Progeon Limited

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

Annual Report for the period ended March 31, 2004

Registered Office:

Plot No. 26/3, 26/4 & 26/6
Electronics City, Hosur Road
Bangalore – 560 100

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*

Auditors

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

Directors' Report

To the Members,

The directors are pleased to present their report on the business and operations of the company for the year ended March 31, 2004.

Financial results

in Rs. Crore

	March 31, 2004	April 3, 2002 through March 31, 2003
Revenue from business process management services	78.14	20.85
Gross profit/ (loss)	27.66	6.36
Operating profit/ (loss) after interest and depreciation	(3.44)	(5.71)
Profit /(loss) after tax	(0.60)	(3.16)

Results of operations

The performance of the company during the year has been encouraging. The company's revenue has increased by 275% to Rs. 78.14 crore as against Rs. 20.85 crore in the previous year. The company added 9 new customers during the period, 1339 employees, established operation centers in Pune and in Eastern Europe and maintained its focus on end to end BPO services.

Increase in share capital

The company issued 1,22,50,000 equity shares of Rs. 10 each fully paid to Infosys Technologies Limited and 43,75,000 convertible preference shares of Rs. 100 each fully paid to Citicorp International Finance Corporation. Due to this the outstanding issued, subscribed and paid-up equity capital increased from 1,22,50,000 to 2,45,00,000 equity shares and convertible preference shares increased to 87,50,000 shares at the year end.

Business

The Business Process Outsourcing (BPO) industry has seen rapid growth in recent past. Several new entrants have joined the fray; traditional IT services companies have entered BPO offerings. Global IT and BPO companies have set up shop in India, and a number of overseas companies are looking at setting up "captive units". Conventional wisdom tells us that companies that are engineered to create and deliver value for all stakeholders (clients, employees and shareholders) will survive and succeed in the long run. Your company seeks long-term partnerships with clients while addressing their requirements. Your company's customer-centric approach has resulted in high levels of client satisfaction.

It was indeed a challenging year for your company. However, despite the slow-down of the economy in the United States and strong opposition to outsourcing to Asian countries, your company added 9 customers taking the total number of customers to 14 as on date.

Your company believes that the environment will be very exciting in the future. On the negative side, the gaining momentum on ban of outsourcing may have an impact on the business of the company. However, your company views these as short-term uncertainties and is confident of overcoming these by optimizing costs and aggressively pursuing new opportunities for growth.

Human Resources Management

Employees are the company's most valuable resource. The company has been able to create a favorable work environment that encourages innovation and meritocracy. During the period under review, human relations in the company was favorable. The company ended the year with 1878 employees.

Global development center – Progeon s.r.o.

The company, as part of its globalization program has set up a development center in the Republic of Czech as a wholly owned subsidiary. The company has invested an amount of 200,000 Czech Koruna towards the equity capital of Progeon s.r.o.. The subsidiary has not carried out any operations till the date of this report and will report its maiden financials from the date of incorporation till March 31, 2005. Hence, the financial statements of the subsidiary are not attached to the annual report of the Company.

Development center in India

During the year, the company leased facilities at Bangalore and at Pune from Infosys Technologies Limited to take care of its increased business opportunities.

Corporate Governance

With increasing globalization, corporate governance has assumed great significance. The company complies with the norms of corporate governance as applicable to an unlisted Public Company as envisaged under the Companies Act, 1956.

Composition of committees

1. Audit committee

As of March 31, 2004, the committee had Prof. Jayanth R Varma as the Chairman, Mr. T V Mohandas Pai and Mr. Dipak Kumar Rastogi as members. During the year ended March 31, 2004, the committee met four times. The primary objectives of the committee are to monitor and provide effective supervision of the management's financial reporting process with a view to ensure accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting. The Committee oversees the work carried out in the financial reporting process – by the management, including the internal auditors and the independent auditor – and notes the processes and safeguards employed by each.

2. Compensation committee

As of March 31, 2004, the committee had Prof. Jayanth R Varma as the Chairman, Mr. T V Mohandas Pai and Mr. Dipak Kumar Rastogi as members. During the year ended March 31, 2004, the compensation committee met four times. 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 plan, including the review and grant of stock options payable to eligible employees under the plan.

Details of remuneration and grant of stock options to the CEO

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

The details of remuneration paid to Mr. Akshaya Bhargava for the year ended March 31, 2004 are as follows:

in Rupees

	March 31, 2004	March 31, 2003
Salary, allowances including contributions to Provident Fund, Gratuity , Superannuation and Performance incentive	29,33,232	12,22,180

Mr. Akshaya Bhargava appointment and service contract is for an initial term of five years. This contract is terminable on either side upon six months written notice and without any severance fees. Mr. Akshaya Bhargava is also granted options to purchase 12,25,000 equity shares of the company at an exercise price of Rs. 33 per option (options vested – 3,50,000). The stock option vest over a period of one to six years from the date of their grant.

