Progeon
an Infosys company

www.progeon.com

ANNUAL REPORT

2005 - 2006

Focused. Predictable. And a few pleasant surprises

Board of Directors

T V Mohandas Pai
Chairman
Mr. S D Shibulal
Director
Mr. B G Srinivas
Director
Mr. Eric S. Paternoster
Director
Prof Jayanth R Varma
Independent Director
Sridar A Iyengar
Independent Director
Mr. Amitabh Chaudhry
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, Amitabh Chaudhry, Chief Executive Officer and Managing Director 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 Director's 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; and

    - any fraud, whether or not material, that involves management or other employees who have significant role in the company's internal controls; and

    - 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.

Amitabh Chaudhry
Managing Director and
Chief Executive Officer

Ramesh Kamath
Chief Financial Officer

Bangalore
April 7, 2006

Directors' Report

To the Members,

We are pleased to present their report on the business and operations of the company for the year ended March 31, 2006.

Company's overview

Your company (www.progeon.com) was established in April 2002 as the business process outsourcing subsidiary of Infosys Technologies Limited. Today, it is among the Top 10 third-party BPO companies in India according to the National Association of Software and Service Companies (Nasscom) 2004-05 ranking. Your company's promise is that it can help customers transform their business by enabling them to do their work cheaper, better, differently, and eliminate non-value adding work. Your company's sales and marketing offices are largely co-located with Infosys Technologies Limited, and it has delivery centers in India, the Czech Republic, and Philippines.

Financial overview (Consolidated)

in Rs. in crore

	March 31, 2006	March 31, 2005
Revenue from business process management services	378.67	191.22
Gross profit/ (loss)	177.35	86.51
Operating profit/ (loss) after interest and depreciation	94.62	27.49
Profit /(loss) after tax	93.33	30.06

Share capital

In accordance with shareholders and share subscription agreement (the"agreement") dated June 14, 2002 entered into with Citicorp International Finance Corporation (CIFC), CIFC have converted on June 30, 2005, the 87,50,000 cumulative convertible preference shares of Rs.100/- each into equal number of equity shares of Rs.10/- each.. The company further issued and allotted 11,56,520 equity shares to the eligible employees of the company on the exercise of stock options under 2002 employee's stock options plan. Due to all this, the outstanding issued, subscribed and paid-up equity share capital increased from Rs.24.61 crore to Rs 34.15 crore as of March 31, 2006.

To provide for these issue of additional shares, the authorised share capital of the company was increased to Rs.123,37,50,000 consisting of 12,33,75,000 equity shares of Rs.10/- each by increasing and reorganizing of the capital structure.

Appropriations

Dividend

In accordance with the agreement entered with CIFC, we paid an interim dividend of Rs.9709/- to CIFC. Your directors propose to treat the same as total and final dividend paid under the agreement. The company does not propose any further dividend

Retained earnings

Your company proposes to retain Rs.93.33 crore in the profit and loss account.

Performance Overview

a. Business Overview

Your company delivers integrated voice, data, and knowledge process outsourcing in selected horizontal and vertical focus areas:

- Horizontal focus areas: Customer Relationship Management, Finance & Accounting, Knowledge Services, Order Management, Procurement and Human Resources.
- Vertical focus areas: Banking & Capital Markets, Communication Service Providers, High Tech Discrete Manufacturing, Insurance & Healthcare, Retail, Energy, Utilities & Resources, Automotive & Aerospace, Transportation & Services

Your company believes that it is uniquely positioned to transform its client business through outsourcing and by executing their work cheaper, better, and differently, and by eliminating work. For example, in the case of a financial services customer who has outsourced stock and cash reconciliation processes, your Company has delivered 50% cost savings through wage arbitrage, developed auto match rules to improve straight-through-processing from 30% to 70%, and eliminated the need to manually monitor outstanding amounts. Your company is able to deliver this promise by leveraging the Global Delivery Model of its parent, Infosys Technologies Limited. This involves a combination of domain knowledge, process management expertise, and technology.

Your company plans to further enhance its position as a business process outsourcing company through a focus on the following strategy:

- Integrate IT and BPO services for clients providing them with a significant value proposition and consistent productivity improvements;
- Develop centers of excellence around specific service offerings which would provide the best practices with continuous improvement opportunities and offers best in class standards around excellence of delivery.
- Strategically acquire capabilities and services based on areas where knowledge gaps exist.

We believe the environment will continue to remain favorable for BPO companies 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.

b. Results of operations (Consolidated)

The performance of the company during the year has been excellent. The total revenue doubled over the previous year to Rs 378.67 crore from 189.28 crore in the previous year. The company ended the year with net profit of Rs.93.33 crore when compared with the previous year of Rs.33.32 crore. The company added 3 new customers and now has 22 customers. The company ended the year with 7021 employees having added 3055 employees during the year. During the year under review, your company opened marketing offices in Australia and Canada.

c. Human Resources Management

Progeon is all about partnership delivered through teamwork and passion. At Progeon, we are proud of our heritage. Our parent is globally recognized for its value and employee orientation. We follow the Infosys **C-LIFE** principle.

- **C**ustomer delight.
- **L**eadership through example.
- **I**ntegrity and transparency.
- **F**airness.
- **P**ursuit of excellence

Our relationship model combines process maturity with flexible, fast-paced small company culture that makes us easy to work with. The delight is enhanced by our ability to provide ramped-up value and responsibility as the relationship progresses.

All Progeonities walk the talk. We not only equip our people with excellent training to meet challenging assignments, but also empower them so that they fulfill and exceed expectations.

Our people are oriented to be open, fair and uncompromising in their efforts to external as well as internal customer satisfaction. We lay special emphasis on integrity because of the trust that our clients place in us.

We recognize people as our core strength and lay special emphasis on hiring and retaining the people we believe will make this organization a global leader.

d. Progeon s.r.o

Last year we had incorporated Progeon sro in the Czech Republic, as a wholly owned subsidiary. Your company till March 31, 2006, has invested an amount of Rs.3.29 crore (18,750,000 -Czech Koruna) towards its equity capital. 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. During the year under review, Progeon sro has added another client and generated a revenue of Rs. 11.33 crore as against revenue of Rs 1.93 crore for the year ended March 31, 2005 with a net profit of Rs 0.85 crore as against a net loss of Rs 3.26 crore for the year ended March 31, 2005

Awards/ recognition and certifications

In FY06, Progeon won the following awards/ recognitions:

- Ranked 5th among 35 *Rising Stars* in **The Global Outsourcing 100** by the International Association of Outsourcing Professionals
- 2005 American Society of Training & Development **Excellence in Practice Award** in Learning & Development Category
- **Red Herring 100** Private Companies of Asia
- Ranked among the **Top 10** third-party BPOs in India by Nasscom (National Association of Software & Service Companies)

Corporate Governance

Corporate governance is about the commitment to values and about ethical business conduct. At Progeon, our pursuit to achieve good governance is an on going process, thereby ensuring transparency, accountability and responsibility in all our dealings with our employees, shareholders, clients and the community at large. Our corporate governance philosophy encompasses not only regulatory and legal requirements, but also several voluntary practices aimed at a high level of business ethics, effective supervision and enhancement value of all the stakeholders. Your company believes that the governance process should ensure that these companies are managed in a manner that meets stakeholder's aspirations ad societal expectations

Your company's corporate governance initiative is based on two core principles
(i) Management must have the executive freedom to drive the enterprise forward without undue restraints.
(ii) This freedom of management should be exercised within a framework of effective accountability.

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. We wish to state that your company has complied with all norms of corporate governance applicable to unlisted Public Company as envisaged under the Companies Act, 1956.

Committees of the Board

1. Audit Committee

As on March 31, 2006, the committee had Prof. Jayanth R Varma as the Chairman, Mr. S D Shibulal and Mr. Sridar A Iyengar as members. During the year ended March 31, 2006, 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 statutory auditors – and notes the processes and safeguards employed by each.

2. Compensation Committee

As on March 31, 2006, the committee had Prof. Jayanth R Varma as the Chairman, Mr. T V Mohandas Pai and Mr. Sridar A Iyengar as members. During the year ended March 31, 2006, the committee met five 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

1. Mr.Akshaya Bhargava, Managing Director and CEO *till March 1, 2006*

The Board of Directors in their meeting held on November 4, 2002 appointed Mr. Akshaya Bhargava as the Managing Director and CEO for a initial term of five (5) years. Mr. Akshaya Bhargava resigned as the Managing Director and CEO of the company with effect from closing of business hours of March 1, 2006.

The details of remuneration paid to Mr. Akshaya Bhargava for the period ended March 1, 2006 (April 1, 2005 through March 1, 2006) are as follows

In Rupees

	March 31, 2006	March 31, 2005
Salary, allowances including contributions to Provident Fund, Gratuity, Superannuation allowance and Performance incentive	46,38,519	28,90,766

Mr. Akshaya Bhargava was also granted stock options to purchase 12,25,000 equity shares of the company at an exercise price of Rs.33.12 per option (options exercised–6,6,7188, Options vested–1,31,250, Options forfeited–4,26,562)

2. Mr. Amitabh Chaudhry, Managing Director and CEO *from March 2, 2006*

The Board of Directors in their meeting held on January 10, 2006 appointed, subject to the approval of the shareholders, Mr. Amitabh Chaudhry as the Managing Director and CEO for a initial term of five (5) years with effect from March 2, 2006..

The details of remuneration paid to Mr. Amitabh Chaudhry for the period ended March 31, 2006 (March 2, 2006 through March 31, 2006) are as follows

In Rupees

	March 31, 2006
Salary, allowances including contributions to Provident Fund, Gratuity, Superannuation allowance and Performance incentive	3,08,710

Mr. Amitabh Chaudhry was also granted stock options to purchase 2,60,000 equity shares of the company at an exercise price of Rs.58.33, Rs.77.89 and Rs.195 per option respectively (options exercised- Nil)

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

In accordance with Article 122 of the Article of Association of the company, Mr. S D Shibulal retire by rotation in the forthcoming annual general meeting. Mr. S D Shibulal, 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 re-appointment of Mr. S D Shibulal have been incorporated in the notice of the ensuing annual general meeting.

Mr. Akshaya Bhargava resigned as the Managing Director and Chief Executive Officer of the company and also from the Board with effect from closing of business hours of March 1, 2006 and in his place Mr. Amitabh Chaudhry was appointed as the Managing Director and Chief Executive Officer of the company and to the Board with effect from March 2, 2006. Mr.Akshaya Bhargava has been associated with our company almost from the very beginning and has contributed immensely for our company's current success. The Directors place on record their sincere appreciation for the services rendered by Mr. Akshaya Bhargava while he was the Managing Director and Chief Executive Officer of the company.

During the year, your directors inducted Mr. B G Srinivas and Mr. Eric S. Paternoster, as additional directors of the company. Their appointment 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 of Mr. B G Srinivas and Mr. Eric S Paternoster have been incorporated in the notice of the ensuing annual general meeting.

Auditors

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. 17/02/2006-CL.III dated 17.1.2006, 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 sro 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 employee 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

T. V. Mohandas Pai

T. V. Mohandas Pai	Amitabh Chaudhry
Chairman	Managing Director & CEO

Bangalore,
April 7, 2006

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 31,2006

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 Australia, Canada, United States and United Kingdom. These offices are staffed with adequate sales and marketing specialist who sells 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

in Rs. crore

	March 31, 2006	**March 31, 2005**
Foreign exchange earnings	Rs.349.53	161.52
Foreign exchange outgo (including capital goods and imported software packages)	Rs. 72.19	32.19

For and on behalf of the Board of Directors

T. V. Mohandas Pai
Chairman

Amitabh Chaudhry
Managing Director and
Chief Executive Officer

Bangalore
April 7, 2006

Annexure to the director's 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 director's report for the year ended March 31, 2006

