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Annual Report 2004-05

Board of Directors

T. V. Mohandas Pai
Chairman and Director
S. D. Shibulal
Director
Prof. Jayanth R. Varma
Independent Director
Sridar A. Iyengar
Independent Director
Akshaya Bhargava
Managing Director and Chief Executive Officer

Committees of the Board

Audit Committee

Prof. Jayanth R. Varma
Chairman
Sridar A. Iyengar
S. D. Shibulal

Compensation Committee

Prof. Jayanth R. Varma
Chairman
Sridar A. Iyengar
T. V. Mohandas Pai

Registered Office

Plot No. 26/3, 26/4 & 26/6
Electronics City, Hosur Road
Bangalore 560100

Tel. No: 080-28522405
Fax No: 080-28522411

Web Site: www.progeon.com

Contents

Certification by Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the company

We, Akshaya Bhargava, Managing Director and Chief Executive Officer and Ramesh Kamath, Chief Financial Officer, of Progeon Limited, to the best of knowledge and belief, certify that:

1. We have reviewed the Balance Sheet and Profit and Loss Account, and all its Schedules and Notes on Accounts, as well as Cash Flow Statements and the Directors' Report.
2. Based on our knowledge and information, these statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the statement made.
3. Based on our knowledge and information, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report, and are in compliance with the existing accounting standards and/ or applicable laws and regulations.
4. The company's other certifying officers and we are responsible for establishing and maintaining disclosure controls and procedures for the company, and we have:
   - designed such disclosure controls and procedures to ensure that material information relating to the company, including its subsidiary, is made known to us by others within that entity, particularly during the period in which this report is being prepared; and
   - evaluated the effectiveness of the company's disclosure controls and procedures.

5.. The company's other certifying officers and we have disclosed, based on our most recent evaluation, to the company's auditors and the audit committee of the company's board of directors (and persons performing the equivalent functions):

   - all significant deficiencies in the design or operation of internal controls, which could adversely affect the company's ability to record, process, summarize and report financial data, and have identified for the company's auditors, any material weaknesses in internal controls;
   - any fraud, whether or not material, that involves management or other employees who have significant role in the company's internal controls;
   - the company's other certifying officers and we have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

6. In the event of any materially significant misstatements or omissions, the signing officers will return to the company, that part of any bonus or incentive or equity-based compensation, which was inflated on account of such errors, as decided by the audit committee.

Bangalore
April 8, 2005

Akshaya Bhargava
Managing Director and
Chief Executive Officer

Ramesh Kamath
Chief Financial Officer

Directors' Report

To the Members,

Your directors are pleased to present their report on the business and operations of your company for the year ended March 31, 2005.

Company's overview

Your company is a global corporation incorporated to provide business process management services to organizations that outsource their business processes and is a majority owned and controlled subsidiary of Infosys Technologies Limited.

Financial results

in Rs. crore

	March 31, 2005	March 31, 2004
Revenue from business process management services	189.28	78.14
Gross profit/ (loss)	88.14	27.66
Operating profit/ (loss) after interest and depreciation	30.85	(3.44)
Profit / (loss) after tax	33.32	(0.60)

Results of operations

The performance of the company during the year has been excellent. The total revenue increased to 2.4 times the previous year's revenue, i.e. to Rs. 189.28 crore from Rs. 78.14 crore in the previous year – a growth rate of 142%. The company ended the year with net profit of Rs. 33.32 crore from an operating loss, the previous year. The company added five new customers and now has 19 customers. The company ended the year with 3,966 employees having added 2,088 employees during the year.

Share capital

Citicorp International Corporation has subscribed to 87,50,000 cumulative convertible preference shares of Rs. 100/- each, convertible into an equal number of equity shares of Rs. 10/- each.

Your company issued and allotted 1,13,650 equity shares to the eligible employees of the company on the exercise of stock options under 2002 employee's stock options plan. Due to this, the outstanding issued, subscribed and paid-up equity share capital increased from Rs. 112.00 crore to Rs. 112.11 crore as of March 31, 2005.

Appropriations

Your company proposes to retain Rs. 29.56 crore in the profit and loss account.

Business

The Business Process Outsourcing (BPO) industry has seen rapid growth in the last two to three years. Outsourcing transaction processing and voice services to low cost locations is now common. We are seeing increased awareness of specialist third party firms like ours where customers are willing to pay a premium for high-quality dependable services. Your company seeks long-term partnerships with clients while addressing their requirements. Your company's customer-centric approach has resulted in high levels of client satisfaction. Our focus on continuous improvement and a very high level of domain knowledge has been seen as a positive differentiator among its customers. Conventional wisdom tell us that companies that are engineered to create and deliver value for all stakeholders (clients, employees and shareholders) will survive and succeed in the long run and your company's focus on delighting the customer should stand us in good stead.

Your company believes that the environment will remain on a high growth path in the near future. Whilst customers will continue to focus on higher returns on their investments, we are confident that they would be willing to outsource more and also be willing to pay more for high quality dependable services. Your company views the future with optimism and is confident of maintaining growth rates higher than industry growth rates.

Delivery centers in India

During the year, your company has leased additional facilities at Bangalore and at Pune to take care of its increased business opportunities. In the year ahead and taking into account the increase in business, the company plans to expand its business operations to other parts of India and overseas.

Progeon s.r.o.

Your company, as part of its globalization program has set up a delivery center in the Republic of Czech as a wholly-owned subsidiary. Your company has invested an amount of 1,300,000 Czech Koruna (Rs. 0.21 crore) towards the equity capital of

Progeon s.r.o. This initiative will help your company to provide multi-lingual processing skills to its clients and addresses their requirement for a development center closer to their locations. We are happy to state that your subsidiary has commenced its operation with effect from August 1, 2004 and reported revenue of Rs. 1.93 crore for the year ended March 31, 2005.

Human Resources Management

Our people are our real assets and our most valuable resource. It is they who drive our growth and lead us to greater heights. At Progeon, our human resource systems are designed to create a vision which is focused and a performance oriented culture, wherein management development and career development receive utmost attention. Besides encouraging achievers from within the organization, we employ from some of the best management and graduate institutes in the country.

An open and interactive work culture brings out the best in our people. A sense of ownership and freedom to experiment at their workplace brings out the creativity and innovation in every individual. Systematic assessment of each employee was carried out and specific learning programs were organized to help employees upgrade their professional competencies. Entry-level graduates are put through intensive training which includes client-specific process training, domain and soft skills training. We hire people who are best suited to the job and whose personal goals are aligned with our corporate objectives. A talent pool of over 3,966 employees brings in a unique blend of mindsets and skills.

In order to ensure a safe and congenial workplace, your company has formulated and implemented a policy against sexual harassment, a Whistleblower Policy and a written Code of Ethics in line with the highest standards of corporate governance.

Awards and recognition

The directors are pleased to inform you that your company has been recognized / awarded as follows:

- Awarded "Optimas Award" for New Hire Training Program.
- Awarded ASTD (American Society of Training and Development) Excellence in Practice Citation for exemplary work / practices in workplace learning and performance.
- Awarded "Most Enterprising Organization in the Outsourcing Industry" for HR Excellence and best HR outsourcing Practices.

Corporate Governance

Corporate governance is about the commitment to values and about ethical business conduct. It is about how an organization is managed. We believe that for a company to succeed it must maintain global standards of corporate conduct towards all its stakeholders - employees, consumers and society. Your company believes that is rewarding to be better managed and governed and to identify and align its activities. To that end, your company has always focused on good corporate governance as a key driver of sustainable corporate growth and long-term value creation. Your company, like its mentor, Infosys Technologies Limited has been benchmarking its corporate governance practices with the best in the world

With the increasing globalization, corporate governance has assumed great significance in India in the recent past. The increasing diversity of the investing community and the integration of global capital markets make corporate governance a key issue in the investment decision of the investor. Your company has complied with all norms of corporate governance applicable to unlisted Public Company as envisaged under the Companies Act, 1956.

Composition of committees

1. Audit committee

As on March 31, 2005, the committee had Prof. Jayanth R. Varma as the Chairman, Mr. S. D. Shibulal and Mr. Sridar A Iyengar as members. Mr. T. V. Mohandas Pai resigned as member of the committee during the year. The Directors place on record their sincere appreciation for the services rendered by Mr. T. V Mohandas Pai during his tenure as member of the committee. During the year ended March 31, 2005, the committee met four times. The primary objectives of the committee are to monitor and provide effective supervision of the management's financial reporting process with a view to ensure accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting. The Committee oversees the work carried out in the financial reporting process – by the management, including the internal auditors and the independent auditor – and notes the processes and safeguards employed by each.

2. Compensation committee

As on March 31, 2005, the committee had Prof. Jayanth R. Varma as the Chairman, Mr. T. V. Mohandas Pai and Mr. Sridar A Iyengar as members. Mr. S. D. Shibulal resigned as member of the committee during the year. The Directors place on record their sincere appreciation for the services rendered by Mr. S. D. Shibulal during his tenure as member of the committee. During the year ended March 31, 2005, the committee met four times. The committee has the mandate to review and recommend the compensation payable to the executive directors and senior management of the company. It also administers the company's stock option plan, including the review and grant of stock options payable to eligible employees under the plan.

Details of remuneration and grant of stock options to the CEO

The board of directors appointed Mr. Akshaya Bhargava as Managing Director and Chief Executive Officer of the company with effect from November 4, 2002. Mr. Akshaya Bhargava's appointment was approved by the Central Government vide their Letter No. 1/491/2002 – CL VII dated March 20, 2003. Subsequently, the company applied to the Central Government for its approval to increase the remuneration payable to Mr. Akshaya Bhargava with effect from July 1, 2004 as mentioned herein below, which was duly approved by the Central Government vide their Letter No. 2/112/2004 – CL.VII dated 23.12.2004

The details of remuneration paid to Mr. Akshaya Bhargava for the year ended March 31, 2005 are as follows:

in Rupees

	March 31, 2005	March 31, 2004
Salary, allowances including contributions to Provident Fund, Gratuity, Superannuation and Performance incentive	28,90,766	29,33,232

Mr. Akshaya Bhargava's appointment and service contract is for an initial term of five years. This contract is terminable on either side upon six months written notice and without any severance fees. Mr. Akshaya Bhargava is also granted options to purchase 12,25,000 equity shares of the company at an exercise price of Rs. 33.12 per option (options vested – 4,37,500). The stock options vest over a period of one to six years from the date of their grant.

Responsibility statement of the board of directors

The directors' responsibility statement setting out the compliance with the accounting and financial reporting requirements specified under Section 217 (2AA) of the Companies (Amendment) Act, 2000, in respect of the financial statements, is annexed to this report.

Fixed deposits

Your company has not accepted any fixed deposits and, as such, no amounts of principal or interest were outstanding as of the balance sheet date.

Directors

Your directors inducted Mr. Sridar A. Iyengar, Director of The Indus Entrepreneurs (TiE), as an additional director of the company. His appointment requires the approval of the members at the ensuing Annual General Meeting.

In accordance with Article 122 of the Article of Association of the company, Mr. T. V. Mohandas Pai retires by rotation in the forthcoming annual general meeting. Mr. T. V. Mohandas Pai, being eligible, offers himself for re-appointment. His appointment as director requires the approval of the members at the ensuing annual general meeting. The necessary resolutions for obtaining the approval of members with regard to appointment / re-appointment of the directors have been incorporated in the Notice of the ensuing Annual General Meeting.

Auditors

The name of the statutory auditors of the company has been changed from M/s. Bharat S Raut & Co. to M/s. BSR & Co. with effect from October 1, 2004. The statutory auditors vide their letter dated October 7, 2004 indicated that the said change has been approved by the Institute of Chartered Accountants of India and also that the change of name does not affect or alter the firm's legal status or composition. The statutory auditors, M/s. BSR & Co, Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if reappointed.

Conservation of energy, research and development, technology absorption, foreign exchange earnings and outgo

The particulars as prescribed under subsection (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988, are set out in the annexure included in this report.

Consolidation of accounts

In terms of approval granted under Section 212(8) of the Companies Act, 1956 by the Ministry of Company Affairs, Government of India vide Letter of Approval No. 47/6/2005-CL-III dated 24.2.2005, copies of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and Report of the Auditors of the subsidiary company (i.e.) Progeon s.r.o. have not been attached to the Balance Sheet of your company. The company will make available these documents/ details upon request by any member of the company interested in obtaining the same. Pursuant to Accounting Standard (AS21) issued by the Institute of Chartered Accountants of India, the consolidated financial statements presented by your company include financial statements of its subsidiary.

Particulars of employees

As required under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, as amended, the name and other particulars of employees are annexed to this report.

Acknowledgments

Your directors thank the company's clients, vendors, investors and bankers for their continued support during the year. Your directors place on record their appreciation of the contribution made by employees at all levels, who, through their competence, hard work, solidarity, cooperation and support, have enabled the company to achieve consistent growth.

Your directors thank the Government of India and the Czech Republic, particularly the Ministry of Communication and Information Technology, the Department of Electronics, the Customs and Excise Departments, Software Technology Parks – Bangalore, Pune and the Ministry of Commerce and Industry, the Ministry of Finance, the Reserve Bank of India, Videsh Sanchar Nigam Limited, the Department of Telecommunications, the state government, and other government agencies for their support, and look forward to their continued support in the future.

For and on behalf of the Board of Directors

Bangalore	T. V. Mohandas Pai	Akshaya Bhargava
April 8, 2005	*Chairman& Director*	*Managing Director and Chief Executive Officer*

Annexure to the directors' report

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

1. Conservation of Energy

The operations of your company are not energy-intensive. However, adequate measures have been taken to reduce energy consumption by using energy-efficient computers and by the purchase of energy-efficient equipment. Your company constantly evaluates new technologies and invests in them to make its infrastructure more energy-efficient.

