firstsource

Annual Report 2007 - 2008

# fostering partnerships

**Registered office**

6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400 013, India.

Website : www.firstsource.com

**Statutory Auditors**

BSR & Co., Chartered Accountants, KPMG House, Kamala Mills Compound, 448, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India.

**Registrars & Transfer Agents**

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

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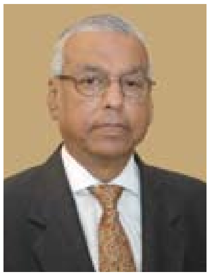
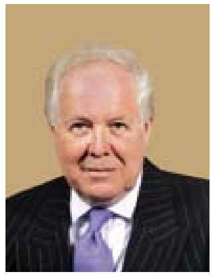
# corporate **information**

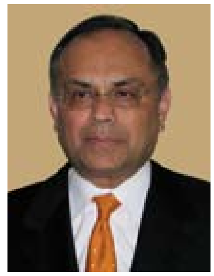
## Board of Directors

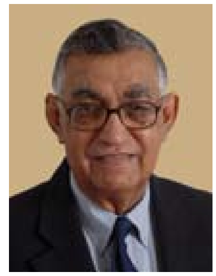
### Independent Directors


**Dr. Ashok Ganguly**


**Lalita D. Gupte**


**Charles Miller Smith**

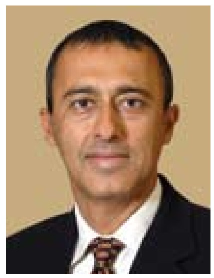

**Dr. Shailesh Mehta**

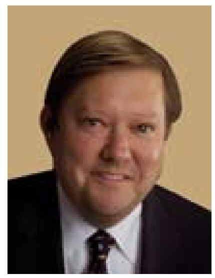

**Y. H. Malegam**

### Shareholder Directors


**Shikha Sharma**


**K. P. Balaraj**


**Dinesh Vaswani**


**Donald Layden Jr.**

### Executive Directors


**Ananda Mukerji**
*Managing Director and Chief Executive Officer*


**Raju Venkatraman**
*Joint Managing Director and Chief Operating Officer*

### Senior Management Team

Matthew Vallance - President North America & Europe
Michael A. Shea - President and Chief Executive Officer, MedAssist
Farid Kazani - Chief Financial Officer
Aashu Calapa - Executive Vice-President, Human Resources
Sanjiv Dalal - Chief Technology Officer
Rahul Basu - Executive Vice-President, Collections
Tony Pino - Executive Vice-President, Healthcare
Santanu Nandi - Executive Vice-President, Operations
John Ardy - Executive Vice-President, Operations

### Company Secretary

Sanjay Gupta

## Board Committees

### Audit Committee

Y. H. Malegam, Chairman
Dinesh Vaswani
Charles Miller Smith
Lalita D. Gupte

### Compensation cum Board Governance Committee

Dr. Ashok Ganguly, Chairman
K. P. Balaraj
Charles Miller Smith
Shailesh J. Mehta

### Investors' Grievance Committee

Dr. Ashok Ganguly, Chairman
Ananda Mukerji
Dinesh Vaswani

# message from the **chairman**

The past year was another eventful one for Firstsource. The Company's topline growth has been impressive and the acquisition of MedAssist was a high point, and has helped Firstsource become a stronger BPO company. However, due to the sub prime crisis in the US and the slow-down in the world economy, business conditions were far more challenging compared to the previous year. Under the circumstances, the Company's executive leadership has done a commendable job of steering Firstsource's operations successfully and strengthening it further. The growth of the Company's domestic BPO business is noteworthy.

The economic environment is, and will continue to be, uncertain, at least, during 2008-09. In India, the high rate of inflation and a depreciating rupee are cause for concern to people in general and the business community in particular. In spite of these difficult circumstances, Firstsource is now better equipped to deal with business challenges and to continue to grow aggressively and profitably.

On behalf of the Board, I wish to record appreciation for the continued support Firstsource has received from its shareholders.

Last but not the least, the Board compliments Ananda Mukerji and his management team for their dedication and commitment to achieve Firstsource's growth and profitability targets and thanks every employee of the Company for their contribution.

> "The Company's topline growth has been impressive and the acquisition of MedAssist was a high point, and has helped Firstsource become a stronger BPO company."

A S Ganguly

**A S Ganguly**

# message from the **md & ceo**

The year in review has seen major changes in the macro economic environment. The crisis in the US sub prime mortgage industry has had wide ramifications not just in the US but across the world with banks and financial institutions having to take large write offs on their mortgage related portfolios. The credit environment has worsened leading to increased defaults in loans and credit cards and globally growth has slowed down with the US at near recessionary conditions. Rapid and, at times, unprecedented interventions by Central banks have ensured that the stability of the financial system has been maintained but opinions differ as to how long it would take for the growth outlook to turn positive again. Closer home, there was a sharp appreciation of the rupee against the dollar by almost 10% with corresponding negative impact on all export oriented industries.

While the Indian BPO industry cannot be immune to these changes, I am pleased that in spite of these challenges your Company has been able to stay on its path of consolidating its position as one of the leading BPO companies in India and strengthening its proposition in its key markets. During the year, total income grew by nearly 60%, Operating Earnings Before Interest and Tax (EBIT) by nearly 40% and Profit After Tax (PAT) by 35%. Your Company also joined a select group of Indian companies to cross Rs. 1,000 crores in turnover. With over 17,000 employees and 36 delivery centers across the world your Company is now well established as one of the top BPO companies in India.

As I mentioned in my message last year, we have focused on three industry verticals – BFSI, Telecommunications and Media and Healthcare and are constantly evaluating how we can widen and deepen our service offerings to our customers in these industries. During the year we took a major step in expanding our service offering to the Healthcare industry with the acquisition of MedAssist Inc in August 2007. This acquisition allows us to expand our footprint in the healthcare industry from the payor segment where we already have a presence, to the provider segment comprising hospitals and physician groups. Healthcare is the largest industry in the US with expenditure projected to reach US $4 trillion or a staggering 27.3% of the US GDP by 2015 and presents a huge opportunity to BPO companies. Of this hospital care alone is a US $700 billion industry with administrative

"I am pleased that in spite of challenges your Company has been able to stay on its path of consolidating its position as one of the leading BPO companies in India and strengthening its proposition in its key markets."

costs estimated at 14% or US $100 billion. MedAssist with a wide service offering and over 800 hospitals as clients positions us strongly in this market segment. We believe there are significant opportunities to capture synergies both in service offerings as also in costs which would create value for the Company. With this acquisition your Company today has probably the widest service offering among any BPO company in India to the healthcare industry ranging from enrollment services, mailroom services, claims processing, to claims adjudication on the payer side and from patient services, eligibility services, receivables management to collections on the provider side. One of the significant advantages about this industry is that it is inherently insulated from recessionary trends and we believe that this vertical would be a strong engine for growth for your Company.

Our major markets have been North America and United Kingdom and these continue to grow both from existing programs and new clients. New business from existing clients on the back of high quality service has always been a major contributor to growth and this year has been no exception. 16 out of the top 20 clients of the Company grew their business and excluding the revenues form MedAssist, existing clients accounted for 97.8% of our revenues for the year. In addition to existing markets, your Company constantly looks at other markets to diversify into. During the last year we saw the growing opportunity in the Indian domestic market, particularly in BFSI and telecommunications, and decided to increase our attention there. This required investment in setting up operations in new locations as also creating new service offerings for the market. Revenues from this geography has jumped from 3.8% in fiscal 2007 to 10.8% in fiscal 2008. We are one of the early movers into this market and believe this will be another important engine of growth in the future.

Your Company made several important initiatives in human resource practices, operational excellence and innovations in technology. In human resources one of the big focus area continues to be leadership development and we have now instituted a Leadership Competency Framework which is designed to identify, create and nurture outstanding professionals at every level in the Company. Our Operational Excellence practice has always been an important differentiator for the Company and I am happy that this has now received external endorsement with five international awards from the International Quality and Productivity Center (IQPC). One of our programs was chosen as the Outsourcing Project of the year in the Telecommunications Category by the National Outsourcing Association (NOA), UK. On technology we continue to ensure that we adopt cutting edge technology to deliver the best service to our customers at the lowest cost. We became one of the first BPO companies to adopt the ISO 20000 standard for IT service management and ISO 27001 for Information security management as also one of the early adopters of the desktop virtualization technology.

The BPO industry is still at a relatively nascent stage with the offshore penetration estimated at less than 5% of its potential and a lot of growth opportunities ahead. The size and scale your Company has established, its well diversified business, global delivery model, long standing client relationships, strong and motivated management team, talented workforce and the strong foundations of operational excellence across People, Process and Technology positions us well to take advantage of the huge opportunities in the coming years. The current year is likely to see negative macroeconomic trends and, subdued global growth rates and pressures in some of business segments. However, we believe the fundamentals of outsourcing and offshoring continue to be very strong and we are confident that we will be able to successfully overcome the short-term challenges while positioning the Company for long-term growth.

**Ananda Mukerji**

# key milestones

## 2001

**December**
ICICI Bank sets up Firstsource Solutions Ltd as ICICI Infotech Upstream Limited

## 2002

**April**
Change of name to ICICI OneSource Limited

**May**
Acquisition of Customer Asset India Private Limited

## 2003

**March**
First company to be awarded COPC certification for both voice and back-office processes

**May**
First Indian BPO company to achieve British Security Standard, BS 7799, for information security

**July**
Acquisition of First Ring Incorporated, USA

WestBridge Capital Partners, now managed by Sequoia Capital Partners, invests in the Company

**November**
Crossed Rs. 1,000 million in annual revenues

## 2004

**July**
Acquisition of majority stake in Pipal Research Corp., USA

**August**
Aranda Investments (an affiliate of Temasek Holdings) invests in the Company

**September**
Acquisition of Accounts Solutions Group LLC.

## 2005

**March**
Acquisition of RevIT Systems Private Limited

## 2006

**March**
Strategic partnership with Metavante Corporation

Crossed Rs. 5,000 million in annual revenues

**July**
Started operations in Northern Ireland

**October**
Started operations in Argentina

**November**
Change of name to Firstsource Solutions Limited

**December**
Acquisition of Business Process Management (BPM) Inc.

## 2007

**February**
IPO and successful listing on Indian stock markets

**March**
Expanded Indian operations in Tier II cities

**September**
Started operations in Philippines

Acquisition of MedAssist Holding, Inc.

**December**
Successfully completed FCCB issue of USD 275 million

## 2008

**March**
Crossed Rs. 1,000 crore (Rs. 10,000 million) in Turnover and Rs. 100 crore (Rs. 1,000 million) in Net Profits

# highlights of **fiscal 2008**

- Achieved total income growth of 59%. Crossed Rs.1,000 crores in revenue.

- Acquired MedAssist Inc., the largest provider of revenue cycle management services to hospitals in the US. This provides the Company with a comprehensive offering for the healthcare industry in the US for both payor and provider segments.

- Continued to diversify business with revenues from the Asia-Pacific region, including India increasing to 10.8% of the Company's income from services as compared to 3.8% in the previous year.

- Completed a US $275 million zero coupon Foreign Currency Convertible Bonds issue, the proceeds of which were utilised to retire the loan taken for the MedAssist acquisition. The bonds are convertible at a price of Rs. 92.2933 per share at the option of the bondholder at any time from January 14, 2008 up to November 23, 2012.

- Expanded global delivery capability by opening operations in Manila, Philippines and also centers in Salt Lake City and Colorado Springs in the USA.

- Became one of the top 1,000 companies in the world to adopt desktop virtualization, a cutting-edge technology solution that increases security of data, improves availability and cuts technology costs.

- Won five awards for Six Sigma Excellence from the International Quality & Productivity Center (IQPC).

- Continued thrust on best-in-class quality standards.
  - During the year the Company's Kolkata, Belfast and Londonderry centers got ISO 27001 certified.
  - MedAssists' Eligibility services, Receivables Management Services, Healthcare Collections services and the MedAssist Advantage Plan (MAP™) were peer reviewed by the Healthcare Financial Management Association (HFMA). Peer Review consists of a rigorous evaluation by a peer review panel consisting of current customers, prospective customers and HFMA members. Products and services that earn the 'HFMA Peer Reviewed' designation have demonstrated their value, marketplace acceptance and effectiveness and accuracy as a business solution.

- Achieved employee strength of over 17,000 as at March 31, 2008.

# financial highlights

## Consolidated Financial Performance

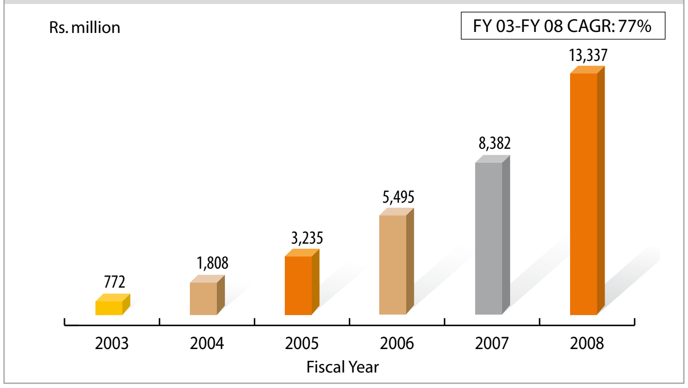
| Rupees million, except per share data | Fiscal 2008 | Fiscal 2007 | Growth |
|---|---|---|---|
| Revenue from operations | 12,988 | 8,310 | 56% |
| Other income | 349 | 72 | 385% |
| Total income | 13,337 | 8,382 | 59% |
| Operating EBITDA (Earnings before Interest, Tax and Depreciation) | 2,309 | 1,656 | 39% |
| Operating EBIT (Earnings before Interest and Tax) | 1,449 | 1,015 | 43% |
| Profit before tax | 1,432 | 1,026 | 40% |
| Profit after tax | 1,316 | 973 | 35% |
| Earnings per share (EPS) - Basic | 3.09 | 3.67 | -16% |
| Earnings per share (EPS) - Diluted | 2.83 | 2.50 | 13% |

## Consolidated Financial Position

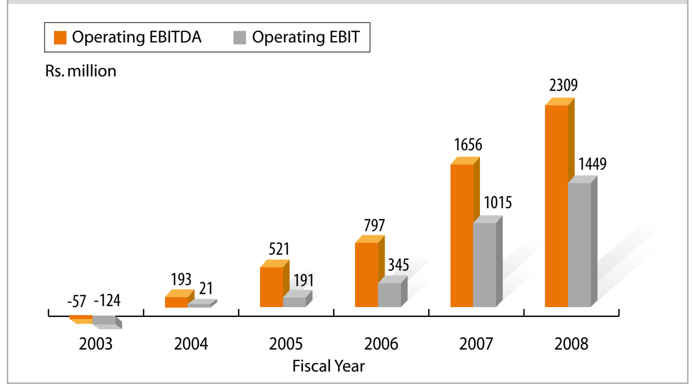
| Rupees million | Fiscal 2008 | Fiscal 2007 |
|---|---|---|
| Goodwill | 18,880 | 5,419 |
| Fixed assets | 2,226 | 1,802 |
| Investments | 221 | 1,153 |
| Net current assets * | (1,523) | 4,312 |
| Deferred tax asset | 185 | - |
| **Application of funds** | **19,989** | **12,686** |
| Shareholders funds * | 7,400 | 10,666 |
| Minority interest | 37 | 43 |
| Loan funds | 12,552 | 1,976 |
| Deferred tax liability | - | 1 |
| **Source of funds** | **19,989** | **12,686** |

* Foreign Currency Convertible Bonds issued by the Company in fiscal 2008 are treated as monetary liability and the premium payable on redemption is charged to Securities premium account under Shareholders funds and reflected as provisions under net current assets.

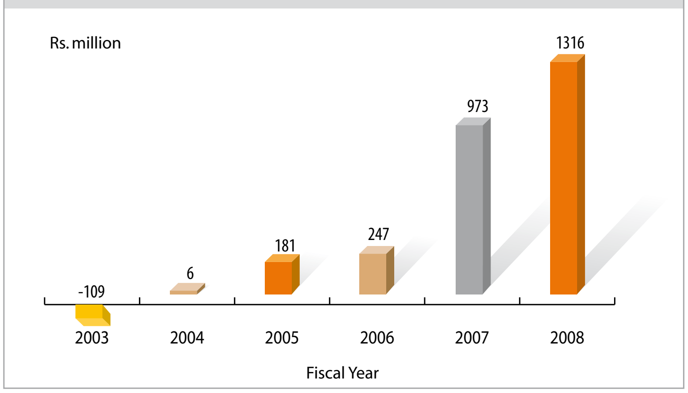
## Total Income



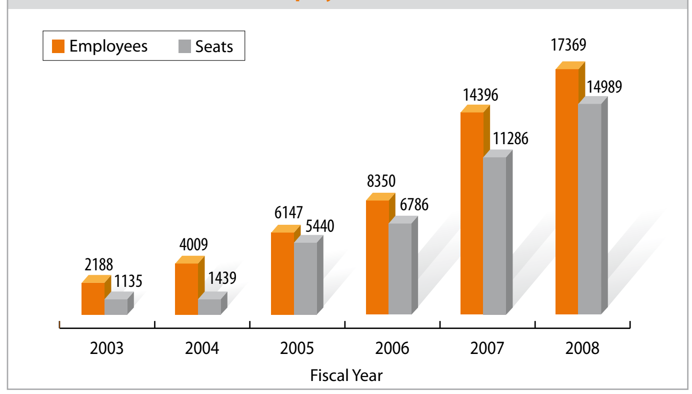

## Operating EBITDA and Operating EBIT



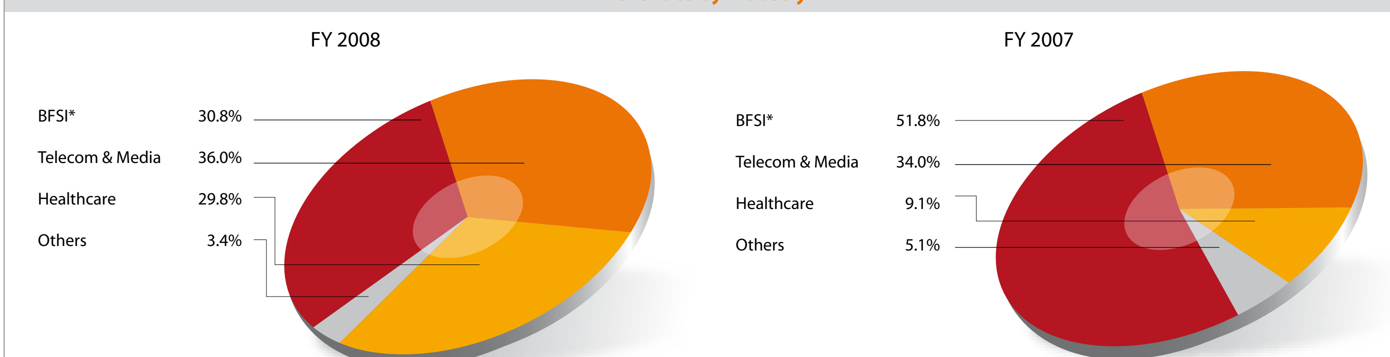

## Profit After Tax




## Employees, Seats

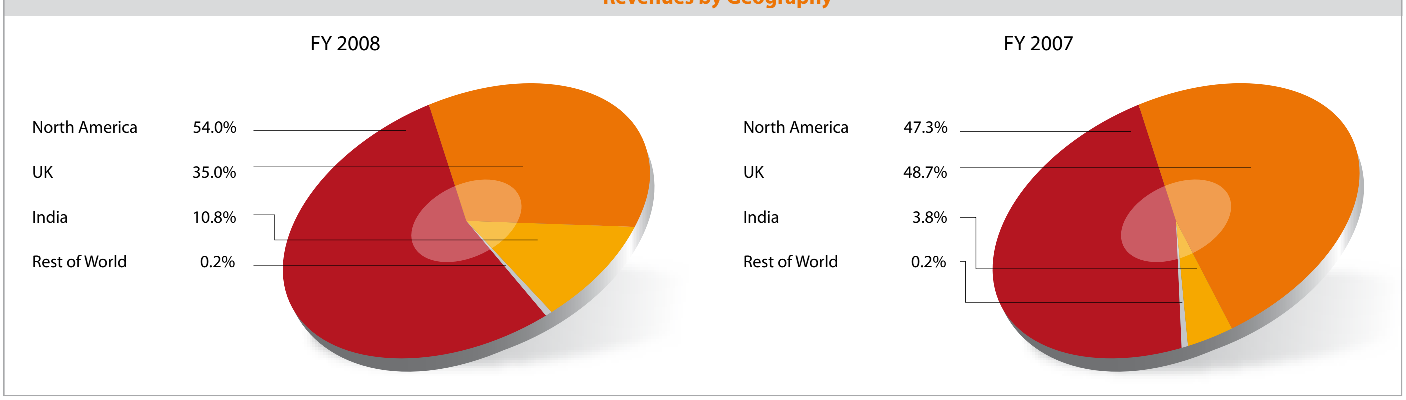



## Revenues by Industry




* Banking, Financial Services and Insurance

## Revenues by Geography



# awards and accolades of fiscal 2008

Over the years, Firstsource has won awards and received industry recognition. Needless to say our employees, consultants and our clients have had a huge role to play in every one of these achievements. Some of the awards and accolades received in fiscal 2008 are:

- Ranked among the top 10 BPO companies by NASSCOM.
- Winner of the National Outsourcing Association (NOA) award for the 'Best Telecom Outsourcing Project.'
- Winner of the 'Offshore Agency of the Year' award from a leading financial services client in the U.S in the collections vertical.
- First pure-play BPO company in the world to obtain ISO 20000 (IT service management) certification.
- Winner in the 'Best Defect Elimination in Services & Transaction' category at the IQ Six Sigma Excellence awards held in Singapore.
- Winner in the 'Best Design for Six Sigma' category at the IQ Six Sigma Excellence awards held in Singapore.
- Winner in the 'Best Defect Elimination in Services & Transaction' category at the IQ Six Sigma Excellence awards held in London, UK.
- Winner of the runners-up award in the DMAIC Services Category at SCMHRD – Sakaal Lean and Six Sigma Excellence Awards '07 for a project undertaken for a FTSE 250 telecom company in the UK.
- Honorary mention in the 'Best Six Sigma Deployment Leader' category at the IQ Six Sigma Excellence awards held in Orlando, US.
- Notable mention in the 'Best Six Sigma Project in Services & Transaction' category at the IQ Six Sigma Excellence awards held in Orlando, US.

NOA Award, UK


IQPC Awards, Singapore


IQPC Awards, Orlando US


Firstsource Team with Jack Welch – IQPC Awards, Orlando, US

# partnering with **clients**

We partner with our clients, leading global companies in three focus verticals, BFSI (Banking, Financial Services and Insurance), Telecoms & Media and Healthcare, helping them achieve greater operations flexibility, increased productivity and greater customer satisfaction in some of their core processes. Examples of the kind of results we achieve in each of these verticals follow.

## Banking, Financial Services and Insurance (BFSI)

**Client:**
Large UK bank.

**Firstsource Proposition:**
Firstsource enabled the client to increase capacity, improve operational flexibility and improve customer experience while reducing costs in its mortgage operations:

- Firstsource widened the recruitment network and increased access to manpower through dual location operations. This reduced time to scale up operations, reduced hiring timelines and improved quality of talent.

- Firstsource implemented various process improvements by using a blend of Lean and Six Sigma methodology. This led to higher levels of efficiency, Turn Around Times (TAT) and accuracy.

- Firstsource established Standard Operating Procedures (SOPs) which helped the bank to consistently achieve error rates within one-tenth of the target rate and reduce the number of customer complaints from 30 a week to 8 a week.

- Created online training tools improving advisor productivity by over 20%

- Increased productivity and capacity utilisation of the operations by 60% helping the bank to absorb additional work not originally planned within the same program.

**Business impact:**
This partnership improved the bank's ability to launch new products in a speedier timeframe and add new customer segments without any degradation to its service levels and profit margins.

**Client Speak**

"As a result of its partnership with Firstsource, the bank was able to surpass its goals, saving an estimated 40% of the original costs and push its operational efficiencies to a new level. This was achieved through commitment and great teamwork across our business, and I'd like to thank you all for the part you played"

*- Mortgage Director, UK*

### *Banking. Financial Services. Insurance*

RETAIL BANKING, MORTGAGE, CREDIT CARDS, CUSTODY, GENERAL AND LIFE INSURANCE

**30.8%** of Revenues

**5000** employees

SERVICES :
- Account enquiries and fund transfers
- Check, remittance and item processing
- Mortgage origination, servicing and underwriting
- Card activations and authorizations
- Lost and stolen card reissuance
- Insurance application processing and quotation requests
- Policy amendments and cancellations
- Middle and back office processes for debt and forex trade
- Custody operations & fund services
- Early and late stage collections
- Research and analytics

## Telecommunications. Media

FIXED LINE, MOBILE, WIRELESS, BROADBAND / NARROWBAND, DIRECT TO HOME, SATELLITE TELEVISION

**36.0%** of Revenues

**9000** employees

SERVICES :

- New orders and disconnects
- Order provisioning and fulfillment
- Billing support
- Customer service and dispute resolution
- Customer retention and churn management
- DTH technical support
- Fraud monitoring and prevention
- Early and late stage collections
- Research and analytics

## Telecommunications and Media

**Client:**

Leading UK Mobile Telecom company.

**Firstsource Proposition:**

Firstsource undertook an objective review of the client's customer service processes. The aim was to identify improvements that could be rolled out as best practices to all customer service centers - both in-house and outsourced. Firstsource implemented a multilevel solution to address the key issues and identified the following areas for improvements:

- Streamlined and reconfigured the client's call management system helping the Company to address customers faster and increased capacity.
- Increased average productivity per employee by allowing agents to use custom built web-based tools that dramatically reducing the time it took to address each customer complaint.
- Optimised the technology platform to improve customer access to an agent.
- Developed front-end applications to enable agents to access the client's knowledge management system faster and more efficiently, improving speed and customer satisfaction.

**Business impact:**

Our process improvement measures reduced cost to serve customers, thereby increasing client's profitability. Our technology improvements ensured speedier resolution of customer calls, increasing customer satisfaction and sales contributing significant additional revenue for the client.

**Client Speak**

"We have worked very closely with Firstsource and established a real working partnership that is delivering excellent service to our customers. This has been substantiated by the excellent results that Firstsource has achieved in our Real Time Customer Satisfaction Surveys. Firstsource has quickly established itself within our outsourced estate and become a valuable part of our customer services operation".

*- Head, Outsourcing Strategy*

## Healthcare

INSURANCE COMPANIES, THIRD PARTY ADMINISTRATORS, HOSPITALS, PHYSICIAN GROUPS

**29.8%** of Revenues

**3000** employees

SERVICES :

- Enrollment services
- Mailroom services
- Claims processing
- Claims adjudication
- Front-end patient services
- Eligibility services
- Receivables management
- Collections

## Healthcare

**Client:**
Large US insurance company.

**Firstsource Proposition:**
Firstsource improved the client's claims settlement process by making the auto adjudication claims settlement mechanism more efficient through improvements in upstream quality by undertaking the following initiatives:

- Redesigned the work flow to increase information capture leading to reduction in non-keyable claims
- Created a knowledge portal for keying instructions and rules to facilitate information sharing across agents.
- Developed training modules with greater emphasis on cases and scenario analysis leading to better agent understanding of customer needs.
- Used proprietary defect tracker to track and analyze errors and prevent recurrence.
- Introduced a custom built feedback interface to capture and analyze reasons for claim rejection leading to reduction in errors.

**Business impact:**
Firstsource increased the overall efficiency in claims settlement by 2% resulting in faster, more efficient claims settlement resulting in higher end-customer satisfaction. By increasing accuracy of non-keyable classifications by 100% Firstsource effected an over 40% improvement in productivity of non-key processes.

**Global Recognition**

This Firstsource Initiative Won the second place in the Healthcare category in the International Quality and Productivity Centre (IQPC) 2007 Six Sigma awards.

# partnering with **employees**

At Firstsource, we believe it is the combined strength of our employee partners that creates business leadership. We focus on building an integrated, global community of motivated and innovative employees. Human Resources activities are aligned to business goals, guided by the Company's vision and consistent with its core values.

Values are fundamental to the Company's success. Our six values - Transparency, Integrity, Respect, People Centricity, Teamwork and Fun – form the foundation of the Company, define the team and set us apart.

**Innovative Recruitment:** Firstsource's reputation in the market-place as an exemplary place to work coupled with some path-breaking, innovative recruitment methods has helped us take on some extremely challenging assignments the world over:

- Today the Firstsource recruitment team has the impressive ability of recruiting over 1000 entry-level employees per month in India. This experience also stands us in good stead across geographies.

- Firstsource has developed innovative methods of recruitment such as SMS based recruitment and international award winning initiatives like the in-house Recruitment Call Center (RCC). Our internal Employee Referral Program is another hugely successful initiative and the RCC and referral program contributed 30% and 25% respectively of the number of employees hired in India in FY 2008.

- Firstsource continued to participate in B-School campus recruitment, with over 35 Management Trainees inducted. The Campus Ambassador Program (aimed at creating Firstsource ambassadors in college campuses), covered more than 158 Graduate level colleges, identified 40 Campus Ambassadors and recruited over 1,300 people.

**Transformation and Development:** A substantial amount of Training and Development is required before today's graduates can deliver to the exacting standards of the global BPO industry:

- In India, our Transformation and Development team delivered 25,71,088 hours of pre-process, process and refresher training during the year, which approximates 2,14,300 hours a month. A total of 12,361 people were successfully trained and delivered into operations during the year with an approximate 208 training man hours per employee.

- Creating Managers with the requisite domain expertise is a key requisite for our industry. Firstsource's internal academies like the Mortgage Academy and Healthcare Academy have been created to ensure that Firstsource managers are knowledgeable about client businesses, processes and industry dynamics.

- Firstsource deployed a new technology tool called 'SmartStart' to help with new hire training and knowledge management. The technology tool was deployed across 33 processes in India, Argentina and Philippines.

- Last year also saw the launch of an Associate Development Program called 'Aspire', which was conducted for high potential and tenured associates. A total of 400 associates were trained through this Program.


**Leadership & Management Development (LMD):** The rapid growth and increasing scale of our industry and Firstsource in particular generates a constant demand for leaders at the mid to senior levels. Our Leadership & Management Development function is designed to fulfil as much of the demand as possible from internal resources:

- Firstsource's LMD team delivered 250 programs during the course of the year with 80% of the workshops facilitated by in-house executives. The programs focused on operations excellence, six sigma training, retention skills, inter-personal skills and leadership development.

**Employee Engagement and Retention:** Companies need to constantly evolve to meet the legitimate aspirations and expectations of its employees. Firstsource has created special teams for Employee Engagement & Retention within the HR function which focuses on managing talent by enhancing the emotional bond between the Company and its employees:

- Our performance management process (ACE - Achieve, Challenge, Enable) helps to sustain a touch point with employees. The process is transparent and participative fostering an atmosphere of open, ongoing, two-way communication between managers and teams.

- We have well established communication channels such as the Company newsletter, 'The Source', the Intranet, an annual Open House with the CEO as well as skip-level meetings, tête-à-têtes and Employee Advisory Councils (EAC).


- We run employee engagement initiatives like 'Rags Analysis' - an early warning tool to predict and combat attrition, 'Footprints' – an alumni forum to attract back the best talent and build brand ambassadors and 'Fun@work' initiatives to build a joyous environment.

- Our Rewards and Recognition programs recognize performance like highest sales, highest productivity, etc. on daily, weekly and monthly basis.

## Future Ready

**Leadership Competency Framework:** During the year we proudly launched our Competency Framework, 'The Firstsource Spirit' at the end of 2007. The framework will help the organization to identify, create and nurture outstanding professionals at every management level. The competency framework was integrated into the 360 degree feedback process to provide structured and in-depth feedback on behavioural competencies.

Firstsource also initiated the implementation of a new Human Resource Information System (HRIS) which will go 'live' in financial year 2009.

The values etched in our employees act as their guiding principles and have shaped our culture. A unique culture where they can learn, grow, contribute, celebrate and belong. We believe this uniqueness will be key to enhancing the quality of the professional and personal lives of employees and will ensure our continuing business leadership.

# partnering with **communities**

Firstsource's social initiative in India called **LABS (Livelihood Advancement Business School)** has pledged to empower 1,400 disadvantaged youth with the education and training to get jobs in sectors such as BPO, Hospitality, Retail, as Office Assistants and the like. 1000 youth have already passed out of the LABS program and 800 have found jobs. 100 youth have been absorbed within the Firstsource structure.

In the UK, Firstsource employees in Belfast and Londonderry partner with local hospice's the Northern Ireland Hospice and the Foyle hospice respectively helping raise funds to help better the quality of life of patients, supporting their families, focusing not only on physical care but also on the need for emotional, social and spiritual support.

Employees in UK also support environmental initiatives and help local organisations in offsetting their carbon footprint by planting trees.

### Employee - NGO Partnerships

We are proud of the volunteering spirit that we have built which goes beyond financial aid. The Firstsource volunteering program, called Dreamsource, is an integral feature of our LABS initiative and is structured around the needs of the NGO beneficiaries. Our employees volunteer on weekends to teach Project Management, basics of Quality & Customer Services, Communication, Telephone Etiquette etc. based on detailed discussions with NGO partners, keeping in mind the gaps in their skills and what the volunteers can deliver.

One of our NGO partners has felicitated us with an award as a token of their appreciation of the value we have added to them and for our support over a period of 2 years. Though, we have won several awards globally we truly hold this relatively unknown award very close to our hearts.

### Online Partnerships

Our employees in India, UK and in the US are encouraged to participate in the payroll giving programs through which employees can donate a small amount from their salary every month to a cause of their choice. In India we have associated with GiveIndia, in the US with United Way and in the UK with an organization called Payroll giving in Action, part of the SouthWest Charitable Giving Group.


# DIRECTORS' REPORT

Dear Members,

The Directors take great pleasure in presenting their Seventh Annual report on the business and operations of the Company and the audited financial statements for the year ended March 31, 2008.