Sl. No.	Name	Designation	Qualification	Age (yrs)	Date of joining	Exper - ience	Gross remuneration (Rs.)	Previous employment - Designation
1	Abraham Mathews	AVP - Finance and Accounts	B.Com, CA, CWA, CPA,CMA	43	15-Dec-03	18	29,60,166	OnMobile Asia Pacific (P)Ltd, Fin Controller
2	Akshaya Bhargava *	Ex- MD and CEO	BA, MBA	49	4-Nov-02	26	46,38,519	Head-Global Product Management, Citibank
3	Amit Verma *	Group Manager	BA, MFM	34	6-Dec-04	11	11,51,030	SHCIL, DGM
4	Amitabh Chaudhry	MD and CEO	B.E , PGDBM	41	18-Apr-03	19	61,02,087	Credit Lyonnais Securities Asia Ltd, MD
5	Anubhuti Bharadwaj *	Senior Analyst	B.E, MS	32	23-May-05	8	14,76,206	Copal Partners, VP
6	Ashish Kankan *	AVP - Operations	B.Com	42	10-Jun-05	18	20,35,873	Agilent Technology, Businees Leader
7	Ayan Chakraborty	AVP - Operations	B.E , PGDM	34	19-Nov-03	11	28,05,217	Citi Bank, AVP
8	Dandapani Swaminathan	VP - Operations	CA	52	1-Apr-04	26	38,25,054	OTE Group - Oman , Sr.GM
9	Devesh M Nayel	VP - Operations	B.Com, MMS, CWA, CS	44	29-Aug-03	22	45,22,772	Betchel group, Finance Controller
10	Dhananjay Sinha	Business Manager	BA, MA	38	1-Feb-05	10	31,13,979	ICICI Bank Ltd, Chief Economist
11	Dharmendra Patwardhan	AVP - Operations	B.com	39	4-Nov-02	13	24,99,269	KP ESOP Consulting Pvt Ltd, VP
12	Dhiraj Poddar *	Senior Analyst	B.Com, CA, CS, MBA	31	22-Jun-04	6	8,95,910	GHCL, Sr Officer - Finance
13	Dinesh Goel *	AVP - Operations	B.com, CA, CWA	35	26-Feb-03	14	25,39,626	Accenture, Manager
14	Gopi R *	Senior Analyst	B.Com, CA	29	11-Apr-05	6	13,59,190	Polaris Software Lab, Consultant
15	Kunal Kumar Kundu *	Senior Analyst	B.Sc, M.Sc	36	10-Aug-05	10	11,09,569	Indo-German of Commerce, Sr. Economist
16	Mahesh K Rao	VP - Operations	B.Com, CA	53	1-Sep-03	25	34,65,328	i-flex Solutions Ltd, VP
17	Nandita Gurjar	VP and Head of HRD	MA	45	1-Oct-03	15	47,05,267	Infosys, AVP - HRD
18	Narayan Mani *	Senior Consultant	BA (Drew University, USA)	35	1-Sep-04	13	18,96,778	The Renoir Group, Project Leader
19	Naresh J D Mello	VP - Operations	B.Sc, MBA	36	28-Feb-03	14	34,53,752	Infosys, Business Manager
20	Neela Mohan S Konchada *	Business Manager	B.Com, CA	35	10-Aug-05	11	12,11,441	ORACLE, Sr manager
21	Prashant Kala *	Senior Analyst	B.Com, MBA, CA	31	25-May-05	7	13,85,521	Techinstruments & Services, FA
22	Prerna Tandon	VP - Knowledge Services	B.A, MBA	39	3-May-04	18	44,81,666	GE Capital, VP
23	Punit Mahajan	Business Manager	B.Com, MS	33	2-May-05	10	25,94,597	Open Sys Technology, Consultant
24	Rajeevan Gopalan Chengaloor *	Principal Consultant	B.Sc, PGDIM	44	3-Aug-05	12	10,82,428	WIPRO GE Medical Systems, E-BM
25	Rajesh Mahabal Shetty *	AVP - Operations	B.Com	39	20-Jul-05	17	13,91,314	Tracmail, VP-Operations
26	Rajiv Kuchhal	VP and Head of BTG	B.Tech	40	17-Feb-03	19	44,46,247	Infosys, AVP
27	Ramamohan Kadayinti	AVP - Quality	B.E, M.Tech	36	10-Nov-04	12	24,04,224	Accenture, GM-Quality
28	Ramesh Kamath	CFO	B.com, CA, CWA	48	21-May-03	24	57,04,529	Bharati Tele Ventures, Finance Controller
29	Ramit Sethi*	VP - Knowledge Services	B.Com, CA	43	4-Apr-05	18	56,57,801	KPMG-India Ltd, Ex. Dir
30	Ravi Raman	AVP - Risk	B.Tech, PGDM, ACII, AIRM,FIII	42	1-Sep-03	19	29,45,419	Tageer Finance Company, Asst Manager
31	Ravishankar P *	Business Manager	B.Com, CA	38	4-Jul-05	13	20,74,295	ICICI Securities, VP
32	Rushen HSS Chahal *	Business Manager	BA, MBA	34	30-Jun-04	13	6,32,856	V-Customer, Director Ops
33	Satish Shenoy	VP - F&A	B.E , MBA	47	16-Jun-03	24	30,13,397	Schoolnet, Country Manager
34	Shaheen Meeran *	Account Manager	B.E	36	1-Jun-05	11	14,21,801	APC-India, Principal Consultant
35	Shammik Gupta	VP – Product Mgt	B.com, MBA	40	26-Feb-03	18	43,20,239	Society general, Head

36	Sheshadri B C	AVP - Solution Design & Imp.	B.Sc, MBA, LL.B, AII	42	23-Jun-04	20	31,65,566	Infosys, Delivery Manager
37	Sudeep Shrivastava *	Senior Analyst	B.Sc, MA, M.Phil	40	1-Jun-05	9	11,32,587	DORIE Research, Economist
38	Sugandh Mittal *	Analyst	B.E, M.Tech	27	11-Apr-05	4	9,46,193	i2 Techology, Sr Consultant
39	Swati Sengupta *	Account Manager	BE, PGCGM	40	15-Jul-04	18	7,88,655	Computer Associates, Manager
40	Vaishali Kasture	AVP - Solution Design & Imp.	B.Com, MBA, CWA	37	13-Feb-04	10	26,64,354	Mphasis Japan, Sr Business Analyst
41	Vijay Kumar Menon *	VP - Marketing	B.Sc, M.Sc, M.Tech	44	15-Jul-05	21	21,29,937	Polaris Software Lab Ltd, VP

Note

1 * Employed during the part of the year & has drawn than Rs 2 lakhs remuneration
2 Remuneration comprises basic salaries, allowances and taxable value of perquisites
3. None of the employees is related to any director of the company
4. None of the employees owns more than one percent of the outstanding shares of the company as on March 31, 2006

April 7, 2006

For and on behalf of board of directors

T.V. Mohandas Pai

T. V. Mohandas Pai
Chairman & Director

Amitabh Chaudhry
Managing Director & CEO

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 of 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

T. V. Mohandas Pai
Chairman

Amitabh Chaudhry
Managing Director and
Chief Executive Officer

Bangalore
April 7, 2006

Auditors' report to the members of Progeon Limited

We have audited the attached Balance Sheet of Progeon Limited (the Company) as at March 31, 2006 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, 2006;

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

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

for BSR & Co
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

Bangalore
April 7, 2006

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, 2006. 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.

10. 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 2006 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.

11. The Company has been registered for not more than five years. Thus, paragraph 4(x) of the Order is not applicable.

12. The Company did not have any outstanding dues to any financial institution, banks or debentureholders during the year.

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

14. 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.

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

16. 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.

17. The Company did not have any term loans outstanding during the year.

18. The Company has not raised any funds on short-term basis.

19. 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.

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

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

22. 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.
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

Bangalore

April 7, 2006

Balance Sheet

In Rs.

	Schedule	March 31, 2006	March 31, 2005
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	34,15,13,980	112,11,36,500
Reserves and surplus	2	209,04,96,577	35,83,58,729
		243,20,10,557	**147,94,95,229**
APPLICATION OF FUNDS			
FIXED ASSETS			
Original cost	3	70,42,92,316	39,76,23,853
Less : Depreciation		36,33,95,823	18,44,95,622
Net book value		34,08,96,493	21,31,28,231
Capital work-in-progress and advances		31,34,752	15,13,143
		34,40,31,245	**21,46,41,374**
INVESTMENTS	4	**72,54,72,821**	**41,36,17,672**
DEFERRED TAX ASSET		**1,26,49,306**	**36,88,861**
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	5	70,05,85,432	46,55,11,658
Cash and bank balances	6	80,06,91,771	44,07,51,838
Loans and advances	7	39,22,30,777	23,05,46,341
Other current assets	8	4,66,83,902	91,03,061
		194,01,91,882	**114,59,12,898**
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	9	52,20,71,308	27,54,00,043
Provisions	10	6,82,63,389	2,29,65,533
NET CURRENT ASSETS		**134,98,57,185**	**84,75,47,322**
		243,20,10,557	**147,94,95,229**
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.

Chartered Accountants

Subramanian Suresh	T.V.Mohandas Pai	Amitabh Chaudhry	S.D.Shibulal	Prof.Jayanth R.Varma
Partner	*Chairman and Director*	*Managing Director and Chief Executive Officer*	*Director*	*Director*
Membership No.83673				
	Sridar A.Iyengar	B.G.Srinivas	Eric S.Paternoster	Ramesh Kamath
	Director	Director	Director	Chief Financial Officer
	N.R.Ravikrishnan			
	Company Secretary			

Bangalore

April 7, 2006

Profit and Loss Account

In Rs.

	Schedule	Year ended March 31, 2006	2005
INCOME			
Revenues from business process management services		367,92,25,949	189,28,91,660
		367,92,25,949	189,28,91,660
COST OF REVENUES	11	194,75,22,112	101,15,09,478
GROSS PROFIT		**173,17,03,837**	**88,13,82,182**
SELLING AND MARKETING EXPENSES	12	19,55,26,689	16,66,10,657
GENERAL AND ADMINISTRATION EXPENSES	13	49,41,55,195	29,96,94,844
OPERATING PROFIT BEFORE DEPRECIATION		**104,20,21,953**	**41,50,76,681**
Depreciation	3	17,90,05,628	11,57,08,332
OPERATING PROFIT AFTER DEPRECIATION		**86,30,16,325**	**29,93,68,349**
Other Income	14	7,46,69,953	3,96,95,533
PROFIT BEFORE TAX		**93,76,86,278**	**33,90,63,882**
Provision for taxation	15	1,28,80,685	59,00,139
NET PROFIT AFTER TAX		**92,48,05,593**	**33,31,63,743**
Balance brought forward from the previous year		29,56,29,078	(3,75,34,665)
AMOUNT AVAILABLE FOR APPROPRIATION		**122,04,34,671**	**29,56,29,078**
Preference Dividend		9,709	-
Dividend Tax		1,362	-
BALANCE CARRIED FORWARD		122,04,23,600	29,56,29,078
Total		**122,04,34,671**	**29,56,29,078**
EARNINGS PER SHARE:			
Equity shares of par value Rs.10 each			
Basic		29.28	13.60
Diluted		27.29	9.37
Weighted average number of shares used in computing earnings per share:			
Basic		3,15,82,791	2,45,05,473
Diluted		3,38,89,812	3,55,41,610
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.
Chartered Accountants

Subramanian Suresh	T.V.Mohandas Pai	Amitabh Chaudhry	S.D.Shibulal	Prof.Jayanth R.Varma
Partner	*Chairman and Director*	Managing Director and Chief Executive Officer	*Director*	*Director*
Membership No.83673				
	Sridar A.Iyengar.	B.G.Srinivas	Eric S.Paternoster	Ramesh Kamath
	Director	*Director*	*Director*	Chief Financial Officer
	N.R.Ravikrishnan			
	Company Secretary			

Bangalore
April 7, 2006

Cash Flow Statement

In Rs.

	Year ended March 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	93,76,86,278	33,90,63,882
Adjustments to reconcile profit before tax to cash provided by operating activities		
Depreciation	17,90,05,628	11,57,08,332
Interest Income	(3,82,51,758)	(2,36,57,782)
Dividend Income	(3,55,88,866)	(1,58,01,603)
Profit on Sale of Investments	(2,93,541)	(2,08,456)
Provision for doubtful debts	10,38,730	-
Provision for doubtful loans and advances	6,16,264	-
Effect of exchange differences on translation of foreign currency cash and cash equivalents	7,54,831	10,02,212
Changes in current assets and liabilities		
Sundry debtors	(23,61,12,504)	(37,13,98,052)
Loans and advances	(5,33,06,050)	(1,86,23,924)
Other current assets	(3,75,80,841)	8,10,00,132
Current liabilities	24,27,90,748	17,29,00,147
Provisions	3,86,29,425	1,28,40,592
Income tax paid during the year, net	(1,29,51,558)	(96,62,660)
NET CASH GENERATED BY OPERATING ACTIVITIES	**98,64,36,786**	**28,31,62,820**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and change in capital work-in-progress / advances	(30,45,14,982)	(16,57,92,817)
Interest received	3,82,51,758	2,36,57,782
Dividend received	3,55,88,866	1,58,01,603
Purchase of units in liquid mutual funds	(108,45,88,866)	(89,55,07,770)
Proceeds from sale of units in liquid mutual funds	80,58,78,593	62,23,05,069
Investment in subsidiary	-	(17,05,911)
Loans to subsidiary	54,97,898	(4,49,89,369)
NET CASH USED IN INVESTING ACTIVITIES	**(50,38,86,733)**	**(44,62,31,413)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	2,77,20,806	32,72,901
Preference dividend paid during the year	(9,709)	-
Dividend tax paid during the year	(1,362)	-
NET CASH GENERATED BY FINANCING ACTIVITIES	**2,77,09,735**	**32,72,901**
Effect of exchange differences on translation of foreign currency cash and cash equivalents	(7,54,831)	(10,02,212)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	50,95,04,957	(16,07,97,904)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	56,22,00,661	72,29,98,565
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR*	**107,17,05,618**	**56,22,00,661**

* Cash and cash equivalents aggregating Rs.107,17,05,618 (Rs.56,22,00,661 as at March 31,2005) comprises cash on hand amounting to Rs.4,098 (Rs.32,211 as at March 31, 2005), balances with banks amounting to Rs.80,06,87,673 (Rs.44,07,19,627 as at March 31, 2005) and deposits with financial institution/body corporate amounting to Rs.27,10,13,847 (Rs.12,14,48,823 as at March 31,2005).

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

for BSR & Co.
Chartered Accountants

Subramanian Suresh	T.V.Mohandas Pai	Amitabh Chaudhry	S.D.Shibulal	Prof.Jayanth R.Varma
Partner	*Chairman and Director*	Managing Director and Chief Executive Officer	Director	Director
Membership No.83673				
	Sridar A.Iyengar.	B.G.Srinivas	Eric S.Paternoster	Ramesh Kamath
	Director	Director	Director	Chief Financial Officer
	N.R.Ravikrishnan			
	Company Secretary			

Bangalore
April 7, 2006

Schedules to the Balance Sheet

In Rs.

