

# Report on Corporate Governance

## Company's philosophy on corporate governance

*"Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of these resources. The aim is to align as nearly as possible the interests of individuals, corporations and society".*

Sir Adrian Cadbury  
'Global Corporate Governance Forum', World Bank 2000

The Company believes that Corporate Governance is a set of guidelines to help to fulfill its responsibilities to all its stakeholders i.e. investors, customers, vendors, Government employees, associates and society. It is a voluntary code of self-discipline to ensure transparency, accountability and integrity. The Company has set its corporate governance philosophy to enhance the long-term value of Company's stakeholders.

The Company believes that Corporate Governance is not restricted to Boards and audit committees. It is an approach to sustainable development. Good Governance is an essential ingredient of good business. With this view, 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 is a sincere effort of the Company to follow the Corporate Governance principles in its letter and spirit.

## 1. Board of directors

### A. Size and composition of the board

The Board of Directors of the Company has a mix of Executive, Non-Executive and Independent Directors. Independent Directors help to maintain the independence of the Board and separate the Board functions of governance and management. At present, the Company's Board consists of six members, of whom, two are Executive Directors and four are Non-Executive Directors of which three are Independent Directors. The Board is headed by an Executive Chairman. Table 1 gives the present composition of the Board and the number of outside directorships held by each of the directors as on March 31, 2009.

Table 1 : Board of Directors

Name of the Director	Category	Directorships		Committee** membership	Chairmanship** in committees	
		Indian companies Public*	Foreign companies Private			
Dr. Anand Deshpande***	Chairman and Managing Director	2	NIL	2	1	NIL
Mr. S. P. Deshpande***	Executive Director	2	NIL	1	2	NIL
Mr. Ram Gupta	Independent Director	NIL	NIL	7	1	NIL
Dr. Promod Haque	Non-Executive Director	NIL	5	8	NIL	NIL
Mr. P. B. Kulkarni	Independent Director	2	NIL	NIL	3	2
Prof. Krithivasan Ramamritham	Independent Director	2	NIL	NIL	NIL	NIL

\* Excluding directorship in Persistent Systems Limited.

\*\* Disclosure includes Chairmanship / Membership of Committees as required for computation of maximum number of Committees of which Director can be Chairman or Member in terms of Clause 49 of the Listing Agreement (i.e. Chairmanship / Membership of Audit Committee and Shareholders' / Investors' Grievance Committee in all Indian public companies including Persistent Systems Limited).

\*\*\* Except Dr. Anand Deshpande, Chairman and Managing Director and Mr. S. P. Deshpande, Executive Director, who are the relatives, none of the other Director is related with other Director.

In this report, the signs below, wherever they appear, denotes the following

- Y – Present for the meeting
- N – Absent for the meeting
- N.A. – Not Applicable

None of the Directors of the Company were members of more than 10 committees nor acted as the Chairman of more than five committees across all companies in India, in which he is a Director, in terms of the Clause 49 of the Listing Agreement.

In addition to disclosure of Chairmanship / Membership of Committees of Directors disclosed in Table 1 above, the chairmanship / membership of Directors of the Company in other Committees is given below

Name of the Director	Category	Committee* Membership	Chairmanship* in Committees
Dr. Anand Deshpande	Chairman and Managing Director	2	2
Mr. S. P. Deshpande	Executive Director	1	NIL
Mr. Ram Gupta	Independent Director	3	NIL
Dr. Promod Haque	Non-Executive Director	20	5
Mr. P. B. Kulkarni	Independent Director	6	2
Prof Krithivasan Ramamritham	Independent Director	6	NIL

\* Includes committees (other than Audit Committee and Shareholders' / Investors' Grievance Committee) of all companies in India and abroad, including Persistent Systems Limited.

#### B. Brief description of terms of reference of the Board of Directors

- i. To manage and direct the business and affairs of the Company.
- ii. To manage, subject to the Articles of Association of the Company, its own affairs, including planning its composition, selecting its Chairman, appointing Committees, establishing the terms of reference and duties of Committees and determining Directors' compensation.
- iii. To act honestly and in good faith in the best interests of the Company.
- iv. To exercise due care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
- v. To participate directly or through its Committees, in developing and approving the mission of the business, its objectives and goals and the strategy for their achievement.
- vi. To ensure congruence between shareholders' expectations, Company's goals, objectives and management performance.
- vii. To monitor the Company's progress towards its goals and to revise and alter its direction in light of changing circumstances.
- viii. To approve and monitor compliance with all significant policies and procedures by which the Company is operated.
- ix. To ensure that the Company operates at all times within applicable laws and regulations and ethical and moral standards.
- x. To ensure that the performance of the Company is adequately reported to shareholders, other stakeholders and regulators on a timely and regular basis.
- xi. To ensure that the audited annual financial statements are reported fairly and in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.
- xii. To ensure that any developments that have a significant and material impact on the Company are reported from time to time to concerned authorities.
- xiii. To act in accordance with the laws and regulations of the country and the Memorandum and Articles of Association of the Company.

### C. Board meetings and deliberations

The Company Secretary in consultation with the Chairman of the Company and Chairman of the respective Board Committees prepares the agenda and supporting papers for discussion at each Board Meeting and Committee Meetings respectively. Members of the Board or Committees are free to suggest any item to be included 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 is important to the Board to understand the business of the Company in general and related matters are tabled for discussion at the meeting. Agenda is circulated in writing to the members of the Board well in advance of the meeting.