Responsibility statement of the board of directors

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

Employees Stock Option plan (ESOP) - 2002 Stock Offer Plan

	Description	Details
1	Total number of shares reserved under the 2002 Plan	52,50,000
2	Options granted during the year	14,01,150
3	Pricing formula	Above fair market value as of the date of the grant
4	Options vested as of March 31, 2004	4,43,641
5	Options exercised	Nil
6	Total number of shares arising as a result of exercise of options	None
7	Options lapsed	77,700
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	31,24,625
11	Grant to senior managerial personnel during the year	
	• Mr. Ramesh Kamath	1,60,000
	• Mr. Amitabh Chaudhry	1,60,000
	• Mr. A Somasekhar	1,30,000
	• Mrs. Nandita Gurjar	1,00,000

	Description	Details
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, Mr. Akshaya Bhargava

Fixed deposits

The 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 the Article of Association of the company, Mr. Akshaya Bhargava, retires by rotation in the forthcoming annual general meeting. Mr. Akshaya Bhargava being eligible offers himself for re-appointment.

Mr. Dipak Kumar Rastogi resigned from the directorship of the company on March 31, 2004. The Directors' place on record their sincere appreciation for the services rendered by Mr. Rastogi during his tenure as a director of your company. Consequent to this, Mr. Ajay Relan who was the alternate director to Mr. Dipak Kumar Rastogi also resigned from the directorship of the company. The Directors' place on record their sincere appreciation for the services rendered by Mr. Relan during his tenure as an alternate director of your company.

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.

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.

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.

Acknowledgments

The directors thank the company's clients, vendors, investors and bankers for their continued support during the year. The 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.

For and on behalf of the Board of Directors

Bangalore
April 6, 2004

T. V. Mohandas Pai
Chairman

Akshaya Bhargava
Managing Director and Chief Executive Officer

Annexure to the directors' report

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

1. Conservation of Energy

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

2. Research and Development (R & D)

Not applicable.

a. R & D initiatives at institutes of national importance

Not applicable

b. Specific areas for R & D at your company

Not applicable

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

Not applicable

d. Future plan of action

Not applicable

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

Not applicable

3. Technology absorption, adaptation and innovation

Not applicable

4. Foreign exchange earnings and outgo

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

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

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

in Rs. crore

	March 31, 2004	April 3, 2002 through March 31, 2003
Foreign exchange earnings	65.78	11.19
Foreign exchange outgo (including capital goods and imported software packages)	21.23	6.66

For and on behalf of the Board of Directors

T. V. Mohandas Pai

Bangalore
April 6, 2004

T. V. Mohandas Pai
Chairman

Akshaya Bhargava
Managing Director and Chief Executive Officer

Annexure to the directors' report

b) Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, and forming part of the directors' report for the year ended March 31, 2004

Sl.No	Name	Designation	Qualification	Age (Years)	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - Designation
1	Mr. Akshaya Bhargava	Managing Director and Chief Executive Officer	B.A.(Economics), Masters in Business Administration.	46	4.11.2002	23	29,33,232	Citibank N.A. Head- Global Product Management.
2	Mr. Amitabh Chaudhry	Vice-President Transition	B.E. PGDBM	39	18.4.2003	16	24,75,764	Managing Director Credit Lyonnais Services, Asia
3	Mr. Ramesh Kamath	Chief Financial Officer	B.Com, ACA, Grad CWA	46	21.5.2003	21	22,49,036	Group Financial Controller Bharati Televentures
4	Mrs. Nandita Gurjar	Vice-President and Head HR	M.A,	43	1.10.2003	12	10,86,484	AVP- HRD Infosys Technologies Limited

Notes:

1. Remuneration includes basic salary, allowance and taxable value of perquisites and contributions to Provident Fund, Superannuation and Gratuity.
2. None of the employees is related to any director of the company.
3. None of the employees owns more than 1% of the outstanding shares of the company as on March 31, 2004

For and on behalf of the Board of Directors

T. V. Mohandas Pai
Chairman

Akshaya Bhargava
Managing Director and Chief Executive Officer

Bangalore
April 6, 2004

Annexure to the directors' report

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

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

The board of directors and the management of the 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. The 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 Bharat S Raut & Co., Chartered Accountants, independent auditors.

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

For and on behalf of the Board of Directors

Bangalore
April 6, 2004

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, 2004, 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, 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 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, 2004;

    (ii) in the case of the Profit and Loss Account, of the loss 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 Bharat S. Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

Bangalore
April 6, 2004

Annexure to the auditors' report

The Annexure referred to in the auditors' report to the members of Progeon Limited (the Company) for the year ended March 31, 2004. 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 phased 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 such programme, the management has physically verified fixed assets during the year and 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 status of the company.

2. The Company's nature of operations does not require it to hold inventories. Accordingly, clause 4(ii) of the Companies (Auditor's Report) Order, 2003 ('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 are adequate internal control procedures commensurate with the size of the Company and the nature of its business for purchase of fixed assets. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not noted any continuing failure to correct major weakness in the internal controls during the course of the audit.

5. According to the information and explanations given to us, there are no transactions that need to be entered in the register in pursuance of section 301 of the Act. Consequently, the clause 4(v) of the Order is not applicable to the Company.

6. The Company has not accepted any deposits from the public and consequently, the directives issued by the Reserve Bank of India, the provisions of Sections 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder are not applicable.

7. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.

8. According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 in respect of services carried out by the Company.

9. According to the information and explanations given to us, and on the basis of our examination of the books of account, the Company has been regular in depositing with appropriate authorities undisputed statutory dues including provident fund, income-tax, sales-tax, customs duty, investor education and protection fund, wealth tax and any other material statutory dues applicable to it.

   According to the information and explanations given to us, no undisputed dues payable in respect of income-tax, sales tax, wealth tax, customs duty and cess were outstanding at 31, March 2004 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 in respect of sales tax, income tax, customs duty, wealth tax, excise duty, and cess that have not been deposited with the appropriate authorities on account of any dispute.

10. The Company has been registered for not more than five years. Consequently, the clause 4(x) of the Order is not applicable.

11. The Company has neither taken any loans from a financial institution and a bank nor issued any debentures. Accordingly, clause 4(xi) of the order is not applicable.

12. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, clause 4(xii) of the order is not applicable.

13. The Company is not a chit fund, nidhi, mutual benefit fund or a society. Accordingly, clause 4(xiii) of the order is not applicable.

14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4(xiv) of the order is not applicable.

15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions. Accordingly, clause 4(xv) of the order is not applicable.

16. The Company has not obtained any term loans. Accordingly, clause 4(xvi) of the order is not applicable.

17. According to the information and explanations given to us, the Company has not raised any funds on short-term basis. All assets have been funded by shareholders' funds.
18. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act. Accordingly, clause 4(xviii) of the order is not applicable.
19. The Company has not issued any debentures. Accordingly, clause 4(xix) of the order is not applicable.
20. The Company has not raised any money by public issues during the year. Accordingly, clause 4(xx) of the order is not applicable.
21. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

for Bharat S. Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

Bangalore
April 6, 2004

Balance Sheet

in Rs.

	Schedules	March 31, 2004	March 31, 2003
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	1,12,00,00,000	56,00,00,000
Reserves and surplus	2	6,05,93,250	5,25,00,000
		1,18,05,93,250	61,25,00,000
APPLICATION OF FUNDS			
FIXED ASSETS	3		
Original cost		20,32,27,657	5,72,88,082
Less: Depreciation		6,89,12,855	1,38,67,041
Net book value		13,43,14,802	4,34,21,041
Capital work-in-progress and advances		89,68,599	82,74,650
		14,32,83,401	5,16,95,691
INVESTMENTS	4	13,85,00,604	-
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	5	9,82,34,923	6,50,84,452
Cash and bank balances	6	65,79,25,945	10,30,61,705
Loans and advances	7	19,73,10,560	40,68,60,595
		95,34,71,428	57,50,06,752
Less: Current liabilities and provisions	8	9,21,96,848	4,57,57,887
NET CURRENT ASSETS		86,12,74,580	52,92,48,865
PROFIT AND LOSS ACCOUNT		3,75,34,665	3,15,55,444
		1,18,05,93,250	61,25,00,000
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	13		

As per our report attached
for Bharat S Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

S. D. Shibulal
Director

Prof. Jayanth R. Varma
Director

N R Ravikrishnan
Company Secretary

Ramesh Kamath
Chief Financial Officer

Bangalore
April 6, 2004

Profit and Loss Account

in Rs. Except per share data

	Schedule	Year ended March 31, 2004	Period from April 3, 2002 through March 31, 2003
INCOME			
Revenues from business process management services		78,14,48,404	20,85,39,422
		78,14,48,404	20,85,39,422
COST OF REVENUES	9	50,48,22,797	14,49,38,586
GROSS PROFIT / (LOSS)		27,66,25,607	6,36,00,836
SELLING AND MARKETING EXPENSES	10	9,41,77,934	4,75,35,154
GENERAL AND ADMINISTRATION EXPENSES	11	16,17,83,093	5,93,04,115
OPERATING PROFIT / (LOSS)		2,06,64,580	(4,32,38,433)
Depreciation		5,50,45,814	1,38,67,041
OPERATING PROFIT / (LOSS) AFTER DEPRECIATION		(3,43,81,234)	(5,71,05,474)
Other income/(expense), net	12	2,84,68,013	2,55,50,030
PROFIT / (LOSS) BEFORE TAX		(59,13,221)	(3,15,55,444)
Provision for taxation		66,000	-
NET PROFIT / (LOSS) AFTER TAX		(59,79,221)	(3,15,55,444)
Balance brought forward from the previous period		(3,15,55,444)	-
BALANCE CARRIED FORWARD		(3,75,34,665)	(3,15,55,444)
EARNINGS / (LOSS) PER SHARE: (Equity shares, par value Rs. 10 each):			
Basic:		(0.49)	(3.32)
Diluted:		(0.49)	(3.32)
Weighted average number of shares used in computing earnings per share:			
Basic		1,22,83,470	94,94,077
Diluted		1,22,83,470	94,94,077
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	13		

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

As per our report attached
for Bharat S Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