	March 31, 2006	March 31, 2005
1 SHARE CAPITAL		
AUTHORISED		
Equity shares, Rs.10 (Rs.10) par value *		
12,33,75,000 (2,71,25,000) equity shares	123,37,50,000	27,12,50,000
0.0005% Cumulative Convertible Preference Shares, Rs.100 (Rs.100) par value		
Nil (87,50,000) preference shares	-	87,50,00,000
	123,37,50,000	**114,62,50,000**
* Refer note 16.2.10 for details		
ISSUED, SUBSCRIBED AND PAID UP		
Equity shares, Rs.10 (Rs.10) par value*		
3,41,51,398 (2,46,13,650) equity shares fully paid up	34,15,13,980	24,61,36,500
[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 Techonologies Limited by the subscribers to the Memorandum of Association]		
0.0005% Cumulative Convertible Preference Shares, Rs.100 (Rs.100) par value		
Nil (87,50,000) preference shares, fully paid up (also refer to Note 16.2.9)	-	87,50,00,000
	34,15,13,980	**112,11,36,500**
* For details of options in respect of the above shares refer to note 16.2.20		
2 RESERVES AND SURPLUS		
Securities premium account at the beginning of the year	6,27,29,651	6,05,93,250
Add : Received during the year on issue of shares	80,80,80,826	27,86,401
Less : Share issue expenses written off	7,37,500	6,50,000
Securities premium account at the end of the year	**87,00,72,977**	**6,27,29,651**
Balance in profit and loss account	122,04,23,600	29,56,29,078
	209,04,96,577	**35,83,58,729**

Schedules to the Balance Sheet

3 FIXED ASSETS

in Rs.

Particulars	Original cost				Depreciation				Net book value	
	Cost as of April 01, 2005	Additions during the year	Deletions during the year	Cost as of March 31, 2006	As of April 01, 2005	For the year	Deductions during the year	As of March 31, 2006	As of March 31, 2006	As of March 31, 2005
Leasehold improvements	4,48,92,508	1,75,93,306	-	6,24,85,814	87,36,673	1,25,25,080	-	2,12,61,753	4,12,24,061	3,61,55,835
Plant and machinery	6,31,27,097	3,23,30,927	1,35,600	9,53,22,424	94,69,488	1,89,36,552	45,026	2,83,61,014	6,69,61,410	5,36,57,609
Computer equipment	24,56,57,967	16,30,80,096	2,78,210	40,84,59,853	14,99,29,277	11,71,23,819	60,401	26,69,92,695	14,14,67,158	9,57,28,690
Furniture and fixtures	4,39,46,281	9,40,77,944	-	13,80,24,225	1,63,60,184	3,04,20,177	-	4,67,80,361	9,12,43,864	2,75,86,097
	39,76,23,853	**30,70,82,273**	**4,13,810**	**70,42,92,316**	**18,44,95,622**	**17,90,05,628**	**1,05,427**	**36,33,95,823**	**34,08,96,493**	**21,31,28,231**
Previous year	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	

Schedules to the Balance Sheet

In Rs

		March 31, 2006	March 31, 2005
4	**INVESTMENTS**		
	Trade (unquoted) - at cost		
	Long term investment		
	In Subsidiary		
	Progeon s.r.o, Czech Republic, a wholly owned subsidiary	3,49,78,993	21,27,658
	Non-Trade (unquoted) - at lower of cost or fair value		
	Current investments *		
	Liquid mutual funds	69,04,93,828	41,14,90,014
		72,54,72,821	41,36,17,672
	* Refer to note 16.2.16 for details of investment		
5	**SUNDRY DEBTORS**		
	Debts outstanding for a period exceeding six months		
	Unsecured, considered doubtful	10,38,730	-
	Debts outstanding for a period less than six months		
	Unsecured, considered good*	70,05,85,432	46,55,11,658
		70,16,24,162	46,55,11,658
	Less : Provision for doubtful debts	10,38,730	-
		70,05,85,432	46,55,11,658
	* Dues from subsidiary company	18,35,633	-
6	**CASH AND BANK BALANCES**		
	Cash on hand	4,098	32,211
	Balances with scheduled banks		
	-in current accounts	11,88,91,079	5,14,60,826
	-in deposit accounts in Indian rupees	64,95,91,793	37,20,34,223
	Balances with non-scheduled banks		
	-in current accounts	3,22,04,801	1,72,24,578
		80,06,91,771	**44,07,51,838**
	Balances with non scheduled banks*		
	In current accounts		
	Citibank N.A., Delaware	-	22,90,388
	PNC Bank , New Jersey**	2,22,400	-
	ICICI bank, London	27,10,863	19,60,829
	Bank of America, California	2,92,71,538	1,29,73,361
		3,22,04,801	1,72,24,578
	* Refer to note 16.2.13 for details of maximum balances held with non scheduled banks		
	** This represent restricted Bank balance, in trust account, in accordance with collection agency licensing requirements in US.		
7	**LOANS AND ADVANCES**		
	Unsecured, considered good		
	Advances		
	Prepaid expenses	1,76,82,757	1,15,71,517
	For supply of goods and rendering of services	82,46,948	15,84,088
	Loans to subsidiary	66,40,136	4,49,89,369
	Other receivables from subsidiary	57,39,826	41,21,317
	Loans and advances to employees	4,51,01,458	1,30,20,049
		8,34,11,125	**7,52,86,340**
	Deposits with financial institution and body corporate*	27,10,13,847	12,14,48,823
	Deposits with government authorities	2,17,074	4,50,851
	Rental deposits	3,48,74,673	2,75,07,112
	Electricity and other deposits	27,14,058	36,32,074
	Advance income tax, net	-	22,21,141
		39,22,30,777	**23,05,46,341**
	Unsecured, considered doubtful		
	Loans and advances to employees	6,16,264	-
		39,28,47,041	23,05,46,341
	Less : provision for doubtful loans and advances to employees	6,16,264	-
		39,22,30,777	23,05,46,341
	* Refer to note 16.2.12 for details		

Schedules to the Balance Sheet

In Rs.

		March 31, 2006	March 31, 2005
8	**OTHER CURRENT ASSETS**		
	Unbilled revenue	4,32,70,958	71,74,823
	Other assets	34,12,944	19,28,238
		4,66,83,902	**91,03,061**
9	**CURRENT LIABILITIES**		
	Sundry creditors		
	for capital goods	3,99,50,019	3,60,69,502
	for expenses*	1,00,72,945	37,22,983
	for accrued salaries and benefits		
	salaries and allowances	1,58,26,199	2,22,30,284
	ex-gratia and incentives	11,59,03,207	8,40,75,667
	for other liabilites		
	provision for expenses	28,24,34,396	10,33,08,978
	withholding and other taxes payable	14,00,584	707
		46,55,87,350	24,94,08,121
	Unearned revenue	5,64,83,958	2,59,91,922
		52,20,71,308	**27,54,00,043**
	* Of which dues to subsidiary company	40,19,680	-
10	**PROVISIONS**		
	Provision for leave encashment	2,69,60,936	1,30,91,045
	Provision for income taxes, net	66,68,431	-
	Provisions - others*	3,46,34,022	98,74,488
		6,82,63,389	**2,29,65,533**

*represents accrual for estimated discounts under contracts.

Schedules to the Profit & Loss Account

In Rs.

		Year ended March 31, 2006	2005
11	**COST OF REVENUES**		
	Salaries including overseas staff expenses	98,60,13,734	52,91,49,703
	Staff welfare	1,68,10,488	99,23,451
	Contribution to provident and other funds	4,96,56,759	3,34,74,944
	Travelling expenses	18,32,54,245	6,17,88,279
	Conveyance	18,84,95,197	8,58,72,244
	Cost of software for own use	4,52,25,032	1,82,69,429
	Cost of software for delivery to clients	-	15,14,298
	Computer maintenance	1,54,90,884	74,70,957
	Communication expenses	13,51,29,303	13,59,44,334
	Rent	11,03,65,155	7,54,13,210
	Consultancy charges	15,45,30,415	1,40,03,550
	Consumables	32,56,882	10,77,185
	Recruitment and training expenses	3,90,02,800	3,23,81,374
	Insurance	80,09,300	20,68,137
	Other miscellaneous expenses	1,22,81,918	31,58,383
		194,75,22,112	**101,15,09,478**
12	**SELLING AND MARKETING EXPENSES**		
	Salaries including overseas staff expenses	12,68,02,961	12,44,46,031
	Brand building and advertisement	19,93,433	4,50,644
	Contribution to provident and other funds	42,79,808	10,79,501
	Staff welfare expenses	2,50,406	30,167
	Travelling expenses	3,42,60,562	2,47,80,571
	Consumables	-	6,519
	Communication expenses	35,33,619	28,15,791
	Conveyance	8,38,205	5,84,728
	Rent	1,15,92,768	51,66,571
	Printing and stationery	2,09,044	2,72,427
	Recruitment expenses	76,56,680	19,87,613
	Professional charges	13,99,262	41,70,338
	Professional memberships and seminars	8,95,975	4,61,759
	Other miscellaneous expenses	18,13,966	3,57,997
		19,55,26,689	**16,66,10,657**

Schedules to the Profit & Loss Account

In Rs.

	Year ended March 31, 2006	2005
13 GENERAL AND ADMINISTRATION EXPENSES		
Salaries	14,34,89,669	9,40,06,122
Staff welfare	1,39,25,349	82,68,411
Contribution to provident and other funds	68,85,386	73,08,662
Conveyance	2,67,32,845	1,71,69,347
Consumables	4,18,012	24,33,864
Cost of software for own use	1,88,54,854	1,45,70,556
Rent	1,26,63,572	80,95,940
Telephone and communication charges	1,98,30,465	92,35,408
Legal and professional charges	3,76,79,141	3,82,46,009
Printing, stationery and office maintainence	6,69,85,148	3,47,91,678
Power and fuel	5,47,79,932	3,04,97,829
Recruitment and training expenses	2,53,77,426	63,91,143
Insurance	2,15,07,835	1,34,78,762
Rates and taxes	91,18,780	9,39,203
Auditor's remuneration		
Audit fees	11,25,938	7,62,720
out-of-pocket expenses	60,580	32,730
Bank charges and commission	13,68,830	4,14,829
Postage and courier	12,73,891	4,67,978
Professional membership and seminar participation fees	50,24,872	13,86,229
Provision for doubtful debts	10,38,730	-
Provision for doubtful loans and advances	6,16,264	-
Exchange loss, net	2,16,53,502	91,40,333
Other miscellaneous expenses	37,44,174	20,57,091
	49,41,55,195	**29,96,94,844**
14 OTHER INCOME		
Interest income *		
On deposits with financial institutions and body corporate	1,09,38,096	59,69,985
On deposits with banks	2,45,24,385	1,73,33,210
On loans to subsidiary company	27,89,277	3,54,587
Dividends from liquid mutual fund investments	3,55,88,866	1,58,01,603
Miscellaneous income	3,68,826	27,692
Profit on sale of investments	2,93,541	2,08,456
Interest on income tax refund	1,66,962	-
	7,46,69,953	**3,96,95,533**
*Tax deducted at source on interest income	88,32,174	44,05,547
15 PROVISION FOR TAXATION		
Current taxes	2,18,41,130	95,89,000
Deferred taxes	(89,60,445)	(36,88,861)
	1,28,80,685	**59,00,139**

Schedules to the Financial Statements for the Year ended March 31,2006

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. The interim financial statements are prepared to conform to the accounting standard on "Interim Financial Reporting". Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. Management evaluates all recently issued or revised accounting standards on an on-going basis.

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 period 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 and option contracts in foreign currencies

The company uses forward contracts and options contracts to hedge its exposure to movements in foreign exchange rates. The use of these forward contracts and option contracts reduces the risk or cost to the company and the company does not use the forward contracts and option 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 or option contracts 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 liability

The company recognises 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 security 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 are 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 Employee Stock Options

The company applies the intrinsic value-based method of accounting prescribed by Accounting Research Committee of the Institute of Chartered Accountants of India, Accounting for employee share based payments, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. The options vest on a graded basis; however there is no compensation expense since the grants are made at exercise prices equal to or greater than fair market value, as of the date of the grant.

16.2 Notes to financial statements

16.2.1 Capital commitments and contingent liabilities

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Estimated amount of unexecuted capital contracts (net of advance and deposits)	6,42,97,385	1,30,11,587
Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given in favour of various government authorities and others	2,55,05,760	34,56,000
Forward contracts outstanding	US$ 1,90,00,000	US$ 43,17,400
(Equivalent approximate in Rs.)	(84,51,20,000)	(18,88,64,663)
Options contract outstanding		
Put options purchased	US$ 40,00,000	-
(Equivalent approximate in Rs.)	(17,79,20,000)	-
Call options sold	US$ 80,00,000	-
(Equivalent approximate in Rs.)	(35,58,40,000)	-

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, 2006	Year Ended March 31, 2005
Salaries and ex-gratia including overseas staff expenses	125,63,06,364	74,76,01,856
Staff welfare	3,09,86,243	1,82,22,029
Contribution to provident and other funds	6,08,21,953	4,18,63,107
Foreign travel expenses	21,75,14,807	8,65,68,850
Consumables	36,74,894	35,17,568
Computer maintenance	1,54,90,884	89,85,255
Cost of software for own use	6,40,79,886	3,28,39,985
Communication expenses	15,84,93,387	14,79,95,533
Consultancy charges	15,45,30,415	1,40,03,550
Travel and conveyance	21,60,66,247	10,36,26,319
Rent	13,46,21,495	8,86,75,721
Printing & stationery and Office maintenance	6,71,94,192	3,50,64,105
Legal and professional charges	3,90,78,403	4,24,16,347
Brand building	19,93,433	4,50,644
Recruitment and training expenses	7,20,36,906	4,07,60,130
Power and fuel	5,47,79,932	3,04,97,829
Insurance charges	2,95,17,135	1,55,46,899
Rates and taxes	91,18,780	9,39,203
Auditor's remuneration		
audit fees	11,25,938	7,62,720

out-of-pocket expenses	60,580	32,730
Bank charges and Commission	13,68,830	4,14,829
Postage and courier	12,73,891	4,67,978
Professional membership and Seminar participation fees	59,20,847	18,47,988
Provision for bad and doubtful debts	10,38,730	-
Provision for bad and doubtful loans and advances	6,16,264	-
Other miscellaneous expenses	1,78,40,058	5,573,471
Exchange loss	2,16,53,502	9,140,333
Total	263,72,03,996	147,78,14,979

The above expenses for the year ending March 31,2006 and March 31,2005 include Fringe Benefit Tax (FBT) in India amounting to Rs 3,08,99,832/- and Rs nil respectively.

