax laws applicable to the respective companies. In case of matters under appeal, full provision is made in the financial statements when the Company accepts its liability.

Deferred taxes

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between the profits offered for income taxes and the profits as per the financial statements in respect of each entity within the Group. Deferred tax assets and liabilities are measured using the tax rates and the tax laws that have been enacted or substantially enacted at the balance sheet date. The effect of a change in tax rates on deferred tax assets and liabilities is recognised in the period that includes the enactment date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in the future; however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is virtual certainty of realisation 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 Indian operations of the Group are exempt from taxes under the Indian Income Tax Act, 1961, being profit from industrial undertakings situated in Software Technology Park. Under Section 10A of the Indian Income Tax Act, 1961, exemption can be availed of profits from these operations from income tax for the period up to fiscal 2009 in relation to its undertakings set up in the Software Technology Park at Bangalore, Mumbai and Kolkata. In this regard, the Group recognises 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

Provisions for Fringe Benefits Tax (FBT) have been recognised on the basis of harmonious contextual interpretation of the provision of the Indian Income Tax Act, 1961.

2.11 Leases

Finance lease

Assets acquired on finance lease, including assets acquired on hire purchase, have been recognised 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 charges, which are debited to the profit and loss account and, reduction in lease obligations recorded at the inception of the lease.

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 using the implicit rate of return, which is recognised as income, and against principal outstanding, which 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.

2.12 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 recognised in the profit and loss account except for the resultant net exchange gain or loss on account of imported fixed assets, which is adjusted in the carrying amount of the related fixed assets. 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 recognised in the profit and loss account, except for exchange differences related to acquisition of fixed assets purchased from foreign countries, which are adjusted in the carrying amount of the related fixed assets.

Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date and also to hedge the foreign currency risk of firm commitments or highly probable forecast transactions. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. The premium or discount in respect of forward exchange contracts related to acquisition of fixed assets purchased from foreign countries is adjusted in the carrying amount of the related fixed asset. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference on such a forward exchange contract are recognised in the profit and loss account in the reporting period in which the exchange rates change. Gains or losses on forward contracts to hedge the foreign currency risk of firm commitments or highly probable forecast translation the period in which the forecasted transaction occurs.

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

2.13 Foreign Currency Translation

The Consolidated Financial Statements are reported in Indian rupees. The translation of the local currency of each integral foreign subsidiary within the Group into Indian rupees is performed in respect of assets and liabilities other than fixed assets, using the exchange rate in effect at the balance sheet date and for revenue and expense items other than the depreciation costs, using a monthly simple average exchange rate during the reporting period. Fixed assets are translated at exchange rates on the date of the transaction and depreciation on fixed assets is translated at exchange rates used for translation of the underlying fixed assets.

Net exchange difference resulting from the above translation of the financial statements of integral foreign subsidiaries is recognised in the consolidated profit and loss account.

In respect of non-integral subsidiaries, assets and liabilities are translated at exchange rates prevailing at the date of the balance sheet. The items in the profit and loss account are translated at the average exchange rate during the period. The difference arising out of the translations are transferred to Exchange translation reserve on consolidation of non-integral subsidary, under Reserves and surplus.

2.14 Earnings per share

The basic earnings per equity share is computed by dividing the net profit or loss for the period attributable to the equity shareholders 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.

2.15 Provisions and contingencies

A provision is created 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.

3. Share capital	2007	2006
Authorised		
600,000,000 (31st March, 2006: 450,000,000) equity shares of Rs. 10 each	**6,000,000**	4,500,000
250,000,000 (31st March, 2006: 400,000,000) participatory optionally convertible preference shares ('POCPS') of Rs. 10 each	**2,500,000**	4,000,000
	8,500,000	8,500,000
Issued, subscribed and paid-up		
425,084,296 (31st March, 2006: 201,875,000) shares of Rs. 10 each, fully paid-up	**4,250,843**	2,018,750
Nil (31st March, 2006: 35,672,100) Series 'B' participatory optionally convertible preference shares (Series 'B' 'POCPS') of Rs. 10 each, fully paid-up	–	356,721
Nil (31st March, 2006: 161,922,806) Series 'C' participatory optionally convertible preference shares (Series 'C' POCPS') of Rs. 10 each, fully paid-up	–	1,619,228
Nil (31st March, 2006: Nil) Series 'D' participatory optionally convertible preference shares (Series 'D' POCPS) of Rs. 10 each, fully paid-up	–	–
	4,250,843	3,994,699

Of the above issued, subscribed and paid-up equity share capital, Nil (31st March, 2006: 139,999,300) equity shares of Rs. 10 each are held by ICICI Strategic Investments Fund, 106,149,599 (31st March, 2006: 37,983,838) equity shares of Rs. 10 each are held by ICICI Bank Limited and the balance shares are held by strategic investors, individuals and ESOP holders.

On 22nd February, 2007, the Company completed initial public offering ('IPO') of its equity shares in India comprising fresh issue of 60,000,000 shares. Equity shares of Rs. 10 each were issued at premium of Rs. 54 aggregating Rs. 3,840,000.

During the year 10,314,498 (31st March, 2006: 1,128,750) options were alloted. For details of options in respect of equity shares, refer to Schedule 212

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Consequent to the exercise of conversion option by the holders of Series 'B', 'C' and 'D' Participatory Optionally Convertible Preference Shares ('POCPS') into equity shares at a price as stated in the respective shareholder agreement, the Company at the Extra ordinary general meeting held on 22nd November, 2006, after receipt of requisite regulatory approvals, has allotted (by way of conversion), 19,983,128 equity shares at a premium of Rs. 7.85 per share to Series 'B' POCPS holders, 81,540,623 equity shares at a premium of Rs. 9.85 per share to Series 'C' POCPS holders and 51,361,047 equity shares at a premium of Rs. 20.75 per share to Series 'D' POCPS holders.

The terms and conditions of the Series 'B', 'C' and 'D' POCPS were as mentioned below:

Series 'B' POCPS

On 10th October, 2003, the Company allotted 35,672,100 Series 'B' POCPS at Rs. 10 each (par value of Rs. 10) pursuant to the share subscription agreement dated 30th July, 2003 entered into between the Company and a strategic investor. The terms and conditions of Series 'B' POCPS are detailed hereunder:

Rate of Dividend	A fixed dividend of 0.00000000001% p.a. on the Series 'B' POCPS. In addition to the preferential dividend, Series 'B' POCPS shareholders shall be entitled to participate pari passu with the equity shareholders of the Company after the said dividend has been paid or provided for such preference shares. The Company shall not declare a dividend greater than the said percentage unless the Company includes above holders in such distribution of such excess dividend. Further, this shall be paid at the time it is paid to the equity shareholders.
Tenure/Redemption	If not converted into equity shares, Series 'B' POCPS will be redeemed at the higher of Series 'B' POCPS subscription price plus any accrued and unpaid dividends and further reduced by any price towards indemnity provided as in accordance with the underlying subscription agreement or the fair market value of the underlying equity shares. The Series 'B' POCPS can be redeemed after 5 years from closing date of allotment of Series 'C' POCPS (given below). Further, based on occurrence of certain events as defined in the subscription agreement, the Series 'B' POCPS shareholders have an option of early redemption at a price higher of the adjusted subscription price (arrived as aforesaid) or the then fair market value of the equity share as determined by an independent valuation firm.
Conversion	The Series 'B' POCPS shareholders shall have an option to convert all or any part of the Series 'B' POCPS held by them at any time after one year from the date of allotment at their sole discretion. The conversion ratio, as defined in the revised shareholders agreement, states that the holders of Series 'B' POCPS will receive 0.56 equity shares for each Series 'B' POCPS held by them. The conversion ratio shall therefore entitle the holders to a total of 19,983,128 equity shares (at Rs.17.85 per equity share).

Series 'C' POCPS

On 3rd September, 2004, the Company allotted 161,922,806 Series 'C' POCPS at Rs.10 each (par value of Rs.10) pursuant to the share subscription agreement dated 17th August, 2004, entered into between the Company and two strategic investors. The terms and conditions of the Series 'C' POCPS are detailed hereunder:

Rate of Dividend	A fixed dividend of 0.00000000001% p.a. In addition to the preferential dividend, Series 'C' POCPS holders shall be entitled to participate pari passu with the equity shareholders of the Company after the said dividend has been paid or provided for on such preference shares. The Company shall not declare a dividend greater than the said percentage unless the Company includes above holders in such distribution of such excess dividend. Further, this shall be paid at the time it is paid to the equity shareholders.
Tenure / Redemption	Redeemable after 5 years from the date of Closing (i.e. 3rd September, 2004) at the sum of the subscription amount and any accrued and unpaid dividends thereon minus the value of any amounts paid out to the holder under other indemnity clauses provided in the share issue agreement. Further, based on occurrence of certain events as defined in the shareholders agreement (such as occurrence of breach by the Company of any covenant and obligation) these shareholders have an option of early redemption at a price higher of the adjusted subscription price or the then fair market value of the underlying equity shares as determined by an independent valuation firm. Adjusted Subscription price means sum of subscription money paid towards Series 'C' POCPS under the share subscription agreement and any accrued and unpaid dividends minus the value of any amounts or securities paid out under the indemnity clause.
Conversion	The holders of Series 'C' POCPS shall have an option to convert all or any part of the Series 'C' POCPS held by them at any time at their sole discretion. The conversion ratio as defined in the subscription agreement states that the holders of Series 'C' POCPS will receive 0.5038 equity shares for each Series 'C' POCPS held by them. The conversion ratio shall therefore entitle the holders to a total of 81,540,623 equity shares of Rs. 10 each (at Rs. 19.85 per equity share).

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Series 'D' POCPS

Pursuant to a shareholders agreement dated 31st March, 2006 entered into between the Company and the strategic investors, the Company allotted 10,000 equity shares of Rs.10 each at a premium of Rs. 20.75 per share and 157,924,250 shares of Series 'D' POCPS at Rs.10 per share (par value Rs.10) on 20th April, 2006. The terms and conditions of the Series 'D' POCPS are detailed hereunder:

Rate of dividend	A fixed dividend of 0.00000000001% p.a. In addition to the preferential dividend, Series 'D' POCPS holders shall be entitled to participate pari passu with the equity shareholders of the Company after the said dividend has been paid or provided for on such preference shares. The Company shall not declare a dividend greater than the said percentage unless the Company includes above holders in such distribution of such excess dividend. Further, this shall be paid at the time it is paid to the equity shareholders.
Tenure/Redemption	Redeemable after 5 years from the date of Closing (i.e.20th April, 2006) at the sum of the subscription amount and any accrued and unpaid dividends thereon minus the value of any amounts paid out to the holder under other indemnity clauses provided in the share issue agreement. Further, based on occurrence of certain events as defined in the shareholders agreement (such as occurrence of breach by the Company of any covenant and obligation) these shareholders have, an option of early redemption at a price higher of the 'Adjusted subscription price or the then fair market value of the underlying equity shares as determined by an independent valuation. Adjusted Subscription price means sum of subscription money paid towards Series 'D' POCPS under the share subscription agreement and any accrued and unpaid dividends minus the value of any amounts or securities paid out under the indemnity clause.
Conversion	The holders of Series 'D' POCPS shall have an option to convert all or any part of the Series 'D' POCPS held by them at any time at their sole discretion. The conversion ratio as defined in the subscription agreement states that the holders of Series 'D' POCPS will receive 0.32523 equity shares for each Series 'D' POCPS held by them. The conversion ratio shall therefore entitle the holders to a total of 51,361,047 equity shares of Rs.10 each (at Rs.30.75 per equity share).

4. Reserves and Surplus

	2007	2006
Securities premium		
Securities premium at the beginning of the year	**3,135**	–
Add : Premium on shares issued during the year	**5,320,920**	3,135
Less : Premium utilised on expenses incurred for issue of shares	**208,518**	–
Securities premium at the end of the year	**5,115,537**	3,135
Profit and Loss Account	**1,296,938**	324,410
Exchange translation reserve on consolidation of non-integral subsidiary	**2,268**	–
	6,414,743	327,545

5. Secured loans

	2007	2006
External commercial borrowings ('ECB')	**652,050**	669,225
(Secured against fixed assets)		
Finance lease obligation	**27,640**	2,579
(Secured against assets acquired on lease. Also refer Schedule 20)		
Term loan and other secured debts (Secured against fixed assets of the subsidiary and guarantee from the subsidiary and Parent Company)	**32,273**	59,335
	711,963	731,139

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(Currency: In thousands of Indian rupees)

6. Unsecured loans

Working capital demand loan	**220,452**	279,142
Term loan	**1,021,726**	267,690
Debt from others (including deposits)	**21,735**	22,307
	1,263,913	569,139

7. Business acquisitions

Acquisition of Business Process Management, Inc (BPM)

Pursuant to 'Share Purchase agreement' ('SPA') dated 21st December, 2006 entered into between the Company, FSL-US and the erstwhile shareholders of BPM, on 29th December, 2006, the Company through its wholly owned subsidiary FSL-US acquired 100% of the common stock of BPM, a Delaware corporation, including its 100% owned US based subsidiaries MedPlans 2000 Inc ("MP2") and MedPlans Partners ("MPP") for a purchase consideration of Rs. 1,393,875 (equivalent to USD 31.5 million). BPM, together with its two subsidiary companies, MP2 and MPP are BPO companies providing services principally to customers in the Healthcare industry in transaction processing and claims adjudication. The Company incurred direct expenses related to the acquisition aggregating to Rs.50,429 which have been considered as part of cost of investment in BPM. Out of the total purchase consideration, Rs.154,875 (equivalent to USD 3.5 million) has been deposited in an escrow account, which is payable to the seller upon the satisfaction of certain conditions stipulated in the aforesaid agreement.

The excess of cost of investment over the value of net assets acquired has been recorded as goodwill, as detailed hereunder:

		Amount Rs. '000
Purchase consideration (including acquisition expenses Rs. 50,429) (A)		**1,444,304**
Assets taken over less liabilities assumed (B)		
- Fixed assets	21,087	
- Debtors	117,338	
- Cash and bank balance	51,248	
- Other assets	12,787	
- Loans and current liabilities	(102,833)	**99,627**
Goodwill (A-B)		**1,344,677**

Further, as stipulated in the SPA, based on performance criterion to be achieved by BPM by way of Earnings before interest, tax, depreciation and amortization (EBIDTA) targets for the year ending 31st December, 2007, the Company would be liable to compensate the erstwhile members of BPM. The Company estimates that the additional compensation, if any, in this regard after making adjustment, if any arising on final settlement as stipulated in the SPA will not exceed Rs.154,910 (equivalent to USD 3.5 million), In this connection, FSL-USA has issued a letter of credit in favor of the members of BPM for the equivalent amount. Goodwill balance will be adjusted prospectively, on crystallization of this liability. Till such time, the same has been disclosed as contingent liabilities (Refer Note 28).