The Board and the Audit Committee meets in executive session, at least, four times during the financial year, mostly at quarterly intervals *inter-alia* to review quarterly financial statements and other items on the agenda. Additional meetings are held, if deemed necessary to conduct the business. Those members of the Board, who are not able to participate in the Board meetings in-person generally participate in the meeting through tele-conferencing or video conferencing. The President of Persistent Systems, Inc., the Chief Operating Officer, the Chief Planning Officer and the Chief Financial Officer of the Company attend the Board meetings upon invitation. The other executives and divisional heads are generally invited at the meetings on as needed basis. In voluntary compliance of Clause 49 of the Listing Agreement, the gap between two Board Meetings has not exceeded four months. The maximum gap between the two board meetings during the financial year 2008-09 was 3 months and 6 days.

During the financial year 2008-09, the Board of Directors met 5 times on April 24, 2008, July 30, 2008, August 21, 2008, October 20, 2008 and January 23, 2009. Table 2 below gives the attendance record of the directors at the Board Meetings and last Annual General Meeting held on July 30, 2008.

Table 2 : Attendance of Directors at the Board Meetings and Annual General Meeting.

Name of the Director	<----- Board Meetings ----->					Annual General Meeting
	April 24, 2008	July 30, 2008	August 21, 2008	October 20, 2008	January 23, 2009	
Dr. Anand Deshpande	Y	Y	Y	Y	Y	Y
Mr. S. P. Deshpande	Y	Y	Y	Y	Y	Y
Mr. Ram Gupta	Y	N	Y	Y	Y	N
Dr. Promod Haque	Y	N	Y	Y	Y	N
Mr. P. B. Kulkarni	Y	Y	Y	Y	Y	Y
Prof. Krithivasan Ramamritham	Y	N	Y	Y	Y	N

### 2. Committees of the board of directors

The Company constituted six committees of the Board of Directors viz. Audit Committee, Shareholders' / Investors' Grievance Committee, Remuneration Committee, Compensation Committee, Nomination and Governance Committee and Executive Committee. All committees have a combination of Executive, Non-Executive and Independent Directors. The Chairman of all the committees except Compensation Committee and Nomination and Governance Committee is an Independent Director. Additionally, during the financial year 2008-09, the Company had an IPO Committee for the limited purpose of managing the proposed IPO process. As a good corporate governance policy, the Company constituted a Nomination and Governance Committee though it is not requirement under Clause 49 of the Listing Agreement.

As per the charter of respective committees, committees deliberate on the matters referred to it by the Board. Information and data that is important to the committees to discuss the matter is distributed in writing to the members of the committees well in advance of the meeting. Recommendations of the committees are submitted to the Board to take decision on the matter referred.

The members of the committee, who are not able to participate in the meeting physically, generally participate through tele-conferencing or video conferencing.

## A. Audit Committee

### Brief description of terms of reference

An Audit Committee was constituted by the Board at its meeting held on April 23, 2004. With a view to fulfill the Company's responsibilities to its stakeholders and continue with its initiative of voluntary adoption of various Corporate Governance measures, the Board had revised the terms of reference of the Audit Committee vide resolution passed at the meeting held on August 21, 2008.

The Audit Committee was constituted 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 adoption.

The Chairman of the Committee is an Independent Director. All the members of the Committee are financially literate whereas the Chairman of the Committee is a financial management expert. Table 3 gives the present composition of the Audit Committee of the Board of Directors.

Table 3 : Composition of the Audit Committee

Name of the Director	Category
Mr. P. B. Kulkarni	Chairman of the Committee and Independent Director
Mr. S. P. Deshpande	Executive Director
Mr. Ram Gupta	Independent Director

In addition to the Audit Committee members, the Chief Financial Officer, Internal Auditor, Statutory Auditors and other executives attend the meetings upon invitation.

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

The Committee has the following powers and responsibilities including but not limited to

- i. To oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible;
- ii. To review, with the management, annual financial statements before submission to the Board for approval, with particular reference to
  - a. Matters required to be included in the Directors' Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956;
  - b. Changes, if any, in accounting policies and practices and reasons for the same;
  - c. Major accounting entries involving estimates based on the exercise of judgment by management;
  - d. Significant adjustments made in the financial statements arising out of audit findings;
  - e. Compliance with listing and other legal requirements relating to financial statements;
  - f. Disclosure of any related party transactions;
  - g. Qualifications in the draft audit report.
- iii. To review, with the management, the quarterly financial statements before submission to the Board for approval;
- iv. To recommend to the Board, the appointment, re-appointment and if required, the replacement or removal of the statutory auditor and fixation of audit fees;

- v. To grant approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- vi. To hold discussion with the statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
- vii. To review management letters / letters of internal control weaknesses issued by the statutory auditors;
- viii. To recommend appointment, removal and terms of remuneration of the Chief Internal Auditor;
- ix. To hold discussion with Internal Auditors on any significant findings and follow up there on;
- x. To review internal audit reports relating to internal control weaknesses;
- xi. To review, with the management, performance of statutory and internal auditors and adequacy of internal control systems;
- xii. To review adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
- xiii. To review the findings of any internal investigations by the internal auditors in the matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
- xiv. To review financial and risk management policies;
- xv. To review report on compliance of laws and risk management, reports issued by Statutory / Internal Auditors;
- xvi. To review management discussion and analysis of financial condition and results of operations;
- xvii. To review statement of significant related party transactions (as defined by the audit committee), submitted by management;
- xviii. To review substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
- xix. To develop a policy on the engagement of statutory auditors for non-audit services;
- xx. To ensure the compliance with the statutory auditors' recommendations;
- xxi. To meet internal and statutory auditors without presence of the Company's executive management annually;
- xxii. To confirm the engagement of an Independent valuer for the valuation of shares, whenever called for and verify whether the valuer for valuation has an advisory mandate and had past association with the company management;
- xxiii. To review certificates regarding compliance of legal and regulatory requirements;
- xxiv. To review the functioning of the Whistle Blower mechanism; and
- xxv. To carry out any other function as is mentioned in the terms of reference of the Audit Committee and entrusted by the Board.

