



## Philosophy

The Company continued with its initiative of voluntary adoption of various corporate governance measures. The following report on the voluntary implementation of the Corporate Governance Code in terms of Clause 49 of the Listing Agreement by the Company is a reflection of the same.

The Company defines Corporate Governance as a set of guidelines that are followed by the Board of Directors and the Management of the Company to create value for the stakeholders.

The Company firmly believes in conducting its affairs with the highest level of integrity, accountability and transparency. Commitments and social responsibility in all dealings with customers, Government authorities, suppliers, employees and other stakeholders are the objectives of good corporate governance. The Company respects and strives hard to meet these objectives of good corporate governance.

## Report on voluntary compliance of Corporate Governance



















### 1. Board of Directors








#### A. Composition of the Board of Directors

The Board of Directors of the Company has an optimum mix of executive and non-executive directors with independent directors to maintain the independence of the Board. At present the Company's Board consists of seven members, of whom, two are executive directors and five are non-executive headed by an executive chairman.

The details of composition of Board of Directors and its Committees are as follows:

Chairman  Member 

Name of the Director	Position	Board	Audit	Committees Executive	Compensation
Dr. Anand Deshpande <sup>®</sup>	Chairman & Managing Director		-	-	
Mr. Navin Chaddha <sup>*</sup>	Investor Nominee Director				
Dr. Promod Haque <sup>*</sup>	Investor Nominee Director				
Mr. Sandeep Johri	Independent Director		-	-	-
Mr. Ashutosh Joshi <sup>#</sup>	Executive Director				-
Mr. P. B. Kulkarni	Independent Director				

Name of the Director	Position	Board	Committees		
			Audit	Executive	Compensation
Prof. Krithi Ramamritham	Independent Director		-	-	-
Dr. Shridhar Shukla <sup>#</sup>	Non-Executive Director		-	-	
Mr. Ajit Tamhankar <sup>*</sup>	Executive Director		-	-	-
Mr. S. P. Deshpande <sup>@</sup>	Executive Director				-

In this report, following signs, wherever it appears, denotes the following:

@	:	Promoter Director
*	:	Appointed as Investor Nominee Director of the Company on November 18, 2005.
#	:	Ceased to be a Director and member of the Committee/s of the Board w.e.f. November 18, 2005
✓	:	Attended the meeting
X	:	Not attended the meeting
NA	:	Not Applicable as was not director on the date of meeting
C	:	Attended the meeting through tele conferencing /video conferencing

## B. Board Meetings and Deliberations

The Company Secretary in consultation with the Chairman of the Company prepares the agenda and supporting papers for discussion at each Board Meeting. Members of the Board are free to suggest inclusion of items in the agenda, in addition to their right to bring up matters for discussion at the meeting with the permission of the Chairman.

Information and data that are important to the Board's understanding of the business in general and related matters are tabled for discussion at the meeting. Agenda is distributed in writing to the members of the Board sufficiently in advance of the meeting.

The Board meets in executive session, at least, four times in a year, at quarterly intervals and more frequently if deemed necessary to conduct its business. Those members of the Board, who are not able to physically participate in the Board meetings, participate in the meeting through tele-conferencing / video-conferencing. The Chief Operating Officer, the Heads of Finance, Human Resource and Administration Divisions and the Statutory Auditors of the Company attend the Board meetings as invitees. Other Executives and Divisional Heads are invited at the Board Meetings, whenever required. In compliance of Clause 49 of the Listing Agreement, the gap between two Board Meetings has not exceeded four months.



### C. Attendance of each director at the Board Meetings and the last AGM

Name of Director	Apr. 16, 2005	Board Meetings Jul. 22, 2005	Oct. 21, 2005	Feb. 11, 2006	Annual General Meeting Jun. 10, 2005
Dr. Anand Deshpande	✓	✓	✓	✓	✓
Mr. Navin Chaddha *	NA	NA	NA	C	NA
Dr. Promod Haque *	NA	NA	NA	✓	NA
Mr. Sandeep Johri	C	✓	C	C	X
Mr. Ashutosh Joshi #	✓	✓	✓	NA	✓
Mr. P. B. Kulkarni	✓	✓	✓	✓	✓
Prof. Krithi Ramamritham	✓	✓	✓	✓	✓
Dr. Shridhar Shukla #	✓	✓	✓	NA	✓
Mr. Ajit Tamhankar #	✓	✓	✓	NA	✓
Mr. S. P. Deshpande	✓	✓	✓	✓	✓