2. Research and Development (R & D)

Not applicable.

a. R & D initiatives at institutes of national importance

Not applicable

b. Specific areas for R & D at your company

Not applicable

c. Benefits derived as a result of R & D activity

Not applicable

d. Future plan of action

Not applicable

e. Expenditure on R & D for the year ended March 31

Not applicable

3. Technology absorption, adaptation and innovation

Not applicable

4. Foreign exchange earnings and outgo

a. Activities relating to exports, initiatives taken to increase exports, developments of new export markets for product and services, and export plans

Your company has established marketing offices in the United States and United Kingdom. These offices are staffed with adequate sales and marketing specialists who sell your company's services to large international clients. Further, your company plans to take part in several international seminars and exhibitions to promote its services.

b. Foreign exchange earned and used for the year ended March 31

in Rs. crore

	March 31, 2005	March 31, 2004
Foreign exchange earnings	161.52	65.78
Foreign exchange outgo (including capital goods and imported software packages)	32.19	21.23

For and on behalf of the Board of Directors

Bangalore
April 8, 2005

T. V. Mohandas Pai
Chairman& Director

Akshaya Bhargava
Managing Director and
Chief Executive Officer

Annexure to the directors' report

b) Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, and forming part of the directors' report for the year ended March 31, 2005

Sl. No.	Name	Designation	Qualification	Age (yrs)	Date of joining	Experience	Gross remuneration (Rs.)	Previous employment
1	Akshaya Bhargava	MD & CEO	B.A.(Eco), MBA	48	4.11.2002	25	28,90,766	Head- Global Product Management Citibank N.A.
2	Amitabh Chaudhry	Vice President - Transition	BE, PGDBM	40	18.04.2003	18	34,22,100	MD, Bank of America
3	Ramesh Kamath	Chief Financial Officer	B.Com, ACA, Grad CWA	47	21.05.2003	23	32,98,545	Group Financial Controller, Bharthi Televentures
4	Nandita Gurjar	Vice President - HRD	MA	44	01.10.2003	14	26,88,422	AVP HRD, Infosys Technologies Ltd.

Notes:

1. Remuneration includes basic salary, allowance and taxable value of perquisites and contributions to Provident Fund, Superannuation and Gratuity.

3. None of the employees are related to any director of the company.

4. None of the employees owns more than 1% of the outstanding shares of the company as on March 31, 2005

For and on behalf of the Board of Directors

Bangalore
April 8, 2005

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

Annexure to the directors' report

c) The directors' responsibility statement as required under Section 217 (2AA) of the Companies (Amendment) Act, 2000

The financial statements are prepared in conformity with the accounting standards issued by the Institute of Chartered Accountants of India and the requirements of the Companies Act, 1956, to the extent applicable to the company, on the historical cost convention, as a going concern and on accrual basis. There are no material departures from the prescribed accounting standards in the adoption of the accounting standards. The accounting policies used in the preparation of the financial statements have been consistently applied, except where otherwise stated in the notes to accounts.

The board of directors and the management of your company accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner, the form and substance of transactions, and reasonably present the company's state of affairs. To ensure this, the company has taken proper and sufficient care in installing a system of internal control and accounting records; for safeguarding assets, and, for preventing and detecting frauds as well as other irregularities; which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurances that the established policies and procedures of the company have been followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounts.

The financial statements have been audited by M/s. BSR & Co., Chartered Accountants, and the independent auditors.

The audit committee of your company meets periodically with the internal auditors and the independent auditors to review the manner in which the auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the audit committee to discuss any matter of substance.

For and on behalf of the Board of Directors

Bangalore	T. V. Mohandas Pai	Akshaya Bhargava
April 8, 2005	*Chairman and Director*	*Managing Director and Chief Executive Officer*

Auditors' Report to the members of Progeon Limited

We have audited the attached Balance Sheet of Progeon Limited (the Company) as at March 31, 2005 and the Profit and Loss Account and 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.

As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

(a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

(b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

(c) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

(d) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

(e) on the basis of written representations received from the directors, as on March 31, 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956;

(f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, 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, 2005;

  (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.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

Bangalore
April 8, 2005

Annexure to the auditors' report

The Annexure referred to in the auditors' report to the members Progeon Limited (the Company) for the year ended March 31, 2005. We report that:

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified during the year in a phased manner. 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.

   Fixed assets disposed off during the year were not substantial, and therefore, do not affect the going concern assumption.
2. The Company is a service company, primarily rendering business process management services. Accordingly it does not hold any physical inventories. Thus, paragraph 4(ii) of the Order is not applicable.
3. The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
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 the sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.
5. In our opinion and according to the information and explanations given to us, there are no contracts and arrangements the particulars of which need to be entered into the register maintained under section 301 of the Companies Act, 1956.
6. The Company has not accepted any deposits from the public.
7. In our opinion, the Company has an internal audit system commensurate with the size and the nature of its business.
8. The Central Government has not prescribed the maintenance of cost records under section 209(1) (d) of the Companies Act, 1956 for any of the services rendered by the Company.
9. 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, Sales Tax, Customs duty and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund, Wealth tax, Service tax, Excise duty and Cess.

   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, Customs duty and other material statutory dues were in arrears as at 31 March 2005 for a period of more than six months from the date they became payable.

   According to the information and explanations given to us, there are no dues of Income tax, Sales tax and Customs duty which have not been deposited with the appropriate authorities on account of any dispute.
10. The Company has been registered for not more than five years. Thus, paragraph 4(x) of the Order is not applicable.
11. The Company did not have any outstanding dues to any financial institution, banks or debenture-holders during the year.
12. The Company has not granted any 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 or a 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. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
16. The Company did not have any term loans outstanding during the year.
17. The Company has not raised any funds on short-term basis.
18. The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.

19. The Company did not have any outstanding debentures during the year.

20. The Company has not raised any money by public issues.

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 the audit.

for BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

Bangalore
April 8, 2005

Balance Sheet

in Rs.

	Schedule	March 31, 2005	March 31, 2004
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	112,11,36,500	112,00,00,000
Reserves and surplus	2	35,83,58,729	6,05,93,250
		147,94,95,229	118,05,93,250
APPLICATION OF FUNDS			
FIXED ASSETS			
Original cost	3	39,76,23,853	20,32,27,657
Less: Depreciation		18,44,95,622	6,89,12,855
Net book value		21,31,28,231	13,43,14,802
Capital work-in-progress and advances		15,13,143	89,68,599
		21,46,41,374	14,32,83,401
INVESTMENTS	4	41,36,17,672	13,85,00,604
DEFERRED TAX ASSET		36,88,861	-
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	5	46,96,32,975	9,82,34,923
Cash and bank balances	6	43,83,49,323	65,79,25,945
Loans and advances	7	22,72,70,523	10,72,07,367
Other current assets	8	1,15,05,576	9,01,03,193
		114,67,58,397	95,34,71,428
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	9	28,20,86,868	8,79,13,233
Provisions	10	1,71,24,207	42,83,615
NET CURRENT ASSETS		84,75,47,322	86,12,74,580
PROFIT AND LOSS ACCOUNT		-	3,75,34,665
		147,94,95,229	118,05,93,250

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS 16
The schedules referred to above form an integral part of the Balance Sheet

As per our report attached
for BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh *Partner* Membership No. 83673	T. V. Mohandas Pai *Chairman and Director*	Akshaya Bhargava *Managing Director and Chief Executive Officer*	S. D. Shibulal *Director*
	Prof. Jayanth R. Varma *Director*	Sridar A. Iyengar *Director*	Ramesh Kamath *Chief Financial Officer*
Bangalore April 8, 2005	N. R. Ravikrishnan *Company Secretary*		

Profit and Loss Account

in Rs.

	Schedule	Year ended March 31, 2005	2004
INCOME			
Revenues from business process management services		189,28,91,660	78,14,48,404
		189,28,91,660	78,14,48,404
COST OF REVENUES	11	101,15,09,478	50,48,22,797
GROSS PROFIT		88,13,82,182	27,66,25,607
SELLING AND MARKETING EXPENSES	12	16,66,10,657	9,41,77,934
GENERAL AND ADMINISTRATION EXPENSES	13	29,05,54,511	16,17,83,093
OPERATING PROFIT BEFORE DEPRECIATION		42,42,17,014	2,06,64,580
Depreciation	3	11,57,08,332	5,50,45,814
OPERATING PROFIT/ (LOSS) AFTER DEPRECIATION		30,85,08,682	(3,43,81,234)
Other Income	14	3,05,55,200	2,84,68,013
PROFIT/ (LOSS) BEFORE TAX		33,90,63,882	(59,13,221)
Provision for taxation	15	59,00,139	66,000
NET PROFIT/ (LOSS) AFTER TAX		33,31,63,743	(59,79,221)
Balance brought forward from the previous period		(3,75,34,665)	(3,15,55,444)
BALANCE CARRIED FORWARD		29,56,29,078	(3,75,34,665)
EARNINGS/ (LOSS) PER SHARE:			
(Equity shares, par value Rs. 10 each):			
Basic:		13.60	(0.49)
Diluted:		9.37	(0.49)
Weighted average number of shares used in computing earnings per share			
Basic		2,45,05,473	1,22,83,470
Diluted		3,55,41,610	1,22,83,470
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	16		

The schedules referred to above form
an integral part of the Profit and Loss Account.

As per our report attached
for BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

S. D. Shibulal
Director

Prof. Jayanth R. Varma
Director

Sridar A. Iyengar
Director

Ramesh Kamath
Chief Financial Officer

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Cash Flow Statement

in Rs.

	Year ended March 31, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/ (Loss) before tax	33,90,63,882	(59,13,221)
Adjustments to reconcile profit/ (loss) before tax to cash provided by operating activities		
Depreciation	11,57,08,332	5,50,45,814
Interest Income	(2,33,03,195)	(1,43,75,634)
Dividend Income	(1,58,01,603)	(32,07,875)
Profit on Sale of Investments	(2,08,456)	
Effect of exchange differences on translation of foreign currency cash and cash equivalents	10,02,212	14,44,509
Changes in current assets and liabilities		
Sundry debtors	(37,13,98,052)	(3,31,50,471)
Loans and advances	(1,86,23,924)	(1,44,91,335)
Other current assets	8,10,00,132	(6,76,37,014)
Current liabilities	17,29,00,147	4,08,42,890
Provisions	1,28,40,592	55,96,071
Income tax (paid) / refunds received during the year, net	(96,62,660)	14,97,112
NET CASH GENERATED BY/ (USED IN) OPERATING ACTIVITIES	28,35,17,407	(3,43,49,154)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	32,72,901	56,80,93,250
NET CASH GENERATED BY/ (USED IN) FINANCING ACTIVITIES	32,72,901	56,80,93,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and change in capital work-in-progress / advances	(16,57,92,817)	(14,66,33,524)
Interest received	2,13,28,915	1,43,75,634
Dividend received	1,58,01,603	32,07,875
Purchase of units in liquid mutual funds	(89,55,07,770)	(50,97,09,589)
Proceeds from sale of units in liquid mutual funds	62,23,05,069	37,16,30,732
Investment in subsidiary	(17,05,911)	(4,21,747)
Loans to subsidiary	(4,49,89,369)	-
NET CASH USED IN INVESTING ACTIVITIES	(44,85,60,280)	(26,75,50,619)
Effect of exchange differences on translation of foreign currency cash and cash equivalents	(10,02,212)	(14,44,509)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,27,72,184)	26,47,48,968
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	72,25,70,330	45,78,21,362
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR*	55,97,98,146	72,25,70,330

* Cash and cash equivalents aggregating Rs. 55,97,98,146 (Rs. 72,25,70,330 as at March 31, 2004) comprises cash on hand amounting to Rs. 32,211 (7,605 as at March 31, 2004), balances with banks amounting to Rs. 43,83,17,112 (65,79,18,340 as at March 31, 2004) and deposits with financial institution/bodies corporate amounting to Rs. 12,14,48,823 (Rs. 6,46,44,385 as at March 31, 2004).

This is the Cash Flow Statement referred to in our report of even date.

As per our report attached
for BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

S. D. Shibulal
Director

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Director

Sridar A. Iyengar
Director

Ramesh Kamath
Chief Financial Officer

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Schedules to the Balance Sheet

in Rs.

		March 31, 2005	March 31, 2004
1	**SHARE CAPITAL**		
	AUTHORISED		
	Equity shares, Rs. 10 (Rs. 10) par value 2,71,25,000 (2,71,25,000) equity shares	27,12,50,000	27,12,50,000
	0.0005% Cumulative Convertible Preference Shares, Rs. 100 (Rs. 100) par value 87,50,000 (87,50,000) preference shares	87,50,00,000	87,50,00,000
		114,62,50,000	114,62,50,000
	ISSUED, SUBSCRIBED AND PAID UP		
	Equity shares, Rs. 10 (Rs. 10) par value*		
	2,46,13,650 (2,45,00,000) equity shares fully paid up	24,61,36,500	24,50,00,000
	[Of the above, 2,44,99,993 (2,44,99,993) equity shares are held by Infosys Technologies Limited, the company's holding company and 7 (7) equity shares are beneficially held on behalf of Infosys Technologies Limited by the subscribers to the Memorandum of Association]		
	0.0005% Cumulative Convertible Preference Shares, Rs. 100 (Rs. 100) par value 87,50,000 (87,50,000) preference shares, fully paid up (also refer to Note 16.2.9)	87,50,00,000	87,50,00,000
		112,11,36,500	112,00,00,000
	* For details of options in respect of the above shares refer to note 16.2.18		
2	**RESERVES AND SURPLUS**		
	Share premium account at the beginning of the year	6,05,93,250	5,25,00,000
	Add: Received during the period on issue of shares	27,86,401	1,05,00,000
	Less: Share issue expenses written off	6,50,000	24,06,750
	Share premium account at the end of the period	6,27,29,651	6,05,93,250
	Balance in profit and loss account	29,56,29,078	-
		35,83,58,729	6,05,93,250

Schedules to the Balance Sheet

3. FIXED ASSETS

in Rs.

Particulars	Original cost				Depreciation				Net Book Value	
	Cost as of April 01, 2004	Additions during the year	Deletions during the year	Cost as of March 31, 2005	As of April 01, 2004	For the year	Deductions during the year	As of March 31, 2005	As of March 31, 2005	As of March 31, 2004
Leasehold Improvements	2,63,92,169	1,85,00,339	-	4,48,92,508	19,76,152	67,60,521	-	87,36,673	3,61,55,835	2,44,16,017
Plant and machinery	1,95,81,055	4,35,46,042	-	6,31,27,097	17,53,161	77,16,327	-	94,69,488	5,36,57,609	1,78,27,894
Computer equipment	14,69,71,207	9,88,12,325	1,25,565	24,56,57,967	6,42,66,719	8,57,88,123	1,25,565	14,99,29,277	9,57,28,690	8,27,04,488
Furniture and fixtures	1,02,83,226	3,36,63,055	-	4,39,46,281	9,16,823	1,54,43,361	-	1,63,60,184	2,75,86,097	93,66,403
	20,32,27,657	19,45,21,761	1,25,565	39,76,23,853	6,89,12,855	11,57,08,332	1,25,565	18,44,95,622	21,31,28,231	13,43,14,802
Previous year	5,72,88,082	14,59,39,575	-	20,32,27,657	1,38,67,041	5,50,45,814	-	6,89,12,855	13,43,14,802	-

Schedules to the Balance Sheet

in Rs.