The Audit Committee is further empowered to do the following

- i. To investigate any activity within terms of reference;
- ii. To seek information from any employee;
- iii. To obtain outside legal professional advice; and
- iv. To secure attendance of outsiders with relevant expertise, if it considers necessary.

Meetings and attendance

5 meetings of the Audit Committee were held during the financial year 2008-09. Table 4 gives the details of the attendance of the members of the Audit Committee at its meetings held during the financial year 2008-09.

Table 4: Details of the attendance at the Audit Committee meetings during the financial year 2008-09

Name of the Director	Audit Committee Meeting				
	April 23, 2008	July 30, 2008	August 20, 2008	October 19, 2008	January 22, 2009
Mr. P. B. Kulkarni	Y	Y	Y	Y	Y
Mr. S. P. Deshpande	Y	Y	Y	Y	Y
Mr. Ram Gupta	Y	N	Y	Y	Y

**B. Shareholders' / Investors' Grievance Committee**

Brief description of terms of reference

The Shareholders' / Investors' Grievance Committee was constituted on October 04, 2007. The Committee specifically looks into the redressal of shareholders' and investors' complaints like transfer of shares, non-receipt of Balance Sheet, non-receipt of declared dividends, etc.

The Committee presently consists of three Directors. The Chairman of the Committee is an Independent Director. Table 5 gives the present composition of the Shareholders' / Investors' Grievance Committee of the Board of Directors.

Table 5 : Composition of the Shareholders' / Investors' Grievance Committee

Name of the Director	Category
Mr. P. B. Kulkarni	Chairman of the Committee and Independent Director
Dr. Anand Deshpande	Chairman and Managing Director
Mr. S. P. Deshpande	Executive Director

The Committee was constituted with powers and responsibilities including but not limited to

- i. To supervise and ensure efficient share transfers, share transmission, transposition, etc;
- ii. To approve allotment, transfer, transmission, transposition, consolidation, split, name deletion and issue of duplicate share certificate of Equity Shares of the Company;
- iii. To redress shareholder and depositor complaints like non-receipt of Balance Sheet, non-receipt of declared dividends, etc.;
- iv. To review service standards and investor service initiatives undertaken by the Company;
- v. To address all matters pertaining to Registrar and Transfer Agent including appointment of new Registrar and Transfer Agent in place of existing one;
- vi. To address all matters pertaining to Depositories for dematerialisation of shares of the Company and other matters connected therewith; and
- vii. To attend to any other responsibility as may be entrusted by the Board to investigate any activity within terms of reference.

Meetings and attendance

The Committee meets as and when a need arises. No meeting of the Committee was held during the financial year 2008-09, however, certain decisions were taken by passing the resolutions by circulation on May 22, 2008 and were subsequently ratified by the Board at its next meeting.

During the financial year 2008-09, the Committee did not receive any complaint from the shareholders or investors. The members may contact the Company Secretary of the Company for their queries, if any at the contact details provided in the Shareholders' Information in this report.

C. Remuneration Committee

Brief description of terms of reference

The Remuneration Committee of the Board was constituted on October 04, 2007. The Remuneration Committee is constituted to determine the Company’s policy on specific remuneration to the Executive Directors including pension rights and any compensation payment.

The Committee comprises combination of Non-Executive and Independent Directors. Table 6 gives the present composition of the Remuneration Committee of the Board of Directors.

Table 6 : Composition of the Remuneration Committee

Name of the Director	Category
Mr. P. B. Kulkarni	Chairman of the Committee and Independent Director
Dr. Promod Haque	Non-Executive Director
Prof. Krithivasan Ramamritham	Independent Director

The Committee is constituted with powers and responsibilities including but not limited to

- i. recommendations to the Board about the Company’s policy on specific remuneration packages for Executive Directors including pension rights and any compensation payment;
- ii. advises to the Board in framing remuneration policy for key managerial persons of the Company from time to time;
- iii. attending any other responsibility as may be entrusted by the Board to investigate any activity within terms of reference.

Meetings and attendance

1 meeting of the Committee was held during the financial year 2008-09.

Table 7 gives details of attendance of the members of the Remuneration Committee at its meeting held during the financial year 2008-09.

Table 7 : Attendance at the Remuneration Committee meeting held during the financial year 2008-09

Name of the Director	April 23, 2008
Mr. P. B. Kulkarni	Y
Dr. Promod Haque	Y
Prof. Krithivasan Ramamritham	Y

Remuneration policy

- i. 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.
- ii. Salary of the Executive Director is decided based on the assessment of the Managing Director. 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. Non-Executive Independent Directors are entitled to commission based on the profitability of the Company.
- iv. The total managerial remuneration not to exceed 11% of the net profits of the Company.

Remuneration to the Directors

Table 8 and Table 9 give details of remuneration to Executive and Non-Executive Directors of the Company respectively.