## FINANCIAL RESULTS

The performance of the Company for the financial year 2007-08 is summarised below:

(Rs. in million)

| Particulars | Consolidated | | Standalone | |
|---|---|---|---|---|
| | **Fiscal 2008** | Fiscal 2007 | **Fiscal 2008** | Fiscal 2007 |
| **Total Income** | **13,337.2** | 8,382.1 | **5,046.9** | 4,392.7 |
| Operating Profit Before Interest and Depreciation | **2,658.7** | 1,728.3 | **1,124.8** | 1,178.7 |
| Interest | **366.0** | 60.5 | **123.2** | 3.6 |
| Depreciation | **860.8** | 641.4 | **532.8** | 412.5 |
| **Profit Before Tax** | **1,431.9** | 1,026.4 | **468.8** | 762.6 |
| Provision for Taxation (including Deferred Tax Charge/Credit) | **126.5** | 60.2 | **(107.6)** | 19.8 |
| **Profit After Tax Before Minority Interest** | **1,305.4** | 966.2 | **576.4** | 742.8 |
| Minority Interest | **(10.2)** | (6.3) | **–** | – |
| **Net Profit After Tax** | **1,315.6** | 972.5 | **576.4** | 742.8 |
| Balance Brought Forward | **1,296.9** | 324.4 | **884.2** | 141.4 |
| Appropriations | **5.4** | – | **–** | – |
| Accumulated Balance in Profit & Loss Account | **2,607.1** | 1,296.9 | **1,460.6** | 884.2 |
| Earning Per Share (Rs.) – Basic | **3.09** | 3.67 | **1.35** | 2.80 |
| Earning Per Share (Rs.) – Diluted | **2.83** | 2.50 | **1.24** | 1.91 |

## RESULT OF OPERATIONS

The consolidated total revenue increased from Rs. 8,382.1 million to Rs. 13,337.2 million, a growth of 59.1% over the previous financial year. The consolidated Net Profit After Tax increased from Rs. 972.5 million to Rs. 1,315.6 million, a growth of 35.3 % over the previous financial year.

The standalone total revenue increased from Rs. 4,392.7 million to Rs. 5,046.9 million, a growth of 14.9% over the previous financial year. The standalone Profit After Tax decreased from Rs. 742.8 million to Rs. 576.4 million, down by 22.4% over the previous financial year. The decline in Net Profit is mainly on account of mark to market loss on Foreign Currency Convertible Bonds (FCCBs) and foreign currency loans amounting to Rs. 218.9 million in fiscal 2008 as compared to gain of Rs. 2.2 million in fiscal 2007 and higher depreciation of Rs. 532.8 million in fiscal 2008 as compared to Rs. 412.5 million in fiscal 2007 due to setting up of new delivery centers.

Given the growth requirements of the business, it is necessary for the Company to plough back its profits into the business, and hence the Directors do not recommend any dividend for fiscal 2008.

## INCREASE IN SHARE CAPITAL

During the year under review, 2,228,668 equity shares of the face value of Rs. 10 each were issued under the Employee Stock Option Schemes of the Company. As on March 31, 2008, the equity share capital stood at Rs. 4,273,129,640 divided into 427,312,964 equity shares of Rs. 10 each.

## STRATEGIC ACQUISITION - MEDASSIST HOLDING, INC.

During the year, the Company acquired MedAssist Holding, Inc. (MedAssist) along with its subsidiaries. MedAssist is a leading provider of revenue cycle management services to the healthcare provider industry in USA. The purchase consideration was US $ 332.8 million. MedAssist has a leading market presence and is one of the largest players providing revenue cycle management services to the Healthcare industry with a strong management team, broad and integrated service offerings, long standing client relationships and a good financial profile. The Company believes that there are significant opportunities which would create value for the Company in the long run.

## ISSUE OF FOREIGN CURRENCY CONVERTIBLE BONDS

During the year, the Company concluded the issue of US $ 275 million zero coupon Foreign Currency Convertible Bonds (FCCBs). Proceeds from the FCCBs issue were utilized to subscribe to the shares of Firstsource Solutions USA, Inc., wholly owned subsidiary of the Company, with the end use to repay the debt taken for acquisition of MedAssist. The bonds have a maturity of 5 years and 1 day. The bonds are convertible at any time into equity shares of the Company from January 14, 2008 upto November 23, 2012, at the option of the holders, at Rs. 92.2933 per equity share, representing a conversion premium of 35% over the reference share price.

There will be an increase of 117,010,135 equity shares in the share capital of the Company, if all the bonds get converted into equity shares. If not converted, the bonds would be redeemed on December 4, 2012 with a yield to maturity of 6.75% per annum. The bonds are listed on Singapore Exchange Securities Trading Limited.

## GLOBAL DELIVERY FOOTPRINT

The Company on a consolidated basis has increased the number of its global delivery centers from 24 as of March 31, 2007 to 36 as of March 31, 2008. The centers are located across India, USA, UK, Argentina and Philippines. 17 of the Company's delivery centers are located in 11 cities in India, 15 are in the USA (including seven operational hubs of MedAssist), 2 are in the UK, 1 is located in Argentina and 1 is located in Philippines. The Company's established global delivery footprint enables it to deliver a wide range of services and deepen relationships with existing customers.

## QUALITY INITIATIVES

The Company follows the global best practices for process excellence and is certified by COPC (Customer Operations Performance Center). The Company's delivery center at Bangalore has been recertified with ver 4.0 COPC-2000®, Customer Service Provider (CSP) base standard for its customer service and back office capabilities. The Company also follows Process Improvement methodologies like Six Sigma, Lean and Kaizen.

## AWARDS AND ACCOLADES

The Company received the following awards and accolades during the year:

- Secured first position in the 'Best Defect Elimination in Services & Transaction' category at International Quality and Productivity Center (IQPC) Six Sigma Excellence Awards, London.
- Secured first position in the 'Best Defect Elimination in Services & Transaction' category and 'Best Design for Six Sigma' category at IQPC Six Sigma Excellence Awards, Singapore.
- Secured second position in the 'Best Six Sigma Deployment Leader' category and third position in the 'Best Six Sigma project in Services and Transaction' category at IQPC Six Sigma Excellence Awards, Orlando, USA.
- 'Telecommunications Outsourcing Project of the Year' for its work with a leading telecom Company in UK from National Outsourcing Association ( NOA), UK.
- 'Offshore Agency of the Year' from a leading financial services client in USA in Collections.
- Runners up in Define Measure Analyze Improve Control ( DMAIC) – Services category at Symbiosis Centre for Management & Human Resource Development (SCMHRD) – Sakaal Lean & Six Sigma Excellence Awards '07.

## HUMAN RESOURCES

On a consolidated basis, the Company has grown from 14,396 full-time employees as of March 31, 2007 to 17,369 employees as of March 31, 2008. 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 under 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 upto the date of the forthcoming Annual General Meeting (AGM).

## PUBLIC DEPOSITS

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

## DIRECTORS

Dr. Ashok Ganguly, Mr. Charles Miller Smith and Mr. Y. H. Malegam retire by rotation at the forthcoming AGM and are eligible for re-appointment. The Board recommends their re-appointment as Directors at the forthcoming AGM.

Mr. Dinesh Vaswani, Mr. Donald W. Layden Jr. and Mr. K. P. Balaraj are the Nominee Directors appointed on the Board of the Company by Aranda Investments (Mauritius) Pte. Limited (Aranda), Metavante Investment (Mauritius) Limited (Metavante) and Westbridge Ventures I Investment Holdings (Westbridge) respectively. As per Share Subscription Agreements and Amended and Restated Shareholders Agreement (Agreement) among the Company and Aranda, Metavante Corporation, Westbridge and Western India Trustee & Executor Company Limited 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 Agreements would get terminated upon successful completion of Initial Public Offer (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. The rights of parties to the aforesaid agreements stood terminated on successful completion of IPO on February 22, 2007, except the rights of Aranda and Metavante, which stood terminated on February 22, 2008. As the rights pursuant to the aforesaid Agreements and the Articles of Association of the Company have ceased, shareholders approval under section 257 of the Companies Act, 1956 is required to continue them as Directors of the Company. Keeping in view their expertise, experience and knowledge, the Board considers it desirable to continue to avail their services. The Company has received notices along with the requisite deposit pursuant to section 257 of the Companies Act, 1956, proposing their appointment at the forthcoming AGM of the Company. The Board recommends their appointment as Directors.

## 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 for the financial year ending March 31, 2009 at a remuneration to be decided by the Board of Directors or Committee thereof, as set out in the Notice convening the meeting. The Company has received written confirmation from M/s. BSR & Co., to the effect that their appointment, if made, will be within the limits of section 224(1B) of the Companies Act, 1956.

## EMPLOYEES STOCK OPTION SCHEME

With a view to provide an opportunity to the employees of the Company to share the growth of the Company and to create long term wealth, the Company has an Employees Stock Option Scheme (ESOS), namely, the Firstsource Solutions Employees Stock Option Scheme, 2003 (ESOS 2003). The earlier ESOS introduced in 2002 is in force for the limited purpose of exercise of options granted pursuant to the scheme.

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 set below:

| Sr. No. | Description | ESOS 2003 |
|---|---|---|
| 1. | Total number of options under the Plan | 94,970,712 |
| 2. | Options granted during the year 2007-2008 | 42,982,712 |
| 3. | Pricing formula | The 'Pricing formula' or 'Exercise Price' for the purpose of the grant of Options shall be the 'market price' within the meaning set out in the SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 i.e., the latest available closing price, prior to the date when options are granted/shares are issued, on that Stock Exchange where there is highest trading volume on the said date. The Compensation Committee has the power to change/modify the exercise price or pricing formula and fix the exercise price at such discount to the market price of the equity shares as may be deemed appropriate provided that the grant/exercise price shall not be below the face value of the shares and shall be in accordance with the applicable laws in this regard. |
| 4. | Options vested during the year 2007-2008 | 6,510,344 |
| 5. | Options exercised during the year 2007-2008 | 1,998,168 |
| 6. | Total number of shares arising as a result of exercise of options during the year 2007-2008 | 1,998,168 |
| 7. | Options lapsed during the year 2007-2008 | 2,237,193* |

| Sr. No. | Description | ESOS 2003 |
|---|---|---|
| 8. | Variation of terms of options during the year 2007-2008 | **Amendment to the scheme at AGM on August 14, 2007.**<br>a) Name of 'ICICI OneSource Employee Stock Option Scheme 2002' changed to 'Firstsource Solutions Employee Stock Option Scheme 2002' and 'ICICI OneSource Employee Stock Option Scheme 2003' changed to 'Firstsource Solutions Employee Stock Option Scheme 2003'.<br>b) The maximum number of options granted/ to be granted to all eligible employees increased to 12% of the issued equity share capital of the Company on a fully diluted basis i.e. upto 56,341,517 options.<br>c) The Board was authorised to re-issue the stock options which are cancelled/lapsed/forfeited under any of the Employee Stock Option Schemes of the Company.<br>d) 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.<br>**Amendment to the Scheme at Extraordinary General Meeting (EGM) on November 22, 2007.**<br>a) The maximum number of options granted/to be granted to all eligible employees increased from 12% to 20% of the equity share capital of the Company on a fully diluted basis.<br>Pursuant to the above, the stock option pool has increased by 46,950,858 options (i.e. from the existing pool of 56,341,517 options to 103,292,375 options (net of stock options cancelled, lapsed and forfeited).<br>b) The Compensation Committee will be entitled, as is the case presently, to determine the criteria for vesting. Such discretion includes imposing criteria for vesting that is linked to the performance of the concerned employee and/or the Company.<br>c) The Compensation Committee was empowered to accelerate vesting of the options on certain events including death, permanent disability, termination, retirement or (only for Executive Directors and/or senior management members), a change of control of the Company.<br>d) Issue and allotment in the year 2007, 9,296,314 options each to Mr. Ananda Mukerji, Managing Director & CEO and Mr. Raju Venkatraman, Joint Managing Director & COO, constituting 1.8 % each of the equity share capital of the Company on a fully diluted basis and in the year 2008, 6,197,542 options each to Mr. Ananda Mukerji, Managing Director & CEO and Mr. Raju Venkatraman, Joint Managing Director & COO, constituting 1.2 % each of the equity share capital of the Company on a fully diluted basis, under the ESOS Scheme. |
| 9. | Money realised by exercise of options during the year 2007-2008 ( Amount in Rs.) | 33,703,637 |
| 10. | Total number of options in force | 71,830,978 |

| Sr. No. | Description | ESOS 2003 | | |
|---|---|---|---|---|
| 11. | Employee wise details of options granted to: | | | |
| | i) Directors and Senior Management during the year 2007-2008 | Ananda Mukerji | | 15,493,856 |
| | | Raju Venkatraman | | 15,493,856 |
| | | Michael Shea | | 1,200,000 |
| | | Matthew Vallance | | 1,000,000 |
| | | Rajesh Subramaniam | | 700,000 |
| | | Sanjiv Dalal | | 700,000 |
| | | Aashu Calapa | | 500,000 |
| | | Chandra Iyer | | 500,000 |
| | | Frank Stellato | | 500,000 |
| | | Thomas Watters | | 500,000 |
| | | Rahul Basu | | 350,000 |
| | | Sanjeev Sinha | | 300,000 |
| | | John Ardy | | 300,000 |
| | | Santanu Nandi | | 200,000 |
| | ii) Any other employee, who has been granted options amounting to 5% or more of options granted during the year 2007-2008. | 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 2007-2008. | Name of the Directors/ senior management personnel | No. of options granted | ( % ) of the equity share capital of the Company on a fully diluted basis |
| | | Ananda Mukerji | 15,493,856 | 3% |
| | | Raju Venkatraman | 15,493,856 | 3% |
| 12. | Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard (AS) 20- 'Earnings Per Share' | Standalone EPS - Rs. 1.24 per share<br>Consolidated EPS - Rs. 2.83 per share | | |
| 13. | Where the Company has calculated 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. The impact of this difference on profits and on EPS of the Company. | Please refer to schedule no. 20 of the Financial Statements | | |
| 14. | Weighted average exercise price and weighted average fair value of options separately for options whose exercise either equals or exceeds or is less than the market price of the stock. | Weighted average exercise price – Rs. 44.97 per option.**<br>Weighted average fair value as per the Black Scholes Model – Rs. 15.73 per option. | | |
| 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:<br>a) risk free interest rate<br>b) expected life<br>c) expected volatility<br>d) expected dividends and<br>e) the price of the underlying share in market at the time of option grant | Please refer to schedule no. 20 of the Financial Statements | | |

* The stock options which are cancelled/lapsed/forfeited can be re-issued by the Company.

** Prior to the Initial Public Offering (IPO), the Company has granted options to employees at the fair market value, as certified by an independent valuer. Post IPO, the exercise price of the options granted equals the market price of the stock i.e. the latest available closing price, prior to the date when options are granted/shares are issued, on that Stock Exchange where there is highest trading volume on the said date.

**Information on ESOS 2002**

| Sr. No. | Description | ESOS 2002 |
|---|---|---|
| 1. | Total number of options under the Plan | 4,565,000 |
| 2. | Options granted during the year 2007-2008 | Nil |
| 3. | Options vested during the year 2007-2008 | Nil |
| 4. | Options exercised during the year 2007-2008 | 230,500 |
| 5. | Total number of shares arising as a result of exercise of option during the year 2007-2008 | 230,500 |
| 6. | Options lapsed during the year 2007-2008 | Nil |
| 7. | Variation of terms of options during the year 2007-2008 | Nil |
| 8. | Money realised by exercise of options during the year 2007-2008 ( Amount in Rs.) | 2,597,075 |
| 9. | Total number of options in force | 120,625 |

## SUBSIDIARY COMPANIES

As on March 31, 2008, the Company had 17 subsidiaries:

**Domestic subsidiaries:**

1. RevIT Systems Private Limited
2. Pipal Research Analytics and Information Services India Private Limited (A wholly owned subsidiary of Pipal Research Corporation, USA

**International subsidiaries:**

1. Firstsource Solutions USA Inc.
2. Firstsource Solutions UK Limited
3. Firstsource Solutions S.A., Argentina
4. FirstRing Inc., USA
5. Firstsource Advantage LLC, USA (A subsidiary of FirstRing Inc.)
6. Pipal Research Corporation, USA
7. Sherpa Business Solution Inc., USA (A wholly owned subsidiary of RevIT Systems Private Limited)
8. Business Process Management, Inc., USA
9. MedPlans Partners, Inc., USA (A subsidiary of Business Process Management, Inc.)
10. MedPlans 2000, Inc., USA (A subsidiary of Business Process Management, Inc.)
11. MedAssist Holding, Inc., USA*
12. MedAssist Intermediate Holding, Inc., USA (A subsidiary of MedAssist Holding, Inc.)*
13. MedAssist, Incorporated, USA (A subsidiary of MedAssist Intermediate Holding, Inc.)*
14. Firstsource Healthcare Advantage, Inc., USA (A subsidiary of MedAssist, Incorporated)**
15. Twin Medical Transaction Services, Inc., USA (A subsidiary of MedAssist, Incorporated)*

* Have become subsidiaries of the Company w.e.f. September 20, 2007 consequent to the acquisition of MedAssist Holding Inc. by Firstsource Solutions USA Inc., wholly owned subsidiary of the Company.

** The name of Argent Healthcare Financial Services Inc. has been changed to Firstsource Healthcare Advantage, Inc. w.e.f. April 1, 2008.

In terms of the approval received from the Central Government vide their letter dated March 26, 2008 under section 212(8) of the Companies Act, 1956, the Balance Sheet, Profit and Loss Account, Reports of the Board of Directors and Auditors of the subsidiaries have not been attached with the Balance Sheet of the Company. However, as directed by the Central Government 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, 2008, together with reports of Auditors thereon and the statement pursuant to section 212 of the Companies Act, 1956, are attached. The financial statements of subsidiaries will be available on a request made by any member of the Company and will also be available for inspection by any member at the registered/head office of the Company and that of the subsidiary concerned.

## CORPORATE GOVERNANCE AND MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Reports on Corporate Governance and Management Discussion and Analysis as stipulated under clause 49 of the Listing Agreement are separately given and form part of the Annual Report.

## STATUTORY DISCLOSURES OF PARTICULARS

### A) Conservation of Energy

The Company has embarked on a journey to make its delivery centers energy efficient. During the year, the Company adopted 'Virtualisation', a cutting edge technology solution that makes the delivery centers more energy efficient. The Company extensively uses' Thin Clients' to further reduce the power utilisation in its centers.

### B) Absorption of Technology

The Company is committed to 'Technological Innovation'. During the year, the Company implemented ISO 27001 and ISO 20000 quality processes and framework at all of its centers in India and UK and secured ISO 27001 certification for its centers at Kolkata, Belfast and Londonderry. The Company has used virtual desktop technology for its operations in Tier II cities to improve security and availability of IT infrastructure at these locations.

### C) Foreign Exchange Earnings and Outgo

During the year, 74.94% of the Company's revenues accrued on account of exports. The Company's foreign exchange earnings and outgo were as under:

(Standalone figures in Rs. Thousands)

| **Particulars** | **Fiscal 2008** | Fiscal 2007 |
|---|---|---|
| Foreign exchange earnings | **3,710,735** | 3,940,289 |
| Foreign exchange outgo<br>(including capital goods and imported software packages) | **243,324** | 293,970 |

## 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 for 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 thanks the Company's customers, vendors, bankers and business associates for their support and assistance. 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 organisations for their help and co-operation.

The Board places on record its appreciation to all the employees for their dedicated service. The Board appreciates and values the contributions made by every member across the world and is confident that with their continued support the Company will achieve its objectives and emerge stronger in the coming years.

For and on behalf of the Board of Directors

Mumbai
April 29, 2008

**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 judgements used therein. The estimates and judgements 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 year. 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 (the Company) on a consolidated basis, unless otherwise stated.*

## INDUSTRY STRUCTURE, DEVELOPMENTS AND OUTLOOK

In the recent past, the global financial markets have been witnessing difficult times with financial institutions reporting huge losses coupled with major write-offs as an aftermath of the US sub-prime crisis and falling asset prices. The Federal Reserve has intervened and pushed the limits of its statutory authority in developing new mechanisms to support market liquidity. While the Fed's initiatives have been successful overall in avoiding a worst-case outcome, tight financial conditions are expected to persist for some time and this is likely to weigh negatively on the global economy.

Despite the slowdown in the US economy, the financial sector crisis and the continued appreciation of the Indian Rupee against the US $, the Indian Business Process Outsourcing (BPO) industry has continued its strong growth momentum over the past one year by expanding its service offerings and diversifying into newer geographies. While many of the challenges faced by the sector still persist and there is likely to be some turbulence in the short-term, the Indian BPO has demonstrated its ability to overcome them and reinforce the conviction in its fundamentally strong and sustainable value proposition. As per the NASSCOM Strategic Review 2008, BPO services accounts for over 1/4th of the exports across software and services exports and is the fastest growing segment driven by scale as well as diversity. Export revenues for this segment are estimated to cross US $ 10.9 billion, a growth of 30% in fiscal 2008.

BPO services are not project based or discretionary in nature and the process outsourced is typically recurring and annuity based. The Company hence believes that the current global slowdown that is being witnessed should not have any long term negative impact on the BPO industry as these are processes which in any case are being performed by the customers. Pressure to cut costs and streamline operations can actually lead clients to outsource more work. However, in the short run, specifically in the BFSI vertical, customers are preoccupied in dealing with internal issues such as portfolio liquidity and risk management and hence there can be some delays in outsourcing decisions. From a fundamental point of view, despite the tough global conditions, the drivers for global sourcing remain strong in the near future. Increasing number of global organizations are outsourcing some of their core business processes in an effort to create flexibility and increase efficiencies thus increasingly focusing their resources on their core competencies and on brand building. By collaborating with third-party BPO vendors for outsourcing these processes, companies are able to benefit from:

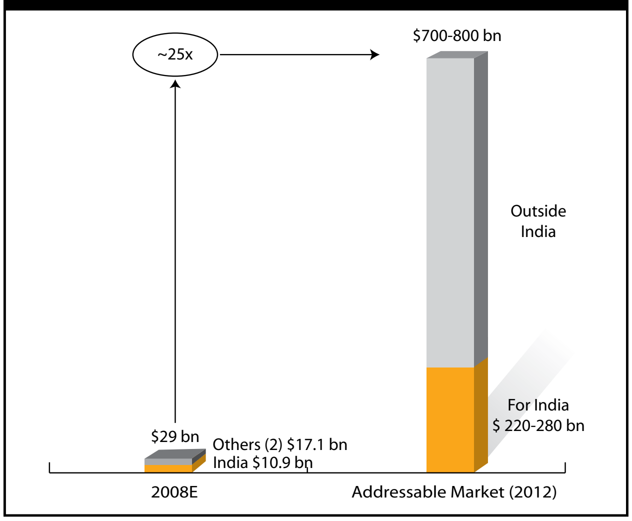
- access to specific skill-sets that may be in short supply in their core business processes;
- improved process efficiencies and measurable, consistent performance;
- economies of scale in operations and resultant cost advantages;
- business risk mitigation; and
- scalability.

As companies increasingly rely on external BPO vendors to manage their 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. Indian BPO companies need to maintain a keen emphasis on ensuring that they continue to deliver core benefits as well as enhance the overall value proposition for their clients. End-to-end domain knowledge in the industry verticals and geographical diversification have been the key drivers to managing large customer relationships. The Indian BPO industry has continued to expand its service delivery capability over the last few years by investing in training and gaining end-to-end domain knowledge in key target industries and business verticals. It has also simultaneously upgraded its skill-sets from doing simple processes to complex processes involving both rule based and judgmental services. Indian BPO firms have also demonstrated continuing success in driving efficiency and productivity gains from innovation in sourcing inputs and running business processes, while ensuring quality and information security, by adopting superior technology, training methodologies and a deep rooted culture for process excellence.

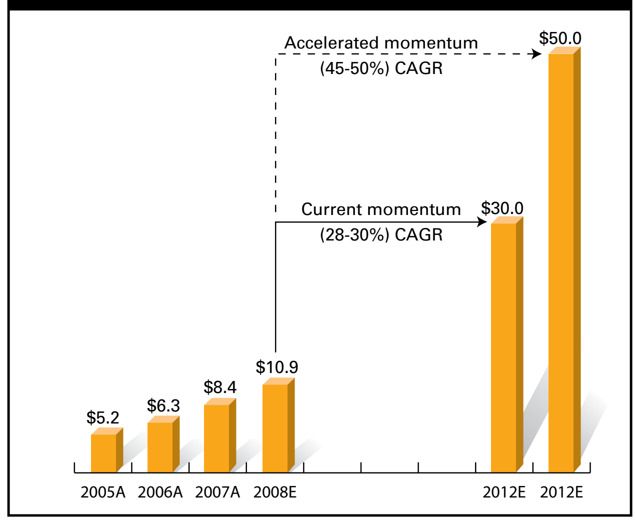
According to the recently conducted NASSCOM - Everest India BPO study (2008), the total global offshoring opportunity is US $ 700 – 800 billion, while the addressable opportunity for BPO Companies in India is around of US $ 220 – 280 billion over the next 5 years i.e. by fiscal 2012. This is aside from the domestic opportunity of US $ 15-20 billion. At an estimated size of US $ 10.9 billion in fiscal 2008, the industry has not tapped even 5% of the total export potential. Based on the present trend, the report projects that the Indian offshore BPO market is expected to grow at about 28% - 30% CAGR from fiscal 2008 to fiscal 2012 to reach US $ 28 - 30 billion in revenues by fiscal 2012. The report further adds that on an accelerated momentum, the industry has the potential to grow five-fold or at a stretch CAGR of 45% - 50% to reach US $ 50 billion in size by fiscal 2012. Thus a 50% growth rate will help capture only 1/5th of the total opportunity by fiscal 2012. NASSCOM has however recently forecast a 3-4% dip in growth in export revenues in IT services and BPO in fiscal 2008-09, at about 24%, chiefly due to the impact of the US economic slowdown, oil inflation and other recessionary factors and pressures across the globe, though assuring that there are no concerns for long-term growth over 3-4 years which still remain robust.

The key 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. As per the NASSCOM-Everest study, Banking and Financial services, Insurance (including Health) and Telecommunications industries are expected to be approximately 64-78% of the total addressable opportunity of US $ 220–280 billion. Again vertical-specific services relating to the core business of companies in industries such as BFSI, Insurance, Manufacturing, Retail, Travel, Telecommunications etc. are estimated to constitute 60-65% of the opportunity while horizontal-specific services like Finance and Accounting (F&A), Human Resource Management (HR), Payroll Processing, Procurement Services etc. are expected at constitute 35-40%. In terms of source geographies, North America is expected to provide 75%, UK 11%, Continental Europe 8% and Asia Pacific 5% of this opportunity.

**Large Addressable Global Offshore BPO market (1)**




**US$ 30-50 billion Indian BPO industry by FY2012**




*(1) Includes addressable markets in currently offshoring industries; includes internal and external spending*
*(2) Includes Canada, Philippines, Ireland, Mexico, Central and Eastern Europe, China and Others*
*Source: NASSCOM-Everest India BPO Study by Everest Research Institute (2008) and NASSCOM*

**Addressing key verticals in a large addressable market**


*(1) Includes Life and pension, Property and Casualty, and Health*
*Source: NASSCOM-Everest India BPO Study by Everest Research Institute (2008) and NASSCOM*

Some of the key drivers of the BPO business in the BFSI, Telecommunications and Media, and Healthcare industries are summarised below:

**Banking, Financial Services and Insurance (BFSI)**

The BFSI vertical represents a large BPO opportunity. According to the NASSCOM-Everest BPO study (2008), the addressable opportunity for Banking for Indian BPO service providers is estimated to be US $ 125-135 billion and Insurance (including Health) is estimated to be US $ 20-30 billion 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 business strategy. With the growing maturity of vendors, functions with increasing complexity are being off-shored. 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 customised 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-Everest BPO study (2008), the addressable opportunity for Telecommunications for Indian BPO service providers is estimated to be US $ 10-20 billion. 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 the regulatory framework, 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**

Within the Healthcare vertical, the Company serves the payor market represented by the Insurance companies and the provider market represented by hospitals. According to the NASSCOM-Everest BPO study (2008), the addressable opportunity for Insurance (including Health) for Indian BPO service providers is estimated to be US $ 20-30 billion. The study has not included the provider segment of hospitals, physician groups etc. which is also a very large opportunity.

According to U.S. Center for Medicare & Medicaid Services, or CMS, US, US $ 2.1 trillion was spent on Healthcare in 2006 equivalent to 16% of United States Gross Domestic Product (GDP). Hospital care was estimated to be US $ 650 billion, representing the single largest component, or 31% of the US $ 2.1 trillion. Healthcare spending is projected to grow at a rate of 6.9% per annum, and reach over US $ 4.1 trillion by 2016, or 19.6% of GDP.

Key growth drivers for the payor 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.

As per the American Hospital Association, average community hospital operating margins were 3.7% in 2005 and approximately 25% of community hospitals had negative total margins. Bad debt and charity care or uncompensated care, have had a significant impact on operating margins, costing community hospitals US $ 28.8 billion, or 5.6% of total expenses in 2005. Reimbursement by federal programs often does not cover hospital's costs of providing care. In 2005, community hospitals had a shortfall of US $ 15.5 billion and US $ 9.8 billion relative to the cost of providing care to Medicare and Medicaid beneficiaries, respectively.

Key growth drivers for the provider or hospital industry include:

- Increased competition from specialised healthcare facilities
- Hospitals focus on clinical care and hence their systems are often ill-suited to handle administrative activities
- Pricing pressures in hospitals due to technological innovation and administrative cost pressures
- Complex and changing reimbursement rules across the government agency and managed care payor categories
- Limited resources with government agencies' resulting in reduced reimbursements to hospitals
- Increasing percentage of revenue being collected directly from individual patients as self-pay percentage increases.

## COMPANY OVERVIEW

The Company is a leading global provider of BPO services to clients primarily in the BFSI, Telecommunications and Media, and Healthcare industries. The Company provides BPO services mostly to clients in North America, the United Kingdom and Asia Pacific regions. The Company's clients include 3 of the 5 largest US banks, 5 of the 10 largest credit card companies in the U.S, 2 of the world's Top 10 telecom companies, 3 "Fortune 100" healthcare insurance companies and over 800 hospitals in the U.S. Based on the annual rankings by NASSCOM, the Company was the seventh largest BPO provider in India in fiscal 2007 in terms of revenues and is amongst the top "pure-play" BPO provider (BPO providers that are not affiliated with information technology companies).

The Company provides a comprehensive range of services to clients across the customer life cycle 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 500 processes covering a broad array of products and services to its service delivery centers. The Company's key service offerings across its target verticals are depicted below:

| BFSI | Telecommunications and Media | Healthcare |
|---|---|---|
| • Banking<br>– Account enquiries and transfers<br>– Forex transactions<br>– Account and check processing<br>• Card solutions<br>– Activation and authorization<br>– Lost and stolen card reissuance, etc.<br>• Collections<br>• Mortgage Banking<br>– Loan origination processing<br>– Loan servicing<br>– Regulatory compliance<br>• Insurance<br>– Quotation requests<br>– Policy amendment/cancellation<br>– Data and trend analysis<br>• Trust and asset management solutions<br>– Middle and back office processes for debt and forex trade<br>• Research and analytics | • Telecommunications<br>– New orders and disconnects<br>– Order provisioning and fulfillment<br>– Circuit design<br>– Customer service & disputes resolution<br>– Billing support<br>– Churn management<br>– Early/Late stage collections<br>– Skip tracing<br>– Fraud monitoring & prevention<br>– Contract Management<br>• Media<br>– Customer service<br>– Billing support<br>– DSL, DTH and cable products – Installation and Technical support<br>– Networks team scheduling and ticket management<br>• Research and analytics | • Payor<br>– Enrollment services<br>– Mail and document management<br>– Claims processing, pricing<br>– Claims adjudication and adjustment<br>– Provider database maintenance<br>• Provider<br>– Front-end patient services<br>– Eligibility services<br>– Receivables management<br>– Collections |

The Company services its clients through its global delivery capabilities both onshore and offshore. The Company has 36 delivery centers across India, US, UK, Argentina and the Philippines supported by a robust and scalable infrastructure network that can be tailored to meet its clients' specific needs. Seventeen of the Company's global delivery centers are located in eleven cities in India, fifteen are in the United States (including seven operational hubs of MedAssist), two are in the United Kingdom, one is located in Argentina and one is located in Philippines.

This gives the Company proximity to its clients, multi-lingual capabilities and access to a global talent pool. The Company's right-shoring model uses locations most appropriate for delivering services and provides the best mix of skills and infrastructure to its clients.

The Company has grown from 2,188 full-time employees as of March 31, 2003 to 17,369 as of March 31, 2008. As of March 31, 2007, the Company had 14,396 employees. As of March 31, 2008, 13,159 of the Company's employees are based out of India, 2,741 are based out of the U.S., 957 are based out of the U.K., 356 are based out of Argentina and 156 are based out of Philippines. In addition, the Company uses trained personnel who are contracted on an as-needed basis.

One of the key factors for the Company's revenue growth over years has been its ability to successfully grow its existing clients. As of March 31, 2008, the Company had seven clients with annual billing of over Rs. 500 million compared to five as of March 31, 2007 and none as of March 31, 2003. The Company's client concentration has continued to diversify. For fiscal 2008, the largest client contribution was at 14.4 % of total income from services as compared to 14.5% in fiscal 2007 and 41.6% in fiscal 2003. The contribution from top 5 clients was at 37.4 % of total income from services in fiscal 2008 as compared to 51.4% in fiscal 2007 and 82.5% in fiscal 2003.

The Company's total income has grown at a compound annual growth rate of 77% from 771.5 million in fiscal 2003 to Rs. 13,337.2 million in fiscal 2008. Over the same period of time, the profits after tax have increased from a loss of Rs. 109.5 million in fiscal 2003 to a profit of Rs. 1,315.6 million in fiscal 2008. The Y-o-Y growth in Total income of the Company in fiscal 2008 over fiscal 2007 is 59.1%. 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), acquisition of MedAssist Holding, Inc., in September 2007, as well as business that the Company has won from new clients. Excluding revenues from MedAssist, 97.8% of the Company's income from services during fiscal 2008 was derived from existing clients (clients existing as on March 31, 2007).

