



INTEGRATE. INNOVATE. ACCELERATE

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## Corporate Information

### The Board of Directors

As on April 10, 2010

1. Mr. Satinder Singh Rekhi  
*(Chairman and Managing Director)*
2. Lt. Gen. Baldev Singh (Retd.)  
*(President and Senior Executive Director)*
3. Mr. Raj Swaminathan  
*(Director and Chief Operating Officer)*
4. Mr. Raj Kumar Gogia  
*(Non Executive Independent Director)*
5. Mr. Gurbax Singh Bhasin  
*(Non Executive Independent Director)*
6. Mr. Suresh Paruthi  
*(Non Executive Independent Director)*

### Company Secretary and Compliance Officer

Mr. Suresh Kumar Bhutani

### Committees of the Board of Directors

#### Audit Committee

1. Mr. Raj Kumar Gogia  
*(Chairman)*
2. Mr. Gurbax Singh Bhasin  
*(Member)*
3. Mr. Suresh Paruthi  
*(Member)*

### Shareholders / Investors Grievance Committee

1. Mr. Raj Kumar Gogia  
*(Chairman)*
2. Mr. Suresh Paruthi  
*(Member)*
3. Mr. Satinder Singh Rekhi  
*(Member)*
4. Lt. Gen. Baldev Singh (Retd.)  
*(Member)*

### Remuneration Committee

1. Mr. Raj Kumar Gogia  
*(Chairman)*
2. Mr. Gurbax Singh Bhasin  
*(Member)*
3. Mr. Suresh Paruthi  
*(Member)*

### Compensation Committee

1. Mr. Raj Kumar Gogia  
*(Chairman)*
2. Mr. Suresh Paruthi  
*(Member)*
3. Lt. Gen. Baldev Singh (Retd.)  
*(Member)*

**Registered Office**

B - 104A, Greater Kailash - I, New Delhi - 110 048

**Corporate Office**

C - 40, Sector - 59, Noida (U.P.) - 201 307

**Statutory Auditors**

S. R. Batliboi & Associates  
Chartered Accountants  
Golf View Corporate Tower B, Sector - 42, Sector Road,  
Gurgaon - 122 002

**Registrar & Share Transfer Agent**

M/s Link Intime India Private Limited  
A - 40, 2nd Floor, Naraina Industrial Area, Phase – II,  
Near Batra Banquet Hall, New Delhi - 110 028

**Bankers to the Company**

1. State Bank of India
2. ICICI Bank Limited
3. HDFC Bank Limited
4. Axis Bank Limited
5. ABN Amro Bank
6. Oriental Bank of Commerce
7. Vijaya Bank
8. State Bank of Bikaner & Jaipur
9. Syndicate Bank
10. Punjab National Bank
11. Canara Bank

12. Citibank N.A.
13. California Bank & Trust, U.S.A.
14. State Bank of India, U. K.
15. Fortis Bank N.V., The Netherlands
16. Sumitomo Mitsui Banking Corporation (SMBC), Japan

**Listed At**

National Stock Exchange of India Limited  
Bombay Stock Exchange Limited

**Subsidiaries of R Systems International Limited**

1. R Systems (Singapore) Pte Limited, Singapore
2. R Systems, Inc., U.S.A.
3. Indus Software, Inc., U.S.A.
4. ECnet Limited, Singapore
5. R Systems Solutions, Inc., U.S.A.
6. R Systems NV, Belgium
7. R Systems Europe B.V., The Netherlands
8. R Systems S.A.S., France

**Subsidiaries of ECnet Limited**

9. ECnet (M) Sdn. Bhd., Malaysia
10. ECnet, Inc., U.S.A.
11. ECnet (Hong Kong) Limited, Hong Kong
12. ECnet Systems (Thailand) Company Limited, Thailand
13. ECnet Kabushiki Kaisha, Japan
14. ECnet (Shanghai) Co. Ltd., People's Republic of China

**R** Systems' success so far has been attributable to its ability to respond to changes in the environment, so that all stakeholders continue to find good value in the business we do. Over the years, we have added geographies, domains, skills sets and business models to our operations. The Company's strong value system empowers its employees to provide customers with consistent good quality IT and ITES services.

**R** Systems has embraced the Quality agenda in earnest, and has developed a holistic Quality program which addresses Corporate Governance, Quality Management of services, Vendor management process, and most importantly, the People management process.



We see innovation as the mantra at this critical juncture when the world is emerging out of the recession. We see “innovation” permeating through all the functions of the Company, beyond technology and delivery processes.

The Company’s customer orientation is very strong, with a very large number of our people having touch points with our customers. Our service delivery and people processes incorporate a strong backbone of communication to ensure that customer feedback loops back into business practices. With the launch of pSuite v2.4, we have taken on board, methodology that is agile and speeds up delivery, improving the “time-to-market” timelines for our customers. This innovative e-Portal solution provides a unique single window view to our customers for gauging the health of their projects on a real time basis. This ability to extract disparate data from multiple sources is further enhanced by our capabilities around utilizing statistical modeling for trend analysis, etc., which provides a reliable forecasting mechanism to the customers.

R Systems also provides a wide variety of services to organizations in the Healthcare industry. This includes companies that develop, manufacture and market health-related products or healthcare services, such as hospitals, mid sized provider organizations, HMO's, plan providers, payers, Medical Billing companies, Medical equipment and Medical device manufacturers. More particularly, the Company delivers services that improve the Revenue Cycle for healthcare providers, bundling technology with support.

In 2009, we launched Lending Solutions under Islamic Banking norms, two solutions for the Insurance sector, credit monitoring system for the Telecom sector. The Company has launched many modules and upgrades in the year that cater to the constantly changing needs of the BFSI sector.

Having consolidated our business into a few strategic verticals, and having taken the necessary steps to tighten up our processes, we are now all set for an aggressive approach to the markets that are slowly emerging from the recession. We have a bouquet of products and services of the kind that are capable of providing stability in growth.



Innovative products & services + Strong and stable systems & processes + Innovative business practices & execution



Customer satisfaction and delight + Progress with Growth + Future success

## Evolving growth paradigm



## 2006:

It was a year of innovative products & services that re-defined the software & BPO industry paradigm. That was the time when we, at R Systems, aligned all our plans and strategies to the belief that great products & services make great companies. It was a year when we lived this belief, constantly innovating new products & services across the full spectrum of our business.

By the time we started moving into the next year, we had lined up an impressive portfolio of products & services, with which we were confident of addressing the complete gamut of the demands of the entire industry.

## 2007:

As we surged on to the next level in our growth trajectory on the back of our strong and extensive portfolio of products & services, we decided to raise the bar of innovation even further. While continuing with our thrust on product and service innovation, we decided to move into a customer-centric service orientation in a big way. We believed that our own success was linked with that of our customers.

And so the focus shifted from finding customers for our products & services to developing customized products and solutions for our customers.

## 2008:

While customized & innovative products and solutions are a key growth driver for enabling customer success, a major and significant contributor to their growth and overall progress is a Company's Human Resources. Keeping this in mind, we decided to expand our growth strategy from mere production innovation & customer service to focused HR development during 2008, thereby building our platform for innovation that would propel the Company towards accelerated growth.

The emphasis was on ensuring best practices and an evolutionary culture to nurture talent and passion across our HR spectrum in order to empower our people to deliver exceptional value to our business.

The result has been there for all to see. Even in a gloomy global environment, we succeeded in growing our business, adding new customers to our client portfolio.

## 2009:

The year has been one of consolidation at R Systems, as with most other companies, which were forced by the recession to cut costs, resize and focus on key business. We have done likewise. Our business volumes have been impacted across all segments and geographies, as customers tightened IT spends, delayed product development and carried out optimizing strategies by consolidating vendor arrangements.

We have looked inwards and improved our processes; we continued our Quality journey and added PCMM level 5 certification for our iPLM business. We have also launched our new products for the Insurance sector - "iPerSyst", which addresses the issue of policy lapses with an implementation at one of most reputed private sector Insurance providers in India. We also launched our integrated "Collection Management and Credit Monitoring" for the Telecom sector; the solution has been chosen by three of our largest SI partners for their customer implementation.

The year 2009 also saw the first implementation of lending solution based on Islamic banking with a large bank in the Middle East.

We have initiated many alliances with Systems Integrators and product companies to deliver integrated solutions to our customers.

### Looking Ahead

The Company will focus on its key chosen areas on iPLM that encompass Outsourced Product Development and Tech-Support, Healthcare, Indus solutions for the BFSI and Telecom industries, ECnet's solutions of SCM, WM,VMI and ERP customization and implementation for the Manufacturing and Logistics industry.

We will leverage our technical and business alliances to improve our technology and market presence.

## Who we are

Founded in 1993, R Systems is one of the leading providers of outsourced product development and customer support services, providing customized, end-to-end solutions that are crafted to respond to specific needs of customers around the world.

Our key focus area is to help companies accelerate the speed to market with a high degree of time and cost predictability by using our proprietary pSuite execution framework.

Endorsing our domain competencies and development capabilities is our steadily growing clientele base, which encompasses Fortune 1000, government and mid-sized organizations across industry verticals, including Banking and Finance, High Technology and Independent Software Vendors, Government, Healthcare, Manufacturing and Logistics industries.

With our 8 global centres in India, USA, Europe and Singapore, we serve over 125 customers in over 40 countries across 6 continents.





## What we offer

### **iPLM Services**

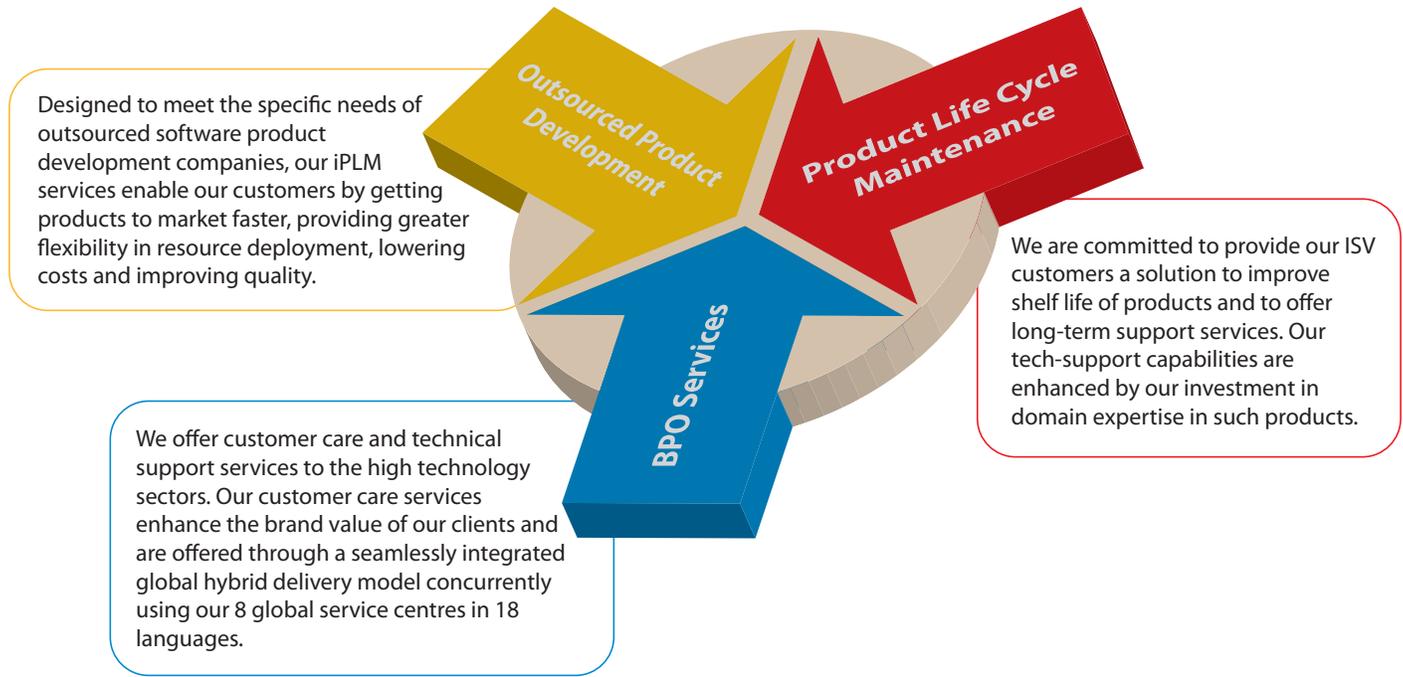
Our suite of iPLM Services and Products is designed to respond to diverse needs of diverse clientele across verticals. This helps develop, sustain and support the products of companies through multiple-year contracts. A combination of on-site, onshore and offshore modules is applied to render best of breed services, supported by our proprietary project tracking and reporting tools. This creates a transparent collaborative environment with clients.

R Systems has proven expertise in High Technology, Healthcare and Financial Services sectors. Our service delivery strategy ensures that subject matter experts manage the operations and quickly understand the changing business needs of our customers. We provide wing-to-wing services that cover Customer Interaction and Back Office Processing.

R Systems has designed and implemented a variety of Digital Media solutions catering to delivery of Video, Music and other digital content over IP and mobile networks. R Systems partners with leading media and technology organizations to provide strategies and solutions for Digital Media Monetization. We have developed technology and domain expertise to support sunrise industries like Digital Media and IPTV.

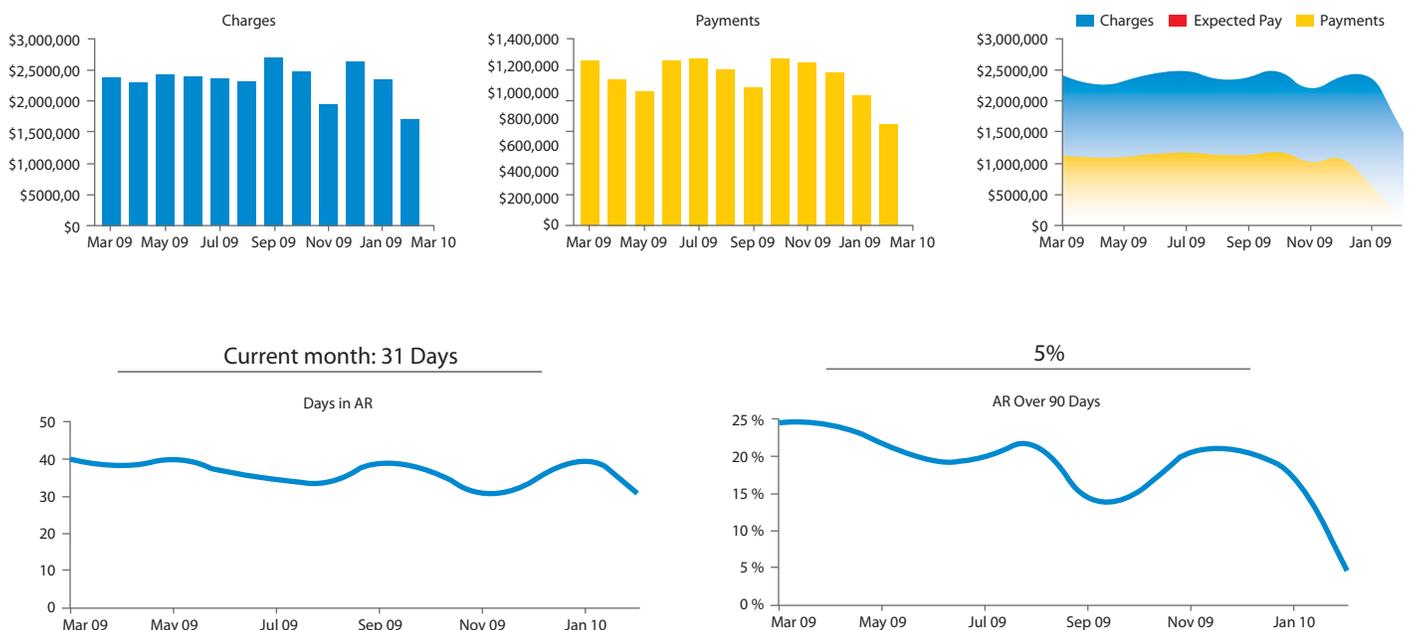
Our Solutions for the Healthcare industry now combine our strengths in Technology with our service expertise. The services range from helping Physician Groups and IDNs to enabling Insurance carriers, TPAs and ASOs.

**iPLM overview:**



**Healthcare BPO dashboard from pSuite**

Customer: ABC Co.



### Our Products Group

iPLM Product Development services encompass the complete cycle from concept to release. It involves a phased, milestone driven implementation process using structured or agile methodologies. Robust and structured implementation processes involve the classical process steps, such as Analyze, Architect and Design, Develop, Test, and Deploy.

### Indus® Solutions

The Indus Lending Solutions suite contains three modules - 'Indus Loan Origination', 'Indus Loan Servicing' and 'Indus Collections' for the retail lending segment of Banking and Non-Banking Finance Companies. A modular and parameter driven, n-tier application, this helps in automating the customer acquisition lifecycle for multiple retail products offered through multiple business channels. It helps customers launch new products and schemes; change rules on-the-fly and customize product offerings.

It is equipped with tools to evaluate risk and improve decision-making. It tracks the repayment schedules and comes with a powerful customer servicing module. Delinquent accounts can be tracked all the way from early collections to accounts that need to be resolved through legal means.

Our Indus Solutions for Telecom offers Indus Credit Management & Revenue Collections services that help Telecom companies automate and streamline the entire revenue collections and delinquency management process. Indus Credit Management & Revenue Collections is a fully internationalized web-based product that provides a highly configurable and scalable solution for managing collections of post-paid bills for the Telecom vertical.

Our Indus Solutions for Insurance offers the Indus Renewals and Retention System (iPerSyst), which is designed to enhance the ability to retain customers and collect premiums. This web-based

scalable solution manages the entire tracking & collection process - from the generation of automatic notifications all the way up to automating communication with customers and external collection agents.

Indus Solutions stack also offers generic solutions like "Commissions and Incentive Module" which facilitates the calculation of commissions and incentives for external agencies, as well as internal members, based on various events and tariff structures.

### ECnet® Solutions

Since 1995, ECnet has been helping industry leaders to transform their supply chains for improved efficiency and greater Return-on-Investments (ROI). ECnet offers a full suite of solutions delivered as Software-as-a-Service in supply chain management, enterprise resource planning (ERP), warehouse management system (WMS) and mobility services.

ECnet helps to collaborate seamlessly, starting from within the organization, to suppliers, Third-Party Logistics Providers (3PLs), distributors, and finally, customers, with full visibility and control over the extended enterprise.

ECnet G5 Solution is an advanced and comprehensive collaborative supply chain management solution for modern enterprises. Incorporating the latest supply chain collaboration and optimization strategies, it facilitates better collaboration and business process optimization in inventory, logistics, and sourcing management. Built with the latest Internet and security technologies, it is a highly scalable and cost-effective supply chain management solution for big and small businesses. Key components of this excellent supply chain collaboration solution include Supply Chain Intelligence, Logistics Optimization, Inventory Optimization, Sourcing Optimization, and Supply Chain Collaboration.

## Financial highlights

(On the basis of Consolidated Financial Statements under Indian GAAP)

### FINANCIAL PERFORMANCE

(Rs. in lakhs)

| Particulars            | 2009      | 2008      | 2007      | 2006      | 2005      |
|------------------------|-----------|-----------|-----------|-----------|-----------|
| Operating Income       | 32,752.52 | 35,939.23 | 24,705.75 | 20,394.58 | 15,779.34 |
| Other Income           | 804.22    | 549.43    | 570.84    | 402.08    | 43.00     |
| Exceptional Income     | -         | -         | 144.52    | -         | -         |
| Total Income           | 33,556.74 | 36,488.66 | 25,421.11 | 20,796.66 | 15,822.34 |
| Operating Profit       | 2,650.65  | 2,688.66  | 1,818.31  | 1,352.23  | 1,499.06  |
| EBT #                  | 1,052.73  | 3,001.76  | 2,310.15  | 1,390.83  | 1,441.88  |
| EAT #                  | 772.04    | 2,796.64  | 1,897.14  | 782.43    | 1,247.70  |
| Share Capital          | 1,224.30  | 1,336.25  | 1,350.88  | 1,350.88  | 513.92    |
| Reserve and Surplus    | 15,515.00 | 15,829.01 | 12,905.83 | 11,472.55 | 5,601.75  |
| Secured Loans          | 145.20    | 325.65    | 63.14     | 242.58    | 1,013.30  |
| Fixed Assets (net)     | 5,302.71  | 7,465.93  | 6,103.69  | 5,548.51  | 2,820.82  |
| Investment             | 0.25      | 0.25      | 120.36    | 134.63    | 16.45     |
| Current Assets (net)   | 11,792.16 | 10,193.50 | 8,446.40  | 7,783.16  | 4,087.31  |
| Cash and Bank Balances | 8,719.75  | 6,364.38  | 5,123.14  | 5,317.41  | 1,152.78  |

### KEY RATIOS

| Particulars                               | 2009   | 2008   | 2007   | 2006   | 2005   |
|---|--------|--------|--------|--------|--------|
| Debt - Equity Ratio                       | 0.01   | 0.02   | 0.01   | 0.04   | 0.17   |
| Days Sales Outstanding                    | 68     | 67     | 74     | 82     | 88     |
| Current Ratio                             | 3.11   | 2.57   | 2.93   | 2.72   | 2.79   |
| Cash and Bank Balances / Total Assets (%) | 38.44% | 26.33% | 26.88% | 29.54% | 12.23% |
| Cash and Bank Balances / Total Income (%) | 25.99% | 17.44% | 20.15% | 25.57% | 7.29%  |
| Operating Profit / Operating Income (%)   | 8.09%  | 7.48%  | 7.36%  | 6.63%  | 9.50%  |
| EBT / Total Income (%) #                  | 3.14%  | 8.23%  | 9.09%  | 6.69%  | 9.11%  |
| EAT / Total Income (%) #                  | 2.30%  | 7.66%  | 7.46%  | 3.76%  | 7.89%  |
| Return on Avg. Equity (%) #               | 4.55%  | 17.80% | 14.01% | 8.26%  | 22.22% |
| Return on Avg. Capital Employed (%) #     | 6.29%  | 19.14% | 16.95% | 14.03% | 21.98% |
| Earning Per Share (Rs.) #                 |        |        |        |        |        |
| - Basic                                   | 6.09   | 20.61  | 13.97  | 6.17   | 11.65  |
| - Diluted                                 | 6.02   | 20.36  | 13.78  | 6.17   | 11.65  |
| Dividend Per Share (Rs.)*                 | 2.40   | 2.40   | 1.80   | 1.20   | -      |
| Book Value Per Share (Rs.)                | 136.73 | 128.46 | 105.54 | 94.93  | 59.66  |
| Cash Per Share (Rs.)                      | 71.22  | 47.63  | 37.92  | 39.36  | 11.22  |

\* After providing goodwill impairment amounting to Rs. 2087.14 lakhs during the year ended December 31, 2009.

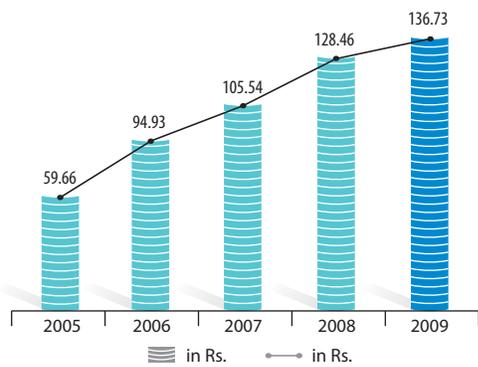
\* Dividend per share for the year 2009 is subject to the approval by the shareholders at ensuing annual general meeting.

**Notes :** Operating Profit - Earning before interest income, interest expenses and tax excluding exceptional and prior period items;  
EBT - Earnings before tax;  
EAT - Earnings after tax;  
EBIT - Earning before interest and tax;  
Debt Equity ratio = Long Term Debt / Equity.

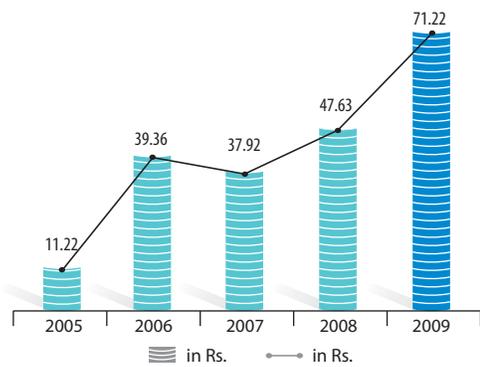
Days Sales Outstanding = Average Trade Receivables / Net Credit Sales\*360;  
Current Ratio = Current Assets/ Current Liabilities;  
Return on Avg. Equity (%) = Net Profit after tax / Average Equity;  
Return on Avg. Capital Employed (%) = EBIT / Average Capital Employed;  
Cash Per Share = Cash and Bank Balance / Outstanding No. of Shares.

Previous year's figures have been regrouped or recasted where necessary to conform to current year classification, including the effect of consolidation of shares and bonus issue in the year 2006.

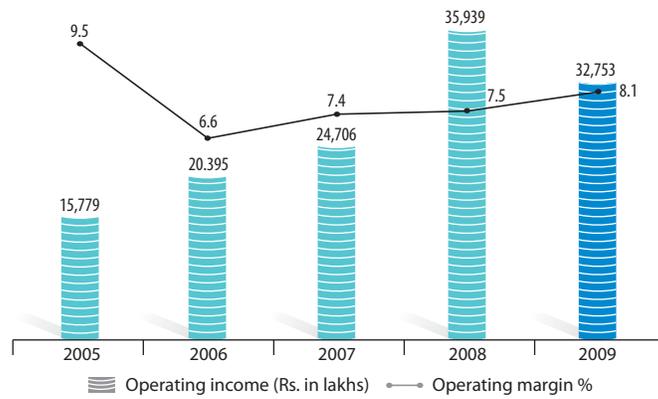
**Book Value Per Share**



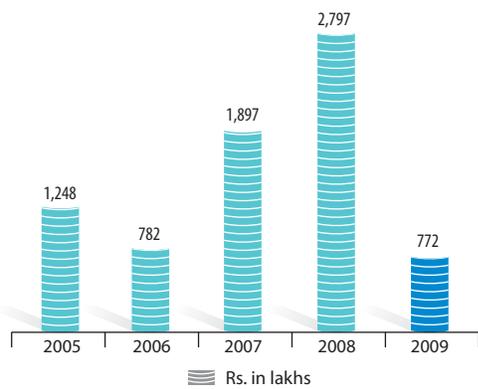
**Cash Per Share**



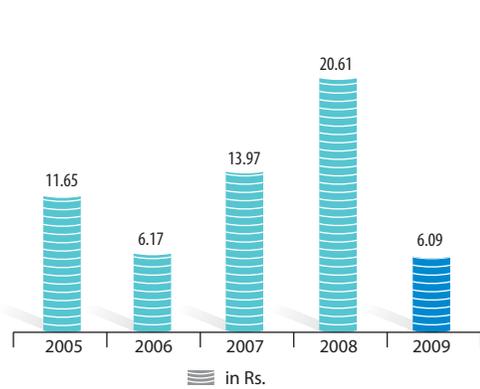
**Operating Income & Profit**



**EAT (Earning After Tax)**



**EPS (Earning Per Share)**



## From the Desk of Chairman



### Dear Fellow Shareholders,

Boosted by stimuli provided by governments across the globe, there have been signs of thawing in the recession that had set in over the last two years, though the climate for investment in new products continues to be slow. The difficult environment, however, has forced companies to take corrective steps and get leaner and more focused in their product and service strategy. So has been the case with our Company.

The Company responded to this recession by pruning its costs and resizing the business to the lower business volumes. Through consistent measures, the Company improved its cash to Rs. 71.20 per share at the year end from Rs. 47.63 at the beginning of the year.

As a response to signs of recovery seen in the US and Europe - our key markets, we have invested in additional sales force across our

portfolio of offerings. We have also used this period to strengthen our product portfolio. Over the last few years, we have significantly improved our geographical diversity.

As a response, the Telecom vertical has been put in focus, which has partially offset the decline in Tech support business in US/Europe. We have also come out with an offering for the Insurance market that is ridden with the problem of policy lapses.

Some significant global customers acquired in the previous years could not give us the needed growth levers, as these businesses restructured themselves and curtailed their global strategies. We believe that in the future, as the global economy witnesses a turn-around, we should be able to leverage these relations as we continue to nurture and service them.

“We have added to our capability in IPTV and Digital Media, Healthcare solutions and products for Insurance sector, and our lending solution based on Islamic Banking principles.”



### R Systems in 2009

R Systems posted consolidated Revenues of Rs. 327.53 crores, a Revenue decline of 8.87%. The EBITDA for the year 2009 of Rs. 40.32 crores was a decline of 13.2% over 2008. The Net Profit is Rs. 7.72 crores after taking a goodwill writedown of Rs. 20.87 crores.

The cash generation from business in 2009 was Rs. 43.26 crores against Rs. 29.34 crores in 2008. Realizing the need to focus on cash preservation during the recession, we improved our cash collection cycles, especially with respect to our fixed price contracts which tend to be lumpy. The cash balances stood at Rs. 87.20 crores as at December 31, 2009 i.e. Rs. 71.20 per share after completing the share buyback, up by 37%.

### Growth and Expansion

Our customer list includes many Fortune 1000 companies and we are continuously increasing the list. Our billing rates have been reasonably stable across markets, thus keeping our gross margins intact, as long as we manage our utilization rates.

We have added the Insurance sector to our market space during the year, on the strength of our solutions for retaining customers and improving renewals. This is a product that helps our customers attack their policy lapse ratios, which is one of their significant revenue leakages.

There were other firsts, as we had our first implementation of a solution that catered to the requirements of Islamic banking. License fees earned during the year increased by more than 250% over 2008,

reflecting the maturity of our products and their acceptance in the market.

### Human Resource Development

We have invested strongly in customer domain and technology, and continuously provide our employees a challenging but fun atmosphere to work in. During the year, we were ranked as the 6th 'IT Best Employer' in a nationwide survey of 200 leading IT companies, conducted by Dataquest Magazine for 2009. This is further to being ranked 5th in 'Exciting Emerging Companies to work for' Survey 2008 by NASSCOM.

My son, Sartaj Rekhi has joined the Management team as an Executive Manager after having completed a job rotation program wherein he participated in the various business functions, including meeting with our customers and people at our various offices. He will continue to work on bringing in new ideas and contribute to the growth and evolution of the Company.

### Other key developments

In another significant development, we completed our share buyback during the year.

We pursue Quality improvement processes and have embraced ISO 9001:2000, CMMI Level 5 for Quality processes & ISO 27001:2005 for Information Security Management Systems. During the year, we achieved PCMM Level 5 for our people processes at our largest offshore unit in NOIDA.

**“We will continue our focus on our core strengths in iPLM, Retail Lending, Credit Management and Supply Chain, as we expand our geographical markets and look for investment in products and services that are adjacent to our current offerings.”**

### Outlook

We will continue our focus on our core strengths in iPLM, Retail Lending, Credit Management and Supply Chain, as we expand our geographical markets and look for investment in products and services that are adjacent to our current offerings.

More particularly, in the iPLM space, we will focus on Digital Media, Virtualization, WiMax, Infrastructure products, Tech Support - the domains where we have done significant work. The other domains that will be our focus include Banking and Finance, Telecom, Insurance and ERP.

We will leverage our presence in various geographies and affirm our commitment to our customers. This is extremely important in our business strategy, as our solutions are part of systems critical to customer's core business.

We have expanded our sales team and restructured our delivery teams to provide us deeper engagement with our customers. Our markets will continue to be North America and Europe for our iPLM business. For the Product suite of loan originations, loan management and delinquent collections, we look to growth that is more broad-based geographically. We also look to carrying the new product for lending for Islamic Banking, Insurance and Telecom to give our product business an additional fillip.

We have a strong pipeline across business, and already have the infrastructure to support the desired level of growth.

The USD and Euro are significant currencies of our business and INR has appreciated considerably against them. This will have considerable impact on our Revenues, while our costs, which are in INR, will not be impacted to the same extent.

We had maintained a salary freeze over most of the last 18-24 months. As we emerge from this, our average people costs will increase. We will look to maintain our gross margins by improving our utilization levels.

### On a concluding note

As we look to our future, we look for the continued support of all our stakeholders, shareholders, Board of Directors, employees, customers and vendors, whose contributions are valued and whose feedback provides us the needed course corrections.

I would like to thank all of the above, and our alumni who carry a good word for us and help us establish ourselves as a good bankable brand.

Sincerely,

Satinder Singh Rekhi  
(Chairman and Managing Director)



## Responsiveness to customer



### 1.

A television broadcasting company wanted to develop a new high definition encoder application to capture HD video, encode it to Mpeg-2 HD supporting multiple formats and to integrate this application to its existing applications, with the aim of providing a better viewing experience to users. We gave them the ideal solution.

### 2.

An undisputed market leader in e-learning, reporting rapid growth in the US and Europe, wanted technical support and customer care in several languages for its software product and services. We understood the need and gave the required module.

### 3.

A customer was looking for a solution that enabled them to address insurance industries' pet peeve of revenue leakage during policy lapses. We provided them with a robust solution within 4 months of the order.

### 4.

An Alliance partner was looking for a collections solution to be implemented quickly for an end user customer. Strong early work with end user customer resulted in "Go Live" within 30 days of start of the project.

**Across borders, across verticals. Diverse customers, diverse voices.**

R Systems has grown over the years, both organically and through its acquisitions. These have provided R Systems the capability to do business in a world that is shrinking in reach; products and customers that provide access to some of the world's largest businesses; and the opportunity to leverage the highly skilled talent pool that is available in the US, Europe, India and South East Asia.

The profile of our customers extends from IPTV, ERP, Banking, Finance and Insurance to Hospitality, Telecom, Hi-tech Electronics Manufacturing. Our services extend from delivering products where we own the IP to productized applications for other Independent Software Vendors, Tech-support for Information Technology and Hi-tech Electronic Goods.

R Systems' teams integrate seamlessly with clients' own project teams to deliver strongly, often participating in their product and technology strategy. Our long-term association with their software products often extends the life of products and hastens the launch of new ones, providing immense customer value.

Deep domain knowledge and competencies, fast-paced development capabilities and extensive technical support systems make R Systems the ideal vendor for companies spanning diversified geographical markets and industry verticals.

Addressing the requirements of high-end customers in iPLM, Consumer Finance, SCM, Hospitality and Telecom, we are geared to

respond to their needs through our outsourced product development and customer support systems, which are driven by lower costs, efficiency, reduced cycle time in development and the importance of providing them with a better experience, overall.

Centered on a growth philosophy of taking carefully measured risks, coupled with a conservative financial strategy, our business approach is geared to integrate itself to the voice of our valuable customers. This is done through a seamlessly integrated global hybrid delivery model, concurrently using our 8 global service centers in 18 languages.

Solutions like Supply Chain Management, Business Intelligence and Enterprise Portal Solutions enable us to integrate our services to the needs of the expanding enterprises worldwide.

We are also fully equipped to meet the demands of our manufacturing customers through integration of their systems with their trading partners and logistics providers.

Our integrated approach helped us expand our client portfolio significantly during 2009.

During 2009, we added over 25 significant new customers, including 2 USD 1 million+ software customers, to our clientele, significantly offsetting the loss of 3 USD 1 million+ customers during 2009 in Europe & US (Tech Support).

As of 31st December 2009, R Systems had 125+ Active Customers, including 12 One Million USD+ Accounts on Run Rate Basis.

**Going ahead**

With the global economy not yet out of the recession, we will tread cautiously on product investment. We will however persist with those products which provide strong business case and have client sponsorship. Our R & D efforts to improve product quality and performance, along with technical capability and functionality, will continue as these define our product strengths.

We will continue to look hard at all items that are discretionary or have become out of context in the rapidly changing environment.

R Systems is now focusing on intensifying its efforts to leverage existing cost structure, assets and platform for revenue growth. Cost optimization through infrastructure consolidation, increasing utilization, and SG & A reduction are other focus areas of the Company, going ahead.

Look beyond near term to invest in capabilities for medium term growth, the Company shall work on new revenue streams, e.g: Indus solutions for Insurance industry, alliances with Systems Integrators, ERP Solutions providers.

We are investing in our sales team to further leverage our presence in Europe that has so far been driven by the presence of our key customers. We have also added to our sales teams across USA, Asia & Middle East.

## Innovating quality products & solutions



### Diverse customers. Diverse needs. Diverse products.

Only through innovation can a company build a product portfolio that is ideally suited to meet the diverse needs of diverse customers. R Systems not only has the necessary capacities to handle the demands of its diverse and growing clientele, it also has the power of innovation needed to develop the kind of products that generate suitable solutions for large and diverse clientele.