S. D. Shibulal
Director

Prof. Jayanth R. Varma
Director

N R Ravikrishnan
Company Secretary

Ramesh Kamath
Chief Financial Officer

Bangalore
April 6, 2004

Schedules to the Balance Sheet as at

in Rs

	March 31, 2004	March 31, 2003
1. SHARE CAPITAL		
AUTHORIZED		
Equity Shares, Rs. 10/- (Rs. 10/-) par value		
2,71,25,000 (2,71,25,000) equity shares	27,12,50,000	27,12,50,000
0.0005% Cumulative Convertible Preference Shares, Rs. 100/- (Rs. 100/-) par value		
87,50,000 (43,75,000) preference shares	87,50,00,000	43,75,00,000
	1,14,62,50,000	70,87,50,000
ISSUED, SUBSCRIBED AND PAID UP		
Equity Shares, Rs. 10/- (Rs. 10/-) par value*		
2,45,00,000 (1,22,50,000) equity shares fully paid up	24,50,00,000	12,25,00,000
(Of the above, 2,44,99,993 (1,22,49,993) equity shares are held by Infosys Technologies Limited, the company's holding company and 7 (7)equity shares are beneficially held on behalf of Infosys Technologies Limited by the subscribers to the Memorandum of Association)		
0.0005% Cumulative Convertible Preference Shares, Rs. 100/- (Rs. 100/-)par value		
87,50,000 (43,75,000) preference shares, fully paid up (refer to Note 13.2.9)	87,50,00,000	43,75,00,000
	1,12,00,00,000	56,00,00,000
* For details of options in respect of the above shares refer to note 13.2.18.		
2. RESERVES AND SURPLUS		
Share premium account at the beginning of the period	5,25,00,000	-
Add: Received during the period on issue of shares	1,05,00,000	5,25,00,000
Less: Share issue expenses written off	24,06,750	-
	6,05,93,250	5,25,00,000

3. FIXED ASSETS

in Rs.

Particulars	Original cost				Depreciation				Net book value	
	Cost as of April 1, 2003	Additions during the period	Deletions during the period	Cost as of March 31, 2004	As of April 1, 2003	For the Period	Deductions during the period	As of March 31, 2004	As of March 31, 2004	As of March 31, 2003
Leasehold improvements	-	2,63,92,169	-	2,63,92,169	-	19,76,152	-	19,76,152	2,44,16,017	-
Plant and machinery	4,44,949	1,91,36,106	-	1,95,81,055	1,98,783	15,54,378	-	17,53,161	1,78,27,894	2,46,166
Computer equipment	5,66,50,692	9,03,20,515	-	14,69,71,207	1,36,51,879	5,06,14,840	-	6,42,66,719	8,27,04,488	4,29,98,813
Furniture and fixtures	1,92,441	1,00,90,785	-	1,02,83,226	16,379	9,00,444	-	9,16,823	93,66,403	1,76,062
	5,72,88,082	14,59,39,575	-	20,32,27,657	1,38,67,041	5,50,45,814	-	6,89,12,855	13,43,14,802	4,34,21,041
Previous year	-	5,72,88,082	-	5,72,88,082	-	1,38,67,041	-	1,38,67,041	4,34,21,041	-

Schedules to the Balance Sheet as at

in Rs.

	March 31, 2004	March 31, 2003
4. INVESTMENTS		
Trade (unquoted) – at cost		
Subsidiaries		
Progeon s.r.o, Republic of Czech, a wholly owned subsidiary	4,21,747	-
Non-trade (unquoted) – at the lower of cost and fair value, current		
Investments *		
Mutual funds	13,80,78,857	-
	13,85,00,604	-
* Refer note 13.2.15		
5. SUNDRY DEBTORS		
(Unsecured, considered good)		
Debts outstanding for a period exceeding six months	-	-
Debts outstanding for a period less than six months	9,82,34,923	6,50,84,452
	9,82,34,923	6,50,84,452
6. CASH AND BANK BALANCES		
Cash on hand	7,605	11,872
Balances with scheduled banks		
in current accounts	47,62,64,870	5,19,55,492
in deposit accounts in Indian rupees	18,00,00,000	5,05,00,000
Balances with non-scheduled banks		
in current accounts	16,53,470	5,94,341
	65,79,25,945	10,30,61,705
Balances with non-scheduled banks		
In current accounts		
Citibank N. A., Delaware	11,96,624	2,24,342
Citibank N. A., London	4,56,846	3,69,999
7. LOANS AND ADVANCES		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received		
Prepaid expenses	50,88,448	1,33,36,766
Travel and other advances	1,37,26,852	1,17,42,902
	1,88,15,300	2,50,79,668
Deposits with financial institution / bodies corporate	6,46,44,385	35,47,59,657
Deposits with government authorities	90,000	25,000
Rental deposits	1,64,49,087	40,000
Electricity and other deposits	42,15,615	-
Tax deducted at source	29,92,980	44,90,092
Unbilled revenues	7,33,36,960	2,00,37,579
Other assets	1,67,66,233	24,28,599
	19,73,10,560	40,68,60,595

Schedules to the Balance Sheet as at (continued)

in Rs.