### D. Particulars of the membership of other Boards/Committees

Name of the Director	No. of other Boards of which the Director is a member	Other committees in which the Director is a member
Dr. Anand Deshpande	2	1
Mr. Navin Chaddha *	5	-
Dr. Promod Haque *	11	14
Mr. Sandeep Johri	2	-
Ashutosh Joshi #	-	2
Mr. P. B. Kulkarni	2	4
Prof. Krithi Ramamritham	-	1
Dr. Shridhar Shukla #	2	1
Mr. Ajit Tamhankar #	1	-
Mr. S. P. Deshpande	1	2

## 2. Committees of the Board of Directors

### A. Audit Committee

#### Brief description of terms of reference

An Audit Committee was initially setup by the Board at its meeting held on April 23, 2004 and reconstituted on December 6, 2005. The Audit Committee was set up to ensure prudent financial and accounting practices, fiscal discipline and transparency in financial reporting. The quarterly audited accounts are reviewed by the Audit Committee and recommended to the Board for its approval with its recommendations.

The Committee presently consists of four directors. The Chairman of the Committee is an Independent Director.

In addition to the Audit Committee members, the Head of Finance, Statutory Auditors and other executives, whenever required attend the Audit Committee meetings.

The Company Secretary of the Company is the Secretary of the Committee.

The Audit Committee is constituted with responsibilities including but not limited to the following:

- i. To ensure that the financial statements are correct, sufficient and credible.
- ii. To review financial statements with the Management before submission to the Board.
- iii. To review adequacy of internal control systems and internal audit.
- iv. To recommend appointment of external auditor and fixation of audit fees and also approval for payment of other services.
- v. To hold discussion with internal auditors.
- vi. To hold discussion with external auditors about scope of audit.
- vii. To review financial and risk management policies.
- viii. To review substantial defaults in the payment to the depositors, debenture holders, shareholders and creditors.
- ix. To review Management Discussion and Analysis report.
- x. To review reports on compliance of laws and risk management, reports issued by Statutory/ Internal Auditors, related party transactions, appointment of Internal Auditors and remuneration.
- xi. To attend to any other responsibility as may be entrusted by the Board.

The Audit Committee is empowered to do the following:

- i. To investigate any activity within its terms of reference.
- ii. To seek information from any employee.
- iii. To obtain advice from outside legal professionals.
- iv. To secure attendance of outsiders with relevant expertise.



## Meetings and attendance

Four meetings were held during the financial year 2005-06

Name of the Member	Audit Committee Meetings			
	Apr. 15, 2005	Jul. 20, 2005	Oct. 20, 2005	Jan. 18, 2006
Mr. P. B. Kulkarni	✓	✓	✓	✓
Mr. Navin Chaddha *	NA	NA	NA	C
Dr. Promod Haque *	NA	NA	NA	C
Mr. Ashutosh Joshi #	✓	✓	✓	NA
Mr. S. P. Deshpande	✓	✓	✓	✓

## B. Compensation Committee

### Brief description of terms of reference

The Compensation Committee of the Board was initially set up on April 23, 2004 and re-constituted on December 6, 2005. The Compensation Committee decides on the issues relating to Employee Stock Option Schemes, transfer, transmission and transposition of shares and remuneration of Executive Directors.

The Committee presently consists of four directors. The Chairman of the Committee is an Independent Director.

The Compensation Committee is constituted with responsibilities including but not limited to the following:

- To decide the quantum of equity shares/ options to be granted under Employee Stock Options Schemes (ESOS) and preferential offer to the Executive Directors (in terms of the resolution passed by the Board of Directors at its meeting held on April 23, 2004), as the case may be, per employee and the total number in aggregate.
- To determine at such intervals, as the Compensation Committee considers appropriate, the persons to whom shares or options may be granted.
- To decide the conditions under which shares or options vested in employees may lapse in case of termination of employment for any reason.
- To lay down the procedure for making a fair and reasonable adjustment to the number of shares or options and to the exercise price in case of rights issues, bonus issues and other corporate actions.
- To specify the grant, vest and exercise of shares/ option in case of employees who are on long leave.
- To construe and interpret the plan and to establish, amend and revoke rules and regulations for its administration. The Compensation Committee may correct any defect, omission or inconsistency in the plan or any option and/or vary/amend the terms to adjust to the situation that may arise.
- To recommend to the Board the remuneration to be paid to the Executive Directors.
- To approve transfer the shares in the name of employee at the time of exercise of options by such employee under ESOS.

- ix. To attend to any other responsibility as may be entrusted by the Board.

The Compensation Committee is empowered to do the following:

- i. To invite any employee or such document as it may deem fit for exercising of its functions.
- ii. To approve allotment or transfer or transmission or transposition or consolidation or split or name deletion or issue of duplicate share certificate of equity shares of the Company.