Table 8 : Remuneration to Executive Directors

(In Rs. Million)

Name of the Director	Category	Year ended March 31,	Salary and allowance Commission	Performance linked incentive / and superannuation	Company's contribution to provident fund	Perquisite and other payments	Total
Dr. Anand Deshpande	Chairman and Managing Director	2009	4.27	-	0.52	0.20	4.99
		2008	3.64	3.48	0.41	0.35	7.88
Mr. S. P. Deshpande	Executive Director	2009	1.70	0.23	N.A.	N.A.	1.93
		2008	1.54	1.25	N.A.	N.A.	2.79
		2009	5.97	0.23	0.52	0.20	6.92
		2008	5.18	4.73	0.41	0.35	10.67

Dr. Anand Deshpande and Mr. S. P. Deshpande were appointed as Chairman and Managing Director and Executive Director of the Company respectively for a period of five years with effect from April 01, 2007, pursuant to a resolution of the shareholders dated July 23, 2007. The shareholders have authorised the Board to determine the remuneration of Chairman and Managing Director and Executive Director within the limits prescribed by them under the above resolution. The Executive Directors of the Company are not eligible for stock options under the ESOP Schemes of the Company.

Table 9 : Remuneration to Non-Executive Directors

(In Rs. Million)

Name of the Director	Category	Year ended March 31,	Commission	Sitting Fees	Total
Mr. P. B. Kulkarni	Independent Director	2009	0.30	0.13	0.43
		2008	0.64	0.12	0.76
Mr. Ram Gupta	Independent Director	2009	0.30	0.09	0.39
		2008	0.35	0.02	0.37
Mr. Sandeep Johri @	Independent Director	2009	N.A.	N.A.	N.A.
		2008	0.07	-	0.07
Prof. Krithivasan Ramamritham	Independent Director	2009	0.30	0.05	0.35
		2008	0.63	0.03	0.66
		2009	0.90	0.27	1.17
		2008	1.69	0.17	1.86

@ Resigned as a Director of the Company w.e.f. May 10, 2007.

In terms of internal policy of Norwest Venture Partners FVCI - Mauritius, Dr. Promod Haque, voluntarily decided not to accept sitting fees as well as commission.

Under the ESOA – VIII of the Company, the eligible Independent Non-Executive Directors were granted stock options and the same are exercisable by the Directors according to the terms of the Scheme. During the year, the Directors were collectively granted 21,000 Stock Options of the Company under the ESOP Scheme – VIII. Table 10 gives the details of the shares and Stock Options held by the Independent Non-Executive Directors as on March 31, 2009 are as follows



Table 10 : Shareholding and grant of Stock Options to Non-executive Directors

Name of the Director	Category	Year ended March 31,	Shares held	Stock Options
Mr. P. B. Kulkarni	Independent Director	2009	7,000	7,000
		2008	7,000 *	7,000 **
Mr. Ram Gupta	Independent Director	2009	NIL	7,000
		2008	N.A.	7,000 **
Dr. Promod Haque	Non-executive Director	2009	N.A.	N.A.
		2008	N.A.	N.A.
Mr. Sandeep Johri@	Independent Director	2009	7,000	NIL
		2008	7,000 *	NIL
Prof. Krithivasan Ramamritham	Independent Director	2009	7,000	7,000
		2008	7,000 *	7,000 **
		2009	21,000	21,000
		2008	21,000	21,000

\* Post-Bonus Shareholding.

\*\* Equivalent to 2,000 options prior to issuance of bonus shares at the Extra Ordinary General Meeting dated September 17, 2007.

@ Resigned as a Director of the Company w.e.f. May 10, 2007.

Reimbursements have been provided to Dr. Promod Haque, Prof. Krithivasan Ramamritham and Mr. Ram Gupta for travel and stay expenses for attending Board and Committee Meetings.

There is no pecuniary and non-pecuniary relationship between the Non-Executive Directors vis-a-vis the Company except as stated above.

#### D. Compensation Committee

Brief description of terms of reference

The Compensation Committee of the Board was constituted on April 23, 2004. The Board of Directors had revised constitution and the terms of reference of the Compensation Committee vide resolution passed by way of circulation on October 04, 2007. Formerly, the scope of the Remuneration Committee was covered under the terms of reference of the Compensation Committee.

In terms of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI ESOP Guidelines"), the Company reconstituted a Compensation Committee for the administration and superintendence of the employee stock options schemes.

The Committee presently consists of three Directors. The Chairman of the Committee is an Executive Director. Table 11 gives the present composition of the Compensation Committee of the Board of Directors.

Table 11 : Composition of the Compensation Committee

Name of the Director	Category
Dr. Anand Deshpande	Chairman of the Committee and Chairman and Managing Director
Mr. Ram Gupta	Independent Director
Mr. P. B. Kulkarni	Independent Director

The Committee is constituted with powers and responsibilities including but not limited to

- i. To decide the quantum of equity shares/ options to be granted under Employee Stock Options Schemes (ESOS), per employee and the total number in aggregate;
- ii. To determine at such intervals, as the Compensation Committee considers appropriate, the persons to whom shares or options may be granted;
- iii. To determine the exercise period within which the employee should exercise the option and condition in which option will lapse on failure to exercise the option within the exercise period;
- iv. To decide the conditions under which shares or options vested in employees may lapse in case of termination of employment for any reason;
- v. 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;
- vi. To lay down the right of the employee to exercise all the options vested in him at one time or at various points of time within the exercise;
- vii. To specify the grant, vest and exercise of shares/ option in case of employees who are on long leave;
- viii. 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;
- ix. To approve transfer of shares in the name of employee at the time of exercise of options by such employee under ESOS;
- x. To lay down the procedure for cashless exercise of options; and
- xi. To attend to any other responsibility as may be entrusted by the Board.