The Company's ingenuity is manifest in the variety of products it develops and supports, and its global platform to deliver services through its range of five large Centres for Software Excellence - one in El Dorado Hills, CA; one in Singapore and the other three in India (Pune, Chennai and Noida). R Systems' centres have been SEI CMM level 5 and ISO 9001:2000 certified, ensuring delivery of high quality products that are defect free and on schedule.

The Company has COEs in many areas where the combination of domain and technology skill is able to provide innovative ways of delivering solutions that are robust and efficient to build.

R Systems' IPRs, solution racks, frameworks and cumulative experience in ISV, Consumer Finance and Supply Chain are helping clients meet their goals of value, performance and cost optimization. However, with changing market and customer requirements, there is a constant need for product enhancement and new features. The

challenge lies in meeting the ever changing product requirements, while still effectively meeting the needs of existing, well paying customers.

R Systems' product portfolio amply demonstrates the Company's manufacturing and R&D strengths in innovating new and better products to meet the constantly evolving needs of its customers and their demand for better quality.

The Company devotes 5-10% of its offshore resource pool to product and process innovation. These Research and Development activities help carry out product and technology innovation, do proof-of-concepts for customers, prove scalable performance, provide customers with advice on infrastructure and improve use of open source components that will drive down cost of ownership. These teams are spread across our different COEs.

A large number of new products were developed during the year to meet the divergent needs of our customers. Despite the volume decline in our business as a result of the recession, the licence fees earned from product sales increased more than 2.5 times during the year, as the Company preferred products and applications that improve customer cash inflows.

R Systems' product portfolio amply demonstrates the Company's manufacturing and R&D strengths in innovating new and better products to meet the constantly evolving needs of its customers and their demand for better quality.



**Product innovations: 2009**

During the year under review, R Systems launched its first solution for the Insurance industry - iPerSyst. The solution has been implemented for one of India's most reputed private sector life insurance companies.

The year 2009 also saw the launch of the Company's lending solutions with Islamic bank functionality. The solution is now implemented at a leading Middle East Bank.

Also, during the year, R Systems started the upgrading of its third module of lending solution - its Loan Management System (LMS). The module is expected to be launched in Q1, 2010.

**Other business innovations**

The Company signed a partnership agreement with India's largest IT services company to offer Indus Collection Solution alongside their core banking product.

In a significant achievement, R Systems has been selected by a large Telecom operator in South East Asia as a systems integrator to deliver a Collections Management and Credit Monitoring solution on the IC4 collections platform. With this, the Company has started its business journey as a systems integrator.

In another noteworthy accomplishment, R Systems has also been selected to implement an integrated supply chain platform to help streamline the Transit Warehouse inbound and outbound activities.

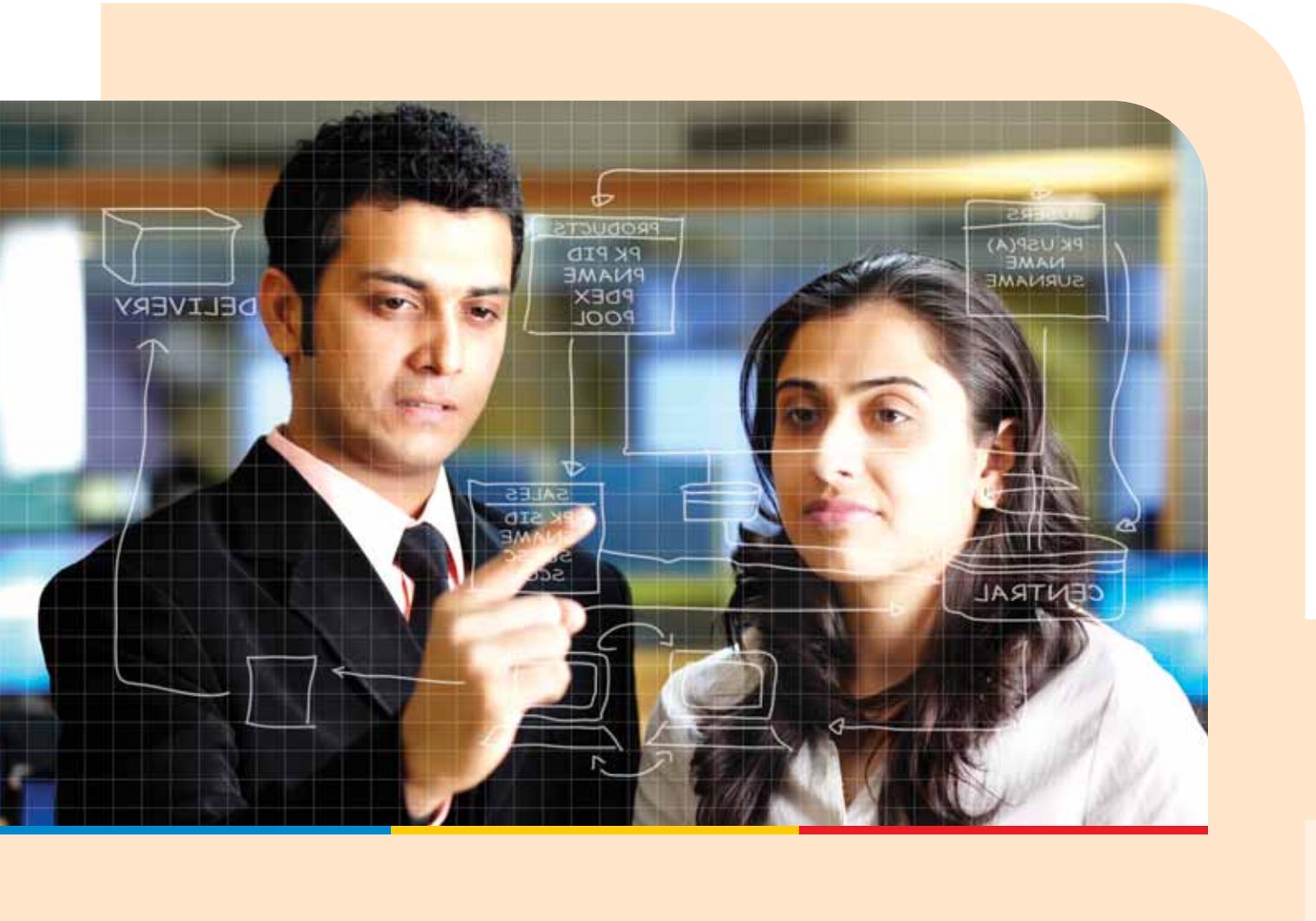
A Singapore-based Regional Direct Sales company has selected our ECnet supply chain solution to manage and track product inventory. Another Singapore-based regional operations company involved in surface treatment for equipment for the semi-conductor industry has also selected ECnet to implement an ERP solution.

With these key product additions, our product portfolio has now expanded to a total of 15 products across our various product groups.

**Going ahead**

As the Banking & Finance, Insurance, Telecom, Manufacturing industries continuously evolve their business practices, we will offer products and functionalities compatible with these practices, and also provide each of these industries with innovations that will lead such practices. We have well developed methodology that plans and executes new products and modules based on continuous customer feedback. The customer's voice is captured through a number of channels like surveys, meetings with customer's business users, monthly project review calls, end of project VOCs, product and industry seminars and follow-up on outcome of all contracts won and lost with key decision makers.

## Innovating quality services



### Complex problems. Simple solutions.

On the strength of partnerships and key technology leaders, R Systems is today well equipped to meet the divergent needs of product sustenance, while continuing strategic product development activities. The Company's iPLM services help customer IT and business leaders find creative ways of stretching the limited product development budget.

Based on their size & structure and the markets they address, ISVs have different needs, often reflecting complex issues. R Systems

has iPLM services designed to offer simple solutions that meet those specific needs.

R Systems also clearly understands the need for software product development companies to reduce costs and increase speed to market. Encouraged by R Systems' exceptional solution offerings, many of these companies have partnered us over several years and delivered quality software products to aggressive time-to-market deadlines.

**iPLM Services Group:**

A key strength of R Systems' solutions lies in its capacity to provide end-to-end services in product design, development, testing, customer care and technical support. R Systems is focused in the high-tech sector to gain competitive advantage.

The Company's major competencies lie in rapid and agile development capabilities, proven global delivery and service platform, proprietary pSuite Framework and end-to-end capability. Together, these give us the edge to serve customers with a high degree of time and cost predictability.

R Systems' iPLM services have positively impacted over 1,500 products since inception in various segments, including mobility, IPTV, search engine, Internet security and enterprise software.

As a part of our iPLM suite, we offer customer care and technical support mainly to high technology sector. These services are offered through a seamlessly integrated global hybrid delivery model from centres in India, Europe and USA.

**Service innovations: 2009**

During 2009, R Systems commenced on several new engagements for both new and existing customers.

The year saw us being selected for an application development for a client that is popular on mobile phones, which will enable applications to use standard digital pen technology.

We have also been selected to provide maintenance & enhancement support to a client whose portal solution supports pre-paid cards for Retail, Hospitality, Government & Manufacturing, and Theme Parks, etc.

We are developing for an Internet news and media company an application that facilitates RSS/MRSS feed acquisition, and a system to deliver video content in a given format to any destination client.

R Systems Europe was selected by a leading provider of technology-based language learning solutions to support its international business, which is seen as critical to the Company's long-term success. The BPO solution includes Technical Support and Customer Service to B-2-B as well as B-2-C markets.

Furthermore, R Systems Europe was selected by an experienced international supplier of solutions in the field of lifestyle & connectivity products, which recently launched the next generation Internet media player.

On the strength of partnerships and key technology leaders, R Systems is today well equipped to meet the divergent needs of product sustenance, while continuing strategic product development activities.

**Going ahead**

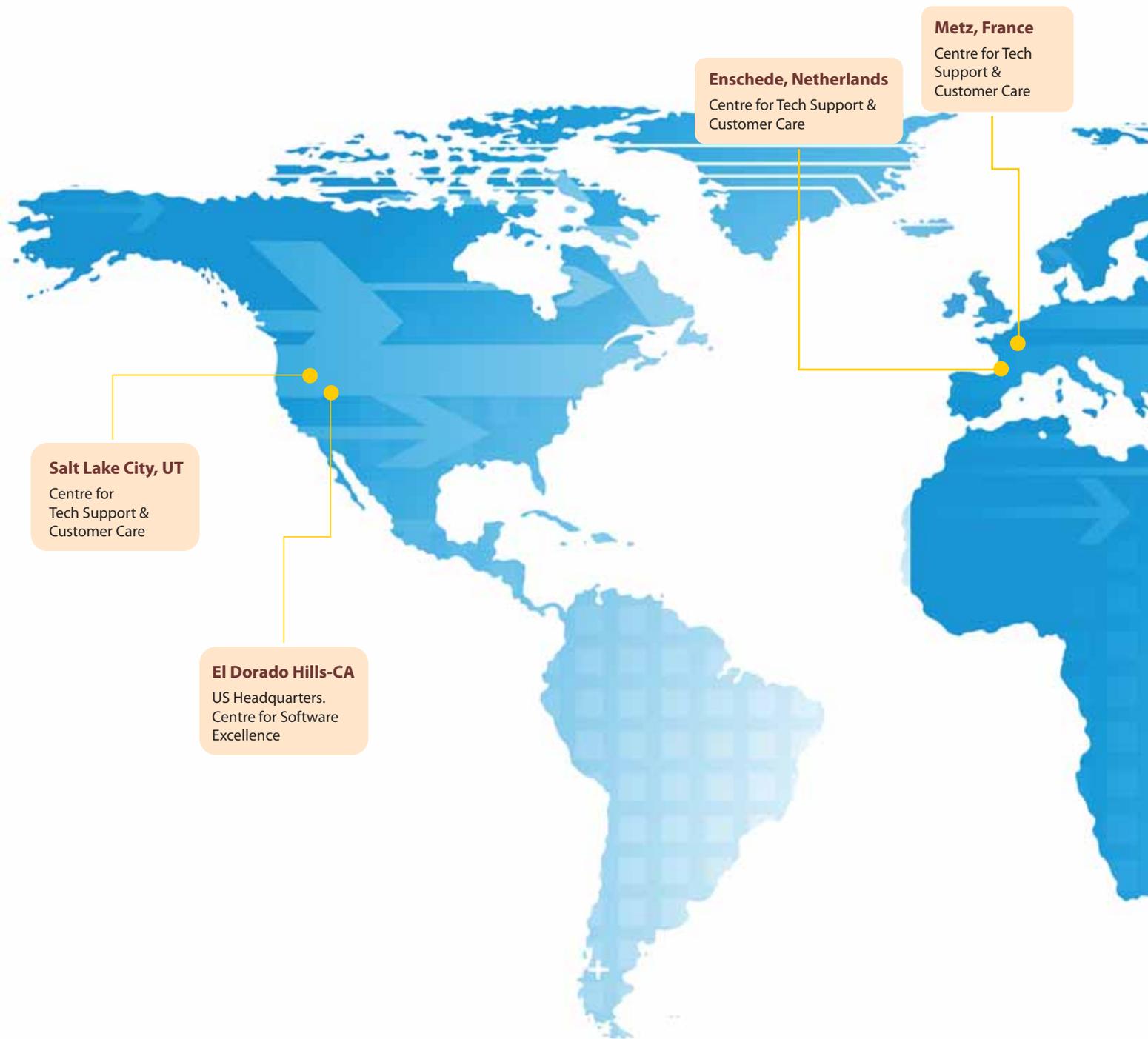
The Company will continue to invest in domain and technology to support its strong foundation in OPD. This investment provides our customers confidence in our commitment to be their extended business team.

Our Technical Support and BPO capability will continue to focus on servicing markets in USA and Europe. These markets continue to provide cost arbitrage value and help strengthen our capabilities.

The Indus suite of business solutions for Banking and Finance, Insurance and Telecom is expanding as Voice of Customer keeps the product functionality and range concurrent. We look to tap the utility industry as well, which requires similar functionality for customer interface, billing and follow-up.

Supply Chain with proven capability to create value for buyers is being upgraded to newer technology platforms. This, together with our investment in partnerships with ERP software product vendors, will enable R Systems to provide more comprehensive solutions covering inventory, procurement, warehouse management and logistics for the hi-tech manufacturing industry.

## Accelerating growth across geographies





## Innovative HR policies

At the heart of a robust business model is a friendly HR model. This aptly sums up the HR philosophy of R Systems, which follows the People Capability Maturity Model (PCMM) for the development of its workforce.

Based on this model for implementing workforce practices, R Systems has continuously striven to improve the capability of its people. Maturity of HR processes and practices resulted in KPMG awarding R Systems with PCMM Level 5 certification for its NOIDA iPLM business.

### **At the core of R Systems' HR policies are some important pillars of sustained practice. These include:**

- Internal and external salary parity
- High engagement level at the work place
- Fun-at-work activities on regular basis
- Medical insurance for employees and their families
- Personal accident insurance
- Pick-up and Drop facilities
- Subsidized meal
- Long-term employee career development programs
- Transparent processes



On the back of these policies, the Company has not only succeeded in retaining its talent but has, in fact, managed to secure engagement with new workforce at all levels.

A vibrant environment has enabled the Company to ensure a young workforce, with an average age of 29 years, and a healthy male-female ratio of 75% : 25%.

Based on PCMM model for implementing workforce practices, R Systems has continuously striven to improve the capability of its people.

The year saw the Company undertake several short and long term initiatives to promote a healthy work culture. Some of the major initiatives included:

- Long-term employee's career development programs
- Focus on training to develop competencies of associates
- Implementation of "Succession Planning" for critical resources
- Launch of concept "Innovate and Accelerate" with attractive prizes for innovations adding value to the business
- Launch of HR software tool to automate HR processes
- Open door policy for grievance handling
- Encouraging certifications through the Certification Reimbursement Program
- Lateral movements – meeting career aspirations of employees
- Internal mobility



## Snapshot 2009

### R Voice 2009 – Employee Satisfaction Survey

R Voice 2009 has been a very successful venture last year, with an overall 85% participation across centres as compared to 66% participation last year. We have achieved 85% and above satisfaction in 8 areas out of the overall 10 categories.

### PCMM – Revision of Policies, Guidelines & Templates

The HR Policies and Processes were revised with the addition of Ethics & Code of Conduct, etc. New guidelines were introduced for Decision Making, Resolving Conflicts & Disputes, and Harassment at Work, etc.

### “Everyone in Sales” Campaign

The Company launched its “Everyone in Sales” campaign in mid 2009. This campaign has already been successful in new sales and has provided important business connections.

### Participation in Corporate Awards

R Systems’ Vice President Vikas Aggarwal was amongst 10 chosen for his work on the Indus Collection product and participated in the “Praj Maha-Intrapreneur Award 2009”, which propagated "Culture of Intrapreneurship" within your own organization.

High maturity people practices in R Systems have helped in assisting and directing employees in maximizing their personal contribution and satisfaction in employment. Our people practices have also helped employees develop their potentialities and capacities to the maximum to fulfill the organizational goals and drive greater satisfaction from their work.



**Endorsing our HR practices**

Our HR practices have received positive endorsements, internally and externally.

At the internal level, some of the testimonials received from our employees during the R Voice Survey (Employee Satisfaction Survey – 2009) are as below:

“I appreciate the excellent team spirit, enabling us to face the challenges effectively.”

“Work culture is quite fine here. You can directly approach your Manager or senior with your ideas / suggestions / problems irrespective of your level, which makes you more comfortable while communicating.”

“The open atmosphere which really gives career opportunities a boost. The good inter departmental co-operation that helps in closing out things soon when there is an urgency.”

“I appreciate R Systems’ Initiative in social responsibility by activities like SAKSHAM, etc. I also appreciate R Systems’ policy for having a cool and clear work environment enabling employees to have fun at work.”

“Opportunities to work on different modules. Employee engagement activities organized by the Company. Good work environment.”

“I value the organization’s decisions to face the tough times such as current recession.”



**On the external level:**

- R Systems was ranked 5th among Top 15 Exciting Emerging Companies to Work For survey by NASSCOM
- R Systems was ranked 6th Best Employer in DQ-IDC’s Best Employer Survey for 2009 - a nationwide Dataquest Survey
- R Systems was assessed at Level 5 of PCMM

As we move forward, our efforts would be focused on continued nurturing of the work environment at R Systems to align it even further with the growth strategy of the Company.

## CSR initiatives

Integrating corporate responsibility with social responsibility is the key to successful business growth and expansion. R Systems has always believed in charting a growth trajectory that is founded on this basic philosophy of business development.

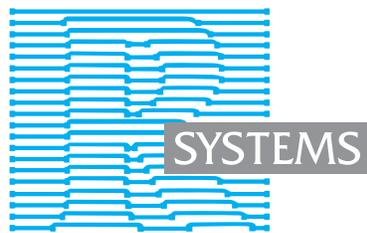
The Company's CSR tenets are rooted in a holistic policy which encourages every staff member of the Company to participate in social welfare activities. An informal employee group, Saksham, has been consistently engaged in managing employees' contribution to social welfare.



During FY 2009, Saksham successfully undertook several innovative initiatives aimed at uplift of the needy. Among the key initiatives of the group were:

- Supporting the education and providing a full meal for the children of Eklavya Arogya Nyasa School. R Systems has, in fact, been supporting this school for the last 7+ years
- Contributing educational kits for visually impaired girls of Jagriti School for Blind Girls, Pune
- Providing an ambulance for 'Care India' - an association that tends to terminally ill cancer patients
- Providing medical equipment for children suffering from Thalesemia at Sassoon Hospital, Pune
- Providing financial support for the treatment of a child who suffered 90% burns in a fire accident
- Providing economic support for costly medical care for children from economically weaker sections

Surging forward on our course to further expansion of our business, we shall strive to further accelerate our focus on existing and new CSR initiatives. R Systems will continue to support CSR activities of its people.



**R Systems International Limited**

## Directors' Report

Dear Shareholders,

Your directors have great pleasure in presenting Sixteenth Annual Report on the business and operations of R Systems International Limited ("R Systems" or the "Company") together with the audited statements of accounts for the year ended December 31, 2009.

### 1. FINANCIAL RESULTS

#### a. Standalone financial results of R Systems

| Particulars   | Financial Year ended<br>(Rs. in lakhs) |            |
|---|--|------------|
|   | 31.12.2009                             | 31.12.2008 |
| <b>Total income</b>   | <b>20,031.17</b>                       | 21,013.01  |
| Profit before depreciation, exceptional items and tax                                   | <b>4,189.39</b>                        | 3,183.88   |
| Less : Depreciation   | <b>804.62</b>                          | 663.18     |
| Less : Exceptional item<br>(Provision for diminution in value of long term investments) | <b>2,473.21</b>                        | -          |
| <b>Profit before tax</b>  | <b>911.56</b>                          | 2,520.70   |
| Less : Current tax<br>(net of MAT credit)   | <b>204.87</b>                          | 151.66     |
| Less : Deferred tax   | <b>41.85</b>                           | (75.52)    |
| Less : Fringe benefit tax   | <b>9.68</b>                            | 79.80      |
| <b>Profit after tax (available for appropriation)</b>                                   | <b>655.16</b>                          | 2,364.76   |
| Proposed final dividend   | <b>288.45</b>                          | 316.93     |
| Corporate dividend tax on final dividend  | <b>49.02</b>                           | 53.86      |
| Transfer to general reserve   | <b>65.52</b>                           | 236.48     |
| <b>Balance carried forward to Balance Sheet</b>   | <b>252.17</b>                          | 1,757.49   |

#### b. Consolidated financial results of R Systems and its subsidiaries

| Particulars   | Financial Year ended<br>(Rs. in lakhs) |            |
|---|--|------------|
|   | 31.12.2009                             | 31.12.2008 |
| <b>Total income</b>                                   | <b>33,556.74</b>                       | 36,488.65  |
| Profit before depreciation, exceptional items and tax | <b>4,488.06</b>                        | 4,158.66   |
| Less : Depreciation                                   | <b>1,348.19</b>                        | 1,156.90   |

| Particulars   | Financial Year ended<br>(Rs. in lakhs) |            |
|---|--|------------|
|   | 31.12.2009                             | 31.12.2008 |
| Less : Exceptional item<br>(Impairment of goodwill recognised on earlier acquisition of subsidiaries) | <b>2,087.14</b>                        | -          |
| <b>Profit before tax</b>  | <b>1,052.73</b>                        | 3,001.76   |
| Less : Current tax<br>(net of MAT credit)   | <b>229.16</b>                          | 200.83     |
| Less : Deferred tax   | <b>41.85</b>                           | (75.52)    |
| Less : Fringe benefit tax   | <b>9.68</b>                            | 79.80      |
| <b>Profit after tax (available for appropriation)</b>   | <b>772.04</b>                          | 2,796.65   |
| Proposed final dividend   | <b>288.45</b>                          | 316.93     |
| Corporate dividend tax on final dividend  | <b>49.02</b>                           | 53.86      |
| Transfer to general reserve   | <b>65.52</b>                           | 236.48     |
| <b>Balance carried forward to Balance Sheet</b>   | <b>369.05</b>                          | 2,189.38   |

### 2. RESULTS OF OPERATIONS

#### Standalone Accounts

- Total income for the year 2009 decreased to Rs. 20,031.17 lakhs as against Rs. 21,013.01 lakhs during the year 2008, a decline of 4.67%.
- During the year, R Systems technical support business in U.S.A. and Europe was severely affected by loss of 3 key customers. Consequently, the management had assessed that there was a decline, other than temporary, in the value of investment in R Systems Solutions, Inc., (U.S.A.), R Systems Europe B.V., (The Netherlands) and R Systems S.A.S., (France) and reduced the carrying amount of investment in these subsidiaries by Rs. 2,473.21 lakhs to recognise the decline in value.
- Profit after tax (excluding provision for diminution in the value of investment) was Rs. 3,128.37 lakhs during the year 2009 as compared to Rs. 2,364.76 lakhs during the year 2008, an increase of 32.29%.
- Reported profit after tax was Rs. 655.16 lakhs during the year 2009 as compared to Rs. 2,364.76 lakhs during 2008, a

decline of 72.29%.

- Basic earnings per share was Rs. 5.17 for the financial year 2009 as compared to earnings per share of Rs. 17.42 for the financial year 2008, a decline of 70.32%.

#### Consolidated Accounts

- Consolidated total income for the year 2009 decreased to Rs. 33,556.74 lakhs as against Rs. 36,488.65 lakhs during the year 2008, a decline of 8.04%.
- Consequent to the loss of 3 key customers in technical support business in U.S.A. and Europe as explained above, the management has assessed that there was an impairment of goodwill recognised in the books on acquisition of these subsidiaries and has impaired the goodwill amounting to Rs. 2,087.14 lakhs.
- Profit after tax (excluding goodwill impairment) was Rs. 2,859.18 lakhs during the year 2009 as compared to Rs. 2,796.65 lakhs during the year 2008, an increase of 2.24%.
- Reported profit after taxes was Rs. 772.04 lakhs during the year 2009 as compared to Rs. 2,796.65 lakhs during 2008, a decline of 72.39%.
- Basic earnings per share was Rs. 6.09 for the financial year 2009 as compared to earnings per share of Rs. 20.61 for the financial year 2008, a decline of 70.43%.

### 3. APPROPRIATIONS AND RESERVES

#### Dividend

Taking into consideration the operating profits for the year 2009 and positive outlook for future, the Board of Directors (the "Board") is pleased to recommend a final dividend of Rs. 2.40 per equity share, being 24% on the par value of Rs. 10 per share (previous year Rs. 2.40 per share, being 24% on the par value of Rs. 10 per share), to be appropriated from the profits of the Company for the financial year 2009 subject to the approval of the shareholders at the ensuing Annual General Meeting. The dividend, if approved, will be paid to all those equity shareholders whose names appear in the Register of Members of the Company as at the opening business hours on May 11, 2010 after giving effect to all valid share transfers in physical form which would be received by the Company's registrar and share

transfer agent M/s Link Intime India Private Limited up to the end of business hours on May 10, 2010 and to those whose names appear as beneficial owners in the records of National Securities Depository Limited ("NSDL") and Central Depository Services (India) Limited ("CDSL") as on the said date.

The register of members and share transfer books shall remain closed from May 11, 2010 to May 20, 2010, both days inclusive.

#### Transfer to Reserves

It is proposed to transfer a sum of Rs. 6,551,586 (Rupees sixty five lakhs fifty one thousand five hundred eighty six only) to General Reserve being 10% of the current year's profit in accordance with the Companies (Transfer of Profits to Reserves) Rules, 1975.

### 4. BUSINESS

#### iPLM Services Group

R Systems founded in 1993 is one of the leading providers of outsourced product development and customer support services. We help companies accelerate the speed to market for their products and services with a high degree of time and cost predictability by using our proprietary pSuite execution framework. Our clients can choose services specific to their needs from R Systems iPLM suite of services. We help companies build scalable, configurable and secure products and applications; and help our clients to support their customers worldwide for products and services using our global delivery model in 18 languages. R Systems competitive advantage in product development and support is further enhanced by its global delivery capabilities, multi-language support capabilities and agile development methodologies supported by R Systems' proprietary PSuite Framework.

#### Products Group

In the Products Group, R Systems has a range of products that caters to the banking, finance, manufacturing and logistics industry. The banking and consumer finance solutions are sold under the brand name Indus® and the supply chain solutions for manufacturing and logistics industry are sold under the brand name ECnet®.

#### Customers and Delivery Centres

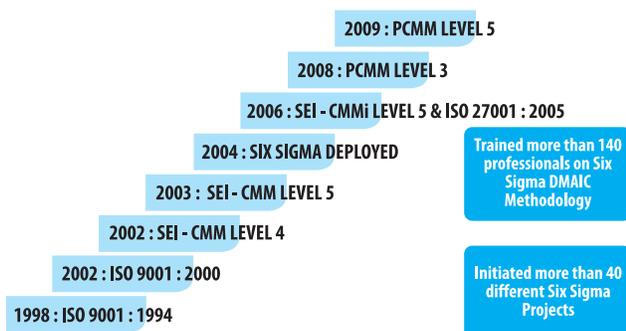
R Systems rapidly growing customer list includes a variety of Fortune 1000, government and mid-sized organisations across a

wide range of industry verticals including Banking and Finance, High Technology and Independent Software Vendors, Government, Health Care, Manufacturing, Telecom, Insurance and Logistic Industries. R Systems maintains eight development / technical support centres and using its global delivery model R Systems serve customers in the US, Europe, South America, the Far East, the Middle East and Africa.

There were no changes in the nature of the Company's business and generally in the classes of business in which the Company has an interest and in the business carried on by the subsidiaries during the year under review. For details of Company's subsidiaries please refer note number 14 relating to subsidiaries.

## 5. QUALITY

R Systems has continuously invested in processes, people, training, information systems, quality standards, frameworks, tools and methodologies to mitigate the risks associated with execution of projects. Adoption of quality models and practices such as the Software Engineering Institute's - Capability Maturity Model Integrated (SEI-CMMi) and Six Sigma practices for processes have ensured that risks are identified and mitigated at various levels in the planning and execution process. R Systems journey for various quality certifications / standards for the development and service centres in India is given below:



In July 2009 Software Development and BPO Centres of R Systems, based in Noida have been certified by the consulting firm KPMG for PCMM Level 5. With the said certification, R Systems' quality journey extends to its people practices. R Systems has joined an elite group of PCMM certified companies across the globe.

As on the date of this report, Noida IT centre is ISO 9001 : 2000, SEI-CMMi level 5, ISO 27001 : 2005 and PCMM Level 5 certified; Noida BPO centre is ISO 9001 : 2000, ISO 27001 : 2005 and PCMM Level 5 certified. Pune and Chennai development centres are SEI-CMM Level 5, ISO 9001 : 2008 and ISO 27001 : 2005 certified.

The continuing compliance with these standards demonstrates the rigor of R Systems processes and differentiates us to keep our competitive edge in service offering.

To maintain and strengthen competitive strengths, R Systems continues to make investments in its unique and proprietary  with best practices, tools and methodologies for flawless execution and consistent delivery of high quality software. The pSuite framework offers services along the entire software lifecycle that includes technology consulting, architecture, design and development, professional services, testing, maintenance, customer care and technical support. R Systems expects that its technology focus, investment in processes, talent and methodologies will enable it to distinguish itself from competition as it seeks to provide services to technology / product companies.

## 6. DIRECTORS

During the year under review, following changes took place in the office of directors of R Systems:

Lt. Gen. Baldev Singh (Retd.) was reappointed as President and Senior Executive Director of R Systems by the Board at its meeting held on January 21, 2009 for a period of three years i.e. w.e.f April 01, 2009 to April 01, 2012.

Mr. O'Neil Nalavadi, Mr. Suresh Paruthi and Mr. Raj Swaminathan were reappointed as directors of R Systems at the previous annual general meeting held on April 27, 2009.

Mr. Raj Swaminathan was reappointed as Director and Chief Operating Officer of R Systems by the Board at its meeting held on July 24, 2009 for a period of three years i.e. w.e.f September 29, 2009 to September 29, 2012.

Mr. O'Neil Nalavadi resigned from the office of Director Finance and Chief Financial Officer effective November 08, 2009. Your Directors place on record their sincere appreciation for the advice and contribution of Mr. O'Neil Nalavadi during his tenure with the Company.

Subsequent to the year ended December 31, 2009, Mr. David Richard Sanchez resigned from the office of Director effective February 26, 2010. Your Directors place on record their sincere appreciation for the advice and contribution of Mr. David Richard Sanchez during his tenure with the Company.

At the ensuing Annual General Meeting, Lt. Gen. Baldev Singh (Retd.) and Mr. Raj Kumar Gogia, directors of the Company are liable to retire by rotation in accordance with the provisions of

Section 255 and 256 of the Companies Act, 1956 and being eligible, offer themselves for reappointment as directors of R Systems.

None of the directors of R Systems is disqualified as per the provisions of Section 274(1)(g) of the Companies Act, 1956. The directors of R Systems have made necessary disclosures, as required under various provisions of the Act and Clause 49 of the Listing Agreement.

**7. EMPLOYEES STOCK OPTION PLANS / SCHEMES**

The industry in which R Systems operates is people intensive and R Systems believes that human resources play a pivotal role in the sustainability and growth of the Company. R Systems has always believed in rewarding its employees with competitive compensation packages for their dedication, hard work, loyalty and contribution towards better performance of the Company. To enable more and more employees to be a part of the financial success of the Company, retain them for future growth and attract new employees to pursue growth, R Systems has set up employees stock option plans / schemes from time to time for its employees and for the employees of its subsidiaries. As on the date of this report, the prevailing stock option plans of R Systems are as follows:

- a. R Systems International Ltd. - Year 2004 Employee Stock Option Plan: For the employees of R Systems and its

subsidiaries other than ECnet Limited.

- b. R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet: For the employees of ECnet Limited, a subsidiary of R Systems.
- c. Indus Software Employees Stock Option Plan - Year 2001: Initially formulated for the employees of Indus Software Private Limited which got amalgamated with R Systems and the plan continues as per the scheme of amalgamation approved by the Hon'ble High Courts of Delhi and Mumbai. As on the date of this report, no stock options are in force under this plan.
- d. R Systems International Limited Employee Stock Option Scheme 2007: For the employees of R Systems and its subsidiaries.

As required under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999, details relating to options approved, granted, vested, exercised, lapsed, in force etc. under the prevailing employees stock option plans / schemes during the year ended December 31, 2009 after making the required adjustments for consolidation of each of the 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each are as follows:

| S. No. | Particulars                                   | R Systems International Ltd. - Year 2004 Employee Stock Option Plan (a)  | R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet (b)  | Indus Software Employees Stock Option Plan Year 2001 (c)  |
|--------|---|--|--|---|
| a.     | Total number of shares covered under the plan | 199,500  | 200,000  | 73,898  |
| b.     | Pricing Formula                               | Prevailing Price once the Company's shares are listed and at the Fair Market Value as per the terms of R Systems International Ltd. - Year 2004 Employees Stock Option Plan on the date such option is granted when the Company's shares are not listed. | Prevailing Price once the Company's shares are listed and at the Fair Market Value as per the terms of R Systems International Ltd. - Year 2004 Employees Stock Option Plan - ECnet on the date such option is granted when the Company's shares are not listed. | As approved under the "Scheme of Amalgamation" of Indus Software Private Limited with the Company by the Hon'ble High Courts of Delhi and Mumbai. |
| c.     | Options granted during the year               | Nil  | Nil  | Nil   |

| S. No. | Particulars  | R Systems International Ltd. - Year - 2004 Employee Stock Option Plan (a)  | R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet (b)  | Indus Software Employees Stock Option Plan Year 2001 (c) |
|--------|--|--|--|--|
| d.     | Options vested during the year   | 5,310  | Nil  | Nil  |
| e.     | Options exercised during the year  | Nil  | Nil  | Nil  |
| f.     | The total number of shares arising as a result of exercise of options during the year  | Nil  | Nil  | Nil  |
| g.     | Options lapsed during the year   | 3,775  | Nil  | Nil  |
| h.     | Variation of terms of options during the year  | In the Annual General Meeting of the Company held on April 27, 2009, the Plan was amended to include the provisions for recovery of FBT and other applicable taxes, if any from the employees on account of grant / issue of options and / or allotment of the shares to the employees | In the Annual General Meeting of the Company held on April 27, 2009, the Plan was amended to include the provisions for recovery of FBT and other applicable taxes, if any from the employees on account of grant / issue of options and / or allotment of the shares to the employees | Nil  |
| i.     | Money realised by exercise of options during the year (Rs.)  | Nil  | Nil  | Nil  |
| j.     | Total number of options in force at the end of the year  | 79,500   | 6,800  | Nil  |
| k.     | Employee wise details of options granted to (during the year)  |  |  |  |
| (i)    | Senior managerial personnel  | Nil  | Nil  | Nil  |
| (ii)   | Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year   | Nil  | Nil  | Nil  |
| (iii)  | 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 grant. | Nil  | Nil  | Nil  |
| l.     | Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options.   | N.A.   | N.A.   | N.A.   |

All options granted under Indus Software Employees Stock Option Plan - Year 2001 have already been vested and exercised or lapsed and no options were in force as on December 31, 2009.

During the year ended December 31, 2009 R Systems had not granted any options under any of the aforementioned plans. For options granted during the earlier years, R Systems used the fair value of the stock options for calculating the employees compensation cost.

For the purpose of valuation of the options granted during earlier years, the management obtained fair value of the options at the date of grant under respective schemes from a firm of Chartered Accountants (N. Maini & Co.), to determine accounting impact, if any, of options granted over the periods. In the considered opinion of the valuer (mentioned above), the fair value of option determined using 'Black Scholes Valuation Model' under each of above schemes is "Nil" and thus no accounting thereof is required.