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, 2006	Year Ended March 31, 2005
Capital Goods	19,01,57,740	6,90,27,133

16.2.5 Expenditure in foreign currency (on payments basis)

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Salary, legal & professional charges	15,47,88,640	12,33,72,047
Foreign travel expenses & relocation expenses	17,39,37,830	6,55,40,316
Bank charges, consultancy and others	13,66,77,197	16,74,187
Communication	6,63,44,331	6,23,18,075
	53,17,47,998	25,29,04,625

16.2.6 Earnings in foreign currency (on receipt basis)

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Revenues from business process management services	349,52,78,773	161,52,88,292

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, 2006	Year Ended March 31, 2005
Lease rentals charged during the period	13,46,21,495	8,86,75,721

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Lease obligations		
Within one year of the balance sheet date	11,28,79,344	6,86,75,473
Due in a period between one year and five years	17,34,81,723	9,28,95,460
Later than five years	-	41,61,064

The Company has entered into non-cancelable operating lease arrangements for premises with Infosys and others . The existing operating lease arrangements extend for periods between 36 Months and 71 Months from their respective dates of inception. The lease rentals paid are included as a component of services purchased from Infosys (also refer Note 16.2.14 below).

16.2.8 Dues to small-scale industrial undertakings

As at March 31, 2006 and 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 (the 'share') of par value Rs.100 each in two equal tranches to Citicorp International Finance Corporation ("Citicorp") on June 24, 2002 and March 30, 2004 in accordance with the shareholders agreement(the '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.

On June 30, 2005 the 0.0005% convertible 87,50,000 cumulative preference shares of Rs. 100 each were converted into 87,50,000 equity shares of Rs. 10 each fully paid and the balance of Rs. 78,75,00,000 was credited to the share premium account in accordance with the terms of the agreement. During the month of June 2005 the Company has declared preference dividend of Rs.9,709/- to its preference shareholder.

16.2.10 Reclassification of Authorised share capital

On October 10,2005 as approved by share holders by passing ordinary resolution, the company has reclassified its share capital from 2,71,25,000 equity share of Rs 10 each and 87,50,000 (0.0005%) cumulative convertible preference share of Rs 100 each to 12,33,75,000 equity share of Rs 10 each.

16.2.11 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.

Deferred tax asset recognised as at March 31, 2006 and March 31, 2005 relates to fixed assets.

16.2.12 Loans and advances

Deposits with financial institution and body corporate comprise: (in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Deposits with financial institution :		
Housing Development Finance Corporation Limited	11,00,00,000	12,14,48,823
Deposits with body corporate :		
GE Capital Services India	16,10,13,847	-
	27,10,13,847	12,14,48,823

The above amounts include interest accrued but not due amounting to Rs. 10,13,847 and Rs. 14,48,823 as at March 31,2006 and March 31, 2005 respectively.

Maximum balance held during the period (in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Deposits with financial institution:		
Housing Development Finance Corporation Limited	16,12,75,232	12,15,41,919
Deposits with body corporate :		
GE Capital Services India	16,24,45,589	-

16.2.13 Maximum balances held in non-scheduled banks

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Citibank N.A., Delaware	22,90,388	1,56,41,619
Citibank NA, London	-	4,76,817
ICICI Bank, London	83,05,044	1,09,38,858
PNC Bank,New Jersey	2,24,750	-
Bank of America, California	7,97,09,478	4,83,73,144

The cash and bank balance includes interest accrued but not due on fixed deposit amounting to Rs 45,89,793 and Rs 24,02,515 as at March 31,2006 and March 31,2005.

16.2.14 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, 2006	Year Ended March 31, 2005
Payment for services		
Business consulting services	9,436,434	13,22,306
Personnel and shared services including facilities	20,17,98,928	14,05,92,227
	21,12,35,362	14,19,14,533
Receipt from services	3,28,28,517	2,03,70,165
Personnel and shared services including facilities	1,70,84,863	50,88,023
	4,99,13,380	2,54,58,188

The rental deposit balance with Infosys was Rs. Nil and Rs 1,61,29,087 as of March 31,2006 and March 31, 2005.

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 sro, Czech Republic, a subsidiary company. The transactions are set out below.

(in Rs.)

Particulars	Year Ended March 31, 2006	Year Ended March 31, 2005
Payment for transition services	40,19,680	-
	40,19,680	-
Receipt from services	1,835,633	-
Personnel and shared services including facilities	87,96,920	37,50,153
Interest received on loan given	27,89,277	3,71,164
	1,34,21,830	41,21,317

Progeon s.r.o loan balance outstanding as of March 31,2006 and March 31,2005 was Rs 66,40,136 and Rs 4,49,89,369. Other receivables due from Progeon s.r.o as of March 31,2006 and March 31,2005 was Rs 57,39,826 and Rs 41,21,317. Payables due to Progeon s.r.o. as of March 31,2006 and March 31,2005 was Rs 40,19,680 and Rs nil.

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. The preference shares were converted into 87,50,000 equity shares of Rs. 10 each (see Note 16.2.9).

The company has reimbursed the shared services paid to its employees by Infosys Technologies (Australia) Pty Limited, a subsidiary of Infosys Technologies Limited, Bangalore, amounting to Rs 1,80,31,724 for the year ending March 31,2006 and Rs Nil for the year ending March 31,2006.

The company also has banking relationship with Citibank N.A., India, US and UK. The balances held with Citibank as of March 31,2006 and March 31,2005, in current accounts were Rs 19,47,483 and Rs 29,92,862 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. Further with effect from April 01, 2005, the salary of Mr. Akshaya Bhargava has been restructured and has been approved by share holder's in their meeting held on June 1, 2005.

Mr.Akshya Bhargava has resigned from the services on 28th February 2006. Mr.Amitabh Chaudhry has been appointed as Managing Director and Chief Executive Officer of Progeon with effect from 1st March 2006.

Particulars of remuneration and other benefits paid to Mr.Akshaya Bhargava and Mr.Amitabh Chaudhry during the year ended March 31, 2006 and 2005 is given below:

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Salary and allowances	31,84,059	24,02,742
Provident fund, gratuity and superannuation contributions	14,332	3,30,567
Performance incentives	17,48,838	1,57,457
	49,47,229	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, 2006	Year Ended March 31, 2005
Salary and allowances	92,25,408	82,67,265
Provident fund, gratuity and superannuation contributions	6,14,161	11,08,935
Performance incentives	1,07,82,441	39,61,089
	2,06,22,010	1,33,37,289

16.2. 15 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, 2006 and 2005 is given below:

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Sitting fees	1,30,129	79,963
Commission	20,00,000	9,00,000

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, 2006	Year Ended March 31, 2005
Net profit after tax from ordinary activities	92,48,05,593	33,31,63,743
Add:		
1. Whole time director's remuneration	49,47,229	28,90,766
2. Director's sitting fee	1,30,129	79,963
3. Commission to non whole time directors	20,00,000	9,00,000
4. Depreciation as per books of account	17,90,05,628	11,57,08,332
5. Provision for doubtful debts	10,38,730	-
6. Provision for doubtful loans and advances	6,16,264	-
5. Provision for taxation	1,28,80,685	59,00,139
	112,54,24,258	45,86,42,943
Less:		
1. Depreciation as envisaged under Section 350 of the Companies Act, 1956*	17,90,05,628	11,57,08,332
2. Carried forward losses for previous years as computed under Section 349 of the Companies Act, 1956	-	3,32,18,253
Net profit on which commission is payable	94,64,18,630	30,97,16,358
Commission payable to non whole time directors:		
Maximum allowed as per the Companies Act, 1956 at 1%	94,64,186	30,97,164
Commission approved by the Board:	20,00,000	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 rates prescribed by the Schedule XIV of the Companies Act, 1956.

16.2.16 Investment activity

(in Rs.)

Current investments	No. of units	NAV	Year Ended March 31, 2006	Year Ended March 31, 2005
Reliance Liquid Fund - Treasury Plan - Daily at cost	6,90,828	15.28	1,04,91,171	1,70,88,308
JM High Liquidity Fund - Institutional - Dividend - Daily at cost	33,10,245	10.06	3,28,54,257	5,18,38,502
Grindlays Cash Fund - Super Institutional Plan - Dividend - Daily at cost	18,81,848	10.00	1,88,02,401	5,38,32,955
Prudential ICICI Liquid Plan - Institutional Plus- Dividend - Daily at cost	2,99,458	11.85	35,48,911	5,19,59,889
Franklin Templeton Treasury Management Institutional Plus at cost	8,215	1,000.25	81,83,010	4,53,40,810
DSP Merrill Lynch Liquidity Fund at cost	83,25,195	10.01	8,33,14,245	5,66,56,334
HSBC Cash Fund Institutional Fund at cost	92,72,442	10.01	9,27,62,109	5,07,51,161
HDFC Liquid Fund - Premium Plan at cost	65,64,298	12.26	8,04,76,979	2,09,91,192
Principal Cash Management Fund - Institutional Premium Plan at cost	1,24,19,193	10.00	12,41,92,846	24,02,877
Birla Cash Plus Institutional Premium at cost	1,11,91,753	10.02	11,21,15,044	6,06,27,986
Tata Liquid Super High Investment Fund at cost	1,11,038	1,114.52	12,37,52,854	-
			69,04,93,827	41,14,90,014

Movement of Investment	Opening balance in **units**, Amount	Purchased in **units**, Amount	Redemption in **units**, Amount	Closing balance in **units**, Amount
Reliance Liquid Fund - Treasury Plan	**11,22,236**	**79,13,871**	**83,45,279**	**6,90,828**
	1,70,88,308	12,09,02,864	12,75,00,000	1,04,91,172
JM High Liquidity Fund Institutional Dividend	**51,76,184**	**1,58,18,583**	**1,76,84,522**	**33,10,245**
	5,18,38,502	15,85,15,755	17,75,00,000	3,28,54,257
Grindlays Cash Fund Institutional Plan Dividend	**53,83,893**	**1,05,47,955**	**1,40,50,000**	**18,81,848**
	5,38,32,955	10,54,69,446	14,05,00,000	1,88,02,401
Prudential ICICI Liquid Plan Institutional Dividend	**43,84,256**	**63,78,012**	**1,04,62,811**	**2,99,457**
	5,19,59,889	7,55,89,022	12,40,00,000	35,48,911
Franklin Templeton Treasury Management Institutional Plus	**45,340**	**1,41,853**	**1,78,978**	**8,215**
	4,53,40,810	14,18,42,200	17,90,00,000	81,83,010
DSP Merrill Lynch Liquidity Fund	**56,59,912**	**26,65,283**	**-**	**83,25,195**
	5,66,56,334	2,66,57,911	-	8,33,14,245
HSBC Cash Fund Institutional Fund	**50,72,694**	**51,99,187**	**9,99,440**	**92,72,441**
	5,07,51,161	5,20,10,948	1,00,00,000	9,27,62,109
HDFC Liquid Fund	**17,47,756**	**69,79,860**	**21,63,318**	**65,64,298**
	2,09,91,192	8,58,64,380	2,63,78,593	8,04,76,979
Principal Cash Management Fund	**2,40,774**	**1,42,78,272**	**20,99,853**	**1,24,19,193**
	24,02,877	14,27,89,969	2,10,00,000	12,41,92,846
Birla Cash Plus Institutional	**60,51,173**	**51,40,580**	**-**	**1,11,91,753**

Premium				
	6,06,27,986	5,14,87,058	-	11,21,15,044
TATA Liquid Super High Investment Fund	**-**	**1,11,038**	**-**	**1,11,038**
	-	12,37,52,854	-	12,37,52,854

16.2.17 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 amounted to Rs.5,64,83,958 and Rs. 2,59,91,922 as at March 31, 2006 and March 31, 2005 respectively.

16.2.18 Export obligation

The Company has an export obligation towards the Software Technology Parks of India, in respect of duty free capital imports made by it. The remaining export obligation was Rs.3,34,26,099 and Rs Nil as at March 31, 2006 and March 31, 2005 respectively.

16.2.19 Reconciliation between basic and dilutive shares

The reconciliation between basic and dilutive shares is set out below. (in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Weighted average shares used in computing basic earnings per share	3,15,82,791	2,45,05,473
Dilutive effect of stock options	23,07,021	1,10,36,137
Weighted average shares used in computing diluted earnings per share	3,38,89,812	3,55,41,610

The reconciliation between net profits for basic and dilutive shares is set out below. (in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Profit available to equity shareholders for basic EPS	92,48,05,593	33,31,63,743
Add: Corporate dividend tax	1,362	-
Add:- Preference dividend	9,709	-
Profit for dilutive EPS	92,48,16,664	33,31,63,743

16.2.20 Employees Stock Option Plan ("2002 Plan")

Guidance note on "Accounting for employee share based payments" (the guidance note) issued by Institute of Chartered Accountants of India establishes financial accounting and reporting principles for employee share based payment plans. The guidance note applies to employee share based payment plans the grant date in respect of which falls on or after April 1, 2005.