#### Meetings and attendance

The Committee meets as and when need arises for the same. No meeting was held during the financial year 2008-09.

#### E. Executive Committee

##### Brief description of terms of reference

The Executive Committee of the Board was constituted on January 29, 2005. The Board of Directors had revised constitution of the Committee vide resolution passed by way of circulation on October 04, 2007. The Executive Committee was constituted to review the implementation of decisions taken by the Board of Directors. The Committee presently consists of four Directors. The Chairman of the Committee is an Independent Director. Table 12 gives the present composition of the Executive Committee.

Table 12 : Composition of the Executive Committee

Name of the Director	Category
Mr. P. B. Kulkarni	Chairman of the Committee and Independent Director
Mr. S. P. Deshpande	Executive Director
Mr. Ram Gupta	Independent Director
Dr. Promod Haque	Non-Executive Director

The Committee is constituted with powers and responsibilities including but not limited to

- i. To review and follow up on 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. To review, propose and monitor annual budget including additional budget, if any, subject to the ratification of the Board;
- vi. To review capital expenditure against the budget;
- vii. To authorise opening and closing of bank accounts;
- viii. To authorise 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; and
- xiii. To attend to any other responsibility as may be entrusted by the Board to investigate any activity within terms of reference.

Further, 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; and
- iv. To investigate any activity within terms of reference.

#### Meetings and attendance

The Executive Committee meets as and when need arises for the same. No meetings of the Executive Committee were held during the financial year 2008-09, however, certain decisions were taken by passing the resolution by circulation on January 2, 2009 and were subsequently ratified by the Board at its next meeting.

#### F. Nomination and Governance Committee

##### Brief description of terms of reference

The Nomination and Governance Committee of the Board was constituted on August 21, 2008. The Committee was formed mainly to ensure overall diversity of representatives and provide guidance to the Board for appointment of top management and to address issues such as required expertise, background, leadership skills, time available, conflict of interest, willingness to participate actively and inter-organisational relationships of the proposed appointee as a director or member of the senior management. The Chairman of the Committee is an Executive Director. Table 13 gives the present composition of the Nomination and Governance Committee.

Table 13 : Composition of the Nomination and Governance Committee

Name of the Director	Category
Dr. Anand Deshpande	Chairman of the Committee and Chairman and Managing Director
Mr. Ram Gupta	Independent Director
Mr. P. B. Kulkarni	Independent Director
Prof. Krithivasan Ramamritham	Independent Director

The Committee was constituted with powers and responsibilities including but not limited to

- i. To develop a pool of potential director candidates for consideration in the event of a vacancy on the Board of Directors;
- ii. To determine the future requirements for the Board as well as its Committees and make recommendations to the Board for its approval;
- iii. To identify, screen and review individuals qualified to serve as executive directors, non-executive directors and independent directors;
- iv. To provide its recommendation to the Board for appointment of CEO;
- v. To evaluate the current composition and governance of the Board of Directors and its Committees and make appropriate recommendations to the Board, whenever necessary;
- vi. To review the suitability for continued service as a director of each Board member when his or her term expires and when he or she has a significant change in status such as employment change etc., and shall recommend whether or not the director should be re-appointed;
- vii. To evaluate and recommend termination of membership of an individual director for cause or for other appropriate reasons;
- viii. To evaluate and make recommendations to the Board of Directors concerning the appointment of Directors to Board Committees and the Chairman for each of the Board Committees;
- ix. To recommend to the Board candidates for (i) nomination for re-election of Directors by the Shareholders; and (ii) any Board vacancies which are to be filled by the Board;
- x. To play a consultative role for any appointment at top management level namely, COO, CMO, CFO, President of Persistent Systems, Inc., or appointment requiring Board approval such as Company Secretary;

The Nomination and Governance Committee was further empowered to

- i. To conduct or authorise studies of matters within the Committee's scope of responsibility with full access to all books, records, facilities and personnel of the Company;
- ii. To hire legal, accounting, financial or other advisors in their best judgment;
- iii. To have sole authority to retain or terminate any search firm to be used to identify Director candidates;
- iv. To have sole authority to approve the search firm's fees and other retention terms;
- v. The Committee may act on its own in identifying potential candidates, inside or outside the Company or may act upon proposals submitted by the Chairman of the Board; and
- vi. The Committee may consider advice and recommendations from the management, shareholders or others, as it deems appropriate.

#### Meetings and attendance

One meeting of the Committee was held during the financial year 2008-09. Table 14 gives attendance record of members of the Committee at its meeting held during the financial year 2008-09.

Table 14 : Attendance at the Nomination and Governance Committee meeting during the financial year 2008-09

Name of the Director	October 19, 2008
Dr. Anand Deshpande	Y
Mr. Ram Gupta	Y
Mr. P. B. Kulkarni	Y
Prof. Krithivasan Ramamritham	N

## G. IPO Committee

### Brief description of terms of reference

The IPO Committee of the Board was constituted on April 30, 2007. The Committee was a special purpose Committee that was formed to oversee the functions involved in the Initial Public Offering of the Company and to facilitate the administrative convenience for quick decision-making. The Chairman of the Committee was an Executive Director. Table 15 gives the present composition of the IPO Committee.