Acquisition of RevIT Systems Private Limited (RevIT)

Pursuant to Share Purchase and Sale agreement ('SPA') dated 25th March, 2005 entered into between the Company and the promoters, promoter affiliates, employees and erstwhile shareholders of RevIT Systems Private Limited (and its 100% owned US based subsidiary Sherpa Solutions Inc), on 31st March, 2005, the Company acquired 90.01% equity interest in RevIT for a purchase consideration aggregating Rs.890,790 (equivalent of USD 21,268,897) and preference shares at par for Rs.5,160. As a result of this acquisition, RevIT became a subsidiary of the Company effective 31st March, 2005 and has been consolidated as such. During the year 2005-06, as per the terms of the SPA, the Company acquired the balance 9.99% voting interest in RevIT for Rs. 45,734 (USD 1,050,000). As per the SPA, the purchase consideration is payable in installments and, as at 31st March, 2007, two installments amounting to Rs.133,224 will be payable as per the agreed repayment schedule. The Company incurred direct expenses related to acquisition aggregating Rs. 5,082 which have been considered as part of the cost of investment in RevIT.

The excess of the cost of investment over the value of net assets acquired amounting to Rs. 970,768 has been recorded as goodwill.

Acquisition of Accounts Solutions Group, LLC (ASG)

On 22nd September, 2004, the Company through its subsidiary, FRUS acquired 100% voting right in ASG, a limited liability company in New York, USA. The Company paid Rs. 1,333,214 (equivalent of USD 29.08 million) upfront on that date. Direct expenses relating to the acquisition aggregating to Rs. 68,114 were considered as part of cost of investment in ASG. The total goodwill as on 31st March, 2007 amounted to Rs.1,550,789 and it consisted of:

- Rs. 1,260,590 being the excess of cost of investment over the value of net assets acquired;
- Rs. 187,868 (equivalent to USD 4.3 million) being additional compensation to the erstwhile members of ASG based on EBIDTA earnings of 2004 ;
- Rs. 84,526 (equivalent to USD 1.9 million) being second and final installment of additional compensation for EBIDTA earnings of 2005; confirmation of the same is awaited from the erstwhile members of ASG (refer Schedule 28);
- Rs. 17,805 being further direct expenses relating to the acquisition, including 1,964 paid during the year.

Subsequent to the Company's acquisition of ASG, the Company entered into an option purchase agreement to acquire 80% equity interest in Twin Lake Properties LLC (I and II) ('Twin Lakes' a limited liability

co-operation owned by the erstwhile members of ASG) at any time from the date of the agreement through 2010 and 2011. ASG has not exercised this option as at 31st March, 2007.

The goodwill as on 31st March, 2007 is Rs. 1,550,789.

Acquisition of Pipal Research Corporation, USA (Pipal)

On 26th July, 2004, the Company subscribed to 136,093 equity shares of Pipal aggregating to Rs. 151,798 (equivalent of USD 3.28 million) thereby acquiring 51% voting interest in Pipal. The Company incurred direct expenses related to the acquisition aggregating to Rs. 5,462 which have been considered as part of the cost of investment in Pipal. Rs. 90,510 being the excess of cost of investment over the value of net assets acquired, has been recorded as goodwill in these consolidated financial statements.

Acquisition of Firstring Inc, USA ('FR-US')

On 3rd September, 2003, the Company subscribed to 23,842,970 Series 'F' convertible preference shares of FR-US, aggregating Rs. 596,862 (equivalent of USD 13,000,000). Firstsource currently holds 99.8 % voting interest in FR-US on a fully diluted basis. The Company incurred direct expenses related to the acquisition aggregating to Rs. 20,357 which have been considered as part of the cost of investment in FR-US Firstsource intends to purchase the minority interest stake amounting to Rs. 4,301 (equivalent of USD 88,711) at a premium of Rs. 3,456 (equivalent of USD 71,289).

(Currency: In thousands of Indian rupees)

Networth of FR-US on the date of acquisition representing the residual interest in the assets of FR-US after deducting its liabilities aggregated Rs. 111,617. Firstsource's cost of investment in FR-US in excess of FR-US's equity on the date of investment aggregating Rs. 728,896 has been recorded as goodwill in the consolidated financial statements.

Acquisition of Customer Asset India Limited ('CAST India')

Pursuant to 'Share Purchase and Sale agreement' dated 22nd April, 2002 entered into between the Company, Customer Asset Mauritius and the promoters and investors of Customer Asset Mauritius, on 27th May, 2002, the Company acquired 100% equity interest in CAST India for cash purchase consideration aggregating Rs. 947,727 (equivalent of USD 19,300,000). As a result of this acquisition, CAST India became a wholly owned subsidiary of the Company. The Company incurred direct expenses related to acquisition aggregating Rs. 11,796 which have been considered as part of the cost of investment in CAST India.

Equity of CAST India on the date of acquisition representing the residual interest in the assets of CAST India after deducting its liabilities aggregated Rs. 225,916. Firstsource's cost of investment in CAST India in excess of CAST India's equity on the date of investment aggregating Rs. 733,607 has been recorded as goodwill in the consolidated financial statements.

The total goodwill on consolidation resulting due to the above acquisitions aggregates to Rs. 5,419,247 (31st March, 2006 Rs. 4,072,606).

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(Currency: In thousands of Indian rupees)

8. Fixed assets

	Gross block					Accumulated depreciation / amortisation					Net block	
	As at 1st April, 2006	Additions during the year	Additions on account of business acquisitions	Deletions during the year	As at 31st March, 2007	As at 1st April, 2006	Accumulated depreciation on business acquisitions	Charge for the year	On deletions during the year	As at 31st March, 2007	As at 31st March, 2007	As at 31st March, 2006
Intangible assets												
Domain name	–	6,720	–	–	**6,720**	–	–	626	–	**626**	**6,094**	–
Software	281,252	124,340	4,137	–	**409,729**	155,000	3,942	82,865	–	**241,807**	**167,922**	126,252
Tangible assets												
Computer *	687,124	244,936	13,793	208	**945,645**	529,288	12,062	129,110	48	**670,412**	**275,233**	157,836
Service equipment *#	398,664	227,628	–	3,394	**622,898**	255,801	–	107,915	1,241	**362,475**	**260,423**	142,863
Furniture and fixture and office equipment	647,276	271,949	37,273	3,906	**952,592**	317,078	22,661	165,567	2,189	**503,117**	**449,475**	330,198
Leasehold improvements #	557,599	371,708	13,232	–	**942,539**	227,662	8,681	153,497	–	**389,840**	**552,699**	329,937
Vehicles *	3,904	8,211	–	903	**11,212**	1,694	–	1,875	722	**2,847**	**8,365**	2,210
Total	**2,575,819**	**1,255,492**	**68,435**	**8,411**	**3,891,335**	**1,486,523**	**47,346**	**641,455**	**4,200**	**2,171,124**	**1,720,211**	**1,089,296**
31st March, 2006	2,027,517	598,573	–	50,271	2,575,819	1,077,450	–	451,457	42,384	1,486,523	1,089,296	

* The above assets include assets taken on lease having gross block of Rs. 39,454 (31st March, 2006: Rs. 5,015) and net block of Rs. 27,372 (31st March, 2006: Rs. 2,476).

\# Exchange differences (net) arising during the year on foreign currency loans borrowed for the acquisition of imported fixed assets have been adjusted – decrease of Rs. 5,979 (31st March, 2006 decrease Rs. 1,700)

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

9. Investments

	2007	2006
Short term		
Trade (Unquoted)		
Investment in Treasury bills in connection with Philippines branch	**98**	–
Non-Trade (Unqouted)		
15,004,955 (31st March, 2006: Nil) units of ICICI Prudential Institutional Liquid Plan -Super Institutional Weekly Dividend	**150,207**	–
5,629 (31st March, 2006: Nil) units of Kotak Liquid Fund – Institutional Premium Plan Daily Dividend	**69**	–
25,211,750 (31st March, 2006: Nil) units of Standard chartered FMP - Quarterly series 5 - Dividend	**252,118**	–
25,004,227 (31st March, 2006: Nil) units of Birla FTP- Quarterly - Series7-Dividend - Payout	**250,042**	–
25,000,000 (31st March, 2006: Nil) units of ICICI Prudential FMP Series 37 Three Month Plus Plan A-Retail Dividend	**250,000**	–
25,000,000 (31st March, 2006: Nil) units of ICICI Prudential FMP Series 37 One Month Plan -Retail Dividend	**250,000**	–
Net asset value of non traded investments aggregate Rs. 1,156,296	**1,152,534**	–

10. Significant components of deferred taxes and liabilities consists of following

	2007	2006
Business losses carried forward*	**7,232**	3,875
Difference between tax and book value of fixed assets	**374**	–
Deferred Tax Asset	**7,606**	3,875
Amortisation	**8,557**	–
Deferred Tax Liability	**8,557**	–

* Deferred tax asset on business losses carried forward has been recognised only to the extent that there is virtual certainty of the realization of the assets in the future.

11. Sundry debtors

(Unsecured)

	2007	2006
Debts outstanding for a period exceeding six months		
- Considered good	–	–
- Considered doubtful	**35,678**	31,883
	35,678	31,883
Others debts		
- Considered good	**1,363,984**	1,006,938
- Considered doubtful	–	–
	1,399,662	1,038,821
Less: Provision for doubtful debts	**(35,678)**	(31,883)
	1,363,984	1,006,938

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

12. Cash and bank balances advances	2007	2006
Cash on hand	**989**	181
Balances with scheduled banks		
- in current accounts	**41,238**	11,919
- in deposit accounts*	**2,356,426**	6,253
- in Exchange earning in foreign currency accounts	**1,079**	961
Balances with non scheduled banks		
- in current accounts	**458,704**	118,444
- in deposit accounts**	**254,516**	145,159
Remittances in Transit	**12,874**	–
	3,125,826	282,917
Less: Current accout balance held in trust for customers in non scheduled banks	**115,872**	112,637
	3,009,954	170,280

* Includes Rs. 5,870 under lien for bank guarantees to the customs authorities.

** Includes Rs. 200,316 placed in Escrow account on behalf of its subsidiary FR-US towards additional acquisition cost pending finalization of earn-out payment for the year 2005. (Refer Schedule 7)

13. Loans and advances	2007	2006
(Unsecured, considered good)		
Deposits	**290,836**	184,442
Prepaid expenses	**67,673**	49,283
Advances recoverable in cash or in kind or for value to be received	**116,802**	18,063
Lease rentals receivable, net (Refer note 20)	**27,690**	23,006
Accrued Interest	**12,826**	–
Advance tax and tax deducted at source	**67,736**	25,734
	583,563	300,528

14. Current liabilities	2007	2006
Sundry creditors		
- for expenses	**758,815**	347,648
- for capital goods	**148,098**	32,305
Payable on acquisition	**133,224**	575,590
Value added tax payable	**40,531**	6,573
Tax deducted at source payable	**19,545**	48,888
Interest accrued but not due	**6,158**	5,293
Adance from customers	**1,752**	–
Other liabilities	**147,437**	133,483
	1,255,560	1,149,780

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Based on the information and records available with the Company, no amount is payable to small scale industrial undertakings as at 31st March, 2007 which is outstanding for more than 30 days (31st March, 2006: Nil).

15. Provisions

	2007	2006
Income Tax	**45,094**	1,400
Gratuity	**36,218**	20,721
Leave encashment	**31,853**	19,048
	113,165	41,169

16. Other income

Profit on sale/redemption of non-trade investments	**52,619**	47
Dividend	**13,601**	5,314
Foreign exchange gain, net *	**34,641**	–
Miscellaneous income	**849**	2,317
	101,710	7,678

* Refer note under Schedule 19 for operating costs

17. Personnel costs

Salaries, bonus and other allowances	**3,860,582**	2,664,512
Contribution to provident and other funds	**159,099**	71,292
Staff welfare	**115,968**	96,716
	4,135,649	2,832,520

18. Interest costs, net

On External commercial borrowings and term loan	**66,467**	36,287
On Working capital demand loan and others	**55,099**	52,983
	121,566	89,270
Less:		
Interest income on deposit with banks	**41,542**	743
Interest income on others	**2,360**	3,292
	43,902	4,035
	77,664	85,235

19. Operating costs

Rent, rates and taxes	**364,038**	239,708
Services rendered by business associates and others	**280,572**	203,946
Legal and professional fees	**212,083**	115,664
Connectivity charges	**216,115**	219,676
Information services	**139,022**	84,936
Repairs and maintenance - others	**194,900**	156,734
Car and other hire charges	**172,807**	151,036
Travelling and conveyance	**236,471**	131,364

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

	2007	2006
Recruitment and training expenses	**165,238**	94,243
Electricity, water and power consumption	**110,225**	82,236
Communication expenses	**104,989**	80,258
Computer expenses	**67,200**	59,555
Foreign exchange loss, net (refer note below)	–	37,251
Marketing and support services	**31,260**	33,212
Insurance	**39,602**	33,147
Advertisement and publicity	**32,157**	27,219
Printing and stationery	**26,578**	16,602
Research expenses	**23,997**	17,974
Meetings and seminar expenses	**8,620**	5,317
Auditors' remuneration*		
- Audit fees	**6,776**	5063
- Tax audit fees	**243**	150
- Other services	**707**	1,800
Membership fees	**1,601**	375
Registration fees	**856**	430
Directors' fees	**222**	53
Bad Debts written off	**1,615**	–
Provision for doubtful debts (net)	**5,850**	(1,979)
Corporate administrative expenses	**770**	1,610
Miscellaneous expenses	**61,405**	45,328
Guarantee commission	**11,811**	11,972
Loss on sale of fixed assets (net)	**469**	1,469
	2,518,199	1,856,349

* Excludes Rs. 5,882 in connection with the Company's initial public offering which has been adjusted against balance in securities premium

Note: Net foreign exchange loss includes exchange gain of Rs. 9,160 (31st March, 2006 exchange gain of Rs. 10,369) recognised on account of translation of financial statements of foreign integral subsidiaries for the purpose of preparation of these consolidated financial statements.

20. Leases

Operating lease

The Group is obligated under non-cancellable operating leases for office space 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 aggregated to Rs. 214,023 (31st March, 2006: 159,942). Of these expenses,12,821 (31st March, 2006: 5,097) 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.