Fiscal 2008 has been a significant year in the Company's evolution. Key developments in fiscal 2008 are:

- The Company acquired MedAssist Holding, Inc. in September 2007 which has provided it with a credible entry platform in the U.S. healthcare provider market. MedAssist, headquartered in Louisville, Kentucky had approximately 1,400 employees and is a Pan-American provider of revenue cycle management services to the Healthcare industry. MedAssist service offerings included Eligibility Services, Receivables Management Services and Post default Collections services for healthcare providers, including hospitals and large physician groups. The MedAssist acquisition presents significant opportunities for the Company, which already has a strong presence in the US healthcare BPO space on the payor side (chiefly constituting insurance companies and third party administrators). This acquisition gives the Company access to the very large provider market and the Company expects significant opportunity to grow its business in this segment by cross-selling the Company's existing services to MedAssist's customers.

- During the year the Company also successfully launched and completed a Zero Coupon Foreign Currency Convertible Bonds (FCCB) offering of US $ 275 million. Funds raised through this FCCB issue was used to repay the loan contracted by the Company to fund MedAssist acquisition.

- The Company has recently been focusing on the emerging opportunity in the domestic market in India. The Company's focus verticals, particularly BFSI and Telecommunications are also sectors which are growing rapidly in India and thereby present exciting opportunities for the Company to use the domain expertise in the domestic market. This has enabled the company to grow the Income from domestic services from 3.8% in fiscal 2007 to 10.8% in fiscal 2008. The Company added a center each in Hubli and Indore in fiscal 2008. Apart from this the Company also has delivery centers in Tier II locations like Cochin, Vijaywada, Trichy, and Pondicherry. This strategy offers the Company lower operating cost structures while providing access to a larger talent pool.

- The Company signed a five year outsourcing agreement with British banking group Barclays Plc. to support Barclay's U.S. credit card customer service and collections operations in Colorado Springs, Colorado, U.S. The agreement is expected to net revenues of around US $ 80 million over five years for the Company.

- During the year, the Company added a center in Manila, Philippines, with a current capacity of 250 seats scalable to 800 seats, in line with the Company's ongoing efforts to offer its clients a diverse geographical delivery proposition. According to research firm Frost & Sullivan, Philippines is the third largest English-speaking nation in the world and produces 350,000 college graduates every year delivering a highly-educated talent pool for providing BPO services. This expansion further enables the Company to tap a large high quality talent pool to be able to address client business requirements while diversifying the geographical concentration of delivery.

- The Company's Process Excellence practice continues to add measurable benefits to business process management initiatives for clients and as a testimony of the same the Company received five IQPC (International Quality and Productivity Center) awards during the year. The Company was also awarded "The Best Telecoms Outsourcing Project" by National Outsource Association (NOA), UK in their 4th Annual NOA awards.

## 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. Based on the annual rankings by NASSCOM, the Company was the seventh largest BPO provider in India in fiscal 2007 in terms of revenues and amongst the top "pure-play" BPO provider (BPO providers that are not affiliated with information technology companies).

- 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. The Company's earns revenues from the US, UK and APAC geographies and chiefly services the BFSI, Telecommunication and Media and Healthcare industries.

- Early entrant into Indian domestic BPO market

  The Company has been an early mover in the Indian BPO market, which is very nascent and has significant growth potential. Income from services from India increased from 3.8% in fiscal 2007 to 10.8 % in fiscal 2008.

- 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 and its marquee client base.

- Unique value proposition and leadership position in the Healthcare industry

  The Company has a very unique portfolio of services addressing end-to-end customer life cycle requirements in U.S. Healthcare industry for both payor as well as provider segments. The Company's depth of services, marquee clients, scale, reach and delivery capabilities in the Healthcare industry provides it a leadership position among offshore BPO players. For the year ended March 31, 2008, 29.8 % of the Company's income from services came from the Healthcare industry.

- Multi-shore delivery model

  The Company has established a truly global delivery base for its services, with 36 delivery centers, including 17 located in eleven different cities in India, fifteen in the United States, two in the United Kingdom, one delivery center in Argentina and one delivery center in Philippines. The Company has over this fiscal year diversified into Tier II delivery locations across India. Most customers today are looking for a service partner who can provide a combination of onshore and diversified offshore delivery capabilities and the Company believes its early move in creating this will create competitive advantage.

- Established relationships with large global companies

  The Company works with over 1000 clients as of March 31, 2008, including over 800 hospitals in the US, of which over 20 are "Fortune Global 500", "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.

- 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, possesses domain knowledge in the industries the Company serves and has 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. The Company's total income has grown at a compounded annual growth rate of 77% from fiscal 2003 to fiscal 2008 which is significantly higher than industry growth rate.

## Business Strategy

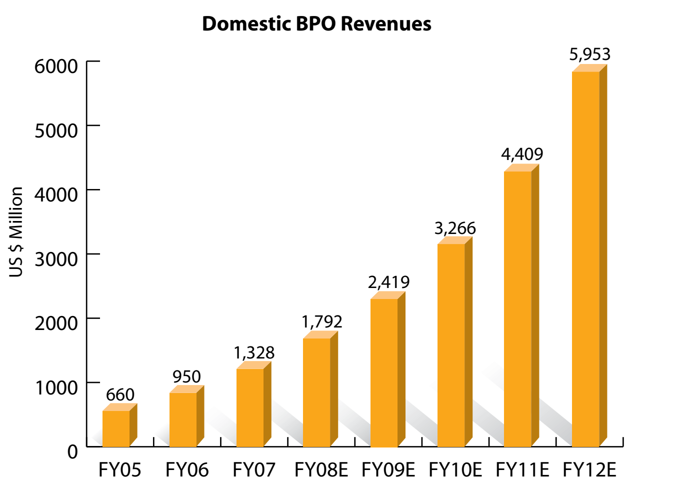
The Company believes that the BPO industry is a global industry and its strategic vision is to leverage the strong position it has built in the offshore BPO industry to become a significant global BPO player. The Company's strategies to achieve this goal are as follows.

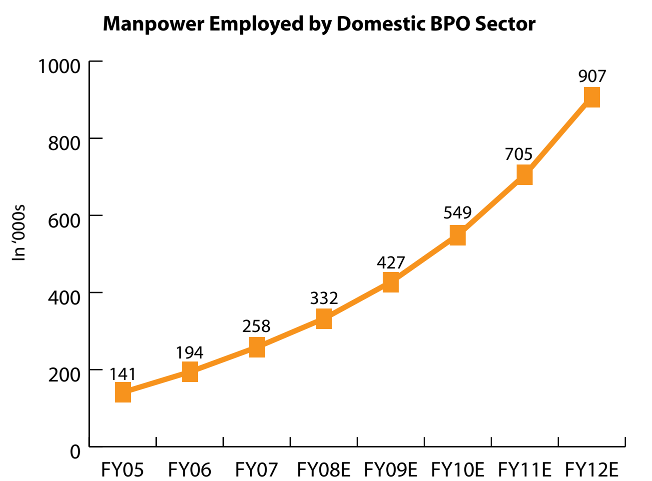
- Continue to aggressively grow the business

  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 revenues from existing clients. In fiscal 2008, excluding the revenue from MedAssist, 97.8% of the Company's income from services was from the existing customers.

- Expand into new markets including the Indian domestic market

  Historically, the outsourcing market in India has been export focused and most participants have been focusing their energies in building businesses catering to US and European clients. However, with the emergence of India as one of the largest economies in the world, the Indian domestic outsourcing market is also emerging as an attractive target market. The Company believes that it is the right time for it to expand in the growing Indian market with more and more companies embracing outsourcing. According to Avendus estimates, the Indian domestic market for BPO services is US $ 1.8 billion in fiscal 2008 and is expected to grow at a CAGR of 35% for the next 4 years, becoming a US $ 6 billion industry in fiscal 2012.




*Source: Avendus - India Domestic BPO Market Study Report, January 2008*

- 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 acquisitions such as the Company's recent acquisition of MedAssist provides 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.

- 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 clients' 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.

## Human Resources

The Company believes that its business prosperity depends on developing an integrated, global community of motivated and innovative employees. The Company is committed to being recognised as Employer of Choice and building high level of morale through recognition and positive employee relations. The Company strives to inspire employees by offering opportunities for challenging work, personal development and growth. The Company's Human Resources activities are aligned to business goals, guided by its vision and consistent with its core values.

The Company continues to strengthen its market position globally and leverage the power of the diverse employee base. A testimony to this is the employee strength that went up from 14,396 to 17,369 during fiscal 2008, with 4,210 employees outside of India. The focus is on integrating human resource initiatives and sharing best practices with locations globally.

The Company strives to remain committed to pushing its boundaries, constantly renewing its practices and innovating in order to make a difference to every single Firstsource employee.

## OPPORTUNITES 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 very nascent stage with less than 5% of the total addressable market being captured.

Key growth drivers and opportunities for the Company for profitable growth include:

- Strong growth in Global BPO spend generating continuing demand for its services.
- Increasing number of organizations globally are outsourcing business processes in an effort to simplify their organization, create flexibility and increase efficiencies.
- Increasing customer focuses on servicing customers, creating new and innovative products and services and reduce time-to-market their products and services.
- Increasing focus on accuracy and timeliness of processing thereby reducing transaction costs.

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 operational expertise with a continuous focus on quality of service delivery, ability to manage aggressive growth and stringent security norms. The Company's believes its BPO market leadership is key to help it tap the growth potential of the industry. The Company's diversified business model with established relationships with large global companies, including over 20 "Fortune Global 500", "Fortune 500" and "FTSE 100" companies also puts it at a competitive advantage compared to other offshore BPO providers.
- 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.
- The NASSCOM-Everest study 2008 identifies the banking and insurance industries as representing 59-71% of the potential offshore BPO market and Telecommunications and Media as 5-7% of India's BPO addressable market in fiscal 2012 (estimated to be US $ 220-280 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.
- The domestic market in India is fast emerging as an attractive market with more and more companies embracing outsourcing. The Indian Domestic BPO is US $ 1.8 billion industry in fiscal 2008 and is expected to grow at a CAGR of 35% for the next 4 years, becoming a US $ 6 billion industry in fiscal 2012. The Company has an early mover advantage in this area and has successfully built a delivery model to cater to the domestic industry.

## 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;
- BPO providers competing in the Indian domestic market;
- 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 especially in metropolitan cities.

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 AND CONCERNS, RISK MITIGATION

These have been discussed in detail in the Risk Management report in this annual report.

## DISCUSSION ON FINANCIAL PERFORMANCE RELATING TO OPERATIONAL PERFORMANCE

### FINANCIAL POSITION

#### Shareholders funds

*Share Capital*. The authorised 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, 2008 stands at Rs. 4,273.1 million compared to Rs. 4,250.8 million at March 31, 2007.

The details of increase in equity share capital by Rs. 22.3 million from Rs. 4,250.8 million as at March 31, 2007 to Rs. 4,273.1 million as at March 31, 2008, is as below.

| | Number of Shares (million) | Amount (Rs. million) |
|---|---|---|
| Shares issued by way of conversion of Options to Employees under ESOP scheme | 2.23 | 22.3 |
| | 2.23 | 22.3 |

*Reserves and Surplus*. The Reserves and surplus of the Company decreased from Rs. 6,414.7 million to Rs. 3,127.3 million. The details of decrease in Reserves and surplus by Rs. 3,287.4 million, is as below:

| | Amount (Rs. million) |
|---|---|
| Increase on account of : | |
| Profit for the year less appropriations | 1,310.2 |
| Premium on shares issued during the year | 14.0 |
| Capital Redemption reserve | 5.2 |
| | **1,329.4** |
| Decrease on account of : | |
| Premium payable on redemption of FCCB (Refer note below table) | 4,343.7 |
| Share Premium utilised on expenses incurred for issue of FCCB | 217.4 |
| Hedging Reserve Account created as per Accounting Standard 30 | 48.7 |
| Exchange translation reserve on consolidation of non-integral subsidiaries | 7.0 |
| | **4,616.8** |
| Net Decrease in Reserves and surplus | **3,287.4** |

The company, in this fiscal, successfully launched and completed a Zero Coupon Foreign Currency Convertible Bonds (FCCB) offering of US $ 275 million. The FCCB is convertible into shares at a price of Rs. 92.2933 per share at the option of the bondholder at any time from January 14, 2008 up to November 23, 2012. If the FCCB is not convertible into shares, the same will be redeemed to bondholders on its maturity date of December 4, 2012 at an YTM of 6.75% per annum. Funds raised through this FCCB issue was used to subscribe to shares of Firstsource Solutions USA, Inc, a wholly owned subsidiary of the Company with the end use to repay the debt taken for acquisition of MedAssist Holding, Inc. These Foreign Currency Convertible Bonds are considered monetary in nature and premium payable on redemption of FCCB is fully charged to the Securities Premium account in the period of issue and the liability so created is reflected under Provisions. This charge will be reversed if and when the FCCB holders opt to convert the bonds into Equity at any time before the bonds are due for redemption. If the entire FCCB is converted into shares, the company will need to issue an additional 117.0 million shares at the aforesaid price.

Pursuant to recent announcement made by the Institute of Chartered Accountants of India (ICAI), the company has followed the appropriate accounting for derivatives obtained in respect of highly probable forecasted receivables as contained in Accounting Standard 30 'Financial Instruments: Recognition and measurement' (AS30). The Company records the gain or loss on highly probable forecasted receivables in the 'Hedging Reserve Account' until the transactions are complete. On completion, the gain or loss is transferred to the profit and loss account of that period. The aggregate unrealised mark to market loss of Rs. 48.7 million assessed as at March 31, 2008 on the outstanding derivatives has been recognised in the Balance Sheet under 'Hedging Reserve Account'.

**Minority Interest**

Minority interest is created on account of 51% consolidation of Pipal Research Corporation, ("Pipal") a subsidiary of Firstsource Solutions Limited, incorporated under the laws of the State of Illinois, USA and 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.

Minority interest as at March 31, 2008 decreased to Rs. 36.4 million from Rs. 43.0 million as at March 31, 2007.

**Loan funds**

Secured loans represents balance amount payable under External commercial borrowings (ECB), finance lease obligation, term loan and other secured debts. Unsecured loans represent mainly working capital demand loan, term loan, FCCB and debt from others. Secured loans outstanding as at March 31, 2008 was Rs. 596.6 million as compared to Rs. 712.0 million as at March 31, 2007. The decrease in secured loans was chiefly on account of part repayment of ECB by Rs. 551.8 million offset partially by a term loan of Rs. 401.2 million secured against the shares of MedAssist and a reduction in financial lease and other secured debts.

Unsecured loans outstanding as at March 31, 2008 was Rs. 11,955.2 million as compared to Rs. 1,263.9 million as at March 31, 2007. The increase in unsecured loans was due to the issue of Foreign Currency Convertible Bonds amounting to Rs. 11,033.0 million which was partially offset by the reduction in term loan by Rs. 217.9 million, Working capital demand loan by Rs. 102.1 million and debt from others by Rs. 21.7 million.

**Deferred Tax Liability**

Deferred tax liability, net as at March 31, 2008 was Rs. Nil as compared to Rs. 1.0 million as at March 31, 2007.

**Goodwill**

Goodwill as at March 31, 2008 was Rs. 18,880.0 million as compared to Rs. 5,419.2 million as at March 31, 2007.

The Company, during the year, through its wholly owned subsidiary Firstsource Solutions Limited, US acquired 100% of the common stock of MedAssist Holding, Inc. a Delaware corporation, including its 100% owned US based subsidiaries MedAssist Intermediate Holding, Inc., MedAssist, Incorporated, Twin Medical Transaction Services, Inc. and Argent Healthcare Financial Services, Inc. for a purchase consideration of Rs. 13,406.9 million (equivalent to US $ 332.8 million). MedAssist, together with its subsidiary companies, is a leading provider of revenue cycle management services in the provider side of the Healthcare industry, in the US. The Company incurred direct expenses related to the acquisition aggregating to Rs. 557.5 million which have been included in the cost of investment in MedAssist. The total purchase consideration of Rs. 13,964.4 million after adjusting for assets taken over and liabilities assumed of Rs. 570.5 million was accounted as Goodwill in this fiscal. The Goodwill created on account of this acquisition was Rs. 13,393.9 million. The total increase in Goodwill during the year was Rs. 13,460.8 million, the balance attributable to an additional amount of Rs. 53.3 million towards earnout crystalised on finalisation of arbitration with the erstwhile members of Account Solutions Group Inc. (ASG) and direct expenses amounting to Rs. 13.6 million.

**Fixed Assets**

The net block of fixed assets and capital work-in-progress was Rs. 2,226.1 million as at March 31, 2008 as compared to Rs. 1,802.2 million as at March 31, 2007, representing an increase of Rs. 423.9 million. This increase constituted of capital expenditure incurred by the Company during the year of Rs. 1,187.6 million, net assets added due to acquisitions amounting to Rs. 107.6 million, net assets deleted amounting to Rs. 10.5 million, and depreciation for the year Rs. 860.8 million. The major items of capital expenditure during fiscal 2008 were 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 Salt Lake City (US), Manila (Philippines), Hubli, Indore and other Tier II centers in India added towards the end of previous fiscal.

**Investments**

The Company had investments amounting to Rs. 221.2 million as at March 31, 2008 as compared to 1,152.5 as at March 31, 2007. All the Company's investments as at March 31, 2008 are non-trade investments which are chiefly short-term in nature and constitute investments in liquid debt market mutual funds. The decrease is due to liquidation of investments utilised chiefly for the MedAssist acquisition.

**Deferred Tax Asset**

Deferred tax asset, net as at March 31, 2008 was Rs. 184.5 million as compared to Rs. Nil as at March 31, 2007. The significant component of deferred tax asset is business losses carried forward, difference between tax and book value of fixed assets and Minimum Alternative Tax (MAT) credit. 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.

**Current assets, loans and advances**

*Sundry Debtors and unbilled revenues.* Sundry debtors amount to Rs. 2,053.8 million (net of provision for doubtful debts amounting to Rs. 44.0 million ) as at March 31, 2008 as compared to Rs. 1,335.4 million (net of provision for doubtful debts amounting to Rs. 35.7 million ) as at March 31, 2007. These debtors are considered good and realisable. The increase in sundry debtors as at March 31, 2008 is on account of sundry debtors relating to MedAssist.

The need for provisions is assessed based on various factors including collectability 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, 2008 (calculated based on per-day sales in the last quarter) were 49 days, compared to 45 days as at March 31, 2007.

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, 2008 and 2007 amounted to Rs. 400.2 million and Rs. 722.6 million respectively. Including the unbilled revenues, debtors represented an outstanding of 59 days as at March 31, 2008 as compared to 68 days as at March 31, 2007.

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, 2008 was Rs. 1,024.7 million as compared to Rs. 3,010.0 million as at March 31, 2007. The balance as at March 31, 2007 included receipt of IPO funds in February 2007.

*Loans and advances.* Loans and advances as at March 31, 2008 were Rs. 1,050.6 million as compared to Rs. 612.2 million as at March 31, 2007. The increase is due to inclusion of loans and advances relating to MedAssist. 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. 438.4 million was chiefly on account of increase in security deposits Rs. 41.4 million, increase in advances recoverable in cash or in kind or for value to be received Rs. 176.0 million, increase in advance Income tax of Rs. 187.4 million and increase in prepaid expenses and lease rentals net of other decreases of Rs. 33.6 million. The primary reason for the increase in advances recoverable is due to grant receivable of Rs. 157.2 million. The primary reason for increase in advance income tax of Rs. 187.4 million is due to increase in withholding taxes on account of increased India domestic income and advance taxes paid in the US chiefly by MedAssist.

**Current liabilities and provisions**

*Current liabilities.* Current liabilities as at March 31, 2008 was Rs. 1,433.0 million as compared to Rs. 1,255.5 million as at March 31, 2007, representing an increase of Rs. 177.5 million. This increase was chiefly contributed by an increase in sundry creditors for expenses by Rs. 182.5 million primarily due to MedAssist consolidation, mark to market loss and premium on foreign exchange contracts of Rs. 65.4 million and a decrease of Rs. 66.6 million on account of payables towards acquisition. Other current liabilities (net of increases and decreases) decreased by an amount of Rs. 3.8 million.

*Provisions.* Provision for taxation represents estimated income tax liabilities both in India and abroad. Provision for taxation as at March 31, 2008 was Rs. 184.6 million as compared to Rs. 45.1 million as at March 31, 2007. 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, 2008 was Rs. 51.7 million as compared to Rs. 36.2 million as at March 31, 2007. Provision for leave encashment valued on an actuarial basis as at March 31, 2008 was Rs. 39.3 million as compared to Rs. 31.9 million as at March 31, 2007. The increase in the actuarial valuation amounts was chiefly on account of increase in the number of employees in India.

A provision for premium payable on redemption of FCCB's of Rs. 4,343.7 million has been created by the company. The company, in this fiscal, successfully launched and completed a Zero Coupon Foreign Currency Convertible Bonds (FCCB) offering of US $ 275 million. The FCCB is convertible into shares at a price of Rs. 92.2933 per share at the option of the bondholder at any time from January 14, 2008 up to November 23, 2012. If the FCCB is not convertible into shares, the same will be redeemed to bondholders on its maturity date of December 4, 2012 at an YTM of 6.75% per annum. These Foreign Currency Convertible Bonds are considered monetary in nature and premium payable on redemption of FCCB is fully charged to the Securities Premium account in the period of issue and the liability so created is reflected under Provisions.

**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 2008** | | Fiscal 2007 | |
|---|---|---|---|---|
| **INCOME** | **Rs. million** | **% of Income** | Rs. million | % of Income |
| Income from services | **12,406.1** | **95.5%** | 8,168.5 | 98.3% |
| Other operating income | **581.8** | **4.5%** | 141.7 | 1.7% |
| **Revenue from Operations** | **12,987.9** | **100.0%** | 8,310.2 | 100.0% |
| **EXPENDITURE** | | | | |
| Personnel costs | **7,120.4** | **54.8%** | 4,135.6 | 49.8% |
| Operating costs | **3,558.1** | **27.4%** | 2,518.2 | 30.3% |
| **Operating EBITDA (Earnings before Interest, Tax and Depreciation)** | **2,309.4** | **17.8%** | 1,656.4 | 19.9% |
| Depreciation and amortisation | **860.8** | **6.6%** | 641.5 | 7.7% |
| **Operating EBIT (Earnings before Interest and Tax)** | **1,448.6** | **11.2%** | 1,014.9 | 12.2% |
| Finance charges, net | **366.0** | **2.8%** | 60.5 | 0.7% |
| Other income | **349.3** | **2.7%** | 71.9 | 0.9% |
| **Profit before tax** | **1,431.9** | **11.0%** | 1,026.3 | 12.4% |
| **Provision for taxation** | | | | |
| - Current tax expense (including foreign taxes) | **287.7** | **2.2%** | 39.4 | 0.5% |
| - Deferred tax charge/(release) | **(184.4)** | **-1.4%** | 5.4 | 0.1% |
| - Fringe benefits tax | **23.2** | **0.2%** | 15.3 | 0.2% |
| **Profit after tax before minority interest** | **1,305.4** | **10.0%** | 966.2 | 11.6% |
| **Minority interest** | **(10.2)** | **-0.1%** | (6.3) | -0.1% |
| **Profit after tax** | **1,315.6** | **10.1%** | 972.5 | 11.7% |

**Income**

*Income from services.* Income from services increased 51.9% to Rs. 12,406.1 million in fiscal 2008 from Rs. 8,168.5 million in fiscal 2007. 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). On September 20, 2007 the company acquired MedAssist Holding Inc. and the Income from services of MedAssist form part of the above figures effective that date. Of the increase in income from services of Rs. 4,237.6 million in this period as compared to the corresponding period in the previous year, Rs. 2,495.5 million was attributable to new clients, including clients added due to the acquisition of MedAssist in fiscal 2008. The average exchange rate for US $ and GBP in fiscal 2008 was Rs. 40.29 per US $ and Rs. 80.87 per GBP as compared to Rs. 45.25 per US $ and Rs. 85.63 per GBP in fiscal 2007.

*Consolidated Revenues by Geography.* The Company serves clients mainly in North America (USA and Canada, although income from Canada accounted for less than 1%) United Kingdom and India. Clients from United States accounted for 54.0% (fiscal 2007 - 47.3%) and clients from United Kingdom accounted for 35.0% (fiscal 2007 - 48.7 %) of the income from services in fiscal 2008. Clients in India accounted for 10.8% (fiscal 2007 - 3.8%) of the income from services in fiscal 2008.

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

(Rs. in million)

| | Fiscal Year | |
|---|---|---|
| | **2008** | 2007 |
| UK | **4,338.8** | 3,975.8 |
| North America (USA and Canada) | **6,705.2** | 3,863.7 |
| India | **1,344.5** | 310.7 |
| Rest of the world | **17.6** | 18.3 |
| Total | **12,406.1** | 8,168.5 |

Revenues from India grew more than four-fold in this fiscal and domestic business now constitutes a sizeable portion of the Company's business and would continue to be a key focus area for the Company. There was an increase in the proportion of the income from North America primarily due to MedAssist acquisition in September 2007. The above two reasons have resulted in the UK business falling in percentage terms, though there has been an absolute growth in Rupee terms of 9.1% in business from UK clients as well.

*Consolidated Revenues by Industry.* BFSI, Telecommunications and Media, and Healthcare accounted for 30.8%, 36.0% and 29.8% of its income from services, respectively, in fiscal 2008 and 51.8%, 34.0% and 9.0% of its income from services, respectively, in fiscal 2007.

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

(Rs. in million)

| | Fiscal Year | |
|---|---|---|
| | **2008** | 2007 |
| BFSI | **3,820.9** | 4,229.9 |
| Telecommunications and Media | **4.468.9** | 2,781.2 |
| Healthcare | **3,691.4** | 736.7 |
| Others | **424.9** | 420.7 |
| Total | **12,406.1** | 8,168.5 |

Within the BFSI vertical, the collections business of the Company has seen lower revenues due to increased delinquencies and lower liquidation rates on credit cards in the US. While the Company believes that this can present an opportunity for higher volumes as delinquencies rise, in the short to medium term, the pressure on profitability will continue due to lower liquidation rates. On the non-collections BFSI side, the Company is seeing delays in decision making resulting in deferral of programs, which the Company feels will continue for some time till the US economy turns around. The Company however believes that the value proposition for companies to outsource still remains as compelling and it is only a matter of time before growth would return in this vertical. The India domestic business on the BFSI side remains attractive and is growing despite the US crisis.

The increase in the income from clients within the Telecommunications and Media sector between fiscal 2008 and fiscal 2007 was attributable to companies within this industry outsourcing more processes generally to support growth in their core businesses, as well as its increased penetration of this market with a larger suite of service offerings. Also the increase in India domestic business in fiscal 2008 was primarily contributed by this industry.

The Healthcare vertical has gained a sizeable proportion of the Company's business with the acquisition of MedAssist in this fiscal and growth in business from existing customers in the payor segment. MedAssist is a leading provider in revenue cycle management in the Healthcare industry in the U.S. MedAssist's service offerings addresses the entire revenue cycle for healthcare providers. Target clients include integrated delivery systems, hospital management companies, academic medical centers, single site hospitals, alternate site facilities and hospitals. The Company earlier had strong presence on the payor side of the Healthcare market, which is the health insurance companies side where the Company provides end to end claims management. The Company works for three Fortune 100 Health Insurance companies on the payor side and hospitals and large physician groups on the provider side. With the acquisition of MedAssist, the company now believes that it has a dominant presence in the Healthcare BPO and a competitive edge.

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

(Rs. in million)

| | Fiscal Year | | | |
|---|---|---|---|---|
| | **2008** | **%** | 2007 | % |
| Top client | **1,787.9** | **14.4** | 1,184.7 | 14.5 |
| 5 largest clients | **4,643.8** | **37.4** | 4,197.9 | 51.4 |
| All clients | **12,406.1** | **100.0** | 8,168.5 | 100.0 |

In fiscal 2008, the Company had one client contributing over 10% of its income from services. This client accounted for 14.4% of the income from services in fiscal 2008. 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.

The Company derives a significant portion of its income from a limited number of large clients. In fiscal 2008, the Company had seven clients contributing over Rs. 500 million in annual revenues as compared to five clients in fiscal 2007. In fiscal 2008 and 2007, income from the Company's five largest clients amounted to Rs. 4,643.8 million and Rs. 4,197.9 million, respectively, accounting for 37.4% and 51,4% of its income from services, respectively. Income for services performed for ICICI Bank, the Company's promoter shareholder, and its affiliates, including overseas subsidiaries, amounted to Rs. 613.2 million or 4.9% of its income from services, in fiscal 2008. 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. 581.8 million in fiscal 2008 pertains to operating income in the nature of a grant received in relation to the Company's business in Northern Ireland of Rs. 552.6 million and exchange gain realised on debtors of Rs. 29.2 million. The fiscal 2007 Other Operating Income of Rs. 141.7 million consists of grant income of Rs. 129.1 million and exchange gain realised on debtors of Rs. 12.6 million.

**Expenditure**

*Personnel costs.* Personnel costs for fiscal 2008 amounted to 54.8% of the Income for that period, as compared to 49.8% of income in fiscal 2007. Personnel costs increased by 72.2% to Rs. 7,120.4 million in fiscal 2008 from Rs. 4,135.6 million in fiscal 2007. Personnel costs in fiscal 2008 as a percentage of income was higher primarily due to higher proportion of employees working outside India as compared to fiscal 2007, consequent to the acquisition of MedAssist. The Company's number of employees increased to 17,369 as of March 31, 2008 from 14,396 as of March 31, 2007, principally to service its increased business volumes and additions due to acquisition of MedAssist. As at March 31, 2008, 4,210 employees were employed outside India as compared to 2,182 employees as at end of Fiscal 2007. The Company's average wage levels were also higher in fiscal 2008 as compared to fiscal 2007.

*Operating costs.* Operating costs for fiscal 2008 amounted to 27.4% of the income for that period, as compared to 30.3% of income in fiscal 2007. Operating costs increased by 41.3% to Rs. 3,558.1 million in fiscal 2008 from Rs. 2,518.2 million in fiscal 2007, 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 Rent, repairs and maintenance, Insurance and communication services increased by 78.2% from Rs. 703.5 million to Rs. 1,253.6 million, primarily due to additions of centers across Tier II cities in India, addition of a center in Philippines, a center in Salt Lake City, Utah and MedAssist acquisition. There was an extraordinary cost of around Rs. 30.0 million associated to an acquisition opportunity that the Company pursued during the year, but did not consummate.

**Operating EBITDA (Earnings before Interest, Tax and Depreciation)**

*Operating EBITDA.* As a result of the foregoing, operating EBITDA increased by 39.4% to Rs. 2,309.4 million in fiscal 2008 from Rs. 1,656.4 million in fiscal 2007. Operating EBITDA in fiscal 2008 was 17.8% of income, as compared to 19.9% of income in fiscal 2007.

*Depreciation.* Depreciation costs for fiscal 2008 amounted to 6.6% of the income for that period, as compared to 7.7% of income for fiscal 2007. Depreciation increased by 34.2% to Rs. 860.8 million in fiscal 2008 from Rs. 641.5 million in fiscal 2007, lower than the rate of increase in revenues due to better seat fill factor and lower depreciation in MedAssist.

**Operating EBIT (Earnings before Interest and Tax)**

*Operating EBIT.* Operating Earnings before Interest and Tax (EBIT) increased by 42.7% to Rs. 1,448.6 million in fiscal 2008 from Rs. 1,014.9 million in fiscal 2007. Operating EBIT in fiscal 2008 was 11.2% of income, as compared to 12.2% of income in fiscal 2007.

*Finance charges, net.* Finance charges, net of Interest income for fiscal 2008 amounted to 2.8% of income for that period, as compared to 0.7% of income in fiscal 2007. Net finance charges increased by 505.0% to Rs. 366.0 million in fiscal 2008 from Rs. 60.5 million in fiscal 2007. The components of finance charges in fiscal 2008 were chiefly a net Interest expense of Rs. 215.6 million and a net exchange loss on foreign currency loans and mark-to-market of FCCB Rs. 150.4 million. The components of finance charges in fiscal 2007 were chiefly a net Interest expense of Rs. 77.7 million and exchange gain on mark-to-market of foreign loans of Rs. 17.2 million. The increase in interest expense was primarily due to a debt of US $ 275 million at LIBOR plus 250 bps, contracted for MedAssist acquisition in September 2007. The funds received from the zero coupon US $ 275 million FCCB issue in December 2007 was used to repay this debt.

The net foreign exchange loss primarily constitutes of Rs. 192.5 million on account of exchange loss on mark-to market of FCCB, and a foreign exchange gain of Rs. 42.1 million on account of ECB (External Commercial Borrowings) and other foreign loans. The FCCB mark-to-market expense is a non-cash charge on account of revaluation of the Foreign Currency Convertible Bonds (FCCB) of US $ 275 million as the same is considered as a monetary liability by the company.

*Other income.* Other income increased to Rs. 349.3 million in fiscal 2008 from Rs. 71.9 million in fiscal 2007. The components of other income in fiscal 2008 were income from the sale and redemption of non-trade investments in the amount of Rs. 42.1 million, dividend income of Rs. 34.5 million, foreign exchange gain on consolidation of subsidiaries of Rs. 257.4 million and other miscellaneous income and write backs of Rs. 15.3 million. The components of other income in fiscal 2007 were profit on sale and redemption of non-trade investments in the amount of Rs. 52.6 million, dividend income accounting for Rs. 13.6 million, foreign exchange gain on consolidation of subsidiaries of Rs. 4.9 million and other miscellaneous income of Rs. 0.8 million.

**Profit before tax**

*Profit before tax.* As a result of the foregoing, profit before tax increased by 39.5% to Rs. 1,431.9 million in fiscal 2008 from a profit before tax of Rs. 1,026.3 million in fiscal 2007. Profit before tax in fiscal 2008 was 11.0% of the income, as compared to 12.4% of the income in fiscal 2007.