Table 15: Composition of the IPO Committee

Name of the Director	Category
Dr. Anand Deshpande	Chairman of the Committee and Chairman and Managing Director
Mr. S. P. Deshpande	Executive Director
Dr. Promod Haque	Non-Executive Director
Mr. P. B. Kulkarni	Independent Director

The Committee was constituted with powers and responsibilities including but not limited to

- i. To decide on the timing, pricing and all the terms and conditions of the issue of the shares for the Public Issue, including the price and to accept any amendments, modifications, variations or alterations thereto;
- ii. To appoint and enter into arrangements with the book running lead managers (BRLM), underwriters to the Public Issue, syndicate members to the Public Issue, brokers to the Public Issue, escrow collection bankers to the Public Issue, registrars, legal advisors and any other agencies or persons or intermediaries to the Public Issue and to negotiate and finalise the terms of their appointment, including but not limited to execution of the BRLM's mandate letter, negotiation, finalisation and execution of the memorandum of understanding with the BRLM, etc.;
- iii. To finalise and settle and to execute and deliver or arrange the delivery of the draft Red Herring Prospectus, the Red Herring Prospectus, the final Prospectus, syndicate agreement, underwriting agreement, escrow agreement and all other documents, deeds, agreements and instruments as may be required or desirable in relation to the Public Issue;
- iv. To open with the bankers to the Public Issue such accounts as are required by the regulations issued by SEBI;
- v. To do all such acts, deeds, matters and things and execute all such other documents, etc., as it may, in its absolute discretion, deem necessary or desirable for such purpose, including without limitation, finalise the basis of allocation and to allot the shares to the successful allottees as permissible in law, issue of share certificates in accordance with the relevant rules;
- vi. To do all such acts, deeds and things as may be required to dematerialise the Equity Shares of the Company and to sign agreements and/or such other documents as may be required with the National Securities Depository Limited, the Central Depository Services (India) Limited and such other agencies, authorities or bodies as may be required in this connection;
- vii. To make applications for listing of the shares in one or more stock exchange(s) for listing of the Equity Shares of the Company and to execute and to deliver or arrange the delivery of necessary documentation to the concerned stock exchange(s); and
- viii. To settle all questions, difficulties or doubts that may arise about such issues or allotment as it may, in its absolute discretion deem fit.

The IPO Committee was further empowered to do the following

- i. To approve, adopt and file the prospectus for the Public Issue as required under Section 60 of the Companies Act, 1956, with the Registrar of Companies, Pune and to make any corrections or alterations therein;

- ii. To do all such acts, deeds, matters and things as may be required in connection with the Public Issue and to comply with all requirements of the Companies Act, 1956 in this regard.

#### Meetings and attendance

One meeting of the Committee was held during the financial year 2008-09. Table 16 gives attendance record of members of the IPO Committee at its meeting held during the financial year 2008-09.

Table 16: Attendance at the IPO Committee meeting during the financial year 2008-09

Name of the Director	July 14, 2008
Dr. Anand Deshpande	N
Mr. S. P. Deshpande	Y
Dr. Promod Haque	N
Mr. P. B. Kulkarni	Y

### 3. Subsidiary Companies

The Company does not have any material non listed Indian subsidiary Company, whose turnover or net worth (paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth of the Company.

Further, the Audit Committee and the Board of Directors review the consolidated financial statements of the Company and its subsidiary companies on a regular basis.

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 of the Company in the subsidiary companies

Name of the Subsidiary Company	Registered in	Holding percentage
Persistent eBusiness Solutions Limited	India	100%
Persistent Systems, Inc.	U.S.A.	100%
Persistent Systems Pte. Limited	Singapore	100%
Persistent Systems and Solutions Limited	India	100%

### 4. General meeting details

A. Details of last three years Annual General Meetings (AGM) held are as follows

Financial year	Date	Time	Venue
2005-06	July 19, 2006	3.00 p.m.	1-A, Conference Room, "Bhageerath", 402, Senapati Bapat Road, Pune 411 016
2006-07	July 23, 2007	12.00 noon	"Dewang Mehta Auditorium", "Bhageerath", 402, Senapati Bapat Road, Pune 411 016
2007-08	July 30, 2008	4.00 p.m.	"Dewang Mehta Auditorium", "Bhageerath", 402, Senapati Bapat Road, Pune 411 016

B. Following Special Resolutions were passed by the members during the last three Annual General Meetings

Date of AGM	No.	Details of Special Resolution
July 19, 2006		NIL
July 23, 2007	i.	Appointment of Mr. S. P. Deshpande as an Executive Director of the Company for a term of five years effective from April 01, 2007.
	ii.	Appointment of Dr. Mukund Deshpande, brother of Dr. Anand Deshpande, Chairman and Managing Director and son of Mr. S. P. Deshpande, Executive Director as an employee of the Company as Technical Manager or such designation given to him in terms of the Company's policy from time to time.
	iii.	Payment of Commission not exceeding one percent of the Net Profits of the Company to all or any of the Individual Non-executive Directors as decided by the Board of Directors of the Company from time to time.
July 30, 2008		Issue of Equity Shares not exceeding 6.5 Million of Rs. 10 each of an aggregate face value of Rs. 65.00 Million through Initial Public Offer of the Company.

The Special resolutions moved at the AGMs above were passed on a show of hands by the shareholders present at the meeting.

C. No Extra Ordinary General Meeting (EGM) was held during the financial year 2008-09.

D. No postal ballots were conducted by the Company during the last three financial years.

## 5. Disclosures

### A. Code of conduct

The Company obtains the affirmation compliance of the Code of Conduct from its Directors and Senior Management on yearly basis since the financial year 2005-06.