		March 31, 2004	March 31, 2003
8.	CURRENT LIABILITIES AND PROVISIONS		
	Sundry creditors		
	for capital goods	1,47,96,014	85,47,819
	for expenses	2,05,11,866	-
	for accrued salaries and benefits		
	- salaries and allowances	19,69,333	20,45,957
	- exgratia and incentives	44,28,505	14,88,531
	- retirement benefits	87,36,958	22,71,861
	Provision for expenses	3,33,03,278	1,86,01,879
	Withholding and other taxes payable	65,69,037	29,87,547
	Others	-	8,39,902
		9,03,14,991	3,67,83,496
	Deferred revenues	18,81,857	89,74,391
		9,21,96,848	4,57,57,887
9.	COST OF REVENUES		
	Salaries including overseas staff expenses	19,74,89,392	2,96,61,393
	Staff welfare	30,07,708	12,09,272
	Contribution to provident and other funds	1,72,59,015	58,09,975
	Traveling expenses	5,81,69,030	3,44,33,544
	Conveyance	3,20,01,246	50,79,918
	Cost of software packages	7,42,863	40,54,815
	Computer maintenance	35,97,920	10,88,329
	Communication expenses	10,40,04,802	1,18,77,654
	Rent	6,26,74,922	1,27,97,483
	Consultancy charges	97,24,321	3,83,65,236
	Consumables	2,95,897	5,60,967
	Recruitment expenses	1,56,24,263	-
	Other miscellaneous expenses	2,31,418	-
		50,48,22,797	14,49,38,586
10.	SELLING AND MARKETING EXPENSES		
	Salaries including overseas staff expenses	6,58,97,233	3,78,53,917
	Brand building and advertisement	10,52,547	25,20,557
	Contribution to provident and other funds	9,63,433	-
	Staff welfare	2,67,394	44,446
	Traveling expenses	2,11,54,176	32,18,310
	Consumables	-	15,452
	Cost of software packages	-	16,417
	Communication expenses	8,07,042	4,18,521
	Conveyance	19,40,966	83,516
	Rent	-	3,46,143
	Printing and stationery	3,77,077	99,933
	Office maintenance	-	1,97,745
	Power and fuel	-	16,210
	Insurance charges	-	11,750
	Rates and taxes	-	21,151
	Marketing expenses	3,97,072	4,80,731
	Sales promotion expenses	-	31,809
	Other miscellaneous expenses	5,08,536	2,00,865
	Recruitment expenses	6,37,685	3,80,542
	Legal and professional charges	1,74,773	15,77,139
		9,41,77,934	4,75,35,154

Schedules to the Profit and Loss Account (continued)

in Rs.

		Year ended March 31, 2004	Period from April 3, 2002 through March 31, 2003
11.	GENERAL AND ADMINISTRATION EXPENSES		
	Salaries	4,96,98,084	1,73,78,750
	Staff welfare	27,62,209	1,02,341
	Contribution to provident and other funds	37,69,794	12,02,261
	Conveyance	1,10,42,860	22,57,221
	Consumables	14,29,692	28,918
	Cost of software packages	1,88,61,065	63,40,597
	Rent	74,75,902	63,73,315
	Telephone and communication charges	43,20,524	7,09,346
	Legal and professional charges	2,20,23,377	67,46,548
	Printing and stationery and office maintenance	95,27,097	10,90,970
	Power and fuel	1,43,11,407	38,87,596
	Recruitment and training charges	20,53,725	40,51,252
	Insurance charges	81,98,994	17,67,771
	Rates and taxes	8,69,761	48,87,242
	Auditor's remuneration		
	audit fees	5,40,000	2,10,000
	out-of-pocket expenses	27,000	20,000
	Bank charges and commission	7,79,017	1,13,927
	Postage and courier	3,36,674	47,482
	Professional membership and seminar participation fees	11,89,418	2,41,127
	Other miscellaneous expenses	25,66,493	18,47,451
		16,17,83,093	5,93,04,115
12.	OTHER INCOME/EXPENSE (NET)		
	Interest income		
	On deposits with financial institution / bodies corporate	1,19,00,794	2,34,43,657
	On deposits with banks	24,74,840	27,29,636
	Dividend	32,07,875	-
	Exchange differences	58,94,973	(6,23,263)
	Miscellaneous income	46,34,981	-
	Interest on income tax refund	3,54,550	-
		2,84,68,013	2,55,50,030
	Tax deducted at source on interest income	27,22,618	44,90,092

13. 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 clients' 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. has been incorporated on February 4, 2004 in the Czech Republic as a wholly owned subsidiary to provide business process management and transitioning services.

13.1 Significant accounting policies

13.1.1 Basis of preparation of financial statements

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

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.

13.1.2 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 proportionate-completion 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.

13.1.3 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 the basis of the lease rentals payable as per the relevant lease agreements. 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. Leave encashment liability is provided on the basis of an actuarial valuation.

13.1.4 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 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.

13.1.5 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. 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

13.1.6 Retirement benefits to employees

13.1.6a Gratuity

In accordance with the Payment of Gratuity Act, 1972, Progeon provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering 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 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.

13.1.6b 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 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.

13.1.6c 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.

13.1.7 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. 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 except those related to acquisition of fixed assets which are adjusted in the carrying value of the related fixed asset. In case of forward contracts, the difference between the forward rate and the exchange rate on the date of the transaction is recognized as income or expense over the life of the contract.