The Company applies the intrinsic value-based method of accounting to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The options vest on a graded basis; however there is no compensation expense since the grants are made at exercise prices equal to or greater than fair market value, as of the date of the grant.

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 the FMV only if specifically approved by the members of the company in general meeting.

As allowed by the guidance note, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of the guidance note. Had compensation cost for the company's stock-based compensation plan been determined in a manner consistent with the fair value approach described in guidance note, the company's net income and basic earnings per share as reported would have reduced to the proforma amounts indicated below.

(in Rs.)

	Year Ended March 31,2006
Net profit as reported	92,48,05,593
Less: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	3,87,62,981
Adjusted proforma profit	88,60,42,612
Basic EPS as reported	29.28
Adjusted proforma	28.05
Diluted EPS as reported	26.98
Adjusted proforma	25.85

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

Dividend yield %	0.00%
Expected life	1 through 6 years
Risk free interest rate	7.50%
Volatility	50.00%

	Year Ended March 31,2006	
	Shares arising out of options	Weighted average exercise prices (In Rs.)
Outstanding at the beginning of the Period	31,16,518	54.76
Granted during the period	11,56,520	218.50
Forfeitures during the period	10,32,960	64.02
Exercised during the period	7,87,748	36.13
	24,52,330	134.06

The Weighted average fair value of options granted during the year ending March 31, 2006 is Rs. 87.91

The following table summarizes information about stock options as of March 31, 2006

Range of Exercise Prices (in Rs.)	Stock Options Outstanding at the end of the Period	Weighted Average Remaining Contractual life
33.12-58.33	6,85,425	0.98
58.34-77.89	4,23,900	1.24
77.90-99.20	2,26,475	1.45
99.21-162.23	77,800	1.88
162.24-195.00	6,20,550	2.40
195.01-214.00	80,100	2.42
214.01-230.00	1,81,680	2.84
230.10-310.00	1,56,400	2.99
	24,52,330	

16.2.21 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 relating 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 or liabilities contracted have not been identified to any reportable segments, as these are used interchangeably between segments.

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

Industry segments

Year ended **March 31, 2006** and March 31, 2005 (in Rs.)

Particulars	Financial services	Telecom	Others	Total
Revenues	**174,07,54,636**	**148,57,45,735**	**45,27,25,578**	**367,92,25,949**
	91,72,80,360	83,20,55,226	14,35,56,074	189,28,91,660
Identifiable operating expenses	**68,89,10,434**	**96,50,65,351**	**18,31,81,180**	**183,71,56,965**
	39,05,75,020	49,68,18,859	4,87,02,394	93,60,96,273
Allocated expenses	**11,83,57,244**	**13,79,00,809**	**3,02,61,122**	**28,65,19,175**
	7,94,54,853	8,97,79,461	97,60,015	17,89,94,329
Segmental operating profit	**93,34,86,958**	**38,27,79,575**	**23,92,83,276**	**155,55,49,809**
	44,72,50,487	24,54,56,906	8,50,93,665	77,78,01,058
`				**69,25,33,481**
				47,84,32,709

Operating profit	**86,30,16,328**
	29,93,68,349
Other income (expenses), net	**7,46,69,950**
	3,96,95,533
Net profit before taxes	**93,76,86,278**
	33,90,63,882
Taxes	**1,28,80,685**
	59,00,139
Net profit after taxes	**92,48,05,593**
	33,31,63,743

Geographical segments

Year ended **March31, 2006** and March 31,2005 (in Rs.)

Particulars	United States of America	United Kingdom	Others	Total
Revenues	**214,47,45,636**	**149,95,21,297**	**3,49,59,016**	**367,92,25,949**
	123,08,05,493	64,49,33,482	1,71,52,685	189,28,91,660
Identifiable operating expenses	**110,49,83,570**	**72,79,09,902**	**42,63,491**	**183,71,56,963**
	62,68,49,812	30,81,33,797	1,112,664	93,60,96,273
Allocated expenses	**17,30,11,215**	**11,28,15,533**	**6,92,429**	**28,65,19,177**
	11,04,08,943	6,84,14,104	1,71,282	17,89,94,329
Segmental operating profit	**86,67,50,851**	**65,87,95,862**	**3,00,03,096**	**155,55,49,809**
	49,35,46,738	26,83,85,581	1,58,68,739	77,78,01,058
Unallocable expenses				**69,25,33,481**
				47,84,32,709
Operating profit				**86,30,16,328**
				29,93,68,349
Other income(expenses),net				**7,46,69,950**
				3,96,95,533
Net profit before taxes				**93,76,86,278**
				33,90,63,882
Taxes				**1,28,80,685**
				59,00,139
Net profit after taxes				**92,48,05,593**
				33,31,63,743

16.2.22 Previous year's figures have been regrouped/reclassified, wherever necessary, to confirm to the current 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, 2006
Capital raised during the year	
Public Issue	-
Rights Issue	-
Bonus Issue	-
Private Placements	-
Preferential offer of shares under Employees Stock Option Plan	78,77,480
Position of mobilization and deployment of funds	
Total liabilities	243,20,10,557
Total assets	243,20,10,557
Sources of Funds	
Paid up capital	34,15,13,980
Reserves and surplus	209,04,96,577
Secured loans	-
Unsecured loans	-
Application of Funds	
Net fixed assets	34,40,31,245
Investments	72,54,72,821
Net Current assets	136,25,06,491
Miscelleneous expenditure	-
Accumulated losses	-
Performance of the Company	
Turnover	367,92,25,949
Other Income	7,46,69,953
Total Income	375,38,95,902
Total Expenditure	281,62,09,624
Profit / (Loss) before tax	93,76,86,278
Extraordinary Income	-
Profit / (Loss) after tax	92,48,05,593
Earnings per share from ordinary activities (Basic)	29.28
Earnings per share from ordinary activities (Diluted)	27.29
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

Amitabh Chaudhry
Managing Director and Chief Executive Officer

S.D.Shibulal
Director

Prof.Jayanth R.Varma
Director

Sridar A.Iyengar
Director

B.G.Srinivas
Director

Eric S.Paternoster
Director

Ramesh Kamath
Chief Financial Officer

N.R.Ravikrishnan
Company Secretary

Bangalore
April 7, 2006

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

1.	Name of the subsidiary	Progeon *sro*
2.	Financial period ended	March 31, 2006
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. 85,17,153/-
	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	Rs (3,28.83,079)
	b. not dealt with or provided for in the accounts of the holding company	Nil

T.V.Mohandas Pai Chairman and Director	Amitabh Chaudhry Managing Director and Chief Executive Officer	S.D.Shibulal Director
Prof.Jayanth R.Varma Director	Sridar A.Iyengar Director	B.G.Srinivas Director
Eric S.Paternoster Director	Ramesh Kamath Chief Financial Officer	N.R.Ravikrishnan Company Secretary

Bangalore
April 7, 2006

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, 2006, 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, 2006;

(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.
Chartered Accountants

Subramanian Suresh
Partner
Membership No. 83673

Bangalore
April 7, 2006

Consolidated Balance Sheet

In Rs.

	Schedule	March 31, 2006	March 31, 2005
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	34,15,13,980	112,11,36,500
Reserves and surplus	2	206,75,21,510	32,61,02,797
		240,90,35,490	**144,72,39,297**
APPLICATION OF FUNDS			
FIXED ASSETS			
Original cost	3	71,82,78,709	40,81,41,340
Less : Depreciation		37,33,44,961	19,07,48,752
Net book value		34,49,33,748	21,73,92,588
Capital work-in-progress and advances		31,34,752	15,13,143
		34,80,68,500	**21,89,05,731**
INVESTMENTS	4	**69,04,93,828**	**41,14,90,014**
DEFERRED TAX ASSET		**1,26,49,306**	**36,88,861**
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	5	71,80,30,124	48,50,74,617
Cash and bank balances	6	81,57,12,472	44,33,22,505
Loans and advances	7	38,16,92,861	18,43,24,828
Other current assets	8	4,81,37,573	99,04,223
		196,35,73,030	**112,26,26,173**
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	9	53,61,49,806	28,59,10,109
Provisions	10	6,95,99,368	2,35,61,373
NET CURRENT ASSETS		**135,78,23,856**	**81,31,54,691**
PROFIT AND LOSS ACCOUNT			
		-	-
		240,90,35,490	**144,72,39,297**
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.
Chartered Accountants

Subramanian Suresh
Partner
Membership No.83673

T.V.Mohandas Pai
Chairman and Director

Amitabh Chaudhry
Managing Director and
Chief Executive Officer

S.D.Shibulal
Director

Prof.Jayanth R.Varma
Director

Sridar A.Iyengar
Director

B.G.Srinivas
Director

Eric S.Paternoster
Director

Ramesh Kamath
Chief Financial
Officer

N.R.Ravikrishnan
Company Secretary

Bangalore
April 7, 2006

Consolidated Profit and Loss Account

In Rs.

	Schedule	Year ended March 31, 2006	2005
INCOME			
Revenues from business process management services		378,67,35,152	191,22,35,976
		378,67,35,152	191,22,35,976
COST OF REVENUES	11	201,31,80,909	104,71,51,965
GROSS PROFIT		**177,35,54,243**	**86,50,84,011**
SELLING AND MARKETING EXPENSES	12	20,10,66,185	16,68,26,827
GENERAL AND ADMINISTRATION EXPENSES	13	51,54,65,318	30,91,56,647
		71,65,31,503	47,59,83,474
OPERATING PROFIT BEFORE DEPRECIATION		**105,70,22,740**	**38,91,00,537**
Depreciation	3	18,27,01,636	12,19,61,462
OPERATING PROFIT AFTER DEPRECIATION		**87,43,21,104**	**26,71,39,075**
Other Income	14	7,18,82,327	3,93,41,728
PROFIT BEFORE TAX		**94,62,03,431**	**30,64,80,803**
Provision for taxation	15	1,28,80,685	59,00,139
NET PROFIT AFTER TAX		**93,33,22,746**	**30,05,80,664**
Balance brought forward from the previous year		26,30,45,999	(3,75,34,665)
AMOUNT AVAILABLE FOR APPROPRIATION		**119,63,68,745**	**26,30,45,999**
Preference Dividend		9,709	-
Dividend Tax		1,362	-
BALANCE CARRIED FORWARD		119,63,57,674	26,30,45,999
Total		**119,63,68,745**	**26,30,45,999**
EARNINGS PER SHARE:			
Equity shares of par value Rs.10 each			
Basic		29.55	12.27
Diluted		27.54	8.46
Weighted average number of shares used in computing earnings per share:			
Basic		3,15,82,791	2,45,05,473
Diluted		3,38,89,812	3,55,41,610
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.
Chartered Accountants

Subramanian Suresh
Partner
Membership No.83673

T.V.Mohandas Pai
Chairman and Director

Amitabh Chaudhry
Managing Director and
Chief Executive Officer

S.D.Shibulal
Director

Prof.Jayanth R.Varma
Director

Sridar A.Iyengar
Director

B.G.Srinivas
Director

Eric S.Paternoster
Director

Ramesh Kamath
Chief Financial Officer

N.R.Ravikrishnan
Company Secretary

Bangalore
April 7, 2006

Consolidated Cash Flow Statement

In Rs.

	Year ended March 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	94,62,03,431	30,64,80,803
Adjustments to reconcile profit before tax to cash provided by operating activities		
Depreciation	18,27,01,636	12,19,61,462
Interest Income	(3,54,62,481)	(2,33,03,977)
Dividend Income	(3,56,05,563)	(158,01,603)
Profit on Sale of Investments	(2,93,541)	(2,08,456)
Provision for doubtful debts	10,38,730	-
Provision for doubtful loans and advances	6,16,264	-
Effect of exchange differences on translation of foreign currency cash and cash equivalents	14,74,459	10,02,212
Changes in current assets and liabilities		
Sundry debtors	(23,39,94,237)	(38,68,39,694)
Loans and advances	(5,06,40,414)	(2,10,84,862)
Other current assets	(3,82,33,350)	7,97,70,735
Current liabilities	24,93,32,220	18,34,10,213
Provisions	3,93,69,564	1,34,36,432
Income tax paid during the year, net	(1,29,51,558)	(96,62,660)
NET CASH GENERATED BY OPERATING ACTIVITIES	**101,35,55,160**	**24,91,60,605**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and change in capital work-in-progress / advances	(31,09,56,928)	(17,63,10,304)
Interest received	3,54,62,481	2,33,03,977
Dividend received	3,56,05,563	1,58,01,603
Purchase of units in liquid mutual funds	(108,45,88,866)	(42,97,57,770)
Proceeds from sale of units in liquid mutual funds	80,58,78,593	15,65,55,069
NET CASH USED IN INVESTING ACTIVITIES	**(51,85,99,157)**	**(41,04,07,425)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	2,77,20,806	36,00,048
Preference dividend paid during the period	(9,709)	-
Dividend tax paid during the period	(1,362)	-
NET CASH GENERATED BY FINANCING ACTIVITIES	**2,77,09,735**	**36,00,048**
Effect of exchange differences on translation of foreign currency cash and cash equivalents	(7,10,747)	(10,02,212)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	52,19,54,991	(15,86,48,984)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	56,47,71,328	72,34,20,312
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR*	**108,67,26,319**	**56,47,71,328**

* Cash and cash equivalents aggregating Rs.108,67,26,319 (Rs.56,47,71,328 as at March 31, 2005) comprises cash on hand amounting to Rs.32,223 (Rs.47,145 as at March 31, 2005), balances with banks amounting to Rs.81,56,80,249 (Rs.44,32,75,360 as at March 31, 2005) and deposits with financial institution/body corporate amounting to Rs.27,10,13,847 (Rs.12,14,48,823 as at March 31, 2005).