		March 31, 2005	March 31, 2004
4	**INVESTMENTS**		
	Trade (unquoted) - at cost		
	Long term investment		
	In Subsidiary		
	Progeon s.r.o, Republic of Czech, a wholly owned subsidiary	21,27,658	4,21,747
	Non-Trade (unquoted) - at lower of cost and fair value		
	Current Investments *		
	Liquid mutual funds	41,14,90,014	13,80,78,857
		41,36,17,672	13,85,00,604
	* Refer to note 16.2.15 for details of investment		
5	**SUNDRY DEBTORS**		
	(Unsecured, considered good)		
	Debts outstanding for a period less than six months	46,96,32,975	9,82,34,923
	(including dues from subsidiary company)*		
		46,96,32,975	9,82,34,923
	*For details of dues from subsidiary company refer to note 16.2.13		
6	**CASH AND BANK BALANCES**		
	Cash on hand	32,211	7,605
	Balances with scheduled banks		
	-in current accounts	5,14,60,826	47,62,64,870
	-in deposit accounts in Indian rupees	36,96,31,708	18,00,00,000
	Balances with non-scheduled banks		
	-in current accounts	1,72,24,578	16,53,470
		43,83,49,323	65,79,25,945
	Balances with non scheduled banks*		
	In current accounts		
	Citibank N.A., Delaware	22,90,388	11,96,624
	Citibank N.A., London	-	4,56,846
	ICICI bank, London	19,60,829	-
	Bank of America, California	1,29,73,361	-
	* Refer to note 16.2.12 for details of maximum balances held in non scheduled banks		
7	**LOANS AND ADVANCES**		
	(Unsecured, considered good)		
	Advances		
	Prepaid expenses	1,15,71,517	50,88,448
	For supply of goods and rendering of services	15,84,088	-
	Loans to subsidiary company	4,49,89,369	-
	Travel and other advances	1,30,20,049	1,37,26,852
		7,11,65,023	1,88,15,300
	Deposits with financial institutions and bodies corporate	12,14,48,823	6,46,44,385
	Deposits with government authorities	4,50,851	90,000
	Rental deposits	2,75,07,112	1,64,49,087
	Electricity and other deposits	36,32,074	42,15,615
	Advance Income tax, net	30,66,640	29,92,980
		22,72,70,523	10,72,07,367

Schedules to the Balance Sheet

in Rs.

		March 31, 2005	March 31, 2004
8	**OTHER CURRENT ASSETS**		
	Unbilled revenue	71,74,823	7,33,36,960
	Other assets	43,30,753	1,67,66,233
		1,15,05,576	9,01,03,193
9	**CURRENT LIABILITIES**		
	Sundry creditors		
	for capital goods	3,60,69,502	1,47,96,014
	for expenses	37,22,983	2,05,11,866
	for accrued salaries and benefits		
	salaries and allowances	2,22,30,284	19,69,333
	ex-gratia and incentives	8,40,75,667	44,28,505
	retirement benefits	-	44,53,343
	for other liabilities		
	provision for expenses	10,99,95,803	3,33,03,278
	withholding and other taxes payable	707	65,69,037
		25,60,94,946	8,60,31,376
	Unearned revenue	2,59,91,922	18,81,857
		28,20,86,868	8,79,13,233
10	**PROVISIONS**		
	Provision for leave encashment	1,30,91,045	42,83,615
	Provisions - others*	40,33,162	-
		1,71,24,207	42,83,615

*Represents accrual for estimated discounts under a contract.

Schedules to the Profit & Loss Account

in Rs.

		Year ended March 31, 2005	2004
11	**COST OF REVENUES**		
	Salaries including overseas staff expenses	52,91,49,703	19,74,89,392
	Staff welfare	99,23,451	30,07,708
	Contribution to provident and other funds	3,34,74,944	1,72,59,015
	Traveling expenses	6,17,88,279	5,81,69,030
	Conveyance	8,58,72,244	3,20,01,246
	Cost of software for own use	1,82,69,429	7,42,863
	Cost of software for delivery to clients	15,14,298	-
	Computer maintenance	74,70,957	35,97,920
	Communication expenses	13,59,44,334	10,40,04,802
	Rent	7,54,13,210	6,26,74,922
	Consultancy charges	1,40,03,550	97,24,321
	Consumables	10,77,185	2,95,897
	Recruitment expenses	3,23,81,374	1,56,24,263
	Insurance	20,68,137	-
	Other miscellaneous expenses	31,58,383	2,31,418
		101,15,09,478	50,48,22,797
12	**SELLING AND MARKETING EXPENSES**		
	Salaries including overseas staff expenses	12,44,46,031	6,58,97,233
	Brand building and advertisement	4,50,644	10,52,547
	Contribution to provident and other funds	10,79,501	9,63,433
	Staff welfare expenses	30,167	2,67,394
	Traveling expenses	2,47,80,571	2,11,54,176
	Consumables	6,519	-
	Communication expenses	28,15,791	8,07,042
	Conveyance	5,84,728	19,40,966
	Rent	51,66,571	-
	Printing and stationery	2,72,427	3,77,077
	Marketing expenses	-	3,97,072
	Other miscellaneous expenses	3,57,997	5,08,536
	Recruitment expenses	19,87,613	6,37,685
	Professional charges	41,70,338	1,74,773
	Professional memberships and seminars	4,61,759	-
		16,66,10,657	9,41,77,934

Schedules to the Profit & Loss Account

in Rs.

		Year ended March 31, 2005	2004
13	**GENERAL AND ADMINISTRATION EXPENSES**		
	Salaries	9,40,06,122	4,96,98,084
	Staff welfare	82,68,411	27,62,209
	Contribution to provident and other funds	73,08,662	37,69,794
	Conveyance	1,71,69,347	1,10,42,860
	Consumables	24,33,864	14,29,692
	Cost of software for own use	1,45,70,556	1,88,61,065
	Rent	80,95,940	74,75,902
	Telephone and communication charges	92,35,408	43,20,524
	Legal and professional charges	3,82,46,009	2,20,23,377
	Printing, stationery and office maintenance	3,47,91,678	95,27,097
	Power and fuel	3,04,97,829	1,43,11,407
	Recruitment and training expenses	63,91,143	20,53,725
	Insurance	1,34,78,762	81,98,994
	Rates and taxes	9,39,203	8,69,761
	Auditor's remuneration		
	audit fees	7,62,720	5,40,000
	out-of-pocket expenses	32,730	27,000
	Bank charges and commission	4,14,829	7,79,017
	Postage and courier	4,67,978	3,36,674
	Professional membership and seminar participation fees	13,86,229	11,89,418
	Other miscellaneous expenses	20,57,091	25,66,493
		29,05,54,511	16,17,83,093
14	**OTHER INCOME**		
	Interest Income *		
	On deposits with financial institutions and bodies corporate	59,69,985	1,19,00,794
	On deposits with banks	1,73,33,210	24,74,840
	On Loans to Subsidiary company	3,54,587	-
	Dividends from liquid mutual fund investments	1,58,01,603	32,07,875
	Miscellaneous income	27,692	46,34,981
	Profit on sale of investments	2,08,456	-
	Exchange differences	(91,40,333)	58,94,973
	Interest on income tax refund	-	3,54,550
		3,05,55,200	2,84,68,013
	*Tax deducted at source on interest income	44,05,547	27,22,618
15	**PROVISION FOR TAXATION**		
	Current taxes	95,89,000	66,000
	Deferred taxes	(36,88,861)	-
		59,00,139	66,000

Schedules to the Financial Statements for the Year Ended March 31, 2005

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Company overview

Progeon Limited ("Progeon" or the "company") was incorporated on April 3, 2002 to provide business process management services to organizations that outsource their business processes. Progeon is a majority owned and controlled subsidiary of Infosys Technologies Limited ("Infosys", NASD NM: INFY). Leveraging the benefits of service delivery globalization, process redesign and technology, Progeon drives efficiency and cost effectiveness into client's business processes. The company helps clients improve their competitive positioning by managing their business processes in addition to providing increased value. Progeon s.r.o. was incorporated on February 4, 2004 in the Czech Republic as a wholly owned subsidiary to provide business process management and transitioning services.

16.1 Significant accounting policies

16.1.1 Basis of preparation of financial statements

The financial statements are prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Principles ("GAAP") on the accrual basis. GAAP comprises accounting standards issued by the Institute of Chartered Accountants of India ("ICAI") and the relevant provisions of the Companies Act, 1956 to the extent applicable. All amounts are stated in Indian Rupees, except as otherwise specified.

16.1.2 Use of estimates

The preparation of the financial statements in conformity with GAAP requires that the management of the company make estimates and assumptions that affect the reported amounts of income and expenses of the period, reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as of the date of the financial statements. Examples of such estimates include expected development costs to complete business process management service contracts, provisions for doubtful debts, provision for income taxes and the useful lives of fixed assets. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

16.1.3 Revenue recognition

The company derives its revenues primarily from business process management services, on both the time-and-material and fixed-price, fixed-time frame bases. Revenue on time-and-material contracts is recognized as the related services are rendered. Revenue from fixed-price, fixed-time frame contracts is recognized as per the proportionate-completion method. Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output. When the company receives advances for its services, such amounts are reported as client deposits until all conditions for revenue recognition are met.

16.1.4 Expenditure

The cost of software user licenses purchased for rendering business process management services is charged to revenue when put to use. Charges relating to non-cancelable long-term operating leases are computed on a straight line basis over the period of the lease.

16.1.5 Fixed assets and capital work-in-progress

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Direct costs are capitalized until the assets are ready for use and include financing costs relating to any borrowing attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use. Capital work-in-progress includes the cost of fixed assets that are not yet ready for their intended use and advances paid to acquire fixed assets before the balance sheet date.

16.1.6 Depreciation

Depreciation on fixed assets is determined using the straight-line method based on useful lives of assets as estimated by the company. Depreciation for assets purchased/sold during the period is proportionately charged. Individual assets acquired for less than Rs. 5,000 are entirely depreciated in the year of acquisition. Leasehold improvements are written off over the lower of the remaining period of lease or the life of the asset. Management estimates the useful lives for the various fixed assets as follows:

Computer equipment	Two years
Plant and machinery	Five years
Furniture and fixtures	Five years

16.1.7 Retirement benefits to employees

16.1.7a Gratuity

In accordance with the Payment of Gratuity Act, 1972, Progeon provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering all employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, carried out at the period end by an independent actuary based upon which company contributes to the Progeon employees Gratuity Fund Trust (the 'Trust'). The trustee administers contributions made to the Trust and invests the corpus with LIC of India.

16.1.7b Superannuation

Certain employees of Progeon are also eligible for superannuation benefits. The company makes monthly provisions for superannuation benefits based on a specified percentage of each covered employee's salary. The company has no further obligations to the superannuation plan beyond its monthly provisions which are periodically contributed to a trust fund, the corpus of which is invested with the LIC of India.

16.1.7c Provident fund

Eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a Government administered provident fund. The company has no further obligations under the provident fund plan beyond its monthly contributions.

16.1.7d Leave encashment

Leave encashment liability is provided on the basis of an actuarial valuation carried out at the year end.

16.1.8 Foreign currency transactions

Revenue from overseas clients and collections deposited in bank accounts are recorded at the exchange rate as of the date of the respective transactions. Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Disbursements made out of bank accounts are reported at a rate that approximates the actual monthly rate. Exchange differences are recorded when the amount actually received on sales or actually paid when expenditure is incurred is converted into Indian rupees. The exchange differences arising on foreign currency transactions are recognized as income or expense in the period in which they arise. Monetary assets and monetary liabilities denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resulting difference is also recorded in the profit and loss account.

16.1.9 Forward contracts in foreign currencies

The company uses forward exchange contracts to hedge its exposure to movements in foreign exchange rates. The use of these forward exchange contracts reduces the risk or cost to the company and the company does not use the forward exchange contracts for trading or speculation purposes.

The company records the gain or loss on effective hedges in the foreign currency fluctuation reserve until the transactions are complete. On completion, the gain or loss is transferred to the profit and loss account of that period. To designate a forward contract as an effective hedge, Management objectively evaluates and evidences with appropriate supporting documents at the inception of each contract whether the contract is effective in achieving offsetting cash flows attributable to the hedged risk. In the absence of a designation as effective hedge, a gain or loss is recognized in the profit and loss account.

16.1.10 Income tax

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax annually based on the tax liability computed, after considering tax allowances and exemptions. Provisions are recorded when it is estimated that a liability due to disallowances or other matters is probable.

The differences that result between the profit considered for income taxes and the profit as per the financial statements are identified, and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted or substantially enacted regulations. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each balance sheet date."

16.1.11 Provisions and contingent liabilities

The company recognizes a provision when there is a 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. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made. Provisions are made for all known losses and liabilities and future unforeseeable factors that may affect the profit on fixed-price business process management contracts.

16.1.12 Impairment of assets

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above.

16.1.13 Earnings per share

In determining earnings/ (loss) per share, the company considers the net profit/ (loss) after tax. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of basic and dilutive common equivalent shares outstanding during the period, except where the result would be anti-dilutive. Dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date.

16.1.14 Preliminary expenses

Share issue expenses are written off against the share premium account.

16.1.15 Investments

Trade Investments are the investments made to enhance the company's business interests. Investments are either classified as current or long-term based on the management's intention at the time of purchase. Current investments are carried at the lower of cost and fair value. Cost for overseas investments comprises the Indian Rupee value of the consideration paid for the investment. Long-term investments are carried at cost and provisions recorded to recognize any decline, other than temporary, in the carrying value of each investment. Any dividends are recorded as income in the profit and loss account when the right to receive dividend is established.

16.1.16 Cash Flow Statement

Cash flows are reported using the Indirect method, thereby profit before tax is adjusted for the effects of transactions of a non - cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and Investing activities of the company as segregated. Cash flows in Foreign currency are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transaction.

16.1.17 Change in accounting policy

The accounting standard on "The effect of changes in foreign exchange rates" was revised with effect from April 1, 2004 and prescribes accounting for forward exchange contracts based on whether these are entered into for hedging purposes or for trading /speculation purposes. Further, it has been recently clarified that the revised standard does not cover forward exchange contracts entered in to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Up to March 31, 2004, such segregation was not required and the difference between the forward rate and the exchange rate on the date of the transaction was recognized as income or expense over the life of the contract.