13.1.8 Income tax

Income tax expense comprises current tax and deferred tax charge or credit. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognized using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the asset can be realized in the future; however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognized only if there is a virtual certainty of realization of such assets. Deferred tax assets are reviewed as at each balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized.

13.1.9 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 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.

13.1.10 Contingencies

Loss contingencies arising from claims, litigation, assessment, fines, penalties etc are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

13.1.11 Preliminary expenses

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

13.1.12 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.

13.2 Notes to financial statements

13.2.1 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. 54,95,190 and Rs. 2,00,51,050 as of March 31, 2004, and March 31, 2003 respectively.

Forward contracts outstanding as at March 31, 2004 were Rs. 27,20,47,500 (equivalent to US$ 60,00,000). Unamortised exchange gain on the above contracts as of March 31, 2004 amounts to Rs. 2,33,938.

13.2.2 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.

	Year ended March 31, 2004	Period from April 3, 2002 to March 31, 2003
Salaries and ex-gratia including overseas	31,30,84,709	8,48,94,060
Staff welfare	60,37,311	13,56,059
Contribution to provident and other funds	2,19,92,242	70,12,236
Foreign travel expenses	7,93,23,206	3,76,51,854
Consumables	17,25,589	6,05,337
Computer maintenance	35,97,920	10,88,329
Cost of software for own use	1,96,03,928	1,04,11,829
Communication expenses	10,91,32,368	1,30,05,521
Consultancy charges	97,24,321	3,83,65,236
Travel and conveyance	4,49,85,072	74,20,655
Rent	7,01,50,824	1,95,16,941
Printing and stationery	99,04,174	11,90,903
Legal and professional charges	2,21,98,150	83,23,687
Brand building	10,52,547	25,20,557
Recruitment and training charges	1,83,15,673	44,31,794
Power and fuel	1,43,11,407	39,03,806
Insurance charges	81,98,994	17,79,521
Rates and taxes	8,69,761	49,08,393
Auditor's remuneration		
audit fees	5,40,000	2,10,000
out-of-pocket expenses	27,000	20,000
Bank Charges and Commission	7,79,017	1,13,927
Postage and courier	3,36,674	47,482
Professional membership and seminar participation fees	11,89,418	2,41,127
Other miscellaneous expenses	33,06,447	20,48,316
Marketing expenses	3,97,072	4,80,731
Sales promotion expense	-	31,809
Office Maintenance	-	1,97,745
	76,07,83,824	25,17,77,855

13.2.3 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.

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

in Rs.

	Year ended March 31, 2004	Period from April 3, 2002 to March 31, 2003
Capital Goods	8,49,50,992	5,31,54,472

13.2.5 Expenditure in foreign currency (on payments basis)

in Rs.

	Year ended March 31, 2004	Period from April 3, 2002 to March 31, 2003
Legal and professional charges and Salary	480,00,679	48,37,625
Foreign travel expenses, boarding, air ticket and relocation	2,43,27,269	86,17,643
Bank charges, technology imaging and others	3,66,77,611	-
Communication	1,84,30,238	-
	12,74,35,797	1,34,55,268

13.2.6 Earnings in foreign currency (on receipt basis)

in Rs.

	Year ended March 31, 2004	Period from April 3, 2002 to March 31, 2003
Revenues from business process management services	65,78,49,864	11,19,53,528

13.2.7 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, 2004	Period from April 3, 2002 to March 31, 2003
Lease rentals charged during the period	7,01,78,624	1,95,16,941

in Rs.

	As of March 31,	
	2004	2003
Within one year of the balance sheet date	8,01,63,960	4,05,21,600
Due in a period between one year and five years	9,47,91,956	6,14,16,800
Later than five years	-	-

The Company has entered into non-cancelable operating lease arrangements for premises with Infosys. The existing operating lease arrangements extend for periods between 36 Months and 56 Months from their respective dates of inception. The lease rentals paid are included as a component of services purchased from Infosys (also refer Note 13.2.13 below).

13.2.8 Dues to small-scale industrial undertakings

As of March 31, 2004, the company had no outstanding dues to small-scale industrial undertakings.

13.2.9 Cumulative convertible preference shares

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

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

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

13.2.10 Provision for taxation

The company benefits from certain significant tax incentives provided to firms rendering business process management services under Indian tax laws. These incentives presently include an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as "Software Technology Parks" (the "STP Tax Holiday"). The Government of India recently amended the tax incentives available to companies set up in designated STPs. The period of the STP Tax Holiday available to such companies is restricted to 10 consecutive years beginning from the financial year when the unit started rendering business process management services or March 31, 2009, whichever is earlier. The best estimate of management of the effective tax rate expected to be applicable for the full year is zero. However, provision for Minimum Alternative Taxes u/s. 115JB of the Income Tax Act 1961, was made for the year ended March 31, 2004. The company believes it to be unlikely that it will be able to realize the benefit of net operating loss carry-forwards. Consequently, it has not created any deferred tax asset.

13.2.11 Loans and advances

Deposits with financial institution and bodies corporate comprise:

in Rs.