The Code of Conduct is an annual declaration that helps to maintain high standards of ethical business conduct for the Company and promotes. In terms of Code of Conduct, Directors and Senior Management must act within the boundaries 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.

The Company has obtained declaration from Directors and Senior Management affirming their compliance to the Code of Conduct for the current year. The Chairman has affirmed to the Board of Directors that this Code of Conduct has been complied with by the Board members and Senior Management and a declaration to this effect appears in this report.

Further, in line with the best international governance practices, the Company has introduced the Vendor Code of Conduct during this year under review that is to be executed by all the vendors prior to providing their services to the Company. This Code ensures that the vendors of the Company are following the relevant legal and regulatory compliances applicable to them while working with the Company; and are performing the acceptable business conduct while doing business with or on behalf of the Company.

### B. Whistle blower policy

The Board of Directors of the Company has adopted a Whistle Blower Policy for its employees. The employees are encouraged to report to the Audit Committee of the Board of Directors any fraudulent financial or other information to the stakeholders, any conduct that results in the instances of unethical behaviour, actual or suspected violation of the Company's Code of Conduct and ethics, which may come to their knowledge.

This policy provides for adequate safeguards against victimisation 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

During the financial year 2008-09, there were no materially significant transactions, pecuniary transactions or relationships between the Company and the Promoters, Directors and their relatives and the management that has potential conflict with the interest of the Company.

Details of all transactions entered into by the Company with the related parties have been disclosed under "Related Party Transactions" in the Notes to 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 that require specific disclosure.

## 6. Management discussion and analysis

As required by Clause 49 of the Listing Agreement, the Management Discussion and Analysis is provided elsewhere in the Annual Report.

## 7. Shareholders' Information

### A. Corporate Identity Number (CIN)

The Corporate Identity Number (CIN), allotted by the Ministry of Corporate Affairs, Government of India is U72300PN1990PLC056696 and the Company Registration Number is 056696. The Company is registered in the State of Maharashtra, India.

### B. General details of the Company

#### i. Registered Office

"Bhageerath",  
402, Senapati Bapat Road,  
Pune 411 016, India.

#### ii. Financial year of the Company is from 1<sup>st</sup> of April of every year to 31<sup>st</sup> of March next year.

#### iii. Company Secretary of the Company

Mr. Vivek Sadhale  
Company Secretary and Head – Legal  
"Bhageerath",  
402, Senapati Bapat Road,  
Pune 411 016, India.  
Tel. : +91 (20) 3024 2000  
Fax : +91 (20) 2565 7888  
E-mail : corpsec@persistent.co.in  
Website : www.persistent.com

#### iv. Dividend payment date

The Company declared interim dividend to the members twice during the financial year 2008-09. The Company declared the dividend to those members of the Company whose names were registered in the Register of Members on October 20, 2008 and March 27, 2009.



v. Contact details of Company's intermediaries are as follows

Registrar and Share Transfer Agent

Link Intime India Private Limited,  
C-13, Pannalal Silk Mills Compound,  
LBS Marg, Bhandup (W),  
Mumbai 400 078, India.

Tel. : +91 (22) 2596 3838  
Fax : +91 (22) 2594 6969  
E-mail : [isrl@linkintime.co.in](mailto:isrl@linkintime.co.in)  
Website : [www.linkintime.co.in](http://www.linkintime.co.in)

vi. Depositories

a. National Securities Depository Limited,  
4<sup>th</sup> Wing, 'A' Wing, Trade World,  
Kamala Mills Compound, Senapati Bapat Marg,  
Lower Parel, Mumbai 400 013, India.

Tel. : +91 (22) 2499 4200  
Fax : +91 (22) 2497 2993  
E-mail : [info@nsdl.co.in](mailto:info@nsdl.co.in)  
Website : [www.nsdl.co.in](http://www.nsdl.co.in)

b. Central Depository Services (India) Limited,  
Phiroze Jeejeebhoy Towers,  
17<sup>th</sup> Floor, Dalal Street,  
Fort, Mumbai 400 001, India.

Tel. : +91 (22) 2272 3333  
Fax : +91 (20) 2272 3199  
E-mail : [investors@cdslindia.com](mailto:investors@cdslindia.com)  
Website : [www.cdslindia.com](http://www.cdslindia.com)

vii. Dematerialisation of shares and liquidity

The Company's Equity Shares have been dematerialised with the Central Depository Services (India) Limited (CDSL) and the National Securities Depository Limited (NSDL). The International Security Identification Number (ISIN) is an identification number for traded shares. This number is to be quoted in each transaction relating to the dematerialised shares of the Company. The ISIN of the Company for its shares is INE262H01013.

As on March 31, 2009, 35,677,569 Equity Shares comprising 99.49% of the Company's shares are held in electronic form.

viii. American Depository Receipts / Global Depository Receipts / Warrants

As on March 31, 2009, the Company has no American Depository Receipts / Global Depository Receipts / Warrants or any such convertible instruments outstanding and there is no likely impact on the Company's Equity Shares in the financial year 2008-09.

ix. Plant locations

The Company is in software business and does not require manufacturing plants. However, it has software development centres / offices in India and abroad. The addresses of global development centres / offices of the Company are given elsewhere in the Annual Report.

x. Calendar for financial reporting for the quarters in the financial year 2008-09 (tentative and subject to change)

Quarter Ending	Proposed date of meeting of the Board
June 30, 2009	July 23, 2009
September 30, 2009	October 20, 2009
December 31, 2009	January 22, 2010
March 31, 2010	April 23, 2010