*Provision for taxation.* Provision for taxation increased by 110.5% to Rs. 126.5 million in fiscal 2008 from Rs. 60.1 million in fiscal 2007. Income tax expense comprises of current income tax, the net change in the deferred tax assets and liabilities in the applicable fiscal period and Fringe benefit tax.

Current Income tax expense comprises tax on income from operations in India and foreign tax jurisdictions. The Company has the benefit of tax-holiday under Section 10A/10B under the Software Technology Parks (STP) scheme. The increase in current taxes by Rs. 248.3 million was primarily due to increase in U.S. taxes by Rs. 38.1 million, contributed by MedAssist acquisition, U.K. taxes by Rs. 130.7 million in fiscal 2008, chiefly due to grant Income and India taxes by Rs. 58.6 million

There was also a deferred tax asset creation of Rs. 184.4 million in fiscal 2008 compared to a deferred tax charge of Rs. 5.4 million in fiscal 2007. The significant component of deferred tax asset is business losses carried forward and difference between tax and book value of fixed assets.

Fringe benefit tax is payable by the Company on the value of benefits provided or deemed to be provided to its employees. Fringe benefit taxes for fiscal 2008 amounted to Rs. 23.2 million as compared to Rs. 15.3 million for fiscal 2007.

**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. 1,305.4 million for fiscal 2008 from a profit after tax before minority interest of Rs. 966.2 million in fiscal 2007.

*Minority interest.* Minority interest was Rs. (10.2) million in fiscal 2008 as compared to Rs. (6.3) million in fiscal 2007. This was due to the operating losses of Pipal.

**Profit after tax**

Profit after tax. As a result of the foregoing, profit after tax increased by 35.3% to Rs. 1,315.6 million in fiscal 2008 from a profit after tax of Rs. 972.5 million in fiscal 2007. Profit after tax in fiscal 2008 was 10.1% of the total income, as compared to 11.7% of the total income in fiscal 2007.

**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, 2008, the Company had cash and cash equivalents of Rs. 1,024.7 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 | |
|---|---|---|
| | **2008** | 2007 |
| Net Cash flow from Operating activities | **2,268.5** | 913.7 |
| Net Cash flow from/(used in) Investing activities | **(14,145.2)** | (4,046.3) |
| Net Cash flow from/(used in) Financing activities | **9,898.5** | 5,972.3 |
| Effect of exchange differences on cash and cash equivalents | **(7.1)** | – |
| Cash and bank balances at the beginning of the year/period | **3,010.0** | 170.3 |
| Cash and bank balances at the end of the year/period | **1,024.7** | 3,010.0 |

**Operating Activities**

Net cash generated from the Company's operating activities in fiscal 2008 amounted to Rs. 2,268.5 million. This consisted of net profit after tax of Rs. 1,315.6 million and a net upward adjustment of Rs. 1,000.4 million relating to various non-cash items and non-operating items, principally depreciation of Rs. 860.8 million; a net decrease in working capital of Rs. 235.5 million; and income taxes paid of Rs. 283.0 million. The working capital decrease was due to a decrease in trade and other receivables of Rs. 311.9 million, partly offset by a decrease in trade and other payables by Rs. 76.4 million.

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, a net upward adjustment of Rs. 692.6 million relating to various non-cash items and non-operating items, principally depreciation of Rs. 641.5 million, a net increase in working capital of Rs. 684.3 million and income taxes paid of Rs. 67.1 million. The working capital increase was due to an increase in trade and other receivables of Rs. 963.2 million, partly offset by an increase in trade and other payables of Rs. 327.6 million.

**Investing Activities**

In fiscal 2008, the Company used Rs. 14,145.2 million of cash in investing activities. These investing activities primarily included Rs. 13,925.6 million (Rs. 13,964.4 million, net of cash Rs. 38.8 million) towards the acquisition of MedAssist; Rs. 53.3 million towards earnout crystalised on finalisation of arbitration with the erstwhile members of ASG and direct expenses amounting to Rs. 13.6 million; Rs. 66.5 million paid to the promoters of RevIT (an earlier acquisition) as per the share purchase agreement; net capital expenditure of Rs. 1,217.1 million, including fixed assets purchased in connection with the establishment of the Company's delivery centers in Salt Lake city, Utah in the US, Manila in Philippines, Hubli and Indore in India; and net sale of money and debt market mutual funds amounting to Rs. 973.4 million. During the year, the Company received an interest and dividend amounting to Rs. 146.2 million.

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. 1,153.9 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.

**Financing Activities**

In fiscal 2008 cash from financing activities amounted to Rs. 9,898.5 million. This was primarily comprised of proceeds from the issuance of Foreign Currency Convertible Bonds (FCCB) to investors amounting to Rs. 10,840.5 million, proceeds from issuance of equity shares to employees against ESOP allotment net of expenses relating to IPO paid in Fiscal 2008 and adjustment for FCCB issue expenses amounting to Rs. (214.8) million, net repayment of secured loans of Rs. 66.5 million and net repayment of unsecured loans of Rs. 341.7 million. There was an outflow towards interest on loans in the amount of Rs. 319.0 million.

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, proceeds from issuance of equity shares to investors amounting to Rs. 3,821.0 million net of expenses, net repayment of secured loans 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.

The effect of Exchange fluctuation on cash and cash equivalents in fiscal 2008 was negative Rs. 7.0 million as compared to nil in fiscal 2007.

**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, 2008, the Company had cash and bank balances of Rs. 1,024.6 million as compared to Rs. 3,010.0 million as at March 31, 2007.

## 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 judgement 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.*

The BPO Industry is currently in a highly competitive and dynamic business environment characterised by obligations of the service provider to meet stringent customer requirements on information and data security, rapid technological changes, continuous need to access appropriately skilled manpower in a large scale in line with business growth and high attrition and ever increasing focus on regulatory compliance measures.

The Company emphasises on the need to have a robust risk management culture and processes. The Company has already implemented a comprehensive "Enterprise Risk Management" framework in order to anticipate, identify, measure, mitigate, monitor and report the risks to meet the strategic business objectives. The ERM framework was further strengthened during the year by capturing various changes that emerged during the year. The ERM framework captures the following key elements.

**Governance Structure:**

| Level | Responsibilities |
|---|---|
| Board of Directors | • Oversees the risk management process 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 Committee (CEO, CFO, COO) | • 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 organisation as per the direction given by the risk committee.<br>• Provides assistance and guidance to various business/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.<br>• 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 to provide independence assurance to the management. |

**Enterprise Risk Management Process**

| Stage | Activities |
|---|---|
| Risk Identification | • Risk identification exercise is being done in the beginning of the fiscal year by the risk committee and the senior management to update the "Risk register" which captures the risks which can adversely impact the achievement of the business objectives.<br>• This risk register is reviewed by the risk committee 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 of each risk parameter.<br>• All the risks are categorises as extreme, high, moderate and low risks in order to priorities the response and monitoring. |
| Risk Response | • The management defines the risk appetite and risk tolerance levels in order to decide on the appropriate response.<br>• The overall response strategy is either or the combination of avoidance, acceptance, transfer or mitigation strategy. |
| Monitoring and reporting | • Ongoing monitoring is being done by the risk owners with the help of risk and compliance function.<br>• The reporting of the results of the ongoing assessment as well as the changes in the risk profiles is done and reviewed by the risk committee on monthly basis. |

**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 organisation 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 audit team follows "Risk based audit" approach and appraises periodically about activities and audit findings to the audit committee, statutory auditors and top management. The Company has also appointed two external firms to conduct the periodic internal audit of few areas and provide fair independent assessment of the effectiveness of the internal controls.
- During fiscal 2008, all audits were completed as per the schedule and reported to the audit committee.
- 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 is 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**

1. **Revenue concentration risk**

   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. The Company's Top 5 clients accounted for 37.4% of its income from services in fiscal 2008. Furthermore, major events affecting the company's clients, such as bankruptcy, change of management, mergers and acquisitions, change in their business model or environmental factors could adversely impact its business.

The Company has recognised this aspect and had undertaken multiple initiatives over the last few years to rebalance its business portfolio in terms of clients as well as overall industry exposure. As a result of these initiatives, the Company has managed to reduce the revenue concentration on few clients as well as the specific industry exposure.

| % of revenue | Fiscal 2004 | Fiscal 2008 | Trend |
|---|---|---|---|
| Top client | 26.9% | 14.4% | ↓ |
| Top 5 clients | 65.2% | 37.4% | ↓ |

The management believes that it now has a well balanced mix of clients and industries and moving forward shall continuously endeavour to assess and address the risk of any over dependency.

**2. Weakening of US economic outlook and impact on BSFI sector**

In fiscal 2008, the economic conditions in the United States have started weakening led by the crisis in the mortgage industry, which has further led to slow-down across other industries too. This may lead to the higher rates of unemployment, bankruptcy filings and decrease the ability of consumers to pay their debts. This in turn may adversely impact the revenue from the Company's collection business which is generated largely from the US market. Also, the impact has started spreading to the other players in the BSFI sectors across the globe. This may lead to the slow down in the growth of the business expected from the existing clients in the BSFI sector as well as new clients in the pipeline.

However, the Company's existing business does not have any direct exposure to the US mortgage market and hence the Company believes that there is no direct adverse impact on its existing revenues. The collection business is cyclical in nature and the Company expects that the chances of successful collection on its attempts will improve with gradual improvement in overall economic environment. In the medium term, there is also a possibility of increase in the volume of collection business due to increase in delinquency rates, though liquidation rates may remain lower till the economy begins to turn around. The management still believes that in long term the US slowdown may create additional business opportunities as companies may turn to strategic outsourcing due to increasing cost reduction pressures. Additionally, the management has taken various steps in order to rebalance the business portfolio particularly increasing focus on industries other than BFSI such as Telecom and Healthcare. As a result, the overall exposure to the BFSI segment has reduced in the fiscal 2008, which could in turn limit the adverse impact on the Company.

| % of revenue | Fiscal 2004 | Fiscal 2008 | Trend |
|---|---|---|---|
| BFSI Sector | 43.9% | 30.8% | ↓ |

**3. Highly competitive environment**

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 Third party Indian BPO providers, BPO divisions of global IT companies and global "pure play" BPO providers. There are also companies that choose to perform their own business processes internally through offshore captive business processing units established specifically for this purpose.

Your Company understands that it needs to retain and grow its leadership position in the industry and to maintain this competitive edge, your Company realises that it needs to be best in class in operations, delivery, and quality, apart from ensuring that it has a focused marketing and sales team. Towards ensuring this, the Company makes significant investments in process excellence, standardisation and innovation, apart from adhering to global operating standards such as IS 27001, Six Sigma, COPC, SAS 70 etc., all of which help in the Company retaining its competitive edge.

**4. Country level risks**

The Company has operations in India, the United States, the United Kingdom, Argentina and Philippines and it services clients across Europe, North America and Asia. The Company's corporate structure also spans multiple jurisdictions, with intermediate and operating subsidiaries incorporated in India, the United States, the United Kingdom, Argentina and Philippines. As a result, the Company is exposed to risks typically associated with conducting business internationally, many of which are beyond its control. These risks include geographical, political or regulatory risks.

To mitigate this risk, the Company has comprehensive business continuity plans in place. The Company is building deep customer relationships and has a well diversified geographic spread to mitigate the risks specific to a country or geography.

**5. Long selling cycle**

The Company has a long selling cycle for its BPO services, which requires significant investment of capital, resources and time by both clients and the Company. Before committing to use the Company's services, potential clients require it to expend substantial time and resources presenting to them the value of its services and assessing the feasibility of integrating the Company's systems and processes with theirs. Therefore, the Company's selling cycle, which can range in duration from weeks to months, is subject to many risks and delays over which the Company has little or no control, including its clients' decision to choose alternatives to its services (such as other providers or in-house offshore resources) and the timing of its clients' budget cycles and approval processes.

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 fairly quickly into delivery mode. Most of the contracts with existing clients are on long-term basis which ensures sustainable and scalable business from the existing clients.

**6. Risks related to acquisitions**

The Company's growth strategy involves gaining new clients and expanding its service offerings, both organically and through strategic 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 or be able to consummate any acquisition, which may affect its competitiveness and its growth prospects. In addition, the Company's management may not be able to successfully integrate any acquired business into its operations and any acquisition it does complete may not result in long-term benefits to the company.

The company has a dedicated M&A (Mergers and Acquisitions) assessment team which constantly evaluates available acquisition opportunities. On short listing a proposed company or firm for acquisition, the Company puts through stringent due diligence, assessments and evaluations before finally deciding to consummate the acquisition. The Company believes in assessing all parameters before closing out on a deal, 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 your Company. The Company has a well established track record of successfully integrating and creating value from acquisition in the past and believes this experience will help it in future acquisitions.

**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. In fiscal 2008, while a majority of the Company's income was either denominated in Pound sterling or U.S. dollars, a large portion of its expenses were denominated in Indian rupees. The Company expects that a majority of its income will continue to be generated in foreign currencies and that a significant portion of its expenses will continue to be denominated in Indian rupees. 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, as well as exchange rates with other foreign currencies.

The Company actively tracks the movement in foreign currencies and has an internal risk management policy of proactively hedging exposures. The Company has exposures to the Pound sterling and the U.S. dollar which in itself has been in the past acting as a hedge as while the dollar has depreciated sharply vis-à-vis the Indian Rupee in the past year, the Pound had not depreciated as sharply against the Indian Rupee. As per the internal guidelines, the Company has been judiciously hedging its net exposures on regular basis through forward cover contracts and Options. As of March 31, 2008, the Company has outstanding forward covers of Rs. 6,492.6 million. Also during fiscal 2008, the Company has significantly expanded operations in India for service offering to domestic clients, which essentially results in such related income and expenses denominated in Indian rupee and hence no exposure to the currency exchange risk.

| % of revenue | Fiscal 2004 | Fiscal 2008 | Trend |
|---|---|---|---|
| Domestic business | 2.7% | 10.8% | ↑ |

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

The BPO industry is highly labour intensive and 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. The industry, including your Company, experiences high employee turnover as there is significant demand for skilled BPO professionals globally due to the industry being in a high space. High attrition rates among the Company's tenured employees, in particular, could result in a loss of domain and process knowledge, which could result in poor service quality and lead to breaches by the Company of its contractual obligations.

In order to address the threat of attrition of skilled personnel, the Company has put in place best-in-class HR policies, training and development programs and talent management framework 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. The Company tries and aligns its training programs to needs thrown up in the 360 degree feedback process and the performance management process that it brand as 'ACE-Achieve, Challenge, and Enable'. The Company's values of Transparency, Integrity, Respect, People Centricity, Teamwork and Fun continue to be the bedrock of all that it does and have helped it attract and retain talent. The Company's branding efforts during the fiscal has also enhanced its image in the outside world and ensures that the Company has distinct identity in the market place. The Company has also started operations in additional Tier II cities or towns in fiscal 2008, which helped in attracting additional pool of skilled local manpower.

**9. Wage increases**

The Company's most significant costs are salaries and related benefits of its operations staff and other employees. Wage costs in India have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of its competitive advantages. However, because of rapid economic growth in India, increased demand for BPO services in 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 degree could reduce this competitive advantage.

The Company has been successful in countering wage increases in the past by retaining and promoting competent personnel to take higher roles within the Company across various different programs and this in turn has resulted in higher productivity thereby acting as an effective counterbalance. The Company has also been successful in diversifying into Tier II cities and towns which has also helped in this regard.

# REPORT ON CORPORATE GOVERNANCE

*(Pursuant to clause 49 of the Listing Agreement with the Stock Exchanges)*

## 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. With the objective 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.

In compliance with the disclosure requirements of clause 49 of the Listing Agreement with the Stock Exchanges (Listing Agreement), the details are set out herein.

## 2. BOARD OF DIRECTORS

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

The Company has an optimum combination of Directors on the Board. The Board consists of 11 Directors out of which 9 are Non-Executive Directors and 5 out of 11 Directors are Independent Directors.

Eleven Board Meetings were held during the year 2007-2008, i.e. on April 26, May 21, July 5, July 28, August 14, August 28, September 7, October 8, October 10 and October 23 in 2007 and January 29 in 2008. Time gap between any 2 meetings was not more than 4 months.

Details of composition and category of Directors, their attendance at the Board Meetings held during the year, number of Directorships and Committee memberships held by them are as under:

| Name of the Director | Category | No. of Board Meetings Attended in Person | No. of Board Meetings Attended through Teleconference | No. of Directorships in other Public Companies as on 31.03.2008# | No. of Committees Memberships/Chairmanships in other Public Companies as on 31.03.2008 ## | |
|---|---|---|---|---|---|---|
| | | | | | Memberships | Chairmanships |
| Dr. Ashok Ganguly, Chairman | Non-Executive, Independent | 11 | – | 4 | 1 | – |
| Mr. Ananda Mukerji, Managing Director and CEO | Executive | 11 | – | – | – | – |
| Mr. Raju Venkatraman, Jt. Managing Director and COO % | Executive | 9 | 2 | 1 | 1 | - |
| Mrs. Shikha Sharma * | Nominee Director, Non-Executive, Non-Independent | 9 | – | 2 | – | – |
| Mr. Donald W. Layden Jr. ** | Nominee Director, Non- Executive, Non- Independent | 3 | 8 | – | – | – |
| Mr. Dinesh Vaswani $ | Nominee Director, Non-Executive, Non-Independent | 7 | 3 | – | – | – |
| Mr. K. P. Balaraj $$ | Nominee Director, Non-Executive, Non-Independent | 6 | 5 | 1 | – | – |
| Mr. Y. H. Malegam | Non-Executive, Independent | 11 | – | 9 | 3 | 3 |
| Mrs. Lalita D. Gupte | Non-Executive, Independent | 9 | 1 | 5 | 3 | – |
| Mr. Charles Miller Smith | Non-Executive, Independent | 4 | 6 | – | – | – |
| Mr. Shailesh J. Mehta | Non-Executive, Independent | 4 | 5 | 1 | – | – |

# The Directorships of Indian public limited companies only have been considered. Directorships of foreign companies, section 25 companies and private limited companies have not been considered.

## Memberships/Chairmanships in Audit Committee and Shareholders'/Investors' Grievance Committee only of Indian public limited companies have been considered.

% Appointed as Director on April 26, 2007

* Representing promoter – ICICI Bank Limited.

** Representing Equity Investor, Metavante Investment (Mauritius) Limited.

$ Representing Equity Investor, Aranda Investments (Mauritius) Pte. Limited.

$$ Representing Equity Investor, WestBridge Ventures I Investment Holdings.

All the Directors of the Company were present at the last Annual General Meeting (AGM) of the Company held on August 14, 2007.

The following Directors of the Company hold equity shares in the Company:

| Name of the Director | Category | No. of Equity Shares held as on March 31, 2008 |
|---|---|---|
| Dr. Ashok Ganguly, Chairman | Non-Executive, Independent | 367,500 |
| Mr. Ananda Mukerji, Managing Director and CEO | Executive | 414,300 |
| Mr. Raju Venkatraman, Jt. Managing Director and COO | Executive | 59,579 |
| Mr. Shailesh J. Mehta | Non-Executive, Independent | 245,000 |
| Mr. Y. H. Malegam | Non-Executive, Independent | 62,500 |

The Company has a process to provide the information to the Board as required under Annexure IA to clause 49. The Board periodically reviews the Compliance report of all laws applicable to the Company. 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 Audit Committee was reconstituted on April 26, 2007 in line with the provisions of clause 49 of the Listing Agreement read with section 292A of the Companies Act, 1956. It comprises Mr. Y. H. Malegam, Chairman, Mr. Dinesh Vaswani, Mr. Charles Miller Smith and Mrs. Lalita D. Gupte.

Six meetings of the Committee were held during the year 2007-2008 i.e. on April 26, July 28, August 14, October 22 and October 29 in 2007 and January 28 in 2008. The time gap between any 2 meetings was not more than four months. Details of composition of Committee and attendance during the year are as under:

| Name of the Director | Category | No. of Meetings Attended in Person | No. of Meetings Attended through Teleconference |
|---|---|---|---|
| Mr. Y. H. Malegam, Chairman | Independent, Non-Executive | 6 | – |
| Mr. Dinesh Vaswani | Nominee Director, Non-Independent, Non- Executive | 5 | – |
| Mr. Charles Miller Smith | Independent, Non-Executive | 4 | 1 |
| Mrs. Lalita D. Gupte* | Independent , Non-Executive | 4 | – |
| Mr. Shailesh J. Mehta# | Independent , Non-Executive | 1 | – |

* Appointed as member on April 26, 2007
# Ceased to be member on April 26, 2007

The terms of reference of the Audit Committee cover the matters specified under clause 49 of the Listing Agreement read with 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 quarterly and annual financial statements, internal audit reports and controls of the Company and other matters as stated under role of Audit Committee in clause 49 of the Listing Agreement.

The members of Audit Committee are financially literate having accounting and related financial management expertise.

The Managing Director and CEO, Jt. Managing Director and COO, Statutory Auditors and Chief Financial Officer are invitees to the meetings of the Audit Committee. The Company Secretary acts as the Secretary to the Committee.

## 4. REMUNERATION COMMITTEE

The Company has a Compensation cum Board Governance Committee, re-constituted on April 26, 2007, which also 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 the Executive Directors. It comprises Dr. Ashok Ganguly, Chairman, Mr. K. P. Balaraj, Mr. Shailesh J. Mehta and Mr. Charles Miller Smith.

Seven meetings of the Committee were held during the year 2007-2008 i.e. on April 26, August 14, October 22, October 25 and December 5 in 2007 and January 28 and March 27 in 2008. Details of composition of the Committee and attendance during the year are as under:

| Name of the Director | Category | No. of Meetings Attended in Person | No. of Meetings Attended through Teleconference |
|---|---|---|---|
| Dr. Ashok Ganguly, Chairman | Independent, Non-Executive | 7 | – |
| Mr. K. P. Balaraj | Nominee Director, Non-Independent, Non-Executive | 6 | 1 |
| Mr. Charles Miller Smith | Independent, Non-Executive | 4 | 1 |
| Mr. Shailesh J. Mehta* | Independent, Non-Executive | 4 | 1 |
| Mr. Dinesh Vaswani# | Nominee Director, Non-Independent, Non-Executive | 1 | – |

* Appointed as member on April 26, 2007

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

The details of remuneration of the Executive Directors for the year ended March 31, 2008 are as under:

| Name | Salary & Allowances (including Performance Linked Bonus) (Rs.) | Perquisites (Rs.) | Contribution towards Provident Fund (Rs.) | No. of Options Granted |
|---|---|---|---|---|
| Mr. Ananda Mukerji | 10,983,171 | 243,028 | 486,000 | 15,493,856 |
| Mr. Raju Venkatraman | 10,209,141 | Nil | 414,900 | 15,493,856 |

Mr. Ananda Mukerji was re-appointed as the Managing Director and CEO for a period of 5 years w.e.f. April 17, 2007, which was approved by the shareholders at their Extra-ordinary General Meeting held on November 10, 2006. Mr. Raju Venkatraman was appointed as the Joint Managing Director and COO for a period of 5 years w.e.f. April 26, 2007, which was approved by the shareholders at the AGM held on August 14, 2007. Notice period for both Mr. Ananda Mukerji and Mr. Raju Venkatraman is 3 months.

Mr. Ananda Mukerji and Mr. Raju Venkatraman are also entitled to participate in the Management Incentive Plan (MIP) of the Company, which is linked to achievement of the Profit After Tax (PAT) targets.

The aforesaid stock options were granted at the 'market price' as defined under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. 50% of each grant shall vest over a period of 5 years , with the first vesting of 20% at the end of two years from the date of grant followed by vesting of ten per cent (10%) each at the end of 3, 4 and 5 years from the date of grant. Balance 50% of each grant shall vest in proportion to the achievement of 5 years performance targets to be decided by the Compensation cum Board Governance Committee. The exercise period is 10 years from the date of the allotment of options and they would be required to hold atleast 25% of the shares acquired by them after exercise of the options till the time they are in service of the Company.

The Company remunerates its Non-Executive Directors by way of sitting fees for attending the Board or the Committee meetings and grant of stock options. However, Nominee Directors are not paid any sitting fees. Other Non-Executive Directors were paid sitting fees of Rs. 5,000/-for attending each Board meeting and Rs. 2,000/- for attending each Committee meeting upto April 26, 2007. Sitting fees for attending each Board meeting and Committee meeting has been increased to Rs. 20,000/- w.e.f. July 28, 2007. No stock option was granted to Non-Executive Directors during the year.

The details of sitting fees for the year are as under:

| Name of the Director | Sitting Fees Amount (Rs.) |
|---|---|
| Dr. Ashok Ganguly | 379,000 |
| Mr. Charles Miller Smith | 189,000 |
| Mr. Shailesh J. Mehta | 129,000 |
| Mr. Y. H. Malegam | 317,000 |
| Mrs. Lalita D. Gupte | 215,000 |

## 5. SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE

The Shareholders'/Investors' Grievance Committee was constituted on October 27, 2006 in line with the provisions of clause 49 of the Listing Agreement.

The Committee looks into redressal of Shareholder's/Investors' complaints like non-allotment of shares, non-receipt of refund order, Annual Report etc. Mr. Sanjay Gupta, Company Secretary is the Compliance Officer.

Four meetings of the Committee were held during the year i.e. on April 26, August 14 and October 22 in 2007 and January 28 in 2008. The details of Composition of the Committee and attendance during the year are as under:

| Name of the Director | Category | No. of Meetings Attended |
|---|---|---|
| Dr. Ashok Ganguly, Chairman | Independent, Non-Executive | 4 |
| Mr. Ananda Mukerji | Executive | 4 |
| Mr. Dinesh Vaswani | Nominee Director, Non-Independent, Non-Executive | 4 |

The total number of complaints received during the year were 714, all of which were resolved. There were no pending complaints as on March 31, 2008.

## 6. GENERAL BODY MEETINGS

Location and time of last three AGMs:

| Year | Venue | Date | Time |
|---|---|---|---|
| 2004-05 | 6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg, Lower Parel (West), Mumbai - 400 013 | August 26, 2005 | 11.00 a.m. |
| 2005-06 | Same as above | July 27, 2006 | 4.00 p.m. |
| 2006-07 | Ravindra Natya Mandir, Sayani Road, Prabhadevi, Mumbai - 400 025 | August 14, 2007 | 4.00 p.m. |

**Special Resolution passed at last 3 AGMs:**

**a) 2004-05**

i) Increase in stock option pool

ii) Increase in stock option pool for persons resident outside India

**b) 2005-06**

i) Approval for the remuneration of Managing Director & CEO

**c) 2006-07**

i) Adoption of Articles of Association of the Company in substitution for and to the exclusion of all the existing Articles.

ii) Approval for Employee Stock Option Schemes (ESOS) .

iii) Extending benefits of ESOS to employees of subsidiary companies.

**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

i. 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. There are no materially significant related party transactions of the Company which have potential conflict with the interests of the Company at large.

Disclosures from senior management are being obtained to the effect that they have not entered into any material financial and commercial transactions, where they have personal interest, that may have potential conflict with the interest of the Company at large.

ii. 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 Exchange or SEBI or any other regulatory authority on any matter related to capital market during the last 3 years.

iii. The Company has complied with all applicable mandatory requirements of clause 49 of the Listing Agreement.

iv. The Company has fulfilled the following non-mandatory requirements as prescribed in Annexure ID to clause 49 of the Listing Agreement :

- The Company has set up a Compensation cum Board Governance Committee which also acts as a Remuneration Committee of the Company, details of which have been given earlier in this Report.
- The statutory financial statements of the Company are unqualified.
- The Company has adopted a Whistle Blower Policy and has established necessary mechanism for employees to report concerns about unethical behaviour. No person has been denied access to the Audit Committee.
- The Company has provided the Chairman (Non-Executive) with a full fledged office, the expenses of which are borne by the Company. The Chairman is reimbursed all expenses incurred in the performance of his duties.

v. Certification on financial statements pursuant to clause 49 V of the Listing Agreement is being obtained from the Managing Director & CEO and CFO of the Company. Copy of the same is given at the end of this Report.

vi. The Board has laid down Codes of Conduct for Executive Directors, Non-Executive Directors and senior management of the Company. 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 at the end of this Report.

vii. The Company has no material non-listed Indian Subsidiary Company as defined in clause 49 III of the Listing Agreement. The minutes of the Board and General Body Meetings of the subsidiary companies are placed at the Board Meetings of the Company. The financial statements of the subsidiaries are reviewed by the Audit Committee.

viii. The Company has implemented comprehensive 'Enterprise Risk Management' framework in order to anticipate, identify, measure, mitigate, monitor and report the risks to meet the strategic business objectives, details of which are given in the 'Risk Management Report' in this Annual Report.

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

## 8. MEANS OF COMMUNICATION

The quarterly and annual financial results are normally published in Business Standard (English), Mint (English) and Sakal (Marathi).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 and presentations made to analysts.

The Company had applied for user ID and password for upload of documents such as quarterly and annual financial results, shareholding pattern etc. on the SEBI's Electronic Data Information Filing and Retrieval (EDIFAR) website viz. www.sebiedifar.nic.in as required pursuant to clause 51 of the Listing Agreement. The Company has been unable to upload the said documents due to non-receipt of requisite user ID and password.

## 9. GENERAL SHAREHOLDER INFORMATION

**I. Annual General Meeting**

**Date, Time and Venue:**

Thursday, July 31, 2008 at 3.00 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 (Fiscal 2008) – July/ August*
* Tentative

**III. Dates of Book Closure (both days inclusive)**

Thursday, July 24, 2008 to Thursday, July 31, 2008

**IV. Dividend**

Given the growth requirements of the business, it is necessary for the Company to plough back its profits into the business, and hence the Directors do not recommend any dividend for fiscal 2008.

**V. Listing on Stock Exchanges and Payment of Listing Fees**

The equity shares of the Company are listed on National Stock Exchange of India Limited (NSE), Exchange Plaza, Plot no. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 and Bombay Stock Exchange Limited (BSE), Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001.

The Foreign Currency Convertible Bonds (FCCBs) are listed on Singapore Exchange Securities Trading Limited (SESTL), 2 Shenton Way, # 19-00 SGX Centre 1, Singapore 068804.

Annual Listing fees for the year 2008-09 has been paid by the Company to NSE, BSE and SESTL.

**VI. (a) Stock Code**

BSE – 532809
NSE - FSL

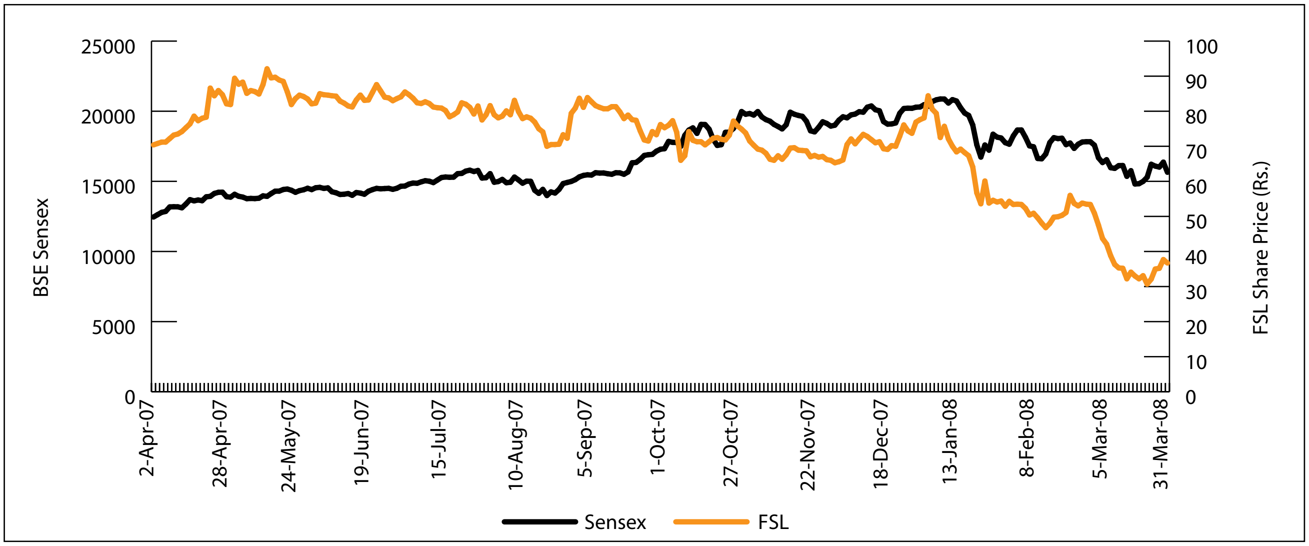
**(b) ISIN in National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL)**

INE684F01012

**VII. Market Price Data** – The market price data i.e. monthly high and low prices of the Company's shares on NSE and BSE are given below:

| Month | NSE | | | BSE | | |
|---|---|---|---|---|---|---|
| | Share Price (Rs.) | | Number of shares traded | Share Price (Rs.) | | Number of shares traded |
| | High | Low | | High | Low | |
| April 2007 | 91.25 | 69.50 | 39,515,698 | 91.20 | 69.50 | 28,312,183 |
| May 2007 | 93.20 | 81.50 | 58,814,391 | 93.45 | 81.50 | 44,123,623 |
| June 2007 | 88.50 | 80.60 | 24,967,346 | 88.50 | 80.50 | 23,754,276 |
| July 2007 | 87.35 | 77.00 | 12,485,236 | 87.40 | 77.15 | 8,807,663 |
| August 2007 | 84.75 | 69.05 | 13,324,305 | 84.80 | 69.00 | 8,333,190 |
| September 2007 | 84.80 | 70.45 | 8,183,838 | 84.80 | 70.50 | 4,355,899 |
| October 2007 | 80.40 | 66.10 | 9,193,282 | 80.20 | 66.10 | 7,284,011 |
| November 2007 | 73.50 | 65.00 | 6,311,400 | 73.40 | 65.00 | 3,538,884 |
| December 2007 | 77.50 | 65.00 | 12,842,946 | 78.00 | 65.70 | 12,115,285 |
| January 2008 | 89.70 | 46.20 | 27,684,935 | 89.80 | 45.40 | 24,628,911 |
| February 2008 | 56.70 | 46.10 | 10,305,971 | 56.65 | 45.70 | 8,076,388 |
| March 2008 | 50.00 | 30.20 | 11,832,902 | 50.70 | 30.05 | 8,104,190 |

**VIII.** The performance of share price of the Company in comparison to BSE Sensex is given below:




**IX. Registrar & Transfer Agents:**

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

**X. Share Transfer System**

The transfer of shares in physical form is normally 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 done by NSDL/CDSL with no involvement of the Company. In compliance with clause 47(c) of the Listing Agreement , the Company obtains a certificate from Practicing Company Secretaries confirming that all certificates have been issued within one month from the date of lodgement for transfer, sub-division, consolidation etc.