This is the Cash Flow Statement referred to in our report of even date.
for BSR & Co.
Chartered Accountants

Subramanian Suresh
Partner
Membership No.83673

T.V.Mohandas Pai
Chairman and Director

Amitabh Chaudhry
Managing Director and Chief Executive Officer

S.D.Shibulal
Director

Prof.Jayanth R.Varma
Director

Sridar A.Iyengar
Director

B.G.Srinivas
Director

Eric S.Paternoster
Director

Ramesh Kamath
Chief Financial Officer

N.R.Ravikrishnan
Company Secretary

Bangalore
April 7, 2006

Schedules to the Consolidated Balance Sheet

In Rs.

		March 31, 2006	March 31, 2005
1	**SHARE CAPITAL**		
	AUTHORISED		
	Equity shares, Rs.10 (Rs.10) par value*		
	12,33,75,000 (2,71,25,000) equity shares	123,37,50,000	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
		123,37,50,000	**114,62,50,000**
	* Refer note 16.2.6 for details		
	ISSUED, SUBSCRIBED AND PAID UP		
	Equity shares, Rs.10 (Rs.10) par value*		
	3,41,51,398 (2,46,13,650) equity shares fully paid up	34,15,13,980	24,61,36,500
	[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 Techonologies Limited by the subscribers to the Memorandum of Association]		
	0.0005% Cumulative Convertible Preference Shares, Rs.100 (Rs.100) par value		
	Nil (87,50,000) preference shares, fully paid up (also refer to Note 16.2.5)	-	87,50,00,000
		34,15,13,980	**112,11,36,500**
	* For details of options in respect of the above shares refer to note 16.2.16		
2	**RESERVES AND SURPLUS**		
	Securities premium account at the beginning of the year	6,27,29,651	6,05,93,250
	Add : Received during the period on issue of shares	80,80,80,826	27,86,401
	Less : Share issue expenses written off	7,37,500	6,50,000
	Securities premium account at the end of the year	**87,00,72,977**	**6,27,29,651**
	Foreign exchange translation reserve	10,90,859	3,27,147
	Balance in profit and loss account	119,63,57,674	26,30,45,999
		206,75,21,510	**32,61,02,797**

3 FIXED ASSETS

in Rs.

Particulars	Original cost				Depreciation				Net book value	
	Cost as of April 01, 2005	Additions during the year	Deletions during the year	Cost as of March 31, 2006	As of April 01, 2005	For the year	Deductions during the year	As of March 31, 2006	As of March 31, 2006	As of March 31, 2005
Leasehold improvements	4,48,92,508	1,75,93,306	-	6,24,85,814	87,36,673	1,25,25,080	-	2,12,61,753	4,12,24,061	3,61,55,835
Plant and machinery	6,60,56,091	3,23,30,927	1,35,600	9,82,51,418	1,11,69,575	1,93,71,379	45,026	3,04,95,928	6,77,55,490	5,48,86,516
Computer equipment	25,13,63,826	16,60,44,873	2,78,210	41,71,30,489	15,38,05,042	11,87,87,955	60,401	27,25,32,596	14,45,97,893	9,75,58,784
Furniture and fixtures	4,58,28,915	9,45,82,073	-	14,04,10,988	1,70,37,462	3,20,17,222	-	4,90,54,684	9,13,56,304	2,87,91,453
	40,81,41,340	**31,05,51,179**	**4,13,810**	**71,82,78,709**	**19,07,48,752**	**18,27,01,636**	**1,05,427**	**37,33,44,961**	**34,49,33,748**	**21,73,92,588**
Previous year	20,32,27,657	20,50,39,248	125,565	40,81,41,340	6,89,12,855	12,19,61,462	125,565	19,07,48,752	21,73,92,588	

Schedules to the Consolidated Balance Sheet

In Rs.

		March 31, 2006	March 31, 2005
4	**INVESTMENTS**		
	Trade (unquoted) - at cost		
	Long term investment	-	-
	Non-Trade (unquoted) - at lower of cost or fair value		
	Current investments *		
	Liquid mutual funds	69,04,93,828	41,14,90,014
		69,04,93,828	**41,14,90,014**
	* Refer to note 16.2.12 for details of investment		
5	**SUNDRY DEBTORS**		
	Debts outstanding for a period exceeding six months		
	Unsecured considered doubtful	10,38,730	-
	Debts outstanding for a period less than six months		
	Unsecured considered good	71,80,30,124	48,50,74,617
		71,90,68,854	48,50,74,617
	Less : Provision for doubtful debts	10,38,730	-
		71,80,30,124	**48,50,74,617**
6	**CASH AND BANK BALANCES**		
	Cash on hand	32,223	47,145
	Balances with scheduled banks		
	-in current accounts	11,88,91,079	5,14,60,826
	-in deposit accounts in Indian rupees	64,95,91,793	37,20,34,223
	Balances with non-scheduled banks		
	-in current accounts	4,71,97,377	1,97,80,311
		81,57,12,472	**44,33,22,505**
	Balances with non scheduled banks		
	In current accounts		
	Citibank N.A., Delaware	-	22,90,388
	PNC Bank , New Jersey**	2,22,400	-
	ICICI bank, London	27,10,863	19,60,829
	Bank of America, California	2,92,71,538	1,29,73,361
	Citibank N.A., Czech Republic	1,49,92,576	25,55,733
		4,71,97,377	1,97,80,311
	** This represent restricted Bank balance, in trust account, in accordance with collection agency licensing requirements in US.		
7	**LOANS AND ADVANCES**		
	Unsecured, considered good		
	Advances		
	Prepaid expenses	1,78,75,009	1,15,85,194
	For supply of goods and rendering of services	82,46,948	15,84,088
	Loans and advances to employees	4,58,10,854	1,31,00,184
		7,19,32,811	**2,62,69,466**
	Deposits with financial institutions and body corporate*	27,10,13,847	12,14,48,823
	Deposits with government authorities	2,17,074	4,50,851
	Rental deposits	3,58,13,188	2,85,01,079
	Electricity and other deposits	27,15,941	54,33,468
	Advance income tax, net	-	22,21,141
		38,16,92,861	**18,43,24,828**
	Unsecured, considered doubtful		
	Loans and advances to employees	6,16,264	-
		38,23,09,125	**18,43,24,828**
	Less : provision for doubtful loans and advances to employees	6,16,264	-
		38,16,92,861	**18,43,24,828**
	* Refer to note 16.2.8 for details		

Schedules to the Consolidated Balance Sheet

In Rs.

		March 31, 2006	March 31, 2005
8	OTHER CURRENT ASSETS		
	Unbilled revenue	4,32,70,958	71,74,823
	Other assets	48,66,615	27,29,400
		4,81,37,573	**99,04,223**
9	CURRENT LIABILITIES		
	Sundry creditors		
	for capital goods	3,69,76,979	3,60,69,502
	for expenses	1,00,72,945	40,33,826
	for accrued salaries and benefits		
	salaries and allowances	2,12,70,073	2,43,74,763
	ex-gratia and incentives	11,95,20,578	8,67,18,439
	for other liabilites		
	provision for expenses	28,95,39,440	10,77,40,935
	withholding and other taxes payable	22,85,833	9,80,722
		47,96,65,848	25,99,18,187
	Unearned revenue	5,64,83,958	2,59,91,922
		53,61,49,806	**28,59,10,109**
10	PROVISIONS		
	Provision for leave encashment	2,82,96,915	1,36,86,885
	Provisions - others*	3,46,34,022	98,74,488
	Provision for income taxes, net	66,68,431	-
		6,95,99,368	**2,35,61,373**

*represents accrual for estimated discounts under contracts.

Schedules to the Consolidated Profit & Loss Account

In Rs.

		Year ended March 31, 2006	2005
11	**COST OF REVENUES**		
	Salaries including overseas staff expenses	102,45,59,059	54,92,63,085
	Staff welfare	1,82,47,540	1,02,60,076
	Contribution to provident and other funds	6,25,96,781	4,03,24,198
	Travelling expenses	19,00,79,035	6,40,16,613
	Conveyance	18,90,76,279	8,58,76,956
	Cost of software for own use	4,53,39,684	1,88,50,938
	Cost of software for delivery to clients	-	15,14,298
	Computer maintenance	1,54,90,884	74,70,957
	Communication expenses	13,67,17,812	13,63,71,970
	Rent	11,58,32,456	7,85,77,558
	Consultancy charges	15,06,62,241	1,40,03,550
	Consumables	32,56,882	11,46,613
	Recruitment and training expenses	4,10,31,038	3,42,48,633
	Insurance	80,09,300	20,68,137
	Other miscellaneous expenses	1,22,81,918	31,58,383
		201,31,80,909	**104,71,51,965**
12	**SELLING AND MARKETING EXPENSES**		
	Salaries including overseas staff expenses	13,03,63,505	12,44,46,031
	Brand building and advertisement	21,23,130	5,97,573
	Contribution to provident and other funds	44,01,707	10,79,501
	Staff welfare expenses	2,50,406	30,167
	Travelling expenses	3,53,31,362	2,48,18,450
	Consumables	-	6,519
	Communication expenses	35,33,619	28,15,791
	Conveyance	9,01,545	5,84,728
	Rent	1,15,92,768	51,66,571
	Printing and stationery	2,09,044	2,72,427
	Recruitment expenses	76,56,680	19,87,613
	Professional charges	13,99,262	41,70,338
	Professional memberships and seminars	11,93,184	4,61,759
	Other miscellaneous expenses	21,09,973	3,89,359
		20,10,66,185	**16,68,26,827**

Schedules to the Consolidated Profit & Loss Account

In Rs.

		Year ended ended March 31, 2006	2005
13	GENERAL AND ADMINISTRATION EXPENSES		
	Salaries	14,79,06,719	9,56,46,570
	Staff welfare	1,44,99,975	85,18,388
	Contribution to provident and other funds	80,67,290	77,55,030
	Conveyance	2,79,20,277	1,91,08,408
	Consumables	4,18,012	24,57,872
	Cost of software for own use	1,88,54,854	1,45,70,556
	Rent	1,26,63,572	80,95,940
	Telephone and communication charges	2,21,07,787	99,42,677
	Legal and professional charges	3,95,44,066	4,12,76,379
	Printing, stationery and office maintainance	7,46,95,620	3,62,95,747
	Power and fuel	5,59,91,194	3,09,52,317
	Recruitment and training expenses	2,54,33,916	65,42,208
	Insurance	2,17,62,663	1,35,20,058
	Rates and taxes	97,34,095	9,40,043
	Auditor's remuneration		
	audit fees	22,25,256	11,62,720
	out-of-pocket expenses	48,393	42,730
	Bank charges and commission	15,51,467	4,70,081
	Postage and courier	13,39,123	4,79,334
	Professional membership and seminar participation fees	50,24,872	13,86,229
	Provision for doubtful debts	10,38,730	-
	Provision for doubtful loans and advances	6,16,264	-
	Exchange loss, net	2,01,49,818	77,27,226
	Other miscellaneous expenses	38,71,355	22,66,134
		51,54,65,318	**30,91,56,647**
14	OTHER INCOME		
	Interest income *		
	On deposits with financial institutions and body corporate	1,09,38,096	59,69,985
	On deposits with banks	2,45,24,385	1,73,33,992
	Dividends from liquid mutual fund investments	3,56,05,563	1,58,01,603
	Miscellaneous income	3,53,780	27,692
	Profit on sale of investments	2,93,541	2,08,456
	Exchange differences	-	-
	Interest on income tax refund	1,66,962	-
		7,18,82,327	**3,93,41,728**
	*Tax deducted at source on interest income	88,32,174	44,05,547
15	PROVISION FOR TAXATION		
	Current taxes	2,18,41,130	9,589,000
	Deferred taxes	(89,60,445)	(36,88,861)
		1,28,80,685	**59,00,139**

Schedules to the consolidated Financial Statements for the Year ended March 31,2006

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Company overview

Progeon Limited along with its wholly owned subsidiary, Progeon SRO collectively called as "Group" and individually as "Progeon Limited" and "Progeon SRO" 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 and options contract in foreign currencies

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

16.1.11 Provisions and contingent liabilities

The company recognises 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 year, 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. 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 Employee Stock Options

The company applies the intrinsic value-based method of accounting prescribed by Accounting Research Committee of the Institute of Chartered Accountants of India, Accounting for employee share based payments, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. The options vest on a graded basis; however there is no compensation expense since the grants are made at exercise prices equal to or greater than fair market value, as of the date of the grant.