## Meetings and attendance

Five meetings were held during the financial year 2005-06

Name of the Member	Compensation Committee Meetings				
	Jun. 27, 2005	Sept. 30, 2005	Nov. 18, 2005	Nov. 18, 2005	Mar. 24, 2006
Mr. P. B. Kulkarni	✓	✓	X	X	✓
Mr. Navin Chaddha *	NA	NA	NA	NA	✓
Dr. Promod Haque *	NA	NA	NA	NA	X
Dr. Shridhar Shukla #	✓	✓	✓	✓	NA
Dr. Anand Deshpande	✓	✓	✓	✓	✓

## Remuneration Policy

- i. Salary of the Executive Directors is decided based on the assessment of the Managing Director.
- ii. The salary rise is based on the performance of the Executive Director(s) and is in line with the increase, proposed for other employees. The revised salary is effective on the same day as is done for all other employees of the Company.
- iii. Managing Director's salary is linked to the profits of the Company. The rise in the salary is also linked to the increase in the profits of the Company.
- iv. The Compensation Committee has framed the remuneration policy for the senior executives of the Company for the financial year 2006-07.
- v. The impact of the Fringe Benefit Tax as well as perquisite rules are taken into consideration before deciding the managerial remuneration.
- vi. The total managerial remuneration not to exceed 11% of the net profits of the Company.



## Remuneration to Directors

### Executive Directors

(Amount in Rs.)

Name of the Director	Position	Year ended 31-Mar	Salary and allowance	Performance linked incentive	Commission	Gratuity and super-annuation	Perquisite and other payments	Total
Dr. Anand Deshpande	Chairman & Managing Director	2006	15,84,678	-	34,26,274	91,260	5,80,941	56,83,153
		2005	15,34,950	-	35,97,328	1,67,976	9,43,606	62,43,860
Mr. S. P. Deshpande	Executive Director	2006	19,21,752	3,39,480	-	-	-	22,61,232
		2005	13,66,833	6,75,000	-	-	-	20,41,833
Mr. Ashutosh Joshi <sup>#</sup>	Executive Director	2006	16,09,248	1,09,008	-	4,542	2,906	17,25,704
		2005	12,07,733	5,85,000	-	90,987	2,906	18,86,626
Mr. Ajit Tamhankar <sup>#</sup>	Executive Director	2006	19,74,171	3,54,600	-	76,830	7,15,750	31,21,351
		2005	13,17,700	7,42,500	-	1,13,850	15,029	21,89,079
(~)		2006	70,89,849	8,03,088	34,26,274	1,72,632	12,99,597	1,27,91,440
		2005	54,27,216	20,02,500	35,97,328	3,72,813	9,61,541	1,23,61,398

(~) Although Ashutosh Joshi and Ajit Tamhankar resigned as Directors on November 18, 2005 their remuneration is disclosed for the entire year.

### Non-Executive Directors

(Amount in Rs.)

Name of the Director	Position	Year ended Mar. 31	Commission	Sitting fees	Total
Mr. Sandeep Johri	Independent Director	2006	2,00,000	5,000	2,05,000
		2005	2,00,000	-	2,00,000
Mr. P. B. Kulkarni	Independent Director	2006	2,00,000	95,000	2,95,000
		2005	2,00,000	80,000	2,80,000
Prof. Krithi Ramamritham	Independent Director	2006	2,00,000	20,000	2,20,000
		2005	2,00,000	25,000	2,25,000
Dr. Shridhar Shukla <sup>#</sup>	Non- Executive Director	2006	-	30,000	30,000
		2005	-	45,000	45,000
		2006	6,00,000	1,50,000	7,50,000
		2005	6,00,000	1,50,000	7,50,000

In terms of the internal policy of Norwest Venture Partners–Mauritius and Gabriel Venture Partners (Mauritius), Dr. Promod Haque and Mr. Navin Chaddha, have voluntarily decided not to accept sitting fees as well as commission.

Reimbursements have been provided to Mr. Navin Chaddha, Dr. Promod Haque and Prof. Krithi Ramamritham for travel and stay for attending Board and Committee Meetings.

## C. Executive Committee

### Brief description of terms of reference

The Executive Committee of the Board of Directors was set up on January 29, 2005 and reconstituted on December 6, 2005. The Executive Committee was set up to review the implementation of decisions taken by the Board of Directors. The Committee presently consists of four Directors of which three are Independent Directors. The Chairman of the Committee is an Independent Director.