**XI. Distribution of shareholding as on March 31, 2008**

| Share Holding (Nominal Value) | Shareholders | | Nominal Capital | |
|---|---|---|---|---|
| Rs. Rs. | Nos. | % to Total | Rs. | % to Total |
| Upto 5000 | 114,635 | 91.58 | 165,459,020 | 3.87 |
| 5001 - 10000 | 5,932 | 4.74 | 48,621,520 | 1.14 |
| 10001 - 20000 | 2,458 | 1.96 | 37,702,640 | 0.88 |
| 20001 - 30000 | 770 | 0.62 | 19,808,600 | 0.46 |
| 30001 - 40000 | 317 | 0.25 | 11,518,360 | 0.27 |
| 40001 - 50000 | 285 | 0.23 | 13,626,170 | 0.32 |
| 50001 - 100000 | 383 | 0.31 | 27,313,650 | 0.64 |
| 100001 - above | 391 | 0.31 | 3,949,079,680 | 92.42 |
| **Total** | **125,171** | **100.00** | **4,273,129,640** | **100.00** |

**Categories of Shareholders as on March 31, 2008**

| Category | No. of Shares Held | % to Total Share Capital |
|---|---|---|
| **Promoter's holding** | | |
| ICICI Bank Limited and its subsidiaries | 114,505,593 | 26.80 |
| **Non-Promoter holding** | | |
| Mutual Funds and UTI | 5,207,626 | 1.22 |
| Banks | 270,914 | 0.06 |
| FIIs, Foreign Venture Capital Institutions, Foreign Companies | 237,769,689 | 55.64 |
| Bodies Corporate | 29,627,824 | 6.93 |
| Individuals | 39,931,318 | 9.35 |
| **TOTAL** | **427,312,964** | **100.00** |

## XII. Dematerialisation of Shares and Liquidity

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

As on March 31, 2008, 99.96% of the paid up share capital has been dematerialised.

## XIII. Outstanding GDRs/ ADRs/ Warrants or any Convertible Instruments, Conversion Date and Likely Impact on Equity

The Company has no outstanding GDRs/ ADRs/ Warrants. During the year, the Company issued Zero Coupon Foreign Currency Convertible Bonds (FCCBs) of US $ 275 million. The FCCBs have a maturity period of 5 years and 1 day. They are convertible at any time on or after January 14, 2008 till November 23, 2012 at a conversion price of Rs. 92.2933 per share. 117,010,135 equity shares will be issued, if all the FCCBs get converted into equity shares. The FCCBs are listed on Singapore Exchange Securities Trading Limited.

## XIV. Delivery Centres

The Company along with its subsidiaries has 36 global delivery centres of which 17 are located in India, 15 in US, 2 in UK, 1 in Argentina and 1 in Philippines.

| | | | |
|---|---|---|---|
| **India** | Mumbai (4 centres) | **United States of America** | Kingston, New York |
| | Bangalore (2 centres) | | Amherst, New York |
| | Chennai (2 centres) | | Reno, Nevada (2 centres) |
| | Trichy (2 centres) | | Rockford, Illinois |
| | Pondicherry | | Belleville, Illinois |
| | Kolkata | | Fort Scott, Kansas |
| | New Delhi | | Louisville, Kentucky (2 centres) |
| | Vijaywada | | Salt Lake City, Utah |
| | Cochin | | Colorado Springs |
| | Hubli | | Columbus, Ohio |
| | Indore | | LaPorte, Indiana |
| | | | Miami, Florida |
| | | | Nashua, New Hampshire |
| | | **United Kingdom** | Belfast, Northern Ireland |
| | | | Londonderry, Northern Ireland |
| | | **Argentina** | Buenos Aires |
| | | **Philippines** | Manila |

## XV. Address for Correspondence

**Registrar and Share Transfer Agents :**
3i Infotech Limited
Tower#5, 3rd to 6th Floors
International Infotech Park,
Vashi, Navi Mumbai - 400 703
Tel. No. : 91 (22) 67928000

**Company Secretary and Compliance Officer**
Mr. Sanjay Gupta
Firstsource Solutions Limited
6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg ,
Lower Parel, Mumbai - 400 013
Tel. No. : 91 (22) 6666 0888, Fax : 91 (22) 6666 0804
E-mail Id for redressal of Investors grievances : complianceofficer@firstsource.com

Mumbai
Dated: April 29, 2008

## PRACTISING COMPANY SECRETARIES' 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, 2008, as stipulated in clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

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 certify that the Company has complied with the conditions of Corporate Governance as stipulated in the abovementioned Listing Agreement.

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**
*Practicing Company Secretaries*

Mumbai
April 29, 2008

**P. N. Parikh**
FCS: 327 CP: 1228

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## CERTIFICATION FROM MANAGING DIRECTOR & CEO AND CFO

In terms of clause 49 V of the Listing Agreements with the NSE and BSE, we hereby certify as under:

a) We have reviewed financial statements and the cash flow statement for the year ended March 31, 2008 and that to the best of our knowledge and belief :

   i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

   ii. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b) There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's Code of Conduct.

c) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting. We have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

d) There have been no

   i. Significant changes in internal control over financial reporting during the year;

   ii. Significant changes in accounting policies during the year;

   iii. Instances of fraud of which we have become aware and the involvement therein, of the management or an employee having significant role in the Company's internal control system over financial reporting.

For **Firstsource Solutions Limited**

**Ananda Mukerji**
Managing Director & CEO
Mumbai
April 29, 2008

For **Firstsource Solutions Limited**

**Rajesh Subramaniam**
CFO

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## DECLARATION BY MANAGING DIRECTOR & CEO ON 'CODE OF CONDUCT'

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.

Mumbai
April 29, 2008

**Ananda Mukerji**
Managing Director & CEO

# AUDITORS' REPORT

**To the Board of Directors**
**Firstsource Solutions Limited**

We have audited the attached Consolidated Balance Sheet of Firstsource Solutions Limited ("the Company" or "the Parent Company") and its subsidiaries (as per the listing appearing in Schedule 1 to the consolidated financial statements) [collectively referred to as "the Group"] as at March 31, 2008, the Consolidated Profit and Loss account of the Company for the year ended March 31, 2008 and the Consolidated Cash Flow Statement of the Company for the year ended March 31, 2008, annexed thereto. The audit was conducted in accordance with the terms of engagement as specified by Board of Directors of the Parent Company.

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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.

We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard 21 – 'Consolidated Financial Statements', prescribed by Companies (Accounting Standards) Rules, 2006.

Without qualifying our opinion, we draw attention to Schedule 2.16(b) and 31.2 of the consolidated financial statements, that the Company has charged the entire amount of premium payable on redemption of zero coupon foreign currency convertible bonds ('FCCB') of Rs. 4,343 million to securities premium account on the date of issue through a corresponding credit to Premium payable on redemption of FCCBs account instead of amortising the premium systematically using the interest method over the tenor of the bonds. The aforesaid treatment is followed since the Company considers that the liability for premium accrues on issuance of bonds. This accounting treatment, however, does not have any impact on the profit for the year.

In our opinion, and to the best of our information and according to the information and explanations given to us, these 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 state of affairs of the Group as at March 31, 2008;

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

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

For **BSR & Co.**
*Chartered Accountants*

**Akeel Master**
*Partner*
Membership No.: 046768

Mumbai
April 29, 2008

# CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | Schedule | 2008 | 2007 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **Shareholders' funds** | | | |
| Share capital | 3 | **4,273,130** | 4,250,843 |
| Reserves and surplus | 4 | **3,127,250** | 6,414,743 |
| | | **7,400,380** | 10,665,586 |
| **Minority interest** | | **36,420** | 42,970 |
| **Loan funds** | | | |
| Secured loans | 5 | **596,631** | 711,963 |
| Unsecured loans | 6 | **11,955,218** | 1,263,913 |
| **Deferred tax liability, net** | 10 | **–** | 950 |
| | | **19,988,649** | 12,685,382 |
| **APPLICATION OF FUNDS** | | | |
| **Goodwill on consolidation** | 7 | **18,880,034** | 5,419,247 |
| **Fixed assets** | 8 | | |
| Gross block | | **5,340,421** | 3,891,335 |
| Less: Accumulated depreciation and amortisation | | **3,203,586** | 2,171,124 |
| Net block | | **2,136,835** | 1,720,211 |
| Add: Capital work in progress (including capital advances) | | **89,224** | 81,969 |
| | | **2,226,059** | 1,802,180 |
| **Investments** | 9 | **221,168** | 1,152,534 |
| **Deferred tax asset, net** | 10 | **184,489** | - |
| **Current assets, loans and advances** | | | |
| Sundry debtors | 11 | **2,053,785** | 1,335,368 |
| Unbilled revenues | | **400,178** | 722,645 |
| Cash and bank balances | 12 | **1,024,650** | 3,009,954 |
| Loans and advances | 13 | **1,050,577** | 612,179 |
| | | **4,529,190** | 5,680,146 |
| **Less: Current liabilities and provisions** | | | |
| Current liabilities | 14 | **1,433,020** | 1,255,560 |
| Provisions | 15 | **4,619,271** | 113,165 |
| | | **6,052,291** | 1,368,725 |
| **Net current assets** | | **(1,523,101)** | 4,311,421 |
| | | **19,988,649** | 12,685,382 |
| **Significant accounting policies** | 2 | | |
| **Notes to accounts** | 20 - 32 | | |

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

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

For and on behalf of the Board of Directors

**Dr. Ashok S. Ganguly**
*Chairman*

**Ananda Mukerji**
*Managing Director & CEO*

**Raju Venkatraman**
*Joint Managing Director & COO*

**Akeel Master**
*Partner*
Membership No.: 046768

**Lalita D. Gupte**
*Director*

**Shikha Sharma**
*Director*

**Dinesh Vaswani**
*Director*

**K. P. Balaraj**
*Director*

**Donald W. Layden Jr.**
*Director*

**Charles Miller Smith**
*Director*

**Shailesh Mehta**
*Director*

**Y. H. Malegam**
*Director*

Mumbai
April 29, 2008

**Rajesh Subramaniam**
*CFO*

**Sanjay Gupta**
*Company Secretary*

# CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | Schedule | 2008 | 2007 |
|---|---|---|---|
| **INCOME** | | | |
| Income from services | | **12,406,138** | 8,168,483 |
| Other operating income | | **581,811** | 141,677 |
| Other income | 16 | **349,233** | 71,983 |
| | | **13,337,182** | 8,382,143 |
| **EXPENDITURE** | | | |
| Personnel costs | 17 | **7,120,369** | 4,135,649 |
| Depreciation and amortisation | 8 | **860,820** | 641,455 |
| Finance charge, net | 18 | **365,990** | 60,489 |
| Operating costs | 19 | **3,558,135** | 2,518,198 |
| | | **11,905,314** | 7,355,791 |
| **Profit before tax, minority interest** | | **1,431,868** | 1,026,352 |
| **Provision for taxation** | | | |
| - Current tax expense (including foreign taxes) | | **287,698** | 39,389 |
| - Deferred tax charge / (release) | | **(184,426)** | 5,407 |
| - Fringe benefits tax | | **23,208** | 15,334 |
| **Profit after tax, before minority interest** | | **1,305,388** | 966,222 |
| Minority interest | | **(10,208)** | (6,306) |
| Profit after tax and minority interest | | **1,315,596** | 972,528 |
| Add: Profit brought forward from previous year | | **1,296,938** | 324,410 |
| Appropriations: | | | |
| - Dividend Tax paid | | **242** | – |
| - Capital redemption reserve | | **5,162** | – |
| **Accumulated balance carried forward to the balance sheet** | | **2,607,130** | 1,296,938 |
| **Earnings per share** | | | |
| Weighted average number of equity shares outstanding during the year | 27 | | |
| - Basic | | **425,858** | 264,852 |
| - Diluted | | **464,222** | 389,278 |
| Earnings per share (Rs) | | | |
| - Basic | | **3.09** | 3.67 |
| - Diluted | | **2.83** | 2.50 |
| **Significant accounting policies** | 2 | | |
| **Notes to accounts** | 20-32 | | |

**The accompanying schedules form an integral part of this consolidated profit and loss account.**

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

For and on behalf of the Board of Directors

**Dr. Ashok S. Ganguly**
*Chairman*

**Ananda Mukerji**
*Managing Director & CEO*

**Raju Venkatraman**
*Joint Managing Director & COO*

**Akeel Master**
*Partner*
Membership No.: 046768

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**Shailesh Mehta**
*Director*

**Y. H. Malegam**
*Director*

Mumbai
April 29, 2008

**Rajesh Subramaniam**
*CFO*

**Sanjay Gupta**
*Company Secretary*

# CONSOLIDATED CASH FLOW STATEMENT AS AT MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **Cash flow from operating activities** | | |
| **Profit after tax** | **1,315,596** | 972,528 |
| **Adjustments** | | |
| Depreciation | **860,820** | 641,455 |
| Deferred taxes | **(184,426)** | 5,407 |
| Provision for current tax | **310,906** | 54,723 |
| Provision for doubtful debts (written back) | **(7,824)** | 5,850 |
| Foreign exchange loss / (gain), net | **(107,021)** | (22,089) |
| Interest costs | **315,845** | 121,566 |
| Interest and dividend income | **(134,746)** | (57,503) |
| (Profit) / loss on sale on investments | **(42,093)** | (52,619) |
| Employee stock award in a subsidiary | **–** | 1,695 |
| Minority interest | **(10,208)** | (6,306) |
| Loss / (gain) on sale of fixed assets | **(829)** | 469 |
| | **2,316,020** | 1,665,176 |
| **Changes in working capital** | | |
| Debtors | **115,102** | (963,189) |
| Loans and advances | **196,837** | (48,832) |
| Current liabilities and provisions | **(76,445)** | 327,630 |
| **Net changes in working capital** | **235,494** | (684,391) |
| **Taxes paid** | **(283,020)** | (67,119) |
| **Net cash generated / (used) in operating activities (A)** | **2,268,494** | 913,666 |
| **Cash flow from investing activities** | | |
| Purchase of investments in mutual funds / government securities | **(11,263,940)** | (7,178,372) |
| Sale of investments in mutual funds / government securities | **12,237,398** | 6,078,458 |
| Interest income received | **146,153** | 44,677 |
| Business acquisitions, net of cash acquired | **(14,059,044)** | (1,837,385) |
| Capital expenditure | **(1,217,149)** | (1,153,948) |
| Sale of fixed assets | **11,355** | 285 |
| **Net cash generated / (used) in investing activities (B)** | **(14,145,227)** | (4,046,285) |
| **Cash flow from financing activities** | | |
| Proceeds from secured loans | **443,152** | 25,062 |
| Repayment secured loans | **(509,615)** | (27,062) |
| Proceeds from unsecured loans - FCCB | **10,840,500** | - |
| Proceeds from unsecured loans - Others | **43,274** | 897,825 |
| Repayment unsecured loans | **(384,969)** | (203,051) |
| Proceeds from issuance of preference shares | **–** | 1,579,243 |
| Proceeds from issuance of equity shares, net of expenses | **(214,769)** | 3,820,977 |
| Interest paid | **(319,114)** | (120,701) |
| **Net cash generated from financing activities (C)** | **9,898,459** | 5,972,293 |
| Effect of Exchange fluctuation on cash and cash equivalents (D) | **(7,031)** | – |
| **Net (decrease) / increase in cash and cash equivalents (A+B+C+D)** | **(1,985,304)** | 2,839,674 |
| **Cash and cash equivalents at the beginning of the year** | **3,009,954** | 170,280 |
| **Cash and cash equivalents at the end of the year** | **1,024,650** | 3,009,954 |

# CONSOLIDATED CASH FLOW STATEMENT AS AT MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | **2008** | 2007 |
|---|---|---|
| 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. | | |
| **Cash on hand** | **851** | 989 |
| Balances with scheduled banks | | |
| - in current accounts | **5,548** | 41,238 |
| - in deposit accounts* | **201,520** | 2,356,426 |
| - in Exchange earning in foreign currency accounts | **447** | 1,079 |
| Balances with non scheduled banks | | |
| - in current accounts | **670,991** | 458,704 |
| - in deposit accounts** | **179,687** | 254,516 |
| Remittance in transit | **–** | 12,874 |
| | **1,059,044** | 3,125,826 |
| Less: Current account balance held in trust for customers in non scheduled banks | **34,394** | 115,872 |
| | **1,024,650** | 3,009,954 |

* Includes Rs. 1,416 (March 31, 2007 Rs. 5,870) under lien for bank guarantees to the customs authorities.
** Includes Rs. Nil (March 31, 2007 Rs. 200,316) placed in Escrow account on behalf of subsidiary FR-US.

For **BSR & Co.**
*Chartered Accountants*

For and on behalf of the Board of Directors

**Dr. Ashok S. Ganguly**
*Chairman*

**Ananda Mukerji**
*Managing Director & CEO*

**Raju Venkatraman**
*Joint Managing Director & COO*

**Akeel Master**
*Partner*
Membership No.: 046768

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*Director*

Mumbai
April 29, 2008

**Rajesh Subramaniam**
*CFO*

**Sanjay Gupta**
*Company Secretary*

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 1. Background

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

During the year, the Company through its wholly-owned subsidiary Firstsource Solutions USA Inc. acquired 100% of the common stock of MedAssist Holding Inc., a Delaware corporation, a leading provider of revenue cycle management in the healthcare industry in the USA.

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") | 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") | A subsidiary of Firstsource Solutions Limited, organized under the laws of United Kingdom. | 100% | 2002-2003 |
| FirstRing Inc., USA ("FR-US") | A subsidiary of Firstsource Solutions Limited, organized under the laws of State of Delaware, USA | 99.80% | 2003-2004 |
| Firstsource Advantage LLC, ("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") | 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") | A subsidiary of Firstsource Solutions Limited UK, incorporated under the laws of S.A. | 99.98% | 2006-2007 |
| MedAssist Holding, Inc. (MedAssist) | A Subsidiary of Firstsource Solutions Limited US, organized under the laws of State of Delaware, USA | 100% | 2007-2008 |
| MedAssist Intermediate Holding, Inc. (MIH) | A Subsidiary of MedAssist Holding, Inc., organized under the laws of State of Delaware, USA | 100% | 2007-2008 |
| MedAssist, Incorporated (MI) | A Subsidiary of MedAssist Intermediate Holding, Inc., organized under the laws of State of Kentucky, USA | 100% | 2007-2008 |
| Twin Medical Transaction Services, Inc. (Twin) | A Subsidiary of MedAssist, Incorporated, organized under the laws of Nevada Corporation, USA | 100% | 2007-2008 |
| Argent Healthcare Financial Services, Inc. (Argent) | A Subsidiary of MedAssist, Incorporated, organized under the laws of State of Delaware, USA | 100% | 2007-2008 |

## 2. Significant Accounting Policies

### 2.1 Basis of preparation

The financial statements have been prepared and presented under the historical cost convention on accrual basis of accounting and accounting principles generally accepted in India and comply with the Accounting Standards prescribed in the Companies (Accounting Standard) Rules, 2006 issued by the Central Government in consultation with the National Advisory Committee on Accounting Standard and in accordance with 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.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

**2.2 Basis of consolidation**

These consolidated financial statements are prepared in accordance with the principles and procedures prescribed as per Companies (Accounting Standard) Rule, 2006 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 recognized 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 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 realized. 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. Revenue from contingency based contracts, in which the client is invoiced for a percentage of the hospital's third party reimbursement, is recognised once the hospital receives payment.

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, on a systematic basis in a Profit and Loss Statement over the period necessary to match them with the related cost which they are intended to compensate.

**2.6 Goodwill on consolidation**

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 recognized 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.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

**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:

| Asset Category | Useful life (in years) |
|---|---|
| ***Intangible*** | |
| Software | 3 |
| Domain name | 3 |
| Goodwill on aquired assets | 5 or estimated useful life, whichever is shorter |
| ***Tangible*** | |
| Leasehold improvements | Lease term or the estimated useful life of the asset, whichever is shorter |
| Office equipments | 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.

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 amortization 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 amortization 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 amortization period is changed accordingly.

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.

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

(Currency: In thousands of Indian rupees)

*Provident fund*

In accordance with Indian regulations, all employees of the Indian entities receive benefits from a Government administered provident fund scheme. 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 nature, 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 benefit.

*Current taxes*

Provision for current income-tax is recognized 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 recognized for the future tax consequences attributable to timing differences that result from differences between the profits offered for income taxes and the profits as per the financial statements 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 recognized 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 a period up to March 2009 in relation to its undertakings set up in the Software Technology Park at Bangalore, Mumbai, Kolkata and Chennai. 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 recognized in respect of the same.

*Fringe Benefits Tax*

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

**2.11 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 charge/(expense) and principal repayment.

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

*Operating lease*

Lease rentals in respect of assets acquired under operating lease are charged off to the Profit and Loss account as incurred.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

**2.12 Foreign currency transactions and derivative instruments and hedge accounting**

a) *Foreign currency transactions*

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

The premium or discount on all the forward contracts arising at the inception of each contract is amortised as income or expense over the life of the contract.

b) *Derivative instruments and hedge accounting*

The Company uses foreign currency forward contracts and currency options to hedge its risks associated with foreign currency fluctuations relating to certain forecasted transactions. The Company designates these as cash flow hedges applying the principles set out in the Accounting Standard 30 "Financial Instruments : Recognition Measurement" (AS-30).

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the Profit and Loss Account as they arise.

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

**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 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 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 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.

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

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

**2.16 Foreign Currency Convertible Bonds (FCCB)**

a) Foreign Currency Convertible Bonds are considered monetary in nature. Any gain/loss arising on account of exchange fluctuation is accounted in Profit and Loss Account.

b) Premium payable on redemption of FCCB is fully charged to the Securities Premium account in the period of issue. Net gain or loss resulting from restatement of this liability at period end rates is accounted in Securities Premium Account.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **3. Share capital** | | |
| **Authorised** | | |
| 600,000,000 (31 March, 2007: 600,000,000) equity shares of Rs. 10 each | **6,000,000** | 6,000,000 |
| 250,000,000 (31 March, 2007: 250,000,000) participatory optionally convertible preference shares ('POCPS') of Rs. 10 each | **2,500,000** | 2,500,000 |
| | **8,500,000** | 8,500,000 |
| **Issued, subscribed and paid-up** | | |
| 427,312,964 (31 March, 2007: 425,084,296) equity shares of Rs. 10 each, fully paid-up | **4,273,130** | 4,250,843 |
| | **4,273,130** | 4,250,843 |
| During the year 2,228,668 (31 March, 2007: 10,314,498) options were allotted. | | |
| For details of options in respect of equity shares, refer Schedule 21 | | |
| **4. Reserves and surplus** | | |
| **Securities premium** | | |
| Securities premium at the beginning of the year | **5,115,537** | 3,135 |
| Add : Premium on shares issued during the year | **14,014** | 5,320,920 |
| Less : Premium utilised on expenses incurred for issue of shares | **–** | 208,518 |
| Less : Premium utilised on expenses incurred for issue of FCCB | **217,436** | – |
| Less : Premium payable on redemption of FCCB (Refer note 2.16 b and 31) | **4,343,692** | – |
| Securities premium at the end of the year | **568,423** | 5,115,537 |
| **Capital redemption reserve** | **5,162** | – |
| **Profit and loss account** | **2,607,130** | 1,296,938 |
| **Hedging Reserve Account** | **(48,702)** | – |
| **Exchange translation reserve on consolidation of non-integral subsidiaries** | **(4,763)** | 2,268 |
| | **3,127,250** | 6,414,743 |
| **5. Secured loans** | | |
| External commercial borrowings ('ECB') (Secured against fixed assets and receivables ) | **100,300** | 652,050 |
| Finance lease obligation (Secured against assets acquired on lease ) | **20,906** | 27,640 |
| Other secured debts (Secured against all assets of the subsidiary (Sherpa)) | **74,225** | 32,273 |
| Term loan (Secured against shares of subsidiary (Medassist)) | **401,200** | – |
| | **596,631** | 711,963 |
| **6. Unsecured loans** | | |
| Working capital demand loan | **118,379** | 220,452 |
| Term loan | **803,839** | 1,021,726 |
| Debt from others (including deposits) | **–** | 21,735 |
| Foreign currency convertible bonds (FCCB) (Refer note 31) | **11,033,000** | – |
| | **11,955,218** | 1,263,913 |

## 7. Business acquisitions

**Acquisition of MedAssist Holding, Inc. (MedAssist)**

Pursuant to 'Share Purchase agreement' ('SPA') dated August 28, 2007 entered into between the Company, FSL-US and the erstwhile shareholders of MedAssist, on September 20, 2007, the Company through its wholly owned subsidiary FSL-US acquired 100% of the common stock of MedAssist Holding, Inc., a Delaware corporation, including its 100% owned US based subsidiaries MedAssist Intermediate Holding, Inc., MedAssist, Incorporated, Twin Medical Transaction Services, Inc. and Argent Healthcare Financial Services, Inc., for a purchase consideration of Rs. 13,406,932 (equivalent to US $ 332.79 million). MedAssist, together with its subsidiary companies, is a leading provider of revenue cycle management services, in healthcare industry, in the US. The Company incurred direct expenses related to the acquisition aggregating to Rs. 557,507 which have been included in the cost of investment in MedAssist.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

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. 557,507) (A)** | | **13,964,439** |
| **Assets taken over less liabilities assumed (B)** | | |
| - Fixed assets | 107,625 | |
| - Debtors, net | 566,520 | |
| - Cash and bank balance | 38,876 | |
| - Other assets | 212,756 | |
| - Deferred Tax assets, net | 859 | |
| - Current liabilities | (356,140) | |
| | | **570,496** |
| **Goodwill (A-B)** | | **13,393,943** |

**Acquisition of Firstsource Advantage LLC (ASG)**

On September 22, 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 US $ 29.08 million) upfront on that date. Excess of cost of investment over the value of net assets acquired was Rs. 1,260,590 including direct expenses relating to the acquisition aggregating to Rs. 68,114.

Upto March 31, 2007 additional compensation of Rs. 272,411 was paid to the erstwhile members of ASG based on the EBIDTA earnings of year 2004 and 2005. Further direct expenses of Rs. 17,789 were incurred relating to acquisition.

During the year additional amount of Rs. 53,288 was crystalised on finalisation of arbitration with the erstwhile members of ASG and direct expenses amounting to Rs. 13,555 were paid.

Total goodwill of ASG as on March 31, 2008 is Rs. 1,617,633.

**Acquisition of Business Process Management, Inc. (BPM)**

Pursuant to 'Share Purchase agreement' ('SPA') dated December 21, 2006 entered into between the Company, FSL-US and the erstwhile shareholders of BPM, on December 29, 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 US $ 31.5 million). BPM, and 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 has been considered as part of cost of investment in BPM. Out of the total purchase consideration, Rs. 154,875 (equivalent to US $ 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** |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

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 December 31, 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 US $ 3.5 million). In this connection, FRUS has arranged to issue a letter of credit in favour of the members of BPM for the equivalent amount. Goodwill will be restated 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 March 25, 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 March 31, 2005, the Company acquired 100% equity interest in RevIT for a purchase consideration aggregating Rs. 936,524 (equivalent of US $ 22,318,897) and preference shares at par for Rs 5,160. As a result of this acquisition, RevIT became a subsidiary of the Company effective March 31, 2005. As per the SPA, the purchase consideration is payable in installments and, as at March 31, 2008, one installments amounting to Rs. 66,586 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 Pipal Research Corporation, USA (Pipal)**

On July 26, 2004, the Company subscribed to 136,093 equity shares of Pipal aggregating to Rs. 151,798 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 September 3, 2003, the Company subscribed to 23,842,970 Series 'F' convertible preference shares of FR-US, aggregating Rs. 596,862. 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 at a premium of Rs. 3,456.

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.

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

Pursuant to 'Share Purchase and Sale agreement' dated April 22, 2002 entered into between the Company, Customer Asset Mauritius and the promoters and investors of Customer Asset Mauritius, on May 27, 2002 the Company acquired 100% equity interest in CAST India for cash purchase consideration aggregating Rs. 947,727. 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.

Total goodwill on consolidation resulting due to the above acquisitions aggregates to Rs.18,880,034 (March 31, 2007 5,419,247)

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 8. Fixed assets

| | Gross block | | | | | Accumulated depreciation / amortisation | | | | | Net block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at April 1, 2007 | Additions during the year ** | Additions on account of business acquisitions | Deletions during the year | **As at March 31, 2008** | As at April 1, 2007 | Accumulated depreciation on business acquisitions | Charge for the year | On deletions during the year | **As at March 31, 2008** | **As at March 31, 2008** | As at March 31, 2007 |
| **Intangible assets** | | | | | | | | | | | | |
| Domain name | 6,720 | - | - | - | **6,720** | 626 | - | 2,244 | - | **2,870** | **3,850** | 6,094 |
| Software | 409,729 | 142,794 | 112,103 | - | **664,626** | 241,807 | 71,135 | 118,118 | - | **431,060** | **233,566** | 167,922 |
| Goodwill on aquired assets | - | 127,387 | - | - | **127,387** | - | - | 1,686 | - | **1,686** | **125,701** | - |
| **Tangible assets** | | | | | | | | | | | | |
| Computers * | 945,645 | 221,042 | 82,759 | (6,913) | **1,242,533** | 670,412 | 62,116 | 169,417 | (6,797) | **895,148** | **347,385** | 275,233 |
| Service equipments * | 622,898 | 94,606 | 106,477 | (3,253) | **820,728** | 362,475 | 74,033 | 141,681 | (2,791) | **575,398** | **245,330** | 260,423 |
| Furniture and fixture and office equipments | 952,592 | 226,246 | 41,725 | (24,020) | **1,196,543** | 503,117 | 31,226 | 187,735 | (22,169) | **699,909** | **496,634** | 449,475 |
| Leasehold improvements | 942,539 | 365,083 | 4,521 | (40,436) | **1,271,707** | 389,840 | 1,450 | 237,372 | (35,873) | **592,789** | **678,918** | 552,699 |
| Vehicles | 11,212 | 3,187 | - | (4,222) | **10,177** | 2,847 | - | 2,567 | (688) | **4,726** | **5,451** | 8,365 |
| **Total** | 3,891,335 | 1,180,345 | 347,585 | (78,844) | **5,340,421** | 2,171,124 | 239,960 | 860,820 | (68,318) | **3,203,586** | **2,136,835** | 1,720,211 |
| 31 March, 20 07 | 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 | |

* The above assets include assets taken on lease having gross block of Rs. 53,738 (March 31, 2007: Rs. 39,454) and net block of Rs. 19,930 (March 31, 2007: Rs. 27,372).

** Additions during the year include assets of Rs. 301,173 purchased under asset purchase agreement.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **9. Investments** | | |
| **Short term** | | |
| *Trade (Unquoted)* | | |
| Investment in Treasury bills | – | 98 |
| *Non-Trade (Unquoted)* | | |
| 1,715,142 (March 31, 2007: Nil) units of Prudential ICICI Institutional Liquid Plan – Super Institutional Growth | 20,440 | - |
| 611,232 (March 31, 2007: Nil) units of Kotak Liquid ( institutional premium) – Growth | 10,000 | - |
| Nil (March 31, 2007: 15,004,955) units of ICICI Prudential Institutional Liquid Plan - Super Institutional Weekly Dividend | – | 150,207 |
| Nil (March 31, 2007: 5,629) units of Kotak Liquid Fund – Institutional Premium Plan Daily Dividend | – | 69 |
| Nil (March 31, 2007: 25,211,750)Standard chartered FMP - Quarterly series 5 - Dividend | – | 252,118 |
| Nil (March 31, 2007: 25,004,227) Birla FTP - Quarterly - Series7-Dividend - Payout | – | 250,042 |
| Nil (March 31, 2007: 25,000,000) ICICI Prudential FMP Series 37 Three Month Plus Plan A - Retail Dividend | – | 250,000 |
| Nil (March 31, 2007: 25,000,000) ICICI Prudential FMP Series 37 One Month Plan - Retail Dividend | – | 250,000 |
| 3,890,142 (March 31, 2007: Nil) Birla Cash Plus - Institutional Premium - Growth Option | 50,000 | - |
| 4,986,870 (March 31, 2007 Nil) ING Liquid Fund Super Institutional - Growth Option | 60,098 | - |
| 18,603 (March 31, 2007: Nil) Reliance Liquid Plus Fund - Institutional Option - Growth Plan | 20,348 | - |
| 3,291,382 ( March 31, 2007: Nil) Reliance Liquidity Fund - Growth Option | 40,000 | - |
| 15,243 (March 31, 2007: Nil) UTI Liquid Cash Plan Institutional - Growth Option | 20,282 | - |
| (Net asset value of non-trade investments Rs. 221,521 (March 31, 2007 Rs. 1,156,296)) | | |
| | 221,168 | 1,152,534 |
| **10. Deferred tax asset / Liability** | | |
| Business losses carried forward | 233,215 | 7,232 |
| Difference between tax and book value of fixed assets | 173,398 | 374 |
| Gratuity and leave encashment | 29,643 | - |
| Accrued Expenses | 44,708 | - |
| **Deferred Tax Asset** | 480,964 | 7,606 |
| Amortisation | 289,003 | 8,556 |
| Difference between tax and book value of fixed assets | 7,472 | - |
| **Deferred Tax Liability** | 296,475 | 8,556 |
| **Deferred tax asset / (Liability), net** | 184,489 | (950) |
| **11. Sundry debtors** | | |
| *(Unsecured)* | | |
| Debts outstanding for a period exceeding six months | | |
| - Considered good | – | - |
| - Considered doubtful | 44,034 | 35,678 |
| | 44,034 | 35,678 |
| Others debts | | |
| - Considered good | 2,053,785 | 1,335,368 |
| - considered doubtful | – | - |
| | 2,097,819 | 1,371,046 |
| Less: Provision for doubtful debts | 44,034 | 35,678 |
| | 2,053,785 | 1,335,368 |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **12. Cash and bank balances** | | |
| Cash on hand | **851** | 989 |
| Balances with scheduled banks | | |
| - in current accounts | **5,548** | 41,238 |
| - in deposit accounts* | **201,520** | 2,356,426 |
| - in Exchange earning in foreign currency accounts | **447** | 1,079 |
| Balances with non scheduled banks | | |
| - in current accounts | **670,991** | 458,704 |
| - in deposit accounts** | **179,687** | 254,516 |
| Remittances in Transit | **–** | 12,874 |
| | **1,059,044** | 3,125,826 |
| Less: Current account balance held in trust for customers in non scheduled banks | **34,394** | 115,872 |
| | **1,024,650** | 3,009,954 |

* Includes Rs. 1,416 (March 31, 2007 Rs. 5,870) under lien for bank guarantees to the customs authorities.