The assumptions used for the purpose of determination of fair value are stated below:

| Assumptions             | Unit         | Scheme (a) * | Scheme (b) ** | Scheme (c)*** | Comments by the valuer  |
|-------------------------|--------------|--------------|---------------|---------------|---|
| Strike price            | Rs.          | 42           | 26            | 154           |   |
| Current share price     | Rs.          | 16           | 16            | 140           | Taken on the basis of NAV and PECV method of valuation.   |
| Expected option life    | No. of Years | 5            | 5             | 2.5           | Being half of the maximum option life.  |
| Volatility              | %            | 1            | 1             | 0.5           | In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.  |
| Risk free return        | %            | 7            | 7             | 11.3          | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE and / BSE.      |
| Expected dividend Yield | %            | -            | -             | 15            | Company has no set policy so dividend taken as zero. In case of Indus plan, as the dividend had been paid by the erstwhile company, it has been assumed at 15%. |

\* R Systems International Ltd. - Year 2004 Employee Stock Option Plan under which the price was based on Rs. 2 per share.

\*\* R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet under which the price was based on Rs. 2 per share.

\*\*\* Indus Software Employees Stock Option Plan - Year 2001 under which originally the price was based on Rs. 10 per share for 21,967 shares. As a result of amalgamation of Indus Software Private Limited into R Systems, R Systems had issued 206,822 equity shares of Rs. 2 each pursuant to the swap ratio approved by Hon'ble High Courts of Delhi and Mumbai.

The above information is based on Rs. 2 per share prior to consolidation of 5 equity shares of Rs. 2 each into one equity share of Rs. 10 and subsequent allotment of bonus shares in the ratio of 1 : 1.

Further, for the purpose of valuation of the options granted during the year 2005 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, the management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N. Maini & Co.), to determine accounting impact, if any, of options granted. In the considered opinion of the valuer (mentioned above), the fair value of these options determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

The assumptions used by the valuer for the purpose of determination of fair value are stated below:

| Assumptions             | Unit         | Scheme | Comments by the valuer   |
|-------------------------|--------------|--------|--|
| Strike price            | Rs.          | 42     |  |
| Current share price     | Rs.          | 13.58  | Taken on the basis of NAV and PECV method of valuation.  |
| Expected option life    | No. of Years | 5      | Being half of the maximum option life.   |
| Volatility              | %            | 1      | In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.   |
| Risk free return        | %            | 7.42   | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE. |
| Expected dividend Yield | %            | -      | Company has no set policy so dividend taken as zero.   |

The above information is based on Rs. 2 per share prior to consolidation of 5 equity shares of Rs. 2 each into one equity share of Rs. 10 and subsequent allotment of bonus shares in the ratio of 1 : 1.

**(d) R Systems International Limited Employee Stock Option Scheme 2007**

|       |  |  |
|-------|--|--|
| a.    | Total number of shares covered under the plan  | 650,000  |
| b.    | Pricing Formula  | “ <b>Exercise Price</b> ” means the market price which is payable for exercising the options and “ <b>Market Price</b> ” means the latest available closing price, prior to the date of the meeting of the Board of Directors / Compensation Committee, in which options are granted, on the stock exchange on which the shares of the Company are listed. If the shares are listed on more than one stock exchange, then the stock exchange where there is highest trading volume on the said date shall be considered. |
| c.    | Options granted during the year  | Nil  |
| d.    | Options vested during the year   | 140,125  |
| e.    | Options exercised during the year  | Nil  |
| f.    | The total number of shares arising as a result of exercise of options during the year  | Nil  |
| g.    | Options lapsed during the year   | 30,500   |
| h.    | Variation of terms of options during the year  | Nil  |
| i.    | Money realized by exercise of options during the year (Rs.)  | Nil  |
| j.    | Total number of options in force at the end of the year  | 530,000  |
| k.    | Employee wise details of options granted to (during the year)  |  |
| (i)   | Senior managerial personnel  | Nil  |
| (ii)  | Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year   | Nil  |
| (iii) | 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 grant. | Nil  |
| l.    | Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options.   | 5.11   |

For the purpose of valuation of the options granted during the year ended December 31, 2007 under R Systems International Limited Employee Stock Option Scheme 2007, the compensation cost relating to Employee Stock Options,

calculated as per the intrinsic value method is nil.

The management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N. Maini & Co.). In the considered opinion of the valuer (mentioned above), the fair value of these options determined using ‘Black Scholes Valuation Model’ is “Rs. 50.73” per option.

The assumptions used by the valuer for the purpose of determination of fair value are stated below:

| Assumptions             | Unit         | Scheme | Comments by the valuer   |
|-------------------------|--------------|--------|--|
| Strike price            | Rs.          | 120.70 |  |
| Current share price     | Rs.          | 118.50 | Price on the date of grant by Board of Directors i.e. closing price on July 11, 2007.  |
| Expected option life    | No. of Years | 4      | Being the vesting period.  |
| Volatility              | %            | 44     | On the basis of industry average.  |
| Risk free return        | %            | 7      | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE. |
| Expected dividend Yield | %            | 0.86   | Company has declared Dividends of 12% in the past. Assuming that it will continue declaring similar dividends in future.                         |

The stock based compensation cost calculated as per the intrinsic value method for the financial year 2008 and 2009 was nil. If the stock based compensation cost was calculated as per fair value method prescribed by SEBI, the total cost to be recognised in the financial statements for the year 2009 would be Rs. 4,673,959 (Previous year Rs. 10,790,693). The effect of adopting the fair value method on the net income and earnings per share is presented below:

**Pro Forma adjusted Net Income and Earnings Per Share**

(Amount in Rs.)

| Particulars                                    | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------|------------------------------|
| Net Income as reported                         | <b>65,515,857</b>            | 236,476,025                  |
| <b>Add :</b> Intrinsic Value Compensation Cost | -                            | -                            |
| <b>Less :</b> Fair Value Compensation Cost     | <b>4,673,959</b>             | 10,790,693                   |
| <b>Adjusted Pro-forma Net Income</b>           | <b>60,841,898</b>            | 225,685,332                  |
| <b>Earnings Per Share</b>                      |                              |                              |
| <b>Basic</b>                                   |                              |                              |
| - As reported                                  | <b>5.17</b>                  | 17.42                        |
| - Proforma                                     | <b>4.80</b>                  | 16.63                        |
| <b>Diluted</b>                                 |                              |                              |
| - As reported                                  | <b>5.11</b>                  | 17.21                        |
| - Proforma                                     | <b>4.74</b>                  | 16.43                        |

**Weighted average exercise price of options granted during the year**

| S. No. | Particulars                                 | Scheme a | Scheme b | Scheme c | Scheme d |
|--------|---|----------|----------|----------|----------|
| 1.     | Exercise price equals market price          | N.A.     | N.A.     | N.A.     | N.A.     |
| 2.     | Exercise price is greater than market price | N.A.     | N.A.     | N.A.     | N.A.     |
| 3.     | Exercise price is less than market price    | N.A.     | N.A.     | N.A.     | N.A.     |

**Weighted average fair value of the options granted during the year**

| S. No. | Particulars                                 | Scheme a | Scheme b | Scheme c | Scheme d |
|--------|---|----------|----------|----------|----------|
| 1.     | Exercise price equals market price          | N.A.     | N.A.     | N.A.     | N.A.     |
| 2.     | Exercise price is greater than market price | N.A.     | N.A.     | N.A.     | N.A.     |
| 3.     | Exercise price is less than market price    | N.A.     | N.A.     | N.A.     | N.A.     |

Scheme a: R Systems International Ltd. - Year 2004 Employee Stock Option Plan.

Scheme b: R Systems International Ltd. - Year 2004 Employee Stock Option Plan -ECnet.

Scheme c: Indus Software Employees Stock Option Plan - Year 2001.

Scheme d: R Systems International Limited Employee Stock Option Scheme 2007.

As no options are granted during the year under Scheme a, Scheme b, Scheme c and Scheme d, hence the required information is not applicable.

**8. LIQUIDITY AND BORROWINGS - CONSOLIDATED FINANCIAL STATEMENT**

Cash and bank balance, including bank deposits, as on December 31, 2009 was Rs. 8,719.75 lakhs as against Rs. 6,364.38 lakhs as on December 31, 2008. Increase in the cash and bank balance was mainly on account of cash generated from operations. The cash and bank balance per share as on December 31, 2009 was Rs. 71.22 as against Rs. 47.63 as on December 31, 2008.

The consolidated cash and cash equivalent as on December 31, 2009 was Rs. 3,093.04 lakhs as against Rs. 2,043.89 lakhs as on December 31, 2008.

Net cash generated from operating activities was Rs. 4,326.48

lakhs for the year ended December 31, 2009 compared to Rs. 2,933.52 lakhs for the year ended December 31, 2008. Cash flow generated from operating activities is the significant source of funding for investing and financing activities.

During the year R Systems consolidated operations invested Rs. 951.94 lakhs in purchase of fixed assets. R Systems paid Rs. 75.84 lakhs as deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc. The interest received during 2009 was Rs. 305.66 lakhs as against Rs. 310.54 lakhs during the year 2008.

R Systems invested its surplus cash generated from operation amounting to Rs. 690.67 lakhs in fixed deposits during the year 2009.

Cash used in financing activities during the year 2009 was Rs. 1,910.03 lakhs mainly due to buyback of shares amounting to Rs. 729.69 lakhs, increase in margin money deposits by Rs. 622.50 lakhs, payment of Rs. 27.99 lakhs as interest on borrowings, payment of Rs. 309.28 lakhs and Rs. 52.65 lakhs respectively for payment of dividend and dividend distribution tax for the year 2008.

Our policy is to maintain sufficient liquidity to fund the anticipated capital expenditures, operational expenses and investments for strategic initiatives.

R Systems has credit facilities from State Bank of India amounting to Rs. 1,200 lakhs (including non fund based credit limit of Rs. 600 lakhs) and R Systems Europe B. V. has a line of credit amounting to EURO 1.25 million (Rs. 832.90 lakhs) from Fortis Commercial Finance N.V. As of December 31, 2009, there was total credit balance of Rs. 211.71 lakhs under these lines of credit. The total liability of R Systems for motor vehicles purchased against loan was Rs. 31.53 lakhs and in relation to finance leases for assets was Rs. 113.67 lakhs as on December 31, 2009. R Systems primary bankers in India are State Bank of India, ICICI Bank Limited, HDFC Bank Limited and Axis Bank Limited while in U.S.A., Singapore and Europe the primary bankers are California Bank & Trust, Citibank N.A. and Fortis Bank N.V. respectively.

**9. BUY BACK**

The Board at its meeting held on September 07, 2008, had approved the Buy-back of the equity shares of Rs. 10 each, not exceeding 1,306,941 number of equity shares from the existing owners, at a maximum price of Rs. 150 per equity share, for an aggregate amount not exceeding Rs. 800 lakhs from the open market through stock exchange(s) in terms of the SEBI (Buy Back of Securities) Regulations, 1998 pursuant to the first proviso to clause (b) of sub-section (2) of Section 77A of the Companies Act, 1956. Consequently, the Company made a public announcement

dated October 15, 2008 regarding Buy-back of equity shares.

Under the Buy-back programme, the Company bought back 1,265,820 equity shares up to August 27, 2009 inclusive of payout formalities (including 146,346 equity shares up to December 31, 2008) at an average price of Rs. 63.20 per share for an aggregate amount of Rs. 80,000,000 by utilising the Securities Premium Account to the extent of Rs. 67,341,773 and General Reserve to the extent of Rs. 12,658,200. The Capital Redemption Reserve has been created out of General Reserve for Rs. 12,658,200 being the nominal value of equity shares bought back in terms of Section 77AA of the Companies Act, 1956. The Offer for Buy Back has been successfully completed on August 27, 2009.

## 10. CHANGES IN THE CAPITAL STRUCTURE

The issued and paid up equity share capital as on December 31, 2008 was Rs. 134,363,600 divided into 13,436,360 equity shares of Rs. 10 each (after deducting 13,676 equity shares which were bought back in year 2008 and were lying in Share Suspense Account and extinguished during the year ended December 31, 2009) and as on December 31, 2009 was Rs. 123,168,860 divided into 12,316,886 equity shares of Rs. 10 each.

Pursuant to the offer for buy-back, the Company had bought back and extinguished 1,119,474 equity shares during the year ended December 31, 2009 (excluding 13,676 equity shares which were bought back in year 2008 and were lying in Share Suspense Account and extinguished during the year ended December 31, 2009). The amount of Rs. 61,774,283 paid towards buy back of shares, in excess of the face value, has been charged to Securities Premium Account. The Company has also transferred Rs. 11,194,740 from free reserves to Capital Redemption Reserve Account, which represents the nominal value of shares bought back during the year under review.

Under the Buy-back programme, the Company has bought back 1,265,820 equity shares in aggregate up to August 27, 2009 inclusive of payout formalities and successfully completed the Buy Back on August 27, 2009.

## 11. STOCK EXCHANGES WHERE THE SECURITIES OF R SYSTEMS ARE LISTED

The equity shares of R Systems have been listed and are traded on the following stock exchanges:

### National Stock Exchange of India Limited ("NSE")

Exchange Plaza, Bandra Kurla Complex,  
Bandra - (E), Mumbai - 400 051

### Bombay Stock Exchange Limited ("BSE")

Phiroze Jeejeebhoy Towers,  
Dalal Street, Mumbai - 400 001

The annual listing fee for the year 2010 - 11 has been paid within the scheduled time to NSE and BSE.

## 12. MATERIAL CHANGES AFFECTING THE FINANCIAL POSITION OF THE COMPANY

Subsequent to the balance sheet date till the date of this report, there were no other significant events after the end of the financial year 2009 which would materially affect the financial position of R Systems.

## 13. PARTICULARS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars as prescribed under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 for the year ended December 31, 2009 are as follows:

### A. Conservation of Energy

During the year ended December 31, 2009 R Systems continued its action plans to curtail the energy bills by adopting various energy conservation options / technologies as identified by Federation of Indian Chambers of Commerce & Industry ("FICCI") through a detailed Energy Audit carried out by FICCI for R Systems Noida operations in the year 2007. Significant measures were taken to reduce energy consumption by using energy efficient equipments and devices. R Systems constantly evaluates new technologies and makes appropriate investments to be energy efficient. Currently the Company uses CFL fittings and electronic ballasts to reduce power consumption of fluorescent tubes. The air is conditioned with energy efficient compressors for central air conditioning and with split air conditioning for localized areas. R Systems is always in search of innovative and efficient energy conservative technologies and applies them prudently. However R Systems being in the software industry, its operations are not energy intensive and energy costs constitute a very small portion of the total cost and the financial impact of these measures is not material.

Form A is not applicable to the software industry.

### B. Technology Absorption

The particulars with respect to technology absorption are given below:

#### (a) Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company

R Systems continues to invest in developing new

versions of its proprietary products to operate in different environments and in developing new tools in CRM, RMA and other processes to serve the customers. In addition, R Systems carries out research makes investment in developing new prototypes in varied areas like digital media, mobility, WiMax etc. to demonstrate to clients.

2. Benefits derived as a result of the above R & D  
Research and development has helped R Systems in fulfilling clients' needs, winning new engagements from existing clients, winning new customers, growing revenues and enhancing the quality of services. We have been benefited in product improvement, cost reduction, better product development, import substitution etc. which has resulted in high product quality and increased business potential.

3. Future plan of action  
The Company continues to focus its efforts on innovations in software development processes, methodologies and tools.

4. Expenditure on R & D  
The Company's R & D activities are part of its normal software development process. There is no separate R & D department and hence there is no specific capital or recurring R & D expenditure. It is not practicable to identify R & D expenditure out of the total expenditure incurred by the Company.

(b) Technology absorption, adaptation and innovation

1. Efforts made towards technology absorption, adaptation and innovation

The Company has established practice streams in specific technologies to analyze their implications and the benefits they can provide to Company's customers. These steps enable the Company to find and execute the most appropriate solutions for its clients.

2. Benefits derived as a result of the above efforts

The benefits derived from the above mentioned efforts are fulfilling customer needs, efficiency in operations, improvement in quality and growth in revenues.

3. Technology imported during the last 5 years  
Not applicable, as no technology has been imported by the Company.

**C. Foreign Exchange Earnings and Outgo (Accrual Basis)**

A significant percentage of R Systems revenues are generated from exports. The development and service centres in Noida, Pune and Chennai are registered with the Software Technology Park of India in their respective areas as 100% Export Oriented Undertakings. All efforts of the Company are geared to increase the business of software exports in different products and markets. We have made investments in sales and marketing activities in various growing markets.

The total foreign exchange used and earned by R Systems during the year as compared with the previous year is as follows:

| Particulars |                             | Financial Year ended<br>(Rs. in lakhs) |            |
|-------------|-----------------------------|--|------------|
|             |                             | 31.12.2009                             | 31.12.2008 |
| (a)         | Earnings (Accrual Basis)    | <b>18,192.74</b>                       | 19,772.75  |
| (b)         | Expenditure (Accrual Basis) | <b>3,360.05</b>                        | 3,447.24   |
| (c)         | CIF value of imports        | <b>973.15</b>                          | 397.72     |

**14. SUBSIDIARIES**

During the year ended December 31, 2009, the Company had renewed the commercial guarantee for USD 850,000 to California Bank & Trust, U.S.A. for renewal of working capital line of credit of USD 750,000 granted by California Bank & Trust to R Systems, Inc. (a wholly owned subsidiary of R Systems).

As on December 31, 2009 R Systems has fourteen subsidiaries. The names and country of incorporation of those subsidiaries are as follows:

| S. No. | Name of the Subsidiaries          | Country of Incorporation |
|--------|-----------------------------------|--------------------------|
| 1.     | R Systems (Singapore) Pte Limited | Singapore                |
| 2.     | R Systems, Inc.                   | U.S.A.                   |
| 3.     | Indus Software, Inc.              | U.S.A.                   |
| 4.     | ECnet Limited                     | Singapore                |
| 5.     | R Systems Solutions, Inc.         | U.S.A.                   |
| 6.     | R Systems NV                      | Belgium                  |
| 7.     | R Systems Europe B.V.             | The Netherlands          |
| 8.     | R Systems S.A.S.                  | France                   |
| 9.     | ECnet (M) Sdn. Bhd. #             | Malaysia                 |

| S. No. | Name of the Subsidiaries                   | Country of Incorporation   |
|--------|--|----------------------------|
| 10.    | ECnet, Inc. #                              | U.S.A.                     |
| 11.    | ECnet (Hong Kong) Limited #                | Hong Kong                  |
| 12.    | ECnet Systems (Thailand) Company Limited # | Thailand                   |
| 13.    | ECnet Kabushiki Kaisha #                   | Japan                      |
| 14.    | ECnet (Shanghai) Co. Ltd. #                | People's Republic of China |

# wholly owned subsidiaries of ECnet Limited, Singapore being the 98.59% subsidiary of R Systems.

All the aforementioned fourteen subsidiaries are incorporated and based outside India. In addition to providing services to various international clients these subsidiaries also help to generate revenues for R Systems. The Board of Directors of R Systems regularly reviews the affairs of these subsidiaries.

The holding company is required to attach the documents relating to its subsidiaries as prescribed under Section 212 of the Companies Act, 1956 along with its annual report. R Systems has applied and has been exempted by the Ministry of Corporate Affairs vide its letter no. 47/701/2009-CL-III dated November 09, 2009 from attaching the balance sheet, profit & loss account, directors' report, auditors' report etc. in respect of the subsidiaries. Accordingly, the annual report of R Systems does not contain the financial statements of its subsidiaries, but contains the consolidated audited financial statement of the Company and its subsidiaries. Further as directed by the Ministry of Corporate Affairs, information in aggregate in respect of key items i.e. (a) capital (b) reserves (c) total assets (d) total liabilities (e) details of investments (except in case of investment in subsidiaries) (f) turnover (g) profit before taxation (h) provisions for taxation (i) profit after taxation and (j) proposed dividend for each subsidiary has been disclosed in brief abstract forming part of the consolidated balance sheet.

Further, the annual accounts of the subsidiaries and the related detailed information will be made available to the investors of the holding company and its subsidiaries seeking such information at any point of time. The annual accounts of the subsidiaries will also be available for inspection during business hours at the Company's registered office and in the offices of the subsidiaries.

## 15. 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 names and other

particulars of employees are set out in the annexure to this report.

## 16. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to directors' responsibility statement, your directors hereby confirm that:

- (i) In the preparation of the annual accounts for the financial year ended December 31, 2009, the applicable accounting standards had been followed along with proper explanation relating to material departures, wherever applicable;
- (ii) The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- (iii) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) The directors had prepared the annual accounts for the financial year ended December 31, 2009 on a going concern basis.

## 17. AUDITORS

M/s S. R. Batliboi & Associates, Chartered Accountants, the statutory auditors of R Systems hold office, in accordance with the provisions of the Companies Act, 1956, until the conclusion of the forthcoming Annual General Meeting and are eligible for reappointment. The Company has received letter from auditors to the effect that their appointment, if made, would be in accordance with Section 224 (1B) of the Companies Act, 1956 and that they are not disqualified for such reappointment within the meaning of Section 226 of the said Act.

Further, the auditors' report being self-explanatory, does not call for any further comments by the Board of Directors.

## 18. AUDIT COMMITTEE

R Systems has a qualified and independent Audit Committee. At the beginning of the financial year i.e. on January 01, 2009, the Audit Committee comprised of five directors with non-executive

independent director as the Chairman, director finance and three other non-executive independent directors as the members of the Committee. During the year, Mr. O'Neil Nalavadi, Director Finance and Chief Financial Officer of the Company had tendered his resignation to the Company effective November 08, 2009. Accordingly the Audit Committee had been reconstituted and comprised of four directors with non-executive independent director as the Chairman and three other non-executive independent directors as the members of the Committee.

Subsequent to the year ended December 31, 2009, Mr. David Richard Sanchez, non-executive independent director had tendered his resignation to the Company effective February 26, 2010. Accordingly the Audit Committee had been reconstituted and as on the date of this report, it comprises of three directors with non-executive independent director as the Chairman and two other non-executive independent directors as the members of the Committee.

The constitution of the audit committee is in compliance with the provisions of the Companies Act, 1956 and the Listing Agreement entered into with the stock exchanges.

The terms of reference and role of the audit committee are as per the guidelines set out in the Listing Agreement with the stock exchanges read with Section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by the Board from time to time. The audit committee has adequate powers to play an effective role as required under the provisions of the statute and Listing Agreement.

## 19. DETAILS OF UTILISATION OF IPO PROCEEDS

Pursuant to the Initial Public Offer, the Company collected Rs. 7,062.50 lakhs (net of selling shareholders' proceeds). For details of utilisation of IPO proceeds, please refer note no. 19 under Schedule 17 in the standalone financial results for the financial year ended December 31, 2009.

## 20. CORPORATE GOVERNANCE

As required under the Listing Agreement entered into with the stock exchanges the detailed report on corporate governance is given as annexure to this report elsewhere. Further the disclosure required to be made as per Section II Clause C of Part II of Schedule XIII to the Companies Act, 1956 and in terms of Clause 49 of the Listing Agreement entered into with the stock exchanges for all the directors is as follows:

### Details of remuneration paid to the executive directors during the year ended December 31, 2009

(Amount in Rs.)

| 1.  | Name of the Director                              | Mr. Satinder Singh Rekhi   |
|-----|---|--|
| (a) | Salary, benefits and allowances (fixed)           | 14,697,029   |
| (b) | Retention bonus (fixed) #                         | 890,000  |
| (c) | Stock options granted                             | Nil  |
| (d) | Pension   | As per the applicable policy for employees   |
| (e) | Service contract                                  | 5 years  |
| (f) | Notice period                                     | 36 months  |
| (g) | Severance fees                                    | Compensation in lieu of notice   |
| (h) | Shareholding in R Systems as on December 31, 2009 | 90,600 equity shares of Rs. 10 each in his own name & 1,921,718 equity shares of Rs. 10 each as trustee of Satinder & Harpreet Rekhi Family Trust. |

# approved by the Central Government for the year 2006

(Amount in Rs.)

| 2.  | Name of the Director                              | Mr. O'Neil Nalavadi                  |
|-----|---|--------------------------------------|
| (a) | Salary, benefits and allowances (fixed)           | 9,342,009                            |
| (b) | Perquisites                                       | Nil                                  |
| (c) | Stock options granted                             | Nil                                  |
| (d) | Pension   | Nil                                  |
| (e) | Service contract                                  |                                      |
| (f) | Notice period                                     | Resigned effective November 08, 2009 |
| (g) | Severance fees                                    |                                      |
| (h) | Shareholding in R Systems as on December 31, 2009 | 209,500 equity shares of Rs. 10 each |

(Amount in Rs.)

| 3.  | Name of the Director                              | Lt. Gen. Baldev Singh (Retd.)              |
|-----|---|--|
| (a) | Salary, benefits and allowances (fixed)           | 2,706,000                                  |
| (b) | Retention bonus (fixed) #                         | 744,444                                    |
| (c) | Incentive (fixed)                                 | 1,500,000                                  |
| (d) | Provident fund                                    | 144,000                                    |
| (e) | Stock options granted                             | As detailed below*                         |
| (f) | Pension   | As per the applicable policy for employees |
| (g) | Service contract                                  | 3 years                                    |
| (h) | Notice period                                     | 6 months                                   |
| (i) | Severance fees                                    | Compensation in lieu of notice             |
| (j) | Shareholding in R Systems as on December 31, 2009 | 78,808 equity shares of Rs. 10 each        |

# approved by the Central Government for the year 2006

\* Lt. Gen. Baldev Singh (Retd.) was awarded with 27,700 stock options of Rs. 2 per share on September 01, 2004 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. On January 30, 2006 R Systems had consolidated each of its 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each. Consequently, the balance options also stand revised from Rs. 2 each to Rs. 10 each. As on December 31, 2009, entire options granted (i.e. 5,540 stock options) were already vested. 50% of the total options granted (i.e. 2,770 stock options) was already exercised and balance 50% of the total options granted (i.e. 2,770 stock options) of Rs. 10 each is in force.

(Amount in Rs.)

| 4.  | Name of the Director                              | Mr. Raj Swaminathan                        |
|-----|---|--|
| (a) | Salary, benefits and allowances (fixed)           | 4,277,089                                  |
| (b) | Incentive (fixed)                                 | 1,100,000                                  |
| (c) | Provident fund                                    | 9,360                                      |
| (d) | Stock options granted                             | As detailed below*                         |
| (e) | Pension   | As per the applicable policy for employees |
| (f) | Service contract                                  | 3 years**                                  |
| (g) | Notice period                                     | 2 months                                   |
| (h) | Severance fees                                    | Compensation in lieu of notice             |
| (i) | Shareholding in R Systems as on December 31, 2009 | Nil  |

\* 60,000 stock options have been granted to Mr. Raj Swaminathan under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007. These Options are exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. As on the date of this report out of the total options granted, 30,000 options are already vested but not exercised.

\*\* Reappointed by the Board w.e.f. September 29, 2009 for a term of three years subject to the approval of the shareholders, Central Government and other authorities, if required.

The aforementioned directors' remuneration has been submitted for approval / approved by the Remuneration Committee, the Board, the shareholders in the general meeting and by the Central Government, wherever applicable, as required under the provisions of the Companies Act, 1956.

#### Details of remuneration paid to the non-executive directors during the year ended December 31, 2009

Non-executive directors are not entitled to any remuneration

except the sitting fees for attending the directors' meetings. The sitting fees paid to the non-executive directors during the year ended December 31, 2009 is as follows:

| S. No. | Name of the Director  | Sitting fees paid (Rs.) |
|--------|---|-------------------------|
| 1.     | Mr. Raj Kumar Gogia   | 105,000                 |
| 2.     | Mr. Suresh Paruthi  | 105,000                 |
| 3.     | Mr. David Richard Sanchez<br>(Resigned effective February 26, 2010) | 15,000                  |
| 4.     | Mr. Gurbax Singh Bhasin   | Nil                     |
|        | <b>Total</b>  | <b>225,000</b>          |

As on December 31, 2009 none of the aforementioned non-executive independent directors except Mr. David Richard Sanchez holds any shares or options in R Systems. Mr. David Richard Sanchez holds 4,000 equity shares of Rs. 10 each.

## 21. DEPOSITS

R Systems has neither invited nor accepted any deposits from public within the meaning of Section 58A of the Companies Act, 1956 and as such, no amount of principal or interest was outstanding on the date of the balance sheet.

## 22. CUSTOMER RELATIONS

R Systems recognises that the customers have choice of service providers and the directors would like to place on record their gratitude on behalf of the Company for the business provided by them. The Company's quality policy mandates that the Voice of Customer is obtained on a regular basis. We constantly review the feedback and incorporate its impact into our delivery systems and communications.

## 23. EMPLOYEE RELATIONS

R Systems is inspired by its customers and its employees transform that inspiration and customers needs into value for all stakeholders. We thank all R Systems employees worldwide for their hard work, commitment, dedication and discipline that enables the Company to accomplish its customer commitments and commitments to all its stakeholders. R Systems conducts regular employee satisfaction surveys, and regular open house meetings constantly validates key employee indices with industry and peer group business. These practices have helped the Company achieve many of its business goals and have been recognised in many industry surveys over the last few years. The open door mind set of our senior management team ensures that feedback loop is completed in the quickest time.

We thank our shareholders for their continuous support and confidence in R Systems. We are conscious of our responsibilities to shareholders to provide full visibility of operations, corporate

governance and creating superior shareholder value and we promise to fulfill the same.

**24. MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

In terms of Clause 49 of the Listing Agreement entered into with the stock exchanges, management discussion and analysis report forms an annexure to this report.

**25. ACKNOWLEDGMENT**

Your directors once again take this opportunity to thank the employees, investors, clients, vendors, banks, business associates, regulatory authorities including stock exchanges, Software Technology Park of India, the Central Government,

State Government of Uttar Pradesh, Maharashtra, Tamil Nadu for the business support, valuable assistance and co-operation continuously extended to R Systems. Your directors gratefully acknowledge the trust and confidence and look forward for their continued support in future.

On behalf of the Board  
For R Systems International Limited

Place : Singapore  
Date : April 10, 2010

**Sd/-**  
**Satinder Singh Rekhi**  
(Chairman and Managing Director)

**Annexure to the Directors' Report**  
**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 December 31, 2009**  
 Employed for full financial year

| S.No. | Name                          | Designation / nature of duties  | Qualification  | Age (Years) | Date of Joining                | Experience (Years) | Gross Remuneration (Rs.) | Previous employment & designation   |
|-------|-------------------------------|---|--|-------------|--------------------------------|--------------------|--------------------------|---|
| 1     | Ajit Srinivasan               | Vice President  | B.A.(Economics), M.A.(Economics), PG.D.G.  | 46          | December 18, 2000              | 20                 | 2,583,811                | GE Capital BPMSL Gurgaon, Assistant Vice President                        |
| 2     | Amit Sapre                    | Senior Software Engineer  | Bachelor of Computer Applications  | 29          | February 25, 2008              | 7                  | 2,426,595                | Esprit Infoblabs as Team Leader   |
| 3     | Anand Jankiraman              | Program Manager - Technology  | BS (Physics), Graduate Diploma in Systems Management, Diploma in Business Finance, Microsoft Certified Solutions Developer   | 36          | May 1, 2007 <sup>(*)</sup>     | 15                 | 5,586,322                | Trisoft Systems, Vice President / Project Delivery Head                   |
| 4     | Ashok Bhatia                  | Vice President - Govt. Solutions / Vice President - Offshore Services | B.Sc. PGDMM and Certified Project Manager (SAPM) from Stanford University, USA   | 42          | January 1, 2006 <sup>(*)</sup> | 18                 | 10,823,703               | ACT Inc., Pittsburgh, PA Vice President - Marketing                       |
| 5     | Ashok Jagtap                  | Senior Vice President   | M.Sc.(Maths), B.Sc. (Applied Computer Science)   | 54          | July 3, 1995                   | 28                 | 2,649,454                | Krupp Industries:Pune Senior Systems Executive                            |
| 6     | Avirag Jain                   | Executive Vice President and Chief Technology Officer                 | B.Sc., MBA specialization in Finance and International Marketing, Post Graduate Diploma in Cyber Law   | 43          | October 1, 1997                | 21                 | 4,486,048                | Modi Olivitti Ltd.Project Manager   |
| 7     | Balamurugan Paramasivam       | Associate Consultant  | Master of computer Applications  | 31          | May 1, 2008                    | 8                  | 3,800,380                | Wipro Technologies Japan, Junior Consultant                               |
| 8     | Charan Shrivrasad             | Market Research Analyst   | MBA, (The University of Findlay, Ohio), PGDMM, PGDSM, BBM  | 31          | May 1, 2007 <sup>(*)</sup>     | 9                  | 4,784,432                | Jain Software Consulting, Illinois US, World Space India, Manager - Sales |
| 9     | Debraj Ganguly                | Market Research Analyst   | MBA - IIM Calcutta, B.Tech - IIT Kharagpur   | 37          | February 3, 2005               | 14                 | 5,949,923                | i Healthcare Services India Ltd. Vice President - Business Development    |
| 10    | Gurpreet Saini                | Market Research Analyst   | BS Computer Science, MBA - Nagpur University in Marketing and Finance  | 34          | January 1, 2008 <sup>(*)</sup> | 10                 | 4,051,742                | FCS Software Solution, Sales Manager                                      |
| 11    | Harsh Verma                   | VP (Global Innovative Research) & Head, Mobility Solutions            | BE (hons) in Electrical & Electronics Engineering, MS PHD in Computer Science from BITS, Pilani, Executive Mgmt Prog from IIM, Ahmedabad, Post-Doctoral Res Prog, UC Berkeley. | 50          | February 19, 2007              | 25                 | 6,656,081                | Glocol, Inc., California, USA Vice President, R&D                         |
| 12    | Jeremy Dawson                 | Sales Manager   | BS - Business Administration (Graduation)  | 37          | January 1, 2008 <sup>(*)</sup> | 14                 | 5,258,667                | DSA Inc. Manager  |
| 13    | Jivan Limbu                   | Manager - IT Sales  | B. Com   | 29          | December 22, 2005              | 7                  | 3,046,125                | EXL Services, Assistant Manager- BD                                       |
| 14    | Judy K Kilgore                | Administrative Service Manager  | Course in Business Management and Business Ethics from Sacramento, California  | 56          | January 1, 2008 <sup>(*)</sup> | 19                 | 3,223,669                | RiceX Corporation Executive Assistant to President/COB                    |
| 15    | Lt. Gen. Baldev Singh (Retd.) | President & Senior Executive Director                                 | Masters in Military Sciences, Madras University  | 69          | September 1, 1997              | 44                 | 50,94,444 <sup>(*)</sup> | Indian Army, Ministry of Defense Lt. General                              |
| 16    | Maresh Chahani                | Associate Vice President  | Diploma Course in Electronics and Radio Engineering, I.E.T.E (Graduate)  | 39          | September 5, 2005              | 18                 | 2,708,456                | Nihilent Technologies Pvt. Ltd. as Manager Business Development           |
| 17    | Mandeep Singh Sodhi           | Vice President - Sales  | Bachelors degree in Electronics Engineering from Marathwada University and MBA from University of California, Davis  | 42          | January 1, 2008 <sup>(*)</sup> | 17                 | 13,511,066               | Sark Syntrek, Noida Senior Marketing Engineer                             |
| 18    | Manish Sethi                  | Associate Vice President- IT  | PGDBM  | 37          | July 17, 2000                  | 15                 | 2,643,933                | InterSolutions, Group Manager   |
| 19    | Mathias Belimraj              | Country Manager - Japan   | B.E in Computer science  | 41          | Feb 1, 2008                    | 17                 | 7,248,465                | Satyam Computers Limited, Japan as Senior Manager                         |
| 20    | Mukesh Bindal                 | Vice President - IT   | BE in Computer Science   | 43          | October 18, 2002               | 20                 | 3,742,527                | Newton IT Labs Vice President   |
| 21    | Narendra Kr Gang              | Vice President - IT & Head Quality                                    | BE in Computer Science & Technology from IIT Roorkee and M.Tech in Automation and Computer Vision from IIT Kharagpur.  | 44          | October 15, 1998               | 22                 | 2,900,584                | Defence Research and Development Organisation (DRDO), Scientist           |
| 22    | Neetu Wadia                   | Associate Vice President  | B. Com, DBM  | 40          | December 2, 2002               | 14                 | 2,792,391                | Ruksun Software Technologies as Business Development Manager              |
| 23    | Prashant Singh                | Market Research Analyst   | MBA (Drexel University, Philadelphia), MMS (Master of Management Science, DAW, Indore), BMS (Bachelor of Management Science, DAW, Indore).                                     | 32          | May 1, 2007 <sup>(*)</sup>     | 8                  | 4,488,179                | AMC Theatres, New Jersey, USA Manager                                     |
| 24    | Prem Mohan Srivastava         | Associate Vice President- IT  | BSc from Agra Univ & MCM from Pune University  | 38          | June 16, 1999                  | 18                 | 2,591,639                | Birla Horizons International Pvt. Ltd, New Delhi/Senior Systems Analyst   |
| 25    | Raj Swaminathan               | Director & Chief Operating Officer                                    | MBA - XLRI   | 50          | May 1, 2006                    | 25                 | 5,386,449                | GE - Capital, Vice-President (Technology)                                 |
| 26    | Rakhee Devi                   | Accountant  | CPA  | 33          | January 1, 2008 <sup>(*)</sup> | 5                  | 2,604,246                | EZ TUTORING Staff accountant  |
| 27    | Ravi Madugala                 | Director - Information Systems <sup>(*)</sup>                         | M.Sc. in Computer Science, University of Dayton, Ohio  | 43          | July 1, 2007 <sup>(*)</sup>    | 16                 | 6,047,971                | University of Dayton Student Assistant                                    |

| S.No. | Name                 | Designation / nature of duties | Qualification   | Age (Years) | Date of Joining               | Experience (Years) | Gross Remuneration (Rs.) | Previous employment & designation   |
|-------|----------------------|--------------------------------|---|-------------|-------------------------------|--------------------|--------------------------|---|
| 28    | Satinder Singh Rekhi | Chairman & Managing Director   | Bachelor of Technology from IIT, Kharagpur; MBA California State University, Sacramento; Senior Management programs from University of Berkeley and Harvard Business School | 59          | January 1, 2006 <sup>*1</sup> | 27                 | 15,587,029 <sup>*5</sup> | Digital Information Systems Corporation Sr. Management Personnel            |
| 29    | Shankar Seetharaman  | Chief Financial Officer        | B. Com, Chartered Accountant  | 48          | May 2, 2000                   | 24                 | 3,013,089                | Skycell-Chennai GM - Revenue Assurance & Collections                        |
| 30    | Thiru Dorai          | VP- Strategic Solutions        | Bachelors in Engineering (BE) - Bangalore University, MBA - University of California, Davis   | 48          | January 1, 2006 <sup>*1</sup> | 25                 | 3,440,275                | HCL Delux Pvt. Ltd. (Renamed as e-funds) Head - Electronic Payment Services |