8. ESOP Schemes of the Company

The status of various ESOP schemes as on March 31, 2009 is shown in the following table:

Particulars	----- Plans ----->									Total
	I	II	III	IV	V	VI	VII	VIII		
Granted	a	2,280,250	376,600	1,266,650	2,397,150	945,262	608,125	778,487	21,000	8,673,524
Vested	b	1,606,255	222,169	327,652	408,604	208,957	255,713	161,595	5,250	3,196,195
Encashed and Exercised	c	1,553,277	56,385	79,301	-	-	-	-	-	1,688,963
Vested & Not exercised (b-c)	d	52,978	165,784	248,351	408,604	208,957	255,713	161,595	5,250	1,507,232
Lapsed	e	667,047	107,607	322,462	711,123	246,134	215,250	216,300	-	2,485,923
Not Vested (a - c - d - e)	f	6,948	46,824	616,536	1,277,423	490,171	137,162	400,592	15,750	2,991,406
Total Outstanding (d + f)	g	59,926	212,608	864,887	1,686,027	699,128	392,875	562,187	21,000	4,498,638

9. CEO / CFO certification

As required by Clause 49 of the listing agreement, the CEO / CFO certification is provided elsewhere in this Annual Report.

10. Corporate governance handbook

The Company proactively and voluntarily prepared a Corporate Governance Handbook encompassing set of guidelines and policies with respect to composition of the 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. Corporate Governance Handbook is updated on annual basis.

11. Voluntary secretarial compliance certificate

The Company annually obtains a compliance certificate from a Practicing Company Secretary on a voluntary basis to ensure compliance of the provisions of the Companies Act, 1956. The same is provided elsewhere in this Annual Report. The Institute of Company Secretaries of India, vide its letter dated September 22, 2008, appreciated the initiative taken by the Company for obtaining voluntary secretarial compliance certificate.

## 12. Secretarial standards

The Company endeavors to comply to the extent possible and relevant with the non mandatory Secretarial Standards issued by the Institute of Company Secretaries of India.

## 13. Vendor code of conduct

In line with the best global governance practices, the Company had prepared the Vendor Code of Conduct. The Company is in the process of getting the Vendor Code of Conduct executed by the vendors of the Company.

## 14. Miscellaneous

Shareholders holding shares in physical form are requested to notify the Company, any change in their address and Bank Account details under the signature of sole / first joint holder. Beneficial owners of shares in demat form are requested to send their instructions regarding change of name, change of address, bank details, nomination, power of attorney, etc., directly to their Depository Participants (DP) as the same are maintained by the DP.

Non-resident shareholders are requested to notify at the earliest

- A. Change in their residential status on return to India for permanent establishment.
- B. Particulars of their NRE Bank Account with a bank in India, if not furnished earlier.
- C. E-mail address, if any.

## 15. Nomination in respect of shares

Section 109A of the Companies Act, 1956, provides facility for making nominations by shareholders in respect of their holding of shares. Such nomination greatly facilitates transmission of shares from the deceased shareholder to his / her nominee without having to go through the process of obtaining Succession Certificates / Probate of the Will, etc. It would therefore, be in the best interests of the shareholders holding shares as a sole holder to make such nomination. Shareholders holding shares in physical mode are advised to write to the Company Secretary for making nomination. Shareholders holding shares in demat form are advised to contact their DP for making nominations.

Shareholders are requested to quote their E-mail IDs, Telephone / Fax numbers for prompt reply to their communication.

## Chief Executive Officer (CEO) and Chief Financial Officer (CFO) certification

We, to the best of our knowledge and belief, certify that

1. We have reviewed the Balance Sheet and Profit and Loss Account of the Company (consolidated and standalone) and all its Schedules and Notes on Accounts, as well as the Cash Flow Statements and the Directors' Report;
2. Based on our knowledge and information, these statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which the statements were made, not misleading with respect to the statements made;
3. Based on our knowledge and information, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of and for the periods presented in this report and are in compliance with the applicable Accounting Standards and / or applicable laws and regulations;
4. To the best of our knowledge and belief, no transactions entered into by the Company during the year were fraudulent, illegal or violate of the Company's practices;

5. The Company's other certifying officers and we are responsible for establishing and maintaining disclosure controls and procedures for the Company and we have
  - A. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - B. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;
  - C. evaluated the effectiveness of the Company's disclosure, controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - D. disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
6. The Company's other certifying officers and we have disclosed based on our most recent evaluation, wherever applicable, to the Company's auditors and the Audit Committee of the Company's Board of Directors.
  - A. all significant deficiencies in the design or operation of internal controls, which could adversely affect the Company's ability to record, process, summarise and report financial data and have identified for the Company's auditors, any material weakness in internal controls over financial reporting including any corrective actions with regard to deficiencies, if any;
  - B. instances of any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
  - C. significant changes in internal controls during the year are covered by this report.
7. There was no change in accounting policies during the year.
8. We affirm that we have not denied any personnel, access to the Audit Committee of the Company (in respect of matters involving alleged misconduct) and we have provided protection to the 'whistle blowers' from unfair termination and other unfair or prejudicial employment practices; and
9. We further declare that all board members and senior managerial personnel have affirmed compliance with the Code of Conduct for the financial year 2008-09.

For and on behalf of the Board of Directors

Dr. Anand Deshpande  
Chairman and Managing Director

Rajesh Ghonasgi  
Chief Financial Officer

Pune, June 23, 2009