	As of March 31, 2004	2003
Deposits with financial institution:		
Housing Development Finance Corporation Limited	6,46,44,384	15,16,16,096
Deposits with bodies corporate:		
GE Capital Services India Limited	-	20,31,43,561
	6,46,44,384	35,47,59,657

The above amounts include interest accrued but not due amounting to Rs. 6,44,384 and Rs. 47,59,657 in March 31,2004 and March 31, 2003 respectively.

Maximum balance held during the period

in Rs.

	Year ended March 31, 2004	Period from April 3, 2002 to March 31, 2003
Deposits with financial institution:		
Housing Development Finance Corporation Limited	15,22,37,672	20,11,09,590
Deposits with bodies corporate:		
GE Capital Services India Limited	20,32,41,096	20,40,69,041
Citicorp Finance (India) Limited	-	15,10,75,891

13.2.12 Maximum balances held in non-scheduled banks

in Rs.

	Year ended March 31, 2004	Period from April 3, 2002 to March 31, 2003
Citibank NA, Delaware	97,16,042	2,24,342
Citibank NA, London	92,55,645	3,69,999

13.2.13 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	Year ended March 31, 2004	Period from April 3, 2002 to March 31, 2003
Financing transactions – issue of equity shares	12,25,00,000	12,25,00,000
Rental deposit placed	1,61,29,068	-
Purchase of services		
Business consulting services	12,30,635	3,55,52,540
Personnel and shared services including facilities	12,70,34,337	9,61,12,722
	12,82,64,972	13,16,65,262
Sale of services	70,34,356	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 during the year ended March 31, 2004. (see Note 13.2.9).

The company has placed with Citicorp Finance (India) Limited, amounting to nil, Rs. 15,00,00,000 during the year ended March 31, 2004 and for the period ended March 31, 2003 respectively deposits with Citibank N.A. was nil and Rs. 5,00,00,000 during year ended March 31, 2004 and period ended March 31,2003. These entities are associate companies of Citicorp. As of March 31, 2004 and March 31, 2003, there were no outstanding deposits with these entities.

The company also has a banking relationship with Citibank N.A., India. The balances held with Citibank N. A. as of March 31, 2004, and March 31, 2003 in current accounts were Rs. 45,00,05,866 and Rs. 5,17,73,973 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 letter 1/491/2002-CL.VII dated March 20, 2003. Mr. Bhargava's remuneration is set out below.

in Rs.

	Year ended March 31, 2004	Period from April 3, 2002 to March 31, 2003
Basic salary and allowances	15,44,004	7,08,335
Provident Fund, gratuity and superannuation contributions	2,33,232	97,180
Performance incentive	9,99,996	4,16,665
Perquisites	1,56,000	-
	29,33,232	**12,22,180**

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

in Rs.

	Year ended March 31, 2004,	Period from April 3, 2002 to March 31, 2003
Salary and allowances	58,32,995	3,20,586
Provident Fund, gratuity and superannuation contributions	7,81,863	54,035
Performance Incentive	26,84,989	1,23,864
	92,99,847	4,98,485

13.2.14 Managerial remuneration paid to non-whole time directors

in Rs.

	Year ended March 31, 2004,	Period from April 3, 2002 to March 31, 2003
Sitting fees	60,000	35,000

13.2.15 Investment Activity

Long-term investments

The Company has invested Rs. 4,21,747 towards incorporation of Progeon s.r.o., its wholly owned subsidiary in the Czech Republic. The subsidiary is yet to commence business operations.

Current investments

in Rs.

	As of March 31,	
	2004	2003
Reliance Liquid fund – Treasury plan - Daily 22,88,045.35 units of NAV of at Rs. 15.27 each at cost	3,49,45,317	
JM High Liquidity Fund-Institutional Dividend – Daily 30,65,513 units of NAV of Rs. 10.00 each at cost	3,06,48,265	-
Grindlays Cash Fund-Institutional Plan – Dividend daily 26,74,684.83 units of NAV of Rs. 10.58, each at cost	2,83,02,445	-
Kotak Liquid Institutional – Dividend – Daily 17,10,190.66 units of NAV of Rs. 12.23 each at cost	2,09,12,383	-
Prudential ICICI Liquid Plan-Institutional –Dividend-Daily 3,14,760.33 units of NAV of Rs. 11.85 each at cost	37,29,784	-
Franklin Templeton 2,993.82 units of NAV of Rs. 1,511.96 each at cost	45,26,540	-
DSP Merrill Lynch Liquidity Fund 14,99,912.43 units of NAV of Rs. 10.01 each at cost	1,50,14,123	-
	13,80,78,857	-

13.2.16 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. The remaining export obligation aggregates Rs. 25, 33, 15,466 and Rs. 54, 27, 14,997, as at March 31, 2004 and as at March 31, 2003 respectively.

13.2.17 Reconciliation between basic and dilutive shares

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

in Rs.