The Executive Committee is constituted with responsibilities including but not limited to following:

- i. To review and follow up the action taken on the Board decisions.
- ii. To review the operations of the Company in general.
- iii. To review the systems followed by the Company.
- iv. To examine proposal for investment in real estate.
- v. Subject to ratification of the Board, to review, propose and monitor annual budget including additional budget, if any.
- vi. To review capital expenditure against the budget.
- vii. To authorize opening and closing of bank accounts.
- viii. To authorize additions / deletions to the signatories pertaining to banking transactions.
- ix. To approve investment of surplus funds for an amount not exceeding Rs. 25 Crores as per the policy approved by the Board.
- x. To approve transactions relating to foreign exchange exposure including but not limited to forward cover and derivative products.
- xi. To approve donations as per the policy approved by the Board.
- xii. To delegate authority to the Company officials to represent the Company at various courts, government authorities and so on.
- xiii. To attend to any other responsibility as may be entrusted by the Board to investigate any activity within terms of reference.

The Executive Committee is empowered to do the following:

- i. To seek information from any employee as considered necessary.
- ii. To obtain outside legal professional advice as considered necessary.
- iii. To secure attendance of outsiders with relevant expertise.





## Meetings and attendance

Eight meetings were held during the financial year 2005-06

Name of the Member	Executive Committee Meetings							
	Apr. 14, 2005	May 17, 2005	Jun. 10, 2005	Jul. 21, 2005	Aug. 31, 2005	Nov. 11, 2005	Dec. 21, 2005	Mar. 24, 2006
Mr. P. B. Kulkarni	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Navin Chaddha *	NA	NA	NA	NA	NA	NA	C	✓
Dr. Promod Haque *	NA	NA	NA	NA	NA	NA	C	X
Mr. S. P. Deshpande	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Ashutosh Joshi #	✓	✓	✓	✓	✓	✓	NA	NA

## 3. Subsidiary companies

The Audit Committee and the Board of Directors review the consolidated financial statements of the Company and its subsidiary companies.

The Audit Committee and the Board of Directors look into the related party transactions entered into by the Company including those with the subsidiary companies.

### Details of percentage holding in the subsidiary companies

Name of the subsidiary company	Registered in	Holding percentage
Persistent Systems, Inc.	USA	100%
Persistent eBusiness Solutions Pvt. Ltd.	India	99.97%
ControlNet (India) Pvt. Ltd.	India	100%

#### 4. Employee Stock Option Plan (ESOP)

The status of Options or Shares awarded under different ESOP Schemes are as follows :

Particulars		Employee Stock Option Plan		Employee Stock Option Award
		ESOP - I	ESOP - III	ESOA – II
A	No. of Shares transferred to ESOP trust	5,60,000	5,50,000	4,30,000
B	Options arising out of transferred Shares	11,20,000	11,00,000	NA
	<b>Options / Shares</b>	<b>Options</b>	<b>Options</b>	<b>Shares</b>
C	Available	11,20,000	11,00,000	4,30,000
D	Granted	11,20,000	2,20,600	88,400
E	Exercised	2,21,695	2,361	181
F	Vested and not exercised	6,09,130	12,459	4,639
G	Not vested	98,880	1,71,110	70,330
H	Balance Available (C-E-F-G)	1,90,295	9,14,070	3,54,850
I	Outstanding for live employees (F+G)	7,08,010	1,83,569	74,969

#### 5. General Body Meetings

Details of last three Annual General Meetings (AGM) held

Date of AGM	Time of AGM	Location
July 18, 2003	10.30 A.M.	"Bhageerath", 1-A Conference Room, 402 Senapati Bapat Road, Pune 411 016
June 10, 2004	10.30 A.M.	"Bhageerath", 1-A Conference Room, 402 Senapati Bapat Road, Pune 411 016
June 10, 2005	10.30 A.M.	"Bhageerath", 1-A Conference Room, 402 Senapati Bapat Road, Pune 411 016

No special resolution was passed in the previous three Annual General Meetings and no special resolution was put through postal ballot last year.



## 6. Disclosures

### A. Code of conduct

As good corporate governance practice, the Company is voluntarily and proactively complying with the provisions of Clause 49 of the Listing Agreement. In view of this, the Company has laid down the Code of Conduct for Directors and Senior Management.

The Code of Conduct will help maintain high standards of business conduct for the Company and promote ethical conduct. In terms of Code of Conduct, Directors and Senior Management must act within the bounds of the authority conferred upon them and with a duty to make and enact informed decisions and policies in the best interests of the Company and its shareholders and stakeholders. Further Directors and Senior Management should ensure that they do not derive any undue personal benefit because of their position in the company and / or certain confidential information coming to their knowledge.

