Progeon
an Infosys company

# Progeon Limited

(a subsidiary of Infosys Technologies Limited under the Companies Act, 1956)

## Annual Report for the period ended March 31, 2003

## Registered Office:

Plot No. 26/3, 26/4 & 26/6
Electronics City, Hosur Road
Bangalore - 561229.

Visit us at www.progeon.com

## Board of directors

Mr. T. V. Mohandas Pai
*- Chairman*

Mr. Akshaya Bhargava
*- Managing Director and*
*Chief Executive Officer*

Mr. S. D. Shibulal
*- Director*

Prof. Jayanth R. Varma
*- Director*

Mr. Dipak Kumar Rastogi
*- Director*

Mr. Ajay Relan
*- Alternate Director to*
*Mr. Dipak Kumar Rastogi*

## Auditors

M/s Bharat S. Raut & Co.
*Chartered Accountants*
*Bangalore*

# Directors' report

To the members,

Your directors are pleased to present their first report on the business and operations of your company for the period from April 3, 2002 to March 31, 2003.

## Company's overview

Your company was incorporated on April 3, 2002 to provide business process management services to organizations that outsource their business processes. Your company is a majority owned and controlled subsidiary of Infosys Technologies Limited with equity participation from Citicorp International Finance Corporation. Leveraging the benefits of service delivery globalization, process redesign and technology, your company drives efficiency and cost effectiveness into clients' business processes thereby improving clients' competitive positioning by managing their core business processes in addition to providing increased value.

## Financial results

*in Rs. crore except per share data**

| | Period ended March 31, 2003 |
|---|---|
| Revenue from business process management services | 20.85 |
| Cost of revenues | 14.49 |
| Gross profit | 6.36 |
| Selling and marketing expenses | 4.75 |
| General and administration expenses | 5.93 |
| Operating loss | 4.32 |
| Interest | – |
| Depreciation | 1.39 |
| Operating loss after interest and depreciation | 5.71 |
| Other income | 2.56 |
| Loss before tax | 3.15 |
| Provision for tax | – |
| Loss after tax | 3.15 |
| Loss per share (equity shares, par value Rs. 10 each) | |
| Basic | 3.32 |
| Diluted | 3.32 |

* 1 crore equals 10 million * 1 lakh equals 100,000

## Issue of share capital

Your company issued 1,22,50,000 equity shares of Rs. 10 each fully paid to Infosys Technologies Limited and 43,75,000 cumulative convertible preference shares of Rs. 100 each fully paid, at a premium of Rs. 12 per share, to Citicorp International Finance Corporation. As of March 31, 2003, the total outstanding issued, subscribed and paid up capital of your company was 1,66,25,000 shares comprising 1,22,50,000 equity shares and 43,75,000 cumulative convertible preference shares.

## Business

Your company performed reasonably well in its first period of operations in an environment of global slowdown. A total of three customers in banking and financial services and two customers in the telecommunications industry verticals were added.

The period also saw your company scaling up on the human resources and infrastructure front. Net of separations, 539 employees were added. Your company also leased 67,535 square feet of facilities at Bangalore from Infosys Technologies Limited, from which its operations are conducted. To accelerate the sales effort in overseas markets, sales and marketing offices were opened in Fremont, Quincy, New Jersey and Dallas in the United States and Croydon in the United Kingdom.

Export revenues amounted to Rs. 18.78 crore of which Rs. 16.34 crore was from the United States and Rs. 2.44 crore from the United Kingdom.

Your company remains optimistic about long-term opportunities, while simultaneously meeting short term challenges. Your company is responding to long-term opportunities by enhancing customer focus and building an efficient sales and delivery engine. Your company is closely monitoring the market situation and believes that its business model coupled with prudent risk management practices will give it a sustainable long-term competitive advantage. Your company will aggressively pursue new opportunities, and will ensure adequate internal preparedness to take maximum advantage of such opportunities.

## Corporate governance

The recent worldwide business failures coupled with the current economic downturn have combined to create a very demanding financial reporting environment. All these have resulted in a larger focus on corporate governance issues by companies. Your company benchmarks its corporate governance policies with the best in the world.

Your company has complied with all norms of corporate governance applicable to unlisted public companies as envisaged under the Companies Act, 1956. It has constituted an audit committee and a compensation committee in accordance with the provisions of the Companies Act, 1956.

## Composition of committees

### 1. Audit committee

As of March 31, 2003, the audit committee consists of the following members:

Prof. Jayanth R. Varma – Chairman    Dipak Kumar Rastogi    T. V. Mohandas Pai

During the period ended March 31, 2003 the audit committee met twice. The primary objective of the audit committee is 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 audit committee oversees the work carried out in the financial reporting process – by the management, the internal auditors and the independent auditor – and notes the processes and safeguards employed by each.

### 2. Compensation committee

As of March 31, 2003, the compensation committee consists of the following members:

Prof. Jayanth R. Varma – Chairman    Dipak Kumar Rastogi    T. V. Mohandas Pai.