(Currency: In thousands of Indian rupees)

Leases (Continued)

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

	2007	2006
Amount due within one year from the balance sheet date	**313,933**	204,283
Amount due in the period between one year and five years	**587,579**	312,591
Amount due in the period beyond five years	**347,613**	395,053
	1,249,125	911,927

The Group has taken 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 cancelable operating leases for the year ended 31st March, 2007 aggregated to Rs.151,722 (31st March, 2006:Rs. 84,043). Of these, Rs. Nil (31st March, 2006 :553) and Rs. Nil (31st March, 2006 :494) have been included as a part of Fixed asset and capital work in progress respectively.

Finance lease

The Group has acquired certain capital assets under finance lease. Future minimum lease payments under finance lease as at 31st March, 2007 are as follows:

	Minimum lease payments	**Finance charges**	**Present value of minimum lease payments**
As at 31st March, 2007			
Amount due within one year from the balance sheet date	12,952	224	12,728
Amount due between one year and five years	14,993	81	14,912
	27,945	**305**	**27,640**
As at 31st March, 2006			
Amount due within one year from the balance sheet date	1,605	218	1,387
Amount due between one year and five years	1,272	80	1,192
	2,877	**298**	**2,579**

The Group also has given vehicles on finance lease to its employees as per policy. As at 31st March, 2007, the future minimum lease rentals receivable are as follows:

	Minimum lease payments	**Finance charges**	**Present value of minimum lease payments**
As at 31st March, 2007			
Amount receivable within one year from the balance sheet date	12,533	2,429	10,104
Amount receivable in the period between one year and five years	19,995	2,409	17,586
	32,528	**4,838**	**27,690**
As at 31st March, 2006			
Amount receivable within one year from the balance sheet date	11,300	2,021	9,279
Amount receivable in the period between one year and five years	15,382	1,655	13,727
	26,682	**3,676**	**23,006**

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

21. 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 was 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
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:

	2007	2006
Outstanding at beginning of the year	**1,968,750**	2,453,750
Granted during the year	–	–
Forfeited during the year	**(32,500)**	(218,125)
Exercised during the year (Refer note 2 below)	**(1,585,125)**	(266,875)
Outstanding at the end of the year (Refer note 1 below)	**351,125**	1,968,750
Vested and exercisable at the end of the year	**351,125**	1,471,875
Note 1		
Exercise price range		
10 - 14.99	**351,125**	1,968,750

Note 2 Options exercised includes Nil (31st March, 2006: 123,750) options pending allotment.

(Currency: In thousands of Indian rupees)

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 11th October, 2003. The terms and conditions under this Scheme are similar to those under 'Scheme 2002' except for the following, which have been 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:

	2007	2006
Outstanding at beginning of the year	**20,168,000**	16,885,500
Granted during the year (Refer note 3 below)*	**24,802,500**	8,210,000
Forfeited during the year	**(3,321,250)**	(3,901,875)
Exercised during the year (Refer note 2 below)	**(8,565,623)**	(1,025,625)
Outstanding at the end of year (Refer note 1 below)	**33,083,627**	20,168,000
Vested and exercisable at the end of the year	**2,867,875**	6,277,124

Note 1

Exercise price range	**31st March, 2007**	31st March, 2006
10.00 - 14.99	**3,424,627**	9,073,000
15.00 - 19.99	**1,510,625**	3,340,000
20.00 - 24.99	**4,378,375**	6,295,000
25.00 - 29.99	–	–
30.00 - 34.99	**19,322,500**	1,460,000
35.00 - 39.99	**2,027,500**	–
64*	**2,420,000**	–
Outstanding at the end of year	**33,083,62**	20,168,000

* Subject to shareholders ratification

Note 2 Options exercised includes Nil (31st March, 2006: 40,000) options pending allotment.

3. The Compensation Cum Board Governance Committee of Firstsource, at its meeting held on 27th April, 2006 amended the vesting schedule for stock options granted on 1st 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:

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

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
End of 36 months from the date of grant of options	50

4. The aggregate stock option pool under Employee Stock Option Scheme 2002 and Employee Stock Option Scheme 2003 is 12% of fully diluted equity shares as of 31st March, 2007.

The Guidance Note on 'Accounting for employee share based payments' issued by ICAI ('Guidance Note') establishes financial accounting and reporting principles for share based payment plans for employees. The Guidance Note applies to employee share based payments, the grant date in respect of which falls on or after 1st April, 2005. The Company follows the intrinsic value method to account compensation expense arising from issuance of stock

options to the employees. Since all stock options are granted at intrinsic value, no compensation cost has been recorded in respect of these options. Had compensation cost been determined under the fair value approach described in the Guidance Note using the Black Scholes pricing model, the Company's net income and basic and diluted earnings per share (as restated) would have been reduced to the proforma amounts as set out below:

Particulars	2007	2006
Net income as reported	**972,528**	246,686
Less: Stock-based employee compensation expense (fair value method)	**54,511**	6,733
Proforma net income	**918,017**	239,953
Basic earnings per share as reported (Rs.)	**3.67**	1.23
Proforma basic earnings per share (Rs.)	**3.47**	1.19
Diluted earnings per share as reported (Rs.)	**2.50**	0.80
Proforma diluted earnings per share (Rs.)	**2.36**	0.77

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 7.98 %
Volatility	0% to 50%

22. Managerial remuneration

Particulars	2007	2006
Salaries and allowances	**12,790**	10,414
Contribution towards retirement benefits	**425**	403
Perquisites	**173**	40
Total	**13,388**	10,857

(Currency: In thousands of Indian rupees)

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

23. Related party transactions

Details of related parties including summary of transactions entered into by the Firstsource Group during the year ended 31st March, 2007 are summarised below:

Parties with substantial interests	• ICICI Strategic Investment Fund • ICICI Bank Limited • Metavante Investments (Mauritius) Limited • Aranda Investments (Mauritius) Pte Limited
Subsidiaries wherein control exists	• The related parties where control exists are subsidiaries as referred to in Note 1 to the consolidated financialstatements.
Affiliates	• ICICI Ventures Funds Management Company Limited • ICICI Brokerage Services Limited • ICICI International Limited • ICICI Trusteeship Services Limited • ICICI Home Finance Company Limited • ICICI Investment Management Company Limited • ICICI Securities Holdings Inc. • ICICI Securities Inc. • ICICI Bank UK Limited • ICICI Securities Limited • ICICI Lombard General Insurance Company Limited (I- Lombard) • Prudential ICICI Asset Management Company Limited • Prudential ICICI Trust Limited • TCW/ICICI Investment Partners L.L.C • 3i Infotech Limited (formerly ICICI Infotech Limited) • ICICI Distribution Finance Private Limited • ICICI Bank Canada
Companies in which Directors are interested	• ICICI Prudential Life Insurance Company Limited (I-Prudential) • Metavante Investments (Mauritius) Limited
Key Managerial Personnel including relatives	• Ananda Mukerji • Matthew Vallance • Raju Venkatraman • Rajesh Subramanium • Rahul Basu • John Cutrone
Non-Executive Directors	• Ashok Shekhar Ganguly • Charles Miller Smith • K. P. Balaraj • Shikha Sharma • Shailesh Mehta • Dinesh Vaswani • Y. H. Malegam • Donald Layden,Jr. • Lalita D. Gupte

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Particulars of related party transactions during year ended 31st March, 2007

Name of the related party	Description	Transaction value for the year ended 31st March, 2007	Transaction value for the year ended 31st March, 2006	Receivable/ Payable) at 31st March, 2007	Receivable/ (Payable) at 31st March, 2006
ICICI Bank Limited	Income from services	**117,156**	76,196	**20,063**	19,724
	Software expenses and professional fees	**1,559**	3,730	**(67)**	–
	Corporate administrative expenses	**821**	1,610	**(134)**	–
	Interest expenditure	**76,938**	76,168	**(72)**	(11,200)
	Hire purchase	–	285	–	(186)
	Bank balance	–	–	**34,678**	12,265
	Bank Overdraft	**(64,594)**	–	**(120,162)**	(279,142)
	Fixed deposit	**1,755,870**	185	**1,456,186**	6,253
	Interest Income on Fixed Deposit	**22,990**	274	**9,552**	–
	Term loan	**395**	–	**(106,843)**	(289,820)
	External Commercial Borrowings	–	–	**(652,050)**	(669,225)
	Rent	**3,036**	3,036	**(759)**	–
	Guarantee Commission	**11,811**	11,972	**5,009**	4,967
	Vehicle taken on finance lease	**190**	–	–	–
	Other Bank Charges	**1,712**			
ICICI Bank Canada	Income from services	**20,332**	20,577	**5,283**	1,878
ICICI Bank UK Limited	Income from services	**18,815**	10,993	**5,321**	1,869
3i Infotech Limited	Technical and support charges	**5,129**	7,792	–	(1,800)
ICICI– Lombard General Insurance Co. Ltd.	Insurance Premium Paid	**48,989**	42,855	–	–
ICICI- Prudential Life Insurance Company Limited	Insurance	**3,481**	2,900	–	–
	Rent	**24,576**	25,469	–	–
	Deposit Received		(5,981)		–
ICICI-Prudential	Income from Services	**147,753**	54,964	**20,518**	20,455
Prudential ICICI Asset Management Company Limited - Liquid Plan	Investment	–	–	–	–
	Purchase	**2,727,489**	–	–	–
	Sale	**2,108,400**	–	–	–
Metavante Investments (Mauritius) Limited	Income from services	**61,969**	–	**61,969**	–
Key management personnel and relatives	Remuneration	**71,283**	75,911	–	–
Directors' sitting fee		**222**	53	–	–

(Currency: In thousands of Indian rupees)

24. Retirement Benefit

Effective 1st April, 2006, the Company adopted Accounting Standard ('AS') 15 (revised 2005) -" Employee benefits" issued by The Institute of Chartered Accountants of India. As per the transitional provisions specified in the Standard, the difference in the liability as per the existing policy followed by the Company and that arising on adoption of this Standard is required to be charged to opening reserves and surplus account. However, there is no significant impact on adoption of the Standard which is required to be adjusted to the opening balance of reserves and surplus.

Gratuity Plan

The following table set 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:

Particulars	**2007**	2006
Change in present value of obligations		
Obligations at beginning of the year	**22,797**	22,550
Service cost	**15,405**	7,648
Interest cost	**1,633**	1,323
Actuarial (gain)/loss	**(1,566)**	(7,700)
Benefits paid	**(2,051)**	(1,024)
Obligations at the end of the year	**36,218**	22,797
Change in plan assets		
Fair value of plans assets at beginning of the year	**(2,076)**	(2,076)
Expected return on plan assets	**(21)**	–
Actuarial gain/(loss)	**(1,958)**	(1,024)
Contributions	–	–
Benefits paid	**1,979**	1,024
Fair value of plans assets at end of the year	**(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	**36,218**	22,797
Fair value of plan assets at the end of year	**(2,076)**	(2,076)
Funded status amount of liability recognised in the Balance Sheet	**34,142**	20,721
Gratuity cost for the year		
Service cost	**15,405**	7,648
Interest cost	**1,633**	1,324
Expected return on plan assets	**(3,523)**	(8,725)
Actuarial (gain)/loss	**(21)**	–
Net gratuity cost	**13,494**	247
Assumptions		
Interest rate	**7.50%**	7.50%
Estimated rate of return on plan assets	**7.90%**	7.50%
Rate of growth in salary levels	**10.00%**	10.00%
Withdrawal rate	**25% reducing to 2%**	2.00%

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Leave Encashment	**2007**	2006
The following table set out the status of the Leave Encashment plan as required under AS 15		
Reconciliation of opening and closing balances of the present value of the defined benefit obligation:		
Change in present value of obligations		
Obligations at beginning of the year	**19,048**	15,767
Service cost	**15,803**	10,561
Interest cost	**1,257**	688
Actuarial (gain)/loss	**299**	(3,822)
Benefits paid	**(4,554)**	(4,146)
Obligations at the end of the year	**31,853**	19,048
Liability recognised in the Balance Sheet	**31,853**	19,048
Leave encashment cost for the year		
Service cost	**15,803**	10,561
Interest cost	**1,257**	688
Expected return on plan assets	–	–
Actuarial (gain)/loss	**(3,953)**	(7,968)
Net leave encashment cost	**13,107**	3,281
Assumptions		
Interest rate	**7.50%**	7.50%
Rate of growth in salary levels	**10.00%**	10.00%
Withdrawal rate	**25% reducing to 2%**	2.00%

25. Segmental reporting

The Group has determined its primary reportable segment as geography identified on the basis of the location of the customer which, in management's opinion, is the predominant source of risks and rewards. The Group has determined industries serviced as its secondary segment as management perceives risk and rewards to be separate for these different industries.

Geographic segments

The Group's business is organized into four key geographic segments comprising United States of America and Canada, United Kingdom, India and Rest of the world.

Segment revenues and expenses

Revenues are attributable to individual geographic segments based on location of the end customer. Direct expenses in relation to the segments is categorized based on items that are individually identifiable to that segment while other costs, wherever allocable, are apportioned to the segments on an appropriate basis.

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Un-allocable expenses

Certain expenses are not specifically allocable to individual segments as the underlying services are used interchangeably. The Group therefore believes that it is not practicable to provide segment disclosures relating to such expenses, and accordingly such expenses are separately disclosed as 'unallocated' and directly charged against total income.

Segment assets and liabilities

Fixed assets used in the Group's business and liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments. The Group, therefore, believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities including capital expenditure incurred during the period, other than sundry debtors, since a meaningful segregation of the available data is onerous.

	2007	2006
Primary segment		
Segment revenue		
UK	**3,975,745**	2,631,540
USA and Canada	**3,863,719**	2,708,534
India	**310,721**	34,894
Rest of the world	**18,298**	12,510
	8,168,483	5,487,478
Segment Result		
UK	**1,311,938**	472,191
USA and Canada	**719,752**	281,062
India	**31,796**	37,467
Rest of the world	**10,072**	7,174
	2,073,558	797,894
Interest expenses, net	**(77,664)**	(85,235)
Other un-allocable expenditure, net of un-allocable income	**(969,542)**	(443,064)
Profit before taxation and minority interest	**1,026,352**	269,595
Taxation	**(60,130)**	(26,974)
Minority interest *	**6,306**	4,065
Profit after taxation	**972,528**	246,686
Debtors		
UK	**642,827**	580,529
USA and Canada	**673,826**	379,512
India	**44,412**	41,082
Rest of the world	**2,919**	5,815
	1,363,984	1,006,938

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

	Revenue		Debtors	
	2007	2006	**2007**	2006
Secondary Segment				
Banking, Financial Services & Insurance	**4,229,891**	3,483,852	**384,187**	520,529
Non-Banking, Financial Services & Insurance	**3,938,592**	2,003,626	**979,797**	486,409
	8,168,483	5,487,478	**1,363,984**	1,006,938

* Minority interest pertains to USA and Canada segment

26. Transfer Pricing

The Group management is of the opinion that its international transactions with related parties are at arms' length and that the Parent Company and its subsidiaries are in compliance with transfer pricing legislations. Group management believes that the transfer pricing legislation will not have any impact on the financial statements, particularly on the amount of tax expense and the provision for taxation.