**Employed for part of the year**

| S.No | Name                  | Designation / nature of duties                 | Qualification  | Age (Years) | Date of Joining               | Experience (Years) | Gross Remuneration (Rs.) | Previous employment & designation  |
|------|-----------------------|--|--|-------------|-------------------------------|--------------------|--------------------------|--|
| 1    | Benny Jabamani        | Resource Manager                               | Bachelor of Engineering in Computer Science  | 37          | July 1, 2009 <sup>*1</sup>    | 10                 | 1,779,277                | Innominds, Programmer Analyst  |
| 2    | Gattu Vamsi Krishna   | Associate Consultant                           | B.Tech   | 31          | November 4, 2009              | 8                  | 581,599                  | Robber Walters, Japan as Consultant  |
| 3    | Gurjinder Singh       | AVP Sales                                      | BA in English from Delhi University; PGDBM from Symbiosis, Pune; Advance diploma in IT and Software Export from NIIT; Advance Management Programme (YPP) from IIM Calcutta | 37          | January 1, 2008 <sup>*2</sup> | 15                 | 2,474,536                | Bridasoft, Manager Global Business Development Covering US, UK, and Asia Pacific Markets |
| 4    | Harmandir Singh Jaggi | Vice President - Special Project               | Masters in Business Administration   | 48          | March 9, 2009                 | 24                 | 4,310,972                | Persistent Systems, Inc., Vice President - Strategic Relationships                       |
| 5    | O'Neil Nalavadi       | Director Finance & Chief Financial Officer     | Chartered Accountant; Bachelors of Commerce and Economics degree with First Class Honors from the University of Bombay   | 49          | January 1, 2006 <sup>*1</sup> | 24                 | 9,342,008                | UBICS, Inc Sr. VP, CFO and Director  |
| 6    | Rajiv Srivastava      | Director - Sales <sup>*3</sup>                 | BE in Computer Science from Mysore Univ.   | 41          | January 1, 2007               | 17                 | 1,852,733                | Dimensions BPO, India, Mumbai, Sr. Vice President  |
| 7    | Ravikumar Ramasamy    | Sr. Software Engineer                          | BE in Computer Science   | 38          | July 1, 2009 <sup>*1</sup>    | 14                 | 2,182,156                | Berkeley Imaging Corporation, Sr. Software Engineer                                      |
| 8    | Supriyo Sanyal        | Market Research Analyst                        | IIT, Kharagpur   | 43          | August 8, 2005                | 21                 | 1,063,994                | ICICI OneSource USA, Vice President Marketing & Business Development                     |
| 9    | Troy Mass             | Director of Business Development <sup>*3</sup> | University of Nebraska, B.A. Marketing 1993, Miller Heiman Institute, 2000   | 40          | December 19, 2008             | 15                 | 2,217,183                | CallCenterTeam.com, Vice President of Outsourcing Sales                                  |

\* Prior to joining R Systems International Limited these employees were working with R Systems, Inc the US subsidiary of the Company. The date of joining in the subsidiary, of these employees is given hereunder:

| Name                 | Date of joining   |
|----------------------|-------------------|
| Anand Jankiraman     | May 23, 2005      |
| Ashok Bhatia         | December 11, 2000 |
| Benny Jabamani       | March 1, 2005     |
| Charan Shivprasad    | August 1, 2005    |
| Gurpreet Saini       | May 2, 2006       |
| Jeremy Dawson        | March 11, 2002    |
| Judy K Kilgore       | October 28, 2004  |
| Mandeep Singh Sodhi  | April 1, 1993     |
| O'Neil Nalavadi      | January 17, 2000  |
| Prashant Singh       | July 5, 2005      |
| Rakhee Devi          | August 9, 2005    |
| Ravi Madugula        | February 16, 1996 |
| Ravikumar Ramasamy   | October 3, 2005   |
| Satinder Singh Rekhi | April 1, 1993     |
| Thiru Dorai          | July 6, 1999      |

\* Prior to joining R Systems International Limited he was working with R Systems (Singapore) Pte Ltd., a wholly owned subsidiary of R systems international Limited. He joined the subsidiary on August 25, 2004.

\* Not a member of the Board of Directors of the Company

\* Includes an amount of Rs. 744,444 which was approved by the Central Government for the year 2006.

\* Includes an amount of Rs. 890,000 which was approved by the Central Government for the year 2006.

Notes:

- The remuneration includes basic salary, allowances and taxable value of perquisites
- Mr. Satinder Singh Rekhi, Lt. Gen Baldev Singh (Retd.) and Mr. Mandeep Singh Sodhi are related to each other. None of the other employee is related to any director of the Company.
- None of the employee owns more than 2% of the outstanding shares of the Company as on December 31, 2009.
- Nature of employment is contractual in all the above cases.

On behalf of the Board for R Systems International Limited

**Sd/-**

**Satinder Singh Rekhi**

(Chairman and Managing Director)

Place: Singapore

Date: April 10, 2010

# Corporate Governance

## REPORT ON CORPORATE GOVERNANCE

### 1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

R Systems International Limited ("R Systems" or the "Company") is committed to conduct its business strictly in compliance with the applicable laws, rules and regulations and with the highest standards of business ethics. We, at R Systems, believe that good Corporate Governance is a key contributor to sustainable corporate growth and creating superior value for our stakeholders. It is primarily concerned with transparency, accountability, fairness, professionalism, social responsiveness, complete disclosure of material facts and independence of Board. R Systems endeavours its best to constantly comply with these aspects in letter and spirit, in addition to the statutory compliances as required under Clause 49 of the Listing Agreement.

### 2. BOARD OF DIRECTORS

- (i) R Systems has an optimum combination of executive and non-executive directors on its Board. At the beginning of the financial year i.e. on January 01, 2009, the board of directors of R Systems (the "Board") comprised of eight directors, i.e. the executive chairman, three executive directors and four non-executive independent directors. During the year

Mr. O'Neil Nalavadi, executive director tendered his resignation to the Company effective November 08, 2009. Accordingly as on December 31, 2009 the Board comprised of seven directors, i.e. the executive chairman, two executive directors and four non-executive independent directors. Subsequent to the year ended December 31, 2009, Mr. David Richard Sanchez, non-executive independent director tendered his resignation to the Company effective February 26, 2010. The independent directors have been at least 50% of the total strength of the Board at all times during the year under review.

None of the directors of R Systems is a director or a committee member or a chairperson of any committee in any other company in India. Necessary disclosures regarding committee positions in other companies as of December 31, 2009 have been made by the directors.

Except the Chairman and Managing Director, all other directors are liable to retire by rotation as per the provisions of the Companies Act, 1956.

The names and categories of the directors on the Board and their attendance at the Board meetings held during the year under review are as follows:

| Name of Director   | Category of Director               | Designation                                  | No. of Board Meetings held during the year | No. of Board Meetings attended | Attendance at the last Annual General Meeting | No. of directorship in bodies corporate outside India |
|--|------------------------------------|--|--|--------------------------------|---|---|
| Mr. Satinder Singh Rekhi                                   | Promoter & Executive Director      | Chairman and Managing Director               | 6  | 1 + 5*                         | No  | 9   |
| Lt. Gen. Baldev Singh (Retd.)                              | Executive Director                 | President and Senior Executive Director      | 6  | 5                              | Yes   | Nil   |
| Mr. O'Neil Nalavadi (Resigned effective November 08, 2009) | Executive Director                 | Director Finance and Chief Financial Officer | 6  | 6*                             | No  | 1 (Resigned effective November 08, 2009)              |
| Mr. Raj Swaminathan  | Executive Director                 | Director and Chief Operating Officer         | 6  | 6                              | Yes   | Nil   |
| Mr. Raj Kumar Gogia  | Non-Executive Independent Director | Director                                     | 6  | 6                              | Yes   | Nil   |

| Name of Director   | Category of Director               | Designation | No. of Board Meetings held during the year | No. of Board Meetings attended | Attendance at the last Annual General Meeting | No. of directorship in bodies corporate outside India |
|--|------------------------------------|-------------|--|--------------------------------|---|---|
| Mr. David Richard Sanchez (Resigned effective February 26, 2010) | Non-Executive Independent Director | Director    | 6  | 1 + 5*                         | Yes   | 3   |
| Mr. Gurbax Singh Bhasin  | Non-Executive Independent Director | Director    | 6  | 5*                             | No  | 9   |
| Mr. Suresh Paruthi   | Non-Executive Independent Director | Director    | 6  | 6                              | Yes   | Nil   |

\* Attendance by teleconference

The expression 'independent director' has the meaning as defined under Clause 49 of the Listing Agreement.

**(ii) Board Functioning & Procedures**

The Board meets at least once a quarter to review the quarterly performance and financial results. Board meetings are generally held at the Corporate Office of the Company in Noida and are governed by a structured agenda. The agenda, along with the explanatory notes are sent to all the directors well in advance of the date of the Board meeting to enable the Board to take informed decisions. The Board is also free to recommend the inclusion of any matter for discussion in consultation with the Chairman. The Chief Financial Officer is normally invited to the Board meetings to provide financial insights, status of internal controls in the working of the Company and for discussing corporate strategies. All relevant information required to be placed before the Board, as required under Clause 49 of the Listing Agreement, are considered and taken on record / approved by the Board.

The minutes of the Board meetings are circulated to all directors and confirmed at the subsequent Board meeting. The minutes of the various committees of the Board are also circulated to the members of the Board and thereafter tabled at the subsequent Board meeting for the Board's view thereon. During the financial year 2009, the Board met six times on the following dates:

| S. No. | Date of the Meeting |
|--------|---------------------|
| 1.     | January 21, 2009    |
| 2.     | February 12, 2009   |
| 3.     | March 23, 2009      |
| 4.     | April 26, 2009      |
| 5.     | July 24, 2009       |
| 6.     | October 24, 2009    |

The gap between any of the aforesaid two Board meetings did not exceed four months.

The Board periodically reviews compliance reports in respect of laws and regulations applicable to the Company.

**Code of Conduct**

The Board has laid down a Code of Conduct for all Board members and senior management personnel of the Company, which is available on R Systems' website at <http://www.rsystems.com/investors/corporategovernance.asp>

The Company has obtained confirmations for the compliance with the said code from all its Board members and senior management personnel for the year ended December 31, 2009. A declaration to this effect given by the Chairman and Managing Director of the Company, Mr. Satinder Singh Rekhi, is provided at the end of this report.

### Appointment / Reappointment of Directors

Details with respect to the directors whose appointment or reappointment is proposed at the ensuing Annual General Meeting are as follows:

#### A. Lt. Gen. Baldev Singh (Retd.) (President and Senior Executive Director)

**Lt. Gen. Baldev Singh (Retd.)**, aged about 69 years, has more than 44 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters degree in Military Sciences from the prestigious Madras University in India, and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing. He joined the Board of R Systems on September 01, 1997. Since then, he is continuously providing his guidance and advice to the Board of R Systems International Limited.

As on the date of this report:

- Lt. Gen. Baldev Singh (Retd.) does not hold the office of director / member in any other company's board / committee.
- Lt. Gen. Baldev Singh (Retd.) was awarded with 27,700 stock options of Rs. 2 per share on September 01, 2004 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. On January 30, 2006, R Systems had consolidated each of its 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each. Consequently, the balance options also stand revised from Rs. 2 each to Rs. 10 each. As on December 31, 2009, entire options granted (i.e. 5,540 stock options) were already vested. 50% of the total options granted (i.e. 2,770 stock options) were already exercised and balance 50% of the total options granted (i.e. 2,770 stock options) of Rs. 10 each are in force.
- He holds 70,000 equity shares of Rs. 10 each, being 0.57% of the total paid up share capital in R Systems.

- Lt. Gen. Baldev Singh (Retd.) is related to Mr. Satinder Singh Rekhi, Chairman and Managing Director of the Company.

#### B. Mr. Raj Kumar Gogia (Non-Executive Independent Director)

**Mr. Raj Kumar Gogia**, aged about 70 years, has a rich and vast experience of 47 years serving various Indian, multinational and foreign concerns. Mr. Gogia completed his B. Tech Honors (First Class First) in Electrical Engineering from IIT, Kharagpur in 1961. He joined the Board of R Systems on July 09, 2002. Since then, he is continuously providing his guidance and advice to the Board of R Systems International Limited.

As on the date of this report

- Mr. Raj Kumar Gogia does not hold the office of director / member in any other company's board / committee.
- No stock options have been granted to him under the prevailing employee stock option plans / schemes of the Company.
- He does not hold any shares in R Systems.
- Mr. Raj Kumar Gogia is not related to any other director of the Company.

#### C. Mr. Raj Swaminathan (Director and Chief Operating Officer)

**Mr. Raj Swaminathan**, aged about 50 years, has over 25 years of experience in IT & Financial Services Industry. He has done Post Graduate Diploma in Business Management from Xavier Labour Relations Institute, Jamshedpur, after his Bachelor of Engineering (Mechanical) from Bangalore University. Prior to joining R Systems, Raj has had a distinguished 11 years' career at GE, where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses. He joined the Board of R Systems on September 29, 2006. Since then, he is continuously providing his guidance and advice to the Board of R Systems International Limited.

As on the date of this report:

- Mr. Raj Swaminathan does not hold any office of

director / member in any other company's board / committee.

- Mr. Raj Swaminathan was awarded with 60,000 stock options under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007. These options are exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. As on the date of this report, out of the total options granted, 30,000 options are already vested but not exercised.
- He does not hold any shares in R Systems.
- Mr. Raj Swaminathan is not related to any other director of the Company.

**R Systems has formulated the following committees of its directors:**

- Audit Committee
- Remuneration Committee
- Compensation Committee
- Shareholders / Investors Grievance Committee

**3. AUDIT COMMITTEE**

R Systems has a qualified and independent Audit Committee. At the beginning of the financial year i.e. on January 01, 2009, the Audit Committee comprised of five directors, with non-executive independent director as the Chairman, director finance and three other non-executive independent directors as the members of the Committee. During the year, Mr. O'Neil Nalavadi, Director Finance and Chief Financial Officer of the Company had tendered his resignation to the Company effective November 08, 2009. Accordingly, the Audit Committee had been reconstituted and comprised of four directors, with non-executive independent director as the Chairman and three other non-executive independent directors as members of the Committee.

Subsequent to the year ended December 31, 2009, Mr. David Richard Sanchez, non-executive independent director, had tendered his resignation to the Company effective February 26, 2010. Accordingly, the Audit Committee had been reconstituted and as on the date of this report, it comprises of three directors, with non-executive independent director as the Chairman and two other non-executive independent directors as members of the Committee.

The terms of reference and role of the Audit Committee are as per the provisions set out in the Listing Agreement entered into with the stock exchanges read with Section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by the Board from time to time. The Audit Committee has adequate powers to play an effective role as required under the provisions of the statute and Listing Agreement and has reviewed the mandatory applicable informations.

**Composition of the Audit Committee, its meetings and attendance during the year ended December 31, 2009**

| Composition of the Audit Committee                               | Category of Director               | Chairman /Member | Total meetings during the year | No. of meetings attended |
|--|------------------------------------|------------------|--------------------------------|--------------------------|
| Mr. Raj Kumar Gogia  | Non-Executive Independent Director | Chairman         | 6                              | 6                        |
| Mr. David Richard Sanchez (Resigned effective February 26, 2010) | Non-Executive Independent Director | Member           | 6                              | 1 + 5*                   |
| Mr. Gurbax Singh Bhasin  | Non-Executive Independent Director | Member           | 6                              | 5*                       |
| Mr. Suresh Paruthi   | Non-Executive Independent Director | Member           | 6                              | 6                        |
| Mr. O'Neil Nalavadi (Resigned effective November 08, 2009)       | Executive Director                 | Member           | 6                              | 6*                       |

\* Attendance by teleconference

R Systems Audit Committee invites such executives as it considers appropriate to be present at its meetings. The Chief Financial Officer, representatives of the Statutory Auditors and Internal Auditors are invited to these meetings. The Company Secretary of the Company acts as the Secretary of the Audit Committee.

**Powers of the Audit Committee**

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

**Terms of reference of the Audit Committee**

1. Oversight of the Company's financial reporting process and

- the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
2. Recommending to the Board, the appointment, reappointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
  3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
  4. Reviewing, with the management, the 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 the 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.
  5. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
  6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.
  7. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
  8. Reviewing the 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.
  9. Discussion with internal auditors on any significant findings and follow-up thereon.
  10. Reviewing the findings of any internal investigations by the internal auditors into 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.
  11. Discussion with 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.
  12. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.
  13. To review the functioning of the Whistle Blower mechanism.
  14. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

#### 4. SUBSIDIARY COMPANIES

As on December 31, 2009, R Systems has fourteen subsidiaries, which are incorporated and based outside India. R Systems does not have any material non-listed Indian subsidiary company. The Audit Committee reviewed the financial statement, in particular, the investments made by the unlisted subsidiary bodies corporate. The management periodically brings to the attention of the board of directors of R Systems International Limited, a statement of all significant transaction and arrangements entered into by the unlisted subsidiary bodies corporate.

#### 5. REMUNERATION COMMITTEE

##### Brief description and terms of reference

The Remuneration Committee consists of only non-executive independent directors. Under its terms of reference, the Committee evaluates and finalises, among other things, compensation and benefits of R Systems' executive directors. The Committee recommends / approves the remuneration package of the executive directors to the Board, after taking into consideration the financial position of the Company, the

executive director's performance, qualifications and experience, comparable industry compensation packages, trend in the industry, past remuneration drawn and the proposed compensation package of the appointee, with a view to provide a package which is appropriate for the responsibilities involved.

**Composition of the Remuneration Committee, its meetings and attendance during the year ended December 31, 2009**

| Composition of the Remuneration Committee                        | Category of Director               | Chairman /Member | Total meetings during the year | No. of meetings attended |
|--|------------------------------------|------------------|--------------------------------|--------------------------|
| Mr. Raj Kumar Gogia  | Non-Executive Independent Director | Chairman         | 2                              | 2                        |
| Mr. David Richard Sanchez (Resigned effective February 26, 2010) | Non-Executive Independent Director | Member           | 2                              | 2*                       |
| Mr. Gurbax Singh Bhasin  | Non-Executive Independent Director | Member           | 2                              | 2*                       |
| Mr. Suresh Paruthi   | Non-Executive Independent Director | Member           | 2                              | 2                        |

\* Attendance by teleconference

**Remuneration policy**

Remuneration policy of R Systems is based on the following objectives:

- To determine and recommend to the Board the remuneration package of the Managing Director and whole time directors;
- To approve, in the event of loss or inadequate profits in any year, the minimum remuneration payable to the Managing Director and whole time directors, considering the limits and subject to the parameters as prescribed under the provisions of the Companies Act, 1956;
- To create a performance-oriented culture in R Systems, which is beneficial to its employees and the business as well;
- To ensure that reward, benefit and increment system is performance-based and motivational to employees;
- To encourage and support learning and development by identifying the scope and need of the same;
- Such other functions as required or recommended by the Board or under the provisions of the Listing Agreement.

**Details of remuneration paid to the executive directors during the year ended December 31, 2009**

(Amount in Rs.)

| 1.  | Name of the Director                              | Mr. Satinder Singh Rekhi   |
|-----|---|--|
| (a) | Salary, benefits and allowances (fixed)           | 14,697,029   |
| (b) | Retention bonus (fixed) #                         | 890,000  |
| (c) | Stock options granted                             | Nil  |
| (d) | Pension   | As per the applicable policy for employees   |
| (e) | Service contract                                  | 5 years  |
| (f) | Notice period                                     | 36 months  |
| (g) | Severance fees                                    | Compensation in lieu of notice   |
| (h) | Shareholding in R Systems as on December 31, 2009 | 90,600 equity shares of Rs. 10 each in his own name & 1,921,718 equity shares of Rs. 10 each as trustee of Satinder & Harpreet Rekhi Family Trust. |

# approved by the Central Government for the year 2006

(Amount in Rs.)

| 2.  | Name of the Director                              | Mr. O'Neil Nalavadi                  |
|-----|---|--------------------------------------|
| (a) | Salary, benefits and allowances (fixed)           | 9,342,009                            |
| (b) | Perquisites                                       | Nil                                  |
| (c) | Stock options granted                             | Nil                                  |
| (d) | Pension   | Nil                                  |
| (e) | Service contract                                  | Resigned effective November 08, 2009 |
| (f) | Notice period                                     |                                      |
| (g) | Severance fees                                    |                                      |
| (h) | Shareholding in R Systems as on December 31, 2009 | 209,500 equity shares of Rs. 10 each |

(Amount in Rs.)

| 3.  | Name of the Director                              | Lt. Gen. Baldev Singh (Retd.)              |
|-----|---|--|
| (a) | Salary, benefits and allowances (fixed)           | 2,706,000                                  |
| (b) | Retention bonus (fixed) #                         | 744,444                                    |
| (c) | Incentive (fixed)                                 | 1,500,000                                  |
| (d) | Provident fund                                    | 144,000                                    |
| (e) | Stock options granted                             | As detailed below*                         |
| (f) | Pension   | As per the applicable policy for employees |
| (g) | Service contract                                  | 3 years                                    |
| (h) | Notice period                                     | 6 months                                   |
| (i) | Severance fees                                    | Compensation in lieu of notice             |
| (j) | Shareholding in R Systems as on December 31, 2009 | 78,808 equity shares of Rs. 10 each        |

# approved by the Central Government for the year 2006

\* Lt. Gen. Baldev Singh (Retd.) was awarded with 27,700 stock options of

Rs. 2 per share on September 01, 2004 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. On January 30, 2006, R Systems had consolidated each of its 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each. Consequently, the balance options also stand revised from Rs. 2 each to Rs. 10 each. As on December 31, 2009, entire options granted (i.e. 5,540 stock options) were already vested. 50% of the total options granted (i.e. 2,770 stock options) were already exercised and balance 50% of the total options granted (i.e. 2,770 stock options) of Rs. 10 each are in force.

(Amount in Rs.)

| 4.  | Name of the Director                              | Mr. Raj Swaminathan                        |
|-----|---|--|
| (a) | Salary, benefits and allowances (fixed)           | 4,277,089                                  |
| (b) | Incentive (fixed)                                 | 1,100,000                                  |
| (c) | Provident fund                                    | 9,360                                      |
| (d) | Stock options granted                             | As detailed below*                         |
| (e) | Pension   | As per the applicable policy for employees |
| (f) | Service contract                                  | 3 years**                                  |
| (g) | Notice period                                     | 2 months                                   |
| (h) | Severance fees                                    | Compensation in lieu of notice             |
| (i) | Shareholding in R Systems as on December 31, 2009 | Nil  |

\* 60,000 stock options have been granted to Mr. Raj Swaminathan under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007. These options are exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. As on the date of this report, out of the total options granted, 30,000 options are already vested but not exercised.

\*\*Reappointed by the Board w.e.f. September 29, 2009 for a term of three years, subject to the approval of the shareholders, Central Government and other authorities, if required.

The aforementioned directors' remuneration has been submitted for approval / approved by the Remuneration Committee, the Board, the shareholders in the general meeting and by the Central Government, wherever applicable, as required under the provisions of the Companies Act, 1956.

#### Details of remuneration paid to the non-executive directors during the year ended December 31, 2009

Non-executive directors are not entitled to any remuneration except the sitting fees for attending the directors' meetings. The sitting fees paid to the non-executive directors during the year ended December 31,

2009 is as follows:

(Amount in Rs.)

| S. No.       | Name of the Director   | Sitting fees paid |
|--------------|--|-------------------|
| 1.           | Mr. Raj Kumar Gogia  | 105,000           |
| 2.           | Mr. Suresh Paruthi   | 105,000           |
| 3.           | Mr. David Richard Sanchez (Resigned effective February 26, 2010) | 15,000            |
| 4.           | Mr. Gurbax Singh Bhasin  | Nil               |
| <b>Total</b> |  | <b>225,000</b>    |

As on December 31, 2009, none of the aforementioned non-executive independent directors, except Mr. David Richard Sanchez, holds any shares or options in R Systems. Mr. David Richard Sanchez holds 4,000 equity shares of Rs. 10 each.

## 6. COMPENSATION COMMITTEE

During the year ended December 31, 2009, the Compensation Committee comprised of four directors, with three non-executive independent directors and one executive director. The Compensation Committee is responsible for the formulation, implementation and administration of all the stock option plans, which, inter alia, includes determination of eligibility criteria, maximum number of options or shares to be offered to each employee, the aggregate number of options or shares to be offered during the period covered under each scheme, identification of classes of employees entitled to participate in the scheme, framing a detailed pricing formula, mode or process of exercise of the option, conditions under which the options may lapse etc. for the employees, directors and senior management personnel of R Systems and its subsidiaries.

#### Composition of the Compensation Committee, its meetings and attendance during the year ended December 31, 2009

| Composition of the Compensation Committee                        | Category of Director               | Total meetings during the year | No. of meetings attended |
|--|------------------------------------|--------------------------------|--------------------------|
| Mr. Raj Kumar Gogia  | Non-Executive Independent Director | 1                              | 1                        |
| Mr. David Richard Sanchez (Resigned effective February 26, 2010) | Non-Executive Independent Director | 1                              | 1*                       |
| Mr. Suresh Paruthi   | Non-Executive Independent Director | 1                              | 1                        |
| Lt. Gen. Baldev Singh (Retd.)                                    | Executive Director                 | 1                              | 1                        |

\* Attendance by teleconference

## 7. SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

The Shareholders / Investors Grievance Committee of R Systems is comprised of four directors, with non-executive independent director as its Chairman. The Shareholders / Investors Grievance Committee looks into, investigates and provides resolution of

shareholders' grievances relating to transfer, transmission, dematerialisation and rematerialisation of shares, issue of duplicate share certificates, non-receipt of annual report, declared dividend and other matters relating to the shareholders / investors.

**Composition of the Shareholders / Investors Grievance Committee, its meetings and attendance during the year ended December 31, 2009**

| Composition of the Shareholders / Investors Grievance Committee | Category of Director               | Chairman /Member | Total meetings during the year | No. of meetings attended |
|---|------------------------------------|------------------|--------------------------------|--------------------------|
| Mr. Raj Kumar Gogia   | Non-Executive Independent Director | Chairman         | 16                             | 16                       |
| Mr. Suresh Paruthi  | Non-Executive Independent Director | Member           | 16                             | 16                       |
| Mr. Satinder Singh Rekhi  | Executive Director                 | Member           | 16                             | 1 + 15*                  |
| Lt. Gen. Baldev Singh (Retd.)                                   | Executive Director                 | Member           | 16                             | 15 + 1*                  |

\* Attendance by teleconference

**Name and designation of the Compliance Officer**

Mr. Suresh Kumar Bhutani  
Company Secretary & Compliance Officer  
C - 40, Sector - 59, Noida (U.P.) 201 307  
Email : investors@india.rsystems.com

**Shareholders grievances / complaints received and resolved during the year**

|       |   |     |
|-------|---|-----|
| (i)   | Number of shareholders' complaints received during the year ended December 31, 2009 | 27  |
| (ii)  | Number of complaints not resolved to the satisfaction of shareholders               | Nil |
| (iii) | Number of pending complaints  | Nil |

**8. SHARE TRANSFERS IN PHYSICAL MODE**

In order to expedite the process of share transfers, the members of the Shareholders / Investors Grievance Committee conduct their meetings more frequently, to the extent of weekly meetings of the Committee.

**9. GENERAL BODY MEETINGS**

**I. Details for the last three Annual General Meetings ("AGM")**

1. The thirteenth AGM for the financial year 2006 was held on Tuesday, May 01, 2007 at 09.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010.

The following special resolutions were passed at the said meeting:

- Appointment and remuneration of Mr. Raj Swaminathan as the Director and Chief Operating Officer of the Company.
  - Modification of the terms of employment of Mr. O'Neil Nalavadi, Director Finance and Chief Financial Officer of the Company.
  - Approval for the enhanced sitting fee payable to the non-executive directors for attending the Board and/or Committee Meetings.
  - Appointment and remuneration of Mr. Sartaj Singh Rekhi as the Executive Manager of R Systems, Inc., wholly owned subsidiary of R Systems International Limited.
  - Adoption and approval of R Systems International Limited Employees Stock Option Scheme 2007.
  - Extension of benefits under R Systems International Limited Employees Stock Option Scheme 2007 to the employees of R Systems' subsidiaries.
  - Redistribution of the funds requirement as stated in the Prospectus.
  - Temporarily investment of surplus funds in fixed / term deposits with Scheduled Banks in addition to Nationalised Banks.
2. The fourteenth AGM for the financial year 2007 was held on Friday, May 02, 2008 at 10.00 A.M. at FICCI Auditorium, Tansen Marg, New Delhi - 110 001. The following special resolutions were passed at the said meeting:
    - Reappointment and payment of remuneration to Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company.
    - Reconfirmation of the remuneration payable to Mr. Raj Swaminathan for the remaining term of his present appointment as Director and Chief Operating Officer of R Systems.
    - Modification in the terms of employment and approval for increase in remuneration payable to

Mr. Satinder Singh Rekhi as Chairman and Managing Director of the Company.

- Reappointment and remuneration of Mr. Sartaj Singh Rekhi, Executive Manager, R Systems, Inc. (wholly owned subsidiary of R Systems International Limited).
  - Reallocation of the funds requirement as stated in the Prospectus and subsequently revised.
3. The fifteenth AGM for the financial year 2008 was held on Monday, April 27, 2009 at 09.00 A.M. at MPCU Shah Auditorium, Shree Delhi Gujarati Samaj Marg, 2, Raj Niwas Marg, Civil Lines, Delhi - 110 054. The following special resolutions were passed at the said meeting:
- Reappointment of and payment of remuneration to Mr. O'Neil Nalavadi as Director Finance and Chief Financial Officer of the Company.
  - Reappointment of and payment of remuneration to Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company.
  - Amendment of R Systems International Ltd. - Year 2004 Employee Stock Option Plan.
  - Amendment of R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet.
  - Amendment of the Articles of Association of R Systems International Limited.
  - Reappointment of and payment of remuneration to Ms. Amrita Kaur, daughter-in-law of Mr. Satinder Singh Rekhi, Chairman and Managing Director of the Company as Assistant Business Manager in R Systems International Limited.

No Extra Ordinary General Meeting of the Company was held during the last three years.

- II. The special resolutions moved at the last AGM were passed on a show of hands by the shareholders present at the meeting and no resolution was put to vote by postal ballot.
- III. No special resolution is proposed to be conducted through Postal Ballot. However an Ordinary Resolution under Section 293 (1)(a) of the Companies Act, 1956 is proposed to be passed by Postal Ballot separately.

IV. The procedure for the postal ballot shall be as prescribed under the Companies (Passing of the resolutions by Postal Ballot) Rules, 2001.

## 10. DISCLOSURES

### Related Party Transactions

Related Party Transactions are defined as transactions of the Company of material nature, with Company's subsidiaries, promoters, directors or the management or their relatives or companies controlled by them etc., which may have potential conflict with the interest of the Company at large.

Details on materially significant Related Party Transactions are shown in note no. 4 under Schedule 17 in the standalone and in note no. 4 under Schedule 18 in the consolidated financial results for the financial year ended December 31, 2009.

### Statutory Compliance, Penalties and Strictures

There were no penalties imposed on R Systems for any non-compliance by Stock Exchanges, SEBI or any other statutory authority on matters related to capital markets during the last three years.

### Whistle Blower Policy

R Systems has in place a mechanism for employees to report concerns about unethical behaviour, actual or suspected fraud, violation of Code of Conduct of the Company etc. The mechanism also provides for adequate safeguards against victimisation of employees who avail the mechanism and also provides for direct access to the Whistle Blower to the Chairman of the Audit Committee. We affirm that during the financial year ended December 31, 2009, no employee has been denied access to the Audit Committee.

### Risk Management Policy

The Company has formulated a risk management policy to identify the present and potential risks involved in the business. The same is periodically reviewed and considered by the Audit Committee and the Board. The risk management report forms part of this annual report and is provided elsewhere.

### Compliance with mandatory requirements and adoption of non-mandatory requirements of Clause 49 of the Listing Agreement

The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement. As required under Clause

49, a certificate signed by CEO and CFO of the Company has been placed before the Board and the same has been provided elsewhere in this report. Further, a certificate obtained from the practising Company Secretary, certifying compliance with the conditions of Corporate Governance under the said Clause, has also been provided elsewhere in this report.

Clause 49 also requires disclosures of adoption by the Company of non-mandatory requirements specified in the said Clause, the implementation of which is discretionary on the part of the Company. The details of compliance with non-mandatory requirements are as follows:

**Remuneration Committee**

The Company has a Remuneration Committee consisting of only non-executive independent directors. The Chairman of the Remuneration Committee had attended the Annual General Meeting held on April 27, 2009 to answer the shareholders' queries. A detailed note on the Remuneration Committee is provided elsewhere in this report.

**Audit Qualifications**

During the period under review, there is no audit qualification in the financial statements. The Company continues to adopt best practices to ensure unqualified financial statements.

**Whistle Blower Policy**

The Company has formulated a Whistle Blower Policy for establishing a mechanism for employees to report concerns about unethical behaviour, actual or suspected fraud, violation of Code of Conduct of the Company etc. and the same has been put on Company's website. A detailed note on the Whistle Blower Policy is provided elsewhere in this report.

**11. MEANS OF COMMUNICATION**

**Quarterly results**

- (a) The quarterly and full year audited / unaudited financial results have been published in Business Standard (English and Hindi), The Financial Express and Jansatta, as statutorily required, during the year ended December 31, 2009.
- (b) The financial results and other corporate information are available on R Systems' website www.rsystems.com. The website also displays official news releases.
- (c) The presentations made to the institutional investors or to

the industry analysts are also available on the Company's website www.rsystems.com

**12. GENERAL SHAREHOLDER INFORMATION**

**(i) Annual General Meeting**

Date and Time : May 20, 2010, at 10.00 A.M.

Venue : Air Force Auditorium,  
Subroto Park, New Delhi - 110 010

**(ii) Financial year**

R Systems follows January 01 to December 31 as its financial year. The results for every quarter are declared in the month following each quarter, except for the last quarter in which the results are declared along with the annual financial results within three months from the end of the financial year.

**(iii) Date of Book Closure**

May 11, 2010 to May 20, 2010 (both days inclusive)

**(iv) Dividend Payment Date**

Within 30 days from the date of Annual General Meeting

**(v) Listing on Stock Exchanges**

The equity shares of R Systems are listed on the following Stock Exchanges:

| Name of Stock Exchanges   | Stock / Scrip Code | ISIN         |
|---|--------------------|--------------|
| <b>National Stock Exchange of India Limited ("NSE")</b><br>Exchange Plaza, Bandra Kurla Complex<br>Bandra - (E), Mumbai - 400 051 | R SYSTEMS          | INE411H01024 |
| <b>Bombay Stock Exchange Limited ("BSE")</b><br>Phiroze Jeejeebhoy Towers,<br>Dalal Street, Mumbai - 400 001                      | 532735             | INE411H01024 |

The annual listing fee for the year 2010 - 11 has been paid within the scheduled time to NSE and BSE.