During the period, the compensation committee met once. The compensation 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 plans, including the review and grant of stock options to eligible employees under the plans.

## Details of remuneration and grant of stock options to Managing Director and CEO

The board of directors appointed Mr. Akshaya Bhargava as Managing Director and Chief Executive Officer of the Company, with effect from November 4, 2002. Mr. Bhargava's appointment was approved by the Central Government vide their letter 1/491/2002-CL.VII dated March 20, 2003.

The details of remuneration payable to Mr. Bhargava are set out below.

| | *(in Rupees p.m.)* |
|---|---:|
| Salary and allowances | 1,41,667 |
| Provident fund, gratuity and superannuation contributions | 19,436 |
| Performance incentive | 83,333 |
| | 2,44,436 |

Mr. Bhargava's appointment and service contract is for an initial term of five years. This contract is terminable on either side upon six months written notice and without any severance fees. In addition to this, Mr. Bhargava is also granted options to purchase 12,25,000 equity shares of the company at an exercise price of Rs. 33 per option. The stock options vest over a period of one to six years from the date of their grant.

## Responsibility statement of the board of directors

The directors' responsibility statement setting out 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.

## Employees Stock Option plan (ESOP)

### 2002 Stock Offer Plan (the 2002 plan)

| | Description | Details |
|---|---|---:|
| 1 | Total number of shares reserved under the 2002 plan | 52,50,000 |
| 2 | Options granted during the year | 18,01,175 |
| 3 | Pricing formula | Above fair market value as of the date of the grant |
| 4 | Options vested as of March 31, 2003 | Nil |
| 5 | Options exercised | Nil |
| 6 | Total number of shares arising as a result of exercise of options | Nil |
| 7 | Options lapsed | Nil |
| 8 | Variations of the terms of options | None |
| 9 | Money raised on exercise of options | Nil |
| 10 | Total number of options in force at the end of the year | 18,01,175 |
| 11 | Grant to senior managerial personnel | |
| | Akshaya Bhargava | 12,25,000 |
| | Rajiv Kucchal | 3,28,125 |
| | Sumanth Cidambi | 43,750 |
| 12 | Employees receiving 5% or more of the total number of options granted during the year | None |
| 13 | Identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of the grant | One, Akshaya Bhargava |

## Fixed deposits

Your company has not accepted any fixed deposits and, consequently, no amount of principal or interest was outstanding as of the balance sheet date.

## Directors

Mr. V. Balakrishnan, Mr. U. Ramadas Kamath and Mr. Nityanandan Radhakrishnan, the first directors of the company resigned from the directorship of the company. Mr. Phaneesh Murthy who was co-opted as an Additional Director, also resigned from the directorship of the company. The Directors' place on record the sincere appreciation for the services rendered by all the directors.

Mr. T. V. Mohandas Pai, Mr. S. D. Shibulal, Prof. Jayanth R. Varma and Mr. Dipak Kumar Rastogi were co-opted as Additional Directors to the Board. Their appointment as directors requires the approval of the members at the ensuing Annual General Meeting.

## Auditors

The auditors, Bharat S. Raut & 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 annexed to this report.

## 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 applicable employees are annexed to this report.

## Acknowledgments

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

Your directors thank the Government of India, particularly the Ministry of Communication and Information Technology, the Customs and Excise Departments, Software Technology Parks – Bangalore, the Ministry of Commerce, the Ministry of Finance, the Reserve Bank of India, 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
*Chairman*

Akshaya Bhargava
*Managing Director and Chief Executive Officer*

Bangalore
April 7, 2003

# Annexure to the directors' report

a) Information as required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, and forming part of the directors' report for the period ended March 31, 2003

| Sl.No | Name | Designation | Qualification | Age (Years) | Date of joining | Experience (Years) | Gross remuneration (Rs.) | Previous employment – Designation |
|---|---|---|---|---|---|---|---|---|
| 1 | Akshaya Bhargava | Managing Director and Chief Executive Officer | B.A.(Economics), Masters in Business Administration | 46 | 4.11.2002 | 22 | 12,22,180 | Citibank N.A. Head – Global Product Management |

Notes:
1. Mr. Bhargava was employed for a part of the period
2. Remuneration includes basic salary, 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 1% of the outstanding shares of the company as on March 31, 2003.

For and on behalf of the board of directors

Bangalore
April 7, 2003

T. V. Mohandas Pai
*Chairman*

Akshaya Bhargava
*Managing Director and Chief Executive Officer*

b) 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 were 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)

| | | |
|---|---|---|
| a. R&D initiatives at institutes of national importance | : | As the company was |
| b. Specific areas for R&D at your company | : | incorporated on April 3, 2002 |
| c. Benefits derived as a result of R&D activity | : | there are no matters |
| d. Future plan of action | : | to report |
| e. Expenditure on R&D for the period ended March 31, 2003 | : | Nil |

## 3. Technology absorption, adaptation and innovation

Not applicable

## 4. Foreign exchange earnings and outgo

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

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

b. Foreign exchange earned and used for the period from April 3, 2002 through March 31, 2003

*in Rs. crore*

| | |
|---|---|
| Foreign exchange earnings | 11.19 |
| Foreign exchange outgo (including capital goods and imported software packages) | 6.66 |

For and on behalf of the board of directors

Bangalore
April 7, 2003

T. V. Mohandas Pai
*Chairman*

Akshaya Bhargava
*Managing Director and Chief Executive Officer*

# Annexure to the directors' report

c) 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 and on the going concern and accrual basis. There are no material departures from the prescribed accounting standards in their adoption. The accounting policies used in the preparation of the financial statements were consistently applied, except where otherwise stated in the notes accompanying the financial statements.