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

	2007	2006
Number of shares considered as basic weighted average shares outstanding	**264,852**	201,024
Add: effect of potential issue of shares/stock options	**124,426**	109,070
Number of shares considered as weighted average shares and potential shares outstanding	**389,278**	310,094

28. Capital and other commitments and contingent liabilities

Particulars	**2007**	2006
The estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	**21,957**	87,500
Foreign currency forward covers outstanding	**3,215,812**	1,674,298
Unamortized premium on forward exchange contracts	**22,099**	9,422
Forward exchange difference on highly probable forecasted transactions	**34,797**	–
Guarantees and letters of credit given	**1,649,057**	896,059

Direct tax matters

Income tax demand amounting to Rs. 4,295 (31st March, 2006: Rs.4,295) relating to withholding tax on software imports for earlier assessment years by CAST India is disputed and in appeal. The appellant tribunal has decided in favour of the Company.

Income tax demand amounting to Rs. 40,929 (31st March, 2006 : Rs..40,929) for the assessment years 2003-04 is 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.

During the year, the Company also received an order under Income Tax 1961 for the assessment year 2004-05. A demand of Rs. 50,109 (31st March, 2006 Rs. Nil) has been raised against the Company.

The Company has filed an appeal against the order. Further, the Company have paid Rs.10,381 tax under protest against the demand raised for the assessment year 2004-05.

Claims not acknowledged as debt

The Interlink Company ('Interlink") claims that it is owed Rs. 43,470 (equivalent of USD 1,000,000) for referral of a customer to FRUS in 2000 pursuant to a letter agreement with the FRUS dated 9th May, 2000. FRUS has responded, refuting Interlink's claims, by letter dated 12th August, 2003, in reply to the 2nd August, 2003 demand letter from The Stafford Company, a collection firm, sent on behalf of Interlink. No correspondence or communication has been received by FRUS in response to the letter dated 12th August, 2003. Accordingly, FRUS does not foresee any liability arising from this claim and has not provided for any liability.

AT&T, USA has raised certain claims aggregating Rs. 625 (equivalent of USD 14,382) (31st March, 2006 : 633) on the Company. However, the Company has disputed these claims as services were not rendered and certain discounts as agreed were not given. Accordingly, the Company India does not foresee any liability arising from this claim and has not provided for any liability.

Acquisition of ASG

Pursuant to the shareholders agreement, the Company was required to pay additional compensation to the erstwhile members of ASG based on performance criterion monitored by way of EBIDTA targets for the calendar year 2004 and 2005. The additional consideration based on performance for 2004 was crystallized at Rs. 187,868 (USD 4,310,889). Based on ASG's performance for 2005, the Company's liability towards additional consideration has been currently recorded at Rs. 84,516 (USD 1,894,345). However, this is subject to discussion with and confirmation by the erstwhile members of ASG. The Company has also issued a letter of credit (LC) aggregating to Rs. 478,170 (USD 11 million) in this regard.

During the year, Rs. 272,384 (USD 6,205,234) has been paid to the erstwhile members of ASG and the LC amount has been reduced to Rs. 201,038 (USD 4,377,540). On 13th October, 2006, the LC was closed and the amount has been transferred to Escrow Account pending finalisation of the year 2005 earn out payment.

Accordingly, any change in the consideration pertaining to the year 2005 will be accounted prospectively by consequent adjustment to goodwill.

Acquisition of BPM

Contingent consideration payable to selling shareholders on acquisition of BPM Rs. 154,910 (equivalent to USD 3.5 million). (Refer Schedule 7)

Grant

During the year, the Company's subsidiary has accrued/ received revenue grants amounting to Rs. 129,126 (GBP 1.51 million) from Northern Ireland. The Company is required inter-alia, to maintain the number of employees at certain levels for a period of five years failing which grant will be liable to be refunded.

SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

29. Software Development Cost

The details of the costs capitalized during the year are detailed below:

Particulars	**2007**	2006
Salaries and wages	**18,678**	36,723
Other direct costs	**9,343**	2,720
Total	**28,021**	39,443

The details of costs incurred for software development in the current year that are yet to be capitalized are as below:

Particulars	**2007**	2006
Salaries and wages	**11,038**	1,703
Other direct costs	**5,836**	89
Total	**16,874**	1,792

30. Statement of utilisation of initial public offering ('IPO') as on 31st March, 2007

	Number of shares	**Price**	**Amount**
Amount raised through initial public offering	60,000,000	64	3,840,000
Share issue expenses paid			164,329
Net proceeds			3,675,671
Deployment of funds:			
1. Utilised for capital expenditure for office facilities			279,333
2. Held as short term investments and bank deposits			3,396,338
Total			3,675,671

31. Prior period comparatives

Prior year figures have been appropriately reclassified/regrouped to conform to current year's presentation.

As per our report attached
For **BSR & Co.**
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Mumbai
April 27, 2007

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly
Chairman

Ananda Mukerji
Managing Director & CEO

Lalita D. Gupte
Director

Shikha Sharma
Director

Dinesh Vaswani
Director

K.P. Balaraj
Director

Y.H. Malegam
Director

Shailesh Mehta
Director

Charles Miller Smith
Director

Donald Layden, Jr.
Director

Rajesh Subramaniam
CFO

Sanjay Gupta
Company Secretary

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Company's Interest in Subsidiary Companies for the Financial year 2006-2007

(Currency in thousands of Indian Rupees)

		Particulars	REV IT Systems Private Limited	Sherpa Business Solutions Inc	Firstsource Solutions USA, Inc	FirstRing Inc	Accounts Solutions Group LLC,USA	Firstsource Solutions S.A. $	Firstsource Solutions UK. Limited	Pipal Research Corporation	Pipal Research Analyics and Information Services India Private Limited $	Business Process Management, Inc $$	MedPlans Partners, Inc $$$	Med Plans 2000, Inc $$$
1		The Financial Year of the Subsidiary Companies ended on	31.3.2007	31.3.2007	31.3.2007	31.3.2007	31.3.2007	31.3.2007	31.3.2007	31.3.2007	31.3.2007	31.3.2007	31.3.2007	31.3.2007
2		Date from which they became subsidiary Companies	31.3.2005	31.3.2005	27.5.2002	3.9.2003	22.9.2004	25.9.2006	27.5.2002	26.7.2004	26.7.2004	29.12.2006	29.12.2006	29.12.2006
3		Country of Incorporation	India	USA	USA	USA	USA	Argentina	UK	USA	India	USA	USA	USA
4	a	Number of shares held by Firstsource Solutions Ltd and/ or its nominees in the subsidiaries as on 31.3.2007	9,088,886 equity shares of Rs 10 each and 5,162 preference share of Rs 1000 each	*1,000 shares of USD 1 each	6,771,860,000 equity shares of USD 0.001 each	40,509,637 Convertible Preferred Stock of USD 0.00001 each	€ 10,000 Units of USD 1 each	@5,004,000 shares of ARS 1 each	2,834,672 equity shares of GBP 1 each	136,093 equity shares of USD 24.10 each	***15,010 equity shares of Rs10 each	#8,915,498 equity shares of USD 0.01 each	**10,000 shares of USD 10 each	**4.679,064 shares of USD .00 each
	b	Extent of Interest of Firstsource Solutions Ltd (holding Company) in the Subsidiaries as on 31.3.2007	100%	* 100%	100%	99.80%	€ 100%	@ 99.98%	100%	51%	*** 51%	# 100%	**100%	**100%
5		The net aggregate amount of the profits /(losses) of the subsidiaries so far as it concerns the members of Firstsource Solutions Limited and is not dealt with in the accounts of Firstsource Solutions Limited .												
	a	For the financial year ended 31st March, 2007	-	-	-	-	-	-	-	(6,057)	10,550	-	-	-
	b	For the previous financial years of the Subsidiary since it became a Subsidiary	-	-	-	-	-	-	-	(82,828)	(4356)	-	-	-
6		The net aggregate amount of the profits /(losses) of the subsidiaries so far as it concerns the members of Firstsource Solutions Limited dealt with or provided for in the accounts of Firstsource Solutions Limited .												
	a	For the financial year ended 31st March, 2007	62,360	7173	(39,311)	45,500	193,157	11,703	2,365	(6,305)	10,981	-	55,253	-
	b	For the previous financial years of the Subsidiary since it became a Subsidiary	42,161	17,531	10,750	(200,647)	33,167	-	50,784	(86,209)	(4533)	-	-	-

Notes:

$ Firstsource Solutions S.A. has become a subsidiary of the Company w.e.f. September 25,2006
$$ Business Process Management,Inc has become a subsidiary of the Company w.e.f. December 29, 2006
$$$ MedPlans Partners Inc & MedPlans 2000, Inc are wholly owned subsidiaries of Business Process Management,Inc which is wholly owned subsidiary of the Company, w.e.f December 29, 2006
* Held through RevIT Systems India Private Limited
** Held through Business Process Management, Inc
*** Held through Pipal Research Corporation
# Held through Firstsource Solutions USA
€ Held through Firstsource Solutions UK Limited
@ Held through Firstring Inc

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly
Chairman

Ananda Mukerji
Managing Director & CEO

Lalita D. Gupte
Director

Shikha Sharma
Director

Dinesh Vaswani
Director

K.P. Balaraj
Director

Y.H. Malegam
Director

Shailesh Mehta
Director

Charles Miller Smith
Director

Mumbai
April 27, 2007

Donald Layden, Jr.
Director

Rajesh Subramaniam
CFO

Sanjay Gupta
Company Secretary

FINANCIAL INFORMATION OF SUBSIDIARIES FOR THE YEAR ENDED MARCH 31,2007

(Currency in thousands of Indian Rupees)

Particulars	REV IT Systems Private Limited	Sherpa Business Solutions Inc $	Firstsource Solutions USA, Inc $	FirstRing Inc.$	Accounts Solutions Group LLC, USA. $	Firstsource Solutions S.A #	Firstsource Solutions UK. Limited £	Pipal Research Corporation	Pipal Research Analytics and Information Services India Private Limited $	Business Process Manage-ment, Inc $	MedPlans Partners, Inc $	Med Plans 2000, Inc $
Paid-up Share Capital	96,051	45,769	29,4373	18	435	84,576	241,252	154,727	100	3,876	0.43	–
Reserves & Surplus	86,151	(80,843)	586,497	730,366	248,863	12,064	(11,782)	(70,063)	12,642	(3,876)	165,152	–
Total Assets	231,702	178,719	1,761,139	1,694,696	589,010	116,892	1,465,278	106,770	22,243	225,051	288,773	96,768
Total Liabilities (excluding Capital and Reserves)	49,499	213,794	880,269	964,312	339,712	20,253	1,235,808	22,106	9,500	225,051	123,621	96,768
Investments (excluding Investments in Subsidiaries)	–	–	–	–	–	–	–	–	–	–	–	–
Total Income	351,657	671,529	656,122	132,972	1,650,318	172,817	2,323,862	167,173	129,186	–	269,819	–
Profit Before Tax	65,668	10,018	(26,439)	52,791	193,157	9,744	17,492	(12,362)	21,531	–	55,253	–
Provision for Taxation	3,308	2,845	12,872	7,291	–	(19,58)	15,127	–	–	–	–	–
Profit After Tax	62,360	7,173	(39,311)	45,500	193,157	11,703	2,365	(12,362)	21,531	–	55,253	–
Proposed Dividend (including Tax thereon)	–	–	–	–	–	–	–	–	–	–	–	–

Notes:

$ Converted to Indian Rupees at the Exchange Rate,1 USD=INR 43.47
£ Converted to Indian Rupees at the Exchange Rate,1 GBP=INR 85.1075
Converted to Indian Rupees at the Exchange Rate,1 ARS=INR 14.0361

AUDITORS' REPORT

To
The Members of
Firstsource Solutions Limited

We have audited the attached Balance Sheet of Firstsource Solutions Limited (formerly known as ICICI OneSource Limited) ('the Company') as at 31st March, 2007 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. As required by the Companies (Auditor's Report) Order, 2003 ('the Order'), as amended, 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.

2. Further to our comments in the Annexure referred to in paragraph 1 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;

   e) on the basis of written representations received from the Directors of the Company as on 31st March, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2007 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, 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 31st March, 2007;

      (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

Mumbai
April 27, 2007

Akeel Master
Partner
Membership No: 046768

ANNEXURE TO THE AUDITORS' REPORT – 31ST MARCH, 2007

(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 of 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 services and debt collection services. Accordingly, it does not hold any physical inventories. Accordingly, paragraph 4(ii) of the Order is not applicable.

3. According to the information and explanations given to us, we are of the opinion that there are no companies, firms or other parties covered in the register required under Section 301 of the Act. Accordingly, paragraph 4(iii) of the order is 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. In our opinion, and according to the information and explanations given to us, there are no contracts and arrangements the particulars of which need to be entered into the register maintained under Section 301 of the Act. Accordingly, paragraph 4(v) of the order is not applicable.

6. The Company has not accepted any deposits from the public. Accordingly, paragraph 4 (vi) of the Order is not applicable.

7. In our opinion, the Company has an internal audit system commensurate with the size and 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. Accordingly, paragraph 4(vii) of the Order is not applicable.

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 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. Further, since the Central Government has till date not prescribed the amount of Cess payable under the Section 441A of the Act, we are not in a position to coment on the regularity or otherwise of the Company in depositing the same.