	As of March 31,	
	2004	2003
Weighted average shares used in computing basic earnings per share	1,22,83,470	94,94,077
Dilutive effect of cumulative convertible preference shares and stock options	-	-
Weighted average shares used in computing diluted earnings per share	1,22,83,470	94,94,077

13.2.18 Employee Stock Option Plan - 2002 Employees Stock Option Plan ("2002 Plan")

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

Number of options granted, exercised and forfeited	Year ended March 31,	
	2004	2003
Options granted, beginning of year	18,01,175	-
Granted during the year	14,01,150	18,01,175
Forfeited during the year	77,700	-
Options outstanding at the end of year	31,24,625	18,01,175

13.2.19 Segment reporting

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

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

Industry segments at the company primarily comprise customers providing services to financial services, telecom and other industries.

Income in relation to segments is categorized based on items that are individually identified to those segments while expenditure is categorized in relation to the associated turnover of the segment. Certain expenses which form a significant component of total expenses are not specifically allocable to specific segments as the underlying services are used interchangeably. These expenses are separately disclosed as "unallocated" and adjusted only against the total income of the company.

The company believes that it is not practical to provide segment disclosures relating to these costs and expenses, and accordingly these expenses are separately disclosed as unallocated and directly charged against total income.

Fixed assets in the company's business or liabilities contracted have not been identified to any reportable segments, as the fixed assets and services are used interchangeably between segments.

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

Industry Segments

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

Geographical Segments

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

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

Cash Flow Statement

	March 31, 2004	Period from April 3, 2002 through March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (Loss) before tax	(59,13,221)	(3,15,55,444)
Adjustments to reconcile profit/ (loss) before tax to cash provided by operating activities		
Depreciation	5,50,45,814	1,38,67,041
Interest income	(1,43,75,634)	(2,61,73,293)
Dividend income	(32,07,875)	-
Exchange differences on translation of foreign currency bank balances	14,44,509	-
Changes in current assets and liabilities	-	
Sundry debtors	(3,31,50,471)	(6,50,84,452)
Loans and advances	(8,21,28,349)	(4,76,10,846)
Current liabilities and provisions	4,64,38,961	4,57,57,887
Income taxes (paid)/ refund during the year, net	14,97,112	(44,90,092)
NET CASH USED IN OPERATING ACTIVITIES	(3,43,49,154)	(11,52,89,199)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	56,80,93,250	61,25,00,000
NET CASH PROVIDED IN FINANCING ACTIVITIES	56,80,93,250	61,25,00,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and change in capital work-in-progress/advances	(14,66,33,524)	(6,55,62,732)
Interest income	1,43,75,634	2,61,73,293
Dividend income	32,07,875	-
Purchase of units in mutual funds	(50,97,09,589)	-
Sale of units in mutual funds	37,16,30,732	-
Investment in subsidiary	(4,21,747)	
NET CASH USED IN INVESTING ACTIVITIES	(26,75,50,619)	(3,93,89,439)
Effect of exchange differences on translation of foreign currency bank balances	(14,44,509)	-
Net increase in cash and cash equivalents during the period	26,61,93,477	45,78,21,362
Cash and cash equivalents at the beginning of the period	45,78,21,362	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD*	72,25,70,330	45,78,21,362

*Cash and cash equivalents aggregating Rs. 72,25,70,330 (Rs. 45,78,21,362 as at March 31, 2003 respectively) comprises cash on hand amounting to Rs 7,605 (Rs. 11,872 as at March 31, 2003 respectively), balances with banks amounting to Rs. 65,79,18,340 (Rs. 10,30,49,833 as at March 31,2003 respectively) and deposits with financial institution/bodies corporate amounting to Rs. 6,46,44,385 (Rs. 35,47,59,657 as at March 31, 2003 respectively).

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

for Bharat S Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

T. V. Mohandas Pai
Chairman and Director

Akshaya Bhargava
Managing Director and Chief Executive Officer

S. D. Shibulal
Director

Prof. Jayanth R. Varma
Director

N R Ravikrishnan
Company Secretary

Ramesh Kamath
Chief Financial Officer

Bangalore
April 6, 2004

Balance Sheet abstract and company's general business profile

Registration details	
Registration no.	030310
State code	08
Balance sheet date	March 31, 2004
	In Rs
Capital raised during the year	
Public issue	-
Rights issue	-
Bonus issue	-
Private placements	56,80,93,250
Preferential offer of shares under Employees Stock Option Plan	-
Position of mobilization and deployment of funds	
Total liabilities	1,18,05,93,250
Total assets	1,18,05,93,250
Sources of funds	
Paid up capital	112,00,00,000
Reserves and surplus	605,93,250
Secured loans	-
Unsecured loans	-
Net fixed assets	14,32,83,401
Investments	13,85,00,604
Net current assets	86,12,74,580
Miscellaneous expenditure	-
Accumulated losses	3,75,34,665
Performance of the company	
Turnover	78,14,48,404
Other Income	2,84,68,013
Total Income	80,99,16,417
Total Expenditure	81,58,29,638
Profit/(loss) before tax	(59,13,221)
Extraordinary Income	-
Profit / (loss) after tax	(59,79,221)
Earnings per share from ordinary activities	(0.49)
Earnings per share including extraordinary income	(0.49)
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

N R Ravikrishnan
Company Secretary

Ramesh Kamath
Chief Financial Officer

Bangalore
April 6, 2004