16.2 Notes to financial statements

16.2.1 Capital commitments and contingent liabilities

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Estimated amount of un executed capital contracts(net of advance and deposits)	6,42,97,385	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	2,55,05,760	34,56,000
Forward contracts outstanding	US$ 1,90,00,000	US$ 43,17,400
(Equivalent approximate in Rs.)	(84,51,20,000)	(18,88,64,663)
Options Contract outstanding		
Put Options Purchased	US$ 40,00,000	-
(Equivalent approximate in Rs.)	(17,79,20,000)	-
Call Options sold	US$ 80,00,000	-
(Equivalent approximate in Rs.)	(35,58,40,000)	-

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, 2006	Year Ended March 31, 2005
Salaries and ex-gratia including overseas staff expenses	130,28,29,283	76,93,55,686
Staff welfare	3,29,97,921	1,88,08,631
Contribution to provident and other funds	7,50,65,778	4,91,58,729
Foreign Travel expenses	22,54,10,397	8,88,35,063
Consumables	36,74,894	36,11,004
Computer Maintenance	1,54,90,884	89,85,255
Cost of Software for own use	6,41,94,538	3,34,21,494
Communication expenses	16,23,59,218	14,91,30,438
Consultancy charges	15,06,62,241	1,40,03,550
Traveling and conveyance	21,78,98,101	10,55,70,092
Rent	14,00,88,796	9,18,40,069
Printing & Stationery and Office Maintenance	7,49,04,664	3,65,68,174
Legal and Professional Charges	4,09,43,328	4,54,46,717
Brand Building	21,23,130	5,97,573
Recruitment and Training expenses	7,41,21,634	4,27,78,454
Power and Fuel	5,59,91,194	3,09,52,317
Insurance Charges	2,97,71,963	1,55,88,195
Rates and Taxes	97,34,095	9,40,043
Auditor's remuneration		
audit fees	22,25,256	11,62,720
out-of-pocket expenses	48,393	42,730
Bank Charges & Commission	15,51,467	4,70,081
Postage and Courier	13,39,123	4,79,334
Professional membership and seminar participation fees	62,18,056	18,47,988
Provision for bad and doubtful debts	10,38,730	-
Provision for bad and doubtful loans and advances	6,16,264	-

Other Miscellaneous Expenses	1,82,63,246	58,13,876
Exchange Difference	2,01,49,818	7,727,226
Total	272,97,12,412	152,31,35,439

The above expenses for the year ending March 31,2006 and March 31,2005 include Fringe Benefit Tax (FBT) in India amounting to Rs 3,08,99,832/- and Rs nil respectively

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, 2006	Year Ended March 31, 2005
Lease Rentals charged during the period	14,00,88,796	9,18,40,069

(in Rs.)

Lease Obligations	Year Ended March 31, 2006	Year Ended March 31, 2005
Within One year of the Balance sheet date	11,28,79,344	6,86,75,473
Due in a period between one year and five years	17,34,81,723	9,28,95,460
Later than Five years	-	41,61,064

The Company has entered into non-cancelable operating lease arrangements for premises with Infosys and others . The existing operating lease arrangements extend for periods between 36 Months and 71 Months from their respective dates of inception. The lease rentals paid are included as a component of services purchased from Infosys (also refer Note 16.2.9below).

The Group also has cancelable operating lease arrangements for office premises. The lease rentals paid for the year ending March 31, 2006 and March 31,2005 Rs 4,26,17,205 and Rs 31,64,348 .

16.2.4 Dues to small-scale industrial undertakings

As at March 31,2006 and March 31, 2005 the company had no outstanding dues to small-scale industrial undertakings.

16.2.5 Cumulative convertible preference shares

The company issued 87,50,000 0.0005% cumulative convertible preference shares (the 'share') of par value Rs.100 each in two equal tranches to Citicorp International Finance Corporation ("Citicorp") on June 24, 2002 and March 30, 2004 in accordance with the shareholders agreement(the '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.

On June 30, 2005 the 0.0005% convertible 87,50,000 cumulative preference shares of Rs. 100 each were converted into 87,50,000 equity shares of Rs. 10 each fully paid and the balance of Rs. 78,75,00,000 was credited to the share premium account in accordance with the terms of the agreement. During June 2005 the Company has declared preference dividend of Rs.9,709/- to its preference shareholder

16.2.6 Reclassification of Authorised share capital

On October 10,2005 as approved by share holders by passing ordinary resolution, the company has reclassified its share capital from 2,71,25,000 equity share of Rs 10 each and 87,50,000 (0.0005%) cumulative convertible preference share of Rs 100 each to 12,33,75,000 equity share of Rs 10 each.

16.2.7 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.

Deferred tax asset recognised as at March 31, 2006 and March 31, 2005 relates to fixed assets.

16.2.8 Loans and advances

Deposits with financial institution and bodies corporate comprise:

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Deposits with financial institution:		
Housing Development Finance Corporation Limited	11,00,00,000	12,14,48,823
Deposits with bodies corporate :		
GE Capital Services India	16,10,13,847	-

The above amounts include interest accrued but not due amounting to Rs. 10,13,847 and Rs. 14,48,823 as at March 31,2006 and March 31,2005 respectively.

Maximum balance held during the period (in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Deposits with bodies corporate :		
GE Capital Services India	16,24,45,589	-
Deposits with financial institution:		
Housing Development Finance Corporation Limited	16,12,75,232	12,15,41,919

16.2.9 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, 2006	Year Ended March 31, 2005
Purchase of services		
Business consulting services	9,436,434	13,22,306
Personnel and shared services including facilities	20,17,98,928	14,05,92,227
	21,12,35,362	14,19,14,533
Sale of Services	3,28,28,517	2,03,70,165
Personnel and shared services including facilities	1,70,84,863	50,88,023
	4,99,13,380	2,54,58,188

The rental deposit balance with Infosys was Rs. Nil and 1,61,29,087 as of March 31,2006 and March 31, 2005.

The company has reimbursed the shared services paid to its employees by Infosys Technologies (Australia) Pty Limited, a subsidiary of Infosys Technologies Limited, Bangalore, amounting to Rs 1,80,31,724 for the year ending March 31,2006 and Rs Nil for the year ending March 31,2005.

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. The said shares were converted into 87,50,000 equity shares of Rs 10 each (see Note 16.2.5).

The company also has banking relationship with Citibank N.A., India, US and UK. The balances held with Citibank as of March 31,2006 and March 31,2005, in current accounts were Rs 19,47,483 and Rs 29,92,862 respectively.

16.2.10 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. Further with effect from April 01, 2005, the salary of Mr. Akshaya Bhargava has been restructured and has been approved by share holder's in their meeting held on June 1, 2005.

Mr.Akshaya Bhargava has resigned from the services on 28th February 2006. Mr.Amitabh Chaudhry has been appointed as Managing Director and Chief Executive Officer of Progeon with effect from 1st March 2006

Particulars of remuneration and other benefits paid to Mr.Akshaya Bhargava and Mr.Amitabh Chaudhry during the year ended March 31, 2006 and 2005 is given below:

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Salary and allowances	31,84,059	24,02,742
Provident fund, gratuity and superannuation contributions	14,332	3,30,567
Performance incentives	17,48,838	1,57,457
	49,47,229	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, 2006	Year Ended March 31, 2005
Salary and allowances	92,25,408	82,67,265
Provident fund, gratuity and superannuation contributions	6,14,161	11,08,935
Performance incentives	1,07,82,441	39,61,089
	2,06,22,010	1,33,37,289

16.2.11 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, 2006 and 2005 is given below::

(in Rs.)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Sitting Fees	1,30,129	79,963
Commission	20,00,000	9,00,000

16.2.12 Investment Activity

Current investments (in Rs.)

	No. of units	NAV	Year Ended March 31, 2006	Year Ended March 31, 2005
Reliance Liquid Fund - Treasury Plan - Daily at cost	6,90,828	15.278	1,04,91,171	1,70,88,308
JM High Liquidity Fund - Institutional - Dividend - Daily at cost	33,10,245	10.060	3,28,54,257	5,18,38,502
Grindlays Cash Fund - Super Institutional Plan - Dividend - Daily at cost	18,81,848	10.000	1,88,02,401	5,38,32,955
Prudential ICICI Liquid Plan - Institutional Plus- Dividend - Daily at cost	2,99,458	11.852	35,48,911	5,19,59,889
Franklin Templeton Treasury Management Institutional Plus at cost	8,215	1000.250	81,83,010	4,53,40,810
DSP Merrill Lynch Liquidity Fund at cost	83,25,195	10.010	8,33,14,245	5,66,56,334
HSBC Cash Fund Institutional Fund at cost	92,72,442	10.006	9,27,62,109	5,07,51,161
HDFC Liquid Fund - Premium Plan	65,64,298	12.260	8,04,76,979	2,09,91,192
Principal Cash Management Fund at cost	1,24,19,193	10.001	12,41,92,846	24,02,877
Birla Cash Plus Institutional Premium at cost	1,11,91,753	10.020	11,21,15,044	6,06,27,986
Tata Liquid Super High Investment Fund at cost	1,11,038	1114.520	12,37,52,854	-
			69,04,93,827	41,14,90,014

Movement of Investment	Opening balance in **units,** Amount (Rs)	Purchased in **units,** Amount (Rs)	Redemption in **units,** Amount (Rs)	Closing balance in **units,** Amount (Rs)
Reliance Liquid Fund - Treasury Plan	**11,22,236**	**79,13,871**	**83,45,279**	**6,90,828**
	1,70,88,308	12,09,02,864	12,75,00,000	1,04,91,172
JM High Liquidity Fund Institutional Dividend	**51,76,184**	**1,58,18,583**	**1,76,84,522**	**33,10,245**
	5,18,38,502	15,85,15,755	17,75,00,000	3,28,54,257
Grindlays Cash Fund Institutional Plan Dividend	**53,83,893**	**1,05,47,955**	**1,40,50,000**	**18,81,848**
	5,38,32,955	10,54,69,446	14,05,00,000	1,88,02,401
Prudential ICICI Liquid Plan Institutional Dividend	**43,84,256**	**63,78,012**	**1,04,62,811**	**2,99,457**
	5,19,59,889	7,55,89,022	12,40,00,000	35,48,911
Franklin Templeton Treasury Management Institutional Plus	**45,340**	**1,41,853**	**1,78,978**	**8,215**
	4,53,40,810	14,18,42,200	17,90,00,000	81,83,010
DSP Merrill Lynch Liquidity Fund	**56,59,912**	**26,65,283**	**-**	**83,25,195**
	5,66,56,334	2,66,57,911	-	8,33,14,245

HSBC Cash Fund Institutional Fund	**50,72,694**	**51,99,187**	**9,99,440**	**92,72,441**
	5,07,51,161	5,20,10,948	1,00,00,000	9,27,62,109
HDFC Liquid Fund	**17,47,756**	**69,79,860**	**21,63,318**	**65,64,298**
	2,09,91,192	8,58,64,380	2,63,78,593	8,04,76,979
Principal Cash Management Fund	**2,40,774**	**1,42,78,272**	**20,99,853**	**1,24,19,193**
	24,02,877	14,27,89,969	2,10,00,000	12,41,92,846
Birla Cash Plus Institutional Premium	**60,51,173**	**51,40,580**	-	**1,11,91,753**
	6,06,27,986	5,14,87,058	-	11,21,15,044
Tata Liquid Super High Investment Fund	-	**1,11,038**	-	**1,11,038**
	-	12,37,52,854	-	12,37,52,854

16.2.13 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 amounted to Rs.5,64,83,958 and Rs. 2,59,91,922 as at March 31, 2006 and March 31, 2005 respectively.

16.2.14 Export Obligation

The Company has an export obligation towards the Software Technology Parks of India, in respect of duty free capital imports made by it. The remaining export obligation was Rs.3,34,26,099 and Rs Nil as at March 31, 2006 and March 31, 2005 respectively.

16.2.15 Reconciliation between basic and dilutive shares

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

	Year Ended March 31, 2006	Year Ended March 31, 2005
Weighted average shares used in computing basic earnings per share	3,15,82,791	2,45,05,473
Dilutive effect of cumulative convertible preference shares and stock options	23,07,021	1,10,36,137
Weighted average shares used in computing diluted earnings per share	3,38,89,812	3,55,41,610

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

	Year Ended March 31, 2006	Year Ended March 31, 2005
Profit Available to Equity Shareholders For Basic EPS	93,33,22,746	30,05,80,664
Add: Corporate Dividend Tax	1,362	-
Add:- Preference Dividend	9,709	-
Profit For Dilutive EPS	93,33,33,817	30,05,80,664

16.2.16 Employees Stock Option Plan ("2002 Plan")

Guidance note on "Accounting for employee share based payments" (the guidance note) issued by Institute of Chartered Accountants of India establishes financial accounting and reporting principles for employee share based payment plans. The guidance note applies to employee share based payment plans the grant date in respect of it falls on or after April 1,2005.

The company applies the intrinsic value-based method of accounting to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The options vest on a graded basis; however there is no compensation expense since the grants are made at exercise prices equal to or greater than fair market value, as of the date of the grant.

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.

As allowed by the guidance note, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of the guidance note. Had compensation cost for the company's stock-based compensation plan been determined in a manner consistent with the fair value approach described in guidance note, the company's net income and basic earnings per share as reported would have reduced to the proforma amounts indicated below.

	Year Ended March 31, 2006
Net Profit : As Reported	93,33,22,746
Less: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	3,87,62,981
Adjusted proforma profit/(loss)	89,45,59,765
Basic EPS as reported	29.55
Adjusted proforma	28.32
Diluted EPS as reported	27.23
Adjusted proforma	26.10

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

Dividend yield %	0.00%
Expected life	1 through 6 years
Risk free interest rate	7.50%
Volatility	50.00%

	Year Ended March 31, 2006	
	Shares arising out of options	Weighted average exercise prices (In Rs.)
Outstanding at the beginning of the quarter	31,16,518	54.76
Granted during the quarter	11,56,520	218.50
Forfeitures during the quarter	10,32,960	64.02
Exercised during the quarter	7,87,748	36.13
	24,52,330	134.06

The Weighted average fair value of options granted during the year ending March 31, 2006 is Rs. 87.91.

The following table summarizes information about stock options as of March 31, 2006

Range of Exercise Prices (in Rs.)	Stock Options Outstanding at the end of the Period	Weighted Average Remaining Contractual life
33.12-58.33	6,85,425	0.98
58.34-77.89	4,23,900	1.24
77.90-99.20	2,26,475	1.45
99.21-162.23	77,800	1.88
162.24-195.00	6,20,550	2.40
195.01-214.00	80,100	2.42
214.01-230.00	1,81,680	2.84
230.10-310.00	1,56,400	2.99
	2,452,330	

16.2.18 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 relating 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 or liabilities contracted have not been identified to any reportable segments, as these are used interchangeably between segments.