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 were 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 were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The financial statements were audited by Bharat S. Raut & Co., Chartered Accountants, 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 these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the audit committee to discuss any matter of substance.

For and on behalf of the board of directors

Bangalore
April 7, 2003

T. V. Mohandas Pai
*Chairman*

Akshaya Bhargava
*Managing Director and Chief Executive Officer*

# Auditors' report to the members of Progeon Limited

We have audited the attached Balance Sheet of Progeon Limited (the Company), as at March 31, 2003 and also the Profit and Loss Account for the period from April 3, 2002 through March 31, 2003 annexed thereto and the Cash Flow Statement for the period from April 3, 2002 through March 31, 2003. 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 Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of section 227 (4A) 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:

(i) 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;

(ii) 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;

(iii) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;

(iv) in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

(v) on the basis of written representations received from the directors, as on March 31, 2003, and taken on record by the Board of Directors, we report that none of the directors are disqualified as on March 31, 2003 from being appointed as a director in terms of Section 274 (1) (g) of the Companies Act, 1956;

(vi) 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:

   a. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2003;

   b. in the case of the Profit and Loss Account, of the loss for the period from April 3, 2002 through March 31, 2003; and

   c. in the case of Cash Flow Statement, of the cash flows for the period from April 3, 2002 through March 31, 2003.

for Bharat S. Raut & Co.
*Chartered Accountants*

Bangalore
April 7, 2003

S. Balasubrahmanyam
*Partner*

# Annexure to the auditors' report

The Annexure referred to in the auditors' report to the members of Progeon Limited (the Company) for the period from April 3, 2002 through March 31, 2003.

We report that:

The matters contained in sub paragraph 4(A) (xx), 4(B)(ii), 4(C) and 4(D) of the Manufacturing and Other Companies (Auditor's Report) Order, 1988, are not applicable to the Company.

## Internal controls

1. In our opinion and according to the information and explanations given to us, having regard to the explanations that certain items purchased are of a special nature in respect of which suitable alternative sources do not exist for obtaining comparative quotations, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of computer hardware and software, consumables, plant and machinery, equipment and other assets. The activities of the Company do not involve the sale of goods.
2. In our opinion and according to the information and explanations given to us, in respect of the service activities, the Company, commensurate with the size and the nature of its business, has a reasonable system of:
   - allocating man-hours utilised to each project; and
   - authorisation at proper levels and control over the allocation of labour costs to each project.
3. In our opinion, the Company has an internal audit system, commensurate with its size and the nature of its business.

## Fixed assets

4. The Company has maintained proper records of fixed assets showing full particulars, including quantitative details and location. The Company has a regular programme of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, certain fixed assets were physically verified by Management during the period and no material discrepancies were identified on such verification.
5. None of the fixed assets were revalued during the period.

## Inventories

6. The Company has not maintained any inventories during the period and consequently, paragraphs 4(A)(iii) to 4(A)(vi), 4(A)(xii), 4(A)(xiv) and 4(A)(xvi) of the Manufacturing and Other Companies (Auditor's Report) Order, 1988, are not applicable in relation to its activities.

## Loans and advances

7. The parties to whom loans or advances in the nature of loans were given by the Company are regular in repaying the principal amounts as stipulated and interest where applicable.
8. The Company has not taken any loans, secured or unsecured, from companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, or from companies under the same management as defined under Section 370(1B) of the Companies Act, 1956, the rate of interest and other terms and conditions of which are, prima facie, prejudicial to the interests of the Company.
9. The Company has not granted any loans, secured or unsecured, to companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, or to companies under the same management as defined under Section 370(1B) of the Companies Act, 1956, the rate of interest and other terms and conditions of which are, prima facie, prejudicial to the interests of the Company.

## Transactions with parties under Section 301 of the Companies Act, 1956

10. In our opinion, and according to the information and explanations given to us, the transactions of purchase of goods and materials and sale of goods, materials and services, made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 as aggregating during the year to Rs. 50,000 or more in respect of each party, have been made at prices which are reasonable having regard to prevailing market prices for such goods, materials, or services or the prices at which transactions for similar goods or services have been made with other parties.

## Fixed deposits

11. The Company has not accepted any deposits from the public and consequently the provisions of Section 58A of the Companies Act, 1956, and the rules framed thereunder are not applicable.