   According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues were in arrears as at 31st March, 2007 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.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Transfer pricing demand	40,929,129	2002–03	Commissioner of Income Tax – Appeals
Income Tax Act, 1961	Assessment under Section 143	39,728,490	2003–04	Commissioner of Income Tax – Appeals

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. Accordingly, paragraph 4(x) of the Order is not applicable.
11. In our opinion and according to the information and explanation given to us, the Company has not defaulted in repayment of dues to its bankers or to any financial institutions. The Company did not have any outstanding debentures during the year.
12. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, paragraph 4(xii) of the order is not applicable.
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. Accordingly, paragraph 4(xiii) of the order is not applicable.
14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, paragraph 4(xiv) of the order is not applicable.
15. In our opinion and according to the information and explanation 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 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. As stated in paragraph (5) above, there are no companies/firms/parties covered in the register required to be maintained under Section 301 of the Act. Accordingly, paragraph 4(xviii) of the order is not applicable.
19. The Company did not have any outstanding debentures during the year. Accordingly, paragraph 4(xix) of the order is not applicable.
20. We have verified the end-use of money raised by the Company through its initial public offering as disclosed in the schedules to the financial statements.
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
Membership No: 046768

Mumbai
April 27, 2007

BALANCE SHEET AS AT 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)	Schedule	2007	2006
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	3	**4,250,843**	3,994,699
Share application money		**–**	1,960
Reserves and surplus	4	**6,039,047**	183,826
		10,289,890	4,180,485
Loan funds			
Secured loans	5	**659,840**	669,225
Unsecured loans	6	**61,082**	540,465
		11,010,812	5,390,175
APPLICATION OF FUNDS			
Fixed assets	7		
Gross block		**2,475,194**	1,819,773
Less: Accumulated depreciation and amortisation		**1,397,722**	987,488
Net block		**1,077,472**	832,285
Add: Capital work in progress (including capital advances)		**62,863**	6,481
		1,140,335	838,766
Investments			
Current assets, loans and advances	8	**4,398,751**	2,493,969
Sundry debtors	9	**1,190,382**	441,503
Unbilled receivables		**144,037**	131,297
Cash and bank balances	10	**2,610,960**	19,195
Loans and advances	11	**1,159,346**	996,741
		5,104,725	1,588,736
Less: Current liabilities and provisions			
Current liabilities	12	**715,850**	633,840
Provisions	13	**53,870**	34,177
		769,720	668,017
Net current assets		**4,335,005**	920,719
Amalgamation deficit adjustment account (refer Schedule 1)		**1,136,721**	1,136,721
		11,010,812	5,390,175
Significant accounting policies	2		
Notes to accounts	18 – 30		

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

As per our report attached
For **BSR & Co.**
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Mumbai
April 27, 2007

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly
Chairman

Ananda Mukerji
Managing Director & CEO

Lalita D. Gupte
Director

Shikha Sharma
Director

Dinesh Vaswani
Director

K P Balaraj
Director

Y.H. Malegam
Director

Shailesh Mehta
Director

Charles Miller Smith
Director

Donald Layden, Jr.
Director

Rajesh Subramaniam
CFO

Sanjay Gupta
Company Secretary

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)	Schedule	2007	2006
Income			
Income from services		**4,326,820**	3,271,390
Other income	14	**65,833**	204
		4,392,653	3,271,594
Expenditure			
Personnel costs	15	**1,967,616**	1,596,965
Operating costs	17	**1,244,163**	1,103,105
Depreciation and amortisation	7	**412,470**	355,706
Interest costs, net	16	**5,781**	39,008
		3,630,030	3,094,784
Profit before tax		**762,623**	176,810
Provision for taxation			
– Current tax expense		**5,365**	7,915
– Fringe benefit tax		**14,439**	11,050
– Deferred tax expense		**–**	136
Profit after tax		**742,819**	157,709
Profit / (Loss) brought forward from previous year		**141,421**	(16,288)
Accumulated balance carried forward to the Balance Sheet		**884,240**	141,421
Earnings per share	25		
Weighted average number of equity shares outstanding during the year			
– Basic		**264,852**	201,024
– Diluted		**389,278**	310,094
Earnings per share (Rs)			
– Basic		**2.80**	0.78
– Diluted		**1.91**	0.51
Nominal value of shares (Rs)		**10**	10
Significant accounting policies	2		
Notes to accounts	18 – 30		

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

Akeel Master
Partner
Membership No: 046768

Mumbai
April 27, 2007

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly *Chairman*
Ananda Mukerji *Managing Director & CEO*
Lalita D. Gupte *Director*

Shikha Sharma *Director*
Dinesh Vaswani *Director*
K P Balaraj *Director*

Y.H. Malegam *Director*
Shailesh Mehta *Director*
Charles Miller Smith *Director*

Donald Layden, Jr. *Director*
Rajesh Subramaniam *CFO*
Sanjay Gupta *Company Secretary*

CASH FLOW STATEMENT AS AT 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)	2007	2006
Cash flow from operating activities		
Net profit/ (loss) after tax	**742,819**	157,709
Adjustments for		
Depreciation and amortization	**412,470**	355,706
Provision for taxes	**19,804**	18,965
Provision for doubtful debts	**644**	(432)
(Profit) / loss on sale of fixed assets net	**960**	1,998
Foreign exchange loss net	**16,578**	14,705
Interest costs	**70,757**	76,168
Interest and dividend income	**(76,405)**	(37,160)
Deferred taxes	–	136
(Profit) / loss on sale on investments	**(52,619)**	(47)
Operating cash flow before changes in working capital	**1,135,008**	587,748
Changes in working capital		
(Increase) in Debtors	**(783,276)**	(160,044)
Decrease / (Increase) in Loans and advances and unbilled revenue	**(145,584)**	(269,339)
(Decrease) / Increase in Current liabilities and provisions	**104,572**	281,289
Net changes in working capital	**(824,288)**	(148,094)
Income taxes paid	**(46,706)**	(27,711)
Net cash generated / (used) in operating activities	**264,014**	411,943
Cash flow from investing activities		
Purchase of investment in mutual funds / government securities	**(7,178,372)**	(55,000)
Sale of investment in mutual funds	**6,078,458**	55,047
Interest and dividend income received	**73,545**	45,257
Capital expenditure	**(591,831)**	(373,011)
Sale of fixed assets	**285**	1,294
Investment in subsidiary	**(752,249)**	(365,663)
Business acquisition, net of cash acquired	**(152,165)**	–
Net cash generated / (used) in investing activities	**(2,522,329)**	(692,076)
Cash flow from financing activities		
Proceeds from secured loan	–	122,414
Proceeds from unsecured loan	**111,703**	476,265
Repayment of secured loan	–	–
Repayment of unsecured loan	**(591,086)**	(306,215)
Proceeds from issuance of series 'D' participatory optionally convertible preference shares ('POCPS')	**1,579,243**	–
Proceeds from issuance of equity shares and share application money (Net of share issue expenses)	**3,820,977**	16,382
Interest paid	**(70,757)**	(66,281)
Net cash generated from financing activities	**4,850,080**	242,565

CASH FLOW STATEMENT AS AT 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)	**2007**	2006
Net (decrease) / increase in cash and cash equivalents	**2,591,765**	(37,568)
Cash and cash equivalents at the beginning of the year	**19,195**	56,763
Cash and cash equivalents at the end of the year	**2,610,960**	19,195

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.

	2007	2006
Cash on hand	**168**	62
Remittances in transit	**12,874**	–
Balances with scheduled banks		
– in current accounts	**41,731**	11,919
– in deposit accounts*	**2,355,871**	6,253
– in exchange earning foreign currency account	–	961
Balances with non scheduled banks		
– in deposit accounts**	**200,316**	–
	2,610,960	19,195

* Includes Rs. 5,870 (31st March, 2006: Rs. 6,253) under lien for bank guarantees to the Customs authorities.

** Rs. 200,316 (31st March, 2006: Rs. Nil) placed in Escrow account on behalf of its subsidiary FR–US towards additional acquisition cost pending finalization of earn-out payment for the year 2005.

As per our report attached
For **BSR & Co.**
Chartered Accountants

Akeel Master
Partner
Membership No: 046768

Mumbai
April 27, 2007

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly
Chairman

Ananda Mukerji
Managing Director & CEO

Lalita D. Gupte
Director

Shikha Sharma
Director

Dinesh Vaswani
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Director

Shailesh Mehta
Director

Charles Miller Smith
Director

Donald Layden, Jr.
Director

Rajesh Subramaniam
CFO

Sanjay Gupta
Company Secretary

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

1. Background

Firstsource Solutions Limited, formerly known as ICICI OneSource Limited ('Firstsource' or 'the Company') is incorporated on 6th December, 2001 and was promoted by ICICI Bank Limited. The Company is engaged in the business of providing business process outsourcing (BPO) services.

On 22nd February, 2007, the Company completed initial public offering ('IPO') of its equity shares in India comprising of fresh issue of 60,000,000 shares and sale of 9,300,000 equity shares by the existing shareholders.

During the year, the Company, through its subsidiary company Firstsource Solutions Limited, UK (formerly known as ICICI OneSource, UK) has set up a 100% subsidiary Firstsource Solutions, S.A. (formerly known as ICICI OneSource S.A.). During the year, the Company also opened a branch office in Philippines.

On 29th December, 2006, the Company through its wholly-owned subsidiary Firstsource Solutions USA Inc. (formerly ICICI OneSource Limited, USA) acquired 100% of the common stock of Business Process Management, Inc, a Delaware Corporation engaged in providing transaction processing and claims adjudication services principally to customers in the health care industry.

The list of subsidiaries as at 31st March, 2007 with percentage holding of the Company is summarised below :

Subsidiaries	Country of incorporation and other particulars	Percentage of holding by the immediate parent (%)	Consolidated from financial year
Firstsource Solutions USA Inc (''FSL-USA'') *(formerly known as ICICI OneSource, USA)*	A subsidiary of Firstsource Solutions Limited organized under the laws of State of Delaware, USA	100%	2002–2003
Business Process Management, Inc ("BPM")	A subsidiary of Firstsource Solutions USA Inc. organized under the laws of State of Delaware, USA	100%	2006–2007
MedPlans 2000 Inc ("MP2")	A subsidiary of Business Process Management, Inc organized under the laws of State of Delaware, USA	100%	2006–2007
MedPlans Partners ("MPP")	A subsidiary of Business Process Management, Inc organized under the laws of State of Delaware, USA	100%	2006–2007
Firstsource Solutions Limited, UK ("FSL–UK") *(formerly known as ICICI OneSource, 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	99.8%	2003–2004
Accounts Solutions Group, LLC ("ASG")	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") *(formerly known as Satvik Research and Analytics India Private Limited)*	A subsidiary of Pipal Research Corporation, incorporated under the laws of India	100%	2004–2005

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Subsidiaries	Country of incorporation and other particulars	Percentage of holding by the immediate parent (%)	Consolidated from financial year
Rev IT Systems Private Limited ("Rev IT")	A subsidiary of Firstsource Solutions Limited, incorporated under the laws of India	100%	2004–2005
Sherpa Business Solutions Inc ("Sherpa")	A subsidiary of Rev IT Systems Private Limited, incorporated under the laws of the State of Michigan, USA	100%	2004–2005
Firstsource Solutions S.A. (''FSL–Arg'') *(formerly known as ICICI OneSource S.A.)*	A subsidiary of Firstsource Solutions Limited UK, incorporated under the laws of S.A.	99.98%	2006–2007

Amalgamation of Customer Asset India Limited and FirstRing India Private Limited

Pursuant to the Scheme of Amalgamation (under Section 391 to Section 394 of the Companies Act, 1956) ('the scheme'), FirstRing India Private Limited ("FR India") and Customer Asset India Limited ("CAST India")\companies engaged in the business of providing contact centre and transaction processing services, merged with ICICI OneSource Limited vide sanction by the Hon'ble High Court of Bombay dated 29th April, 2005 and the Hon'ble High Court of Karnataka dated 3rd June, 2005. The entire business and all the assets and liabilities and transactions of erstwhile FR India and CAST India were transferred to the transferee company with effect from 1st April, 2004, being the appointed date. As detailed in the Scheme and in accordance with the principles of the "pooling of interest" method as prescribed by Accounting Standard –14 "Accounting for Amalgamations" issued by the Institute of Chartered Accountants of India, the debit balance in profit and loss account of FR India and CAST India amounting to Rs. 211.87 million and Rs. 81.71 million respectively at 1st April, 2004 and the difference of Rs. 954.62 million in respect of FR India and Rs. (111.48) in respect of CAST India being surplus / (deficit) of the book value of investment cancelled over the face value of such shares was debited to Amalgamation deficit adjustment account.

2. Significant Accounting Policies

2.1. Basis of preparation

The financial statements have been prepared and presented under the historical cost convention on theaccrual basis of accounting and comply with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, to the extent applicable. 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 recognised 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 recognised on completion of the related services and is billed in accordance with the contractual terms specified in the respective customer contracts. Revenue from fixed fee based service contracts is recognised on achievement of performance milestones specified in the customer contracts. Built Operate and Transfer (BOT) contracts are treated as service contracts and accordingly, revenue is recognised as 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 recognised on contracts to be billed in subsequent periods as per the terms of the contract.

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

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

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

2.4. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. 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)
Intangible	
Software	3
Domain name	3
Tangible	
Leasehold improvements	Lease term or the estimated useful life of the asset whichever is shorter.
Computers	3
Service equipment including networks	2 – 3
Furniture and fixtures	3 – 5
Vehicles	2 – 5

Software purchased together with the related hardware is capitalized 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' issued by the Institute of Chartered Accountants of India, 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 recognised whenever the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Impairment loss is recognised in the Profit and Loss Account or against revaluation surplus where applicable.

2.5. Retirement benefits

Gratuity and leave encashment

The Company provides for gratuity and leave encashment benefits, which are defined benefit plans, covering all its eligible employees. Provisions in respect of gratuity and leave encashment benefits have been made based on an actuarial valuation carried out by an independent actuary as 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 both, the Company and the 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 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 benefit 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 statement when the Company accepts the liability.

(Currency: In thousands of Indian rupees)

Deferred taxes

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result 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 substantially enacted at the balance sheet date. The effect of a change in tax rates on deferred tax assets and liabilities is recognised in the period that includes the enactment date. Deferred tax assets are recognised 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 recognised 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 of up to fiscal year 2009 in relation to its undertakings set up in the Software Technology Park at Bangalore, Kolkata and Mumbai. 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

Provisions for Fringe Benefits Tax (FBT) have been recognised on the basis of harmonious contextual interpretation of the provision of the Income Tax Act, 1961.

2.8. Leases

Finance lease

Assets acquired on finance leases, including assets acquired on hire purchase, have been recognised 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 charges and principal repayment, which are debited to the profit and loss account and reduction in lease obligations recorded at the inception of the lease.

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 and principal amount using the implicit rate of return, which is recognised as income, and against principal outstanding, which 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.

2.9. 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 recognised in the profit and loss account except for the resultant net exchange gain or loss on account of imported fixed assets, which is adjusted in the carrying amount of the related fixed assets. 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 recognised in the profit and loss account, except for exchange differences related to acquisition of fixed assets purchased from foreign countries, which are adjusted in the carrying amount of the related fixed assets.

Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date and also to hedge the foreign currency risk of firm commitments or highly probable forecast transactions. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. The premium or discount in respect of forward exchange contracts related to acquisition of fixed assets purchased from foreign countries is adjusted in the carrying amount of the related fixed asset. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the period. In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference on such a forward exchange contract are recognised in the profit and loss account in the reporting period in which the exchange rates change. Gains or losses on forward contracts to hedge the foreign currency risk of firm commitments or highly probable forecast transactions are recognised in the profit and loss account in the period in which the forecasted transaction occurs.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

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 embodying economic benefits 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.

		2007	2006
3	**Share capital**		
	Authorised		
	600,000,000 (31st March, 2006: 450,000,000) equity shares of Rs. 10 each	**6,000,000**	4,500,000
	250,000,000 participatory optionally convertible preference shares ('POCPS') (31st March, 2006: 400,000,000) of Rs. 10 each	**2,500,000**	4,000,000
		8,500,000	8,500,000
	Issued, subscribed and paid–up		
	425,084,296 (31st March, 2006: 201,875,000) equity shares of Rs. 10 each, fully paid up	**4,250,843**	2,018,750
	Nil (31st March, 2006: 35,672,100) Series 'B' participatory optionally convertible preference shares ('Series 'B' 'POCPS') of Rs. 10 each, fully paid-up	–	356,721
	Nil (31st March, 2006: 161,922,806) Series 'C' participatory optionally convertible preference shares ('Series 'C' POCPS') of Rs 10. each, fully paid-up	–	1,619,228
	Nil (31st March, 2006: Nil) shares of Series 'D' participatory optionally convertible preference shares ('Series 'D' POCPS) of Rs. 10 each, fully paid-up	–	–
		4,250,843	3,994,699

Of the above issued, subscribed and paid-up equity share capital, Nil (31st March, 2006: 139,999,300) equity shares of Rs. 10 each are held by ICICI Strategic Investments Fund and 106,249,999 (31st March, 2006: 37,983,838) equity shares of Rs. 10 each are held by ICICI Bank Limited. The balance shares are held by strategic investors, individuals and ESOP holders.

On 22nd February, 2007, the Company completed its initial public offering ('IPO') of equity shares in India comprising fresh issue of 60,000,000 shares and sale of 9,300,000 equity shares by the existing shareholders. Equity shares of Rs. 10 each were issued at premium of Rs. 54 aggregating Rs. 3,840,000.

During the year 10,314,498 (31st March, 2006: 1,128,750) options were allotted. For details of options in respect of equity shares, refer to schedule 19.

Consequent to the exercise of conversion option by the holders of Series 'B', 'C' and 'D' Participatory.Optionally Convertible Preference Shares ('POCPS') into equity shares at a price stated in the respective shareholders agreement , the Company at the Extra-ordinary general meeting of the Company held on 22nd November, 2006, after receipt of requisite regulatory approvals, has allotted (by way of conversion), 19,983,128 equity shares at a premium of Rs. 7.85 per share to Series B POCPS holders, 81,540,623 equity shares at a premium of Rs. 9.85 per share to Series C POCPS holders and 51,361,047 equity shares at a premium of Rs. 20.75 per share to Series D POCPS holders.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Terms and conditions of the Series 'B', 'C' and 'D' POCPS are as mentioned below:

Series 'B' POCPS

On 10th October, 2003, the Company allotted 35,672,100 Series 'B' POCPS at Rs. 10 each (par value of Rs. 10) pursuant to the share subscription agreement dated 30th July, 2003 entered into between the Company and a strategic investor. The terms and conditions of Series 'B' POCPS are detailed hereunder:

Rate of dividend	A fixed dividend of 0.00000000001% p.a. on the Series 'B' POCPS. In addition to the preferential dividend, Series 'B' POCPS shareholders shall be entitled to participate pari passu with the equity shareholders of the Company after the said dividend has been paid or provided for such preference shares. The Company shall not declare a dividend greater than the said percentage unless the Company includes above holders in such distribution of such excess dividend. Further, this shall be paid at the time it is paid to the equity shareholders.
Tenure/ Redemption	If not converted into equity shares, Series 'B' POCPS will be redeemed at the higher of Series 'B' POCPS subscription price plus any accrued and unpaid dividends and further reduced by any price towards indemnity provided in accordance with the underlying subscription agreement or the fair market value of the underlying equity shares. The Series 'B' POCPS can be redeemed after 5 years from closing date of allotment of Series 'C' POCPS. Further, based on occurrence of certain events as defined in the subscription agreement, the Series 'B' POCPS shareholders have an option of early redemption at a price higher of the adjusted subscription price (arrived as aforesaid) or the then fair market value of the equity share as determined by an independent valuation firm.
Conversion	The Series 'B' POCPS shareholders shall have an option to convert all or any part of the Series 'B' POCPS held by them at any time after one year from the date of allotment at their sole discretion. The conversion ratio as defined in the revised shareholders agreement states that the holders of Series 'B' POCPS will receive 0.56 equity shares for each Series 'B' POCPS held by them. The conversion ratio shall therefore entitle the holders to a total of 19,983,128 equity shares at Rs. 17.85 per equity share.

Series 'C' POCPS

On 3rd September, 2004, the Company allotted 161,922,806 Series 'C' POCPS at Rs. 10 each (par value of Rs. 10) pursuant to the share subscription agreement dated 17th August, 2004, entered into between the Company and two strategic investors. The terms and conditions of the Series 'C' POCPS are detailed hereunder:

Rate of dividend	A fixed dividend of 0.00000000001% p.a. In addition to the preferential dividend, Series 'C' POCPS holders shall be entitled to participate pari passu with the equity shareholders of the Company after the said dividend has been paid or provided for on such preference shares. The Company shall not declare a dividend greater than the said percentage unless the Company includes above holders in such distribution of such excess dividend. Further, this shall be paid at the time it is paid to the equity shareholders.
Tenure / Redemption	Redeemable after 5 years from the date of Closing (i.e 3rd September, 2004) at the sum of the subscription amount and any accrued and unpaid dividends thereon minus the value of any amounts paid out to the holder under other indemnity clauses provided in the share issue agreement. Further, based on occurrence of certain events as defined in the shareholders agreement (such as occurrence of breach by the Company of any covenant and obligation), these shareholders have an option of early redemption at a price higher of the adjusted subscription price or the then fair market value of the underlying equity shares as determined by an independent valuation firm. Adjusted subscription price means sum of subscription money paid towards Series 'C' POCPS under the share subscription agreement and any accrued and unpaid dividends minus the value of any amounts or securities paid out under the indemnity clause.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Conversion	The holders of Series 'C' POCPS shall have an option to convert all or any part of the Series 'C' POCPS held by them at any time at their sole discretion. The conversion ratio as defined in the subscription agreement states that the holders of Series 'C' POCPS will receive 0.5038 equity shares for each Series 'C' POCPS held by them. The conversion ratio shall therefore entitle the holders to a total of 81,540,623 equity shares of Rs. 10 each (at Rs. 19.85 per equity share).

Series 'D' POCPS

Pursuant to a shareholders agreement dated 31st March, 2006 entered into between the Company and strategic investors, the Company allotted 10,000 equity shares of Rs.10 each at a premium of Rs. 20.75 per share and 157,924,250 shares of Series 'D' POCPS at Rs. 10 per share on 20th April, 2006. The terms and conditions of the Series 'D' POCPS are detailed hereunder:

Rate of dividend	A fixed dividend of 0.00000000001% p.a. In addition to the preferential dividend, Series 'D' POCPS holders shall be entitled to participate pari passu with the equity shareholders of the Company after the said dividend has been paid or provided for on such preference shares. The Company shall not declare a dividend greater than the said percentage unless the Company includes above holders in such distribution of such excess dividend. Further, this shall be paid at the time it is paid to the equity shareholders.
Tenure / Redemption	Redeemable after 5 years from the date of Closing (i.e. 20th April, 2006) at the sum of the subscription amount and any accrued and unpaid dividends thereon minus the value of any amounts paid out to the holder under other indemnity clauses provided in the share issue agreement.
Tenure / Redemption	Further, based on occurrence of certain events as defined in the shareholders agreement (such as occurrence of breach by the Company of any covenant and obligation) these shareholders have an option of early redemption at a price higher of the 'Adjusted subscription price' or the then fair market value of the underlying equity shares as determined by an independent valuation firm. Adjusted Subscription price means sum of subscription money paid towards Series 'D' POCPS under the share subscription agreement and any accrued and unpaid dividends minus the value of any amounts or securities paid out under the indemnity clause.
Conversion	The holders of Series 'D' POCPS shall have an option to convert all or any part of the Series 'D' POCPS held by them at any time at their sole discretion. The conversion ratio as defined in the subscription agreement states that the holders of Series 'D' POCPS will receive 0.32523 equity shares for each Series 'D' POCPS held by them. The conversion ratio shall therefore entitle the holders to a total of 51,361,047 equity shares of Rs. 10 each (at Rs. 30.75 per equity share).

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

		2007	2006
4.	**Reserves and surplus**		
	Securities premium		
	Securities premium at the beginning of the year	**42,405**	39,270
	Add : Premium on shares issued during the year	**5,320,920**	3,135
	Less: Premium utilised on expenses incurred for issue of share capital	**208,518**	–
	Securities premium at the end of the year	**5,154,807**	42,405
	Profit and Loss Account	**884,240**	141,421
		6,039,047	183,826
5.	**Secured loans**		
	External commercial borrowings (ECB) (Secured against fixed assets) (Repayable within a year Rs. 543,375 (31st March, 2006: Rs. Nil)	**652,050**	669,225
	Finance lease obligation (Secured against assets taken on lease) (Refer Schedule 18)	**7,790**	–
		659,840	669,225
6.	**Unsecured loans**		
	Term loan from ICICI bank *	–	267,690
	Cash credit facilities from banks**	**61,082**	272,775
		61,082	540,465

* Repayable within one year

** Repayable on demand

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

7. Fixed assets

	Gross block				Accumulated depreciation/amortisation				Net block	
	As at 1st April, 2006	Additions during the year	Deletions during the year	As at 31st March, 2007	As at 1st April, 2006	Charge for the year	On deletions during the year	As at 31st March, 2007	As at 31st March, 2007	As at 31st March, 2006
Intangible assets										
Domain name	–	6,720	–	**6,720**	–	626	–	**626**	**6,094**	–
Software	52,055	69,557	–	**121,612**	34,781	18,168	–	**52,949**	**68,663**	17,274
Tangible assets										
Computers *	465,809	138,850	208	**604,451**	356,073	85,513	47	**441,539**	**162,912**	109,736
Service equipment (including networks)**	245,458	82,425	–	**327,883**	160,982	57,818	–	**218,800**	**109,083**	84,476
Furniture and fixtures	516,057	161,186	3,906	**673,337**	226,056	117,102	2,189	**340,969**	**332,368**	290,001
Vehicles	2,037	1,004	–	**3,041**	715	642	–	**1,357**	**1,684**	1,322
Leasehold improvements**	538,357	199,793	–	**738,150**	208,881	132,601	–	**341,482**	**396,668**	329,476
Total	**1,819,773**	**659,535**	**4,114**	**2,475,194**	**987,488**	**412,470**	**2,236**	**1,397,722**	**1,077,472**	**832,285**
31st March, 2006	1,467,173	395,976	43,376	**1,819,773**	671,866	355,706	40,084	**987,488**	**832,285**	

Note:

* Includes assets taken on capital lease having gross block of Rs. 12,326 (31st March, 2006 : Nil) and net block of Rs. 7,720 (31st March, 2006 : Nil) as at 31st March, 2007.

** Exchange differences (net) arising during the year on foreign currency loans borrowed for the acquisition of imported fixed assets have been adjusted – decrease of Rs. 5,979 (31st March, 2006 decrease Rs. 1,700).

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SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

	2007	2006
8 Investments		
Long-term (at cost)		
Trade		
Investments in subsidiaries (Unquoted)		
6,771,860,000 (31st March, 2006: 6,771,690,000) fully paid-up common stock of USD 0.001 each of Firstsource Solutions USA Inc.	**773,040**	20,792
2,834,672 (31st March, 2006: 2,834,672) fully paid-up equity shares of GBP 1 each of Firstsource Solutions Limited, UK	**18,349**	18,349
40,509,637 (31st March, 2006: 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 (31st March, 2006: 136,093) equity shares of Pipal Research Corporation of Rs. 10 each, fully paid up.	**157,260**	157,260
9,088,886 (31st March, 2006: 9,088,886) Equity Shares of Rev IT Systems Private Limited of Rs. 10 each, fully paid-up.	**941,547**	941,547
5,162 (31st March, 2006: 5,162) Preference Shares of Rev IT Systems Private Limited of Rs. 1000 each.	**5,162**	5,162
	3,246,217	2,493,969
Short term (at lower of cost and fair value)*		
Trade		
Unquoted		
Investment in treasury bills in connection with Philippines branch (31st March, 2006: Nil)	**98**	–
*Non-trade**		
Unquoted		
15,004,955 (31st March, 2006: Nil) units of ICICI Prudential Institutional Liquid Plan-Super Institutional Weekly Dividend	**150,207**	–
5,629 (31st March, 2006: Nil) units of Kotak Liquid Fund - Institutional Premium Plan Daily Dividend	**69**	
25,211,750 (31st March, 2006: Nil) units of Standard Chartered FMP- Quarterly series 5-Dividend	**252,118**	–
25,004,227 (31st March, 2006: Nil) units of Birla FTP-Quarterly-Series7 - Dividend-Payout	**250,042**	–
25,000,000 (31st March, 2006: Nil) units of ICICI Prudential FMP Series 37 Three Month Plus Plan A - Retail Dividend	**250,000**	–
25,000,000 (31st March, 2006: Nil) units of ICICI Prudential FMP Series 37 One Month Plan-Retail Dividend	**250,000**	–
Net asset value of unquoted investments aggregate Rs. 1,156,296	**1,152,436**	
	4,398,751	2,493,969

* Refer Schedule 27 for summary of investments purchased and sold during the year

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

		2007	2006
9.	**Sundry debtors**		
	(Unsecured)		
	Debts outstanding for a period exceeding six months		
	– considered good	–	–
	– considered doubtful	**6,530**	6,160
		6,530	6,160
	Others debts		
	– considered good*	**1,190,382**	441,503
	– considered doubtful	–	–
		1,196,912	447,663
	Less: Provision for doubtful debts	**(6,530)**	(6,160)
		1,190,382	441,503
	*Sundry debtors include debts outstanding from companies under the same management		
	FSL–USA	**103,751**	22,745
	FSL–UK	**827,123**	272,139
	FR–US	–	23,225
	ASG	**61,352**	–
10.	**Cash and bank balances**		
	Cash on hand	**168**	62
	Remittances in transit	**12,874**	–
	Balances with scheduled banks		
	– in current accounts	**41,731**	11,919
	– in deposit accounts*	**2,355,871**	6,253
	– in exchange earning foreign currency account	–	961
	Balances with non scheduled banks		
	– in deposit accounts**	**200,316**	–
		2,610,960	19,195

* Includes Rs. 5,870 (31st March, 2006: Rs. 6,253) under lien for bank guarantees to the Customs authorities.