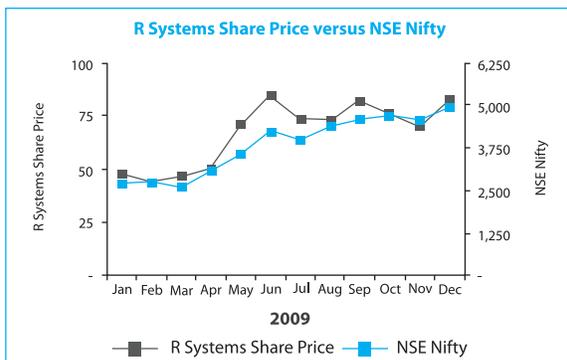
**(vi) Market Price Data: High, Low during each month in last financial year**

The monthly high and low quotations of R Systems' equity shares traded on NSE and BSE during each month in the previous financial year ended December 31, 2009, in

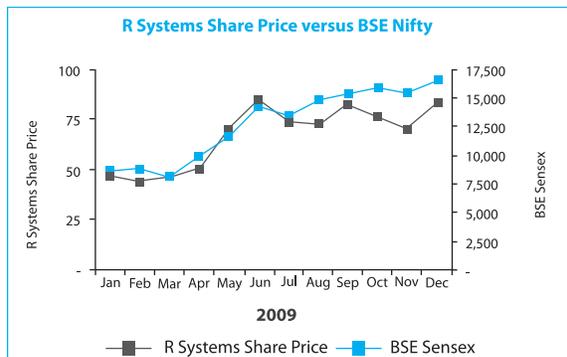
comparison with NSE Nifty and BSE Sensex, are as follows:

| Month<br>2009 | NSE         |          |          |          | BSE         |           |           |           |
|---------------|-------------|----------|----------|----------|-------------|-----------|-----------|-----------|
|               | Share Price |          | Nifty    |          | Share Price |           | Sensex    |           |
|               | High (Rs.)  | Low(Rs.) | High     | Low      | High (Rs.)  | Low (Rs.) | High      | Low       |
| January       | 50.05       | 47.45    | 3,121.45 | 2,678.55 | 50.00       | 46.75     | 10,335.93 | 8,674.35  |
| February      | 49.05       | 43.70    | 2,948.35 | 2,733.90 | 49.00       | 44.15     | 9,647.47  | 8,822.06  |
| March         | 50.05       | 46.40    | 3,108.65 | 2,573.15 | 50.95       | 46.15     | 10,048.49 | 8,160.40  |
| April         | 69.15       | 50.20    | 3,484.15 | 3,060.35 | 70.05       | 50.45     | 11,403.25 | 9,901.99  |
| May           | 84.25       | 70.50    | 4,448.95 | 3,554.60 | 84.95       | 69.95     | 14,625.25 | 11,682.99 |
| June          | 90.45       | 85.10    | 4,655.25 | 4,235.25 | 88.80       | 85.20     | 15,466.81 | 14,265.53 |
| July          | 90.20       | 73.60    | 4,636.45 | 3,974.05 | 89.85       | 73.90     | 15,670.31 | 13,400.32 |
| August        | 92.90       | 72.80    | 4,732.35 | 4,387.90 | 93.20       | 72.85     | 15,924.23 | 14,784.92 |
| September     | 94.30       | 82.25    | 5,083.95 | 4,593.55 | 94.65       | 82.75     | 17,126.84 | 15,398.33 |
| October       | 88.20       | 76.25    | 5,142.15 | 4,711.70 | 88.70       | 76.30     | 17,326.01 | 15,896.28 |
| November      | 80.05       | 70.10    | 5,108.15 | 4,563.90 | 80.35       | 70.30     | 17,198.95 | 15,404.94 |
| December      | 93.75       | 83.05    | 5,201.05 | 4,952.60 | 93.85       | 83.45     | 17,464.81 | 16,601.20 |

The aforesaid table is based on the closing price of the shares of R Systems and closing of NSE Nifty and BSE Sensex at NSE and BSE website.



The aforesaid chart is based on the monthly low of closing price of the shares of R Systems and monthly low of closing NSE Nifty.



The aforesaid chart is based on the monthly low of closing price of the shares of R Systems and monthly low of closing BSE Sensex.

#### (vii) Registrar and Share Transfer Agent

M/s Link Intime India Private Limited  
A - 40, 2nd Floor,  
Naraina Industrial Area, Phase - II,  
Near Batra Banquet Hall,  
New Delhi - 110 028

#### (viii) Share Transfer System

Applications for transfer of shares held in physical form are received at the office of the registrar and share transfer agent of the Company, M/s Link Intime India Private Limited. They attend to share transfer formalities at least once a week and forward the same to R Systems for the Shareholders / Investors Grievance Committee's approval. In order to expedite the process of share transfers in physical mode, the members of the Shareholders / Investors Grievance Committee conduct their meetings more frequently, to the extent of weekly meetings of the Committee.

Shares held in dematerialised form are electronically traded in the depository and the registrar and share transfer agent of R Systems periodically receives from the depository the details of beneficiary holdings so as to update the records for sending all corporate communications and other matters.

Physical shares received for dematerialisation are processed and completed within a period of 21 days from the date of receipt, provided they are duly completed. Bad deliveries are immediately returned to the depository participants under advice to the shareholders.

**(ix) Transfer of unclaimed dividend to Investor Education and Protection Fund**

Pursuant to the provisions of Section 205A (5) of the Companies Act, 1956, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account, is required to be transferred by the Company to the Investor Education and Protection Fund ('IEPF'), established by the Central Government under the provisions of Section 205C of the Companies Act, 1956. Shareholders are advised to claim the unclaimed dividend lying in the unpaid dividend account of the Company before the due date. Given below are the dates of declaration of dividend and corresponding dates when unclaimed dividend is due for transfer to IEPF:

| Date of declaration / payment of dividend | Dividend for the year | Due date for transfer to IEPF |
|---|-----------------------|-------------------------------|
| May 01, 2007                              | 2006                  | May 31, 2014                  |
| May 02, 2008                              | 2007                  | June 01, 2015                 |
| April 27, 2009                            | 2008                  | May 27, 2016                  |

**(x) Distribution of Shareholding as on December 31, 2009**

| Shareholding of nominal value of (Rs.) | Shareholders  |               | Share Capital      |               |
|--|---------------|---------------|--------------------|---------------|
|  | Number        | % to total    | Amount in Rs.      | % to total    |
| 1 - 2,500                              | 19,822        | 90.29         | 12,916,790         | 10.49         |
| 2,501 - 5,000                          | 1,166         | 5.31          | 4,523,090          | 3.67          |
| 5,001 - 10,000                         | 516           | 2.35          | 4,065,330          | 3.30          |
| 10,001 - 20,000                        | 235           | 1.07          | 3,497,380          | 2.84          |
| 20,001 - 30,000                        | 56            | 0.26          | 1,429,020          | 1.16          |
| 30,001 - 40,000                        | 40            | 0.18          | 1,447,480          | 1.17          |
| 40,001 - 50,000                        | 26            | 0.12          | 1,227,500          | 1.00          |
| 50,001 - 1,00,000                      | 44            | 0.20          | 3,213,570          | 2.61          |
| Above 1,00,000                         | 49            | 0.22          | 90,848,700         | 73.76         |
| <b>TOTAL</b>                           | <b>21,954</b> | <b>100.00</b> | <b>123,168,860</b> | <b>100.00</b> |

**(xi) Category wise Shareholding as on December 31, 2009**

| Category | Category of Shareholder               | No. of shares    | Percentage   |
|----------|---------------------------------------|------------------|--------------|
| (A)      | <b>Promoters &amp; Promoter Group</b> |                  |              |
| 1        | Indian                                | 1,998,345        | 16.22        |
| 2        | Foreign                               | 3,743,948        | 30.40        |
|          | <b>Sub Total (A)</b>                  | <b>5,742,293</b> | <b>46.62</b> |

| Category   | Category of Shareholder   | No. of shares     | Percentage    |
|------------|---|-------------------|---------------|
| <b>(B)</b> | <b>Public Shareholding</b>  |                   |               |
| <b>1</b>   | <b>Institutions</b>   |                   |               |
| (a)        | Mutual Funds / UTI  | 700,000           | 5.68          |
| (b)        | Financial Institutions / Banks  | -                 | 0.00          |
| (c)        | Foreign Institutional Investors   | -                 | 0.00          |
|            | <b>Sub Total (B)(1)</b>   | <b>700,000</b>    | <b>5.68</b>   |
| <b>2</b>   | <b>Non-institutions</b>   |                   |               |
| (a)        | Bodies Corporate  | 1,468,015         | 11.92         |
| (b)        | Individual shareholders holding nominal share capital up to Rs. 1 lakh        | 2,891,987         | 23.48         |
| (c)        | Individual shareholders holding nominal share capital in excess of Rs. 1 lakh | 1,412,007         | 11.46         |
| (d)        | Any Other (Clearing Member)   | 26,961            | 0.22          |
| (e)        | Any Other (Trust)   | 75,623            | 0.61          |
|            | <b>Sub Total (B)(2)</b>   | <b>5,874,593</b>  | <b>47.70</b>  |
|            | <b>Total Public Shareholding (B)(1) + (B)(2)</b>                              | <b>6,574,593</b>  | <b>53.38</b>  |
|            | <b>Grand Total</b>  | <b>12,316,886</b> | <b>100.00</b> |

Please refer Directors' Report for details relating to buy-back.

**(xii) Dematerialisation of shares and liquidity**

About 70.60% of the shares were in dematerialised form as on December 31, 2009. The equity shares of the Company are traded on NSE and BSE.

**(xiii) Outstanding GDRs / ADRs / Warrants or any Convertible instruments, conversion date and likely impact on equity**

R Systems has not issued any GDRs / ADRs. There were no outstanding convertible warrants as on December 31, 2009, except stock options granted under the prevailing employee stock option plans / schemes, as detailed elsewhere in the Directors' Report.

**(xiv) Development Centres**

**1. Noida Office**

C - 40 & C - 1, Sector - 59, Noida (U.P.) - 201 307

**2. Pune Offices**

(a) S. No.303/2/2, Bavdhan (BK)  
Mumbai Bangalore Highway (Bypass)  
Pune - 411 021, Maharashtra

- (b) Survey No. 127, Plot A - 1,  
3rd & 5th Floor, Gopal House,  
Above Hotel Kimaya, Pune - 411 029

### 3. Chennai Office

Ground Floor, 141, Old Mahabalipuram Road,  
(Opposite YMCA Church) Chennai - 600 041

#### Development / Technical Support centres at the offices of R Systems subsidiaries

4. R Systems, Inc.  
5000, Windplay Drive, Suite 5,  
El Dorado Hills, CA 95762, U.S.A.
5. R Systems Solutions, Inc.  
Metro Annex Building 9, Suite B, 1193 West  
2400 South, West Valley City, UT 84119, U.S.A.
6. ECnet Limited  
17, Changi Business Park, Central 1, #05-01,  
Honeywell Building, Singapore 486073
7. R Systems Europe B.V.  
Brammelerstraat 8,  
7511 JG Enschede, The Netherlands
8. R Systems S.A.S.  
9, rue Thomas Edison, 57070 Metz, France

#### Other Offices of R Systems and its subsidiaries

9. U.S.A. Branch Office  
5000, Windplay Drive, Suite 5,  
El Dorado Hills, CA 95762, U.S.A.
10. EU Branch Office  
Brammelerstraat 8,  
7511 JG Enschede, The Netherlands
11. Japan Branch Office  
3 F, EverGreen Matsumoto Bldg.  
5 -15 Nihonbashi -Hakozakicho  
Chuo-KU, Tokyo 103-0015
12. U. K. Branch Office  
75, Westow Hill, London, SE 19 1 TX, U.K.
13. R Systems NV  
Diestseweg 32 C, B - 2440, Geel, Belgium
14. Indus Software, Inc.  
5000, Windplay Drive, Suite 5,  
El Dorado Hills, CA 95762, U.S.A.
15. R Systems (Singapore) Pte Limited  
17, Changi Business Park, Central 1, #05-01,  
Honeywell Building, Singapore 486073
16. ECnet (M) Sdn. Bhd.  
Level 12, Suite 12.05 Menara Summit,  
Persiaran Kewajipan, USJ1, 47600 UEP Subang Jaya,  
Selangor Darul Ehsan, Malaysia

17. ECnet, Inc.  
Corporation Trust Centre 1209 Orange Street,  
Wilmington, New Castle, DE 19801, U.S.A.
18. ECnet (Hong Kong) Limited  
Room 1903, 19/F, World-Wide House,  
19 Des Voeux Road Central, Hong Kong
19. ECnet Systems (Thailand) Company Limited  
2/3 Moo 14, Bangna Tower - A, 2nd Floor,  
Room No. 205 Bangna - Trad Rd. K.M. 6.5,  
Bangkaew, Bangplee, Samutprakarn,  
Thailand - 10540
20. ECnet Kabushiki Kaisha  
1-6-17 Godo Build. 6 F,  
Kaji-cho, Chiyoda-ku,  
Tokyo, Japan 101-0044
21. ECnet (Shanghai) Co. Ltd.  
Rm H, 20th Floor, Foresight Mansion, No. 768,  
Xie Tu Rd, Shanghai 200023,  
People's Republic of China

#### (xv) Address for correspondence

For any assistance regarding dematerialisation of shares, share transfers, transmissions, change of address, non-receipt of dividend or any other query relating to shares:

#### Registrar and Share Transfer Agent M/s Link Intime India Private Limited

A - 40, 2nd Floor,  
Naraina Industrial Area, Phase - II,  
Near Batra Banquet Hall,  
New Delhi - 110 028  
Phone : 011 - 414 10592, 93, 94 Fax : 011 - 414 10591  
For general correspondence:

#### R Systems International Limited Corporate Office

C - 40, Sector - 59,  
Noida (U.P.) - 201 307  
Email : investors@india.rsystems.com  
Phone : 0120 - 430 3500, Fax : 0120 - 258 7123

#### CODE OF CONDUCT DECLARATION

I, Satinder Singh Rekhi, Chairman and Managing Director of R Systems International Limited, to the best of my knowledge and belief, hereby declare that all the Board members and senior management personnel have affirmed compliance with the Company's Code of Conduct for the year ended December 31, 2009.

Sd/-

Place : Singapore

**Satinder Singh Rekhi**

Date : April 10, 2010

(Chairman and Managing Director)

## **CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER OF R SYSTEMS INTERNATIONAL LIMITED**

We, Satinder Singh Rekhi, Chairman and Managing Director and Shankar Seetharaman, Chief Financial Officer, hereby certify that:

- (a) We have reviewed the financial statements and the cash flow statement of the Company for the year ended December 31, 2009 and that to the best of our knowledge and belief:
- (i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - (ii) these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- (b) There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's Code of Conduct.
- (c) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- (d) We have indicated wherever applicable, to the auditors and to the Audit Committee
- (i) significant changes in internal control over financial reporting during the year;
  - (ii) significant changes in accounting policies during the year, if any, and that the same have been disclosed in the notes to the financial statements; and
  - (iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

**Sd/-**  
**Satinder Singh Rekhi**  
(Chairman and Managing Director)  
Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

**Sd/-**  
**Shankar Seetharaman**  
(Chief Financial Officer)  
Place : NOIDA  
Date : February 21, 2010

## **CORPORATE GOVERNANCE COMPLIANCE CERTIFICATE**

To,  
The Members  
R Systems International Limited  
B - 104A, Greater Kailash - I,  
New Delhi - 110 048

We have examined all relevant records of R Systems International Limited (the "Company") for the purpose of certifying compliance of the conditions of Corporate Governance under Clause 49 of the Listing Agreement with National Stock Exchange of India Limited and Bombay Stock Exchange Limited (the "Stock Exchanges") for the financial year ended December 31, 2009. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of certification.

The compliance of the conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to the procedures and implementation thereof. This certificate is neither an assurance as to the future viability of the Company, nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in abovementioned Listing Agreement with the Stock Exchanges and that no investor complaints / grievances remain unattended for a period exceeding 21 days against the Company.

For SKP & Co.,  
Company Secretaries

**Sd/-**  
**(CS. Sundeep Kumar Parashar)**  
Prop.  
Membership No. FCS 6136  
Certificate of Practice No. 6575

Place : Delhi  
Date : April 10, 2010

# Management's Discussion and Analysis

## OVERVIEW

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, guidelines issued by the Securities and Exchange Board of India (SEBI) and Generally Accepted Accounting Principles (GAAP) in India as notified under Accounting Standards by Companies (Accounting Standards) Rules, 2006, (as amended). The management accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgments used therein. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, so that the financial statements reflect in a true and fair manner the form and substance of transactions, and reasonably present the state of affairs, profits and cash flows for the year.

### A. INDUSTRY STRUCTURE AND DEVELOPMENTS

A worldwide economic recession during the year 2009 created the most challenging business environment for entire IT & ITES industry including R Systems. Based on NASSCOM's Strategic Review 2010, the year 2009 ushered turbulence, with countries around the world plunging into the recession. The housing bubble burst, followed by the financial crisis creating a domino effect that, but, brought the world to a standstill.

Overcoming these challenges requires deeper understanding of changing demand outlook, customer conversations and requirements to build in greater efficiencies and flexibility within the service delivery and the business models. While the industry displayed tenacity and resilience, it also commenced its journey to achieve its aspirations in view of the altered landscape. It commenced working on its agenda to diversify beyond core offerings and markets through new business and pricing models, specialise to provide end-to-end service offerings with deeper penetration across verticals, transform the process delivery through re-engineering and enabling technology, innovate through research and development and drive inclusive growth in India by developing targeted solutions for the domestic market. All these measures, along with India's game changing value proposition have helped India widen its leadership position in the global sourcing market.

The advent of 2010 has signaled the revival of outsourcing within core markets, along with the emerging markets increasingly adopting outsourcing for enhanced competitiveness. Key demand indicators in the last two quarters such as increased deal

flow, volume growth, stable pricing, and faster decision making has made the industry post good results. Though full recovery is expected in another two quarters, development of new growth levers, improved efficiency and changing demand outlook signifies early signs of recovery.

### B. COMPANY OVERVIEW

R Systems International Limited (the "Company") and its subsidiaries (collectively referred to as "R Systems") is one of the leading providers of outsourced product development and customer support services. R Systems diversified offering includes:

#### iPLM Services Group

R Systems help companies accelerate the speed to market for their products and services with a high degree of time and cost predictability by using our proprietary pSuite framework. Clients can choose services specific to their needs from R Systems' **iPLM** suite of services. R Systems help companies build scalable, configurable and secure products and applications; and help its clients to support their customers worldwide for products and services using our global delivery model in 18 languages. R Systems competitive advantage in product development and support is further enhanced by its global delivery capabilities, multi-language support capabilities and agile development methodologies supported by R Systems' proprietary pSuite framework.

#### Products Group

 **Indus**® Lending solutions is a modular and parameter driven, n-tier application that helps to automate the Customer Acquisition Lifecycle for multiple retail products offered through multiple business channels. It allows customers to launch new products and schemes; change rules on-the-fly and customize product offerings based on their individual needs. The product is equipped with tools to evaluate risk and improve decision-making. It will track the repayment schedules of the customer and can come with a powerful customer-servicing module. During the year 2009, R Systems expanded Indus product from BFSI verticals to new vertical like Telecom and Insurance through different systems integrator. R Systems has over 30 referable clients that include world class banks and financial institutions and installations at major telecom companies in India. Some of the world's largest systems integrators who have chosen our

product suite as a part of their larger solution stack.

**ECnet** Supply Chain products provide solutions for holistic management of the complex interaction between an organisation and its trading partners. The integrated solution aims to reduce all supply chain costs through improved collaboration and optimisation. The solutions are robust and scalable and give measurable ROI to clients within one year. R Systems has over 25 global manufacturing companies as referable clients.

Further, ECnet also operates as a channel partners for reselling and implementing several products relating to warehousing, inventory management and supply chain of one of the largest business software company to serve customers in a key customer segment: Small- to medium-sized businesses. These products present an opportunity to cross and up sell these solutions since these are adjunct to ECnet's own product offerings.

R Systems rapidly growing customer list includes a variety of Fortune 1000, government and mid-sized organisations across a wide range of industry verticals including Banking and Finance, High Technology and Independent Software Vendors, Government, Health Care, Manufacturing, Telecom, Insurance and Logistic Industries. R Systems maintains eight development and technical support centres and using its global delivery model R systems serve customers in the US, Europe, South America, the Far East, the Middle East and Africa.

### C. OPPORTUNITIES AND THREATS

Based on the NASSCOM's Strategic Review 2010, IT services is expected to grow by 2.4 per cent in 2010, and 4.2 per cent in 2011 as companies coming out of recession harness the need for information technology to create competitive advantage. Organisations now recognize IT's contribution to economic performance extending beyond managing expenditures. They expect IT to play a role in reducing enterprise costs, not merely with cost cutting but by changing business processes, workforce practices and information use. Movement toward SaaS and cloud computing, shared services, and more selective outsourcing will take firmer shape as near-term priorities to address constrained IT budgets.

Business process outsourcing spending in 2010 is expected to be increasingly driven by F&A segment and procurement, followed

by HR outsourcing. Providers will increase their focus on developing platform BPO solutions across verticals and services.

Growth in outsourcing is expected to supersede overall IT spend reaffirming its potential to not only support short term, tactical goals of cost savings, but also long term advantages of increased competitiveness, efficiencies and access to emerging markets. Within outsourcing, offshoring will see increased acceptance as offshore based providers grow and traditional service providers ramp up offshore delivery capabilities. Even though India has a 51 per cent market share of the offshoring market, there is tremendous headroom for growth as current offshoring market is still a small part of the outsourcing industry. Significant opportunities exist in core vertical and geographic segments of BFSI and US, and emerging geographies and vertical markets such as Asia Pacific, retail, healthcare and government respectively. Development of these new opportunities can triple the current addressable market, and can lead to Indian IT-BPO revenues of USD 225 billion by 2020.

Key global sourcing drivers will continue to be cost optimisation, access to talent, business improvements, efficiency, increasing speed-to-market and access to emerging markets. The future outlook for all these drivers is positive, leading to increased momentum for global sourcing.

R Systems is well positioned to leverage the following factors which are key to its differentiated strategy for growth in the marketplace:

- Long term relationship with world class clients including global 1000 companies;
- Core competency and deep domain knowledge in iPLM services, Indus loan origination and collection product and ECnet supply chain management product;
- Global delivering capabilities through eight development and technical support centres in India, USA, Singapore, Netherlands and France to provide technical support and customer care in 18 languages;
- Adherence to the highest quality certification for our development processes, delivery models and security infrastructure such as ISO 9001 : 2000, SEI-CMMi level 5, ISO 27001 : 2005;

- Industry best human resource practices such as PCMM level 5, to attract, develop, deploy and retain talent;
- Strong financial position as on December 31, 2009 as reflected by shareholders fund of Rs. 16,739.29 lakhs and cash and bank balance of Rs. 8,719.75 lakhs.

Despite the strengths of R Systems, the market is competitive and the Company has to reckon with threats from competitors including their disruptive tactics, intense demand for global talent, attrition of employees, adverse changes in foreign currency rates, changes in Government policies related to restrictions to outsource services to other countries and speed of recovery from the global recession. R Systems is cognizant of risks and uncertainties which are managed proactively through risk mitigation processes and strategies.

#### **D. SEGMENT-WISE AND PRODUCT-WISE PERFORMANCE**

Detailed information about segment-wise and product-wise performance has been given in the Consolidated Financial Statements. Refer Consolidated Financial Statements – Schedule 18: Notes to accounts.

#### **E. PERFORMANCE AND OUTLOOK**

R Systems' financial performance during the year 2009 was impacted by global recession. R Systems earned consolidated revenues of Rs. 32,752.52 lakhs, a year on year (YoY) decline of 8.87% over FY 2008.

During the year, R Systems technical support business in the US and Europe was severely affected by loss of 3 key customers. Consequently the management has assessed that there is impairment of goodwill recognized in the books on acquisition of R Systems Solutions, Inc., (USA), R Systems Europe B.V., (The Netherlands) and R Systems S.A.S., (France) and has impaired the goodwill amounting to Rs. 2,087.14 lakhs. Excluding above mentioned one time goodwill impairment, net consolidated profits for the year 2009 were Rs. 2,859.18 lakhs as against net profit of Rs. 2,796.64 lakhs during the year 2008.

After providing goodwill impairment, net consolidated profits during the year 2009 were Rs. 772.04 lakhs, a YoY decline of 72.39%. The basic earnings decreased to Rs. 6.09 per share, a YoY 70.43% from the previous year's Rs. 20.61 per share.

During the year 2009, R Systems had undertaken certain cost optimisation measures in time to adjust its cost structure to a challenging business environment and preserve its margins. The cash and bank balances as at December 31, 2009 have increased to Rs. 8,719.75 lakhs from Rs. 6,364.38 lakhs mainly due to cash generated during the year 2009 from operating activities offset

by cash utilized for share buy-back of Rs. 729.69 lakhs.

R Systems is well positioned to deal with near term challenges and emerge stronger to enhance shareholder wealth through its deep domain knowledge in core verticals, proven global delivery model, rigorous execution, and excellent roster of clients and highly driven and talented pool of employees.

#### **F. RISK AND CONCERNS**

At R Systems risk management is a dynamic process with an attempt to constantly identify all the emerging risks and propose solutions to manage these. This is explained in detail in Risk Management Report.

#### **G. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

R Systems has adequate internal control systems and procedures commensurate with its size and nature of business. All areas of the Company's operations are covered by such internal control systems including revenue from rendering services and sale of software, purchase of fixed assets and other equipments, treasury management, compliances, expenditures such as payroll, travel, utility expenses, insurance etc. An Independent firm of Chartered Accountants has been appointed as the Internal Auditors of the Company for all the business units in India and the Audit Committee has considered their reports and accepted their recommendations; wherever feasible the same have been implemented.

Further, R Systems has taken the initiative to have critical non financial areas such as security infrastructure, quality models, development processes and delivery models reviewed and certified by independent organisations. R Systems has continued its investment in organisation behavior and management processes to ensure that these certified industry standards are continually adhered to. As on the date of this report, Noida IT centre is ISO 9001 : 2000, SEI-CMMi level 5, ISO 27001 : 2005 and PCMM Level 5 certified; Noida BPO centre is ISO 9001 : 2000, ISO 27001 : 2005 and PCMM Level 5 certified. Pune and Chennai development centres are SEI-CMM Level 5, ISO 9001 : 2008 and ISO 27001 : 2005 certified.

The continuing compliance with these standards demonstrates the rigor of R Systems processes and differentiates us to keep our competitive edge in service offering.

#### **H. MATERIAL DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED.**

Our employees are most precious assets and we value their commitment in building R Systems. In the IT and ITES industry

attracting, developing, deploying and retaining talent is critical and R Systems has defined and implemented a People Management Initiative which is in line with industry best practices and People CMM. It effectively manages the Employee Life Cycle so that the individuals are committed, have pride and show pro-activeness on the job.

Our global development and service centre in Noida has been assessed as PCMM Level 5 certification by KPMG during the year 2009. With this assessment, R Systems joins an elite group of companies across the globe.

Further, R Systems has been ranked 6<sup>th</sup> in 'IT Best Employer' Survey 2009 by DATAQUEST. It reflects our commitment and efforts to provide industry best work environment and work culture to enhance work satisfaction and the robustness of our HR systems and processes.

R Systems concluded the year 2009 with 2,048 associates including 343 sales and support staff.

## I. DISCUSSION ON FINANCIAL POSITION AND FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

### Analysis and Discussions of Consolidated Financial Position as on December 31, 2009

#### 1. Share Capital

(Rs. in lakhs)

| Particulars  | As on December 31, |          |
|--|--------------------|----------|
|  | 2009               | 2008     |
| Authorised Share Capital                               | <b>2,000.00</b>    | 2,000.00 |
| Issued, Subscribed & Paid up Capital                   | <b>1,343.64</b>    | 1,358.27 |
| Less: Equity shares buy back during the year           | <b>111.95</b>      | 13.27    |
| Less: Share Suspense Account                           | -                  | 1.36     |
|  | <b>1,231.69</b>    | 1,343.64 |
| Less: Advance to Indus Software Employee Welfare Trust | <b>7.39</b>        | 7.39     |
| <b>Total</b>   | <b>1,224.30</b>    | 1,336.25 |

R Systems has only one class of shares i.e. equity shares of par value of Rs. 10 each. R Systems authorised share capital is Rs. 2,000 lakhs, divided into 200 lakhs equity shares of Rs. 10 each and remained unchanged from the previous year 2008.

During the year 2008, the Board of Directors of R Systems had approved a buy-back of the equity shares from the open market not exceeding 1,306,941 equity shares at a maximum price of Rs. 150 per share subject to a maximum

of Rs. 800 lakhs.

Under the Buy-back programme, the Company had bought back 1,265,820 equity shares up to August 27, 2009 inclusive of payout formalities (including 146,346 equity shares up to December 31, 2008) at an average price of Rs. 63.20 per share for an aggregate amount of Rs. 800 lakhs by utilising the Securities Premium Account to the extent of Rs. 673.42 lakhs and General Reserve to the extent of Rs. 126.58 lakhs. The Capital Redemption Reserve has been created out of General Reserve for Rs. 126.58 lakhs being the nominal value of equity shares bought back in terms of Section 77AA of the Companies Act, 1956. The Offer for Buy Back has been successfully completed on August 27, 2009

The issued, subscribed and paid up capital was Rs. 1,224.30 lakhs as on December 31, 2009 as compared to Rs. 1,336.25 lakhs as on December 31, 2008 after adjusting Rs. 7.39 lakhs advance to Indus Software Employee Welfare Trust in compliance with guidance note issued by the Institute of Chartered Accountant of India.

During the year 2009, there was no new grant / exercise under any of the existing R Systems' Employee Stock Option Plan / Scheme (ESOP). Detailed information about the movements in ESOP plan has been given in Consolidated Financial Statement. Refer Consolidated Financial Statement – Schedule 18: Notes to accounts.

#### 2. Reserves and Surplus

(Rs. in lakhs)

| Particulars                          | As on December 31, |           |
|--------------------------------------|--------------------|-----------|
|                                      | 2009               | 2008      |
| Capital Redemption Reserve           | <b>126.58</b>      | 14.63     |
| Securities Premium Account           | <b>9,120.63</b>    | 9,738.37  |
| Capital Reserve                      | <b>0.32</b>        | 0.32      |
| General Reserve                      | <b>381.82</b>      | 428.25    |
| Profit and Loss Account              | <b>5,753.25</b>    | 5,384.21  |
| Foreign Currency Translation Reserve | <b>132.40</b>      | 263.23    |
| <b>Total</b>                         | <b>15,515.00</b>   | 15,829.01 |

The movement in the various components of Reserve and Surplus during the year 2009 is discussed below:-

##### (a) Capital Redemption Reserve

During the year 2009, R Systems transferred Rs. 111.95 lakhs from General Reserve to Capital Redemption Reserve Account, which represents the nominal value of shares bought back.

**(b) Securities Premium Account**

The movement of Rs. 617.74 lakhs in the Share Premium Account during the year 2009 was on account of amount paid for the buy-back of shares in excess of their face value.

**(c) Capital Reserve**

There was no movement in the capital reserve during the year 2009.

**(d) General Reserve**

The General Reserve as on December 31, 2009 was Rs. 381.82 lakhs as compared to Rs. 428.25 lakhs as on December 31, 2008. During the year 2009, the General Reserve decreased by Rs. 46.43 lakhs due to transfer of Rs. 111.95 lakhs to Capital Redemption Reserve representing the nominal value of share bought back as offset by increase of Rs. 65.52 lakhs as a result of transfer of profit on recommendation of dividend of Rs. 2.40 per share by the Board of Directors.

**(e) Profit and Loss Account**

The balance in the Profit and Loss Account as on December 31, 2009 was Rs. 5,753.25 lakhs as compared to Rs. 5,384.21 lakhs as on December 31, 2008. The increase was due to transfer of current year profits net of appropriations amounting to Rs. 369.04 lakhs.

**(f) Foreign Currency Translation Reserve**

The Foreign Currency Translation Reserve decreased during the year 2009 by Rs. 130.83 lakhs mainly as a result of the sharp appreciation of Rupee against US\$ and other foreign currencies on consolidation of overseas subsidiaries.

**3. Secured Loans**

The total amount of secured loans (including finance lease obligations) was Rs. 145.20 lakhs as on December 31, 2009 compared to Rs. 325.65 lakhs as on December 31, 2008. The decrease in secured loans was mainly attributable to positive balance in cash credit facilities as on December 31, 2009 and repayment of finance lease loan obligations during the year 2009.

**4. Deferred Tax Liability (net)**

The deferred tax liability as on December 31, 2009 was Rs. 450.78 lakhs as against Rs. 406.50 lakhs as on December 31, 2008 which was attributable to timing differences in

book base and tax base of fixed assets. Further, the deferred tax asset was Rs. 240.15 lakhs as on December 31, 2009 as against Rs. 237.73 lakhs as on December 31, 2008 as a result of timing differences on provision for long term compensated absences and gratuity. The net deferred tax liability increased from Rs. 168.77 lakhs in 2008 to Rs. 210.63 lakhs in 2009.

**5. Fixed Assets**

The gross block of fixed assets as on December 31, 2009 decreased to Rs. 10,950.04 lakhs as against Rs. 12,175.51 lakhs as on December 31, 2008. The additions to fixed assets were Rs. 1,257.52 lakhs and deletion or adjustments were Rs. 2,482.99 lakhs during the year.

The additions in gross block were mainly on account of purchases of new computer hardware, software and networking equipments.

Deletions or adjustments during the year were mainly on account of impairment of goodwill amounting to Rs. 2,087.14 lakhs.

Capital work-in-progress ("Capital WIP") increased to Rs. 176.04 lakhs as on December 31, 2009 from Rs. 32.13 lakhs as on December 31, 2008. The increase in Capital WIP was mainly due to upgrade of R systems third module of Loan Management System (LMS) which was shown under Capital WIP as on December 31, 2009.

The estimated amount of contracts remaining to be executed on capital account and not provided for as on December 31, 2009 was Rs. 3.92 lakhs as against Rs. 8.33 lakhs as on December 31, 2008.

**6. Investments**

There was no change in the value of investment of Rs. 0.25 lakhs as on December 31, 2008 and December 31, 2009.

**7. Sundry Debtors**

Sundry debtors (net of provisions) decreased from Rs. 7,902.21 lakhs as on December 31, 2008 to Rs. 4,965.17 lakhs as on December 31, 2009. The decrease in debtors was primarily on account of decline in sales volume during the year 2009.

The days sales outstanding ("DSO") measured by average net trade receivables divided by net credit sales for the year 2009 was 68 days as against 67 days for 2008.

## 8. Cash and Bank Balance

Cash and bank balance, including bank deposits, as on December 31, 2009 was Rs. 8,719.75 lakhs as against Rs. 6,364.38 lakhs as on December 31, 2008. Increase in cash and bank balance was mainly on account of cash generated from operations. The cash and bank balance per share as on December 31, 2009 was Rs. 71.22 as against Rs. 47.63 as on December 31, 2008. The treasury policy of R Systems is to invest surplus funds with highly rated banking institutions at minimal risk with short and medium term maturities depending on future requirement of funds.

## 9. Other Current Assets

The main components of other current assets consist of unbilled revenue and accrued interest on deposits. Unbilled receivables are stated net of anticipated costs for completion, and constitute amounts not billed to customers at the end of each accounting period, and which are expected to be billed in due course in accordance with the contracts with the customers.

The other current assets increased to Rs. 1,910.30 lakhs as on December 31, 2009 from Rs. 1,458.93 lakhs as on December 31, 2008. The increase in other current assets was mainly on account of increase in unbilled revenue and interest accrued on deposit by Rs. 303.90 lakhs and Rs. 147.26 lakhs respectively.

## 10. Loans and Advances

Loans and advances are short term loans advanced during the course of business recoverable in cash or kind or value to be received. The total loans and advances net of provisions for unrecoverable advances as on December 31, 2009 were Rs. 1,784.72 lakhs compared to Rs. 981.39 lakhs as on December 31, 2008. The increase in loans and advances was mainly on account of increase in Minimum Alternative Tax (MAT) credit and Mark-to-market value of outstanding forward contracts by Rs. 426.78 lakhs and Rs. 191.10 lakhs respectively.

## 11. Current Liabilities

Current liabilities are liabilities likely to become due for payment within a period of twelve months. The total current liabilities of R Systems as on December 31, 2009 were Rs. 3,680.32 lakhs as against Rs. 4,524.07 lakhs as on December 31, 2008. The decrease in current liabilities was mainly on account of provision for mark-to-market loss of Rs. 467.59 lakhs on outstanding forwards as on December

31, 2008, decrease in deferred revenue by Rs. 260.10 lakhs and payout of deferred compensation to the erstwhile shareholders of R Systems Solutions, Inc.