The Company has adopted the revised accounting standard effective April 1, 2004 to the extent applicable in respect of outstanding forward exchange contracts The forward exchange contracts constitute hedges from an economic perspective, and the Company has decided to account for these forward exchange contracts based on their designation as 'effective hedges' or 'not effective'. To designate a forward contract as an effective hedge, management objectively evaluates and evidences with appropriate supporting documentation at the inception of each forward contract, whether these forward contracts are effective in achieving offsetting cash flows attributable to the hedged risk or not. The gain or loss on effective hedges is recorded in the foreign currency fluctuation reserve until the hedged transactions occur and are then recognized in the profit and loss account. In the absence of an effective hedge, the gain or loss is recognized in the profit and loss account.

Gains and losses on forward exchange contracts are computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period). The Company also assesses on an ongoing basis at the end of each reporting period whether designated hedges are effective and prospectively reclassifies the hedge as necessary.

Consequent to the change in the accounting policy, the profits for the year ended March 31, 2005 is low by Rs. 2,38,69,873.

16.2 Notes to financial statements

16.2.1 Capital commitments and contingent liabilities

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Estimated amount of unexecuted capital Contracts (net of advance and deposits)	1,30,11,587	54,95,190
Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given in favour of various government authorities and others	34,56,000	34,46,000
Forward contracts outstanding	US$ 4,317,400	US$ 6,000,000
(Equivalent approximate in Rs.)	(18,88,64,663)	(27,20,47,500)

16.2.2 Aggregate expenses

Following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Companies Act, 1956:

in Rs.

Aggregate of Expenses	Year Ended March 31, 2005	Year Ended March 31, 2004
Salaries and ex-gratia including overseas staff expenses	74,76,01,856	31,30,84,709
Staff welfare	1,82,22,029	60,37,311
Contribution to provident and other funds	4,18,63,107	2,19,92,242
Foreign Travel expenses	8,65,68,850	7,93,23,206
Consumables	35,17,568	17,25,589
Computer Maintenance	89,85,255	35,97,920
Cost of Software for own use	3,28,39,985	1,96,03,928
Communication expenses	14,79,95,533	10,91,32,368
Consultancy charges	1,40,03,550	97,24,321
Travel and conveyance	10,36,26,319	4,49,85,072
Rent	8,86,75,721	7,01,78,624
Printing & Stationery and Office Maintenance	3,50,64,105	99,04,174
Legal and Professional Charges	4,24,16,347	2,21,98,150
Brand Building	4,50,644	10,52,547
Recruitment and Training expenses	4,07,60,130	1,83,15,673
Power and Fuel	3,04,97,829	1,43,11,407
Insurance Charges	1,55,46,899	81,98,994
Rates and Taxes	9,39,203	8,69,761
Auditor's remuneration		
audit fees	7,62,720	5,40,000
out-of-pocket expenses	32,730	27,000
Bank Charges and Commission	4,14,829	7,79,017
Postage and Courier	4,67,978	3,36,674
Professional Membership and Seminar Participation fees	18,47,988	11,89,418
Marketing Expenses	-	3,97,072
Other Miscellaneous Expenses	55,73,471	32,78,647
Total	146,86,74,646	76,07,83,824

16.2.3 Quantitative details

The company is engaged in providing business process management services. The sale of such services cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details of services rendered and certain information as required under paragraphs 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956.

16.2.4 Imports (valued on the cost, insurance and freight basis)

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Capital Goods	6,90,27,133	8,49,50,992

16.2.5 Expenditure in foreign currency (on payments basis)

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Salary and legal & Professional Charges	12,33,72,047	4,80,00,679
Foreign travel expenses and Relocation expenses	6,55,40,316	2,43,27,269
Bank Charges, technology imaging and others	16,74,187	3,66,77,611
Communication	6,23,18,075	1,84,30,238
	25,29,04,625	12,74,35,797

16.2.6 Earnings in foreign currency (on receipt basis)

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Revenues from Business Process Management Services	161,52,88,292	65,78,49,864

16.2.7 Obligations on long-term non-cancelable operating leases

The lease rentals charged during the period and maximum obligations on long-term non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows:

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Lease Rentals charged during the period	8,86,75,721	7,01,78,624

in Rs.

Lease Obligations	Year Ended March 31, 2005	Year Ended March 31, 2004
Within One year of the Balance sheet date	6,86,75,473	8,01,63,960
Due in a period between one year and five years	9,28,95,460	9,47,91,956
Later than Five years	41,61,064	-

The Company has entered into non-cancelable operating lease arrangements for premises with Infosys. The existing operating lease arrangements extend for periods between 36 Months and 70 Months from their respective dates of inception. The lease rentals paid are included as a component of services purchased from Infosys (also refer Note 16.2.13 below).

16.2.8 Dues to small-scale industrial undertakings

As of March 31, 2005, the company had no outstanding dues to small-scale industrial undertakings.

16.2.9 Cumulative convertible preference shares

The company issued 87,50,000 0.0005% cumulative convertible preference shares of par value Rs. 100 each in two equal tranches to Citicorp International Finance Corporation ("Citicorp") on June 30, 2002 and March 31, 2004 in accordance with a shareholders agreement dated June 14, 2002, for an aggregate cash consideration of Rs. 93,80,00,000, including share premium of Rs. 6,30,00,000.

Unless earlier converted pursuant to this agreement in this behalf between the Company and Citicorp, all the convertible preference shares shall automatically be converted into equity shares, (i) one year prior to the Initial Public Offering ("IPO") Date or (ii) June 30, 2005 or (iii) at the holder's option, immediately upon the occurrence of any Liquidity Event; whichever is earlier. The term "Liquidity Event" includes any of a decision of the Board of Directors to make an IPO, merger, reconstruction, capital reorganization or other event which, in the sole opinion of the holder of the convertible preference shares, amounts to an alteration in the capital structure of the company. Each preference share is convertible into one equity share, par value Rs. 10 each.

In the event of any liquidation, dissolution or winding up of the company, either voluntary or involuntary, each holder of the preference shares will be paid the preference subscription price per preference share, as adjusted for stock dividends, combinations, splits, recapitalization and the like, in preference to any distribution of any assets of the company to the holders of equity shares. Upon the completion of the distribution described above, the remaining assets and funds of the company available for distribution to shareholders shall be distributed among all holders of preference shares and equity shares based on the number of equity shares held by each of them (assuming a full conversion of all the preference shares). Indian law requires redemption of preference shares within a period of 10 years.

Unpaid cumulative dividend amounted to Rs. 8618 and nil as at March 31, 2005 and March 31, 2004 respectively.

16.2.10 Provision for taxation

The company benefits from certain significant tax incentives provided to firms rendering business process management services under Indian tax laws. These incentives presently include an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as "Software Technology Parks" (the "STP Tax Holiday"). The Government of India recently amended the tax incentives available to companies set up in designated STPs. The period of the STP Tax Holiday available to such companies is restricted to 10 consecutive years beginning from the financial year when the unit started rendering business process management services or March 31, 2009, whichever is earlier. The provision for taxation is made on the best estimate of management of the effective tax rate expected to be applicable for the full year.

Deferred tax assets recognized as at March 31, 2005 relates to fixed assets.

16.2.11 Loans and advances

Deposits with financial institution and bodies corporate comprise: *in Rs.*

	Year Ended March 31, 2005	Year Ended March 31, 2004
Deposits with financial institution:		
Housing Development Finance Corporation Limited	12,14,48,823	6,46,44,384
Deposits with bodies corporate:		
GE Capital Services India Limited	-	-

The above amounts include interest accrued but not due amounting to Rs. 14,48,823 and Rs. 6,44,384 in March 31, 2005 and March 31, 2004 respectively.

Maximum balance held during the period *in Rs.*

	Year Ended March 31, 2005	Year Ended March 31, 2004
Deposits with financial institution:		
Housing Development Finance Corporation Limited	12,15,41,919	15,22,37,672
Deposits with bodies corporate:		
GE Capital Services India Limited	-	20,32,41,096

16.2.12 Maximum balances held in non-scheduled banks

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Citibank NA, Delaware	1,56,41,619	97,16,042
Citibank NA, London	4,76,817	92,55,645
ICICI Bank, London	1,09,38,858	-
Bank of America, California	4,83,73,144	-

16.2.13 Related party transactions

The company entered into related party transactions during the period with Infosys, the company's holding company.

The transactions are set out below. *in Rs.*

Particulars	Year Ended March 31, 2005	Year Ended March 31, 2004
Financing transactions - issues of equity shares	-	12,25,00,000
Rental deposit placed	-	1,61,29,087
Purchase of services		
Business consulting services	13,22,306	12,30,635
Personnel and shared services including facilities	14,05,92,227	12,70,34,337
	14,19,14,533	12,82,64,972
Sale of Services	2,03,70,165	70,34,356
Personnel and shared services including facilities	50,88,023	-
	2,54,58,188	70,34,356

The rental deposit balance with Infosys was Rs. 1,61,29,087 as at March 31, 2005 and March 31, 2004.

The company has received certain managerial services from Mr. T. V. Mohandas Pai and Mr. S. D. Shibulal, directors of the company who are also directors of Infosys, at no cost.

The company entered into related party transactions during the period with Progeon s.r.o, Czech Republic a subsidiary company. The transactions are set out below.

in Rs.

Particulars	Year Ended March 31, 2005	Year Ended March 31, 2004
Financing transactions - Share Capital	21,27,658	-
Loans to Progeon s.r.o	4,49,89,369	-
Personnel and shared services including facilities	41,21,317	-

Sundry Debtors includes dues from subsidiary companies as given below

Particulars	Year Ended March 31, 2005	Year Ended March 31, 2004
Progeon s.r.o, Czech Republic	41,21,317	-

The company has received professional services from Infosys Consultancy Inc. for which an amount of Rs. 4,33,911 and nil has been paid during the year ended March 31, 2005 and year ended March 31, 2004 respectively.

The company also entered into a financing transaction with Citicorp whereby Citicorp subscribed to preference shares in the company during the year ended March 31, 2004 and 2003. (see Note 16.2.9).

The company has placed with Citicorp Finance (India) Limited, amounting to nil and nil during the year ended March 31, 2005 and year ended March 31, 2004 respectively. These entities are associate companies of Citicorp.

The company also has a banking relationship with Citibank N.A., India, US and UK. The balances held with Citibank as of March 31, 2005 and March 31, 2004, in current accounts were Rs. 31,30,985 and Rs. 45,00,05,866 respectively.

The Board of Directors appointed Mr. Akshaya Bhargava as Managing Director and Chief Executive Officer of the Company, with effect from November 4, 2002. Mr. Bhargava's appointment was approved by the Central Government vide their letters 1/491/2002-CL.VII dated March 20, 2003. Subsequently the company applied to the Central government for its approval to increase the remuneration payable to Mr. Akshaya Bhargava with effect from July 1, 2004, which was duly approved by the Central Government vide letter No 2/112/2004-CL.VIII dated December 23, 2004. Mr. Bhargava's remuneration is set out below.

Particulars of remuneration and other benefits paid to Mr. Akshaya Bhargava during the year ended March 31, 2005 and March 31, 2004 is given below:

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Salary and allowances	24,02,742	15,44,004
Provident fund, gratuity and superannuation contributions	3,30,567	2,33,232
Performance incentives	1,57,457	9,99,996
Perquisites	-	1,56,000
	28,90,766	29,33,232

The particulars of remuneration and benefits paid to other senior management personnel are set out below.

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Salary and allowances	82,67,265	58,32,995
Provident fund, gratuity and superannuation contributions	11,08,935	7,81,863
Performance incentives	39,61,089	26,84,989
	1,33,37,289	92,99,847

16.2.14 Managerial remuneration paid to non-whole time directors

Particulars of remuneration and other benefits paid to non-whole time directors during the year ended March 31, 2005 and March 31, 2004 is given below:

in Rs.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Sitting Fees	79,963	60,000
Commission *	9,00,000	-

* Subject to approval of the Share holders in the ensuing General Meeting

Computation of net profit in accordance with Section 349 of the Companies Act, 1956, and calculation of commission payable to non-whole time directors.

in Rs.

	Year Ended March 31, 2005
Net profit after tax from Ordinary Activities	33,31,63,743
Add:	
1. Whole time director's remuneration	28,90,766
2. Director's Sitting Fee's	79,963
3. Commission to non-whole time directors	9,00,000
4. Depreciation as per books of accounts	11,57,08,332
5. Provision for Taxation	59,00,139
	45,86,42,943
Less:	
1. Depreciation as envisaged under Section 350 of the Companies Act *	11,57,08,332
2. Carried forward losses for previous years as computed under Section 349 of the Company's Act	3,32,18,253
Net profit on which commission is payable	30,97,16,358
Commission payable to non whole time directors :	
Maximum allowed per Companies Act at 1%	30,97,164
Commission approved by the Board	9,00,000

* The Company depreciates fixed assets based on estimated useful lives that are lower than those implicit is Schedule XIV of the Companies Act,1956. Accordingly, the rates of depreciation used by the Company are higher than the minimum prescribed by the Schedule XIV.

16.2.15 Investment Activity

Current investments *in Rs.*

	Year Ended March 31, 2005	Year Ended March 31, 2004
Reliance Liquid fund – Treasury plan – Daily 11,22,236.31 units of NAV of Rs. 15.28 each at cost	1,70,88,308	3,49,45,317
JM High Liquidity Fund-Institutional Dividend – Daily 51,76,183.609 units of NAV of Rs. 10.02 each at cost	5,18,38,502	3,06,48,265
Grindlays Cash Fund-Institutional Plan – Dividend daily 53,83,893.307 units of NAV of Rs. 10.00, each at cost	5,38,32,955	2,83,02,445
Kotak Liquid Institutional – Dividend – Daily 0 units of NAV of Rs. each at cost	-	2,09,12,383
Prudential ICICI Liquid Plan-Institutional –Dividend-Daily 43,84,256.393 units of NAV of Rs. 11.85 each at cost	5,19,59,889	37,29,784
Franklin Templeton 45,34,0443 units of NAV of Rs. 1,000.01 each at cost	4,53,40,810	45,26,540
DSP Merrill Lynch Liquidity Fund 59,59,912.114 units of NAV of Rs. 10.01 each at cost	5,66,56,334	1,50,14,123
HSBC 50,72,694.475 units of NAV of Rs. 10.01 each at cost	5,07,51,161	-
HDFC 17,47,756.258 units of NAV of Rs. 12.14 each at cost	2,09,91,192	-
Principal Asset 2,40,774.367 Units of NAV of Rs. 10.00 each at cost	24,02,877	-
Birla Mutual Fund 60,51,173.124 Units of NAV of Rs. 10.02 each at cost	6,06,27,986	-
	41,14,90,014	13,80,78,857

16.2.16 Unearned Revenues

Revenue recognition has been deferred pending resolution of significant uncertainties regarding the amount of consideration that will be derived from rendering services. Deferred revenues in the current year amounted to Rs. 2,59,91,921 and Rs. 18,81,857 as at March 31, 2005 and March 31, 2004 respectively.