## Staff welfare

12. Provident Fund dues were regularly deposited during the period with the appropriate authorities. The provisions of the Employees' State Insurance Act, 1948 are not applicable to the Company.
13. On the basis of the examination of the books of account carried out by us in accordance with generally accepted auditing practices and according to the information and explanations given to us, no personal expenses of employees or directors were charged to the profit and loss account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

## Taxation

14. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty that were outstanding as at March 31, 2003 for a period of more than six months from the dates that they became payable.

for Bharat S. Raut & Co.
*Chartered Accountants*

Balasubrahmanyam

S. Balasubrahmanyam
*Partner*

Bangalore
April 7, 2003

# Balance Sheet as at March 31,

*in Rs.*

| | Schedules | As of March 31, 2003 |
|---|---|---|
| SOURCES OF FUNDS | | |
| SHAREHOLDERS' FUNDS | | |
| Share capital | 1 | 56,00,00,000 |
| Reserves and surplus | 2 | 5,25,00,000 |
| | | 61,25,00,000 |
| APPLICATION OF FUNDS | | |
| FIXED ASSETS | 3 | |
| Original cost | | 5,72,88,082 |
| Less: Depreciation | | 1,38,67,041 |
| Net book value | | 4,34,21,041 |
| Capital work-in-progress and advances | | 82,74,650 |
| | | 5,16,95,691 |
| CURRENT ASSETS, LOANS AND ADVANCES | | |
| Sundry debtors | 4 | 6,50,84,452 |
| Cash and bank balances | 5 | 10,30,61,705 |
| Loans and advances | 6 | 40,68,60,595 |
| | | 57,50,06,752 |
| Less: Current liabilities and provisions | 7 | 4,57,57,887 |
| NET CURRENT ASSETS | | 52,92,48,865 |
| PROFIT AND LOSS ACCOUNT | | 3,15,55,444 |
| | | 61,25,00,000 |

The schedules referred to above and the notes thereon form an integral part of the balance sheet.

This is the balance sheet referred to in our report of even date.

for Bharat S. Raut & Co.
*Chartered Accountants*

S. Balasubrahmanyam
*Partner*

for Progeon Limited

T. V. Mohandas Pai
*Chairman and Director*

Akshaya Bhargava
*Managing Director and Chief Executive Officer*

S. D. Shibulal
*Director*

Prof. Jayanth R. Varma
*Director*

Ajay Relan
*Director*

Sumanth Cidambi
*Head – Finance and Administration*

N. R. Ravikrishnan
*Company Secretary*

Bangalore
April 7, 2003

# Profit and Loss Account for the period ended March 31,

*in Rs. except share data*

| | Schedules | Period from April 3, 2002 through March 31, 2003 |
|---|---|---|
| INCOME | | |
| Revenues from business process management services | | 20,85,39,422 |
| COST OF REVENUES | 8 | 14,49,38,586 |
| GROSS PROFIT | | 6,36,00,836 |
| SELLING AND MARKETING EXPENSES | 9 | 4,75,35,154 |
| GENERAL AND ADMINISTRATION EXPENSES | 10 | 5,93,04,115 |
| OPERATING LOSS | | 4,32,38,433 |
| Interest | | – |
| Depreciation | | 1,38,67,041 |
| OPERATING LOSS AFTER INTEREST AND DEPRECIATION | | 5,71,05,474 |
| Other income / (expense), net | 11 | 2,55,50,030 |
| LOSS BEFORE TAX | | 3,15,55,444 |
| Provision for taxation | | – |
| NET LOSS AFTER TAX | | 3,15,55,444 |
| LOSS PER SHARE (Equity shares, par value Rs. 10 each) | | |
| Basic | | (3.32) |
| Diluted | | (3.32) |
| Number of shares used in computing loss per share | | |
| Basic | | 94,94,077 |
| Diluted | | 94,94,077 |
| SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS | 12 | |

The schedules referred to above and the notes thereon form an integral part of the profit and loss account.

This is the profit and loss account referred to in our report of even date.

for Bharat S. Raut & Co.
*Chartered Accountants*

for Progeon Limited

S. Balasubrahmanyam
*Partner*

T. V. Mohandas Pai
*Chairman and Director*

Akshaya Bhargava
*Managing Director and Chief Executive Officer*

S. D. Shibulal
*Director*

Prof. Jayanth R. Varma
*Director*

Ajay Relan
*Director*

Sumanth Cidambi
*Head – Finance and Administration*

N. R. Ravikrishnan
*Company Secretary*

Bangalore
April 7, 2003

# Schedules to the balance sheet

*in Rs.*

| | As of March 31, 2003 |
|---|---|
| 1. SHARE CAPITAL | |
| AUTHORIZED | |
| Equity Shares, Rs. 10 par value<br>2,71,25,000 equity shares | 27,12,50,000 |
| 0.0005% Cumulative Convertible Preference Shares, Rs. 100 par value<br>43,75,000 preference shares | 43,75,00,000 |
| | 70,87,50,000 |
| ISSUED, SUBSCRIBED AND PAID UP | |
| Equity Shares, Rs. 10 par value<br>1,22,50,000 equity shares fully paid up | 12,25,00,000 |
| (Of the above, 1,22,49,993 equity shares are held by Infosys Technologies Limited, the company's holding company and seven equity shares are beneficially held on behalf of Infosys Technologies Limited by the subscribers to the Memorandum of Association) | |
| 0.0005% Cumulative Convertible Preference Shares, Rs. 100 par value<br>43,75,000 preference shares, fully paid up (also refer to Note 12.2.10) | 43,75,00,000 |
| | 56,00,00,000 |