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

Industry Segments

Year ended **March31, 2006** and March 31,2005 (Rs)

Particulars	Financial Services	Telecom	Others	Total
Revenues	**176,77,35,435**	**148,57,45,736**	**53,32,53,981**	**378,67,35,152**
	90,25,38,148	83,20,55,227	17,76,42,601	191,22,35,976
Identifiable operating expenses	**71,14,53,322**	**99,66,66,856**	**18,92,28,278**	**189,73,48,456**
	40,29,29,551	51,62,40,738	4,94,04,119	96,85,74,408
Allocated expenses	**11,97,33,357**	**13,98,38,856**	**3,06,42,970**	**29,02,15,183**
	8,16,84,697	9,34,62,963	1,03,08,492	18,54,56,152
Segmental operating profit / (loss)	**93,65,48,756**	**34,92,40,024**	**31,33,82,733**	**159,91,71,513**

	41,79,23,900	22,23,51,526	11,79,29,990	75,82,05,416
Unallocable expenses				**72,48,50,409**
				48,33,39,115
Operating profit				**87,43,21,104**
				27,48,66,301
Other income				**7,18,82,327**
				3,16,14,502
Net Profit before taxes				**94,62,03,431**
				30,64,80,803
Taxes				**1,28,80,685**
				59,00,139
Net Profit after taxes				**93,33,22,746**
				30,05,80,664

Geographical Segments

Year ended **March31, 2006** and March 31,2005 (Rs)

Particulars	United States of America	United Kingdom	Others	Total
Revenues	**225,32,00,046**	**149,83,11,614**	**3,52,23,492**	**378,67,35,152**
	125,01,57,823	64,46,60,963	1,74,17,190	191,22,35,976
Identifiable operating expenses	**114,11,74,472**	**75,17,63,734**	**44,10,250**	**189,73,48,456**
	64,77,60,338	31,96,29,486	11,84,584	96,85,74,408
Allocated expenses	**17,52,34,113**	**11,42,77,638**	**7,03,432**	**29,02,15,183**
	12,42,01,248	6,10,61,044	193,860	18,54,56,152
Segmental operating profit / (loss)	**93,67,91,461**	**63,22,70,242**	**3,01,09,810**	**159,91,71,513**
	47,81,96,237	26,39,70,433	1,60,38,746	75,82,05,416
Unallocable expenses				**72,48,50,409**
				48,33,39,115
Operating profit				**87,43,21,104**
				27,48,66,301
Other income				**7,18,82,327**
				3,16,14,502
Net Profit before taxes				**94,62,03,431**
				30,64,80,803
Taxes				**1,28,80,685**
				59,00,139
Net Profit after taxes				**93,33,22,746**
				30,05,80,664

16.2.19 Previous year's figures have been regrouped/reclassified, wherever necessary, to confirm to the current year's presentation.

Information on Progeon s.r.o, wholly owned subsidiary

Balance Sheet Date	March 31, 2006
Position of mobilization and deployment of funds	
Total liabilities	4,48,70,120
Total assets	4,48,70,120
Sources of Funds	
Paid up capital	3,49,78,993
Reserves and surplus	10,90,859
Secured loans	-
Unsecured loans	88,00,268
Application of Funds	
Net fixed assets	40,37,254
Investments	-
Net Current assets	1,67,66,940
Miscelleneous expenditure	-
Accumulated losses	2,40,65,926
Performance of the Company	
Turnover	11,33,64,516
Other Income	15,56,172
Total Income	11,49,20,688
Total Expenditure	10,64,03,535
Profit / (Loss) before tax	85,17,153
Extraordinary Income	-
Profit / (Loss) after tax	85,17,153
Earnings per share from ordinary activities (Basic)	-
Earnings per share from ordinary activities (Diluted)	-
Dividend rate (%)	-

Progeon Limited
Electronics City, Hosur Road
Bangalore 561229, India
Tel.: 91-80-8522405
Fax: 91-80-8522411

April 7, 2006

Dear member,

You are cordially invited to attend the Annual General Meeting of the members of the company on Thursday, June 1, 2006at 10.00 A.M. at the Registered Office of the company at Plot No 26/3, 26/4 and 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

This page is intentionally left blank

Notice

NOTICE is hereby given that the fourth annual general meeting (AGM) of the members of Progeon Limited (the "Company") will be held on Thursday, June 1, 2006 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, 2006 and the Profit and Loss Account for the year ended as on that date and reports of the directors and auditors thereon.
2. To approve the dividend paid on cumulative convertible preference shares.
3. To appoint a director in place of Mr. S D Shibulal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint auditors and to fix their remuneration for the ensuing year and to pass the following resolution:

"RESOLVED THAT BSR & Co., Chartered Accountants be and are hereby re-appointed as the Auditors of the Company to hold office from the conclusion of this annual general meeting until the conclusion of the next annual general meeting and the Board of Directors be and are hereby authorised to fix a suitable remuneration to them in consultation with the Auditors which remuneration may be paid on a progressive billing basis as may be agreed to between the auditors and the Board of Directors.

SPECIAL BUSINESS

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

   RESOLVED THAT Mr. Amitabh Chaudhry, who was co-opted as an additional director by the Board of Directors and who in terms of Section 260 of the Companies Act, 1956, holds office until the date of the annual general meeting and in respect of whom the Company has received a notice in writing from a member under the provisions of section 257 of the Act 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.

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 Sections 198, 269,309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the Companies Act, 1956 the approval of the Company be and is hereby accorded to the appointment of Mr. Amitabh Chaudhry as Managing Director and Chief Executive Officer of the company for a period of five (5) years with effect from March 2, 2006 on the terms and conditions as stated in the explanatory statement attached to the Notice of the AGM and on the remuneration is stated below:

   i. Basic Salary: Rs.88,100/- p.m.

   ii. Allowances: Rs.1,53,567/- p.m

   iii. Performance incentive: Rs.2,41,667/- p.m. payable quarterly or at such intervals as may be decided by the Board.

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

   v. 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.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to vary alter or modify the different components of the above stated remuneration as may be agreed to between the company and Mr. Amitabh Chaudhry.

RESOLVED FURTHER THAT notwithstanding anything hereinabove contained, wherein any financial year during the tenure of his appointment, the company has incurred loss or its profits are inadequate, the company shall pay to Mr. Amitabh Chaudhry, the remuneration by way of salary, perquisites, allowances, performance bonus and other benefits as aforesaid as a minimum remuneration, subject however to the limits specified under Section II of Part II of Schedule XIII to the Companies Act, 1956."

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

   RESOLVED THAT Mr. B G Srinivas, who was co-opted as an additional director by the Board of Directors, and who in terms of Section 260 of the Companies Act, 1956, holds office until the date of the annual general meeting and in respect of whom the Company has received a notice in writing from a member under the provisions of Section 257 of the Act 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.

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

   RESOLVED THAT Mr. Eric S. Paternoster, who was co-opted as an additional director by the Board of Directors, and who in terms of Section 260 of the Companies Act, 1956, holds office until the date of the annual general meeting and in respect of whom the Company has received a notice in writing from a member under the provisions of Section 257 of the Act 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.

April 7, 2006
Bangalore

By Order of the Board

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, IN ORDER TO BE VALID, 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.5

Mr. Amitabh Chaudhry was co-opted as an additional director of the Company with effect from March 2, 2006 pursuant to Section 260 of the Companies Act, 1956 and Article 111.of the Article of Association of the Company. Mr. Amitabh Chaudhry holds office of the additional director up to the date of the ensuing annual general meeting and is eligible for reappointment as a Director liable to retire by rotation.. 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. Amitabh Chaudhry for the office of the director pursuant to the provisions of Section 257 of the Companies Act, 1956.

Further, brief resume of Mr. Amitabh Chaudhry, his expertise in specific functional areas, other directorships/ committees memberships are furnished in the 'Additional Information on directors seeking election at the annual general meeting' forming part of this Notice.

The Board considers that his appointment as a Director will be beneficial to and in the interest of the company. The Directors recommend the resolution for your approval.

None of the directors other than Mr. Amitabh Chaudhry may be deemed to be interested or concerned in the proposed resolution as set out in Item No. 5 above.

Item No.6

The Board of Directors of the company, at their meeting held on January 10, 2006 have Mr. Amitabh Chaudhry as the Managing Director and Chief Executive Officer of the company for a period of five (5) years with effect from March 2, 2006. The abstract of the terms and conditions of appointment of Mr. Amitabh Chaudhry as Managing Director and Chief Executive Officer of the company and the memorandum signifying the concern or interest of the Directors therein, as required to be circulated pursuant to Section 302 of the Companies Act, 1956 has been circulated to the shareholders of the company vide letter dated January 23, 2006.

The terms and conditions of the appointment of Mr. Amitabh Chaudhry are set out once again hereunder for the information of the shareholders

- Date of appointment: March 2, 2006
- Tenure of appointment: Five (5) years with effect from March 2, 2006
- Remuneration: As enumerated in the resolution

The agreement of appointment of Managing Director is terminable with 6 months notice on either side.

The brief resume of Mr. Amitabh Chaudhry, his expertise in specific functional areas, other directorships/ committees memberships are furnished in the 'Additional Information on directors seeking election at the annual general meeting' forming part of this Notice.

The Board considers that his appointment as a Managing Director and Chief Executive Officer of the company will be beneficial to and is in the interest of the company. The Directors recommend the resolution for your approval.
Except Mr. Amitabh Chaudhry who may be deemed to be interested or concerned in the resolution no other Director is concerned or interested in the resolution

A copy of aforesaid agreement of appointment of Managing Director is available for the inspection of the members at the registered office of the company during the working hours until the date of Annual General Meeting.

Item No.7

Mr. B G Srinivas was co-opted as an additional director of the Company with effect from February 27, 2006 pursuant to Section 260 of the Companies Act, 1956. Mr. B G Srinivas 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. B G Srinivas for the office of the director under the provisions of Section 257 of the Companies Act, 1956.

None of the directors other than Mr. B G Srinivas may be deemed to be interested or concerned in the proposed resolution as set out in Item No. 7 above.

The Directors recommend the resolution for your approval.

Item No.8

Mr. Eric S. Paternoster was co-opted as an additional director of the Company with effect from February 27, 2006 pursuant to Section 260 of the Companies Act, 1956. Mr. Eric S. Paternoster 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. Eric S. Paternoster for the office of the director under the provisions of Section 257 of the Companies Act, 1956.

None of the directors other than Mr. Eric S. Paternoster may be deemed to be interested or concerned in the proposed resolution as set out in Item No. 8 above.

The Directors recommend the resolution for your approval.

April 7, 2006
Bangalore

By Order of the Board

N R Ravikrishnan
Company Secretary

Additional information on directors seeking election at the annual general meeting

Brief profile of Mr. S D Shibulal, Director

Mr. S. D. Shibulal is a co-founder of Infosys Technologies Limited and at present Director and Head of Delivery of Infosys Technologies Limited and also in the Board of Infosys Consulting, Inc., the wholly owned subsidiary of Infosys Technologies Limited. He received a master's degree in Physics from the University of Kerala and a master's degree in computer science from the Boston University. Mr. S. D. Shibulal represents Infosys Technologies Limited on the Board of the company and also a member of the audit and share allotment committee of the company.

Brief profile of Mr. Amitabh Chaudhry, Managing Director and Chief Executive Officer

Mr. Amitabh Chaudhry brings with him a total of 16 years of experience in banking industry. Before Progeon, Mr. Amitabh Chaudhry was with Credit Lyonnais Securities in Singapore where he headed their investment banking franchise for South East Asia and structured finance practice for Asia. Prior to Credit Lyonnais, he worked for Bank of America where he served in various senior roles including Head of Technology Investment Banking for Asia, Regional Finance Head for wholesale banking and global markets and Chief Finance Officer of Bank of America, India. He is a graduate in engineering from Birla Institute of Technology and Science, Pilani and an MBA from Indian Institute of Management, Ahmedabad.

Brief profile of Mr. B.G.Srinivas, Director

Mr. B G Srinivas is head of operations of EMEA for Infosys Technologies Limited. Mr. B G Srinivas has nearly 20 of experience in operations and consulting environment across multiple geographies and industry sectors. Prior to joining Infosys, Mr. Srinivas led corporate process systems for process automation and power transmission multinational, ABB. He has presented on Total quality in manufacturing at the international seminar for excellence in manufacturing and published papers on supply chains and enterprise solutions. Mr. Srinivas holds a Bachelor's degree in mechanical engineering from Bangalore University and Business Strategy with Wharton.

Brief profile of Mr. Eric S. Paternoster, Director

Mr. Eric S Paternoster joined Infosys Business Consulting Services in early 2002 as a Regional Consulting Head and is at present Head for the Insurance, HealthCare and Life Science Business Units of Infosys Technologies Limited. Mr. Eric S Paternoster has 23 years of experience in professional services/ consulting with Accenture, Ernst & Young and Infosys Technologies Limited. Prior to joining Infosys, Mr. Eric was with Accenture and Ernst & Young and handled a number of clients in banking, health care and insurance. Mr. Eric holds a engineering degree from the US Military Academy and a Masters in Business Administration in Finance from the University of Cincinnati. He also served as Infantry Officer in US Army.

Progeon Limited
Registered office: 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 **ANNUAL GENERAL MEETING** of the Company 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 Thursday, June 1, 2006 at 10.00 a.m. and at any adjournment(s) thereof.

Signed this……………………………..…….day of………………….…………..2006

Signature……………………………………

Fifteen paisa Revenue Stamp

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: 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 ANNUAL GENERAL MEETING of the company 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 Thursday, June 1, 2006 at 10.00 a.m.

……………………………………
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.