** Includes Rs. Nil (March 31, 2007 Rs. 200,316) placed in Escrow account on behalf of subsidiary FRUS.

| | 2008 | 2007 |
|---|---|---|
| **13. Loans and advances** | | |
| *(Unsecured, considered good)* | | |
| Deposits | **332,233** | 290,836 |
| Mark to market gain and premium on forward contracts / options | **–** | 28,616 |
| Prepaid expenses | **115,496** | 67,673 |
| Advances recoverable in cash or in kind or for value to be received | **292,829** | 116,802 |
| Unamortised contract cost | **5,504** | – |
| Lease rentals receivable, net | **47,988** | 27,690 |
| Accrued Interest | **1,417** | 12,826 |
| Advance tax and tax deducted at source | **255,110** | 67,736 |
| | **1,050,577** | 612,179 |
| **14. Current liabilities** | | |
| Sundry creditors | | |
| - for expenses | **941,268** | 758,815 |
| - for capital goods | **125,283** | 148,098 |
| Payable for business acquisition | **66,586** | 133,224 |
| Value added tax payable | **7,053** | 40,531 |
| Tax deducted at source payable | **20,997** | 19,545 |
| Interest accrued but not due | **2,888** | 6,158 |
| Advance from customers | **40,120** | 1,752 |
| Mark to market loss and premium on forward contracts / options | **65,410** | – |
| Other liabilities | **163,415** | 147,437 |
| | **1,433,020** | 1,255,560 |
| **15. Provisions** | | |
| Income Tax | **184,642** | 45,094 |
| Gratuity | **51,661** | 36,218 |
| Leave encashment | **39,276** | 31,853 |
| Premium payable on redemption of FCCB (Refer Note 2.16 b) | **4,343,692** | – |
| | **4,619,271** | 113,165 |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **16. Other income** | | |
| Profit on sale / redemption of non-trade investments | **42,093** | 52,619 |
| Dividend | **34,526** | 13,601 |
| Foreign exchange gain, net * | **257,386** | 4,914 |
| Miscellaneous income | **6,575** | 849 |
| Provision for doubtful debts written back, net | **7,824** | – |
| Profit on sale of Fixed Assets(net) | **829** | – |
| | **349,233** | 71,983 |
| * Net foreign exchange gain includes exchange gain of Rs.223,634 (March 31, 2007: 9,160) recognised on account of translation of financial statements of foreign integral subsidiaries for the purpose of preparation of these consolidated financial statements. | | |
| **17. Personnel costs** | | |
| Salaries, bonus and other allowances | **6,544,563** | 3,860,582 |
| Contribution to provident and other funds | **275,878** | 159,099 |
| Staff welfare | **299,928** | 115,968 |
| | **7,120,369** | 4,135,649 |
| **18. Finance charges, net** | | |
| Interest paid on External Commercial Borrowings and Term Loan | **283,663** | 66,467 |
| Interest paid on Working capital demand loan and others | **32,182** | 55,099 |
| | **315,845** | 121,566 |
| Less: | | |
| Interest income on deposit with banks | **96,260** | 41,542 |
| Interest income on others | **3,960** | 2,360 |
| | **100,220** | 43,902 |
| Add: | | |
| Excahnge (gain) / loss on Foreign currency loan and FCCB, net | **150,365** | (17,175) |
| | **365,990** | 60,489 |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **19. Operating costs** | | |
| Rent, rates and taxes | **656,630** | 364,038 |
| Services rendered by business associates and others | **334,842** | 280,572 |
| Legal and professional fees | **274,502** | 212,083 |
| Connectivity charges | **263,430** | 216,115 |
| Information services | **172,752** | 139,022 |
| Repairs and maintenance - others | **310,211** | 194,900 |
| Car and other hire charges | **232,156** | 172,807 |
| Travelling and conveyance | **327,181** | 242,211 |
| Recruitment and training expenses | **138,583** | 165,238 |
| Electricity, water and power consumption | **179,282** | 110,225 |
| Communication expenses | **209,597** | 104,989 |
| Computer expenses | **103,754** | 67,200 |
| Marketing and support services | **51,463** | 31,260 |
| Insurance | **77,137** | 39,602 |
| Advertisement and publicity | **2,943** | 32,157 |
| Printing and stationery | **64,565** | 26,578 |
| Research expenses | **32,086** | 23,997 |
| Meetings and seminar expenses | **11,243** | 8,620 |
| Auditors' remuneration | **–** | – |
| - Audit fees | **13,581** | 6,776 |
| - Tax audit fees | **150** | 243 |
| - Other services | **2,138** | 707 |
| Membership fees | **1,816** | 1,601 |
| Directors' fees | **1,330** | 222 |
| Bad Debts written off | **–** | 1,615 |
| Provision for doubtful debts (net) | **–** | 5,850 |
| Bank charges and Guarantee commission | **34,293** | 11,811 |
| Loss on sale of fixed assets, net | **–** | 469 |
| Miscellaneous expenses | **62,470** | 57,290 |
| | **3,558,135** | 2,518,198 |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 20. Leases

*Operating lease*

The Group is obligated under non-cancelable operating leases for office space and office equipments which are renewable on a periodic basis at the option of both the lesser and lessee. Rental expenses under non-cancelable operating leases for the year ended March 31, 2008 aggregated to Rs. 346,515 (March 31, 2007: 214,023). Of these expenses, Rs. 25,744 (March 31, 2007: 12,821) and Rs. 7,999 (March 31, 2007: Nil) has been attributed to expenses prior to the related asset being ready to use and, accordingly, has been included as part of the related fixed assets and capital work in progress respectively.

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

| | **2008** | 2007 |
|---|---|---|
| Amount due within one year from the balance sheet date | **406,503** | 313,933 |
| Amount due in the period between one year and five years | **979,344** | 587,579 |
| Amount due in the period beyond five years | **293,354** | 347,613 |
| | **1,679,201** | 1,249,125 |

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 cancellable operating leases for the year ended March 31, 2008 aggregated to Rs. 310,115 (March 31, 2007 : Rs. 151,722).

*Finance lease*

The Group has acquired certain capital assets under finance lease. Future minimum lease payments under finance lease as at March 31, 2008 are as follows:

| | **Minimum lease payments** | **Finance charges** | **Present value of minimum lease payments** |
|---|---|---|---|
| *As at March 31, 2008* | | | |
| Amount due within one year from the balance sheet date | 13,976 | 110 | 13,866 |
| Amount due between one year and five years | 7,090 | 50 | 7,040 |
| | **21,066** | **160** | **20,906** |
| *As at March 31, 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** |

The Group also has given vehicles on finance lease to its employees as per policy. As at March 31, 2008, the future minimum lease rentals receivable are as follows:

| | **Minimum lease payments** | **Finance charges** | **Present value of minimum lease payments** |
|---|---|---|---|
| *As at March 31, 2008* | | | |
| Amount receivable within one year from the balance sheet date | 17,978 | 3,913 | 14,065 |
| Amount receivable in the period between one year and five years | 37,820 | 3,897 | 33,923 |
| | **55,798** | **7,810** | **47,988** |
| *As at March 31, 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** |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(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:

| Particulars | 2008 | 2007 |
|---|---|---|
| Outstanding at beginning of the year | **351,125** | 1,968,750 |
| Granted during the year | **–** | – |
| Forfeited during the year | **–** | (32,500) |
| Exercised during the year | **(230,500)** | (1,585,125) |
| Outstanding at the end of the year ( Refer Note 1 below) | **120,625** | 351,125 |
| Vested and exercisable at the end of the year | **120,625** | 351,125 |
| Note 1 | | |
| Exercise price range | | |
| 10 - 14.99 | **120,625** | 351,125 |

*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 October 11, 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; and
- Exercise period within which the employees would exercise the options would be 5 years from the date of grant.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

Employee stock option activity under Scheme 2003 is as follows:

| Particulars | 2008 | 2007 |
|---|---|---|
| Outstanding at beginning of the year | **33,083,627** | 20,168,000 |
| Granted during the year (Refer Note 2 and 4 below) | **42,982,712** | 24,802,500 |
| Forfeited during the year | **(2,237,193)** | (3,321,250) |
| Exercised during the year | **(1,998,168)** | (8,565,623) |
| Outstanding at the end of the year ( Refer Note 1 below) | **71,830,978** | 33,083,627 |
| Vested and exercisable at the end of the year | **7,234,742** | 2,867,875 |
| Note 1 | | |
| 1. **Exercise price range** | | |
| 10 - 14.99 | **2,043,867** | 3,424,627 |
| 15.00 - 19.99 | **1,226,625** | 1,510,625 |
| 20.00 - 24.99 | **4,049,625** | 4,378,375 |
| 30.00 - 34.99 | **18,364,849** | 19,322,500 |
| 35.00 - 39.99 | **19,520,884** | 2,027,500 |
| 50.00 - 54.99 | **1,670,000** | – |
| 60.00 - 64.99 | **1,722,500** | 2,420,000 |
| 70.00 - 74.99 | **23,062,628** | – |
| 75.00 - 79.99 | **60,000** | – |
| 80.00 - 84.99 | **110,000** | – |
| Outstanding at the end of year | **71,830,978** | 33,083,627 |

2. The Compensation Cum Board Governance Committee of Firstsource, at its meeting held on April 27, 2006 amended the vesting schedule for stock options granted on May 1, 2006 to General Managers and above grade of 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 |
| End of 36 months from the date of grant of options | 50 |

3. 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 March 31, 2008.

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

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

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

| Period within which Executive Options shall vest | % of Executive Options which shall vest unto the Option Grantee |
|---|---|
| End of 24 months from date of grant of Options | 20% |
| End of 36 months from date of grant of Options | 10% |
| End of 48 months from date of grant of Options | 10% |
| End of 60 months from date of grant of Options | 10% |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

The vesting schedule for Performance Linked options is as follows:

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

5. The Guidance Note on 'Accounting for employee share based payments' issued by ICAI ('Guidance Note') establishes financial accounting and reporting principles for employee's share based payment plans. The Guidance Note applies to employee share based payments, the grant date in respect of which falls on or after April 1, 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** | **2008** | 2007 |
|---|---|---|
| Net income as reported | **1,315,596** | 972,528 |
| Less: Stock-based employee compensation expense (fair value method) | **183,562** | 54,511 |
| *Proforma* net income | **1,132,034** | 918,017 |
| Basic earnings per share as reported (Rs.) | **3.09** | 3.67 |
| *Proforma* basic earnings per share (Rs.) | **2.66** | 3.47 |
| Diluted earnings per share as reported (Rs.) | **2.83** | 2.50 |
| *Proforma* diluted earnings per share (Rs.) | **2.44** | 2.36 |

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 8.75% |
| Volatility | 0% to 50% |

## 22. Managerial remuneration

| | **2008** | 2007 |
|---|---|---|
| **Particulars** | | |
| Salaries and allowances | **21,192** | 12,790 |
| Contribution towards retirement benefits | **901** | 425 |
| Perquisites | **243** | 173 |
| **Total** | **22,336** | 13,388 |

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.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 23. Related party transactions

Details of related parties including summary of transactions entered into by the Firstsource Group during the year ended March 31, 2008 are summarised below:

| | |
|---|---|
| Parties with substantial interests | • ICICI Bank Limited<br>• Metavante Investments (Mauritius) Limited<br>• 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 financial statements. |
| Companies in which directors are interested | • ICICI Prudential Life Insurance Company Limited (I-Prudential) |
| Key Managerial Personnel including relatives | • Ananda Mukerji<br>• Matthew Vallance<br>• Raju Venkatraman<br>• Rajesh Subramaniam<br>• Rahul Basu<br>• John Cutrone (Resigned) |
| Non-Executive Directors | • Ashok Shekhar Ganguly<br>• Charles Miller Smith<br>• K. P. Balaraj<br>• Shikha Sharma<br>• Shailesh Mehta<br>• Dinesh Vaswani<br>• Y. H. Malegam<br>• Donald Layden, Jr.<br>• Lalita D. Gupte |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

**23. Related party transactions** (Contd.) (Currency: In thousands of Indian rupees)

*Particulars of related party - Transactions during the period*

| Name of the related party | Description | **Transaction value for the year ended March 31, 2008** | Transaction value for the year ended March 31, 2007 | **Receivable / (Payable) at March 31, 2008** | Receivable / (Payable) at March 31, 2007 |
|---|---|---|---|---|---|
| ICICI Bank Limited | Income from services | **252,073** | 117,156 | **64,880** | 20,063 |
| | Software expenses and professional fees | **1,498** | 1,559 | **(270)** | (67) |
| | Corporate administrative expenses | **–** | 821 | **–** | (134) |
| | Interest expenditure | **247,365** | 76,938 | **(533)** | (72) |
| | Bank balance | **–** | – | **50,034** | 34,678 |
| | Bank overdraft | **–** | (64,594) | **(114,561)** | (120,162) |
| | Fixed deposit placed | **1,900,000** | 1,755,870 | **201,416** | 1,456,186 |
| | Fixed deposit matured | **2,954,456** | – | **–** | – |
| | Interest Income | **25,982** | 22,990 | **548** | 9,552 |
| | Term loan taken | **11,078,573** | 395 | **(481,020)** | (106,843) |
| | Term loan Paid | **10,675,716** | – | **–** | – |
| | External Commercial Borrowings Paid | **569,188** | – | **(100,300)** | (652,050) |
| | Rent paid | **–** | 3,036 | **–** | (759) |
| | Guarantee Commission paid | **9,041** | 11,811 | **4,358** | 5,009 |
| | Vehicle taken on finance Lease | **–** | 190 | **–** | – |
| | Fees and commission | **380,700** | – | **–** | – |
| ICICI-Prudential Life Insurance company Limited | Insurance Premium Paid | **2,190** | 3,481 | **2,801** | – |
| | Rent paid | **22,029** | 24,576 | **–** | – |
| ICICI-Prudential | Income from Services | **182,582** | 147,753 | **67,604** | 20,518 |
| Metavante Investments (Mauritius) Limited | Income from services | **27,771** | 61,969 | **3,189** | 61,969 |
| Key management personnel and relatives | Remuneration paid | **67,900** | 71,283 | **–** | – |
| Non-executive directors | Sitting fees paid | **1,330** | 222 | **–** | – |

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 24. Retirement Benefit

*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 | 2008 | 2007 |
|---|---|---|
| **Change in present value of obligations** | | |
| Obligations at beginning of the year | **36,218** | 24,873 |
| Service cost | **22,531** | 15,405 |
| Interest cost | **2,733** | 1,633 |
| Actuarial (gain) / loss | **(4,159)** | (1,566) |
| Benefits paid | **(3,586)** | (2,051) |
| Obligations at the end of the year | **53,737** | 38,294 |
| **Change in plan assets** | | |
| Fair value of plans assets at beginning of the year. | **(2,076)** | (2,076) |
| Expected return on plan assets | **164** | (21) |
| Actuarial gain / (loss) | **(164)** | (1,958) |
| Contributions | **3,586** | - |
| Benefits paid | **(3,586)** | 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 | **53,737** | 38,294 |
| Fair value of plan assets at the end of year. | **(2,076)** | (2,076) |
| Funded status being amount of liability recognized in the balance sheet | **51,661** | 36,218 |
| **Gratuity cost for the year** | | |
| Service cost | **22,531** | 15,405 |
| Interest cost | **2,733** | 1,633 |
| Actuarial (gain) /l oss | **(1,045)** | (21) |
| Expected return on plan assets | **(3,115)** | (3,523) |
| Net gratuity cost | **21,105** | 13,494 |
| **Assumptions** | | |
| Interest rate | **8.75%** | 7.50% |
| Estimated rate of return on plan assets | **8.70%** | 7.50% |
| Rate of growth in salary levels | **10.00%** | 10.00% |
| Withdrawal rate | **25% reducing to 2%** | 25% reducing to 2% |

## 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.

*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.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

*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.

| | **2008** | 2007 |
|---|---|---|
| **Primary Segment** | | |
| **Segment Revenue** | | |
| UK | **4,338,833** | 3,975,745 |
| USA and Canada | **6,705,162** | 3,863,719 |
| India | **1,344,463** | 310,721 |
| Rest of the world | **17,680** | 18,298 |
| | **12,406,138** | 8,168,483 |
| **Segment Result** | | |
| UK | **1,654,200** | 1,311,938 |
| USA and Canada | **640,720** | 719,752 |
| India | **376,156** | 31,796 |
| Rest of the world | **4,985** | 10,072 |
| | **2,676,061** | 2,073,558 |
| Finance charge, net | **(365,990)** | (60,489) |
| Other un-allocable expenditure, net of un-allocable income | **(878,203)** | (986,717) |
| **Profit before taxation and minority interest** | **1,431,868** | 1,026,352 |
| Taxation | **(126,480)** | (60,130) |
| Minority interest | **10,208** | 6,306 |
| **Profit after taxation and minority interest** | **1,315,596** | 972,528 |
| **Debtors** | | |
| UK | **790,684** | 614,211 |
| USA and Canada | **1,170,638** | 673,826 |
| India | **88,964** | 44,412 |
| Rest of the world | **3,499** | 2,919 |
| | **2,053,785** | 1,335,368 |

| | **Revenue** | | **Debtors** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Secondary Segment** | | | | |
| Banking, Financial Services & Insurance | **3,820,935** | 4,229,891 | **476,903** | 384,187 |
| Non-Banking, Financial Services & Insurance | **8,585,203** | 3,938,592 | **1,576,882** | 951,181 |
| | **12,406,138** | 8,168,483 | **2,053,785** | 1,335,368 |

## 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.

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

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

| | **2008** | 2007 |
|---|---|---|
| Number of shares considered as basic weighted average shares outstanding | **425,858** | 264,852 |
| Add: effect of potential issue of shares / stock options | **–** | 124,426 |
| Add: Adjustment for options relating to Foreign currency convertible bonds | **38,364** | – |
| Number of shares considered as weighted average shares and potential shares outstanding | **464,222** | 389,278 |

## 28. Capital and other commitments and contingent liabilities

| **Particulars** | **2008** | 2007 |
|---|---|---|
| The estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances | **133,511** | 21,957 |
| Guarantees and letters of credit given | **2,041,105** | 1,649,057 |
| Claims not acknowledged as debt | **45,309** | 40,697 |

*Direct tax matters*

Income tax demand amounting to Rs. 4,295 (March 31, 2007: 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 favor of the Company.

Income tax demand amounting to Rs. 91,038 (March 31, 2007: 91,038) for the various assessment years are disputed in appeal by the Company in respect of which the Company has favourable appellate decisions supporting its stand based on the past assessment and hence, the provision for taxation is considered adequate. The Company have paid Rs.10,381 tax under protest against the demand raised for the assessment year 2004-05.

*Grant*

The Company's subsidiary has accrued / received revenue grants amounting to Rs. 665,816 (GBP 8.34 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.

*Acquisition of BPM*

Further, as stipulated in the Share Purchase Agreement, based on performance criterion to be achieved by BPM by way of Earnings before interest, tax, depreciation and amortisation EBIDTA targets for the year ending December 31, 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 US $ 3.5 million). In this connection, FSL-USA has arranged to issue a letter of credit in favour of the members of BPM for the equivalent amount. Goodwill will be restated prospectively, on crystallisation of this liability.

*Purchase of assets by MedAssist*

On March 31, 2008, the Company's subsidiary, MedAssist has entered into an asset purchase agreement. Under the terms of the agreement, an additional consideration of Rs. 30,892 (US $ 750,000) is payable to the sellers if the existing client base achieves certain revenue ranges.

## 29. Fringe Benefit Tax (FBT)

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

# SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 30. Software Development Cost

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

| Particulars | 2008 | 2007 |
|---|---|---|
| Salaries and wages | **9,574** | 18,678 |
| Other direct costs | **450** | 9,343 |
| **Total** | **10,024** | 28,021 |

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

| Particulars | 2008 | 2007 |
|---|---|---|
| Salaries and wages | – | 11,038 |
| Other direct costs | – | 5,836 |
| **Total** | – | 16,874 |

## 31. Issue of Foreign Currency Convertible Bonds (FCCB)

31.1 On December 3, 2007, the Company issed US $ 275,000,000 Zero Coupon Convertible bonds. The paticulars of the issue are as under:

| | |
|---|---|
| Issue | 0% FCCB due 2012 |
| Issued on | December 3, 2007 |
| Issue Amount | US $ 275,000,000 |
| Face Value | US $ 100,000 |
| Conversion price per share and fixed exchange rate | Rs. 92.2933<br>Rs. 39.27 = US $ 1 |
| Number of shares to be issued if converted | 117,010,135 |
| Exercise period | On or after January 14, 2008 upto December 4, 2012 |
| Early conversion at the option of the Company subject to certain conditions | On or after December 4, 2009 and prior to November 24, 2012 |
| Redeemable on | December 4, 2012 |
| Redemption percentage of the principal amount | 139.37% |
| Bonds outstanding as on 31 March, 2008 | 2750 |

The proceeds from the issue of the bonds are utilised to subscribe for shares in FSL-USA. FSL-USA has then utilised the funds received by it for repayment of debt taken by it in connection witth the acquisition of MedAssist.

31.2 Premium payable on redemption of FCCB is provided for by charge to the Securities Premium Account as permitted by Section 78 of the Companies Act, 1956, in the year of issue. As the premium is not being charged to the Profit and Loss Account the need for matching expenditure with revenue does not arise and consequently it is not considered necessary to amortise the premium over the period of the bonds. The gain / loss arising on the restatement of the outstanding liability at period end rates is also credited / debited to the Securities Premium Account.

## 32. Prior period comparatives

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

For and on behalf of the Board of Directors

**Dr. Ashok S. Ganguly**
*Chairman*

**Ananda Mukerji**
*Managing Director & CEO*

**Raju Venkatraman**
*Joint Managing Director & COO*

**Lalita D. Gupte**
*Director*

**Shikha Sharma**
*Director*

**Dinesh Vaswani**
*Director*

**K. P. Balaraj**
*Director*

**Donald W. Layden Jr.**
*Director*

**Charles Miller Smith**
*Director*

**Shailesh Mehta**
*Director*

**Y. H. Malegam**
*Director*

Mumbai
April 29, 2008

**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 YEAR ENDED MARCH 31, 2008

(Currency in thousands of Indian Rupees)

| | Particulars | REV IT Systems Private Limited | Sherpa Business Solutions Inc. $ | Firstsource Solutions USA, Inc. $ | FirstRing Inc. $ | Firstsource Advantage LLC $ | 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. $ | MedAssist Holding, Inc. $ | MedAssist Intermediate Holding, Inc. $ | MedAssist, Incorporated $ | Twin Medical Transaction Services, Inc. $ | Argent Healthcare Financial Services, Inc. $ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | The Financial Year of the Subsidiary Companies ended on | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 | 31.3.2008 |
| 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 | 20.9.2007 | 20.9.2007 | 20.9.2007 | 20.9.2007 | 20.9.2007 |
| 3 | Country of Incorporation | India | USA | USA | USA | USA | Argentina | UK | USA | India | USA | USA | USA | USA | USA | USA | USA | USA |
| 4 a) | Number of shares held by Firstsource Solutions Ltd. and/or its nominees in the subsidiaries as on 31.3.2008 | 9,088,886 equity shares of Rs. 10 each | *1,000 shares of US $ 1 each | 6,775,276,550 equity shares of US $ 0.001 each | 40,509,637 Convertible Preferred Stock of US $ 0.00001 each | @10,000 Units of US $ 1 each | € 6,013,548 shares of ARS 1 each | 2,834,672 equity shares of GBP 1 each | 136,093 equity shares of US $ 24.10 each | ***10,000 equity shares of Rs.10 each | #8,915,498 equity shares of US $ 0.01 each | **10,000 shares of US $ 0.001 | **4,679,064 shares of US $ 0.00 each | #11,655,150 Shares of voting Common Stock, 1,430,375 Shares of non-voting Common Stock, 28,672 Shares of Class A Preferred Stock and 9,594 Shares of Class B Preferred Stock all of par value of US $ 0.01 each | £1000 shares of Common Stock of US $ 0.01 each | ££100 shares of Class A and 800.5 shares of Class B Common Shares with no par value per Share | £££100 shares of US $ 0.01 each | £££1 Common Stock of US $ 0.01 each |
| b) | Extent of Interest of Firstsource Solutions Ltd. (holding Company) in the Subsidiaries as on 31.3.2008 | 100% | *100% | 100% | 99.80% | @99.80% | € 99.98% | 100% | 51% | ***51% | #100% | **100% | **100% | #100% | £100% | ££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, 2008 | - | - | - | - | - | - | - | (11,346) | (1,915) | - | - | - | | | | | |
| b) | For the previous financial years of the Subsidiary since it became a Subsidiary | - | - | - | - | - | - | - | (82,035) | 6,194 | - | - | - | | | | | |
| 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, 2008 | 107,982 | (70,469) | (109,334) | (5,082) | (79,300) | 45,389 | 267,671 | (11,810) | (1,993) | - | 4,852 | - | - | - | 74,926 | 102,457 | 111,578 |
| b) | For the previous financial years of the Subsidiary since it became a Subsidiary | 104,521 | 22,800 | (26,360) | (143,191) | 208,883 | 10,566 | 49,847 | (85,384) | 6,448 | - | 50,995 | - | - | - | - | - | - |

**Notes:**

MedAssist Holding Inc. and its subsidiaries have become subsidiaries of the Company w.e.f. September 20, 2007 consequent to the acquistion of MedAssist Holding Inc. by Firstsource Solutions USA, Inc., wholly owned subsidiary of the Company.

* Held by RevIT Systems India Private Limited
@ Held by FirstRing Inc
€ Held by Firstsource Solutions UK Limited
*** Held by Pipal Research Corporation
# Held by Firstsource Solutions USA Inc.
** Held by Business Process Management, Inc.
£ Held by MedAssist Holding, Inc.
££ Held by MedAssist, Intermediate Holding Inc.
£££ Held by MedAssist, Incorporated
$ Converted to Indian Rupees at the Exchange Rate, 1 USD=INR 40.12
§ Converted to Indian Rupees at the Exchange Rate, 1 ARS=INR 12.6725
¶ Converted to Indian Rupees at the Exchange Rate, 1 GBP=INR 79.82

# FINANCIAL INFORMATION OF SUBSIDIARIES FOR THE YEAR ENDED MARCH 31, 2008

(Currency in thousands of Indian Rupees)

| Particulars | REV IT Systems Private Limited | Sherpa Business Solutions Inc. $ | Firstsource Solutions USA, Inc. $ | First-Ring Inc. $ | Firstsource Advantage LLC $ | Firstsource Solutions S.A § | Firstsource Solutions UK Limited ¶ | Pipal Research Corporation $ | Pipal Research Analytics and Information Services India Private Limited $ | Business Process Management, Inc. $ | Med Plans Partners, Inc. $ | Med Plans 2000, Inc. $ | MedAssist Holding, Inc. $ | MedAssist Intermediate Holding, Inc. $ | MedAssist, Incorporated $ | Twin Medical Transaction Services, Inc. $ | Argent Healthcare Financial Services, Inc. $ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Paid-up Share Capital | 90,889 | 40 | 271,824 | 16 | 401 | 76,359 | 226,264 | 151,182 | 100 | 3,577 | 0.40 | - | 5,265 | 0.40 | 0.04 | 0.04 | - |
| Reserves & Surplus | 191,072 | (105,328) | 14,139,027 | 668,999 | 138,329 | 55,433 | 256,621 | (87,459) | - | (3,577) | 347,071 | (3,725) | 1,840,433 | 1,848,410 | 4,398,480 | 688,208 | 950,162 |
| Total Assets | 349,500 | 245,061 | 15,806,116 | 1,627,094 | 428,120 | 192,180 | 653,535 | 105,138 | 55,679 | - | 406,041 | 1,070 | 1,848,411 | 2,092,228 | 5,387,648 | 720,511 | 978,295 |
| Total Liabilities (excluding Capital and Reserves) | 67,539 | 350,349 | 1,395,265 | 958,079 | 289,390 | 60,387 | 170,650 | 41,415 | 55,579 | - | 58,969 | 4,795 | 2,713 | 243,817 | 989,168 | 32,303 | 28,133 |
| Investments (excluding Investments in Subsidiaries) | 20,440 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Income | 416,330 | 628,074 | 951,207 | 19,495 | 1,543,332 | 393,664 | 3,602,769 | 306,418 | 240,552 | - | 22,594 | - | - | - | 74,926 | 102,457 | 111,578 |
| Profit Before Tax | 114,473 | (67,435) | 6,402 | (52,780) | (79,300) | 56,085 | 418,821 | (23,156) | (3,908) | - | 4,852 | - | - | - | 255,138 | 102,457 | 111,578 |
| Provision for Taxation | 6,491 | 3,033 | 115,736 | (47,697) | - | 10,696 | 151,150 | - | - | - | - | - | - | - | 180,212 | - | - |
| Profit After Tax | 107,982 | (70,469) | (109,334) | (5,082) | (79,300) | 45,389 | 267,671 | (23,156) | (3,908) | - | 4,852 | - | - | - | 74,926 | 102,457 | 111,578 |
| Proposed Dividend (including Tax thereon) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

**Notes:**

$ Converted to Indian Rupees at the Exchange Rate,1 USD=INR 40.12

§ Converted to Indian Rupees at the Exchange Rate,1 ARS=INR 12.6725

¶ Converted to Indian Rupees at the Exchange Rate,1 GBP=INR 79.82

# AUDITORS' REPORT

**To The Members of**
**Firstsource Solutions Limited**

We have audited the attached Balance Sheet of Firstsource Solutions Limited ('the Company') as at March 31, 2008, the Profit and Loss Account of the Company for the year ended on that date and the Cash Flow Statement of the Company 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. Without qualifying our opinion, we draw attention to Schedules 2.12(b) and 29.2 that the Company has charged the entire amount of premium payable on redemption of zero coupon foreign currency convertible bonds ('FCCB') of Rs. 4,343 million to securities premium account on the date of issue through a corresponding credit to Premium payable on redemption of FCCB account instead of amortising the premium systematically using the interest method over the tenor of the bonds. The aforesaid treatment is followed since the Company considers that the liability for premium accrues on issuance of bonds. This accounting treatment, however, does not have any impact on the profit for the year.

3. 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 March 31, 2008, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 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 information and explanations given to us, read with paragraph 2 above, 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 March 31, 2008;

      ii. in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and

      iii. in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For **BSR & Co.**
*Chartered Accountants*

**Akeel Master**
*Partner*
Membership No.: 046768

Mumbai
April 29, 2008

# ANNEXURE TO THE AUDITORS' REPORT – 31ST MARCH, 2008

*(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 have to be 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 and debt collection services. It does not hold any physical inventories. Accordingly, paragraph 4(ii) of the Order is not applicable.

3. (a) The following are the particulars of loans granted by the Company to parties covered in the register maintained under Section 301 of the Act:

| Name of Party | Relationship with Company | Amount Rs. | Year end Balance Rs. | Maximum Balance outstanding Rs. |
|---|---|---|---|---|
| FirstRing Inc, USA | Subsidiary | 700,241,481 | 720,241,481 | 720,241,481 |

   (b) In our opinion, the rate of interest and other terms and conditions on which loans have been granted to parties listed in the register maintained under Section 301 of the Act are not, prima facie, prejudicial to the interest of the Company.

   (c) The parties have repaid the principal amounts as stipulated and have been regular in the payment of interest, wherever applicable.

   (d) There is no overdue amount of loans granted to parties listed in the register maintained under Section 301 of the Act.

   (e) According to the information and explanations given to us, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, paragraph 4(iii)(f) and 4(iii)(g) of the Order are not applicable.

4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and with regard to the sale of services. The activities of the Company do not involve purchase of inventory and sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.

5. (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 have been so entered.

   (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs. 5 lakh in respect of any party during the year are for the Company's specialised requirements for which suitable alternate sources are not available to obtain comparable quotations. However, on the basis of information and explanations provided, the prices appear reasonable.

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

7. In our opinion, the Company has an internal audit system commensurate with its 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, cess and other material statutory dues have been generally regularly deposited during the year with the appropriate authorities. As explained to us, the Company did not have any dues on account of Sales Tax, Excise duty and Investor Education and Protection Fund.

   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 comment 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, Sales tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues were in arrears as at March 31, 2008 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.

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, bondholders or to any financial institutions.

12. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion and according to the information and explanations given to us, the Company is not a chit fund/ nidhi/ mutual benefit fund/ society.

14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

15. In our opinion and according to the information and 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, prima facie, not prejudicial to the interest of the Company.

16. In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purpose for which they were raised.

17. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.

18. In our opinion and according to the information and explanation given to us, the Company has not made preferential allotment of shares to parties covered in the register maintained under Section 301 of the Act.

19. According to the information and explanations given to us, the Company has not issued any secured debentures during the year.