During the period, the Company issued 18,01,175 options to buy equity shares of Rs. 10 each, fully paid, all of which were outstanding as of March 31, 2003.

| | |
|---|---|
| 2. RESERVES AND SURPLUS<br>SHARE PREMIUM ACCOUNT | |
| Share premium account as at April 3, 2002 (date of incorporation) | – |
| Add: Received during the period on issue of shares | 5,25,00,000 |
| | 5,25,00,000 |

3. FIXED ASSETS

| Assets | Original cost | | | | Depreciation | | | | Net book value |
|---|---|---|---|---|---|---|---|---|---|
| | Cost as of April 3, 2002 | Additions during the period | Deletions during the period | Cost as of March 31, 2003 | As of April 3, 2002 | For the period | Deductions during the period | As of March 31, 2003 | As of March 31, 2003 |
| Computer equipment | – | 5,66,50,692 | – | 5,66,50,692 | – | 1,36,51,879 | – | 1,36,51,879 | 4,29,98,813 |
| Plant and machinery | – | 4,44,949 | – | 4,44,949 | – | 1,98,783 | – | 1,98,783 | 2,46,166 |
| Furniture and fixtures | – | 1,92,441 | – | 1,92,441 | – | 16,379 | – | 16,379 | 1,76,062 |
| | – | 5,72,88,082 | – | 5,72,88,082 | – | 1,38,67,041 | – | 1,38,67,041 | 4,34,21,041 |

| | As of March 31, 2003 |
|---|---|
| 4. SUNDRY DEBTORS | |
| (Unsecured considered good) | |
| Debts outstanding for a period less than six months | 6,50,84,452 |
| | 6,50,84,452 |
| 5. CASH AND BANK BALANCES | |
| Cash on hand | 11,872 |
| Balances with scheduled banks | |
| in current accounts | 5,19,55,492 |
| in deposit accounts in Indian rupees | 5,05,00,000 |
| Balances with non-scheduled banks | |
| in current accounts | 5,94,341 |
| | 10,30,61,705 |
| Balances with non-scheduled banks as at March 31, 2003 | |
| In current accounts | |
| Citibank N. A., Delaware | 2,24,342 |
| Citibank N. A., London | 3,69,999 |
| Maximum balances held in non-scheduled banks during the period | |
| In current accounts | |
| Citibank N. A., Delaware | 2,24,342 |
| Citibank N. A., London | 3,69,999 |

# Schedules to the balance sheet and profit and loss account

*in Rs.*

| | As of March 31, 2003 |
|---|---|
| 6. LOANS AND ADVANCES | |
| (Unsecured, considered good) | |
| Advances recoverable in cash or in kind or for value to be received | |
| Prepaid expenses | 1,33,36,766 |
| Travel and other advances | 1,17,42,902 |
| | 2,50,79,668 |
| Deposits with financial institution / bodies corporate | 35,47,59,657 |
| Deposits with government authorities | 25,000 |
| Other assets | 24,28,599 |
| Rental deposits | 40,000 |
| Tax deducted at source | 44,90,092 |
| Unbilled revenues | 2,00,37,579 |
| | 40,68,60,595 |
| 7. CURRENT LIABILITIES AND PROVISIONS | |
| Sundry creditors | |
| for capital goods | 85,47,819 |
| for accrued salaries and benefits | |
| salaries and allowances | 20,45,957 |
| bonus and incentives | 14,88,531 |
| retirement benefits | 22,71,861 |
| Provision for expenses | 1,86,01,879 |
| Withholding and other taxes payable | 29,87,547 |
| Others | 8,39,902 |
| | 3,67,83,496 |
| Deferred revenues | 89,74,391 |
| | 4,57,57,887 |

| | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| 8. COST OF REVENUES | |
| Salaries and bonus including overseas staff expenses | 2,96,61,393 |
| Staff welfare | 12,09,272 |
| Contribution to provident and other funds | 58,09,975 |
| Foreign travel expenses | 3,44,33,544 |
| Traveling and conveyance | 50,79,918 |
| Cost of software packages for own use | 40,54,815 |
| Cost of software packages for service delivery to clients | 10,88,329 |
| Communication expenses | 1,18,77,654 |
| Rent | 1,27,97,483 |
| Consultancy charges | 3,83,65,236 |
| Consumables | 5,60,967 |
| | 14,49,38,586 |
| 9. SELLING AND MARKETING EXPENSES | |
| Salaries and bonus including overseas staff expenses | 3,58,98,917 |
| Brand building | 28,24,009 |
| Sales commission | 19,55,000 |
| Professional charges | 15,77,139 |
| Staff welfare | 44,446 |
| Foreign travel expenses | 32,18,310 |
| Consumables | 15,452 |
| Cost of software packages for own use | 16,417 |
| Communication expenses | 36,933 |
| Traveling and conveyance | 83,516 |
| Rent | 3,46,143 |
| Telephone charges | 3,81,588 |
| Printing and stationery | 99,933 |
| Advertisement | 77,090 |
| Office maintenance | 1,97,745 |
| Power and fuel | 16,210 |
| Insurance charges | 11,750 |
| Rates and taxes | 21,151 |
| Marketing expenses | 4,80,731 |
| Sales promotion expenses | 31,809 |
| Other miscellaneous expenses | 2,00,865 |
| | 4,75,35,154 |

# Schedules to the profit and loss account

*in Rs.*

| | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| 10.GENERAL AND ADMINISTRATION EXPENSES | |
| Salaries and bonus | 1,73,78,750 |
| Staff welfare | 1,02,341 |
| Contribution to provident and other funds | 12,02,261 |
| Traveling and conveyance | 22,57,221 |
| Rent | 63,73,315 |
| Telephone charges | 7,09,346 |
| Legal and professional charges | 67,46,548 |
| Office maintenance | 10,90,970 |
| Power and fuel | 38,87,596 |
| Recruitment and training charges | 40,51,252 |
| Insurance charges | 17,67,771 |
| Rates and taxes | 48,87,242 |
| Auditor's remuneration | |
| audit fees | 2,10,000 |
| out-of-pocket expenses | 20,000 |
| Bank charges and commission | 1,13,927 |
| Postage and courier | 47,482 |
| Professional membership and seminar participation fees | 2,41,127 |
| Miscellaneous expenses | 18,47,451 |
| Cost of software packages for own use | 63,40,597 |
| Consumables | 28,918 |
| | 5,93,04,115 |
| 11.OTHER INCOME / EXPENSE (NET) | |
| Interest income | |
| On deposits with financial institution / bodies corporate | 2,34,43,657 |
| On deposits with banks | 27,29,636 |
| Exchange differences | (6,23,263) |
| | 2,55,50,030 |
| Tax deducted at source on interest income | 44,90,092 |

## 12. 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 core business processes in addition to providing increased value.

## 12.1 Significant accounting policies

### 12.1.1 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 provisions of the Companies Act, 1956. All amounts are stated in Indian Rupees, except as otherwise specified.

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.

### 12.1.2 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 proportional performance method. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. When the company receives advances for its services, such amounts are reported as client deposits until all conditions for revenue recognition are met.

### 12.1.3 Expenditure

The cost of software user licenses purchased for rendering business process management services is charged to revenue at the time of acquisition. Charges relating to non-cancelable, long-term operating leases are computed on the basis of the lease rentals payable as per the relevant lease agreements. Provisions are made for all known losses and liabilities, future unforeseeable factors that may affect the profit on fixed-price business process management contracts.

### 12.1.4 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. 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.

### 12.1.5 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. 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 |

### 12.1.6 Retirement benefits to employees

#### 12.1.6a Gratuity

In accordance with the Payment of Gratuity Act, 1972, Progeon provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan provides a lump sum payment to eligible 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.

#### 12.1.6b 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 beyond its monthly provisions.

#### 12.1.6c 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.

### 12.1.7 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. Current assets and current 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.

### 12.1.8 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 as considered appropriate for matters under appeal due to disallowances or for other reasons.

The differences that result between the profit offered 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.

### 12.1.9 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 is 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.

## 12.2 Notes to financial statements

The company was incorporated on April 3, 2002 and obtained its certificate of commencement of business on April 18, 2002. This being the first period of operations, prior period comparatives are not presented.

### 12.2.1 Capital commitments and contingent liabilities

The estimated amounts of contracts remaining to be executed on capital account and not provided for (net of advances) were Rs. 2,00,51,050 as of March 31, 2003.

### 12.2.2 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.

### 12.2.3 Dues to small-scale industrial undertakings

As of March 31, 2003, the company had no outstanding dues to small-scale industrial undertakings.

## 12.2.4 Export obligations

The Company has an export obligation towards the Software Technology Parks of India, in respect of duty free capital imports made by it. As of March 31, 2003, the remaining export obligation aggregates Rs. 54,27,14,997 and has to be discharged over a period of four years through March 31, 2007.