16.2.17 Reconciliation between basic and dilutive shares

The reconciliation between basic and dilutive shares is set out below.

	Year Ended March 31, 2005	Year Ended March 31, 2004
Weighted average shares used in computing basic earnings per share	2,45,05,473	1,22,83,470
Dilutive effect of cumulative convertible preference shares and stock options	1,10,36,137	-
Weighted average shares used in computing diluted earnings per share	3,55,41,610	1,22,83,470

16.2.18 Employees Stock Option Plan ("2002 Plan")

The company's 2002 Plan provides for the grant of stock options to employees of the company and was approved by the board of directors and stockholders in June 2002. All options under the 2002 Plan are exercisable for equity shares. The 2002 Plan is administered by a Compensation Committee comprising three members, all of whom are directors of the company. The 2002 Plan provides for the issue of 52,50,000 equity shares to employees, at an exercise price, which shall not be less than the Fair Market Value ("FMV") on the date of grant. Options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in general meeting. The options issued under the 2002 Plan vest in periods ranging between one through six years, although accelerated vesting based on performance conditions is provided in certain instances. All options granted have been accounted for as a fixed plan.

Number of Options Granted, Exercised and Forfeited	Year Ended March 31, 2005	Year Ended March 31, 2004
Options granted, beginning of period	31,24,625	18,01,175
Granted during the period	4,32,900	14,01,150
Exercised during the period	1,13,650	-
Forfeited during the period	3,27,357	77,700
Options outstanding at the end of period	31,16,518	31,24,625

16.2.19 Segment reporting

The company's operations primarily relate to providing business process management services to organizations that outsource their business processes. Accordingly, revenues represented along industry classes comprise the primary basis of segmental information set out in these financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers.

The accounting principles consistently used in the preparation of the financial statements are also consistently applied to record income in individual segments. These are set out in the note on significant accounting policies.

Industry segments at the company primarily comprise customers providing services to financial services, telecom and other industries. Income in relation to segments is categorized based on items that are individually identified to those segments while expenditure is categorized in relation to the associated turnover of the segment. Certain expenses which form a significant component of total expenses are not specifically allocable to specific segments as the underlying services are used interchangeably. These expenses are separately disclosed as "unallocated" and adjusted only against the total income of the company. The company believes that it is not practical to provide segment disclosures relating to these costs and expenses, and accordingly these expenses are separately disclosed as unallocated and directly charged against total income. Fixed assets in the company's business or liabilities contracted have not been identified to any reportable segments, as the fixed assets and services are used interchangeably between segments.

Geographical segments are segregated based on the location of the customers who is invoiced, or in relation to which the revenue is otherwise recognized.

Industry Segments

Year ended March 31, 2005 *in Rs.*

Particulars	Financial Services	Telecom	Others	Total
Revenues	91,72,80,360	83,20,55,226	14,35,56,074	189,28,91,660
Identifiable operating expenses	39,05,75,020	49,68,18,859	4,87,02,394	93,60,96,273
Allocated expenses	7,94,54,853	8,97,79,461	97,60,015	17,89,94,329
Segmental operating profit	44,72,50,487	24,54,56,906	8,50,93,665	77,78,01,058
Unallocable expenses				46,92,92,376
Operating profit				30,85,08,682
Other income				3,05,55,200
Net profit before taxes				33,90,63,882
Taxes				59,00,139
Net profit after taxes				33,31,63,743

Geographical Segments

Year ended March 31, 2005 *in Rs.*

Particulars	United States of America	United Kingdom	Others	Total
Revenues	123,08,05,493	64,49,33,482	1,71,52,685	189,28,91,660
Identifiable operating expenses	62,68,49,812	30,81,33,797	11,12,664	93,60,96,273
Allocated expenses	11,04,08,943	6,84,14,104	1,71,282	17,89,94,329
Segmental operating profit	49,35,46,738	26,83,85,581	1,58,68,739	77,78,01,058
Unallocable expenses				46,92,92,376
Operating profit				30,85,08,682
Other income				3,05,55,200
Net profit before taxes				33,90,63,882
Taxes				59,00,139
Net profit after taxes				33,31,63,743

Industry Segments

Year ended March 31, 2004 *in Rs.*

Particulars	Financial Services	Telecom	Others	Total
Revenues	46,49,04,591	30,77,89,345	87,54,468	78,14,48,404
Identifiable operating expenses	12,91,05,385	12,49,21,310	40,34,809	25,80,61,504
Allocated expenses	17,19,43,996	12,34,84,756	60,15,006	30,14,43,758
Segmental operating profit / (loss)	16,38,55,210	5,93,83,279	(12,95,347)	22,19,43,142
Unallocable expenses				25,63,24,376
Operating loss				(3,43,81,234)
Other income				2,84,68,013
Net loss before taxes				(59,13,221)
Taxes				66,000
Net loss after taxes				(59,79,221)

Geographical Segments

Year ended March 31, 2004 *in Rs.*

Particulars	United States of America	United Kingdom	Others	Total
Revenues	58,63,91,530	19,34,06,588	16,50,286	78,14,48,404
Identifiable operating expenses	20,50,27,930	5,30,33,574	-	25,80,61,504
Allocated expenses	26,49,17,866	3,65,25,892	-	30,14,43,758
Segmental operating profit	11,64,45,734	10,38,47,122	16,50,286	22,19,43,142
Unallocable expenses				25,63,24,376
Operating loss				(3,43,81,234)
Other income				2,84,68,013
Net loss before taxes				(59,13,221)
Taxes				66,000
Net loss after taxes				(59,79,221)

16.2.20 Previous period's/year's figures have been regrouped/reclassified, wherever necessary, to conform to the current period's / year's presentation.

Balance Sheet abstract and Company's General Business Profile

Registration Details	
Registration No.	030310
State Code	08
Balance Sheet Date	March 31, 2005
Capital raised during the year	
Public Issue	-
Rights Issue	-
Bonus Issue	-
Private Placements	-
Preferential offer of shares under Employees Stock Option Plan	11,36,500
Position of mobilization and deployment of funds	
Total liabilities	147,94,95,229
Total assets	147,94,95,229
Sources of Funds	
Paid up capital	112,11,36,500
Reserves and surplus	35,83,58,729
Secured loans	-
Unsecured loans	-
Application of Funds	
Net fixed assets	21,46,41,374
Investments	41,36,17,672
Net Current assets	85,12,36,183
Miscellaneous expenditure	-
Accumulated losses	-
Performance of the Company	
Turnover	189,28,91,660
Other Income	3,05,55,200
Total Income	192,34,46,860
Total Expenditure	158,43,82,978
Profit / (Loss) before tax	33,90,63,882
Extraordinary Income	-
Profit / (Loss) after tax	33,31,63,743
Earnings per share from ordinary activities (Basic)	13.60
Earnings per share from ordinary activities (Diluted)	9.37
Dividend rate (%)	-
Generic names of principal products / services of the company	Business Process Outsourcing
Item code no.(ITC Code)	85 24 91 19
Product description	Software - others

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

S. D. Shibulal
Director

Prof. Jayanth R. Varma
Director

Sridar A. Iyengar
Director

Ramesh Kamath
Chief Financial Officer

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Statement pursuant to Section 212 of the Companies Act, 1956, relating to the subsidiary company

1.	Name of the subsidiary	Progeon s.r.o
2.	Financial period ended	March 31, 2005
3.	Holding company interest	100%
4.	The net aggregate of profits or losses for the current period of the subsidiary so far as it concerns the members of the holding company	
	a. dealt with or provided for in the accounts of the holding company	Rs. (3,25,83,080)
	b. not dealt with or provided for in the accounts of the holding company	Nil
5.	The net aggregate of profits or losses for previous financial years of the subsidiary so far as it concerns the members of the holding company	
	a. dealt with or provided for in the accounts of the holding company	Not Applicable
	b. not dealt with or provided for in the accounts of the holding company	Not Applicable

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

S. D. Shibulal
Director

Prof. Jayanth R. Varma
Director

Sridar A. Iyengar
Director

Ramesh Kamath
Chief Financial Officer

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Consolidated financial statements of Progeon Limited and its subsidiary

Auditors' report to the board of directors on the consolidated financial statements of Progeon Limited and its subsidiary

We have audited the attached consolidated balance sheet of Progeon Limited (the Company) and its subsidiary (collectively called 'the Group') as at March 31, 2005, the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the 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 misstatements. 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 (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

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

(a) in the case of the consolidated balance sheet, of the state of affairs of the Group as at March 31, 2005;

(b) in the case of the consolidated profit and loss account, of the profit of the Group for the year ended on that date; and

(c) 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.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

Bangalore
April 8, 2005

Consolidated Balance Sheet

in Rs.

	Schedule	March 31, 2005	March 31, 2004
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	112,11,36,500	112,00,00,000
Reserves and surplus	2	32,61,02,797	6,05,93,250
		144,72,39,297	118,05,93,250
APPLICATION OF FUNDS			
FIXED ASSETS			
Original cost	3	40,81,41,340	20,32,27,657
Less: Depreciation		19,07,48,752	6,89,12,855
Net book value		21,73,92,588	13,43,14,802
Capital work-in-progress and advances		15,13,143	89,68,599
		21,89,05,731	14,32,83,401
INVESTMENTS	4	41,14,90,014	13,80,78,857
DEFERRED TAX ASSET		36,88,861	-
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	5	48,50,74,617	9,82,34,923
Cash and bank balances	6	44,09,19,990	65,83,47,692
Loans and advances	7	18,51,70,327	10,72,07,367
Other current assets	8	1,23,06,738	9,01,03,193
		112,34,71,672	95,38,93,175
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	9	29,25,96,934	8,79,13,233
Provisions	10	1,77,20,047	42,83,615
NET CURRENT ASSETS		81,31,54,691	86,16,96,327
		144,72,39,297	118,05,93,250
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	16		
The schedules referred to above form an integral part of the Balance Sheet			

As per our report attached
for BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

S. D. Shibulal
Director

Prof. Jayanth R. Varma
Director

Sridar A. Iyengar
Director

Ramesh Kamath
Chief Financial Officer

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Consolidated Profit and Loss Account

in Rs.

	Schedule	Year ended March 31, 2005	2004
INCOME			
Revenues from business process management services		191,22,35,976	78,14,48,404
		191,22,35,976	78,14,48,404
COST OF REVENUES	11	104,71,51,965	50,48,22,797
GROSS PROFIT		86,50,84,011	27,66,25,607
SELLING AND MARKETING EXPENSES	12	16,68,26,827	9,41,77,934
GENERAL AND ADMINISTRATION EXPENSES	13	30,14,29,421	16,17,83,093
OPERATING PROFIT BEFORE DEPRECIATION		39,68,27,763	2,06,64,580
Depreciation	3	12,19,61,462	5,50,45,814
OPERATING PROFIT/ (LOSS) AFTER DEPRECIATION		27,48,66,301	(3,43,81,234)
Other Income	14	3,16,14,502	2,84,68,013
PROFIT/ (LOSS) BEFORE TAX		30,64,80,803	(59,13,221)
Provision for taxation	15	59,00,139	66,000
NET PROFIT/ (LOSS) AFTER TAX		30,05,80,664	(59,79,221)
Balance brought forward from the previous period		(3,75,34,665)	(3,15,55,444)
BALANCE CARRIED FORWARD		26,30,45,999	(3,75,34,665)
EARNINGS/ (LOSS) PER SHARE:			
(Equity shares, par value Rs. 10 each):			
Basic:		12.27	(0.49)
Diluted:		8.46	(0.49)
Weighted average number of shares used in computing earnings per share			
Basic		2,45,05,473	1,22,83,470
Diluted		3,55,41,610	1,22,83,470
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	16		

The schedules referred to above form
an integral part of the Profit and Loss Account.

As per our report attached
for BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

T. V. Mohandas Pai
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Director

Ramesh Kamath
Chief Financial Officer

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Consolidated Cash Flow Statement

in Rs.

	Year ended March 31, 2005	Year ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/ (Loss) before tax	30,64,80,803	(59,13,221)
Adjustments to reconcile profit/ (loss) before tax to cash provided by operating activities		
Depreciation	12,19,61,462	5,50,45,814
Interest Income	(2,33,03,977)	(1,43,75,634)
Dividend Income	(1,58,01,603)	(32,07,875)
Profit on Sale of Investments	(2,08,456)	
Effect of exchange differences on translation of foreign currency cash and cash equivalents	10,02,212	14,44,509
Changes in current assets and liabilities		
Sundry debtors	(38,68,39,694)	(3,31,50,471)
Loans and advances	(2,10,84,862)	(1,44,91,335)
Other current assets	7,97,70,735	(6,76,37,014)
Current liabilities	18,34,10,213	4,08,42,890
Provisions	1,34,36,432	55,96,071
Income tax (paid) / refunds received during the year, net	(96,62,660)	14,97,112
NET CASH GENERATED BY/ (USED IN) OPERATING ACTIVITIES	24,91,60,605	(3,43,49,154)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	36,00,048	56,80,93,250
NET CASH GENERATED BY/ (USED IN) FINANCING ACTIVITIES	36,00,048	56,80,93,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and change in capital work-in-progress / advances	(17,63,10,304)	(14,66,33,524)
Interest received	2,13,29,697	1,43,75,634
Dividend received	1,58,01,603	32,07,875
Purchase of units in mutual funds	(42,97,57,770)	(50,97,09,589)
Proceeds from sale of units in mutual funds	15,65,55,069	37,16,30,732
NET CASH USED IN INVESTING ACTIVITIES	(41,23,81,705)	(26,71,28,872)
Effect of exchange differences on translation of foreign currency cash and cash equivalents	(10,02,212)	(14,44,509)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,06,23,264)	26,51,70,715
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	72,29,92,077	45,78,21,362
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD*	56,23,68,813	72,29,92,077

* Cash and cash equivalents aggregating Rs. 56,23,68,813 (Rs. 72,29,92,077 as at March 31, 2004) comprises cash on hand amounting to Rs. 47,145 (Rs. 7,605 as at March 31, 2004), balances with banks amounting to Rs. 44,08,72,845 (Rs. 65,83,40,087 as at March 31, 2004) and deposits with financial institution/bodies corporate amounting to Rs. 12,14,48,823 (Rs. 6,46,44,385 as at March 31, 2004).

This is the Cash Flow Statement referred to in our report of even date.

As per our report attached
for BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

T. V. Mohandas Pai
Chairman and Director

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Director

Ramesh Kamath
Chief Financial Officer

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Schedules to the Consolidated Balance Sheet

in Rs.