** Rs. 200,316 (31st March, 2006: Rs. Nil) placed in Escrow account on behalf of its subsidiary FR–US towards additional acquisition cost pending finalisation of earn-out payment for the year 2005.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

		2007	2006
11.	**Loans and advances**		
	(Unsecured, considered good)		
	Loans to subsidiaries	**568,420**	583,392
	Advances to subsidiaries*	**156,747**	159,997
	Deposits	**245,627**	158,242
	Prepaid expenses	**25,650**	31,428
	Advances recoverable in cash or in kind or for value to be received	**70,010**	5,235
	Lease rentals receivable, net (refer Schedule 18)	**27,690**	23,006
	Advance tax and tax deducted at source	**52,479**	25,578
	Accrued interest	**12,723**	9,863
		1,159,346	996,741
	* Includes amount outstanding from companies under the same management.		
	FSL–USA	**16,169**	123,368
	FR–US	–	15,733
	Rev IT	**17,975**	40
	ASG	**33,493**	20,856
	FSL–UK	**75,572**	–
	FSL–Arg	**7,752**	–
	BPMS	**5,786**	–
	Maximum outstanding balance during the year		
	FSL–USA	**123,368**	123,368
	FSL–UK	–	1,097
	FR–US	**15,733**	15,733
	Rev IT	**265**	10,009
	ASG	–	20,856
	FSL–Arg	**7,752**	–
	BPMS	**5,786**	–

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

		2007	2006
12.	**Current liabilities**		
	Amount payable to subsidiaries*	–	102,953
	Sundry creditors**		
	– for expenses	**368,204**	176,341
	– for capital goods	**147,969**	32,305
	Payable on acquisition	**133,224**	285,389
	Other liabilities	**49,397**	21,146
	Tax deducted at source payable	**17,056**	15,706
		715,850	633,840
	* includes amount outstanding to companies under the same management		
	FSL–USA	–	75,880
	FSL–UK	–	15,926
	FR–US	–	11,147
	Maximum outstanding balance during the year		
	FSL–USA	–	11,147
	FSL–UK	**27,818**	15,926
	FR–US	**11,688**	75,880
	ASG	**49,721**	–
	Rev IT	**938**	–

**Based on the information and records available with the Company, no amount is payable to small scale industrial undertakings as at 31st March, 2007 (31st March, 2006: Nil).

		2007	2006
13.	**Provisions**		
	Income tax	**1,400**	1,400
	Gratuity	**30,202**	17,593
	Leave encashment	**22,268**	15,184
		53,870	34,177
14.	**Other income**		
	Profit on sale/redemption of non trade investments, net	**52,619**	47
	Miscellaneous income	**1,785**	157
	Dividend on investmets	**11,429**	–
		65,833	204

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

		2007	2006
15.	**Personnel costs**		
	Salaries, bonus and other allowances	**1,776,439**	1,442,743
	Contribution to provident and other funds	**92,396**	66,887
	Staff welfare	**98,781**	87,335
		1,967,616	1,596,965
16.	**Interest costs**		
	On External commercial borrowings and term loan	**60,106**	36,287
	On Working capital and demand loan	**10,485**	39,881
	Finance charge	**166**	–
		70,757	76,168
	Less:		
	Interest income		
	– on deposits with banks [Tax deducted at source: Rs 5,140 (31st March, 2006: Rs 58)	**27,091**	274
	– on loan to subsidiary	**35,525**	34,804
	– on others	**2,360**	2,082
		64,976	37,160
		5,781	39,008
17.	**Operating costs**		
	Connectivity	**215,774**	219,676
	Rent, rates and taxes	**196,522**	173,921
	Car and other hire charges	**171,107**	150,645
	Maintenance and upkeep	**144,593**	114,232
	Recruitment and training	**99,037**	88,605
	Electricity, water and power consumption	**81,794**	77,063
	Travel and conveyance	**106,488**	73,198
	Legal and professional fees	**66,278**	47,485
	Computer expenses	**44,232**	37,012
	Communication	**21,350**	21,723
	Insurance	**13,003**	21,099
	Foreign exchange loss, net	**16,578**	14,705
	Printing and stationery	**15,017**	14,213
	Marketing and support fees	**10,548**	9,387

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

		2007	2006
17	**Operating costs (Continued)**		
	Auditors' remuneration*		
	– Statutory audit	**5,350**	3,750
	– Tax audit	**150**	150
	– Other services	**702**	1,800
	Meeting and seminar	**4,526**	4,166
	Advertisement and publicity	**2,159**	4,125
	Loss on sale of fixed assets net	**960**	1,998
	Registration fees	**856**	430
	Membership fees	**1,054**	322
	Directors' sitting fees	**123**	53
	Provision for doubtful debts	**644**	(432)
	Miscellaneous	**13,507**	11,807
	Guarantee Commission	**11,811**	11,972
		1,244,163	1,103,105

* Excludes Rs 5,882 in connection with the Company's initial public offering which has been adjusted against balance in securities premium

18 Leases

Operating lease

The Company is obligated under non-cancelable lease for office space that is renewable on a periodic basis at the option of both the lessor and lessee. Rental expenses under non-cancelable operating leases for the year ended 31 March 2007 aggregated to Rs 180,439 (31st March, 2006: Rs. 122,825). Of these expenses, Rs.12,821 (31st March, 2006: Rs. 5,097) has been attributed to expenses prior to the related asset being put to use and accordingly, has been included as part of fixed assets and the balance amount has been debited to profit and loss account for the year.

The future minimum lease payments in respect of non–cancelable operating leases are as follows:

	2007	2006
Amount due within one year from the balance sheet date	**166,771**	164,812
Amount due in the period between two year and five years	**175,137**	172,139
	341,908	336,951

The Company also leases office facilities and residential facilities under cancelable operating leases that are renewable on a periodic basis at the option of both the lessor and lessee. Rental expenses under cancelable operating leases for the year ended 31st March, 2007 aggregated Rs. 27,955 (31st March, 2006: Rs. 50,340).

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Finance lease

The Company has given vehicles on finance lease to its employees as per policy. As at 31 March 2007, the future minimum lease rentals receivable are as follows:

	Minimum lease payments	Finance charges	Present value of minimum lease payments
As at 31st March, 2007			
Amount receivable within one year from the balance sheet date	**12,533**	**2,429**	**10,104**
Amount receivable in the period between one year and five years	**19,995**	**2,409**	**17,586**
	32,528	**4,838**	**27,690**
As at 31st March, 2006			
Amount receivable within one year from the balance sheet date	11,300	2,021	9,279
Amount receivable in the period between one year and five years	15,382	1,655	13,727
	26,682	3,676	23,006

During the year, the Company has acquired certain capital assets under finance lease. Future minimum lease payments under finance lease as at 31st March, 2007 are as follows:

	Minimum lease payments	Finance charges	Present value of minimum lease payments
As at 31st March, 2007			
Amount due within one year from the balance sheet date	4,220	120	4,100
Amount due between one year and five years	3,734	44	3,690
	7,954	**164**	**7,790**

19. 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:

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

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:

	2007	2006
Outstanding at beginning of the year	**1,968,750**	2,453,750
Granted during the year	–	–
Forfeited during the year	**(32,500)**	(218,125)
Exercised during the year (Refer note 2 below)	**(1,585,125)**	(266,875)
Outstanding at the end of the year (Refer note 1 below)	**351,125**	1,968,750
Vested and exercisable at the end of the year	**352,125**	1,471,875
Note 1: **Exercise price range** 10.00 – 14.99	**352,125**	1,968,750
Note 2 : Options exercised includes Nil (31 March 2006 : 123,750) options pending allotment.		

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'). 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 is administered and supervised by the members of the Compensation committee, which was previously done by the Board Governance Committee;
- Exercise period within which the employees would exercise the options would be 5 years from the date of grant;
- Exercise price shall be determined based on a fair valuation exercise done at the beginning of every six months for options granted during those respective periods;
- The face value of shares to be allotted under Scheme 2003 to all persons resident outside India shall not exceed five percent of the share capital of the Company subject to approval of the shareholders in the General Meeting; and

The above Scheme 2003 was effective from 11 October 2003.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Employee stock option activity under Scheme 2003 is as follows:

	2007	2006
Outstanding at beginning of the year	**20,168,000**	16,885,500
Granted during the year (Refer note 3 below)*	**24,802,500**	8,210,000
Forfeited during the year	**(3,321,250)**	(3,901,875)
Exercised during the year (Refer note 2 below)	**(8,565,623)**	(1,025,625)
Outstanding at the end of year (Refer note 1 below)	**33,083,627**	20,168,000
Vested and exercisable at the end of the year	**2,867,875**	6,277,124
Note 1:		
Exercise price range		
10.00 – 14.99	**3,424,627**	9,073,000
15.00 – 19.99	**1,510,625**	3,340,000
20.00 – 24.99	**4,378,375**	6,295,000
25.00 – 29.99	–	–
30.00 – 34.99	**19,322,500**	1,460,000
35.00 – 39.99	**2,027,500**	–
64*	**2,420,000**	
* Subject to shareholders ratification	**33,083,627**	20,168,000

Note 2: Options exercised includes Nil (31st March, 2006: 40,000) options pending allotment.

Note 3: The Compensation Cum Board Governance Committee of Firstsource, 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 available for issuance of option under Employee Stock Option Scheme 2002 and Employee Stock Option Scheme 2003 is 12% of the equity capital on a fully diluted basis.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

The Guidance Note on 'Accounting for employee share based payments' issued by ICAI ('Guidance Note') establishes financial accounting and reporting principles for share based payment plans for employees. The Guidance Note applies to employee share based payments, the grant date in respect of which falls on or after 1st April, 2005. The Company follows the intrinsic value method to account compensation expense arising from issuance of stock options to the employees. Since all stock options are granted at intrinsic value, no compensation cost has been recorded in respect of these options. Had compensation cost been determined under the fair value approach described in the Guidance Note, using the Black Scholes pricing model, the Company's net income and basic and diluted earnings per share would have been reduced to the proforma amounts as set out below:

Particulars	**2007**	2006
Net income as reported	**742,819**	157,709
Less: Stock–based employee compensation expense (fair value method)	**54,511**	6,733
Proforma net income	**688,308**	150,976
Basic earnings per share as reported (Rs.)	**2.80**	0.78
Proforma basic earnings per share (Rs.)	**2.60**	0.75
Diluted earnings per share as reported (Rs.)	**1.91**	0.51
Proforma diluted earnings per share (Rs.)	**1.77**	0.49

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

	2007	2006
Dividend yield%	**0%**	0%
Expected life	**3–5 years**	3–5 years
Risk free interest rate	**6.50 % to 7.78 %**	6.50 % to 7.50 %
Volatility (since unlisted)	**0% to 50%**	0%

20. Managerial remuneration

Remuneration to Director:

	2007	2006
Salaries and allowances	**12,790**	10,414
Contribution towards retirement benefits	**425**	403
Perquisites	**173**	40
Total	**13,388**	10,857

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

Computation of net profits in accordance with relevant provisions of the Companies Act, 1956 has not been disclosed as no commission as a percentage of profits is payable to the Director.

(Currency: In thousands of Indian rupees)

21. Related party transactions

Details of related parties including summary of transactions entered into by the Company during the year ended 31 March 2007 are summarized below:

Parties with substantial interests	• ICICI Strategic Investment Fund • ICICI Bank Limited • Metavante Investments (Mauritius) Limited • Aranda Investments (Mauritius) Pte Limited
Subsidiaries wherein control exists	• The related parties where control exists are subsidiaries as referred to in Schedule 1 to the financial statements.
Affiliates	• ICICI Ventures Funds Management Company Limited • ICICI Brokerage Services Limited • ICICI International Limited • ICICI Trusteeship Services Limited • ICICI Home Finance Company Limited • ICICI Investment Management Company Limited • ICICI Securities Holdings Inc. • ICICI Securities Inc. • ICICI Bank UK Limited • ICICI Securities Limited • ICICI Lombard General Insurance Company Limited (I– Lombard) • Prudential ICICI Asset Management Company Limited • Prudential ICICI Trust Limited • TCW/ICICI Investment Partners L.L.C • 3i Infotech Limited (formerly ICICI Infotech Limited) • ICICI Distribution Finance Private Limited • ICICI Bank Canada
Companies in which directors are interested	• ICICI Prudential Life Insurance Company Limited (I–Prudential) • Metavante Investments (Mauritius) Limited
Key Managerial Personnel including relatives	• Ananda Mukerji • Raju Venkatraman • Rajesh Subramanium • Rahul Basu
Non-Executive Directors	• Ashok Shekhar Ganguly • Charles Miller Smith • K P Balaraj • Shikha Sharma • Shailesh Mehta • Dinesh Vaswani • Y. H. Malegam • Donald Layden, Jr. • Lalita D. Gupte

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Particulars of related party transactions during the year ended 31 March 2007

Name of the related party	Description	Transaction value during the year ended 31st March, 2007	Transaction value during the year ended 31st March, 2006	Receivable / (Payable) at 31st March, 2007	Receivable / (Payable) net at 31st March, 2006
FSL–USA				**119,920**	70,233
	Income from services	**536,113**	354,279		
	Reimbursement of expenses	**39,275**		–	–
	Investment in equity	**752,250**	–	–	–
FSL–UK				**902,695**	256,213
	Income from services	**1,426,740**	974,103		
	Reimbursement of expenses	**68,496**	–		
FR–US	Income from services	**7238**	201,756	–	27,811
	Interest Income	**35,525**	34,804	–	2,527
	Reimbursement of expenses	**229**	–		
	Loan outstanding			**568,420**	583,392
Accounts Solutions Group, LLC	Income from services	**94,188**	–	**94,845**	20,856
	Reimbursement of expenses	**63,699**	20,856		–
Rev IT	Reimbursement of expenses	**15,073**	–	**17,975**	–
	Investment in shares		365,663		40
Pipal	Reimbursement of expenses	**405**	–	–	–
FSL–Arg	Reimbursement of expenses	**7,752**	–	**7,752**	–
BPMS	Reimbursement of expenses	**5,786**		**5,786**	
ICICI Bank Limited	Income from services	**117,156**	76,196	**20,063**	19,724
	Interest income on fixed deposits	**22,990**	274	**9,552**	
	Rent	**3,036**	3,036	**(759)**	
	Software Expenses & Professional Fees	**1,559**	3,230	**(67)**	
	Corporate administrative expenses	**821**	1,610	**(134)**	–
	Interest expenditure	**70,590**	76,168		(11,200)
	Bank balance			**34,678**	12,265
	Bank OD			**(61,082)**	(272,775)
	Fixed deposit	**1,755,870**	185	**1,456,186**	6,253
	External Commercial Borrowings			**(652,050)**	(669,225)
	Term Loan		267,690	–	(267,690)
	Guarantee Commission paid	**11,811**	11,972	**5,009**	4,967
ICICI Bank Canada	Income from services	**20,332**	20,577	**5,283**	1,878
ICICI Bank UK Limited	Income from services	**18,815**	10,993	**5,321**	1,869
3i Infotech Limited (formerly ICICI Infotech Limited)	Technical and support charges	**5,129**	7,792	–	(1,800)
ICICI– Lombard General Insurance Co. Limited	Insurance premium paid	**48,988**	42,855		
ICICI– Prudential	Income from services	**147,753**	54,964	**20,518**	20,456
ICICI– Prudential Life Insurance company Limited	Insurance premium paid	**3,481**	2,900	–	–
	Rent	**24,576**	25,469	–	–
Prudential ICICI Asset Management Company Limited	Pru ICICI Liquid Plan				
	Purchase	**2,727,489**	–	–	–
	Sale	**2,108,400**	–	–	–
Key management personnel and relatives	Remuneration	**38,314**	33,192	–	–
Directors	Directors sitting fees	**123**	53	–	–

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

22. Segmental reporting

Segment information has been prepared for the consolidated financial statements of Firstsource Solutions Limited and its subsidiaries. Accordingly, in accordance with paragraph 4 of Accounting Standard 17 'Segment Reporting' (AS 17) issued by the ICAI, separate segmental information has not been disclosed for the Company's financial statements.