20. In respect of the end-use of money raised by issue of foreign currency convertible bonds (FCCB) as disclosed in the Schedule 29 to the financial statements, in our opinion and based on the information and explanations given to us and certified by the management, the Company has utilized the amount for purposes as stated/specified in the offering document for the FCCB.

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 29, 2008

# BALANCE SHEET AS AT MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | Schedule | 2008 | 2007 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **Shareholders' funds** | | | |
| Share capital | 3 | **4,273,130** | 4,250,843 |
| Reserves and surplus | 4 | **2,019,662** | 6,039,047 |
| | | **6,292,792** | 10,289,890 |
| **Loan funds** | | | |
| Secured loans | 5 | **103,991** | 659,840 |
| Unsecured loans | 6 | **11,137,356** | 61,082 |
| | | **17,534,139** | 11,010,812 |
| **APPLICATION OF FUNDS** | | | |
| **Fixed assets** | 7 | | |
| Gross block | | **2,956,966** | 2,475,194 |
| Less: Accumulated depreciation and amortisation | | **1,869,766** | 1,397,722 |
| Net block | | **1,087,200** | 1,077,472 |
| Add: Capital work in progress (including capital advances) | | **60,873** | 62,863 |
| | | **1,148,073** | 1,140,335 |
| **Investments** | 8 | **17,011,767** | 4,398,751 |
| **Deferred Tax assets** | 9 | **193,056** | – |
| **Current assets, loans and advances** | | | |
| Sundry debtors | 10 | **1,086,740** | 1,161,766 |
| Unbilled receivables | | **195,073** | 144,037 |
| Cash and bank balances | 11 | **311,763** | 2,410,644 |
| Loans and advances | 12 | **1,504,266** | 1,388,278 |
| | | **3,097,842** | 5,104,725 |
| Less: **Current liabilities and provisions** | | | |
| Current liabilities | 13 | **572,140** | 715,850 |
| Provisions | 14 | **4,481,180** | 53,870 |
| | | **5,053,320** | 769,720 |
| **Net current assets** | | **(1,955,478)** | 4,335,005 |
| **Amalgamation deficit adjustment account** | | **1,136,721** | 1,136,721 |
| | | **17,534,139** | 11,010,812 |
| **Significant accounting policies** | 2 | | |
| **Notes to accounts** | 19 – 32 | | |

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

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

For and on behalf of the Board of Directors

**Dr. Ashok S. Ganguly**
*Chairman*

**Ananda Mukerji**
*Managing Director & CEO*

**Raju Venkatraman**
*Joint Managing Director & COO*

**Akeel Master**
*Partner*
Membership No.: 046768

**Lalita D. Gupte**
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**Shikha Sharma**
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**Dinesh Vaswani**
*Director*

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*Director*

**Donald W. Layden Jr.**
*Director*

**Charles Miller Smith**
*Director*

**Shailesh Mehta**
*Director*

**Y.H. Malegam**
*Director*

Mumbai
April 29, 2008

**Rajesh Subramaniam**
*CFO*

**Sanjay Gupta**
*Company Secretary*

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | Schedule | 2008 | 2007 |
|---|---|---|---|
| **INCOME** | | | |
| Income from services | | **4,896,378** | 4,326,820 |
| Other income | 15 | **107,794** | 65,833 |
| Other operating income | | **42,708** | – |
| | | **5,046,880** | 4,392,653 |
| Personnel costs | 16 | **2,363,322** | 1,967,616 |
| Operating costs | 18 | **1,558,798** | 1,246,366 |
| Depreciation and amortization | 7 | **532,820** | 412,470 |
| Finance charges, net | 17 | **123,155** | 3,578 |
| | | **4,578,095** | 3,630,030 |
| **Profit before tax** | | **468,785** | 762,623 |
| **Provision for taxation** | | | |
| – Current tax expense | | **63,969** | 5,365 |
| – Fringe benefit tax | | **21,441** | 14,439 |
| – Deferred tax credit | | **(193,056)** | – |
| **Profit after tax** | | **576,431** | 742,819 |
| Profit brought forward from previous year | | **884,240** | 141,421 |
| **Accumulated balance carried forward to the Balance Sheet** | | **1,460,671** | 884,240 |
| **Earnings per share** | 25 | | |
| Weighted average number of equity shares outstanding during the year | | | |
| – Basic | | **425,858** | 264,852 |
| – Diluted | | **464,222** | 389,278 |
| Earnings per share (Rs.) | | | |
| – Basic | | **1.35** | 2.80 |
| – Diluted | | **1.24** | 1.91 |
| Nominal value of shares (Rs.) | | **10** | 10 |
| **Significant accounting policies** | 2 | | |
| **Notes to accounts** | 19 – 32 | | |

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

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

For and on behalf of the Board of Directors

**Dr. Ashok S. Ganguly** *Chairman*
**Ananda Mukerji** *Managing Director & CEO*
**Raju Venkatraman** *Joint Managing Director & COO*

**Akeel Master**
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**Y.H. Malegam** *Director*

Mumbai
April 29, 2008

**Rajesh Subramaniam** *CFO*
**Sanjay Gupta** *Company Secretary*

# CASH FLOW STATEMENT AS AT MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | **2008** | 2007 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net profit / (loss) after tax | **576,431** | 742,819 |
| Adjustments for | | |
| Depreciation and amortization | **532,820** | 412,470 |
| Provision for taxes | **85,410** | 19,804 |
| Provision for doubtful debts | **1,991** | 644 |
| (Profit)/loss on sale of fixed assets net | **(805)** | 960 |
| Foreign exchange loss net | **176,151** | 16,578 |
| Interest costs | **21,823** | 70,757 |
| Interest and dividend income | **(149,826)** | (76,405) |
| Deferred taxes | **(193,056)** | – |
| (Profit) / loss on sale on investments | **(43,282)** | (52,619) |
| **Operating cash flow before changes in working capital** | **1,007,657** | 1,135,008 |
| **Changes in working capital** | | |
| (Increase) in Debtors | **47,249** | (783,276) |
| Decrease / (Increase) in Loans and advances and unbilled revenue | **(99,553)** | (345,900) |
| (Decrease) / Increase in Current liabilities and provisions | **20,634** | 104,572 |
| **Net changes in working capital** | **(31,670)** | (1,024,604) |
| **Income taxes paid** | **(100,730)** | (46,706) |
| Net cash generated / (used) in operating activities (A) | **875,257** | 63,698 |
| **Cash flow from investing activities (A)** | | |
| Purchase of investment in mutual funds / government securities | **(11,263,940)** | (7,178,372) |
| Sale of investment in mutual funds | **12,259,028** | 6,078,458 |
| Interest and dividend income received | **155,438** | 73,545 |
| Capital expenditure | **(588,453)** | (591,831) |
| Sale of fixed assets | **6,383** | 285 |
| Investment in subsidiary | **(13,564,821)** | (752,249) |
| Business acquisition, net of cash acquired | **(66,638)** | (152,165) |
| **Net cash generated / (used) in investing activities (B)** | **(13,063,003)** | (2,522,329) |
| **Cash flow from financing activities** | | |
| Proceeds from secured loan | **–** | – |
| Proceeds from unsecured loan - FCCB | **10,840,500** | – |
| Proceeds from unsecured loan - Others | **43,274** | 111,703 |
| Repayment of secured loan | **(509,615)** | – |
| Repayment of unsecured loan | **–** | (591,086) |
| 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) | **(214,769)** | 3,820,977 |
| Interest paid | **(21,823)** | (70,757) |
| **Net cash generated from financing activities (C)** | **10,137,567** | 4,850,080 |
| **Effect of exchange gain/(loss) on cash flow hedges (D)** | **(48,702)** | – |
| **Net (decrease) / increase in cash and cash equivalents (A+B+C+D)** | **(2,098,881)** | 2,391,449 |
| **Cash and cash equivalents at the beginning of the year** | **2,410,644** | 19,195 |
| **Cash and cash equivalents at the end of the year** | **311,763** | 2,410,644 |

# CASH FLOW STATEMENT AS AT MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **Notes to the cash flow statement** | | |
| Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts. | | |
| Cash on hand | **129** | 168 |
| Remittances in transit | **–** | 12,874 |
| Balances with scheduled banks | | |
| – in current accounts | **9,425** | 41,731 |
| – in deposit accounts * | **201,416** | 2,355,871 |
| Balances with non scheduled banks | | |
| – in current accounts | **793** | - |
| – in deposit accounts | **100,000** | - |
| | **311,763** | 2,410,644 |

* Includes Rs. 1,416 (March 31, 2007 : Rs. 5,870) under lien for bank guarantees to the Customs authorities.

For **BSR & Co.**
*Chartered Accountants*

For and on behalf of the Board of Directors

**Dr. Ashok S. Ganguly**
*Chairman*

**Ananda Mukerji**
*Managing Director & CEO*

**Raju Venkatraman**
*Joint Managing Director & COO*

**Akeel Master**
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Membership No.: 046768

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**Y.H. Malegam**
*Director*

Mumbai
April 29, 2008

**Rajesh Subramaniam**
*CFO*

**Sanjay Gupta**
*Company Secretary*

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 1. Background

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

During the year, the Company, through its wholly owned subsidiary company Firstsource Solutions Limited USA Inc. acquired 100% of the common stock of MedAssist Holding Inc., a Delaware corporation, a leading provider of revenue cycle management in the healthcare industry in the USA.

The list of subsidiaries as at 31st March, 2008 with percentage holding is summarised below:

| Subsidiaries | Country of incorporation and other particulars | Percentage of holding by the immediate parent (%) | Year of consolidation |
|---|---|---|---|
| Firstsource Solutions USA Inc. ("FSL-USA") | A subsidiary of Firstsource Solutions Limited organized under the laws of State of Delaware, USA | 100% | 2002-2003 |
| 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") | 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 |
| Firstsource Advantage 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) | A subsidiary of Pipal Research Corporation, incorporated under the laws of India | 100% | 2004-2005 |
| Rev IT Systems 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 Limited, incorporated under the laws of the State of Michigan, USA | 100% | 2004-2005 |
| Firstsource Solutions S.A. ("FSL-Arg") | A subsidiary of Firstsource Solutions Limited UK, incorporated under the laws of S.A. | 99.98% | 2006-2007 |
| MedAssist Holding, Inc. (MedAssist) | A subsidiary of Firstsource Solutions Limited US, organized under the laws of State of Delaware, USA | 100% | 2007-2008 |
| MedAssist Intermediate Holding, Inc. (MIH) | A subsidiary of MedAssist Holding, Inc., organized under the laws of State of Delaware, USA | 100% | 2007-2008 |
| MedAssist, Incorporated (MI) | A subsidiary of MedAssist Intermediate Holding, Inc., organized under the laws of State of Kentucky, USA | 100% | 2007-2008 |
| Twin Medical Transaction Services, Inc. (Twin) | A subsidiary of MedAssist, Incorporated, organized under the laws of Nevada Corporation, USA | 100% | 2007-2008 |
| Argent Healthcare Financial Services, Inc. (Argent) | A subsidiary of MedAssist, Incorporated, organized under the laws of State of Delaware, USA | 100% | 2007-2008 |

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 2. Significant Accounting Policies

### 2.1. Basis of preparation

The financial statements have been prepared and presented under the historical cost convention on accrual basis of accounting and accounting principles generally accepted in India and comply with the Accounting Standards prescribed in the Companies (Accounting Standard) Rules, 2006 issued by the Central Government in consultation with the National Advisory Committee on Accounting Standard and in accordance with 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 recognized prospectively in current and future periods.

### 2.3. Revenue recognition

Revenue from contact centre and transaction processing services comprises from both time/unit price and fixed fee based service contracts. Revenue from time / unit price based contracts is recognized on completion of the related services and is billed in accordance with the contractual terms specified in the respective customer contracts. Revenue from fixed fee based service contracts is recognized 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 recognized 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 recognized when the right to receive dividend is established.

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

### 2.4. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. 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 capitalsed 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.

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

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.

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

*Provident fund*

All employees of the Company receive benefits from a provident fund, which is a defined contribution retirement plan in which 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 nature, in the carrying value of such investments. Current investments are valued at the lower of cost and market value.

**2.7. Taxation**

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

*Current taxes*

Provision for current income-tax is recognized in accordance with the provisions of 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.

*Deferred taxes*

Deferred tax assets and liabilities are recognized 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 recognized in the period that includes the enactment date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realised in the future, however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognized only if there is virtual certainty of recognition of such assets. Deferred tax assets are reassessed for the appropriateness of their respective carrying values at each Balance Sheet date.

The profits of the Company are exempt from taxes under the Income Tax Act, 1961, being profit from industrial undertakings situated in Software Technology Park. Under Section 10A of the Income Tax Act, 1961, the Company can avail of an exemption of profits from income tax for a period 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 recognized 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 recognized in respect of the same.

*Fringe Benefits*

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

**2.8. Leases**

*Finance Lease*

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

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

*Operating lease*

Lease rentals in respect of assets acquired under operating lease are charged off to the Profit and Loss Account as incurred.

**2.9. Foreign currency transactions, derivative instruments and hedge accounting**

a) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Net exchange gain or loss resulting in respect of foreign exchange transactions settled during the period is recognized in the Profit and Loss Account 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 recognized in the Profit and Loss Account.

The premium or discount on all the forward contracts arising at the inception of each contract is amortised as income or expense over the life of the contract.

b) Derivative instruments and hedge accounting

The Company uses foreign currency forward contracts and currency options to hedge its risks associated with foreign currency fluctuations relating to certain forecasted transactions. The Company designates these as cash flow hedges applying the principles set out in the Accounting Standard 30 "Financial Instruments : Recognition Measurement" (AS-30).

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss Account as they arise.

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

**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.

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

**2.11. Provisions and contingencies**

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

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

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

**2.12. Foreign currency convertible bonds (FCCB)**

a) Foreign Currency Convertible Bonds are considered monetary in nature. Any gain / loss arising on account of exchange fluctuation is accounted in Profit and Loss Account.

b) Premium payable on redemption of FCCB is fully charged to the Securities Premium account in the period of issue. Net gain or loss resulting from restatement of this liability at period end rates is accounted in Securities Premium Account.

(Currency: In thousands of Indian rupees)

| | **2008** | 2007 |
|---|---|---|
| **3. Share capital** | | |
| **Authorised** | | |
| 600,000,000 (March 31, 2007: 600,000,000) equity shares of Rs. 10 each | **6,000,000** | 6,000,000 |
| 250,000,000 participatory optionally convertible preference shares ('POCPS') (31st March, 2007: 250,000,000) of Rs. 10 each | **2,500,000** | 2,500,000 |
| | **8,500,000** | 8,500,000 |
| **Issued, subscribed and paid-up** | | |
| 427,312,964 (March 31, 2007 : 425,084,296) equity shares of Rs. 10 each fully paid up | **4,273,130** | 4,250,843 |
| | **4,273,130** | 4,250,843 |

During the year 2,228,668 (March 31, 2007: 10,314,498) options were allotted. For details of options in respect of equity shares, refer to Schedule 20.

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **4. Reserves and surplus** | | |
| **Securities premium** | | |
| Securities premium at the beginning of the year | **5,154,807** | 42,405 |
| Add : Premium on shares issued during the year | **14,014** | 5,320,920 |
| Less: Premium utilised on expenses incurred for issue of share capital | **–** | 208,518 |
| Less: Premium utilised on expenses incurred for issue of FCCB | **217,436** | – |
| Less: Premium payable on redemption of FCCB (Refer note 2.12 (b) and 29) | **4,343,692** | – |
| Securities premium at the end of the year | **607,693** | 5,154,807 |
| **Profit and Loss Account** | **1,460,671** | 884,240 |
| Hedging reserve account | **(48,702)** | – |
| | **2,019,662** | 6,039,047 |
| **5. Secured loans** | | |
| External commercial borrowings (ECB) * | **100,300** | 652,050 |
| (Secured against fixed assets and receivables ) | | |
| Finance lease obligation (Secured against assets taken on lease) | **3,691** | 7,790 |
| | **103,991** | 659,840 |
| * Repayable within a year Rs. 100,300 (March 31, 2007 Rs. 543,375) | | |
| **6. Unsecured loans** | | |
| Working capital demand loan | **104,356** | 61,082 |
| Foreign currency convertible bond (Refer note 29) | **11,033,000** | – |
| | **11,137,356** | 61,082 |

## 7. Fixed assets

| | Gross block | | | | Accumulated depreciation/amortisation | | | | Net block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at April 1, 2007 | Additions during the year | Deletions during the year | As at March 31, 2008 | As at April 1, 2007 | Charge for the year | On deletions during the year | As at March 31, 2008 | As at March 31, 2008 | As at March 31, 2007 |
| *Intangible assets* | | | | | | | | | | |
| Domain name | 6,720 | – | – | **6,720** | 626 | 2,244 | – | **2,870** | **3,850** | 6,094 |
| Software | 121,612 | 74,465 | – | **196,077** | 52,949 | 37,974 | – | **90,923** | **105,154** | 68,663 |
| *Tangible assets* | | | | | | | | | | |
| Computers * | 604,451 | 78,766 | – | **683,217** | 441,539 | 90,872 | – | **532,411** | **150,806** | 162,912 |
| Service equipment | 327,883 | 52,999 | (2,407) | **378,475** | 218,800 | 64,048 | (2,404) | **280,444** | **98,031** | 109,083 |
| Furniture and fixtures and office equipment | 673,337 | 111,375 | (23,968) | **760,744** | 340,969 | 138,121 | (22,116) | **456,974** | **303,770** | 332,368 |
| Vehicles | 3,041 | 1,453 | (1,005) | **3,489** | 1,357 | 969 | (383) | **1,943** | **1,546** | 1,684 |
| Leasehold improvements | 738,150 | 229,066 | (38,972) | **928,244** | 341,482 | 198,592 | (35,873) | **504,201** | **424,043** | 396,668 |
| **Total** | **2,475,194** | **548,124** | **(66,352)** | **2,956,966** | **1,397,722** | **532,820** | **(60,776)** | **1,869,766** | **1,087,200** | **1,077,472** |
| March 31, 2007 | 1,819,773 | 659,535 | 4,114 | **2,475,194** | 987,488 | 412,470 | 2,236 | **1,397,722** | **1,077,472** | |

**Note:**

* The above assets includes assets taken on lease having gross block of Rs. 12,326 (March 31, 2007 : 12,326) and net block of Rs. 3,565 (March 31, 2007 : 7,720)

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **8. Investments** | | |
| **Long-term (at cost)** | | |
| *Trade* | | |
| **Investments in subsidiaries (Unquoted)** | | |
| 6,775,276,550 (March 31, 2007 : 6,771,860,000) fully paid-up common stock of US $ 0.001 each of Firstsource Solutions USA Inc. | **14,343,023** | 773,040 |
| 2,834,672 (March 31 : 2,834,672) fully paid up equity shares of GBP 1 each of Firstsource Solutions Limited, UK | **18,349** | 18,349 |
| 40,509,637 (March 31, 2007 : 40,509,637) Series 'F' Convertible Preferred Stock of FirstRing Inc., US ('FR-US') of US $ 0.00001 each, fully paid up | **1,350,859** | 1,350,859 |
| 136,093 (March 31, 2007 : 136,093) equity shares of Pipal Research Corporation of Rs 10 each, fully paid up | **157,260** | 157,260 |
| 9,088,886 (March 31, 2007 : 9,088,886) Equity Shares of Rev IT Systems Limited of Rs. 10 each, fully paid up. | **941,547** | 941,547 |
| Nil (March 31, 2007 : 5,162) Preference Shares of Rev IT | – | 5,162 |
| | **16,811,038** | 3,246,217 |
| **Short term (at lower of cost and fair value)*** | | |
| *Trade (Unquoted)* | | |
| Investment in treasury bills in connection with Philippines branch | – | 98 |
| *Non-trade (Unquoted)** | | |
| Investments in market mutual funds | | |
| 611,232 (March 31, 2007 : Nil) units of Kotak Liquid (Institutional Premium) – Growth | **10,000** | – |
| Nil (March 31, 2007 : 15,004,955) units of ICICI Prudential Institutional Liquid Plan -Super Institutional Weekly Dividend | – | 150,207 |
| Nil (March 31, 2007 : 5,629) units of Kotak Liquid Fund – Institutional Premium Plan Daily Dividend | – | 69 |
| Nil (March 31, 2007: 25,211,750) units of Standard chartered FMP - Quarterly series 5 - Dividend | – | 252,118 |
| Nil (March 31, 2007: 25,004,227) units of Birla FTP- Quarterly - Series7-Dividend – Payout | – | 250,042 |
| Nil (March 31, 2007 : 25,000,000) units of ICICI Prudential FMP Series 37 Three Month Plus Plan A-Retail Dividend | – | 250,000 |
| Nil (March 31, 2007 : 25,000,000) units of ICICI Prudential FMP Series 37 One Month Plan - Retail Dividend | – | 250,000 |
| 3,890,142 (March 31, 2007 : Nil) Birla Cash Plus - Institutional Premium - Growth Option | **50,000** | – |
| 4,986,870 (March 31, 2007 : Nil) ING Liquid Fund Super Institutional - Growth Option | **60,099** | – |
| 18,603 (March 31, 2007 : Nil) Reliance Liquid Plus Fund - Institutional Option - Growth Plan | **20,348** | – |
| 3,291,382 (March 31, 2007 : Nil) Reliance Liquidity Fund - Growth Option | **40,000** | – |
| 15,243 (March 31, 2007 : Nil) UTI Liquid Cash Plan Institutional - Growth Option | **20,282** | – |
| (Net asset value of unquoted investments aggregate Rs. 201,081 (March 31, 2007 : 1,156,296)) | **200,729** | 1,152,436 |
| | **17,011,767** | 4,398,751 |

* Refer Schedule 30 for summary of investments purchased and sold during the year.

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **9. Deferred tax assets** | | |
| Difference between tax and book value of fixed assets | **166,433** | – |
| Gratuity and leave encashment | **26,623** | – |
| | **193,056** | – |
| **10. Sundry debtors** | | |
| *(Unsecured)* | | |
| Debts outstanding for a period exceeding six months | | |
| – considered doubtful | **8,521** | 6,530 |
| | **8,521** | 6,530 |
| Others debts | | |
| – considered good* | **1,086,740** | 1,161,766 |
| | **1,095,261** | 1,168,296 |
| Less : Provision for doubtful debts | **(8,521)** | (6,530) |
| | **1,086,740** | 1,161,766 |
| *Sundry debtors include debts outstanding from companies under the same management | | |
| FSL - USA | **163,609** | 103,751 |
| FSL - UK | **468,783** | 827,123 |
| ASG | **41,649** | 61,352 |
| **11. Cash and bank balances** | | |
| Cash on hand | **129** | 168 |
| Remittances in transit | **–** | 12,874 |
| Balances with scheduled banks | | |
| – in current accounts | **9,425** | 41,731 |
| – in deposit accounts * | **201,416** | 2,355,871 |
| Balances with non scheduled banks | | |
| – in current accounts ** | **793** | – |
| – in deposit accounts ** | **100,000** | – |
| | **311,763** | 2,410,644 |

* Includes Rs. 1,416 (March 31, 2007 : Rs. 5,870) under lien for bank guarantees to the Customs authorities.

** From ABN Amro Bank. Maximum amount of outstanding balance in current accounts and deposit accounts amounts to Rs. 6,814 and Rs. 250,000 respectively.

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **12. Loans and advances** | | |
| (Unsecured, considered good) | | |
| Loans to subsidiaries | **720,241** | 568,420 |
| Advances to subsidiaries* | **243,450** | 357,063 |
| Deposits | **256,314** | 245,627 |
| Mark to market premium on forward contracts | **–** | 28,616 |
| Prepaid expenses | **48,253** | 25,650 |
| Advances recoverable in cash or in kind or for value to be received | **55,346** | 70,010 |
| Lease rentals receivable, net (refer Schedule 19) | **47,988** | 27,690 |
| Advance tax and tax deducted at source | **125,561** | 52,479 |
| Accrued interest on loans and deposits | **7,113** | 12,723 |
| | **1,504,266** | 1,388,278 |
| * Includes amount outstanding from companies under the same management. | | |
| FSL - USA | **11,121** | 16,169 |
| Rev IT | **14,927** | 17,975 |
| ASG | **64,177** | 33,493 |
| FSL - UK | **108,023** | 75,572 |
| FSL - Arg | **25,714** | 7,752 |
| BPMS | **19,488** | 5,786 |
| Maximum outstanding balance during the year | | |
| FSL - USA | **56,363** | 123,368 |
| FR-US | **–** | 15,733 |
| Rev IT | **28,236** | 265 |
| FSL - UK | **108,023** | 75,572 |
| ASG | **66,788** | – |
| FSL - Arg | **26,467** | 7,752 |
| BPMS | **19,488** | 5,786 |
| **13. Current liabilities** | | |
| Amount payable to subsidiary * | **4,289** | – |
| Sundry creditors** | | |
| – for expenses | **242,762** | 368,204 |
| – for capital goods | **109,754** | 147,969 |
| Payable on business acquisition | **66,586** | 133,224 |
| Other liabilities | **64,442** | 49,397 |
| Mark to market premium on forward | **65,410** | – |
| Tax deducted at source payable | **18,897** | 17,056 |
| | **572,140** | 715,850 |
| * includes amount outstanding to companies under the same management | | |
| Pipal | **4,289** | – |
| Maximum outstanding balance during the year | | |
| FSL - UK | **–** | 27,818 |
| FR-US | **–** | 11,688 |
| ASG | **–** | 49,721 |
| Rev IT | **–** | 938 |
| Pipal | **4,310** | – |

** Based on the information and records available with the Company, no amount is payable to small scale industrial undertakings as well as micro and small enterprises as at March 31, 2008 (March 31, 2007 : Nil) (Refer Schedule 31).

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **14. Provisions** | | |
| Income tax | **59,161** | 1,400 |
| Gratuity | **44,794** | 30,202 |
| Leave encashment | **33,533** | 22,268 |
| Premium payable on redemption of FCCB (Refer note 2.12 (b) and 29) | **4,343,692** | – |
| | **4,481,180** | 53,870 |
| **15. Other income** | | |
| Profit on sale/redemption of non trade investments, net | **43,282** | 52,619 |
| Profit on sale of fixed assets, net | **805** | – |
| Miscellaneous income | **31,407** | 1,785 |
| Dividend on investments | **32,300** | 11,429 |
| | **107,794** | 65,833 |
| **16. Personnel costs** | | |
| Salaries, bonus and other allowances | **2,032,184** | 1,776,439 |
| Contribution to provident and other funds | **132,839** | 92,396 |
| Staff welfare | **198,299** | 98,781 |
| | **2,363,322** | 1,967,616 |
| **17. Finance Charge, net** | | |
| On External commercial borrowings and term loan | **18,900** | 60,106 |
| On Working capital and demand loan | **2,803** | 10,485 |
| Finance charge | **120** | 166 |
| | **21,823** | 70,757 |
| Less : Interest income | | |
| – on deposits with banks [Tax deducted at source: Rs. 15,703 (March 31, 2007 : Rs. 5,140 )] | **72,129** | 27,091 |
| – on loan to subsidiary | **41,439** | 35,525 |
| – on others | **3,958** | 2,360 |
| | **(95,703)** | 5,781 |
| Add : Exchanges (gain) / loss on Foreign currency loan and FCCB, net | **218,859** | (2,203) |
| | **123,155** | 3,578 |

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| | 2008 | 2007 |
|---|---|---|
| **18. Operating costs** | | |
| Connectivity charges | **205,256** | 215,774 |
| Rent, rates and taxes | **304,380** | 196,522 |
| Car and other hire charges | **214,458** | 171,107 |
| Maintenance and upkeep | **185,093** | 144,593 |
| Recruitment and training | **68,184** | 99,037 |
| Electricity, water and power consumption | **146,190** | 81,794 |
| Travel and conveyance | **130,663** | 112,228 |
| Legal and professional fees | **104,239** | 66,278 |
| Computer expenses | **64,383** | 44,232 |
| Communication | **39,490** | 21,350 |
| Insurance | **16,105** | 13,003 |
| Foreign exchange loss, net | **–** | 18,781 |
| Printing and stationery | **24,422** | 15,017 |
| Marketing and support fees | **8,175** | 10,548 |
| Auditors' remuneration | | |
| – Statutory audit | **8,294** | 5,350 |
| – Tax audit | **150** | 150 |
| – Other services | **2,138** | 702 |
| Meeting and seminar | **9,264** | 4,526 |
| Advertisement and publicity | **2,666** | 2,159 |
| Loss on sale of fixed assets net | **–** | 960 |
| Membership fees | **1,126** | 1,054 |
| Directors' sitting fees | **1,250** | 123 |
| Provision for doubtful debts | **1,991** | 644 |
| Bank charges and guarantee Commission | **11,329** | 11,811 |
| Miscellaneous expenses | **9,552** | 8,623 |
| | **1,558,798** | 1,246,366 |

## 19. Leases

*Operating lease*

The Company is obligated under non-cancelable operating leases for office space and office equipments which are renewable on a periodic basis at the option of both the lesser and lessee. Rental expenses under non-cancelable operating leases for the year ended March 31, 2008 aggregated to Rs. 175,032 (March 31, 2007: 180,439). Rs. 25,744 (March 31, 2007 : 12,821) and Rs. 7,999 (March 31, 2007: Nil) has been attributed to expenses prior to the related asset being ready to use and, accordingly, has been included as part of the related fixed assets and capital work in progress respectively.

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

| | 2008 | 2007 |
|---|---|---|
| Amount due within one year from the Balance Sheet date | **203,356** | 166,771 |
| Amount due in the period between two year and five years | **436,537** | 175,137 |
| | **639,893** | 341,908 |

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 March 31, 2008 aggregated Rs. 129,348 (March 31, 2007 : Rs 27,955).

(Currency: In thousands of Indian rupees)

*Finance lease*

The Company has given vehicles on finance lease to its employees as per policy. As at March 31, 2008, the future minimum lease rentals receivables are as follows :

| | Minimum lease payments | Finance charges | Present value of minimum lease payments |
|---|---|---|---|
| As at March 31, 2008 | | | |
| Amount receivable within one year from the Balance Sheet date | **17,978** | **3,913** | **14,065** |
| Amount receivable in the period between one year and five years | **37,820** | **3,897** | **33,923** |
| | **55,798** | **7,810** | **47,988** |
| As at March 31, 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** |

## 20. Employee Stock Option Plan

*Stock option scheme 2002 ('Scheme 2002')*

In September 2002, the Board of the Company approved the ICICI OneSource Stock Option Scheme 2002 ("the Scheme"), which covers the employees and Directors of the Company including its holding Company and subsidiaries. The Scheme 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 | 25.0 |
| 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:

| Particulars | 2008 | 2007 |
|---|---|---|
| Outstanding at beginning of the year | **351,125** | 1,968,750 |
| Granted during the year | **–** | – |
| Forfeited during the year | **–** | (32,500) |
| Exercised during the year | **(230,500)** | (1,585,125) |
| Outstanding at the end of the year ( Refer note 1 below) | **120,625** | 351,125 |
| Vested and exercisable at the end of the year | **120,625** | 351,125 |
| Note 1: | | |
| **Exercise price range** | | |
| 10.00 – 14.99 | **120,625** | 351,125 |

*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 October 11, 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":

## SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

- The Scheme would be administered and supervised by the members of the Compensation Committee; and
- Exercise period within which the employees would exercise the options would be 5 years from the date of grant.

Employee stock option activity under Scheme 2003 is as follows:

| Particulars | 2008 | 2007 |
|---|---|---|
| Outstanding at beginning of the year | **33,083,627** | 20,168,000 |
| Granted during the year (Refer note 2 and 4 below) | **42,982,712** | 24,802,500 |
| Forfeited during the year | **(2,237,193)** | (3,321,250) |
| Exercised during the year | **(1,998,168)** | (8,565,623) |
| Outstanding at the end of year (Refer note 1 below) | **71,830,978** | 33,083,627 |
| Vested and exercisable at the end of the year | **7,234,742** | 2,867,875 |
| Note 1: | | |
| Exercise price range | | |
| 10.00 – 14.99 | **2,043,867** | 3,424,627 |
| 15.00 – 19.99 | **1,226,625** | 1,510,625 |
| 20.00 – 24.99 | **4,049,625** | 4,378,375 |
| 30.00 – 34.99 | **18,364,849** | 19,322,500 |
| 35.00 - 39.99 | **19,520,884** | 2,027,500 |
| 50.00 – 54.99 | **1,670,000** | – |
| 60.00 – 64.99 | **1,722,500** | 2,420,000 |
| 70.00 – 74.99 | **23,062,628** | – |
| 75.00 – 79.99 | **60,000** | – |
| 80.00 – 84.99 | **110,000** | – |
| Outstanding at the end of the year | **71,830,978** | 33,083,627 |

Note 2: The Compensation Cum Board Governance Committee of Firstsource, at its meeting held on April 27, 2006 amended the vesting schedule for stock options granted on May 1, 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 3: 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.

Note 4. The Compensation Cum Board Governance Committee of Firstsource, at its meeting held on November 22, 2007 amended the scheme to include 'Executive Options'.

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

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

| Period within which Executive Options shall vest | % of Executive Options which shall vest unto the Option grantee |
|---|---|
| End of 24 months from date of grant of Options | 20% |
| End of 36 months from date of grant of Options | 10% |
| End of 48 months from date of grant of Options | 10% |
| End of 60 months from date of grant of Options | 10% |

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

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

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

Note 5. The Guidance Note on 'Accounting for employee share based payments' issued by ICAI ('Guidance Note') establishes financial accounting and reporting principles for employee's share based payment plans. The Guidance Note applies to employee share based payments, the grant date in respect of which falls on or after April 1, 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** | **2008** | 2007 |
|---|---|---|
| Net income as reported | **576,431** | 742,819 |
| Less: Stock-based employee compensation expense (fair value method) | **183,562** | 54,511 |
| Proforma net income | **392,869** | 688,308 |
| Basic earnings per share as reported (Rs.) | **1.35** | 2.80 |
| Proforma basic earnings per share (Rs.) | **0.92** | 2.60 |
| Diluted earnings per share as reported (Rs.) | **1.24** | 1.91 |
| Proforma diluted earnings per share (Rs.) | **0.85** | 1.77 |

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 8.75% |
| Volatility | 0% to 50% |

## 21. Managerial remuneration

| **Particulars** | **2008** | 2007 |
|---|---|---|
| Salaries and allowances | **21,192** | 12,790 |
| Contribution towards retirement benefits | **901** | 425 |
| Perquisites | **243** | 173 |
| **Total** | **22,336** | 13,388 |

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.