## 12.2.5 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.*

| | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| Salaries and bonus including overseas staff expenses | 8,29,39,060 |
| Staff welfare | 13,56,059 |
| Contribution to provident and other funds | 70,12,236 |
| Foreign travel expenses | 3,76,51,854 |
| Consumables | 6,05,337 |
| Cost of software packages for service delivery to clients | 10,88,329 |
| Cost of software packages for own use | 1,04,11,829 |
| Communication expenses | 1,19,14,587 |
| Consultancy charges | 3,83,65,236 |
| Traveling and conveyance | 74,20,655 |
| Rent | 1,95,16,941 |
| Telephone charges | 10,90,934 |
| Legal and professional charges | 83,23,687 |
| Brand building | 28,24,009 |
| Sales commission | 19,55,000 |
| Office maintenance | 12,88,715 |
| Recruitment and training charges | 40,51,252 |
| Power and fuel | 39,03,806 |
| Insurance charges | 17,79,521 |
| Rates and taxes | 49,08,393 |
| Auditor's remuneration | |
| audit fees | 2,10,000 |
| out-of-pocket expenses | 20,000 |
| Bank charges and commission | 1,13,927 |
| Postage and courier | 47,482 |
| Professional membership and seminar participation fees | 2,41,127 |
| Other miscellaneous expenses | 20,48,316 |
| Advertisements | 77,090 |
| Marketing expenses | 4,80,731 |
| Sales promotion expense | 31,809 |
| Printing and stationery | 99,933 |
| | 25,17,77,855 |

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

*in Rs.*

| | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| Capital goods | 5,31,54,472 |

## 12.2.7 Expenditure in foreign currency (on the payments basis)

| | |
|---|---|
| Legal and professional charges | 48,37,625 |
| Foreign travel expenses | 86,17,643 |
| | 1,34,55,268 |

## 12.2.8 Earnings in foreign currency (on the receipts basis)

| | |
|---|---|
| Revenues from business process management services | 11,19,53,528 |

## 12.2.9 Obligations on long-term non-cancelable operating leases

The lease rentals charged during the period amounts to Rs. 1,91,70,798. The maximum obligations on a long-term non-cancelable operating lease payable as per the rentals stated in the respective agreement are as follows:

*in Rs.*

| Lease obligations | As of March 31, 2003 |
|---|---|
| Within one year of the balance sheet date | 4,05,21,600 |
| Due in a period between one year and five years | 6,14,16,800 |
| Later than five years | – |

The operating lease arrangement extends for a maximum of three years from its respective date of inception. This arrangement is entered into with Infosys, for lease of premises. The lease rentals paid are included as a component of services purchased from Infosys (also refer to Note 12.2.13 below).

## 12.2.10 Cumulative convertible preference shares

The company issued 43,75,000 0.0005% cumulative convertible preference shares of par value Rs. 100 each at a premium of Rs. 12 per share to Citicorp International

Finance Corporation ("Citicorp"), on June 24, 2002. The total cash consideration received was Rs. 49,00,00,000, comprising Rs. 43,75,00,000 and Rs. 5,25,00,000, respectively towards preference share capital and share premium.

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

In the event of any liquidation, dissolution or winding up of the company, either voluntary or involuntary, each holder of the preference shares will be paid an amount of Rs. 112 per preference share, as adjusted for stock dividends, combinations, splits, recapitalization and the like, in preference to any distribution of any assets of the company to the holders of equity shares.

Upon the completion of the distribution described above, the remaining assets and funds of the company available for distribution to shareholders shall be distributed among all holders of preference shares and equity shares based on the number of equity shares held by each of them (assuming a full conversion of all the preference shares).

## 12.2.11 Provision for taxation

The company has incurred business losses computed in accordance with prevailing tax laws. Accordingly, no provision for current taxes was made for the period ended March 31, 2003. 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. Accordingly, the company believes it to be unlikely that it will be able to realize the benefit of operating loss carry-forwards. Consequently, it has not created any deferred tax asset.

## 12.2.12 Loans and advances

Deposits with financial institution and bodies corporate comprise:

*in Rs.*

| | As of March 31, 2003 |
|---|---|
| Deposits with financial institution: | |
| Housing Development Finance Corporation Limited | 15,16,16,096 |
| Deposits with bodies corporate: | |
| GE Capital Services India Limited | 20,31,43,561 |
| | 35,47,59,657 |

The above amounts include interest accrued but not due amounting to Rs. 47,59,657

### Maximum balance held during the period

*in Rs.*

| | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| Deposits with financial institution: | |
| Housing Development Finance Corporation Limited | 20,11,09,590 |
| Citicorp Finance (India) limited | 15,10,75,891 |
| Deposits with bodies corporate: | |
| GE Capital Services India Limited | 20,40,69,041 |

## 12.2.13 Related party transactions

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

*in Rs.*

| Particulars | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| Financing transactions – issue of equity shares | 12,25,00,000 |
| Purchase of services | |
| Business consulting services | 3,55,52,540 |
| Personnel and shared services including facilities | 9,61,12,722 |
| | 13,16,65,262 |
| Sale of services | 2,07,54,418 |

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 also entered into a financing transaction with Citicorp whereby Citicorp subscribed to preference shares in the company (see Note 12.2.10).

Additionally, the company has placed deposits with Citicorp Finance (India) Limited, amounting to Rs. 15,00,00,000 during the period ended March 31, 2003 and Rs. 5,00,00,000 in deposits with Citibank N.A. These entities are associate companies of Citicorp. As of March 31, 2003, there were no outstanding deposits with these entities.