## 12. Provisions

During the year 2009, the provisions decreased to Rs. 1,907.45 lakhs as against Rs. 1,989.34 lakhs as on December 31, 2008. This was mainly on account of decrease in provisions for long term compensated absences and gratuity as a result of decline in headcount during the year 2009 which was offset by increase in net income tax provision as on December 31, 2009.

## 13. Liquidity

The consolidated cash and cash equivalent as on December 31, 2009 were Rs. 3,093.04 lakhs as against Rs. 2,043.89 lakhs as on December 31, 2008.

Net cash generated from operating activities was Rs. 4,326.48 lakhs for the year ended December 31, 2009 compared to Rs. 2,933.52 lakhs for the year ended December 31, 2008. Cash flow generated from operating activities is the significant source of funding for investing and financing activities of R Systems.

During the year, R Systems invested Rs. 951.94 lakhs in purchase of fixed assets. R Systems paid Rs. 75.83 lakhs as deferred payments compensation to the erstwhile shareholders of R Systems Solutions, Inc., The interest received during the year 2009 was Rs. 305.66 lakhs as against Rs. 310.54 lakhs during the year 2008.

R Systems invested its surplus cash generated from operation amounting to Rs. 690.67 lakhs in fixed deposits during the year 2009.

Cash used in financing activities during the year 2009 was Rs. 1,910.03 lakhs mainly due to buyback of shares amounting to Rs. 729.69 lakhs, increase in margin money deposits by Rs. 622.50 lakhs, payment of Rs. 27.99 lakhs as interest on the borrowings, payment of Rs. 309.28 lakhs and Rs. 52.65 lakhs respectively for the dividend & dividend distribution tax for the year 2008.

Our policy is to maintain sufficient liquidity to fund the anticipated capital expenditures, operational expenses and investments for strategic initiatives.

Pursuant to initial public offer the Company collected Rs. 7,062.50 lakhs (net of selling shareholders' proceeds). The break-down of utilisation of IPO funds are as follows:

(Rs. in lakhs)

| Objects   | Total Estimated Project Cost* | Amount incurred till December 31, 2009 | Amount incurred till December 31, 2008 |
|---|-------------------------------|--|--|
| Upgrading and expansion of existing infrastructure* | 2,299.93                      | 2,299.93                               | 2,299.93                               |
| Repayment of outstanding loans                      | 365.50                        | 365.50                                 | 365.50                                 |
| Financing general working capital requirements      | 1,795.10                      | 1,795.10                               | 1,746.24                               |
| General corporate purposes*                         | 1,590.60                      | 586.20                                 | 586.20                                 |
| Meeting offer expenses *                            | 1,011.37                      | 1,011.37                               | 1,011.37                               |
| <b>Total</b>  | <b>7,062.50</b>               | <b>6,058.10</b>                        | <b>6,009.24</b>                        |

\* The Company had obtained an approval from its shareholders at the annual general meeting held on May 2, 2008 for reallocation in the estimated project cost among above mentioned heads.

Pending utilisation, balance funds as on December 31, 2009 have been invested in fixed deposit with nationalised banks.

Further, the Company is seeking approval from the shareholders at the ensuing annual general meeting for extension of time up to June 30, 2012 for utilisation of balance un-utilised proceeds of the initial public offer.

## ANALYSIS AND DISCUSSIONS OF CONSOLIDATED OPERATING PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2009

The following section discusses in detail the composition of different items in the consolidated profit and loss account of R Systems.

The following table sets forth certain financial information as a percentage of total income for the years ended December 31, 2009 and 2008 as indicated:

(Rs. in lakhs)

|                              | Year ended December 31, 2009 | % of Total income | Year ended December 31, 2008 | % of Total income | Change %      |
|------------------------------|------------------------------|-------------------|------------------------------|-------------------|---------------|
| <b>Income</b>                |                              |                   |                              |                   |               |
| Operating income             | 32,752.52                    | 97.60             | 35,939.23                    | 98.49             | (8.87)        |
| Other income                 | 804.22                       | 2.40              | 549.43                       | 1.51              | 46.37         |
| <b>Total income</b>          | <b>33,556.74</b>             | <b>100.00</b>     | <b>36,488.66</b>             | <b>100.00</b>     | <b>(8.04)</b> |
| <b>Expenditure</b>           |                              |                   |                              |                   |               |
| Personnel expenses           | 20,296.51                    | 60.48             | 21,645.03                    | 59.32             | (6.23)        |
| Operating and other expenses | 8,669.55                     | 25.84             | 10,561.95                    | 28.95             | (17.92)       |
| Depreciation / amortisation  | 1,348.18                     | 4.02              | 1,156.90                     | 3.17              | 16.53         |
| Goodwill impairment          | 2,087.14                     | 6.22              | -                            | -                 | -             |
| Financial expenses           | 102.63                       | 0.31              | 123.02                       | 0.34              | (16.57)       |
| <b>Total Expenditure</b>     | <b>32,504.01</b>             | <b>96.86</b>      | <b>33,486.90</b>             | <b>91.77</b>      | <b>(2.94)</b> |

|                              | Year ended 31, 2009 | % of Total income | Year ended December 31, 2008 | % of Total income | Change % |
|------------------------------|---------------------|-------------------|------------------------------|-------------------|----------|
| <b>Net profit before tax</b> | <b>1,052.73</b>     | <b>3.14</b>       | 3,001.76                     | 8.23              | (64.93)  |
| Current tax (net)            | 229.16              |                   | 200.83                       |                   |          |
| Deferred tax                 | 41.85               |                   | (75.52)                      |                   |          |
| Fringe benefit tax           | 9.68                |                   | 79.80                        |                   |          |
| <b>Total tax expense</b>     | <b>280.69</b>       | <b>0.84</b>       | 205.11                       | 0.56              | 36.85    |
| <b>Net profit after tax</b>  | <b>772.04</b>       | <b>2.30</b>       | 2,796.65                     | 7.66              | (72.39)  |

### 1. Income

#### (a) Operating Income

R Systems derives operating income principally from software development & customisation services and business process outsourcing services. Operating income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

During the year 2009, operating income decreased by 8.87% to Rs. 32,752.52 lakhs compared to Rs. 35,939.23 lakhs in the year 2008 which reflects the impact of global downturn on R Systems.

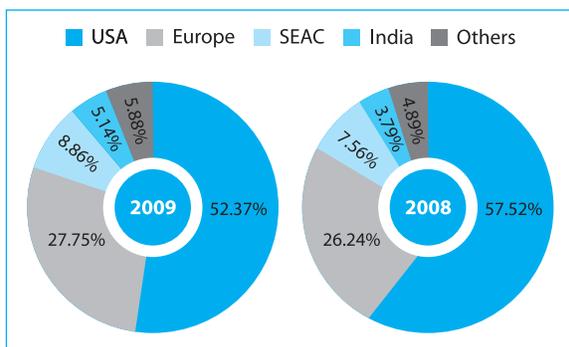
Revenue break up percentage from Software development & customisation services and business process outsourcing services during year ended December 31, 2009 and 2008 is as follows:

(Rs. in lakhs)

|   | Year ended December 31, 2009 | %             | Year ended December 31, 2008 | %             | Change %      |
|---|------------------------------|---------------|------------------------------|---------------|---------------|
| Software development & customisation services | 24,473.95                    | 74.72         | 25,656.21                    | 71.39         | (4.61)        |
| Business process outsourcing services         | 8,278.57                     | 25.28         | 10,283.02                    | 28.61         | (19.49)       |
| <b>Total</b>                                  | <b>32,752.52</b>             | <b>100.00</b> | <b>35,939.23</b>             | <b>100.00</b> | <b>(8.87)</b> |

The decrease in revenue from business process outsourcing services was mainly on account of loss of 3 customers in the technical support operations in USA and Europe.

R Systems earns income from five principal geographic territories, namely the United States of America, Europe, South East Asian countries ("SEAC"), India and others. A significant proportion of the revenues were derived from clients located in the United States of America. The geographic break-down of the income is given below:



The breakdown of R Systems revenue on the basis of client concentration for the year 2009 and 2008 is as follows:



R Systems derives over 94% of revenues from exports or consolidation of overseas subsidiaries. Fluctuation in the value of currencies vis-à-vis Rupee affects the revenues of R Systems when the revenues are reported in Rupees. During the year under review there was a wide fluctuation in INR against the USD and other currencies. To illustrate, the largest impact has been from the fluctuation in USD. The average rate of USD v/s Rupee was Rs. 48.27 in the year 2009 compared to Rs. 43.81 in the year 2008 which had impacted positively in our operating income in rupee term during the year ended 2009.

#### (b) Other Income

Other income amounted to Rs. 804.22 lakhs during the year 2009 as compared to Rs. 549.43 lakhs in 2008. During the year under review other income primarily comprised of the following:

- Interest income on deposits with banks of Rs. 517.22 lakhs.
- Provision for doubtful debts and advances written back: Rs. 263.32 lakhs as a result of realisation of debts earlier considered as doubtful.
- Write back of miscellaneous provisions no longer required Rs. 4.06 lakhs.
- Miscellaneous income of Rs. 19.62 lakhs.

## 2. Expenditures

### (a) Personnel Expenses

Personnel expenses consist primarily of salaries, wages, bonus, commissions, perquisites, provision for long term compensated absences, gratuity benefits, contribution towards provident and other funds and staff welfare expenses.

Personnel expenses decreased from Rs. 21,645.03 lakhs in the year 2008 to Rs. 20,296.51 lakhs in the year 2009. The decrease was mainly on account of reduction in head counts during the year as a corrective measure to cater the steep decline in business volumes. As a percentage of total income, personnel expenses increased from 59.32 % in the year 2008 to 60.48 % in the year 2009.

### (b) Operating and Other Expenses

Operating and other expenses includes expenses on traveling and conveyance, legal and professional expenses including sub-contractors costs and audit fees, recruitment and training, communication, provision for doubtful debts and advances, loss on impairment of investment, loss on exchange fluctuation, rent of premises, equipment rental, repairs and maintenance, commission, insurance premium and other miscellaneous items.

Operating expenses decreased by Rs. 1,892.40 lakhs or 17.92% to Rs. 8,669.55 lakhs in 2009 from Rs. 10,561.95 lakhs in 2008.

The components and movements of operating expenses as a percentage of total income are explained below:

(Rs. in lakhs)

|   | Year Ended<br>December<br>31, 2009 | % of<br>Total<br>income | Year Ended<br>December<br>31, 2008 | % of<br>Total<br>income | Change<br>%    |
|---|------------------------------------|-------------------------|------------------------------------|-------------------------|----------------|
| <b>Income</b>   |                                    |                         |                                    |                         |                |
| Operating income  | 32,752.52                          | 97.60                   | 35,939.23                          | 98.49                   | (8.87)         |
| Other income  | 804.22                             | 2.40                    | 549.43                             | 1.51                    | 46.37          |
| <b>Total income</b>   | <b>33,556.74</b>                   | <b>100.00</b>           | <b>36,488.66</b>                   | <b>100.00</b>           | <b>(8.04)</b>  |
| <b>Operating and other expenses</b>                             |                                    |                         |                                    |                         |                |
| Travelling and conveyance                                       | 1,951.02                           | 5.81                    | 2,334.32                           | 6.40                    | (16.42)        |
| Legal and professional expenses including audit fees            | 2,784.05                           | 8.30                    | 3,491.70                           | 9.57                    | (20.27)        |
| Communication costs   | 712.90                             | 2.12                    | 706.09                             | 1.94                    | 0.96           |
| Repair and maintenance  | 559.60                             | 1.67                    | 537.78                             | 1.47                    | 4.06           |
| Rent - premises and equipments                                  | 911.53                             | 2.72                    | 915.44                             | 2.51                    | (0.43)         |
| Provision for doubtful debts and advances and debts written off | 541.22                             | 1.61                    | 396.36                             | 1.09                    | 36.55          |
| Recruitment and training expenses                               | 136.41                             | 0.41                    | 222.16                             | 0.60                    | (38.60)        |
| Power and fuel  | 415.39                             | 1.24                    | 368.23                             | 1.01                    | 12.81          |
| Advertising and sales promotion                                 | 116.92                             | 0.35                    | 151.41                             | 0.41                    | (22.78)        |
| Loss on sale / discard of fixed assets (net)                    | 21.09                              | 0.06                    | 60.35                              | 0.17                    | (65.06)        |
| Loss on impairment of investment                                | -                                  | -                       | 133.45                             | 0.37                    | (100.00)       |
| Loss on exchange fluctuation (net)                              | 56.86                              | 0.17                    | 745.00                             | 2.04                    | (92.37)        |
| Others  | 462.57                             | 1.38                    | 499.67                             | 1.37                    | (7.43)         |
| <b>Total operating expense</b>                                  | <b>8,669.55</b>                    | <b>25.84</b>            | <b>10,561.95</b>                   | <b>28.95</b>            | <b>(17.92)</b> |

Decrease in operating expenses such as travelling, legal and professional charges including subcontracting expenses and audit fees, advertisement and sales promotion, recruitment and training expenses were mainly on account of our efforts to resize our operations to present business environment to tackle with the decline in business volumes.

Decrease in exchange loss from Rs. 745.00 lakhs during the year 2008 to Rs. 56.86 lakhs during the year 2009 was mainly on account of decrease in mark-to-market loss on forward contract by Rs. 655.16 lakhs i.e. mark-to-market gain of Rs. 191.10 lakhs in the year 2009 as against mark-to-market loss of Rs. 464.06 lakhs in the year 2008.

During the year 2008, R Systems reassessed the market

value of its current investments after a financial evaluation and provided for a loss of Rs. 133.45 lakhs.

#### (c) Depreciation / Amortisation

The depreciation provided for the year 2009 was Rs. 1,348.18 lakhs as against Rs. 1,156.90 lakhs for 2008 representing 4.02% and 3.17% of respective total income. The increase in depreciation was primarily due to incremental depreciation over capitalisation of fixed assets during the year 2009.

#### (d) Goodwill impairment

During the year, R Systems technical support business in the US and Europe was severely affected by loss of 3 key customers. Consequently the management has assessed that there is impairment of goodwill recognized in the books on acquisition of R Systems Solutions, Inc., (USA), R Systems Europe B.V., (The Netherlands) and R Systems S.A.S., (France) and has impaired the goodwill amounting to Rs. 2,087.14 lakhs.

#### (e) Financial Expenses

Financial expenses consist of interest expenses on lines of credits from banks and finance charges on assets purchased on finance lease and other bank charges. The financial expenses decreased from Rs. 123.02 lakhs in the year 2008 to Rs. 102.63 lakhs in the year 2009 mainly on account of lower utilisation of cash credit limits.

#### (f) Net Profit before Taxation

Net profit before taxation was Rs. 1,052.73 lakhs in 2009 as against Rs. 3,001.76 lakhs in 2008. The decrease in net profits after taxes was attributable to reasons given earlier.

#### (g) Provision for Tax

Tax expense comprises of current, deferred and fringe benefit tax net of MAT (Minimum Alternate Tax) credits.

During the year, the provision for taxation was Rs. 280.69 lakhs as compared to Rs. 205.11 lakhs in the year 2008. The increase in provision for taxation was mainly due to write back of deferred tax liability of Rs. 75.52 lakhs in the year 2008 as against provision of Rs. 41.85 lakhs in the year 2009 mainly on account of increase in differences in depreciation/amortisation block of fixed assets as per tax books and financial books and decline in provision of fringe benefit tax by Rs. 70.12 lakhs from Rs. 79.80 lakhs in 2008 to Rs. 9.68 lakhs in 2009 due to abolition of fringe benefit tax by the Finance Act 2009.

**(h) Profit after Tax**

Profit after tax was Rs. 772.04 lakhs or 2.30% of total income in the year 2009 from Rs. 2,796.65 lakhs or 7.66% of total income in the year 2008. The decrease in net profits after taxes was attributable to reasons given earlier.

Profit after tax (excluding goodwill impairment) increased to Rs. 2,859.18 or 8.52% of the total income in the year 2009 from Rs. 2,796.65 or 7.66% of the total income in the year 2008 on account of corrective cost management measures taken during the year 2009.

**(i) Dividend**

The Board of Directors has recommended a dividend of Rs. 2.40 per equity share or 24% on the par value of Rs. 10 per share to be appropriated from the current year operating profits of the Company subject to the approval of the shareholders at the ensuing annual general meeting.

**J. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE ON STANDALONE FINANCIALS**

The following table sets forth certain financial information as a percentage of total income for the years ended December 31, 2009 and 2008 as indicated:

(Rs. in lakhs)

|  | Year Ended<br>December<br>31,2009 | %<br>of Total<br>Income | Year Ended<br>December<br>31,2008 | %<br>of Total<br>income | Change<br>% |
|--|-----------------------------------|-------------------------|-----------------------------------|-------------------------|-------------|
| <b>Income</b>  |                                   |                         |                                   |                         |             |
| Operating income   | 19,114.31                         | 95.42                   | 20,384.82                         | 97.01                   | (6.23)      |
| Other income   | 916.86                            | 4.58                    | 628.19                            | 2.99                    | 45.95       |
| <b>Total Income</b>  | <b>20,031.17</b>                  | <b>100.00</b>           | 21,013.01                         | 100.00                  | (4.67)      |
| <b>Expenditure</b>   |                                   |                         |                                   |                         |             |
| Personnel expenses   | 11,497.08                         | 57.40                   | 12,222.13                         | 58.16                   | (5.93)      |
| Operating and other expenses                               | 4,284.51                          | 21.39                   | 5,557.67                          | 26.45                   | (22.91)     |
| Depreciation / amortisation                                | 804.62                            | 4.02                    | 663.18                            | 3.16                    | 21.33       |
| Financial expenses   | 60.19                             | 0.30                    | 49.33                             | 0.23                    | 21.99       |
| Provision for diminution in value of long term investments | 2,473.21                          | 12.35                   | -                                 | -                       | -           |
| <b>Total Expenditure</b>                                   | <b>19,119.61</b>                  | <b>95.45</b>            | 18,492.31                         | 88.00                   | 3.39        |

|                             | Year Ended<br>December<br>31,2009 | %<br>of Total<br>income | Year Ended<br>December<br>31,2008 | %<br>of Total<br>income | Change<br>% |
|-----------------------------|-----------------------------------|-------------------------|-----------------------------------|-------------------------|-------------|
| <b>Net Profit</b>           | <b>911.56</b>                     | <b>4.55</b>             | 2,520.70                          | 12.00                   | (63.84)     |
| <b>before tax</b>           |                                   |                         |                                   |                         |             |
| Current tax (net)           | 204.87                            |                         | 151.66                            |                         |             |
| Deferred tax                | 41.85                             |                         | (75.52)                           |                         |             |
| Fringe benefit tax          | 9.68                              |                         | 79.80                             |                         |             |
| <b>Total Tax Expense</b>    | <b>256.40</b>                     | <b>1.27</b>             | 155.94                            | 0.75                    | 8.45        |
| <b>Net Profit after Tax</b> | <b>655.16</b>                     | <b>3.28</b>             | 2,364.76                          | 11.25                   | (72.29)     |

**1. Income**

**(a) Operating Income**

R Systems derives its revenue from two business segments viz software development and customisation services and business process outsourcing services. Revenue break up percentage during year ended December 31, 2009 and 2008 is as follows:

(Rs. in lakhs)

|   | Year Ended<br>December<br>31,2009 | %             | Year Ended<br>December<br>31,2008 | %      | Change<br>% |
|---|-----------------------------------|---------------|-----------------------------------|--------|-------------|
| Software development and customisation services | 16,992.04                         | 88.90         | 17,778.60                         | 87.21  | (4.42)      |
| Business process outsourcing services           | 2,122.27                          | 11.10         | 2,606.22                          | 12.79  | (18.57)     |
| <b>Total Revenue</b>                            | <b>19,114.31</b>                  | <b>100.00</b> | 20,384.82                         | 100.00 | (6.23)      |

**Operating Income Breakdown by Geography**

The geographic break-down of the operating income is given below:

|                 | Year Ended                  |                             |
|-----------------|-----------------------------|-----------------------------|
|                 | December<br>31, 2009<br>(%) | December<br>31, 2008<br>(%) |
| USA             | 54.30                       | 62.75                       |
| Europe          | 22.87                       | 19.88                       |
| South East Asia | 6.73                        | 6.12                        |
| India           | 8.81                        | 6.68                        |
| Others          | 7.29                        | 4.57                        |
| <b>Total</b>    | <b>100.00</b>               | 100.00                      |

## (b) Other Income

The share of other income in total income was 4.58% in the year 2009 as against 2.99% in the year 2008. The increase was mainly attributable to increase in interest income from bank deposits and write back of provision for doubtful debt and advances.

## 2. Expenditures

### (a) Personnel Expenses

Personnel costs decreased to Rs. 11,497.08 lakhs in 2009 from Rs. 12,222.13 lakhs in 2008. As a percentage of total income, personnel cost decreased to 57.40% in the year 2009 from 58.16% in the year 2008 mainly due to decline in the total number of head count.

### (b) Operating and Other Expenses

Operating expenses decreased to Rs. 4,284.51 lakhs in the year 2009 as against Rs. 5,557.68 lakhs in the year 2008.

The components and movements of operating expenses as a percentage of total income are explained below:-

(Rs. in lakhs)

|  | Year Ended<br>December<br>31, 2009 | % of<br>Total<br>income | Year Ended<br>December<br>31, 2008 | % of<br>Total<br>income | Change<br>%   |
|--|------------------------------------|-------------------------|------------------------------------|-------------------------|---------------|
| <b>Income</b>  |                                    |                         |                                    |                         |               |
| Operating income                                     | 19,114.31                          | 95.42                   | 20,384.82                          | 97.01                   | (6.23)        |
| Other income   | 916.86                             | 4.58                    | 628.19                             | 2.99                    | 45.95         |
| <b>Total income</b>                                  | <b>20,031.17</b>                   | <b>100.00</b>           | <b>21,013.01</b>                   | <b>100.00</b>           | <b>(4.67)</b> |
| <b>Operating and other expenses</b>                  |                                    |                         |                                    |                         |               |
| Travelling and conveyance                            | 1,505.55                           | 7.52                    | 1,896.60                           | 9.03                    | (20.62)       |
| Legal and professional expenses including audit fees | 293.92                             | 1.47                    | 286.01                             | 1.36                    | 2.77          |
| Communication costs                                  | 494.75                             | 2.47                    | 417.82                             | 1.99                    | 18.41         |
| Rent - premises and equipments                       | 379.67                             | 1.90                    | 373.06                             | 1.78                    | 1.77          |
| Power and fuel                                       | 354.82                             | 1.77                    | 339.59                             | 1.62                    | 4.49          |
| Repair and maintenance                               | 288.82                             | 1.44                    | 238.13                             | 1.13                    | 21.29         |
| Advertising and sales promotion                      | 54.24                              | 0.27                    | 101.03                             | 0.48                    | (46.31)       |
| Recruitment and training expenses                    | 34.70                              | 0.17                    | 100.17                             | 0.48                    | (65.36)       |

|   | Year Ended<br>December<br>31, 2009 | % of<br>Total<br>income | Year Ended<br>December<br>31, 2008 | % of<br>Total<br>income | Change<br>%    |
|---|------------------------------------|-------------------------|------------------------------------|-------------------------|----------------|
| Foreign exchange fluctuation (net)                              | 23.93                              | 0.12                    | 735.23                             | 3.50                    | (96.75)        |
| Provision for doubtful debts and advances and debts written off | 503.93                             | 2.52                    | 703.95                             | 3.35                    | (28.41)        |
| Loss on sale / discard of fixed assets (net)                    | 14.57                              | 0.07                    | 60.35                              | 0.29                    | (75.85)        |
| Others  | 335.61                             | 1.67                    | 305.73                             | 1.44                    | 9.76           |
| <b>Total</b>  | <b>4,284.51</b>                    | <b>21.39</b>            | <b>5,557.67</b>                    | <b>26.45</b>            | <b>(22.91)</b> |

### (c) Depreciation / Amortisation

Depreciation provided during the year 2009 was Rs. 804.62 lakhs as against Rs. 663.18 lakhs in the year 2008. The increase in depreciation was primarily due to addition in fixed assets during the year 2009.

### (d) Financial Expenses

The financial expenses increased to Rs. 60.19 lakhs in the year 2009 as against Rs. 49.33 lakhs in the year 2008 mainly on account of excess utilisation of cash credit & overdraft limits.

### (e) Provision for diminution in value of long term investments

During earlier years, the Company had acquired subsidiaries [namely R Systems Solutions, Inc., (USA), R Systems Europe B.V., (The Netherlands) and R Systems S.A.S., (France)] in new geographies / business verticals. During the year, these subsidiaries have received termination notices from 3 significant clients. Consequently the management had assessed that there is a decline, other than temporary, in the value of these subsidiaries and had reduced the carrying amount of investment in these subsidiaries by Rs. 2,473.21 lakhs to recognise the decline in value.

### (f) Net Profit Before Taxation

Net profit before taxation was Rs. 911.56 lakhs in 2009 as against Rs. 2,520.70 lakhs in 2008. The decrease in net profits after taxes was attributable to reasons given earlier.

### (g) Provision for Tax

Tax expense comprises of current, deferred and fringe benefit tax net of MAT credits.

During the year, the provision for taxation was Rs. 256.40 lakhs as compared to Rs. 155.94 lakhs in the year 2008. The increase in provision for taxation was mainly due to write back of deferred tax liability of Rs. 75.52 lakhs in the year 2008 as against provision of Rs. 41.85 lakhs in the year 2009 mainly on account of increase in differences in depreciation / amortisation block of fixed assets as per tax books and financial books and decline in provision of fringe benefit tax by Rs. 70.12 lakhs from Rs. 79.80 lakhs in 2008 to Rs. 9.68 lakhs in 2009 due to abolition of fringe benefit tax by the Finance Act 2009.

**(h) Profit after Tax**

Profit after tax was Rs. 655.16 lakhs or 3.28% of total income in the year 2009 from Rs. 2,364.76 lakhs or 11.25% of total income in the year 2008. The decrease

in net profits after taxes was attributable to reasons given earlier.

Profit after tax (excluding provision for diminution in the value of long term investments) was Rs. 3,128.37 lakhs in 2009 or 15.62% of the total income in the year 2009 from Rs. 2,364.76 lakhs or 11.25% of the total income in the year 2008.

**(i) Dividend**

The Board of Directors has recommended a dividend of Rs. 2.40 per equity share or 24% on the par value of Rs. 10 per share to be appropriated from the current year operating profits of the Company subject to the approval of the shareholders at the ensuing annual general meeting.

# Risk Management Report

Risk Management is a dynamic process which should constantly be able to identify all the emerging risks and propose solutions to manage them. The risk perception also constantly varies depending on the size of the business, business segment, location, scale of business. The essence of risk management strategy at R Systems lies in maximising areas of control over outcome and minimising areas where the Company has no control over outcome. R Systems recognizes that business conditions are constantly changing, evolving, and entering into cycles. As an integral part of R Systems business model, we constantly strive to identify areas of potential risks, understand the risks, devise, mitigate and manage the risks. At R Systems, we remain cautious in our risk appetite while reminding ourselves that without risks there are no rewards. The R Systems risk management process involves translating the designated risk limits into operational behavior through policies, procedures, internal controls and regular assessment of those controls. Compliance with all applicable laws, rules and regulations, as well as internal policies and procedures is part of R Systems risk management process.

Risk management is an integral part of the charter of the Board of Directors at R Systems. The Board is responsible for monitoring risk levels on various parameters and to suggest measures to address the same. The day to day management of the risk is entrusted to the management team of R Systems. Within R Systems management structure, certain personnel are designated with responsibility of managing risks including ensuring compliance with laws, rules and regulations with the assistance of both internal and external resources. Further, formal reporting, escalation of risk events and control mechanisms ensure timely communication, response and proactive management of the risks.

## Discussion on Risks Experienced by R Systems and the Company's Response to the Risks

The Management cautions readers that the risks outlined below are not exhaustive, are for information purposes only and may contain forward looking statements, the results of which may differ materially from those reflected. Investors and readers are requested to exercise their own judgment in assessing various risks associated with the Company.

The following risks are identified by the Company and it monitors parameters corresponding to them on a regular basis.

### 1. BUSINESS

- Customer Concentration
- Geographical Concentration
- Client Risks
- Competition
- Acquisitions
- Credit Risk

### 2. DELIVERY

- Execution Risk
- Disaster Prevention and Recovery
- Technological Obsolescence
- Fixed Price Contracts
- Talent Acquisition & Retention

### 3. FINANCIAL

- Foreign Currency Rate Fluctuations
- Global Economic Environment
- Inflation and Cost Structure

### 4. LEGAL AND STATUTORY

- Contractual Liabilities
- Statutory Compliance
- Directors' & Officers' Liability Risks
- Failure to Protect Intellectual Property Rights
- Transfer Pricing Arrangements

### 5. POLITICAL

- Change in Government Policy
- Visa Regulations / Restrictions

#### 1. BUSINESS RISKS

##### Customer Concentration

R Systems revenues are dependent to a considerable extent

upon relationships with a limited number of customers and retaining those customers. The percentage of total consolidated revenues during fiscal 2008 and 2009 that R Systems derived from contracts with its top line customers is as follows:

| Customer             | Year Ended          |                     |
|----------------------|---------------------|---------------------|
|                      | Dec 31, 2009<br>(%) | Dec 31, 2008<br>(%) |
| Top 10               | <b>43.69</b>        | 44.13               |
| Top 5                | <b>32.85</b>        | 31.03               |
| Top 3                | <b>22.43</b>        | 21.56               |
| The Largest Customer | <b>8.19</b>         | 8.66                |

Concentration of revenues from a limited number of customers deepens our relationship with those customers but at the same time imposes a risk of dependence. Customer's vendor management strategies and business risks radiate on to R Systems through fluctuations in utilization, pricing for services and service level demands. All these factors could potentially impact revenues and profitability of R Systems.

R Systems business model and strategy involves serving the customers in a manner that they get measurable tangible benefits. When customers see value in the services that R Systems provides, we believe that customer's relationship can be nurtured into the long term. Further with our proactive strategy of adding new customers, we attempt to reduce our dependency on a smaller number of customer relationships. During the year ended 2009, we have increased revenues from other customers and reduced dependence on revenues from top 10 customers to 43.69% in the year 2009 from 44.13% in the year 2008.

#### **Geographical Concentration**

R Systems has traditionally derived most of its revenues from the US, given the technology focus and specialized product engineering services offered by it. In order to mitigate the risk of geographical concentration, R Systems has stepped up its business activities in other geographic areas like Europe, Japan and South East Asia and recent acquisition in Europe is a part of this strategy. The

geographic break-up of the revenue is given below:

| Revenues by Geographies | Year Ended          |                     |
|-------------------------|---------------------|---------------------|
|                         | Dec 31, 2009<br>(%) | Dec 31, 2008<br>(%) |
| USA                     | <b>52.37</b>        | 57.52               |
| Europe                  | <b>27.75</b>        | 26.24               |
| South East Asia         | <b>8.86</b>         | 7.56                |
| India                   | <b>5.14</b>         | 3.79                |
| Others                  | <b>5.88</b>         | 4.89                |
| <b>Total</b>            | <b>100.00</b>       | 100.00              |

#### **Client Risks**

A significant component of R Systems revenues are derived from services provided to software product companies. R Systems clients fall in all stages of the life cycle including early-stage, middle-stage and late-stage companies. The software product companies, depending on their life cycle, are vulnerable to slow down in technology spending, consolidation, attrition of key personnel, obsolescence in technology and continuing financial support of key investors. A significant change in any of these factors may affect the performance and financial position of R Systems client and prove detrimental to the stability or profitability of revenues from that relationship. R Systems strategy and organisational behavior is to recognize the existence of these risks and mitigate them by proactively increasing the number of clients and building a strong relationship with each client so that we can anticipate risks in advance and take appropriate preemptive steps to minimise the risks and their consequences. The days sales outstanding (DSO) for the year 2009 was 68 days as compared to 67 days for the year 2008.

#### **Competition**

The IT & ITES sector is a highly competitive sector. Our competitors include IT outsourcing firms in India as well as in other countries, national and multinational consulting and technology firms, Indian IT services firms, software firms and in-house IT departments of large companies.

R Systems expects competition to be very intense in the near term as global economic slow down may encourage

existing suppliers to be aggressive in winning new business and customers may drive a harder bargain. However, we believe that R Systems is well positioned and enjoys following competitive advantages:

- Experience in providing end-to-end solutions and services to independent software vendors and technology service providers;
- Unique and proprietary  &  with best practices, tools and methodologies for flawless execution;
- Investment in processes, talent, and methodologies;
- Strong customer franchise consisting of large and mid-sized corporations;
- Strong financial position;
- Proven global delivery model;
- Deep domain knowledge in lending business solutions and supply chain management.

#### Acquisitions

R Systems growth strategy in future may involve future strategic acquisitions, partnerships and exploration of mutual interests with other parties. These future acquisitions may not contribute to our profitability, and we may be required to incur or assume debt, or assume contingent liabilities, as part of any acquisition. We could have difficulty in assimilating the personnel, operations, software assets and technology of the acquired company. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses.

We will remain sharply focused on those acquisitions and partnerships that add to the competitive strengths of our business. Specific transactions are evaluated in detail with experienced internal personnel and external advisors, wherever relevant, before consummating any transaction. Deal teams conduct technical, operational, marketing due diligence and build detailed financial model to evaluate the risks and benefits of any transaction. Further contractual agreements are negotiated with the advice of legal counsel to protect Company's interests.

#### Credit Risk

In R Systems business practice, the payment collection

process may extend over a period of time. Customers budgeting constraints can impact their ability to make the required payments. In addition in the present recessionary environment, the creditworthiness of our clients may deteriorate and we can be adversely affected by bankruptcies or other business failures of our customers.

R Systems' credit terms are standard and there is rigorous process in following up with customers for payments as and when the invoices fall due for payment. The Company has suitably streamlined its processes to develop a more focused and aggressive receivables management systems to ensure timely collections as a result of the global liquidity crunch.

## 2. DELIVERY

#### Execution Risks

A significant number of R Systems clients are software product, large banking, and manufacturing companies. These clients need high quality and timely delivery of services with very stringent services level agreements. Any failure in delivery, quality, meeting service level bench agreements, product features and functionalities could adversely affect R Systems relationship with its clients, which could potentially impact R Systems revenues and profitability.

R Systems has continuously invested in processes, people, training, information systems, quality standards, frameworks, tools and methodologies to mitigate the risks associated with execution of projects. Adoption of quality models and practices such as ISO, Software Engineering Institute's - Capability Maturity Model (SEI-CMM) and Six Sigma have ensured that risks are identified and mitigated at various levels in the planning and execution process. Further, senior management personnel, project managers and process leaders are entrusted with the responsibility to meet the project and service level expectations on various engagements. Planned intervention and escalation systems are further deployed to minimize risks.

#### Disaster Prevention and Recovery

The IT industry is very sensitive to security risk and a real or perceived threat of a risk to the security and integrity of information available to us may adversely affect customer perception, give rise to litigation and reduce our customer base, thereby negatively affecting R Systems revenues and profit margins. The contracts entered into by R Systems typically hold us solely responsible for maintaining

satisfactory standards of personnel competency, conduct and integrity and for taking required disciplinary action.

R Systems has adopted industry-standard security precautions such as ensuring that our employees and strategic partners enter into non-disclosure and confidentiality agreements with us, verifying that there is no information leakage through test procedures, carrying out background checks and verifications, creating and maintaining data back-ups, and maintaining an adequate disaster recovery plan.

R Systems makes continual investments in organisation behavior and management processes to ensure that these certified industry standards are continually adhered to. As on the date of this report, Noida IT centre is ISO 9001 : 2000, SEI-CMMi Level 5, ISO 27001 : 2005 and PCMM Level 5 certified; Noida BPO centre is ISO 9001 : 2000, ISO 27001 : 2005 and PCMM Level 5 certified. Pune and Chennai development centres are SEI-CMM Level 5, ISO 9001 : 2008 and ISO 27001 : 2005 certified. The continuing compliance with these standards demonstrates the rigor of R Systems processes and differentiates us to keep our competitive edge in service offering.

Our distributed offshore and near shore infrastructure is seamlessly connected through a strong infrastructure design and appropriate bandwidth that provides us the capability to initiate and maintain uninterrupted support across the world.

### **Technological Obsolescence**

The IT and ITES sector is characterised by technological changes at a rapid rate, evolution of existing products and introduction of new products. R Systems makes investments in R&D, with a view to keep pace with the latest developments in the technology space. Further, R Systems regularly hires, trains and nurtures domain and market specialists, and continuously evaluates increasing the portfolio of technology alliances and partnerships to enrich our product and service mix. However, this risk cannot be fully mitigated despite the proactive investments made by R Systems.