## 22. Related party transactions

Details of related parties including summary of transactions entered into by the Company during the year ended March 31, 2008 are summarized below:

| | |
|---|---|
| Parties with substantial interests | • ICICI Bank Limited<br>• Metavante Investments (Mauritius) Limited<br>• 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. |
| Companies in which Directors are interested | • ICICI Prudential Life Insurance Company Limited (I-Prudential) |
| Key Managerial Personnel including relatives | • Ananda Mukerji<br>• Raju Venkatraman<br>• Rajesh Subramanium<br>• Rahul Basu |
| Non-Executive Directors | • Ashok Shekhar Ganguly<br>• Charles Miller Smith<br>• K. P. Balaraj<br>• Shikha Sharma<br>• Shailesh Mehta<br>• Dinesh Vaswani<br>• Y. H. Malegam<br>• Donald Layden, Jr.<br>• Lalita D. Gupte |

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

**22. Related party transactions** (Contd.) (Currency: In thousands of Indian rupees)

| *Particulars of related party - Transactions during the period*<br>Name of the related party | Description | **Transaction value for the year ended March 31, 2008** | Transaction value for the year ended March 31, 2007 | **Receivable / (Payable) at March 31, 2008** | Receivable / (Payable) at March 31, 2007 |
|---|---|---|---|---|---|
| FSL - USA | | | | | |
| | Income from services | **357,815** | 536,113 | **–** | – |
| | Reimbursement of expenses | **40,846** | 39,275 | **–** | – |
| | Investment in equity | **13,569,982** | 752,250 | | |
| | | | | **174,730** | 119,920 |
| FSL - UK | | | | | |
| | Income from services | **1,586,122** | 1,426,740 | **–** | – |
| | Reimbursement of expenses | **35,987** | 68,496 | **–** | – |
| | | | | **576,806** | 902,695 |
| FR - US | Income from services | **–** | 7,238 | | |
| | Interest Income | **41,387** | 35,525 | **6,239** | – |
| | Reimbursement of expenses | **–** | 229 | **–** | – |
| | Loan outstanding | **175,627** | – | **700,241** | 568,420 |
| Firstsource Advantage, LLC | Income from services | **174,306** | 94,188 | **41,649** | – |
| | Reimbursement of expenses | **33,295** | 63,699 | **64,177** | 94,845 |
| Rev IT | Reimbursement of expenses | **15,973** | 15,073 | **14,927** | 17,975 |
| Pipal | Reimbursement of expenses | **4,351** | 405 | **(4,289)** | – |
| | Loan Given | **20,000** | – | **20,000** | – |
| | Interest income | **53** | – | **41** | – |
| FSL - Arg | Reimbursement of expenses and income from services | **18,715** | 7,752 | **25,714** | 7,752 |
| BPMS | Reimbursement of expenses and income from services | **19,488** | 5,786 | **19,488** | 5,786 |
| ICICI Bank Limited | Income from services | **252,073** | 117,156 | **64,880** | 20,063 |
| | Interest income on fixed deposits | **25,905** | 22,990 | **548** | 9,552 |
| | Rent paid | – | 3,036 | – | (759) |
| | Software Expenses & Professional Fees | **1,498** | 1,559 | **(270)** | (67) |
| | Corporate administrative expenses | – | 821 | – | (134) |
| | Interest expenditure | **21,703** | 70,590 | **(533)** | – |
| | Bank balance | – | – | **33,015** | 34,678 |
| | Bank Overdraft | – | – | **(105,938)** | (61,082) |
| | Fixed deposit placed | **1,900,000** | 1,755,870 | **201,416** | 1,456,186 |
| | Fixed deposit matured | **2,954,456** | – | – | – |
| | External Commercial Borrowings Paid | **569,188** | – | **(100,300)** | (652,050) |
| | Fees and commission | **101,721** | – | – | – |
| | Guarantee Commission paid | **9,041** | 11,811 | **4,358** | 5,009 |
| Metavante Investments (Mauritius) Limited | Income from services | **27,771** | 61,969 | **3,189** | 61,969 |
| ICICI - Prudential Life Insurance Company Limited | Insurance premium paid | **2,190** | 3,481 | **2,801** | – |
| | Rent paid | **22,029** | 24,576 | – | – |
| ICICI - Prudential | Income from services | **182,582** | 147,753 | **67,604** | 20,518 |
| Key management personnel and relatives | Remuneration | **33,979** | 38,314 | **–** | – |
| Non-Executive Directors | Directors sitting fees | **1,250** | 123 | **–** | – |

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

## 23. Retirement Benefit

*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 | 2008 | 2007 |
|---|---|---|
| **Change in present value of obligations** | | |
| Obligations at beginning of the year | **30,202** | 21,745 |
| Service Cost | **21,000** | 13,942 |
| Interest cost | **2,145** | 1,401 |
| Actuarial (gain)/loss | **(3,279)** | (2,831) |
| Benefits paid | **(3,198)** | (1,979) |
| Obligations at the end of the year | **46,870** | 32,278 |
| **Change in plan assets** | | |
| Fair value of plans assets at beginning of the year, | **(2,076)** | (2,076) |
| Expected return on plan assets | **164** | (21) |
| Actuarial (gain)/loss | **(164)** | (1,958) |
| Contributions | **3,198** | – |
| Benefits paid | **(3,198)** | 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 | **46,870** | 32,278 |
| 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 | **44,794** | 30,202 |
| **Gratuity cost for the year** | | |
| Service cost | **21,000** | 13,942 |
| Interest cost | **2,145** | 1,401 |
| Expected return on plan assets | **(3,115)** | (4,788) |
| Actuarial (gain)/loss | **(164)** | (21) |
| Net gratuity cost | **19,866** | 10,534 |
| **Assumptions** | | |
| Interest rate | **8.75%** | 7.50% |
| Estimated rate of return on plan assets | **7.90%** | 7.90% |
| Rate of growth in salary levels | **10.00%** | 10.00% |
| Withdrawal rate | **25% reducing to 2% for over 20 year of service** | 25% reducing to 2% for over 20 years of service |

## 24. Transfer Pricing

The Company's 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. Company's 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.

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

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

(No. of shares in '000)

| Particulars | 2008 | 2007 |
|---|---|---|
| Number of shares considered as basic weighted average shares outstanding | **425,858** | 264,852 |
| Add: Effect of potential issue of shares/stock options | **–** | 124,426 |
| Add: Adjustment for options relating to Foreign currency convertible bonds | **38,364** | – |
| Number of shares considered as weighted average shares and potential shares outstanding | **464,222** | 389,278 |

## 26. Capital and other commitments and contingent liabilities

| Particulars | 2008 | 2007 |
|---|---|---|
| The estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances | **114,515** | 19,891 |
| Guarantees and letters of credit given | **2,041,105** | 1,648,603 |

*Direct tax matters*

Income tax demand amounting to Rs.4,295 (March 31, 2007 : 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 demand amounting to Rs. 91,038 (March 31, 2007 : 91,038) for the assessment years 2003-04 and 2004-05 are disputed in appeal by the Company in respect of which the Company has favourable appellate decisions supporting its stand based on the past assessment and hence, the provision for taxation is considered adequate. The company have paid Rs.10,381 tax under protest against the demand raised for the assessment year 2004-05.

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

## 28. Supplementary statutory information

| Particulars | 2008 | 2007 |
|---|---|---|
| (i) *Value of imports calculated on CIF basis* | | |
| Capital goods | **91,936** | 135,739 |
| (ii) *Earnings in foreign exchange* | | |
| Income from services | **3,669,348** | 3,904,764 |
| Interest Income | **41,387** | 35,525 |
| (iii) *Expenditure in foreign currency* | | |
| Marketing and support services | **–** | 132 |
| Travel and conveyance | **35,124** | 21,048 |
| Interest | **18,900** | 49,047 |
| Connectivity charges | **77,791** | 80,671 |
| Legal fees | **19,573** | 7,333 |

(Currency: In thousands of Indian rupees)

## 29. Issue of Foreign Currency Convertible Bonds (FCCB)

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

| | |
|---|---|
| Issue | 0% FCCB due 2012 |
| Issued on | December 3, 2007 |
| Issue Amount | US $ 275,000,000 |
| Face Value | US $ 100,000 |
| Conversion price per share and fixed exchange rate | Rs. 92.2933<br>Rs. 39.27 = US $ 1 |
| Number of shares to be issued if converted | 117,010,135 |
| Exercise period | On or after January 14, 2008 upto December 4, 2012 |
| Early conversion at the option of the Company subject to certain conditions | On or after December 4, 2009 and prior to November 24, 2012 |
| Redeemable on | December 4, 2012 |
| Redemption percentage of the principal amount | 139.37% |
| Bonds outstanding as on March 31, 2008 | 2750 |

The proceeds from the issue of the bonds were utilised to subscribe for shares in a wholly owned subsidiary Firstsource Solutions USA Inc. (FSL-USA). FSL-USA has then utilised the funds received by it for repayment of debt taken by it in connection with the acquisition of MedAssist Holding Inc.

29.2 Premium payable on redemption of FCCB is provided for by charge to the Securities Premium Account as permitted by Section 78 of the Companies Act, 1956, in the year of issue. As the premium is not being charged to the Profit and Loss Account the need for matching expenditure with revenue does not arise and consequently it is not considered necessary to amortize the premium over the period of the bonds. The gain/loss arising on the restatement of the outstanding liability at period end rates is also credited/ debited to the Securities Premium Account.

## 30. Summary of investments purchased and sold during the year

| **Mutual Fund Scheme** | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Units purchased** | **Purchase value** | Units purchased | Purchase value |
| Birla Cash Plus – Institutional Premium – Growth | **16,104,494** | **200,000** | 57,136,452 | 650,000 |
| HSBC Cash Fund – Institutional Plus – Growth | **–** | **–** | 25,487,683 | 285,000 |
| Prudential ICICI Institutional Liquid Plan – Super Institutional Growth | **353,294,228** | **3,988,827** | 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 | **4,496,841** | **100,009** | 322,984 | 355,000 |
| Kotak Liquid ( Institutional Premium) – Growth | **7,099,093** | **110,000** | 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** | 25,000,000 | 250,000 |
| ICICI Prudential FMP Series 37 One Month Plan – Retail Dividend | **25,000,000** | **250,000** | 25,000,000 | 250,000 |
| Standard Chartered FMP Series – Quarterly Series 5- Dividend | **25,515,299** | **255,153** | 25,211,750 | 252,118 |
| Birla FTP Quarterly Series 7 Dividend payout | **25,004,227** | **250,042** | 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 | **15,223,972** | **152,398** | 90,185,105 | 902,489 |
| Kotak Liquid Fund – Institutional Premium Plan Daily Dividend | **5,783** | **71** | 8,183,514 | 100,068 |

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| Mutual Fund Scheme | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Units purchased** | **Purchase value** | Units purchased | Purchase value |
| DWS Insta Cash Plus Fund - Institutional Plan - Daily Dividend Option | – | – | 24,955,434 | 250,041 |
| UTI Liquid Cash Plan Institutional - Growth | **316,124** | **410,000** | – | – |
| ICICI Prudential Interval Fund 1 Month Plan A - Retail Dividend | **18,000,733** | **180,007** | – | – |
| ICICI Prudential Liquid Fund Super Institutional plan - daily dividend | **25,404,165** | **254,047** | – | – |
| ICICI Prudential Flexible Income Plan - Growth | **12,166,669** | **170,000** | – | – |
| HSBC Liquid Plus Fund- Institutional Plus - Growth | **23,647,594** | **250,000** | – | – |
| Reliance Liquidity Fund - Daily Dividend Reinvestment Plan | **65,440,267** | **654,606** | – | – |
| Reliance Liquid Plus Fund - Institutional Option Daily Dividend Plan | **50,096** | **50,164** | – | – |
| Reliance Liquid Plus Fund - Institutional Option - Growth Plan | **216,642** | **230,427** | – | – |
| Reliance Liquidity Fund - Growth Option | **25,973,005** | **310,000** | – | – |
| Reliance Monthly Iinterval Fund - Series I-Institutional Dividend Plan | **25,304,839** | **253,434** | – | – |
| DWS credit opportunities cash fund - Growth Plan | **39,757,737** | **400,034** | – | – |
| DWS insta cash plus fund - Institutional Premium - Growth Option | **23,992,800** | **290,000** | – | – |
| DWS insta cash plus fund - Institutional Premium - Dividend Option | **9,983,967** | **100,034** | – | – |
| Kotak Flexi Debt Scheme - Growth | **8,434,050** | **100,000** | – | – |
| Grindlays Floating Rate Fund- LT - Inst Plan B - Daily Div. | **10,013,854** | **100,164** | – | – |
| ING Liquid Fund Super Institutional - Growth Option | **88,518,682** | **1,020,000** | – | – |
| ING Liquid Plus Fund - Institutional Growth | **14,749,408** | **150,000** | – | – |
| ING Liquid Plus Fund - Institutional Daily Dividend | **24,425,479** | **244,335** | – | – |
| Fidelity Cash Fund - Daily Dividend | **11,509,423** | **115,094** | – | – |
| Fidelity Cash Fund - Super Institutional - Growth Option | **12,745,773** | **135,094** | – | – |
| DSP Merrill Lynch Cash Plus Institutional - Growth Option | **283,482** | **290,000** | – | – |

| Mutual Fund Scheme | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Units Sold** | **Sale value** | Units sold | Sale value |
| Birla Cash Plus - Institutional Premium - Growth | **(25,004,227)** | **(150,908)** | (57,136,452) | (656,727) |
| HSBC Cash Fund - Institutional Plus – Growth | – | – | (25,487,683) | (291,497) |
| Prudential ICICI Institutional Liquid Plan – Super Institutional Growth | **(353,294,228)** | **(4,005,537)** | (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 | **(4,496,841)** | **(100,042)** | (322,984) | (359,982) |
| Kotak Liquid (Institutional Premium) – Growth | **(6,487,861)** | **(100,017)** | (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) |
| ICICI Prudential FMP Series 37 Three Months Plus Plan A Retail Dividend | **(25,000,000)** | **(257,030)** | – | – |
| Birla Cash Plus - Institutional Premium - Daily Dividend Reinvestment | – | – | (24,955,563) | (250,042) |
| ICICI Prudential FMP Series 37 One Month Plan – Retail Dividend | **(25,000,000)** | **(252,028)** | – | – |
| Standard Chartered FMP Series – Quarterly Series 5 - Dividend | **(25,515,299)** | **(258,188)** | – | – |
| Birla FTP Quarterly Series 7 Dividend payout | **(25,004,227)** | **(253,571)** | – | – |
| HSBC Liquid Plus Fund - Institutional Plus - Growth | **(23,647,594)** | **(254,921)** | – | – |
| HSBC Cash Fund – Institutional Plus - Daily Dividend | – | – | (10,037,984) | (100,436) |
| ICICI Prudential Institutional Liquid Plan -Super Institutional Weekly Dividend | **(15,223,972)** | **(154,602)** | (75,180,150) | (752,677) |
| Kotak Liquid Fund – Institutional Premium Plan Daily Dividend | **(5,783)** | **(73)** | (8,177,885) | (100,000) |
| DWS Insta Cash Plus Fund - Institutional Plan - Daily Dividend Option | – | – | (24,955,434) | (250,041) |

# SCHEDULES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008

(Currency: In thousands of Indian rupees)

| Mutual Fund Scheme | 2008 | | 2007 | |
|---|---|---|---|---|
| | Units Sold | Sale value | Units sold | Sale value |
| UTI Liquid Cash Plan Institutional - Growth | (300,881) | (390,709) | – | – |
| ICICI Prudential Interval Fund 1 Month Plan A - Retail Dividend | (18,000,733) | (181,390) | – | – |
| ICICI Prudential Liquid Fund super Institutional plan - daily dividend | (25,404,164) | (256,719) | – | – |
| ICICI Prudential Flexible Income Plan - Growth | (12,166,669) | (170,583) | – | – |
| Reliance Liquidity Fund - Daily Dividend Reinvestment Plan | (65,440,267) | (655,970) | – | – |
| Reliance Liquid Plus Fund - Institutional Option Daily Dividend Plan | (50,096) | (50,345) | – | – |
| Reliance Liquid Plus Fund - Institutional Option - Growth Plan | (198,038) | (211,486) | – | – |
| Reliance Liquidity Fund - Growth Option | (22,681,623) | (270,927) | – | – |
| Reliance Monthly Iinterval Fund - Series I-Institutional Dividend Plan | (25,304,839) | (256,675) | – | – |
| DWS Credit Opportunities Cash Fund - Growth Plan | (39,757,737) | (406,225) | – | – |
| DWS Insta Cash Plus Fund - Institutional Premium - Growth Option | (23,992,800) | (290,257) | – | – |
| DWS Insta Cash Plus Fund - Institutional Premium - Dividend Option | (9,983,967) | (100,069) | – | – |
| Kotak Flexi Debt Scheme - Growth | (8,434,050) | (101,975) | – | – |
| Grindlays Floating Rate Fund-LT - Inst Plan B - Daily Div. | (10,013,854) | (100,327) | – | – |
| ING Liquid Fund Super Institutional - Growth Option | (83,531,812) | (961,953) | – | – |
| ING Liquid Plus Fund - Institutional Growth | (14,749,408) | (153,013) | – | – |
| ING Liquid Plus Fund - Institutional Daily Dividend | (24,425,479) | (248,166) | – | – |
| Fidelity Cash Fund - Daily Dividend | (11,509,423) | (115,188) | – | – |
| Fidelity Cash Fund - Super Institutional - Growth Option | (12,745,773) | (135,651) | – | – |
| DSP Merrill Lynch Cash Plus Institutional - Growth Option | (283,482) | (290,905) | – | – |

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

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

This being the first year of registration of suppliers under MSMED, previous year comparatives are not relevant.

**32. 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*
**Raju Venkatraman** *Joint Managing Director & COO*

**Lalita D. Gupte** *Director*
**Shikha Sharma** *Director*
**Dinesh Vaswani** *Director*
**K.P. Balaraj** *Director*

**Donald W. Layden Jr.** *Director*
**Charles Miller Smith** *Director*
**Shailesh Mehta** *Director*
**Y.H. Malegam** *Director*

Mumbai
April 29, 2008

**Rajesh Subramaniam** *CFO*
**Sanjay Gupta** *Company Secretary*

# 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 2008 (Date Month Year) | | |

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

| | | | |
|---|---|---|---|
| Pubilc Issue | 0000000 | Rights Issue | NIL |
| Bonus Issue | NIL | Private Placement | 36301 |

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

| | | | |
|---|---|---|---|
| Total Liabilities | 22587459 | Total Assets | 22587459 |

**SOURCES OF FUNDS**

| | | | |
|---|---|---|---|
| Paid Up Capital | 4273130 | Reserves and Surplus | 2019662 |
| Share Application Money | NIL | | |
| Secured Loans | 103991 | Unsecured Loans | 11137356 |

**APPLICATION OF FUNDS**

| | | | |
|---|---|---|---|
| Net Fixed Assets | 1148073 | Accumulated losses (+) | NIL |
| Net Current Assets (+) | –1955478 | Deferred tax | 193056 |
| Investments (+) | 17011767 | Amalgamation deficit account | 1136721 |

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

| | | | |
|---|---|---|---|
| Turnover | 4896378 | Total Expenditure | 4578095 |
| (+/–) Profit/(Loss) Before Tax (+) | 468785 | (+/–) Profit/(Loss) After Tax (+) | 576431 |
| Earnings Per Share (Rs.) | 1.35 Basic<br>1.24 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 |
| Service Description | IT enabled transaction processing services |

For and on behalf of the Board of Directors

**Dr. Ashok S. Ganguly**
*Chairman*

**Ananda Mukerji**
*Managing Director & CEO*

**Raju Venkatraman**
*Joint Managing Director & COO*

**Lalita D. Gupte**
*Director*

**Shikha Sharma**
*Director*

**Dinesh Vaswani**
*Director*

**K.P. Balaraj**
*Director*

**Donald W. Layden Jr.**
*Director*

**Charles Miller Smith**
*Director*

**Shailesh Mehta**
*Director*

**Y.H. Malegam**
*Director*

Mumbai
April 29, 2008

**Rajesh Subramaniam**
*CFO*

**Sanjay Gupta**
*Company Secretary*

# NOTICE

**NOTICE** is hereby given that the Seventh Annual General Meeting of the members of Firstsource Solutions Limited will be held on Thursday, July 31, 2008 at 3.00 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, 2008, 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 **Dr. Ashok Ganguly** as a Director of the Company, who retires by rotation and being eligible, offers himself for re-appointment.

3. To re-appoint **Mr. Charles Miller Smith** as a Director of the Company, who retires by rotation and being eligible, offers himself for re-appointment.

4. To re-appoint **Mr. Y. H. Malegam** as a Director of the Company, who retires by rotation and being eligible, offers himself for re-appointment.

5. To consider and if thought fit, to pass with or without modification(s), 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, 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

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

   "**RESOLVED THAT** pursuant to the provisions of section 31 and any other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered in the following manner:

   i) Deletion of the definitions of 'Aranda Nominee Director' and 'Metavante Nominee Director' appearing in Article 3

   ii) Deletion of Article 159 and Article 160 relating to entitlement of Aranda Investments (Mauritius) Pte Limited and Metavante Investments ( Mauritius) Limited respectively to appoint and remove one Nominee Director each on the Board of the Company

   iii) Deletion of Article 211 relating to re-constitution of the Board

   iv) Re-numbering of the remaining Articles suitably."

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

   "**RESOLVED THAT Mr. Dinesh Vaswani** be and is hereby appointed as a Director of the Company, liable to retire 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."

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

   "**RESOLVED THAT Mr. Donald W. Layden Jr.** be and is hereby appointed as a Director of the Company, liable to retire 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."

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

   "**RESOLVED THAT Mr. K. P. Balaraj** be and is hereby appointed as a Director of the Company, liable to retire 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."

Mumbai
June 24, 2008
**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 not later than forty-eight hours before the commencement of the AGM.** Proxies submitted on behalf of Limited Companies, Societies etc. must be supported by certified copy of appropriate resolution/authority as applicable.
2. Corporate members intending to send their authorised representatives to attend the AGM are requested to send a certified copy of the appropriate resolution/authority, as applicable authorising their representative to attend and vote on their behalf at the AGM.
3. The Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956 relating to Special Business under Item nos. 6 to 9 set out in the Notice is annexed hereto.
4. The Register of Members and Share Transfer books of the Company will be closed from Thursday, July 24, 2008 to Thursday, July 31, 2008 (both days inclusive) for the purpose of AGM.
5. All the documents referred to in the Notice and 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 upto the date of the AGM.
6. Members are requested to bring their Attendance Slip along with the copy of Annual Report at the AGM.
7. In case of joint holders attending the AGM, only such joint holder who is higher in the order of names will be entitled to vote.
8. Members holding shares in electronic (dematerialised) form are advised to send the requests for change of address, bank particulars, bank mandate, residential status or requests for transmission of shares etc. to their Depository Participants. The Company or its Registrars can not act on any such requests received directly from the members holding shares in electronic form.
9. Pursuant to the requirement of Corporate Governance Code under the Listing Agreement with the Stock Exchanges, the information about the Directors proposed to be appointed/re-appointed is given in the Annexure to the Notice.
10. Members desirous of getting any information about the accounts and operations of the Company are requested to write to the Company atleast 7 days before the AGM to enable the Company to keep the information ready at the AGM.

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# EXPLANATORY STATEMENT

*(Under section 173 (2) of the Companies Act, 1956)*

### Item Nos. 6, 7 , 8 and 9

Mr. Dinesh Vaswani, Mr. Donald W. Layden Jr. and Mr. K. P. Balaraj are the Nominee Directors appointed on the Board of the Company by Aranda Investments (Mauritius) Pte. Limited (Aranda), Metavante Investments (Mauritius) Limited (Metavante) and Westbridge Ventures I Investment Holdings (Westbridge) respectively.

As per Share Subscription Agreements and Amended and Restated Shareholders Agreement (Agreements) among the Company and Aranda, Metavante Corporation, Westbridge and Western India Trustee & Executor Company Limited 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 Agreements would get terminated upon successful completion of Initial Public Offer (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. Accordingly, Articles of Association of the Company were suitably amended to give effect to the said provision, by members of the Company at their Sixth AGM held on August 14, 2007.

Pursuant to the aforesaid Agreements, rights of Aranda, Metavante and Westbridge terminated upon the successful completion of IPO of the Company in February 2007 except the rights relating to appointment of Nominee Directors by Aranda and Metavante, which terminated on February 22, 2008 i.e. at the end of 12 months from the date of completion of IPO. Therefore, certain Articles which relate to the aforesaid rights of Aranda and Metavante need to be deleted from the Articles of Association of the Company viz. definitions of 'Aranda Nominee Director' and 'Metavante Nominee Director' appearing in Article 3, Article 159 and Article 160 relating to entitlement of Aranda and Metavante respectively to appoint and remove one Nominee Director each on the Board of the Company and Article 211 relating to re-constitution of the Board which is not relevant now. Members' approval is required through special resolution under section 31 of the Companies Act, 1956 for alteration of the Articles of Association of the Company. The draft copy of the altered Articles of Association of the Company is available for inspection at the registered office of the Company.

Further, since the rights of Aranda, Metavante and Westbridge pursuant to the aforesaid Agreements and the Articles of Association of the Company have ceased, members approval under section 257 of the Companies Act, 1956 is required to continue Mr. Dinesh Vaswani, Mr. Donald W. Layden Jr. and Mr. K. P. Balaraj as Directors of the Company. Keeping in view their expertise, experience and knowledge, the Board considers it desirable to continue to avail their services.

The Company has received notices pursuant to section 257 of the Companies Act, 1956 proposing their appointment at the AGM of the Company along with the requisite deposit.

Brief resume of Mr. Dinesh Vaswani, Mr. Donald W. Layden Jr. and Mr. K. P. Balaraj are given in the Annexure to this Notice.

The Board recommends the resolutions set out at Item nos. 6, 7, 8 and 9 of the Notice for approval by the members.

None of the Directors, except Mr. Dinesh Vaswani, Mr. Donald W. Layden Jr. and Mr. K. P. Balaraj are in any way concerned or interested in the said Resolutions.

Mumbai
June 24, 2008
**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

## ANNEXURE TO THE NOTICE

**Dr. Ashok Ganguly**, Chairman of the Company, 72 years, has a Ph. D. and Master of Science from the University of Illinois and is an honours graduate from Mumbai University. He has vast experience in managing global businesses. He has been the Chairman of Hindustan Lever Limited and has served as Director on the Board of Directors of Unilever Plc., its Anglo-Dutch parent and British Airways Plc. He is a member of the Prime Minister's Council on Trade and Industry as well as the Investment Commission and the India-USA CEO Council, set up by the Prime Minister of India and the President of the USA. He is a member of the National Knowledge Commission to the Prime Minister. He is a recipient of the Padma Bhushan, one of India's highest honours (1987). The University of Illinois, College of Food and Nutrition selected him as their 'Outstanding Alumnus' in 1997 and he is the recipient of the International Alumni Award for Exceptional Achievement for the academic year 2003-2004, from the University of Illinois. In 2006, he was awarded the CBE (Hon) by the United Kingdom.

He holds Directorships in Mahindra & Mahindra Limited, ICICI Knowledge Park Limited, Wipro Limited, Reserve Bank of India (Central Board of Directors), Tata AIG Life Insurance Company Limited (Tata AIG), Hemogenomics Private Limited, ABP Private Limited and Microsoft Corporation (India) Limited (Advisory Board). He is the Chairman of the Compensation cum Board Governance Committee and Shareholders'/Investors' Grievance Committee of the Company. He is also the Chairman of Research and Development Committee of Mahindra & Mahindra Limited, Remuneration Committee of Tata AIG and Corporate Governance Committee of Wipro Limited. He is a member of Board of Financial Supervision (BFS), Audit Committee of BFS and Technical Advisory Committee on Monetary Policy of Reserve Bank of India. He is also a member of Audit Committee of Tata AIG. He holds 367,500 equity shares and 722,500 stock options in the Company.

**Mr. Charles Miller Smith**, 68 years, has MA Honours degree in Medieval and Modern History from St. Andrews in Scotland, who awarded him an Honorary Doctorate in 1995. He is the former Chairman of Scottish Power, which he has served since 2000, and was appointed as Chairman to the Scottish Power Advisory Board in 2007 following the integration with Iberdrola. He is Chairman of the CBI Economics Affairs Committee and Senior Adviser to Warburg Pincus International LLC, Deutsche Bank (RREEF Infrastructure) and Defence, Strategy & Solutions. He was previously Chairman of Imperial Chemical Industries (ICI), where he joined as Chief Executive in 1994. Prior to that, he was a Director at Unilever, where he held financial and general management positions in the U.K., Netherlands and its Indian branches. He has also served as a Non-Executive Director of Midland Bank Plc. and HSBC Holdings Plc. and was an International Advisor to Goldman Sachs International.

He is the Chairman of Firstsource Solutions UK Limited, wholly owned subsidiary of the Company and also of Asia House. He holds membership of Audit Committee and Compensation cum Board Governance Committee of the Company. He does not hold any share in the Company. He holds 495,000 stock options in the Company.

**Mr. Y. H. Malegam**, 74 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 is a Director (Central Board of Directors) of the Reserve Bank of India and is the Chairman of its Local Board for the Western Region.

He holds Directorships in several Companies namely ABC Bearings Limited, The Clearing Corporation of India Limited, Hindustan Construction Company Limited, National Securities Clearing Corporation 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) Limited. He is Chairman of Audit Committee of the Company and also of Bhartiya Reserve Bank - Note Mudran (P) Limited, Siemens Limited, Tata Coffee Limited and Tata Tea Limited. He is member of Audit Committee of National Stock Exchange of India Limited, National Securities Clearing Corporation Limited and Nicholas Piramal India Limited and member of Remuneration Committee of Tata Coffee Limited. He holds 62,500 shares and 187,500 stock options in the Company.

**Mr. Dinesh Vaswani**, 45 years, has an MBA from The Wharton School of Business and a BBA from The University of Texas at Austin. He is an Advisory Director of Temasek Holdings Advisors India Private Limited. He has over twenty years experience both in investing and operating Companies in USA and India. At Bessemer Venture Partners, he established the firm's presence in India and led investments in Motilal Oswal Securities, Sarovar Hotels, Rico Auto and New Vernon Capital. Prior to this, Mr. Dinesh Vaswani was a General Partner at Walden International in Palo Alto where he co-led the firm's investment in Inquira, a company focused on natural language-based search technology and solutions. Previously, he managed investments for The Chatterjee Group (TCG)/ Soros Fund Management in both private and public companies in a wide range of industries. He served as founding CEO of WordWalla Inc., a California-based developer of embedded software for mobile devices. He was also founding President of Blue Star Infotech's subsidiary in USA and headed the IT function of Blue Star Limited in India. He started his career as a Houston-based senior consultant for Andersen Consulting (now Accenture) where he was a member of the firm's Advanced Systems Group and co-founded the Houston office's Microcomputer Practice Group. He is a member of the Young President's Organization (YPO) and was a TiE Charter Member and founding board member of the USA-India Venture Capital Association. He is the Member of the Audit Committee and Shareholders'/Investors' Grievance Committee of the Company. He does not hold any share or stock option in the Company.

**Mr. Donald W. Layden Jr.**, 50 years, has Bachelor's Degree in Economics and Political Science and also has Juris Doctorate Degree with Honours from Marquette University Law School. He is Senior Executive Vice President, General Counsel, Secretary and President, International Group, of Metavante Technologies, Inc. and its principal operating subsidiary, Metavante Corporation. He directs the Metavante enterprise risk management, compliance, internal audit, legal and corporate development activities, including mergers and acquisitions and runs their international business. He reports directly to the Chief Executive Officer and is a member of the Metavante's Executive Committee. He returned to Metavante in 2004 with the Metavante's acquisition of NuEdge Systems, which he had served as President. The NuEdge marketing automation software products are now incorporated within the Metavante customer relationship management solution. Mr. Donald W. Layden Jr. has held senior management positions with Fiserv (President, Lending Systems Division), Marshall & Ilsley Corporation (Senior Vice President and Chief Executive Officer, Trust and Investment Management Group) and at Metavante (Senior Vice President and Chief Financial Officer). He began his career practicing law as a partner in the Quarles & Brady LLP law firm, where he concentrated his practice in corporate law and mergers and acquisitions. He holds Directorship in several non-profit companies. He does not hold any share or stock option in the Company.

**Mr. K.P. Balaraj**, 37 years, has an MBA from Harvard Business School. He is a founder and Managing Director of Sequoia Capital India, a leading venture and growth capital firm focused on investments in India. Sequoia currently manages over US $ 1 billion of investment capital in India and has made over 50 investments across high growth sectors such as financial services, outsourcing, consumer media and internet, mobile, infrastructure and education.

He serves as a Director on the Board of several Sequoia portfolio companies and WestBridge funds in India namely Amalgamated Bean Coffee Trading Company Limited, Sequoia Capital India Advisors Private Limited, Tarang Software Technologies Private Limited, Intercept Technologies India Private Limited, Tutorvista Global Private Limited, Digital Signage Networks India Private Limited and Apanaloan.com Services Private Limited and also serves as Director in several Sequoia portfolio companies and WestBridge funds in foreign countries namely WestBridge Ventures I, LLC, WestBridge Advisors I, LLC, WestBridge Ventures Co-Investment I, LLC, WestBridge Ventures I Investment Holdings, KPB Capital, CBD Holdings, Indecomm Corporation, Astra Business Services Inc., Travel Guru.com, 7Strata Inc. and SC India Holdings Limited. He holds membership of Compensation cum Board Governance Committee of the Company. He does not hold any share or stock option in the Company.

**Firstsource Solutions Limited**
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