23. Capital and other commitments and contingent liabilities

Particulars	2007	2006
The estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	**19,891**	44,512
Foreign currency forward covers outstanding	**3,292,263**	1,650,755
Unamortized premium on forward exchange contracts	**18,956**	9,422
Forward exchange difference on highly probable forecasted transactions	**34,797**	–
Guarantees and letters of credit given	**1,648,603**	896,059

Direct tax matters

Income tax demand amounting to Rs. 4,295 (31st March, 2006: Rs 4,295) relating to with–holding tax on software imports for earlier assessment years by CAST India is disputed and in appeal. The appellant tribunal has decided in favour of the Company.

Income tax demands amounting to Rs. 40,929 (31st March, 2006 : Rs. 40,929) for the assessment year 2003–04 and Rs. 50,109 (31st March, 2006: Rs. Nil) for the assessment year 2004–05 are disputed in appeal by the Company in respect of which the company has favorable appellate decisions supporting its stand based on the past assessment and hence, the provision for taxation is considered adequate. Further, the company has paid Rs.10,381 tax under protest against the demand raised for the assessment year 2004–05.

Claims not acknowledged as debt

AT&T, USA has raised certain claims aggregating Rs 625 (equivalent of USD 14,382) (31st March, 2006: Rs 633) (equivalent of USD 14,382) on the Company. However, the Company has disputed these claims as services were not rendered and certain discounts as agreed were not given. Accordingly, the Company does not foresee any liability arising from this claim and has not provided for any liability.

24. Retirement Benefit

Effective 1 April 2006, the Company adopted Accounting Standard ('AS') 15 (revised 2005) –" Employee benefits" issued by The Institute of Chartered Accountants of India. As per the transitional provisions specified in the Standard, the difference in the liability as per the existing policy followed by the Company and that arising on adoption of this Standard is required to be charged to opening reserves and surplus account. However, there is no significant impact on adoption of the Standard which is required to be adjusted to the opening balance of reserves and surplus.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

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	2007	2006
Change in present value of obligations		
Obligations at beginning of the year	**19,669**	19,422
Service Cost	**13,942**	7,648
Interest cost	**1,401**	1,324
Actuarial (gain)/loss	**(2,831)**	(7,701)
Benefits paid	**(1,979)**	(1,024)
Obligations at the end of the year	**30,202**	19,669
Change in plan assets		
Fair value of plans assets at beginning of the year	**(2,076)**	(2,076)
Expected return on plan assets	**(21)**	–
Actuarial (gain)/loss	**(1,958)**	–
Contributions		–
Benefits paid	**1,979**	–
Fair value of plans assets at end of the year	**(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	**30,202**	19,669
Fair value of plan assets at the end of year	**(2,076)**	(2,076)
Funded status being amount of liability recognised in the balance sheet	**28,126**	17,593
Gratuity cost for the year		
Service cost	**13,942**	7,648
Interest cost	**1,401**	1,324
Expected return on plan assets	**(21)**	–
Actuarial (gain)/loss	**(4,788)**	(8,725)
Net gratuity cost	**10,534**	247
Assumptions		
Interest rate	**7.50%**	7.50%
Estimated rate of return on plan assets	**7.90%**	7.50%
Rate of growth in salary levels	**10.00%**	10.00%
Withdrawal rate	**25% reducing to 2%**	2.00%
Leave Encashment		
The following table set out the status of the Leave Encashment plan as required under AS 15		
Reconciliation of opening and closing balances of the present value of the defined benefit obligation:		
Change in present value of obligations		
Obligations at beginning of the year	**15,184**	11,903

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

Particulars	2007	2006
Service Cost	**12,794**	10,561
Interest cost	**980**	688
Actuarial (gain)/loss	**(2,438)**	(3,822)
Benefits paid	**(4,252)**	(4,146)
Liability recognised in the balance sheet	**22,268**	15,184
Leave Encashment cost for the year		
Service cost	**12,794**	10,561
Interest cost	**980**	688
Expected return on plan assets		–
Actuarial (gain)/loss	**(6,690)**	(7,968)
Net leave encashment cost	**7,084**	3,281

Assumptions	2007	2006
Interest rate	**7.50%**	7.50%
Rate of growth in salary levels	**10.00%**	10.00%
Withdrawal rate	**25% reducing to 2% For over 20 years of service**	2.00%
Expected average remaining service	**20 Years**	

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

(No. of shares in '000)

	2007	2006
Number of shares considered as basic weighted average shares outstanding	**264,852**	201,024
Add: Effect of potential issue of shares/stock options	**124,426**	109,070
Number of shares considered as weighted average shares and potential shares outstanding	**389,278**	310,094

26. Taxation

Transfer pricing

The Company's management is of the opinion that its international transactions with related parties are at arms length and that the Company is in compliance with the transfer pricing legislation. Accordingly, the Company's management believes that the transfer pricing legislation will not have any impact on the financial statements for the year ended 31st March, 2007, particularly on the amount of tax expense and that of the provision for taxation.

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

27. Summary of investments purchased and sold during the year

Mutual Fund Scheme	2007		2006	
	Units purchased	Purchase value	Units purchased	Purchase value
Birla Cash Plus – Institutional Premium – Growth	57,136,452	650,000	–	–
HSBC Cash Fund – Institutional Plus – Growth	25,487,683	285,000	–	–
Prudential ICICI Institutional Liquid Plan – Super Institutional Growth	104,131,836	1,075,000	–	–
DSP Merrill Lynch Liquidity Fund – Institutional – Growth	310,669	325,000	–	–
Templeton India Treasury management account – Institutional Plan – Growth	322,984	355,000	–	–
Kotak Liquid (Institutional Premium) – Growth	26,179,703	380,000	–	–
DWS Money plus fund Institutional Plan –Daily	25,072,628	250,932	–	–
Standard Chartered Liquidity Manager Plus Daily Dividend	1,002,006	1,002,106	–	–
ICICI Prudential FMP Series 35 One Month Plan – Retail – Dividend	25,000,000	250,000	–	–
ICICI Prudential FMP Series 37 Three Months Plus Plan A Retail Dividend	25,000,000	250,000	–	–
ICICI Prudential FMP Series 37 One Month Plan – Retail Dividend	25,000,000	250,000	–	–
Standard Chartered FMP Series – Quarterly Series 5 – Dividend	25,211,750	252,118	–	–
Birla FTP Quarterly Series 7 Dividend payout	25,004,227	250,042	–	–
Birla Cash Plus – Institutional Premium – Daily Dividend Reinvestment	24,955,563	250,042	–	–
HSBC Cash Fund – Institutional Plus – Daily Dividend	10,037,984	100,436	–	–
ICICI Prudential Institutional Liquid Plan – Super Institutional Weekly Dividend	90,185,105	902,489	–	–
Kotak Liquid Fund – Institutional Premium Plan Daily Dividend	8,183,514	100,068	–	–
DWS Insta Cash Plus Fund – Institutional Plan – Daily Dividend Option	24,955,434	250,041	–	–
DSP Merrill Lynch Liquidity Fund – Institutional Growth	–	–	54,230	55,000
	523,177,538	**7,178,274**	54,230	55,000
Birla Cash Plus – Institutional Premium – Growth	(57,136,452)	(656,727)	–	–
HSBC Cash Fund – Institutional Plus – Growth	(25,487,683)	(291,497)	–	–
Prudential ICICI Institutional Liquid Plan – Super Institutional Growth	(104,131,836)	(1,105,723)	–	–
DSP Merrill Lynch Liquidity Fund–Institutional– Growth	(310,669)	(327,210)	–	–
Templeton India Treasury management account – Institutional Plan – Growth	(322,984)	(359,982)	–	–
Kotak Liquid (Institutional Premium) – Growth	(26,179,703)	(381,085)	–	–
DWS Money plus fund Institutional Plan – Daily	(25,072,628)	(250,932)	–	–
Standard Chartered Liquidity Manager Plus Daily Dividend	(1,002,006)	(1,002,106)	–	–
ICICI Prudential FMP Series 35 One Month Plan Retail – Dividend	(25,000,000)	(250,000)	–	–
Birla Cash Plus – Institutional Premium – Daily Dividend Reinvestment	(24,955,563)	(250,042)	–	–
HSBC Cash Fund – Institutional Plus – Daily Dividend	(10,037,984)	(100,436)	–	–
ICICI Prudential Institutional Liquid Plan – Super Institutional Weekly Dividend	(751,801,50)	(752,677)	–	–
Kotak Liquid Fund – Institutional Premium Plan Daily Dividend	(8,177,885)	(100,000)	–	–
DWS Insta Cash Plus Fund – Institutional Plan – Daily Dividend Option	(24,955,434)	(250,041)	–	–
DSP Merrill Lynch Liquidity Fund – Institutional Growth	–	–	54,230	55,047
	407,950,977	**6,078,458**	54,230	55,047

SCHEDULES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

(Currency: In thousands of Indian rupees)

28. Statement of utilisation of Initial Public Offer ('IPO') as on 31st March, 2007

	Number of shares	Price	Amount
Amount raised through Public Issue	**60,000,000**	**64**	**3,840,000**
Share issue expenses paid			**164,329**
Net proceeds			**3,675,671**
Deployment of funds:			
1. Utilised for Capital Expenditure for office facilities			**279,333**
2. Held as short term investments and bank deposits			**3,396,338**
Total			**3,675,671**

29. Supplementary statutory information

		2007	2006
(i)	*Value of imports calculated on CIF basis*		
	Capital goods	**135,739**	264,391
(ii)	*Earnings in foreign exchange*		
	Income from services	**3,904,764**	3,136,497
	Interest Income	**35,525**	34,804
(iii)	*Expenditure in foreign currency*		
	Marketing and support services	**132**	1,942
	Travel and conveyance	**21,048**	10,035
	Interest	**49,047**	47,787
	Connectivity charges	**80,671**	162,877
	Legal fees	**7,333**	–

30. Prior period comparatives

Prior year figures have been appropriately reclassified to conform to current year presentation.

For and on behalf of the Board of Directors

Dr. Ashok S. Ganguly *Chairman*	**Ananda Mukerji** *Managing Director & CEO*	**Lalita D. Gupte** *Director*
Shikha Sharma *Director*	**Dinesh Vaswani** *Director*	**K P Balaraj** *Director*
Y.H. Malegam *Director*	**Shailesh Mehta** *Director*	**Charles Miller Smith** *Director*
Donald Layden, Jr. *Director*	**Rajesh Subramaniam** *CFO*	**Sanjay Gupta** *Company Secretary*

Mumbai
April 27, 2007

Balance Sheet Abstract and Company's General Business Profile Statement pursuant to Part IV of the Companies Act, 1956

I. REGISTRATION DETAILS

Registration No.	134147	State Code	11
Balance Sheet Date	31 03 2007 (Date Month Year)		

II. CAPITAL RAISED DURING THE YEAR (AMOUNT IN RUPEES THOUSANDS)

Pubilc Issue	3840000	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	1737003

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMOUNT IN RUPEES THOUSANDS)

Total Liabilities	11780532	Total Assets	11780532

SOURCES OF FUNDS

Paid Up Capital	4250843	Reserves and Surplus	6039047
Share Application Money	NIL		
Secured Loans	659840	Unsecured Loans	61082

APPLICATION OF FUNDS

Net Fixed Assets	1140335	Accumulated losses (+)	NIL
Net Current Assets (+)	4335005	Deferred tax	NIL
Investments (+)	4398751	Amalgamation deficit account	1136721

IV. PERFORMANCE OF THE COMPANY (AMOUNT IN RUPEES THOUSANDS)

Turnover	4392653	Total Expenditure	3630030
(+/–)Profit/(Loss) Before Tax (+)	762623	(+/–)Profit/(Loss) After Tax (+)	742819
Earnings Per Share (Rs.)	2.80 Basic 1.91 Diluted	Dividend %	NIL

V. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS & SERVICES OF THE COMPANY (as per monetary terms)

Item Code No. (ITC Code)	Not Applicable
Product Description	IT enabled transaction processing services

For and on behalf of the Board of Directors

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Shikha Sharma *Director*	**Dinesh Vaswani** *Director*	**K P Balaraj** *Director*
Y.H. Malegam *Director*	**Shailesh Mehta** *Director*	**Charles Miller Smith** *Director*
Donald Layden, Jr. *Director*	**Rajesh Subramaniam** *CFO*	**Sanjay Gupta** *Company Secretary*

Mumbai
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Firstsource Solutions Limited
6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400 013. India
Tel: +91 22 6666 0888. Fax: +91 22 6663 5481