While we continuously upgrade our product suite to deliver effectively by keeping our technology up-to-date, in our iPLM business, our technologies are influenced by our client's choice of technology. To that extent, the Company's business does not straddle what is in jargon referred to as "bleeding edge of technology".

### **Risks Associated with Fixed Price Contracts**

While most of our assignments are on the basis of time and material task orders, some proportion of the services provided by us is in the nature of fixed price task order assignments. There can be no assurance that we will be able to execute fixed-cost projects within the anticipated timeframe without incurring cost overruns. In the event of cost overruns, our profitability will be adversely affected.

We have our internal processes to ensure accuracy in the estimation of the time required to execute fixed price projects, and processes to implement and monitor the progress of such projects. Further the experience gained from such projects is also used for new projects. Currently the Company derives a small portion of its revenues from fixed price contracts. However given the very nature of the fixed price projects, cost overruns and delayed deliveries cannot be ruled out.

### **Talent Acquisition & Retention**

The IT and BPO sector is highly competitive in terms of hiring strategy and incentives. R Systems is highly dependent on its employees at various levels of the organisation to provide leadership and manage the business, and to provide services and execute complex projects for the clients. These skilled professionals are in high demand by other organisations and if R Systems is unable to attract and retain the skilled people, it will affect R Systems ability to grow and provide services to its customers.

R Systems has extensive recruitment teams in the markets that operate to continuously recruit skilled personnel at various levels in the organisation. In addition, R Systems conducts a rigorous training program at the entry level to train new professionals and develop next generation of managers and leaders. R Systems deploys modern HR practices by offering competitive compensation and benefit packages and exciting work environment to attract and retain talent. Further, R Systems tries to mitigate the impact of attrition in the continuity of services to the clients by using its proprietary **pSuite Framework** that allows the project teams to seamlessly share knowledge and collaborate on projects.

In July 2009 Software Development and BPO Centres of R Systems based in Noida had been certified by the consulting firm, KPMG for PCMM Level 5. With the said certification R Systems joins an elite group of PCMM certified companies across the globe.

R Systems International Limited was ranked as the 6th 'IT Best Employer' in a nationwide survey of two hundred leading IT companies conducted by Dataquest Magazine in 2009. This accolade recognises R Systems people friendly policies and the growth opportunities based on a well defined performance management system. Further, R Systems was ranked 5th in 'Exciting Emerging Companies to work for' Survey 2008 by NASSCOM. It reflects our commitment and efforts to provide industry best work environment and work culture to enhance work satisfaction and the robustness of our HR systems and processes.

### 3. FINANCIAL

#### Foreign Currency Rate Fluctuations

Managing an equilibrium state in the light of the unfavourable movements in exchange rates involved in earnings and expenditure in foreign currency continues to be one of the challenges when exposed to global markets. A significantly large percentage of R Systems consolidated revenues are either foreign currency denominated or derived from export earnings. Whereas a major portion of the R Systems expenses in India are incurred in Indian rupees. As a result, operating profits will be highly impacted by foreign currency rate fluctuations. While depreciation of the Indian rupee would have a favorable bottom-line impact, an appreciation would affect R Systems profitability adversely.

In fiscal year 2009, we have experienced a relatively volatile Rupee, with the conversion rates from US\$ to Rupee closing at Rs. 46.54 per US\$ on December 31, 2009 as against closing rate of Rs. 49.72 per US\$ on December 31, 2008 with an average rate of Rs. 48.27 for the year 2009 as against Rs. 43.81 for the year 2008.

While the Company cannot directly influence exchange rates, it is incumbent upon management to follow a well thought out policy to hedge the foreign currency without taking speculative positions. R Systems attempts to minimize currency fluctuation risks on export earnings by taking forward covers on Rupee - USD/EURO exchange rate based on anticipated revenues and debtors at periodic intervals. The Company has laid down appropriate policies and processes for the use of financial derivative instruments consistent with its risk management strategy. The Company does not use the foreign exchange forward contracts for trading or speculation purposes.

#### Global Economic Environment

Economic downturn during the year 2009 created the most challenging business environment for entire IT & ITES industry. Based on NASSCOM's Strategic Review 2010, the advent of 2010 has signaled the revival of outsourcing within core markets, along with the emerging markets increasingly adopting outsourcing for enhanced competitiveness. Key demand indicators in the last two quarters such as increased deal flow, volume growth, stable pricing, and faster decision making has made the industry post good results. Though full recovery is expected in another two quarters, development of new growth levers, improved efficiency and changing demand outlook signifies early signs of recovery.

The growth in outsourcing is expected to supersede overall IT spend reaffirming its potential to not only support short term, tactical goals of cost savings, but also long term advantages of increased competitiveness, efficiencies and access to emerging markets. Within outsourcing, offshoring will see increased acceptance as offshore based providers grow and traditional service providers ramp up offshore delivery capabilities. Even though India has a 51 per cent market share of the offshoring market, there is tremendous headroom for growth as current offshoring market is still a small part of the outsourcing industry. Significant opportunities exist in core vertical and geographic segments of BFSI and US, and emerging geographies and vertical markets such as Asia Pacific, retail, healthcare and government respectively. Development of these new opportunities can triple the current addressable market, and can lead to Indian IT-BPO revenues of USD 225 billion by 2020.

To mitigate risks in the near term and create a foundation for growth, R Systems has increased diversification across geographies, investing in customer relationships, talent and processes competencies to serve the customers.

#### Inflation and Cost Structure

R Systems' cost structure consists of salary and other compensation expenses, overseas travel, and other general selling and administrative costs. Rapid economic development in India and increasing demand for global delivery may have a significant impact on these costs and the rate of inflation as relevant to the IT & ITES services industry. This is compounded by the fact that overseas

competitors may treat their India strategy as a cost centre and develop the same regardless of the cost incurred and its impact on their profitability.

R Systems' major costs are salary and benefit cost that it incurs on employees. These costs may have a tendency to escalate faster than the rate of inflation because of the demand for skilled and experienced professionals. R Systems attempts to mitigate the risks associated with wage inflation by obtaining increased price from clients, increasing bench mark prices for new business, enhancing productivity, increasing utilisation and inducting fresh graduates and training them. Further, R Systems has implemented robust processes and information systems to enable personnel to make the right decisions for revenue realisation and cost optimisation to minimise the risks of changes in salary cost structure.

#### **4. LEGAL AND STATUTORY**

##### **Contractual Liabilities**

The primary contractual risks that R Systems faces, pertain to obligations of R Systems to provide services with full adherence to contracted terms of quality, time deadlines, output per hour, protection of confidential information, protection of intellectual property rights, patents, and copyrights. R Systems has a rigorous process to evaluate the legal risks involved in a contract, ascertains its legal responsibilities under the applicable law of the contract and tries to restrict its liabilities to the maximum extent possible. As a policy R Systems attempts to protect itself with "no consequential losses" and "maximum liability" clauses. R Systems also ensures that risks are protected through various insurances like professional liability, workers compensation, directors' and officers' liability insurance. The Company's past record in this regard has been good and there has been no significant damages awarded against the Company that has resulted in material adverse impact on our financial position. R Systems also has an escalation process to immediately involve senior management personnel in case R Systems customers or contractors make any assertion of breach of contract.

##### **Statutory Compliance**

R Systems has trans-national operations. The Company operates in various geographies and it has to ensure compliance of various applicable rules and regulations in those countries. R Systems is exposed to penalties and

other liabilities related to non-compliance or inadequate compliance in those countries.

R Systems uses independent legal counsel to advise the Company on compliance issues with respect to the laws of various countries in which the Company has its business activities and to ensure that R Systems is not in violation of the laws applicable. R Systems has a compliance management system with qualified managers entrusted with compliance of various laws including the listing laws and regulations applicable to public companies in India.

##### **Directors' and Officers' Liability Risks**

The directors and officers of R Systems are required to take material decisions in the best interest of the Company. Such decisions might result in errors and omission and R Systems might be sued by the other counter part. To mitigate this risk, the directors and officers take legal and expert advice when required and have taken various insurance policies outlined earlier including professional liability and directors' and officers' liability insurance.

Although the Company attempts to limit its contractual liability for damages arising from negligent acts, errors, mistakes or omissions by directors and officers in rendering services, there can be no assurance that the limitations of liability set forth in its service contracts will be enforceable in all instances or will otherwise protect the Company from liability for damages. Though the Company maintains general liability insurance coverage, including coverage for errors or omissions, going forward, there can be no assurance that such coverage will be available on reasonable terms and in sufficient amount to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against the Company could adversely affect the Company's results of operations and financial condition.

##### **Failure to Protect Intellectual Property Rights**

As a part of R Systems' business, there are risks associated with intellectual property of the Company, intellectual property of R Systems' customers who may be end users or even the intellectual property of the end user. R Systems' information security arrangements are managed under international standard ISO 27001 : 2005 series and are being audited by both internal and experts from third parties

assessors who periodically audit and certify R Systems compliance.

R Systems has not registered some of its intellectual property under the relevant intellectual property laws and is in the process of applying for the same. We have applied for the registration of the following three marks and their corresponding words as R Systems' trade marks



**PSuite Framework**



**PRODUCTS FOREMOST**



**iPLM**

Out of the aforesaid trade marks two logo and two words as reproduced below are already registered w.e.f. January 30, 2006 and other logo and marks are awaiting approval.



**PSuite Framework**



**PRODUCTS FOREMOST**

We also rely on a combination of confidentiality agreements with employees and non-disclosure and contractual confidentiality obligations imposed on our customers, vendors and strategic partners, to protect our proprietary intellectual property rights. A misappropriation of our intellectual property rights would harm the competitive advantage we enjoy in relation to those intellectual property rights.

#### **Transfer Pricing Arrangements**

R Systems has entered into certain transfer pricing agreements with its subsidiaries. Such transfer pricing agreements contain clauses relating to transfer pricing that the Company believes are at par with the prices that would be charged by unrelated parties sharing an arm's length relationship. While R Systems believes that it operates in compliance with all applicable transfer pricing laws in all applicable jurisdictions, the Company cannot assure that these transfer pricing agreements will not be

challenged as not capturing an arm's length relationship. If they are so challenged, the Company may be required to re-determine the transfer prices, which could result in an increased tax liability in various operating jurisdictions and thereby adversely affect the Company's profit margins.

## **5. POLITICAL**

### **Change in Government Policy**

The Government of India has been favorably disposed towards the IT and BPO industry in India though there are recent changes that will end the tax holidays. Such changes in government policies affect the performance and cost advantage of IT and BPO companies in India. Further, we operate in multiple countries of which the US is a major market. While most governments in the countries where we operate are in favor of free trade, we cannot be immune to changes in policies that may discourage off-shoring to protect local employment.

### **Visa Regulations / Restrictions**

The majority of employees of R Systems are Indian nationals. The ability of R Systems to render its services in the US, Europe and other countries depends on the ability to obtain visas and work permits. Immigration to US, Europe and other countries are subject to legislative changes as well as variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigrations laws or the restrictive impact they could have on obtaining or monitoring work visas. The reliance on visas makes R Systems vulnerable to such changes and variations as it affects the ability of the Company to staff projects with employees who are not citizens of the country where the work is to be performed. As a result, R Systems may not be able to get a sufficient number of visas for employees or may encounter delays or additional costs all of which may affect profitability.

R Systems monitors the status of visa availability and requirements on a regular basis in consultation with external legal counsel. In house legal personnel are entrusted with the responsibility for compliance with the immigrations laws which is validated by periodic independent audit.

# Auditors' Report

On Standalone Financial Statements

## To

### The Members of R Systems International Limited

1. We have audited the attached Balance Sheet of R Systems International Limited (the "Company") as at December 31, 2009 and also 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.
2. 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.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) 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.
4. Further to our comments in the Annexure referred to above, we report that:
  - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit;
  - (ii) In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books;
  - (iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (iv) In our opinion, the Balance Sheet, Profit and Loss Account and 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;
  - (v) On the basis of the written representations received from the Directors, as on December 31, 2009, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2009 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
  - (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
    - (a) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2009,
    - (b) in the case of the profit and loss account, of the profit for the year ended on that date, and
    - (c) in the case of cash flow statement, of the cash flows for the year ended on that date.

**For S.R. BATLIBOI & ASSOCIATES**

Chartered Accountants

**Sd/-**

**per Sanjay Vij**

Partner

Membership No.: 95169

Place : Gurgaon

Date : February 21, 2010

## Annexure to Auditors' Report

### Annexure referred to in paragraph 3 of our report of even date Re: R Systems International Limited

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) All fixed assets were physically verified by the management in the previous year in accordance with a planned programme of verifying them once in two years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.
- (c) There was no substantial disposal of fixed assets during the year.
- (ii) The Company has no inventory and therefore, the provisions of clause 4(ii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (iii) (a) The following are the particulars of loans granted by the Company to companies, firms and other parties covered in the Register maintained under Section 301 of the Companies Act, 1956:

| Sl. No. | Name of Party            | Relationship with Company | Opening balance Rs. | Loan granted during the year Rs. | Maximum Amount outstanding during the year Rs. | Year end Balance (at closing rate) Rs. |
|---------|--------------------------|---------------------------|---------------------|----------------------------------|--|--|
| 1.      | ECnet Limited, Singapore | Subsidiary                | 94,822,750          | 18,599,830                       | 112,662,000                                    | 109,272,900                            |

- (b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not prima facie prejudicial to the interest of the Company. (Also refer Note 16 under Schedule 17 of financial statements).
- (c) The loans granted were originally re-payable within 1-2 years. As explained, the same has been revised during the previous year and the loan is now repayable on demand. As informed, the Company has not demanded repayment of any such loan during the year. The payment of interest has been regular.

- (d) There is no overdue amount of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (e) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Therefore, the provisions of clause 4(iii)(f) and 4(iii)(g) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal controls system in respect of these areas. Due to nature of Company's business, clause (iv) of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the Company with respect to purchase of inventory and sale of goods.
- (v) (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the Company.
- (ix) (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident

- fund, employees' state insurance, income-tax, wealth-tax, service tax, sales tax, customs duty, cess and investor education and protection fund. As explained to us, this clause is not applicable to Company for excise duty.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, wealth-tax, service tax, sales tax, customs duty, cess, investor education and protection fund and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable. As explained to us, this clause is not applicable to Company for excise duty.
- (c) According to the information and explanation given to us, there are no dues of income tax, wealth tax, service tax, sales tax, cess and customs duty, which have not been deposited on account of any dispute. As explained to us, this clause is not applicable to Company for excise duty.
- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
- (xi) Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to any bank. The Company did not have any dues from any financial institution or any outstanding debentures during the year.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company had during the year given guarantee for loan taken by its subsidiary from bank or financial institutions, the terms and conditions whereof in our opinion are not prima-facie prejudicial to the interest of the Company.
- (xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) We have verified that the end use of money raised by public issue is as disclosed in the notes to the financial statements.
- (xxi) Based upon the audit procedures performed by us for expressing our opinion on these financial statements and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

**For S.R. BATLIBOI & ASSOCIATES**

Chartered Accountants

**Sd/-****per Sanjay Vij**

Partner

Membership No.: 95169

Place : Gurgaon

Date : February 21, 2010

## Balance Sheet as at December 31, 2009

|   | Schedule No. | As at December 31, 2009 Rs. | As at December 31, 2008 Rs. |
|---|--------------|-----------------------------|-----------------------------|
| <b>SOURCES OF FUNDS</b>                             |              |                             |                             |
| <b>Shareholders' funds</b>                          |              |                             |                             |
| Share capital                                       | 1            | 122,429,880                 | 133,624,620                 |
| Reserves and surplus                                | 2            | 1,644,833,034               | 1,674,838,898               |
|   |              | <b>1,767,262,914</b>        | 1,808,463,518               |
| <b>Loan funds</b>                                   |              |                             |                             |
| Secured loans                                       | 3            | 3,153,413                   | 4,116,539                   |
|   |              | <b>3,153,413</b>            | 4,116,539                   |
| <b>Deferred tax liability (net)</b>                 | 4            | <b>21,062,934</b>           | 16,877,430                  |
| <b>TOTAL</b>  |              | <b>1,791,479,261</b>        | 1,829,457,487               |
| <b>APPLICATION OF FUNDS</b>                         |              |                             |                             |
| <b>Fixed assets</b>                                 |              |                             |                             |
| Gross block   | 5            | 720,650,934                 | 630,211,391                 |
| Less : Accumulated depreciation / amortisation      |              | 291,346,368                 | 215,463,480                 |
| Net block   |              | 429,304,566                 | 414,747,911                 |
| Capital work-in-progress including capital advances |              | 17,604,314                  | 3,213,404                   |
|   |              | <b>446,908,880</b>          | 417,961,315                 |
| <b>Investments</b>                                  |              |                             |                             |
|   | 6            | <b>331,033,742</b>          | 579,061,551                 |
| <b>Current assets, loans and advances</b>           |              |                             |                             |
| Sundry debtors                                      | 7            | 380,758,005                 | 538,320,650                 |
| Cash and bank balances                              | 8            | 717,134,380                 | 558,687,177                 |
| Other current assets                                | 9            | 116,598,959                 | 51,815,693                  |
| Loans and advances                                  | 10           | 159,545,961                 | 79,288,444                  |
|   |              | <b>(A) 1,374,037,305</b>    | 1,228,111,964               |
| <b>Less : Current liabilities and provisions</b>    |              |                             |                             |
| Current liabilities                                 | 11           | 190,573,409                 | 230,866,641                 |
| Provisions  | 12           | 169,927,257                 | 164,810,702                 |
|   |              | <b>(B) 360,500,666</b>      | 395,677,343                 |
| <b>Net current assets</b>                           | <b>(A-B)</b> | <b>1,013,536,639</b>        | 832,434,621                 |
| <b>TOTAL</b>  |              | <b>1,791,479,261</b>        | 1,829,457,487               |
| <b>Notes to accounts</b>                            | 17           |                             |                             |

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

Sd/-  
**per Sanjay Vij**  
Partner  
Membership No. 95169  
Place : Gurgaon  
Date : February 21, 2010

Sd/-  
**Satinder Singh Rekhi**  
[Chairman & Managing  
Director]  
Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

Sd/-  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior  
Executive Director]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Raj Swaminathan**  
[Director & Chief  
Operating Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Shankar Seetharaman**  
[Chief Financial Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Suresh Kumar Bhutani**  
[Company Secretary &  
Compliance Officer]  
Place : NOIDA  
Date : February 21, 2010

## Profit and Loss account for the year ended December 31, 2009

|  | Schedule No. | For the year ended December 31, 2009<br>Rs. | For the year ended December 31, 2008<br>Rs. |
|--|--------------|---|---|
| <b>INCOME</b>  |              |   |   |
| Sale of software products and rendering software development services  |              | <b>1,911,431,141</b>                        | 2,038,482,256                               |
| Other income   | 13           | <b>91,686,251</b>                           | 62,819,032                                  |
| <b>TOTAL</b>   |              | <b>2,003,117,392</b>                        | 2,101,301,288                               |
| <b>EXPENDITURE</b>   |              |   |   |
| Personnel expenses   | 14           | <b>1,149,708,416</b>                        | 1,222,212,531                               |
| Operating and other expenses   | 15           | <b>428,450,587</b>                          | 555,767,893                                 |
| Depreciation / amortisation  | 5            | <b>80,461,990</b>                           | 66,317,384                                  |
| Financial expenses   | 16           | <b>6,018,347</b>                            | 4,933,628                                   |
| Provision for diminution in value of long term investments (refer note 11(b) & note 11(d) under Schedule 17)                           |              | <b>247,321,631</b>                          | -   |
| <b>TOTAL</b>   |              | <b>1,911,960,971</b>                        | 1,849,231,436                               |
| <b>Profit before tax</b>   |              | <b>91,156,421</b>                           | 252,069,852                                 |
| Current tax (MAT payable) [Including Rs. 9,737,293 related to earlier years (Previous year Rs. 718,550 excess provision written back)] |              | <b>63,165,063</b>                           | 26,869,162                                  |
| Less: MAT credit entitlement [Including credit entitlement relating to earlier year Rs. 9,737,293, (Previous year Rs. 4,493,844)]      |              | <b>(42,678,064)</b>                         | (11,703,591)                                |
| Net current tax liability  |              | <b>20,486,999</b>                           | 15,165,571                                  |
| Deferred tax   |              | <b>4,185,504</b>                            | (7,552,119)                                 |
| Fringe benefit tax   |              | <b>968,061</b>                              | 7,980,375                                   |
| <b>Total tax expense</b>   |              | <b>25,640,564</b>                           | 15,593,827                                  |
| <b>Profit available for appropriation</b>  |              | <b>65,515,857</b>                           | 236,476,025                                 |
| <b>Appropriations</b>  |              |   |   |
| Proposed final dividend (refer note 10(b) under Schedule(17))  |              | <b>28,845,195</b>                           | 31,693,018                                  |
| Tax on proposed final dividend (refer note 10(b) under Schedule 17)  |              | <b>4,902,243</b>                            | 5,386,229                                   |
| Transfer to General Reserve  |              | <b>6,551,586</b>                            | 23,647,603                                  |
| <b>Surplus carried to Balance Sheet</b>  |              | <b>25,216,833</b>                           | 175,749,175                                 |
| Earnings per share (also refer note 13 under Schedule 17)  |              |   |   |
| Basic [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]   |              | <b>5.17</b>                                 | 17.42                                       |
| Diluted [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]   |              | <b>5.11</b>                                 | 17.21                                       |
| <b>Notes to accounts</b>   | 17           |   |   |

The schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Account. As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

Sd/-  
**per Sanjay Vij**  
Partner  
Membership No. 95169  
Place : Gurgaon  
Date : February 21, 2010

Sd/-  
**Satinder Singh Rekhi**  
[Chairman & Managing Director]  
Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

Sd/-  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior Executive Director]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Raj Swaminathan**  
[Director & Chief Operating Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Shankar Seetharaman**  
[Chief Financial Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Suresh Kumar Bhutani**  
[Company Secretary & Compliance Officer]  
Place : NOIDA  
Date : February 21, 2010

## Cash Flow Statement for the year ended December 31, 2009

|  | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|--|--|--|
| <b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>  |  |  |
| <b>Net profit before taxation</b>  | <b>91,156,421</b>                              | 252,069,852                                    |
| Adjustments for:   |  |  |
| Depreciation / amortisation  | <b>80,461,990</b>                              | 66,317,384                                     |
| Provision for doubtful debts   | <b>28,520,977</b>                              | 31,285,879                                     |
| Provision for doubtful advances  | <b>18,599,830</b>                              | 38,950,930                                     |
| Bad debts and advances written off   | <b>3,272,613</b>                               | 158,637  |
| Provision for diminution in value of long term investment  | <b>247,321,631</b>                             | -  |
| Loss on sale / discard of fixed assets (net)   | <b>1,457,305</b>                               | 6,034,659                                      |
| Unrealised foreign exchange loss / (gain)  | <b>(68,302,563)</b>                            | 45,682,967                                     |
| Interest income  | <b>(57,388,288)</b>                            | (40,325,676)                                   |
| Provision for doubtful debts and advances written back   | <b>(26,332,596)</b>                            | (10,703,381)                                   |
| Other excess provisions written back   | <b>(405,828)</b>                               | (411,763)                                      |
| Interest expense   | <b>1,698,510</b>                               | 1,256,782                                      |
| <b>Operating profit before working capital changes</b>   | <b>320,060,002</b>                             | 390,316,270                                    |
| Movements in working capital :   |  |  |
| (Increase) / Decrease in sundry debtors  | <b>150,497,175</b>                             | (98,163,765)                                   |
| (Increase) / Decrease in other current assets  | <b>(50,035,415)</b>                            | 327,950  |
| (Increase) / Decrease in loans and advances  | <b>(18,681,412)</b>                            | 49,618,952                                     |
| (Increase) in margin money deposit   | <b>(25,311,864)</b>                            | (45,312,652)                                   |
| Increase / (Decrease) in current liabilities and provisions  | <b>(34,294,880)</b>                            | 26,113,029                                     |
| <b>Cash generated from operations</b>  | <b>342,233,606</b>                             | 322,899,784                                    |
| Direct taxes paid, net of refunds  | <b>(40,679,469)</b>                            | (36,504,250)                                   |
| <b>Net cash from operating activities (A)</b>  | <b>301,554,137</b>                             | 286,395,534                                    |
| <b>B. CASH FLOWS USED IN INVESTING ACTIVITIES</b>  |  |  |
| Purchase of fixed assets   | <b>(69,033,325)</b>                            | (70,962,820)                                   |
| Proceeds from sale of fixed assets   | <b>3,697,425</b>                               | 1,537,727                                      |
| Investment in R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V., Netherlands) (refer note 11(d) under Schedule 17)                           | -  | (42,053,275)                                   |
| Investment in R Systems, S.A.S., France (formerly known as Sento S.A.S., France) (refer note 11(d) under Schedule 17)  | -  | (32,593,766)                                   |
| Acquisition of subsidiary (net of deferred compensation to the erstwhile shareholders of R Systems Solutions, Inc., USA) (also refer note 11(b) under Schedule 17) | <b>(7,583,873)</b>                             | (23,468,978)                                   |
| Loan to ECnet Limited, Singapore (a subsidiary company)  | <b>(18,599,830)</b>                            | (38,950,930)                                   |
| Interest received  | <b>36,231,849</b>                              | 34,739,900                                     |
| Investment in long term fixed deposits with scheduled banks  | <b>(547,427,379)</b>                           | (468,766,926)                                  |
| Proceeds from long term fixed deposits with scheduled banks  | <b>478,360,574</b>                             | 432,579,210                                    |
| <b>Net cash used in investing activities (B)</b>   | <b>(124,354,559)</b>                           | (207,939,858)                                  |

|   | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|---|--|--|
| <b>C. CASH FLOWS USED IN FINANCING ACTIVITIES</b>             |  |  |
| Proceeds from long term borrowings                            | 2,268,082                                      | 1,647,300                                      |
| Repayment of long term borrowings                             | (3,231,208)                                    | (3,614,703)                                    |
| Margin money deposit against short term borrowings            | (62,250,000)                                   | -  |
| Buy back of equity shares                                     | (72,969,023)                                   | (7,030,950)                                    |
| Interest paid   | (1,698,510)                                    | (1,256,782)                                    |
| Dividends paid  | (30,927,538)                                   | (24,288,716)                                   |
| Tax on dividend paid  | (5,264,659)                                    | (4,155,087)                                    |
| <b>Net cash used in financing activities (C)</b>              | <b>(174,072,856)</b>                           | <b>(38,698,938)</b>                            |
| <b>Net increase in cash and cash equivalents (A + B + C)</b>  | <b>3,126,722</b>                               | <b>39,756,738</b>                              |
| <b>Cash and cash equivalents at the beginning of the year</b> | <b>146,543,749</b>                             | <b>106,787,011</b>                             |
| <b>Cash and cash equivalents at the end of the year</b>       | <b>149,670,471</b>                             | <b>146,543,749</b>                             |

| Components of cash and cash equivalents as at                                 | December 31, 2009<br>Rs. | December 31, 2008<br>Rs. |
|---|--------------------------|--------------------------|
| Cash on hand  | 168,760                  | 106,116                  |
| Balances with scheduled banks   |                          |                          |
| On current accounts   | 10,205,708               | 12,957,803               |
| On cash credit / overdraft accounts   | 10,058,502               | 7,644,368                |
| On EEFC accounts  | 63,893,574               | 25,388,722               |
| On deposit accounts   | 587,132,432              | 472,053,763              |
| On unclaimed dividend/IPO refund accounts*                                    | 383,665                  | 333,517                  |
| Balances with other banks   |                          |                          |
| On current account  | 45,291,739               | 40,202,888               |
|   | <b>717,134,380</b>       | <b>558,687,177</b>       |
| Less : Margin money deposit   | (207,625,739)            | (120,063,875)            |
| Less : Long term deposits   | (359,656,693)            | (290,589,888)            |
| Less : Unclaimed dividend/IPO refund accounts                                 | (383,665)                | (333,517)                |
| Less : Unrealised (gain) / loss on foreign currency cash and cash equivalents | 202,188                  | (1,156,148)              |
| <b>Net cash and cash equivalents</b>  | <b>149,670,471</b>       | <b>146,543,749</b>       |

\* These balances are not available for use by the Company as they represent corresponding unpaid dividend liabilities.

**Note:**

The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 "Cash Flow Statement" issued by the Institute of Chartered Accountants of India.

As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

Sd/-  
**per Sanjay Vij**  
Partner  
Membership No. 95169  
Place : Gurgaon  
Date : February 21, 2010

Sd/-  
**Satinder Singh Rekhi**  
[Chairman & Managing  
Director]  
Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

Sd/-  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior  
Executive Director]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Raj Swaminathan**  
[Director & Chief  
Operating Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Shankar Seetharaman**  
[Chief Financial Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Suresh Kumar Bhutani**  
[Company Secretary &  
Compliance Officer]  
Place : NOIDA  
Date : February 21, 2010

## Schedules

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 1: SHARE CAPITAL</b>  |                                   |                                   |
| <b>Authorised</b>   |                                   |                                   |
| 20,000,000 (Previous year 20,000,000 ) equity shares of Rs. 10 each   | <b>200,000,000</b>                | 200,000,000                       |
| <b>Issued, subscribed and paid up</b>   |                                   |                                   |
| 13,782,206 (Previous year 13,782,206) equity shares of Rs. 10 each fully paid-up  | <b>137,822,060</b>                | 137,822,060                       |
| Less: Equity shares buy-back  |                                   |                                   |
| 997,500 (Previous year 997,500) equity shares of Rs. 2 each fully paid-up (equivalent to 199,500 (Previous year 199,500) equity shares of Rs. 10 each) (refer note 10(a) under Schedule 17) | <b>1,995,000</b>                  | 1,995,000                         |
| 13,582,706 (Previous year 13,582,706) equity shares of Rs. 10 each fully paid-up (refer note 10 (a) under Schedule 17)  | <b>135,827,060</b>                | 135,827,060                       |
| Less: Equity shares buy-back (refer note 10(b) under Schedule 17)   |                                   |                                   |
| 1,265,820 (Previous year 132,670) equity shares of Rs.10 each fully paid-up   | <b>12,658,200</b>                 | 1,326,700                         |
|   | <b>123,168,860</b>                | 134,500,360                       |
| Less: Nil (Previous year 13,676) equity shares of Rs.10 each fully paid-up lying in Share Suspense Account (refer note 12(b) under Schedule 17)   | -                                 | 136,760                           |
|   | <b>123,168,860</b>                | 134,363,600                       |
| Less: Advance to Indus Software Employees Welfare Trust (refer note 12(b) under Schedule 17)  | <b>738,980</b>                    | 738,980                           |
|   | <b>122,429,880</b>                | 133,624,620                       |

**Note:**

- 1) Refer note 10(a) under Schedule 17 for bonus shares and shares issued for consideration other than cash.
- 2) Refer note 12 under Schedule 17 for details of options in respect of equity shares.

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 2: RESERVES AND SURPLUS</b>   |                                   |                                   |
| <b>Capital Redemption Reserve</b>   |                                   |                                   |
| Balance as per last account   | <b>1,463,460</b>                  | -                                 |
| Add: Transferred from General Reserve (refer note 10(b) under Schedule 17)                        | <b>11,194,740</b>                 | 1,463,460                         |
|   | <b>12,658,200</b>                 | 1,463,460                         |
| <b>Securities Premium Account</b>   |                                   |                                   |
| Balance as per last account   | <b>976,120,078</b>                | 981,687,568                       |
| Less: Utilised for buy back of equity shares (refer note 10(b) under Schedule 17)                 | <b>61,774,283</b>                 | 5,567,490                         |
|   | <b>914,345,795</b>                | 976,120,078                       |
| Less: Advance to Indus Software Employees Welfare Trust (also refer note 12(b) under Schedule 17) | <b>2,282,728</b>                  | 2,282,728                         |
|   | <b>912,063,067</b>                | 973,837,350                       |
| <b>General Reserve</b>  |                                   |                                   |
| Balance as per last account   | <b>42,824,862</b>                 | 20,640,719                        |
| Add: Transferred from current year Profit and Loss Account  | <b>6,551,586</b>                  | 23,647,603                        |
| Less: Transferred to Capital Redemption Reserve (refer note 10(b) under Schedule 17)              | <b>11,194,740</b>                 | 1,463,460                         |
|   | <b>38,181,708</b>                 | 42,824,862                        |

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 2: RESERVES AND SURPLUS</b>                             |                                   |                                   |
| Profit and Loss Account   |                                   |                                   |
| Balance as per last account   | <b>656,713,226</b>                | 478,702,270                       |
| Add: Adjustment in accordance with transitional provisions of AS-30 | -                                 | 2,261,781                         |
| Add: Transferred from current year Profit and Loss Account          | <b>25,216,833</b>                 | 175,749,175                       |
|   | <b>681,930,059</b>                | 656,713,226                       |
|   | <b>1,644,833,034</b>              | 1,674,838,898                     |

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 3: SECURED LOANS</b>  |                                   |                                   |
| <b>- From Bank</b>  |                                   |                                   |
| For motor vehicles<br>(Secured by hypothecation of underlying motor vehicles) | <b>797,756</b>                    | 3,574,873                         |
| <b>- From Others</b>  |                                   |                                   |
| For motor vehicles<br>(Secured by hypothecation of underlying motor vehicles) | <b>2,355,657</b>                  | 541,666                           |
|   | <b>3,153,413</b>                  | 4,116,539                         |

**Note:**

Included in secured loans above, the amount payable within one year is Rs. 1,422,367 (Previous year Rs. 2,124,002).