### B. Whistle blower policy

It has been a constant endeavor of the Company to achieve excellence in Corporate Governance by following principles of transparency, accountability and integrity in its functioning.

The Board of Directors of the Company has adopted a Whistle Blower Policy to provide a mechanism to enable employees to approach the Audit Committee of the Board of Directors for reporting the instances of unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct and ethics, which may come to their knowledge.

This policy provides for adequate safeguards against victimization of employees who report to the Whistle Blower Administrator. The policy also provides for direct access to the Chairman of the Audit Committee in exceptional cases.

### C. Disclosures on materially significant related party transactions that may have potential conflict with the interests of the Company

In addition to submitting information to the Audit Committee, these Disclosures have been made under 'Related Party Transactions' in the notes forming part of the Accounts of the Company, which form part of this Annual Report.

### D. Risk management and internal control policies adopted by the Company

The report on Risk Management and Internal Control Policies adopted by the Company forms separate part of this Annual Report.

### E. Adherence to Accounting Standards

The Company follows the mandatory Accounting Standards prescribed by the Institute of Chartered Accountants of India and to the best of its knowledge there are no deviations in the accounting treatments which require specific disclosure.

## F. Adherence to the corporate governance disclosure norms

The Company has voluntarily followed, to the extent possible, the corporate governance code as described in the clause 49 of the Listing Agreement and in terms of the Securities and Exchange Board of India circular no. SEBI/CFD/DIL/CG/1 /2004/12110 dated October 29, 2004.

## 7. Shareholders` information

Details of the Sixteenth Annual General Meeting of the Company;

Day & Date	: Wednesday; July 19, 2006
Time	: 3.00 p.m. (IST)
Venue	: "Bhageerath", 402, Senapati Bapat Road, Pune 411 016, India
Financial Year	: April 1, 2005 to March 31, 2006
Registered Office	: "Bhageerath", 402, Senapati Bapat Road, Pune 411 016, India
Contact Person	: Mr. Vivek Sadhale, Company Secretary & Head - Legal
E-mail	: vivek_sadhale@persistent.co.in
Website	: www.persistentsys.com

## 8. Dematerialization of shares

The Company has dematerialized its Equity and Preference Shares with Central Depository Services (India) Ltd (CDSL). The International Security Identification Number (ISIN) allotted by CDSL for the equity shares is INE262H01013 and for the preference shares is INE262H03019.

As on March 31, 2006, 73.39% of the Company's equity shares are held in electronic form.

## 9. Compliance certificate

The Company places before Board a quarterly compliance certificate from Executive Director certifying the status of outstanding dues of the Company, defaults to Shareholders, Creditors or Stakeholders and detection of fraud, if any.

The Company Secretary of the Company places a quarterly compliance certificate before the Board. The Compliance Certificate certifies the status of compliance of the provisions of various Acts and rules made thereunder applicable to the Company.

## 10. Corporate Governance Handbook

The Company has prepared a Corporate Governance Handbook encompassing set of guidelines and policies with respect to Composition of Board of Directors and Committees of the Board, Meetings of the Board of



Directors and Committees of the Board, Managerial Remuneration, Code of Conduct, Whistle Blower Policy, Risk Management Policy, Internal Control Procedures etc. being adhered to by the Company.

**Note:**

In this report, following signs, wherever it appears, denotes the following:

@	:	Promoter Director
*	:	Appointed as Investor Nominee Director of the Company on November 18, 2005
#	:	ceased to be a Director w.e.f. November 18, 2005
✓	:	Attended the meeting
X	:	Not attended the meeting
NA	:	Not Applicable as was not director on the date of meeting
C	:	Attended the meeting through tele-conferencing / video conferencing

**Certificate of compliance with the conditions of Corporate Governance**

The Board of Directors,  
Persistent Systems Pvt. Ltd.  
Pune.

This is to certify that:

1. We have reviewed financial statements and the cash flow statement for the year and that to the best of my knowledge and belief
  - A. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - B. these statements together present a true and fair view of the affairs of the Company and are in compliance with existing accounting standards, applicable laws and regulations.
2. To the best of our knowledge and belief, no transactions entered into by the Company during the year are fraudulent or illegal.
3. We accept responsibility for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the auditors and to the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
4. We have indicated to the auditors and the Audit Committee of the
  - A. significant changes in internal control during the year; and
  - B. significant changes in accounting policies during the year and that the same have been disclosed in the notes forming part of the Accounts.

For and on behalf of the Board of Directors

**Dr. Anand Deshpande**  
Chairman & Managing Director  
Pune; April 23, 2006

**S. P. Deshpande**  
Director