		March 31, 2005	March 31, 2004
1	**SHARE CAPITAL**		
	AUTHORISED		
	Equity shares, Rs. 10 (Rs. 10) par value 2,71,25,000 (2,71,25,000) equity shares	27,12,50,000	27,12,50,000
	0.0005% Cumulative Convertible Preference Shares, Rs. 100 (Rs. 100) par value 87,50,000 (87,50,000) preference shares	87,50,00,000	87,50,00,000
		114,62,50,000	114,62,50,000
	ISSUED, SUBSCRIBED AND PAID UP		
	Equity shares, Rs. 10 (Rs. 10) par value* 2,46,13,650 (2,45,00,000) equity shares fully paid up [Of the above, 2,44,99,993 (2,44,99,993) equity shares are held by Infosys Technologies Limited, the company's holding company and 7 (7) equity shares are beneficially held on behalf of Infosys Technologies Limited by the subscribers to the Memorandum of Association]	24,61,36,500	24,50,00,000
	0.0005% Cumulative Convertible Preference Shares, Rs. 100 (Rs. 100) par value 87,50,000 (87,50,000) preference shares, fully paid up (also refer to Note 16.2.5)	87,50,00,000	87,50,00,000
		112,11,36,500	112,00,00,000
	* For details of options in respect of the above shares refer to note 16.2.13		
2	**RESERVES AND SURPLUS**		
	Share premium account at the beginning of the year	6,05,93,250	5,25,00,000
	Add: Received during the period on issue of shares	27,86,401	1,05,00,000
	Less: Share issue expenses written off	6,50,000	24,06,750
	Share premium account at the end of the period	6,27,29,651	6,05,93,250
	Foreign exchange translation reserve	3,27,147	-
	Balance in profit and loss Account	26,30,45,999	-
		32,61,02,797	6,05,93,250

Schedules to the Consolidated Balance Sheet (continued)

3. FIXED ASSETS

in Rs.

Particulars	Original cost				Depreciation				Net Book Value	
	Cost as of April 01, 2004	Additions during the year	Deletions during the year	Cost as of March 31, 2005	As of April 01, 2004	For the year	Deductions during the year	As of March 31, 2005	As of March 31, 2005	As of March 31, 2004
Leasehold Improvements	2,63,92,169	1,85,00,339	-	4,48,92,508	19,76,152	67,60,521	-	87,36,673	3,61,55,835	2,44,16,017
Plant and machinery	1,95,81,055	4,64,75,036	-	6,60,56,091	17,53,161	94,16,414	-	1,11,69,575	5,48,86,516	1,78,27,894
Computer equipment	14,69,71,207	10,45,18,184	1,25,565	25,13,63,826	6,42,66,719	8,96,63,888	125,565	15,38,05,042	9,75,58,784	8,27,04,488
Furniture and fixtures	1,02,83,226	3,55,45,689	-	4,58,28,915	9,16,823	1,61,20,639	-	1,70,37,462	2,87,91,453	93,66,403
	20,32,27,657	20,50,39,248	1,25,565	40,81,41,340	6,89,12,855	12,19,61,462	1,25,565	19,07,48,752	21,73,92,588	13,43,14,802
Previous year	5,72,88,082	14,59,39,575	-	20,32,27,657	1,38,67,041	5,50,45,814	-	6,89,12,855	13,43,14,802	-

Schedules to the Consolidated Balance Sheet

in Rs.

		March 31, 2005	March 31, 2004
4	**INVESTMENTS**		
	Trade (unquoted) - at cost		
	Long term investment	-	-
	Non-Trade (unquoted) - at lower of cost and fair value		
	Current investments		
	Liquid mutual funds	41,14,90,014	13,80,78,857
		41,14,90,014	13,80,78,857
5	**SUNDRY DEBTORS**		
	(Unsecured, considered good)		
	Debts outstanding for a period less than six months	48,50,74,617	9,82,34,923
		48,50,74,617	9,82,34,923
6	**CASH AND BANK BALANCES**		
	Cash on hand	47,145	7,605
	Balances with scheduled banks		
	-in current accounts	5,14,60,826	47,62,64,870
	-in deposit accounts in Indian rupees	36,96,31,708	18,00,00,000
	Balances with non-scheduled banks		
	-in current accounts	1,97,80,311	20,75,217
		44,09,19,990	65,83,47,692
	Balances with non scheduled banks		
	In current accounts		
	Citibank N.A., Delaware	22,90,388	11,96,624
	Citibank N.A., London	-	4,56,846
	ICICI bank, London	19,60,829	-
	Bank of America, California	1,29,73,361	-
	Citibank N.A., Czech Republic	25,55,733	4,21,747
7	**LOANS AND ADVANCES**		
	(Unsecured, considered good)		
	Advances		
	Prepaid expenses	1,15,85,194	50,88,448
	For supply of goods and rendering of services	15,84,088	-
	Travel and other advances	1,31,00,184	1,37,26,852
		2,62,69,466	1,88,15,300
	Deposits with financial institutions and bodies corporate	12,14,48,823	6,46,44,385
	Deposits with government authorities	4,50,851	90,000
	Rental deposits	2,85,01,079	1,64,49,087
	Electricity and other deposits	54,33,468	42,15,615
	Advance Income tax, net	30,66,640	29,92,980
		18,51,70,327	10,72,07,367

Schedules to the Consolidated Balance Sheet

in Rs.

		March 31, 2005	March 31, 2004
8	**OTHER CURRENT ASSETS**		
	Unbilled revenue	71,74,823	7,33,36,960
	Other assets	51,31,915	1,67,66,233
		1,23,06,738	9,01,03,193
9	**CURRENT LIABILITIES**		
	Sundry creditors		
	for capital goods	3,60,69,502	1,47,96,014
	for expenses	40,33,826	2,05,11,866
	for accrued salaries and benefits		
	salaries and allowances	2,43,74,763	19,69,333
	ex-gratia and incentives	8,67,18,439	44,28,505
	Retirement benefits		44,53,343
	for other liabilities		
	provision for expenses	11,44,27,760	3,33,03,278
	withholding and other taxes payable	9,80,722	65,69,037
		26,66,05,012	8,60,31,376
	Unearned revenue	2,59,91,922	18,81,857
		29,25,96,934	8,79,13,233
10	**PROVISIONS**		
	Provision for leave encashment	1,36,86,885	42,83,615
	Provisions - others*	40,33,162	,0
		1,77,20,047	42,83,615
	*Represents accrual for estimated discounts under a contract.		

Schedules to the Consolidated Profit & Loss Account

in Rs.

		Year ended March 31,	
		2005	2004
11	**COST OF REVENUES**		
	Salaries including overseas staff expenses	54,92,63,085	19,74,89,392
	Staff welfare	1,02,60,076	30,07,708
	Contribution to provident and other funds	4,03,24,198	1,72,59,015
	Traveling expenses	6,40,16,613	5,81,69,030
	Conveyance	8,58,76,956	3,20,01,246
	Cost of software for own use	1,88,50,938	7,42,863
	Cost of software for delivery to clients	15,14,298	-
	Computer maintenance	74,70,957	35,97,920
	Communication expenses	13,63,71,970	10,40,04,802
	Rent	7,85,77,558	6,26,74,922
	Consultancy charges	1,40,03,550	97,24,321
	Consumables	11,46,613	2,95,897
	Recruitment expenses	3,42,48,633	1,56,24,263
	Insurance	20,68,137	-
	Other miscellaneous expenses	31,58,383	2,31,418
		104,71,51,965	50,48,22,797
12	**SELLING AND MARKETING EXPENSES**		
	Salaries including overseas staff expenses	12,44,46,031	6,58,97,233
	Brand building and advertisement	5,97,573	10,52,547
	Contribution to provident and other funds	10,79,501	9,63,433
	Staff welfare expenses	30,167	2,67,394
	Traveling expenses	2,48,18,450	2,11,54,176
	Consumables	6,519	-
	Communication expenses	28,15,791	8,07,042
	Conveyance	5,84,728	19,40,966
	Rent	51,66,571	-
	Printing and stationery	2,72,427	3,77,077
	Marketing expenses	-	3,97,072
	Other miscellaneous expenses	3,89,359	5,08,536
	Recruitment expenses	19,87,613	6,37,685
	Professional charges	41,70,338	1,74,773
	Professional memberships and seminars	4,61,759	-
		16,68,26,827	9,41,77,934

Schedules to the Consolidated Profit & Loss Account

in Rs.

		Year ended March 31,	
		2005	2004
13	**GENERAL AND ADMINISTRATION EXPENSES**		
	Salaries	9,56,46,570	4,96,98,084
	Staff welfare	85,18,388	27,62,209
	Contribution to provident and other funds	77,55,030	37,69,794
	Conveyance	1,91,08,408	1,10,42,860
	Consumables	24,57,872	14,29,692
	Cost of software for own use	1,45,70,556	1,88,61,065
	Rent	80,95,940	74,75,902
	Telephone and communication charges	99,42,677	43,20,524
	Legal and professional charges	4,12,76,379	2,20,23,377
	Printing, stationery and office maintenance	3,62,95,747	95,27,097
	Power and fuel	3,09,52,317	1,43,11,407
	Recruitment and training expenses	65,42,208	20,53,725
	Insurance	1,35,20,058	81,98,994
	Rates and taxes	9,40,043	8,69,761
	Auditor's remuneration		
	audit fees	11,62,720	5,40,000
	out-of-pocket expenses	42,730	27,000
	Bank charges and commission	4,70,081	7,79,017
	Postage and courier	4,79,334	3,36,674
	Professional membership and seminar participation fees	13,86,229	11,89,418
	Other miscellaneous expenses	22,66,134	25,66,493
		30,14,29,421	16,17,83,093
14	**OTHER INCOME/ (EXPENSE) NET**		
	Interest Income*		
	On deposits with financial institutions and bodies corporate	59,69,985	1,19,00,794
	On deposits with banks	1,73,33,992	24,74,840
	Dividends from liquid mutual fund investments	1,58,01,603	32,07,875
	Miscellaneous income	27,692	46,34,981
	Profit on sale of investments	2,08,456	-
	Exchange differences	(77,27,226)	58,94,973
	Interest on income tax refund	-	3,54,550
		3,16,14,502	2,84,68,013
	*Tax deducted at source on interest income	44,05,547	27,22,618
15	**PROVISION FOR TAXATION**		
	Current taxes	95,89,000	66,000
	Deferred taxes	(36,88,861)	-
		59,00,139	66,000

Schedules to the Financial Statements for the Year Ended March 31, 2005 (Consolidated)

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Company overview

Progeon Limited along with its wholly owned subsidiary, Progeon s.r.o collectively called as "Group" and individually as "Progeon Limited" and "Progeon s.r.o" respectively is a leading provider of business process management services to organizations that outsource their business processes. The Group leverages the benefits of service delivery globalization, process redesign and technology and thus drives efficiency and cost effectiveness into client's business processes and thereby improve their competitive position by managing their business processes in addition to providing increased value.

16.1 Significant accounting policies

16.1.1 Basis of preparation of financial statements

The accompanying financial statements are prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Principles ("GAAP") on the accrual basis. GAAP comprises accounting standards issued by the Institute of Chartered Accountants of India ("ICAI") and the relevant provisions of the Companies Act, 1956 to the extent applicable. All amounts are stated in Indian Rupees, except as otherwise specified.

The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down under the accounting standards on Consolidated Financial Statements issued by the ICAI. The financial statements of the parent company, Progeon and its subsidiary Progeon s.r.o have been combined on a line by line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra group balances and transactions and resulting unrealized gain/ loss. Exchange difference resulting from the difference due to transactions of foreign currency assets and liabilities in subsidiaries is disclosed as foreign currency translation reserve. The consolidated financial statements are prepared applying uniform accounting policies in use at the Group.

16.1.2 Use of Estimates

The preparation of the financial statements in conformity with GAAP requires that the management of the company make estimates and assumptions that affect the reported amounts of income and expenses of the period, reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as of the date of the Consolidated financial statements. Examples of such estimates include expected development costs to complete business process management service contracts, provisions for doubtful debts, provision for income taxes and the useful lives of fixed assets. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future years.

16.1.3 Revenue recognition

The Group derives its revenues primarily from business process management services, on both the time-and-material and fixed-price, fixed-time frame bases. Revenue on time-and-material contracts is recognized as the related services are rendered. Revenue from fixed-price, fixed-time frame contracts is recognized as per the proportionate-completion method. Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output. When the company receives advances for its services, such amounts are reported as client deposits until all conditions for revenue recognition are met.

16.1.4 Expenditure

The cost of software user licenses purchased for rendering business process management services is charged to revenue when put to use. Charges relating to non-cancelable long-term operating leases are computed on a straight line basis over the period of the lease.

16.1.5 Fixed assets and capital work-in-progress

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Direct costs are capitalized until the assets are ready for use and include financing costs relating to any borrowing attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use. Capital work-in-progress includes the cost of fixed assets that are not yet ready for their intended use and advances paid to acquire fixed assets before the balance sheet date.

16.1.6 Depreciation

Depreciation on fixed assets is determined using the straight-line method based on useful lives of assets as estimated by the company. Depreciation for assets purchased/sold during the period is proportionately charged. Individual assets acquired for less than Rs. 5,000 are entirely depreciated in the year of acquisition. Leasehold improvements are written off over the lower of the remaining period of lease or the life of the asset. Management estimates the useful lives for the various fixed assets as follows:

Computer equipment	Two years
Plant and machinery	Five years
Furniture and fixtures	Five years

16.1.7 Retirement benefits to employees

16.1.7a Gratuity

In accordance with the Payment of Gratuity Act, 1972, Progeon provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering all employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, carried out at the period end by an independent actuary based upon which company contributes to the Progeon employees Gratuity Fund Trust (the 'Trust'). The trustee administers contributions made to the Trust and invests the corpus with LIC of India.

16.1.7b Superannuation

Certain employees of Progeon are also eligible for superannuation benefits. The company makes monthly provisions for superannuation benefits based on a specified percentage of each covered employee's salary. The company has no further obligations to the superannuation plan beyond its monthly provisions which are periodically contributed to a trust fund, the corpus of which is invested with the LIC of India.

16.1.7c Provident fund

Eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a Government administered provident fund. The company has no further obligations under the provident fund plan beyond its monthly contributions.

16.1.7d Leave encashment

Leave encashment liability is provided on the basis of an actuarial valuation carried out at the year end.

16.1.8 Foreign currency transactions

Revenue from overseas clients and collections deposited in bank accounts are recorded at the exchange rate as of the date of the respective transactions. Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Disbursements made out of bank accounts are reported at a rate that approximates the actual monthly rate. Exchange differences are recorded when the amount actually received on sales or actually paid when expenditure is incurred is converted into Indian rupees. The exchange differences arising on foreign currency transactions are recognized as income or expense in the period in which they arise. Monetary assets and monetary liabilities denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resulting difference is also recorded in the profit and loss account.