The company also has a banking relationship with Citibank N.A. The balances held with Citibank N. A. as of March 31, 2003 in current accounts were Rs. 5,17,73,973

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 letter 1/491/2002-CL.VII dated March 20, 2003. Mr. Bhargava's remuneration for the period ended March 31, 2003 is set out below.

*in Rs.*

| | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| Salary and allowances | 7,08,335 |
| Provident fund, gratuity and superannuation contributions | 97,180 |
| Performance incentive | 4,16,665 |
| | 12,22,180 |

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

*in Rs.*

| | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| Salary and allowances | 3,20,586 |
| Provident fund, gratuity and superannuation contributions | 54,035 |
| Performance incentive | 1,23,864 |
| | 4,98,485 |

### 12.2.14 Managerial remuneration paid to non-whole time directors

Managerial remuneration paid to non-whole time directors comprised only sitting fees which amounted to Rs. 35,000.

# Balance sheet abstract and company's general business profile

| | |
|---|---|
| Registration details | |
| Registration no. | 030310 |
| State code | 08 |
| Balance sheet date | March 31, 2003 |

*in Rs. thousand*

| | |
|---|---|
| Capital raised during the year | |
| Public issue | – |
| Rights issue | – |
| Bonus issue | – |
| Private placements | 61,25,00 |
| Preferential offer of shares under Employees Stock Option Plan | – |
| Position of mobilization and deployment of funds | |
| Total liabilities | 6,58,25,78 |
| Total assets | 6,58,25,78 |
| Sources of funds | |
| Paid up capital | 56,00,00 |
| Reserves and surplus | 5,25,00 |
| Secured loans | – |
| Unsecured loans | – |
| Application of funds | |
| Net fixed assets | 5,16,96 |
| Investments | – |
| Net current assets | 52,92,49 |
| Miscellaneous expenditure | – |
| Accumulated losses | 3,15,55 |
| Performance of the company | |
| Turnover | 23,47,13 |
| Total Expenditure | 26,62,68 |
| Loss before tax | 3,15,55 |
| Extraordinary Income | – |
| Loss after tax | 3,15,55 |
| Loss per share from ordinary activities | 3.32 |
| Loss per share including extraordinary income | 3.32 |
| Dividend rate (%) | – |
| Generic names of principal products / services of the company | Business Process Outsourcing |
| Item code no. (ITC code) | 85 24 91 19 |
| Product description | Software – others |

T. V. Mohandas Pai
*Chairman and Director*

Akshaya Bhargava
*Managing Director and Chief Executive Officer*

S. D. Shibulal
*Director*

Prof. Jayanth R. Varma
*Director*

Ajay Relan
*Director*

Sumanth Cidambi
*Head – Finance and Administration*

N. R. Ravikrishnan
*Company Secretary*

Bangalore
April 7, 2003

# Cash flow statement

*in Rs.*

| | Period from April 3, 2002 through March 31, 2003 |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Loss before tax | (3,15,55,444) |
| Adjustments to reconcile loss before tax to cash provided by operating activities | |
| Depreciation | 1,38,67,041 |
| Interest income | (2,61,73,293) |
| Changes in current assets and liabilities | |
| Sundry debtors | (6,50,84,452) |
| Loans and advances | (5,21,00,938) |
| Current liabilities and provisions | 4,57,57,887 |
| NET CASH USED IN OPERATING ACTIVITIES | (11,52,89,199) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from issue of share capital | 61,25,00,000 |
| NET CASH PROVIDED IN FINANCING ACTIVITIES | 61,25,00,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of fixed assets and change in capital work-in-progress / advances | (6,55,62,732) |
| Interest income | 2,61,73,293 |
| NET CASH USED IN INVESTING ACTIVITIES | (3,93,89,439) |
| Net increase in cash and cash equivalents during the period | 45,78,21,362 |
| Cash and cash equivalents at the beginning of the period | – |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD* | 45,78,21,362 |

*Cash and cash equivalents aggregating Rs. 45,78,21,362 comprises cash on hand amounting to Rs. 11,872, balances with banks amounting to Rs. 10,30,49,833 and deposits with financial institution/bodies corporate amounting to Rs. 35,47,59,657.

The company was incorporated on April 3, 2002 and obtained its certificate of commencement of business on April 18, 2002. This being the first period of operations, prior period comparatives are not presented.

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

for Bharat S. Raut & Co.
*Chartered Accountants*

S. Balasubrahmanyam
*Partner*

for Progeon Limited

T. V. Mohandas Pai
*Chairman and Director*

Akshaya Bhargava
*Managing Director and Chief Executive Officer*

S. D. Shibulal
*Director*

Prof. Jayanth R. Varma
*Director*

Ajay Relan
*Director*

Sumanth Cidambi
*Head – Finance and Administration*

N. R. Ravikrishnan
*Company Secretary*

Bangalore
April 7, 2003