16.1.9 Forward contracts in foreign currencies

The Group uses forward exchange contracts to hedge its exposure to movements in foreign exchange rates. The use of these forward exchange contracts reduces the risk or cost to the group and the group does not use the forward exchange contracts for trading or speculation purposes.

The Group records the gain or loss on effective hedges in the foreign currency fluctuation reserve until the transactions are complete. On completion, the gain or loss is transferred to the profit and loss account of that period. To designate a forward contract as an effective hedge, Management objectively evaluates and evidences with appropriate supporting documents at the inception of each contract whether the contract is effective in achieving offsetting cash flows attributable to the hedged risk. In the absence of an effective hedge, a gain or loss is recognized in the profit and loss account.

16.1.10 Income tax

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax annually, based on the tax liability computed, after considering tax allowances and exemptions. Provisions are recorded when it is estimated that a liability due to disallowances or other matters is probable.

The differences that result between the profit considered for income taxes and the profit as per the financial statements are identified, and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted or substantially enacted regulations. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

16.1.12 Provisions and contingent liabilities

The company recognizes a provision when there is a 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. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made. Provisions are made for all known losses and liabilities and future unforeseeable factors that may affect the profit on fixed-price business process management contracts.

16.1.13 Impairment of assets

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above.

16.1.14 Earnings per share

In determining earnings/ (loss) per share, the company considers the net profit/ (loss) after tax. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of basic and dilutive common equivalent shares outstanding during the period, except where the result would be anti-dilutive. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date.

16.1.15 Preliminary expenses

Share issue expenses are written off against the share premium account.

16.1.16 Investments

Trade Investments are the investments made to enhance the company's business interests. Investments are either classified as current or long-term based on the management's intention at the time of purchase. Current investments are carried at the lower of cost and fair value. Long-term investments are carried at cost and provisions recorded to recognize any decline, other than temporary, in the carrying value of each investment. Any dividends are recorded as income in the profit and loss account when the right to receive dividend is established.

16.1.17 Cash Flow Statement

Cash flows are reported using the Indirect method, thereby profit before tax is adjusted for the effects of transactions of a non - cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and Investing activities of the company as segregated. Cash flows in Foreign currency are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transaction.

16.1.18 Change in accounting policy

The accounting standard on "The effect of changes in foreign exchange rates" was revised with effect from April 1, 2004 and prescribes accounting for forward exchange contracts based on whether these are entered into for hedging purposes or for trading /speculation purposes. Further, it has been recently clarified that the revised standard does not cover forward exchange contracts entered in to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Up to March 31, 2004, such segregation was not required and the difference between the forward rate and the exchange rate on the date of the transaction was recognized as income or expense over the life of the contract.

The Group has adopted the revised accounting standard effective April 1, 2004 to the extent applicable in respect of outstanding forward exchange contracts. The forward exchange contracts constitute hedges from an economic perspective, and the Group has decided to account for these forward exchange contracts based on their designation as 'effective hedges' or 'not effective'. To designate a forward contract as an effective hedge, management objectively evaluates and evidences with appropriate supporting documentation at the inception of each forward contract, whether these forward contracts are effective in achieving offsetting cash flows attributable to the hedged risk or not. The gain or loss on effective hedges is recorded in the foreign currency fluctuation reserve until the hedged transactions occur and are then recognized in the profit and loss account. In the absence of an effective hedge, the gain or loss is recognized in the profit and loss account.

Gains and losses on forward exchange contracts are computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period). The Group also assesses on an ongoing basis at the end of each reporting period whether designated hedges are effective and prospectively reclassifies the hedge as necessary.

Consequent to the change in the accounting policy, the profits for the year ended March 31, 2005 is low by Rs. 2,38,69,873.

16.2 Notes to financial statements

16.2.1 Capital commitments and contingent liabilities

in Rs.

	Year Ended March 31, 2005
Estimated amount of un executed capital contracts(net of advance and deposits)	1,30,11,587
Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given in favor of various government authorities and others	34,56,000
Forward contracts outstanding	US$ 4,317,400
(Equivalent approximate in Rs.)	(18,88,64,663)

16.2.2 Aggregate expenses

Following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Companies Act, 1956:

in Rs.

Aggregate of Expenses	Year Ended March 31, 2005
Salaries and ex-gratia including overseas staff expenses	76,93,55,686
Staff welfare	1,88,08,631
Contribution to provident and other funds	4,91,58,729
Foreign Travel expenses	8,88,35,063
Consumables	36,11,004
Computer Maintenance	89,85,255
Cost of Software for own use	3,34,21,494
Communication expenses	14,91,30,438
Consultancy charges	1,40,03,550
Traveling and conveyance	10,55,70,092
Rent	9,18,40,069
Printing & Stationery and Office Maintenance	3,65,68,174
Legal and Professional Charges	4,54,46,717
Brand Building	5,97,573
Recruitment and Training expenses	4,27,78,454
Power and Fuel	3,09,52,317
Insurance Charges	1,55,88,195
Rates and Taxes	9,40,043
Auditor's remuneration	
audit fees	11,62,720
out-of-pocket expenses	42,730
Bank Charges & Commission	4,70,081
Postage and Courier	4,79,334
Professional membership and seminar participation fees	18,47,988
Other Miscellaneous Expenses	58,13,876
Total	151,54,08,213

16.2.3 Obligations on long-term, non-cancelable operating leases

The lease rentals charged during the period and maximum obligations on long-term non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows:

in Rs.

	Year Ended March 31, 2005
Lease Rentals charged during the period	8,86,75,721

in Rs.

Lease Obligations	Year Ended March 31, 2005
Within One year of the Balance sheet date	6,86,75,473
Due in a period between one year and five years	9,28,95,460
Later than Five years	41,61,064

The Group has entered into non-cancelable operating lease arrangements for premises with Infosys. The existing operating lease arrangements extend for periods between 36 Months and 70 Months from their respective dates of inception. The lease rentals paid are included as a component of services purchased from Infosys.

The Group also has cancelable operating lease arrangements for office premises. The lease rentals paid during the year for such premises amounted to Rs. 31,64,348.

16.2.4 Dues to small-scale industrial undertakings

As of March 31, 2005 the group had no outstanding dues to small-scale industrial undertakings.

16.2.5 Cumulative convertible preference shares

Progeon Limited issued 87,50,000 0.0005% cumulative convertible preference shares of par value Rs. 100 each in two equal tranches to Citicorp International Finance Corporation ("Citicorp") on June 30, 2002 and March 31, 2004 in accordance with a shareholders agreement dated June 14, 2002, for an aggregate cash consideration of Rs. 93,80,00,000, including share premium of Rs. 6,30,00,000.

Unless earlier converted pursuant to this agreement in this behalf between the Company and Citicorp, all the convertible preference shares shall automatically be converted into equity shares, (i) one year prior to the Initial Public Offering ("IPO") Date or (ii) June 30, 2005 or (iii) at the holder's option, immediately upon the occurrence of any Liquidity Event; whichever is earlier. The term "Liquidity Event" includes any of a decision of the Board of Directors to make an IPO, merger, reconstruction, capital reorganization or other event which, in the sole opinion of the holder of the convertible preference shares, amounts to an alteration in the capital structure of the company. Each preference share is convertible into one equity share, par value Rs. 10 each.

In the event of any liquidation, dissolution or winding up of the company, either voluntary or involuntary, each holder of the preference shares will be paid the preference subscription price per preference share, as adjusted for stock dividends, combinations, splits, recapitalization and the like, in preference to any distribution of any assets of the company to the holders of equity shares. Upon the completion of the distribution described above, the remaining assets and funds of the company available for distribution to shareholders shall be distributed among all holders of preference shares and equity shares based on the number of equity shares held by each of them (assuming a full conversion of all the preference shares). Indian law requires redemption of preference shares within a period of 10 years.

Unpaid cumulative dividend amounted to Rs. 8,618 as at March 31, 2005

16.2.6 Provision for taxation

Progeon Limited benefits from certain significant tax incentives provided to firms rendering business process management services under Indian tax laws. These incentives presently include an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as "Software Technology Parks" (the "STP Tax Holiday"). The Government of India recently amended the tax incentives available to companies set up in designated STPs. The period of the STP Tax Holiday available to such companies is restricted to 10 consecutive years beginning from the financial year when the unit started rendering business process management services or March 31, 2009, whichever is earlier. The provision for taxation is made on the best estimate of management of the effective tax rate expected to be applicable for the full year.

Deferred tax assets recognized as at March 31, 2005 relates to fixed assets.

16.2.7 Loans and advances

Deposits with financial institution and bodies corporate comprise:

in Rs.

	Year Ended March 31, 2005
Deposits with financial institution:	
Housing Development Finance Corporation Limited	12,14,48,823

The above amounts include interest accrued but not due amounting to Rs. 14,48,823 as of March 31, 2005.

Maximum balance held during the period *in Rs.*

	Year Ended March 31, 2005
Deposits with financial institution:	
Housing Development Finance Corporation Limited	12,15,41,919

16.2.8 Related party transactions

The company entered into related party transactions during the period with Infosys, the company's holding company. The transactions are set out below. *in Rs.*

Particulars	Year Ended March 31, 2005
Purchase of services	
Business consulting services	13,22,306
Personnel and shared services including facilities	14,05,92,227
	14,19,14,533
Sale of Services	2,03,70,165
Personnel and shared services including facilities	50,88,023
	2,54,58,188

The rental deposit balance with Infosys was Rs 1,61,29,087 as at March 31, 2005.

The company has received professional services from Infosys Consultancy Inc. for which an amount of Rs. 4,33,911 has been paid during the year ended March 31, 2005.

The Company has entered into a financing transaction with Citicorp whereby Citicorp subscribed to preference shares in the company during the year ended March 31, 2004 and 2003. (see Note 16.2.5).

The Group also has a banking relationship with Citibank N.A., India, US, UK, CZK and EUR. The balances held with Citibank as of March 31, 2005 in current accounts were Rs. 56,86,305.

16.2.9 Transactions with key Management Personnel

The Group has received certain managerial services from Mr. T. V. Mohandas Pai and Mr. S. D. Shibulal, directors of the company who are also directors of Infosys, at no cost.

The Board of Directors appointed Mr. Akshaya Bhargava as Managing Director and Chief Executive Officer of the Company, with effect from November 4, 2002. Mr. Bhargava's appointment was approved by the Central Government vide their letters 1/491/2002-CL.VII dated March 20, 2003. Subsequently the company applied to the Central government for its approval to increase the remuneration payable to Mr. Akshaya Bhargava with effect from July 1, 2004, which was duly approved by the Central Government vide letter No 2/112/2004-CL.VIII dated December 23, 2004. Mr. Bhargava's remuneration is set out below.

Particulars of remuneration and other benefits paid to Mr. Akshaya Bhargava during the year ended March 31, 2005 is given below:

in Rs.

	Year Ended March 31, 2005
Salary and allowances	24,02,742
Provident fund, gratuity and superannuation contributions	3,30,567
Performance incentives	1,57,457
	28,90,766

The particulars of remuneration and benefits paid to other senior management personnel are set out below.

in Rs.

	Year Ended March 31, 2005
Salary and allowances	82,67,265
Provident fund, gratuity and superannuation contributions	11,08,935
Performance incentives	39,61,089
	1,33,37,289

16.2.10 Managerial remuneration paid to non-whole time directors

Particulars of remuneration and other benefits paid to non-whole time directors during the year ended March 31, 2005 is given below:

in Rs.

	Year Ended March 31, 2005
Sitting Fees	79,963
Commission *	9,00,000

* Subject to approval of the Share holders in the ensuing General Meeting

16.2.11 Unearned Revenues

Revenue recognition has been deferred pending resolution of significant uncertainties regarding the amount of consideration that will be derived from rendering services. Deferred revenues in the current year amounted to Rs. 2,59,91,921 as at March 31, 2005.

16.2.12 Reconciliation between basic and dilutive shares

The reconciliation between basic and dilutive shares is set out below.

	Year Ended March 31, 2005
Weighted average shares used in computing basic earnings per share	2,45,05,473
Dilutive effect of cumulative convertible preference shares and stock options	1,10,36,137
Weighted average shares used in computing diluted earnings per share	3,55,41,610

16.2.13 Employees Stock Option Plan ("2002 Plan")

Progeon Limited's 2002 Plan provides for the grant of stock options to employees of the company and was approved by the board of directors and stockholders in June 2002. All options under the 2002 Plan are exercisable for equity shares. The 2002 Plan is administered by a Compensation Committee comprising three members, all of whom are directors of the company. The 2002 Plan provides for the issue of 52,50,000 equity shares to employees, at an exercise price, which shall not be less than the Fair Market Value ("FMV") on the date of grant. Options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in general meeting. The options issued under the 2002 Plan vest in periods ranging between one through six years, although accelerated vesting based on performance conditions is provided in certain instances. All options granted have been accounted for as a fixed plan.

Number of Options Granted, Exercised and Forfeited	Year Ended March 31, 2005
Options granted, beginning of period	31,24,625
Granted during the period	4,32,900
Exercised during the period	1,13,650
Forfeited during the period	3,27,357
Options outstanding at the end of period	31,16,518

16.2.14 Segment reporting

The Group operations primarily relate to providing business process management services to organizations that outsource their business processes. Accordingly, revenues represented along industry classes comprise the primary basis of segmental information set out in these financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers.

The accounting principles consistently used in the preparation of the financial statements are also consistently applied to record income in individual segments. These are set out in the note on significant accounting policies.

Industry segments at the Group primarily comprise customers providing services to financial services, telecom and other industries. Income in relation to segments is categorized based on items that are individually identified to those segments while expenditure is categorized in relation to the associated turnover of the segment. Certain expenses which form a significant component of total expenses are not specifically allocable to specific segments as the underlying services are used interchangeably. These expenses are separately disclosed as "unallocated" and adjusted only against the total income of the company. The company believes that it is not practical to provide segment disclosures relating to these costs and expenses, and accordingly these expenses are separately disclosed as unallocated and directly charged against total income. Fixed assets in the company's business or liabilities contracted have not been identified to any reportable segments, as the fixed assets and services are used interchangeably between segments.

Geographical segments are segregated based on the location of the customers who is invoiced, or in relation to which the revenue is otherwise recognized.

Industry Segments

Year ended March 31, 2005 *in Rs.*

Particulars	Financial Services	Telecom	Others	Total
Revenues	90,25,38,148	83,20,55,227	17,76,42,601	191,22,35,976
Identifiable operating expenses	40,29,29,551	51,62,40,738	4,94,04,119	96,85,74,408
Allocated expenses	8,16,84,697	9,34,62,963	1,03,08,492	18,54,56,152
Segmental operating profit	41,79,23,900	22,23,51,526	11,79,29,990	75,82,05,416
Unallocable expenses				48,33,39,115
Operating profit				27,48,66,301
Other income				3,16,14,502
Net profit before taxes				30,64,80,803
Taxes				59,00,139
Net profit after taxes				30,05,80,664

Geographical Segments

Year ended March 31, 2005 *in Rs.*

Particulars	United States of America	United Kingdom	Others	Total
Revenues	125,01,57,823	64,46,60,963	1,74,17,190	191,22,35,976
Identifiable operating expenses	64,77,60,338	31,96,29,486	11,84,584	96,85,74,408
Allocated expenses	12,42,01,248	6,10,61,044	1,93,860	18,54,56,152
Segmental operating profit	47,81,96,237	26,39,70,433	1,60,38,746	75,82,05,416
Unallocable expenses				48,33,39,115
Operating profit				27,48,66,301
Other income				3,16,14,502
Net profit before taxes				30,64,80,803
Taxes				59,00,139
Net profit after taxes				30,05,80,664

16.2.15 This being the first year of presentation of consolidated financial statements, prior period comparatives have not been provided.

Progeon Limited
Electronics City, Hosur Road
Bangalore 560100, INDIA
Tel.: +91-80-28522405
Fax: +91-80-28522411

April 8, 2005

Dear member,

You are cordially invited to attend the third annual general meeting of the members on Wednesday, June 1, 2005 at 10.00 a.m. at the Registered Office of the Company at Plot No.26/3, 26/4 & 26/6, Electronics City, Hosur Road Bangalore 560100.

The notice for the meeting containing the proposed resolutions is enclosed herewith.

Very truly yours,

T. V. Mohandas Pai

T. V. Mohandas Pai
Chairman and Director

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Notice

NOTICE is hereby given that the third annual general meeting of the members of Progeon Limited (the "Company") will be held on Wednesday, June 1, 2005 at 10.00 A.M. at the Registered Office of the company at Plot No. 26/3, 26/4, 26/6, Electronics City, Hosur Road, Bangalore 560100, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at March 31, 2005 and the Profit and Loss Account for the period from April 1, 2004 to March 31, 2005 and report of the directors and auditors thereon.
2. To appoint a director in place of Mr. T. V. Mohandas Pai, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint auditors and to fix their remuneration.

   RESOLVED THAT BSR & Co., Chartered Accountants be and are hereby appointed as the auditors of the Company for the year ending March 31, 2006 to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting at a fee to be determined by the Board of Directors in consultation with the auditors which fee may be paid on a progressive billing basis to be agreed between the auditors and the Board of Directors or such employee of the Company as approved by the Board.

SPECIAL BUSINESS

4. To consider and, if thought fit, to pass with or without modifications, the following resolution as an **Ordinary Resolution:**

   "**RESOLVED THAT** Mr. Sridar A. Iyengar, who was co-opted as an additional director by the Board of Directors, and who holds office under Section 260 of the Companies Act, 1956 until the date of the ensuing annual general meeting and in respect of whom the Company has received a notice in writing proposing his candidature for the office of a director, be and is hereby appointed as a director of the Company, liable to retire by rotation".
5. To consider and, if thought fit, to pass with or without modifications, the following resolution as a **Special Resolution:**

   "**RESOLVED THAT** pursuant to the provisions of Section 309 and other applicable provisions, if any, of the Companies Act, 1956, a sum not exceeding 1% per annum of the net profits of the Company calculated in accordance with the provisions of Sections 198, 349 and 350 of the Companies Act, 1956, be paid to and distributed amongst the Directors of the Company or some or any of them (other than the Managing Director and the Executive Director) in such amounts or proportions and in such manner as may be directed by the Board of Directors, and such payments shall be made out of profits of the Company for each corresponding year, till March 31, 2009."
6. To consider and, if thought fit, to pass with or without modifications, the following resolution as an **Ordinary Resolution**

   "**RESOLVED THAT** pursuant to the provisions of Section 293(1)(e) of the Companies Act, 1956 and other applicable provisions, if any, the Board of Directors of the Company be and are hereby authorized to contribute from time to time, to any charitable and other funds or general charities or other purposes not directly relating to the business of the company, or welfare of its employees such amount or amounts, the aggregate of which shall not exceed an amount of Rs. 25.00 lakh (Rupees twenty five lakh) or 5% of the company average net profits as determined in accordance with the provisions of Section 349 and 350 of the Companies Act during the three financial years immediately preceding, whichever is greater.

   RESOLVED FURTHER THAT the said contribution may be made to funds/ institutions situated in Republic of India or outside Republic of India and Indian Rupees or in any foreign currency equivalent to the above or in such other form as may be decided from time to time.

   RESOLVED FURTHER THAT the Board of Directors or any committee constituted thereof be and are hereby authorized to take such steps as may be necessary in connection therewith and incidental and ancillary thereto."
7. To consider and, if thought fit, to pass with or without modifications, the following resolution as an **Ordinary Resolution:**
   "**RESOLVED THAT** pursuant to the provisions of Section 198, 269, 309, 310 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, including any statutory modification(s) or re-enactment(s) thereof, for the time being in force, the company hereby approves the remuneration payable to Mr. Akshaya Bhargava, Managing Director and CEO with effect from April 1, 2005 till the expiry of his present term of office, remuneration by way of salary, perquisites, etc. as detailed in the explanatory statement to this notice."

By Order of the Board

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Notes

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND THE MEETING AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. THE INSTRUMENT APPOINTING THE PROXY SHOULD BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No.4

Mr. Sridar A. Iyengar was co-opted as an additional director of the Company with effect from September 17, 2004 pursuant to Section 260 of the Companies Act, 1956. Mr. Sridar A. Iyengar holds office of the additional director up to the date of the ensuing annual general meeting. The Company has received a notice in writing from a member along with a deposit of Rs. 500 (Rupees five hundred) proposing the candidature of Mr. Sridar A. Iyengar for the office of the director under the provisions of Section 257 of the Companies Act, 1956.

None of the directors other than Mr. Sridar A. Iyengar may be deemed to be interested or concerned in the proposed resolution as set out in Item No. 4 as above.

The Directors recommend the resolution for your approval.

Item No.5

Section 309(4)(b) of the Companies Act, 1956 provides that a director who is neither in the whole-time employment of the company nor a Managing Director may be paid remuneration by way of commission, if the company by special resolution, authorizes such payment.

The proposed resolution would allow the Company to make payment by way of commission to the non-executive independent directors till the period ending March 31, 2009 in accordance with Section 309 of the Companies Act, 1956.

All the non-executive independent directors other than the Managing Director of the Company may be deemed to be interested or concerned in the resolution to the extent of the commission payable to them in accordance with the proposed resolution.

The Directors recommend the resolution for your approval.

Item No. 6

The Company proposes to contribute to charitable or other funds not directly relating to the business of the company or welfare of its employees, from time to time.

Section 293(1) (e) of the Companies Act, 1956 states that where the contribution to any fund or institutions in any financial year exceeds Rs. 50,000 or 5% of the average net profits as determined in terms of Section 349 and 350 of the Companies Act, 1956 during the three financial years immediately preceding, whichever is greater, then approval of the shareholders is required.

As the proposed contribution of Rs. 25.00 lakh (Rupees twenty five lakh) in any financial year will be in excess of the said limit, the approval of the shareholders is required. Further, the company also proposes to make this contribution to various institutions situated in Republic of India or outside Republic of India, in Indian Rupees or in any foreign currency.

None of the directors may be deemed to be interested or concerned in the resolution.

The Directors recommend the resolution for your approval

Item No. 7

The board of directors appointed Mr. Akshaya Bhargava as Managing Director and Chief Executive Officer of the company with effect from November 4, 2002. Mr. Akshaya Bhargava appointment was approved by the Central Government vide their Letter No. 1/491/2002 – CL VII dated March 20, 2003. Subsequently, the company applied to and obtained the approval of the Central Government to increase the remuneration payable to Mr. Akshaya Bhargava with effect from July 1, 2004 vide their Letter No. 2/112/2004 – CL.VII dated 23.12.2004.

As the company has adequate profits and in accordance with Section 198, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the Companies Act, 1956, the company proposes to pay remuneration to Mr. Akshaya Bhargava, Managing Director and CEO as follows:

1. Salary per month

Rs. 1,50,000/- (Scale Rs. 90,000 – Rs. 3,00,000)

2. Performance incentive

Mr. Akshaya Bhargava shall be entitled to a performance incentive upto a maximum of 200% of salary, payable quarterly or at other intervals as may be decided by the Board.

3. Perquisites and allowance per month

Mr. Akshaya Bhargava shall be entitled to following perquisites and allowances, subject to a maximum of Rs. 1,00,000.

1. *Housing*: Furnished/ unfurnished residential accommodation or house rent allowance up to 10% of salary in lieu thereof. The expenditure incurred by the company on gas, electricity, water, furnishings shall be valued as per Income Tax Act, 1961.
2. *Medical reimbursement / allowance*: Reimbursement of actual expenses for self and family and/ or allowance will be paid as decided by the Board from time to time.
3. *Leave Travel concession/ allowance*: For self and family once in a year, as decided by the Board from time to time.
4. *Club fees*: Fees payable subject to a maximum of two clubs.
5. *Provision for driver/ driver salary allowance*: As per the rules of the company.
6. *Personal accident insurance*: As per rules of the Company

Other benefits:

Earned/ Privilege leave: As per rules of the company.

The aggregate of salary, performance bonus, company-linked performance incentive, perquisites and allowances and other benefits taken together shall always be subject to the overall ceilings laid down in Section 198 and Section 309 of the Companies Act, 1956.

Minimum remuneration

Where in any financial year during the currency of tenure of Mr. Akshaya Bhargava, the company incurs loss or its profits are inadequate, the company may pay remuneration by way of salary, performance incentive, perquisites and allowances not exceeding Rs. 24,00,000/- per annum or Rs. 2,00,000/- per month, and in addition the perquisites not exceeding the limits specified under para 2 of Section II, Part II of Schedule XIII to the Companies Act, 1956 or such other limits as may be prescribed by the government from time to time as minimum remuneration.

Memorandum of interest

No other director except Mr. Akshaya Bhargava is deemed to be interested or concerned in the remuneration payable to him. The terms of payment of remuneration as stated in the notice, may be treated as abstract under Section 302 of the Companies Act, 1956. The copies of relevant resolution of the Board in respect of remuneration of the above mentioned resolution is available for inspection by the members at the registered office of the company during working hours on any working day till the date of this annual general meeting.

The Board recommends the resolution for your approval

By Order of the Board

Bangalore
April 8, 2005

N. R. Ravikrishnan
Company Secretary

Additional information on directors seeking election at the annual general meeting

Brief profile of Mr. T. V. Mohandas Pai, Chairman and Director

Mr. T. V. Mohandas Pai is at present Director and Chief Financial Officer of Infosys Technologies Limited. Prior to that, he was Senior Vice-President, Head–Finance and Administration and Chief Financial Officer of Infosys Technologies Limited. He received his B.Com degree from St. Joseph's College of Commerce, Bangalore and an LL.B. degree from University Law College, Bangalore. He is also a fellow member of the Institute of Chartered Accountants of India. Mr. T. V. Mohandas Pai represents Infosys Technologies Limited on the Board of the Company and is also the Chairman of the Compensation, Investment and Share Allotment Committees of the Company.

Brief Profile of Mr. Sridar A. Iyengar, Independent Director

Mr. Sridar A. Iyengar is the President of TiE (The Indus Entrepreneurs) in Silicon Valley. Previously, he was partner-in-charge of KPMG's Emerging Business Practice. Mr. Sridar A. Iyengar has the unique distinction of having worked as a partner in all three of KPMG's regions – Europe, America and Asia-pacific as well as in all four of KPMG's functional disciplines - assurance, tax, consulting and financial advisory services. He was the Chairman and CEO of KPMG's India operations between 1997 to 2000 and during that period was a member of the executive board of KPMG's Asia-Pacific practice. Prior to that, he headed the International Services practice in the West Coast. On his return from India in 2000 he was asked to lead a major effort of KPMG focused on delivering audit and advisory services to early stage companies. Mr. Sridar A. Iyengar served as a member of the audit strategy group of KPMG LLP. He was with KPMG from 1968 until his retirement in March 2002. Mr. Sridar A. Iyengar is a Fellow of the Institute of Chartered Accountants in England and Wales, holds Bachelors Degree in Commerce (honors) from the University of Calcutta and has attended the Executive Education Course at Stanford.

Progeon Limited

Registered office: Plot No. 26/3, 26/4 & 26/6, Electronics City, Hosur Road, Bangalore 560100, INDIA

Proxy Form

Regd. Folio No. | | | | | | | | | | | |

I/We……………………………………………………………..of…………………………………………………in the district of .... being a member/members of the Company hereby appoint……………………………………………………of.. in the district of……………….. ……………………………or failing him/her .... of…………………………………………………………….in the district of.. as my/our proxy to vote for me/us on my/our behalf at the **THIRD ANNUAL GENERAL MEETING** of Progeon Limited to be held at the Registered Office of the Company at Plot No. 26/3, 26/4 and 26/6, Electronics City, Hosur Road, Bangalore 560100 on Wednesday, June 1, 2005 at 10.00 a.m. and at any adjournment(s) thereof.

Signed this……………………………………………………day of 2005

15 Paisa Revenue Stamp

Signature……………..

Notes: This form, in order to be effective, should be completed, duly signed and stamped and must be deposited at the Registered Office of the Company, not less than 48 hours before the meeting.

Progeon Limited

Registered office: Plot No. 26/3, 26/4 & 26/6, Electronics City, Hosur Road, Bangalore 560100, INDIA

Attendance Slip

Regd. Folio No. | | | | | | | | | | No. of shares held | | | | | | | | | |

I certify that I am a member of / proxy for the member of the Company.

I hereby record my presence at the **THIRD ANNUAL GENERAL MEETING** of the Company held at Plot No. 26/3, 26/4 & 26/6, Electronics City, Hosur Road, Bangalore 560100, India at 10.00 a.m. on Wednesday, June 1, 2005.

Member's / Proxy's name
in BLOCK letters

Signature of member / proxy

Notes: Please fill up this attendance slip and hand it over at the entrance of the meeting hall.
Members are requested to bring their copies of the Annual Report to the meeting.