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 4: DEFERRED TAX LIABILITY (NET)</b>  |                                   |                                   |
| <b>Deferred tax liability</b>  |                                   |                                   |
| Differences in depreciation/amortisation and other differences in block of fixed assets as per tax books and financial books | <b>45,077,959</b>                 | 40,650,154                        |
| <b>Gross deferred tax liability</b>  | <b>45,077,959</b>                 | 40,650,154                        |
| <b>Deferred tax assets</b>   |                                   |                                   |
| Provision for gratuity   | <b>12,846,618</b>                 | 14,351,012                        |
| Provision for long term compensated absences   | <b>11,168,407</b>                 | 9,421,712                         |
| <b>Gross deferred tax assets</b>   | <b>24,015,025</b>                 | 23,772,724                        |
| <b>Net deferred tax liability</b>  | <b>21,062,934</b>                 | 16,877,430                        |

**SCHEDULE 5: FIXED ASSETS**

(Amount in Rs.)

|   | Land - freehold  | Land - leasehold  | Building - freehold | Building - leasehold (1) | Leasehold improvements | Computers          | Office and electrical equipments | Furniture and fittings | Vehicles          | Softwares          | Product development costs | Total              | Previous Year |
|---|------------------|-------------------|---------------------|--------------------------|------------------------|--------------------|----------------------------------|------------------------|-------------------|--------------------|---------------------------|--------------------|---------------|
| <b>Gross block</b>  |                  |                   |                     |                          |                        |                    |                                  |                        |                   |                    |                           |                    |               |
| As at January 1, 2009   | 4,765,674        | 10,005,968        | 31,198,298          | 88,384,115               | 2,853,057              | 226,168,862        | 86,868,847                       | 82,799,869             | 21,765,579        | 55,833,169         | 19,567,953                | <b>630,211,391</b> | 573,007,951   |
| Additions   | -                | -                 | -                   | 81,046                   | 1,133,658              | 18,352,709         | 3,207,757                        | 1,532,144              | 3,982,540         | 71,883,521         | -                         | <b>100,173,375</b> | 97,204,360    |
| Deductions  | -                | -                 | -                   | -                        | 515,887                | -                  | 860,038                          | 56,325                 | 8,301,582         | -                  | -                         | <b>9,733,832</b>   | 40,000,920    |
| <b>At December 31, 2009</b>   | <b>4,765,674</b> | <b>10,005,968</b> | <b>31,198,298</b>   | <b>88,465,161</b>        | <b>3,470,828</b>       | <b>244,521,571</b> | <b>89,216,566</b>                | <b>84,275,688</b>      | <b>17,446,537</b> | <b>127,716,690</b> | <b>19,567,953</b>         | <b>720,650,934</b> | 630,211,391   |
| <b>Depreciation / amortisation</b>  |                  |                   |                     |                          |                        |                    |                                  |                        |                   |                    |                           |                    |               |
| As at January 1, 2009   | -                | 773,390           | 3,680,248           | 5,810,363                | 1,157,548              | 109,931,300        | 19,537,446                       | 23,718,653             | 5,796,140         | 37,123,527         | 7,934,865                 | <b>215,463,480</b> | 181,574,630   |
| For the year  | -                | 163,097           | 513,504             | 1,441,627                | 1,084,454              | 34,076,891         | 5,305,572                        | 4,981,371              | 1,941,100         | 27,076,682         | 3,877,692                 | <b>80,461,990</b>  | 66,317,384    |
| Deletions / adjustments   | -                | -                 | -                   | -                        | 515,887                | -                  | 402,418                          | 11,455                 | 3,649,342         | -                  | -                         | <b>4,579,102</b>   | 32,428,534    |
| <b>At December 31, 2009</b>   | <b>-</b>         | <b>936,487</b>    | <b>4,193,752</b>    | <b>7,251,990</b>         | <b>1,726,115</b>       | <b>144,008,191</b> | <b>24,440,600</b>                | <b>28,688,569</b>      | <b>4,087,898</b>  | <b>64,200,209</b>  | <b>11,812,557</b>         | <b>291,346,368</b> | 215,463,480   |
| <b>Net block</b>  |                  |                   |                     |                          |                        |                    |                                  |                        |                   |                    |                           |                    |               |
| <b>At December 31, 2009</b>   | <b>4,765,674</b> | <b>9,069,481</b>  | <b>27,004,546</b>   | <b>81,213,171</b>        | <b>1,744,713</b>       | <b>100,513,380</b> | <b>64,775,966</b>                | <b>55,587,119</b>      | <b>13,358,639</b> | <b>63,516,481</b>  | <b>7,755,396</b>          | <b>429,304,566</b> | 414,747,911   |
| At December 31, 2008  | 4,765,674        | 9,232,578         | 27,518,050          | 82,573,752               | 1,695,509              | 116,237,562        | 67,331,401                       | 59,081,216             | 15,969,439        | 18,709,642         | 11,633,088                |                    |               |
| Capital work in progress (including capital advances of Rs. 80,875 (Previous year Rs. 1,785,639)) |                  |                   |                     |                          |                        |                    |                                  |                        |                   |                    |                           | <b>17,604,314</b>  | 3,213,404     |
|   |                  |                   |                     |                          |                        |                    |                                  |                        |                   |                    |                           | <b>446,908,880</b> | 417,961,315   |

**Notes:**

- 1) Includes Rs. 21,155,390 (Previous year Rs. 21,155,390) paid towards land and building under a composite lease for which no separate values are assignable.
- 2) Vehicles amounting to Rs. 8,735,500 (Previous year Rs. 13,231,668) are hypothecated against term loans for vehicle finance from banks & others.
- 3) Also refer note 4 and note 8.4 under Schedule 17 for assets obtained free of cost on returnable basis.

|  | As at December<br>31, 2009<br>Rs.  | As at December<br>31, 2008<br>Rs.                                  |
|--|--|--|
| <b>SCHEDULE 6: INVESTMENTS</b>   |  |  |
| <b>Long term investments (at cost)</b>   |  |  |
| <b>A. Other than trade- unquoted</b>   |  |  |
| Equity shares, fully paid up<br>2,500 (Previous year 2,500) equity shares of Rs.10 each fully paid up<br>in The Saraswat Co-operative Bank Limited   | <b>25,000</b>  | 25,000   |
| <b>B. In subsidiary companies:</b>   |  |  |
| Unquoted, fully paid up  |  |  |
| (i) 4,070,000 (Previous year 4,070,000) ordinary shares of "no<br>par" value in R Systems (Singapore) Pte. Ltd.  | <b>104,173,570</b>   | 104,173,570  |
| (ii) 2,000 (Previous year 2,000) shares of "no par" value in<br>R Systems, Inc., USA   | <b>223,358,532</b>   | 223,358,532  |
| (iii) 243,750 (Previous year 243,750) common stock of US\$1<br>each fully paid up in Indus Software Inc., USA<br>Less: Provision for diminution in value   | <b>10,785,738</b><br><b>10,784,738</b> <b>1,000</b>  | 10,785,738<br>10,784,738      1,000                                |
| (iv) 17,651,502 (Previous year 17,651,502) ordinary shares of "no<br>par" value in ECnet Limited, Singapore (also refer note 11(a)<br>under Schedule 17)<br>Less : Adjustment with securities premium as per order of<br>High Court  | <b>34,938,958</b><br><br><b>24,495,721</b><br><b>10,443,237</b>                                      | 34,938,958<br><br>24,495,721<br>10,443,237                         |
| Less: Amounts adjusted on settlement of liabilities towards<br>certain erstwhile shareholders (refer note 11(a) under Schedule 17)   | <b>10,442,237</b> <b>1,000</b>   | 10,442,237      1,000  |
| (v) Investment in R Systems Solutions, Inc,USA (also refer note 11 (b)<br>under Schedule 17)<br>8,666,884 (Previous year 8,666,884) Series A convertible<br>preferred stock of "no par" value<br>10,335,833 (Previous year 10,335,833) common stock of "no par" value<br>1,000,000 (Previous year 1,000,000) common stock of "no par" value<br><br>Less: Provision for diminution in value | <b>128,825,090</b><br><br><b>43,852,500</b><br><b>172,677,590</b><br><b>172,676,590</b> <b>1,000</b> | 129,531,268<br><br>43,852,500<br>173,383,768<br>-      173,383,768 |
| (vi) 200 (Previous year 200) shares of Euro 310 each fully paid up in<br>R Systems NV, Belgium   | <b>3,471,640</b>   | 3,471,640  |
| (vii) Investment in R Systems Europe B.V., Netherlands (formerly known<br>as Sento Europe B.V., Netherlands) (refer note 11(d) under Schedule 17)<br>3,170 (Previous year 3,170) ordinary shares of Euro 100 each fully paid up<br>Less: Provision for diminution in value   | <b>42,053,275</b><br><br><b>42,052,275</b> <b>1,000</b>  | 42,053,275<br><br>-      42,053,275                                |
| (viii) Investment in R Systems S.A.S., France (formerly known as Sento<br>S.A.S., France) (refer note 11(d) under Schedule 17)<br>10,000 (Previous year 10,000) ordinary shares of Euro 15.24<br>each fully paid up<br>Less: Provision for diminution in value   | <b>32,593,766</b><br><br><b>32,592,766</b> <b>1,000</b>  | 32,593,766<br><br>-      32,593,766                                |
|  | <b>331,033,742</b>   | 579,061,551  |
| Aggregate amount of unquoted investments   | <b>331,033,742</b>   | <b>579,061,551</b>   |
| Aggregate amount of quoted investments   | -  | -  |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 7: SUNDRY DEBTORS</b>                          |                                   |                                   |
| <b>Debts outstanding for a period more than six months</b> |                                   |                                   |
| Unsecured, considered good                                 | <b>22,048,685</b>                 | 13,496,762                        |
| Unsecured, considered doubtful                             | <b>79,230,500</b>                 | 72,161,896                        |
| <b>Other debts</b>   |                                   |                                   |
| Unsecured, considered good                                 | <b>358,709,320</b>                | 524,823,888                       |
| Unsecured, considered doubtful                             | <b>1,292,909</b>                  | 10,084,528                        |
|  | <b>461,281,414</b>                | 620,567,074                       |
| Less : Provision for doubtful debts                        | <b>80,523,409</b>                 | 82,246,424                        |
|  | <b>380,758,005</b>                | 538,320,650                       |
| Included in Sundry debtors are:                            |                                   |                                   |
| Dues from companies under the same management              |                                   |                                   |
| From subsidiary companies                                  |                                   |                                   |
| R Systems, Inc., USA                                       | <b>1,664,858</b>                  | 16,970,552                        |
| ECnet Limited, Singapore                                   | <b>5,443,997</b>                  | 4,306,137                         |
| R Systems Solutions, Inc., USA                             | -                                 | 11,309,453                        |
| R Systems Europe B.V., Netherlands                         | -                                 | 633,885                           |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 8: CASH AND BANK BALANCES</b>  |                                   |                                   |
| Cash on hand   | <b>168,760</b>                    | 106,116                           |
| Balances with scheduled banks  |                                   |                                   |
| On current accounts  | <b>10,205,708</b>                 | 12,957,803                        |
| On cash credit / overdraft accounts  | <b>10,058,502</b>                 | 7,644,368                         |
| On EEFC accounts   | <b>63,893,574</b>                 | 25,388,722                        |
| On deposit accounts  | <b>587,132,432</b>                | 472,053,763                       |
| On unclaimed dividend/IPO refund accounts  | <b>383,665</b>                    | 333,517                           |
| Balance with other banks   |                                   |                                   |
| On current account with California Bank & Trust<br>[Maximum balance during the period Rs. 95,534,479 (Previous year Rs. 76,394,231)]     | <b>38,242,450</b>                 | 38,555,292                        |
| On current account with Fortis Bank (Netherlands) N.V.<br>[Maximum balance during the period Rs. 6,219,128 (Previous year Rs.1,944,896)] | <b>1,367,839</b>                  | 1,647,596                         |
| On current account with Sumitomo Mitusi Banking Corporation<br>[Maximum balance during the period Rs. 5,681,450 (Previous year Rs. Nil)] | <b>5,681,450</b>                  | -                                 |
|  | <b>717,134,380</b>                | 558,687,177                       |

**Notes:**

- 1) Balances with scheduled banks - on deposit accounts include receipts lien marked with banks against guarantees issued in favour of various Government departments Rs. 124,623,420 (Previous year Rs. 120,063,875) and against credit / derivative facilities taken Rs. 83,002,319 (Previous year Rs. Nil).
- 2) Also refer note 19 (c) under Schedule 17 for investment of balance funds from IPO proceeds pending its utilisation.
- 3) Also refer note 20 under Schedule 17 for details of cash and bank balances.
- 4) Cash credit facilities are secured by first charge over current assets and collateral charge over the immovable property and fixed assets.

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 9: OTHER CURRENT ASSETS</b> |                                   |                                   |
| Interest accrued on deposits            | <b>18,876,236</b>                 | 4,150,140                         |
| Interest accrued on staff advance       | <b>61,250</b>                     | 39,495                            |
| Unbilled revenue                        | <b>97,661,473</b>                 | 47,626,058                        |
|   | <b>116,598,959</b>                | 51,815,693                        |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 10: LOANS AND ADVANCES</b>   |                                   |                                   |
| (Unsecured, considered good, except where otherwise stated)  |                                   |                                   |
| Advances recoverable in cash or in kind or for value to be received<br>[including Rs. 5,068,200 (Previous year Rs. 5,348,467) considered doubtful] | <b>47,113,282</b>                 | 36,093,402                        |
| Mark-to-market on forward contracts  | <b>19,109,927</b>                 | -                                 |
| Advance recoverable from subsidiary companies  |                                   |                                   |
| a) Advance recoverable from R Systems, Inc., USA (a wholly owned subsidiary company)   | <b>1,431,869</b>                  | 1,313,850                         |
| b) Advance recoverable from ECnet Limited, Singapore (a subsidiary company)  | <b>3,230,398</b>                  | -                                 |
| c) Advance recoverable from R Systems Solutions, Inc., USA (a wholly owned subsidiary company)   | <b>5,332,341</b>                  | 5,456,373                         |
| d) Advance recoverable from R Systems (Singapore) Pte Ltd, Singapore (a wholly owned subsidiary company)   | <b>78,531</b>                     | -                                 |
| e) Advance recoverable from R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) (a wholly owned subsidiary company)           | -                                 | 192,464                           |
| Loan to ECnet Limited, Singapore (a subsidiary company)<br>[including Rs. 109,272,900 (Previous year Rs. 94,822,750) considered doubtful]          | <b>109,272,900</b>                | 94,822,750                        |
| MAT credit receivable  | <b>59,361,869</b>                 | 16,683,805                        |
| Balances with customs, excise, etc.  | <b>4,164,272</b>                  | 2,774,281                         |
| Deposits - others  | <b>24,624,008</b>                 | 21,986,930                        |
| Advance fringe benefit tax [net of provisions amounting to Rs. 13,986,408 (Previous year Rs. Nil)]   | <b>167,664</b>                    | -                                 |
| Advance income taxes [net of provisions amounting to Rs. Nil (Previous year Rs. 78,974,306)]   | -                                 | 135,806                           |
|  | <b>273,887,061</b>                | 179,459,661                       |
| Less : Provision for doubtful loans and advances   | <b>114,341,100</b>                | 100,171,217                       |
|  | <b>159,545,961</b>                | 79,288,444                        |
| Maximum amounts outstanding from companies under the same management   |                                   |                                   |
| From subsidiary companies  |                                   |                                   |
| R Systems, Inc., USA   | <b>14,888,180</b>                 | 54,856,309                        |
| ECnet Limited, Singapore   | <b>112,670,153</b>                | 96,312,670                        |
| R Systems Solutions, Inc., USA   | <b>6,577,079</b>                  | 6,472,392                         |
| R Systems (Singapore) Pte. Ltd., Singapore   | <b>78,801</b>                     | 48,653                            |
| R Systems Europe B.V., Netherlands   | <b>687,697</b>                    | 192,464                           |

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 11: CURRENT LIABILITIES</b>   |                                   |                                   |
| Sundry creditors  |                                   |                                   |
| a) Total outstanding dues of micro enterprises and small enterprises included in Sundry creditors (also refer note 9 under Schedule 17) | -                                 | -                                 |
| b) Total outstanding dues other than micro enterprises and small enterprises included in Sundry creditors                               | <b>146,500,895</b>                | 100,117,975                       |
| Mark-to-market on forward contracts   | -                                 | 46,759,066                        |
| Payable to subsidiary companies   | <b>4,422,656</b>                  | 2,687,022                         |
| Deferred payment compensation to the erstwhile shareholders of ECnet Limited (refer note 11 (a) under Schedule 17)                      | <b>8,916,859</b>                  | 9,285,242                         |
| Deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc. (refer note 11 (b) under Schedule 17)          | -                                 | 9,782,911                         |
| Deferred revenue  | <b>19,673,139</b>                 | 43,951,341                        |
| Investor education and protection fund (not due)  |                                   |                                   |
| (a) Unclaimed dividend  | <b>383,665</b>                    | 258,267                           |
| (b) Unclaimed application money received for allotment of equity shares and due for refund  | -                                 | 75,250                            |
| Security deposits   | <b>1,687,662</b>                  | 2,087,590                         |
| Other liabilities   | <b>8,988,533</b>                  | 15,861,977                        |
|   | <b>190,573,409</b>                | 230,866,641                       |

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 12: PROVISIONS</b>  |                                   |                                   |
| Employee bonus  | <b>24,993,938</b>                 | 20,774,350                        |
| Income tax [net of advance taxes amounting to Rs. 120,158,814 (Previous year Rs. Nil)]        | <b>17,341,196</b>                 | -                                 |
| Fringe benefit tax [net of advance taxes amounting to Rs. Nil (Previous year Rs. 18,384,772)] | -                                 | 264,270                           |
| Proposed final dividend (refer note 10(b) under Schedule 17)                                  | <b>29,560,527</b>                 | 31,693,018                        |
| Tax on proposed final dividend (refer note 10(b) under Schedule 17)                           | <b>5,023,813</b>                  | 5,386,229                         |
| Gratuity (refer note 14 under Schedule 17)  | <b>42,199,151</b>                 | 46,466,537                        |
| Long term compensated absences  | <b>50,808,632</b>                 | 60,226,298                        |
|   | <b>169,927,257</b>                | 164,810,702                       |

|  | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|--|--|--|
| <b>SCHEDULE 13: OTHER INCOME</b>   |  |  |
| Interest on:   |  |  |
| - Bank deposits [Gross of tax deducted at source Rs. 6,408,588 (Previous year Rs. 8,437,338)]          | <b>51,437,225</b>                              | 36,454,071                                     |
| - Interest on loan to ECnet Limited [Gross of withholding tax Rs. 893,596 (Previous year Rs. 580,756)] | <b>5,951,063</b>                               | 3,871,605                                      |
| Provision for doubtful debts and advances written back   | <b>26,332,596</b>                              | 10,703,381                                     |
| Other excess provisions written back, as no longer required  | <b>405,828</b>                                 | 411,763  |
| Miscellaneous income   | <b>7,559,539</b>                               | 11,378,212                                     |
|  | <b>91,686,251</b>                              | 62,819,032                                     |

|   | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|---|--|--|
| <b>SCHEDULE 14: PERSONNEL EXPENSES</b>            |  |  |
| Salaries, wages and bonus                         | <b>1,079,375,533</b>                           | 1,154,984,627                                  |
| Contribution to provident fund and other payments | <b>38,082,423</b>                              | 38,434,781                                     |
| Staff welfare expenses                            | <b>32,250,460</b>                              | 28,793,123                                     |
|   | <b>1,149,708,416</b>                           | 1,222,212,531                                  |

**Note:**

Also refer note 8.1 (a) & (b) under Schedule 17 for managerial remuneration.

|  | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|--|--|--|
| <b>SCHEDULE 15: OPERATING AND OTHER EXPENSES</b> |  |  |
| Power and fuel                                   | <b>35,482,386</b>                              | 33,958,885                                     |
| Rent - premises                                  | <b>36,850,323</b>                              | 32,895,686                                     |
| Rent - equipments                                | <b>1,117,045</b>                               | 4,410,161                                      |
| Rates and taxes                                  | <b>2,273,823</b>                               | 1,407,271                                      |
| Insurance  | <b>6,627,837</b>                               | 5,814,367                                      |
| Repair and maintenance                           |  |  |
| - Buildings                                      | <b>232,220</b>                                 | 1,541,512                                      |
| - Others   | <b>28,649,658</b>                              | 22,271,641                                     |
| Advertising and sales promotion                  | <b>5,424,492</b>                               | 10,102,522                                     |
| Commission-others                                | <b>9,282,472</b>                               | 5,138,436                                      |
| Traveling and conveyance                         | <b>150,555,193</b>                             | 189,659,738                                    |
| Communication costs                              | <b>49,474,881</b>                              | 41,782,195                                     |
| Printing and stationery                          | <b>3,838,759</b>                               | 4,904,124                                      |
| Legal and professional fees                      | <b>24,849,340</b>                              | 24,167,904                                     |
| Directors' sitting fee                           | <b>225,000</b>                                 | 210,000  |

|  | For the year ended<br>December 31, 2009<br>Rs. |                    | For the year ended<br>December 31, 2008<br>Rs. |             |
|--|--|--------------------|--|-------------|
| <b>SCHEDULE 15: OPERATING AND OTHER EXPENSES</b> |  |                    |  |             |
| Auditors' remuneration                           |  |                    |  |             |
| - Statutory audit fee                            | <b>1,350,000</b>                               |                    | 1,350,000                                      |             |
| - Quarterly audit fee                            | <b>1,800,000</b>                               |                    | 1,874,160                                      |             |
| - Other services                                 | <b>1,180,000</b>                               |                    | 1,043,540                                      |             |
| - Out of pocket expenses                         | <b>212,850</b>                                 | <b>4,542,850</b>   | 164,948  | 4,432,648   |
| Foreign exchange fluctuation (net)               |  | <b>2,392,508</b>   |  | 73,522,920  |
| Provision for doubtful debts                     |  | <b>28,520,977</b>  |  | 31,285,879  |
| Provision for doubtful advances                  |  | <b>18,599,830</b>  |  | 38,950,930  |
| Bad debts and advances written off               |  | <b>3,272,613</b>   |  | 158,637     |
| Loss on sale / discard of fixed assets (net)     |  | <b>1,457,305</b>   |  | 6,034,659   |
| Recruitment and training expenses                |  | <b>3,469,705</b>   |  | 10,016,831  |
| Watch and ward expenses                          |  | <b>4,991,737</b>   |  | 4,897,514   |
| Membership and subscription                      |  | <b>3,742,784</b>   |  | 3,137,865   |
| Miscellaneous expenses                           |  | <b>2,576,849</b>   |  | 5,065,568   |
|  |  | <b>428,450,587</b> |  | 555,767,893 |

|  | For the year ended<br>December 31, 2009<br>Rs. |                  | For the year ended<br>December 31, 2008<br>Rs. |           |
|--|--|------------------|--|-----------|
| <b>SCHEDULE 16: FINANCIAL EXPENSES</b> |  |                  |  |           |
| Interest on loans from banks           |  | <b>1,698,510</b> |  | 1,256,782 |
| Bank charges                           |  | <b>4,319,837</b> |  | 3,676,846 |
|  |  | <b>6,018,347</b> |  | 4,933,628 |

## SCHEDULE 17: NOTES TO ACCOUNTS

### 1. Nature of operations

The Company is a leading global provider of IT solutions and Business Process Outsourcing (BPO) services. The Company's primary focus is to provide full service IT solutions, software engineering services, technical support, customer care and other IT enabled services to the high technology sector, independent software vendors (ISV's), banks, financial services companies, telecom, insurance and health care sector. The Company develops and markets a suite of applications under the brand name "Indus" for the retail lending sector and undertakes turnkey software projects in the banking and financial services segment.

### 2. Statement of significant accounting policies

#### (a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis, except for derivative financial instruments that have been measured at fair value. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

#### (b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

#### (c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

#### (d) Depreciation

Depreciation is provided on Straight Line method over the estimated useful lives of the fixed assets which result in depreciation rates being greater than or equal to the

corresponding rates prescribed in Schedule XIV of the Companies Act, 1956. The estimated useful lives of the fixed assets followed by the Company in preparing the financial statements are described as below:

| Category of fixed assets  | Estimated useful life                |
|---|--------------------------------------|
| Land – leasehold  | Lease period                         |
| Buildings – freehold/leasehold  | Lower of lease period or 61 years    |
| Leasehold improvements  | Lower of lease period or useful life |
| Plant and machinery - office and electrical equipments other than (i) UPS systems, (ii) stand alone air conditioners and (iii) telephone instruments, other than meridian phones. | 20 years                             |
| UPS systems   | 12 years                             |
| Stand alone air conditioners and telephone instruments other than meridian phones.  | 6 years                              |
| Computer hardware and network installations   | 6 years                              |
| Furniture and fittings  | 15 years                             |
| Vehicles  | 10 years                             |

In the following cases, the estimated useful lives of the assets followed by the Company result in depreciation rates to be higher than that provided under Schedule XIV.

|  | Rates (SLM) | Schedule XIV Rates (SLM) |
|--|-------------|--------------------------|
| UPS systems  | 8.33%       | 4.75%                    |
| Stand alone air conditioners and telephone instruments other than meridian phones. | 16.66%      | 4.75%                    |

Individual assets costing up to Rs. 5,000 are fully depreciated in the year of use.

#### (e) Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

After impairment, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

**(f) Intangibles**

*Product development costs*

Product development cost represents direct cost incurred by the Company for developing new product. Research costs are expensed as incurred. Development expenditure incurred on an individual product is carried forward when its future recoverability can reasonably be regarded as assured. The expenditure incurred is carried forward under capital work in progress till the product is ready to be marketed. Expenditure carried forward is charged off over the expected useful life of product of 48 months beginning in the month when revenue from the products starts accruing.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

*Computer software*

Costs relating to acquired software are capitalised and amortised on a straight-line basis over their useful lives estimated by the management at 3 years or below in specific cases.

**(g) Expenditure on new projects**

Expenditure directly relating to construction activity is capitalised. Indirect expenditure incurred during construction period is capitalised to the extent allocable. Other indirect expenditure (including borrowing costs) incurred during the construction period which is not related to the construction activity nor is incidental thereto is charged to the Profit and Loss Account.

**(h) Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

**(i) Investments**

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the long term investments.

**(j) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

*Sale of software products*

Revenue from the sale of software license is recognised when the sale has been completed with the transfer of title.

*Rendering of services*

Revenue from software development and maintenance services projects comprise income from time-and-material and fixed-price contracts.

Revenue associated with software development and maintenance services/customisation of products and business process outsourcing services rendered on time and materials basis is recognised when services are rendered. The same is calculated based on man-hours incurred for rendering services.

Fixed-price contracts vary in duration depending on the terms of the work being performed. Revenue from fixed price contracts (including maintenance and support contracts) is recognised using the percentage of completion method, when reasonable progress has been made on the milestones achieved as specified in the contracts. The stage of completion of project is determined by the proportion that contract efforts incurred for work performed up to the balance sheet date bear to the estimated total contract effort. Changes in contract performance, estimated profitability and final contract settlements may result in revision to costs and revenue and are recognised in the period in which the revision is determined. If a loss is projected on any contract in process, the entire projected loss is recognised immediately.

In terms of contracts excess/shortfall of revenue over the billed as at the period/year-end is carried in financial statement as unbilled revenue/deferred revenue separately.

Management fees from the customers for managing projects are being recognised on time basis over the estimated life of the project.

*Interest*

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

**(k) Foreign currency translation**

*Foreign currency transactions*

(i) Initial recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(ii) Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

(iii) Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting Company's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, are recognised as income or as expense in the period in which they arise except those arising from investments in non-integral operations.

(iv) Forward exchange contracts not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts (except outstanding against firm commitments and highly probable forecast transaction) is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the period.

(v) Translation of Integral foreign operation

The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself.

**(l) Employee benefits**

- (i) Retirement benefits in the form of Provident Fund is a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the period

when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.

- (ii) Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation made at the end of each financial period/year on projected unit credit method. The gratuity plan is not funded.

- (iii) Long term compensated absences are provided for based on actuarial valuation. The actuarial valuation is done as per projected unit credit method.

- (iv) Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.

- (v) Bonus paid to employees/directors of the Company, wherein the amount becomes proportionately recoverable in case the employee/director do not complete the stipulated period of service, is expensed off proportionately over the period stipulated/agreed with the respective employee.

**(m) Income taxes**

Tax expense comprises of current, deferred and fringe benefit tax.

Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the relevant tax regulations applicable to the Company. Payment of current income tax is made based on the assessable profits on the yearly basis from April to March.

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The Company claims exemption under section 10A of the Income Tax Act, 1961 in respect of taxable income. Deferred tax is recognised after eliminating timing differences, which reverse during the tax holiday period.

At each balance sheet date the Company re-assesses unrecognised deferred tax assets. It recognises the

unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realised.

MAT credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the Minimum Alternative Tax (MAT) credit becomes eligible to be recognised as an asset in accordance with the recommendations contained in Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of a credit to the profit and loss account and shown as MAT Credit Entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

#### **(n) Earnings per share**

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders, share split and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

#### **(o) Provision**

A provision is recognised when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on management's estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the management's current estimates.

#### **(p) Segment reporting policies**

##### *Identification of segments:*

The Company's operating businesses are organised and

managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The analysis of geographical segments is based on the areas in which the major customers of the Company operate.

##### *Intersegment transfers:*

The Company generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

##### *Allocation of common costs:*

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

##### *Unallocated items:*

The corporate and other segment includes general corporate income and expense items which are not allocated to any business segment.

##### *Segment Policies:*

The Company prepares its segment information in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Company as a whole.

#### **(q) Accounting for derivatives**

The Company uses foreign exchange forward contracts (derivative financial instrument) to hedge its exposure to movements in foreign exchange rates. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts or options for trading or speculation purposes.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the Profit and Loss Account.

The fair value of foreign exchange forward contracts is the difference between the forward exchange rate and the

contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### *Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the Profit and Loss Account. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the Profit and Loss Account.

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the Profit and Loss Account. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the Profit and Loss Account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

The Company uses forward exchange contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. (refer note 15 (b) for more details).

#### **(r) Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

#### **(s) Employee stock compensation cost**

Measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the intrinsic value method. Compensation expense is amortized over the vesting period of the option on a straight line basis.

### **3. Segment information**

#### *Business segments:*

The Company considers business segment as the basis for primary segmental reporting. The Company is organised into two business segments – software development and customisation services and BPO services. Costs and expenses which cannot be allocated to any business segment are reflected in the column 'corporate and others'. Segments have been identified and reported based on the nature of the services, the risks and returns, the organisation structure and the internal financial reporting system.

#### *Geographical segments:*

The Company reports secondary segmentation information on the basis of the geographical location of the customers. Although the Company's major operating divisions are managed on a worldwide basis, they operate in five principal geographical areas of the world which are: India, United States of America, South East Asian countries, Europe and Other areas.

The following table provides required information for the primary segments for the year ended December 31, 2009 and December 31, 2008:

(Amount in Rs.)

| Particulars                    | Software development & customisation services |               | Business process outsourcing services |             | Eliminations            |      | Corporate and others    |              | Total                   |               |
|--------------------------------|---|---------------|---------------------------------------|-------------|-------------------------|------|-------------------------|--------------|-------------------------|---------------|
|                                | Year ended December 31,                       |               | Year ended December 31,               |             | Year ended December 31, |      | Year ended December 31, |              | Year ended December 31, |               |
|                                | 2009  | 2008          | 2009                                  | 2008        | 2009                    | 2008 | 2009                    | 2008         | 2009                    | 2008          |
| <b>REVENUE</b>                 |   |               |                                       |             |                         |      |                         |              |                         |               |
| External sales                 | 1,699,203,759                                 | 1,777,860,138 | 212,227,382                           | 260,622,118 | -                       | -    | -                       | -            | 1,911,431,141           | 2,038,482,256 |
| <b>Total revenue</b>           | 1,699,203,759                                 | 1,777,860,138 | 212,227,382                           | 260,622,118 | -                       | -    | -                       | -            | 1,911,431,141           | 2,038,482,256 |
| <b>RESULT</b>                  |   |               |                                       |             |                         |      |                         |              |                         |               |
| Segment result                 | 303,136,953                                   | 211,085,034   | (228,755,636)                         | 37,754,671  |                         |      |                         |              | 74,381,317              | 248,839,705   |
| Unallocated corporate expenses |   |               |                                       |             |                         |      |                         |              |                         |               |
| <b>Operating profit</b>        |   |               |                                       |             |                         |      |                         |              |                         |               |
| Interest expenses              |   |               |                                       |             |                         |      |                         | 40,928,980   | 43,757,117              | 43,757,117    |
| Interest income                |   |               |                                       |             |                         |      |                         | (1,698,510)  | (1,256,782)             | (1,256,782)   |
| Other income                   |   |               |                                       |             |                         |      |                         | 51,437,225   | 36,454,071              | 36,454,071    |
| Income taxes                   |   |               |                                       |             |                         |      |                         | 7,965,369    | 11,789,975              | 11,789,975    |
|                                |   |               |                                       |             |                         |      |                         | (25,640,564) | (15,593,827)            | (15,593,827)  |
| <b>Net profit</b>              |   |               |                                       |             |                         |      |                         |              | 65,515,857              | 236,476,025   |

(Amount in Rs.)

| Particulars                       | Software development & customisation services |               | Business process outsourcing services |             | Eliminations |             | Corporate and others |             | Total         |               |
|-----------------------------------|---|---------------|---------------------------------------|-------------|--------------|-------------|----------------------|-------------|---------------|---------------|
|                                   | December 31,                                  |               | December 31,                          |             | December 31, |             | December 31,         |             | December 31,  |               |
|                                   | 2009  | 2008          | 2009                                  | 2008        | 2009         | 2008        | 2009                 | 2008        | 2009          | 2008          |
| <b>OTHER INFORMATION</b>          |   |               |                                       |             |              |             |                      |             |               |               |
| Segment assets                    | 1,491,093,628                                 | 1,548,292,266 | 86,541,079                            | 310,539,779 | 244,526,613  | 231,547,395 |                      |             | 1,333,108,094 | 1,627,284,650 |
| Unallocated corporate assets      |   |               |                                       |             |              |             |                      |             | 759,342,300   | 581,030,569   |
| Income tax assets                 |   |               |                                       |             |              |             |                      |             | 59,529,533    | 16,819,611    |
| <b>Total assets</b>               | 1,491,093,628                                 | 1,548,292,266 | 86,541,079                            | 310,539,779 | 244,526,613  | 231,547,395 | 818,871,833          | 597,850,180 | 2,151,979,927 | 2,225,134,830 |
| Segment liabilities               | 297,602,279                                   | 343,786,280   | 258,269,212                           | 249,877,963 | 244,526,613  | 231,547,395 |                      |             | 311,344,878   | 362,116,848   |
| Unallocated corporate liabilities |   |               |                                       |             |              |             |                      |             | 29,944,192    | 32,026,535    |
| Income tax liabilities            |   |               |                                       |             |              |             |                      |             | 43,427,943    | 22,527,929    |
| <b>Total liabilities</b>          | 297,602,279                                   | 343,786,280   | 258,269,212                           | 249,877,963 | 244,526,613  | 231,547,395 | 73,372,135           | 54,554,464  | 384,717,013   | 416,671,312   |
| Capital expenditures              | 89,769,289                                    | 69,192,294    | 24,794,996                            | 3,079,097   |              |             |                      |             | 114,564,285   | 72,271,391    |
| Depreciation and amortisation     | 72,336,634                                    | 59,736,947    | 8,125,356                             | 6,580,437   |              |             |                      |             | 80,461,990    | 66,317,384    |
| Other non-cash expenses           | 49,211,251                                    | 66,287,624    | 2,49,961,105                          | 10,142,481  |              |             |                      |             | 299,172,356   | 76,430,105    |

*Geographical segments:*

The Company reports secondary segment information on the basis of the geographical location of the customers. The management views the domestic and export markets as distinct geographical segments.

The geographical segments considered for disclosure are based on the sales within India and sales outside India on the basis of location of customers.

The following is the distribution of the Company's revenue by geographical market:

(Amount in Rs.)

|                 | For the year ended December 31, |               |
|-----------------|---------------------------------|---------------|
|                 | 2009                            | 2008          |
| India           | <b>168,310,666</b>              | 136,160,588   |
| USA             | <b>1,037,929,120</b>            | 1,278,851,532 |
| South East Asia | <b>128,675,628</b>              | 124,697,177   |
| Europe          | <b>437,103,318</b>              | 405,334,399   |
| Others          | <b>139,412,409</b>              | 93,438,560    |
| <b>Total</b>    | <b>1,911,431,141</b>            | 2,038,482,256 |

Assets and additions to tangible and intangible fixed assets by geographical area:

The following table shows the carrying amount of assets and addition to fixed assets and intangible assets by geographical area in which assets are located:

(Amount in Rs.)

|                 | Carrying amount of assets as at December 31, |               | Addition to fixed assets and intangible assets for the year ended December 31, |            |
|-----------------|--|---------------|--|------------|
|                 | 2009   | 2008          | 2009   | 2008       |
| India           | <b>1,365,961,330</b>                         | 1,068,254,799 | <b>114,564,285</b>   | 72,271,391 |
| USA             | <b>470,364,320</b>                           | 760,057,700   | -  | -          |
| South East Asia | <b>140,948,665</b>                           | 146,540,805   | -  | -          |
| Europe          | <b>141,162,039</b>                           | 210,735,103   | -  | -          |
| Others          | <b>33,543,573</b>                            | 39,546,423    | -  | -          |
| <b>Total</b>    | <b>2,151,979,927</b>                         | 2,225,134,830 | <b>114,564,285</b>   | 72,271,391 |

**4. Related Party Disclosures**

|                  |   |
|------------------|---|
| (i) Subsidiaries | R Systems (Singapore) Pte Ltd, Singapore<br>R Systems, Inc., USA<br>Indus Software, Inc., USA<br>R Systems Solutions, Inc., USA<br>R Systems N.V., Belgium<br>R Systems Europe B.V., Netherlands (formerly known as Sento |
|------------------|---|

|  |   |
|--|---|
|  | Europe B.V., Netherlands)<br>(date of acquisition January 23, 2008)<br>R Systems S.A.S., France<br>(formerly known as Sento S.A.S., France)<br>(date of acquisition January 23, 2008)<br>ECnet Ltd, Singapore<br>ECnet (M) Sdn Bhd, Malaysia<br>ECnet Systems (Thailand) Co. Ltd., Thailand<br>ECnet (Shanghai) Co. Ltd., People's Republic of China<br>ECnet (Hong Kong) Ltd., Hong Kong<br>ECnet, Inc., USA<br>ECnet Kabushiki Kaisha, Japan  |
| Key management personnel (directors) and their relatives | <b>Satinder Singh Rekhi</b><br>Chairman and Managing Director<br><b>Lt. Gen. Baldev Singh (Retd)</b><br>President and Senior Executive Director<br><b>O'Neil Nalavadi</b><br>Director Finance and Chief Financial Officer (resigned w.e.f. November 8, 2009)<br><b>Raj Swaminathan</b><br>Director and Chief Operating Officer<br><b>Mandeep Singh Sodhi</b><br>[related to Lt. Gen. Baldev Singh (Retd.)],<br>Vice President - Sales<br><b>Amrita Kaur</b><br>[related to Satinder Singh Rekhi],<br>Assistant Business Manager |

(ii) Details of transactions with related parties for year ended December 31, 2009, and December 31, 2008:-

(Amount in Rs.)

|  | Year ended December 31, |             |
|--|-------------------------|-------------|
|  | 2009                    | 2008        |
| <b>Sales to</b>  |                         |             |
| ECnet Ltd, Singapore [including derecognised revenue of earlier year Rs. Nil (Previous year Rs. 15,726,585)] | <b>23,042,975</b>       | 46,962,347  |
| R Systems, Inc., USA   | <b>30,392,147</b>       | 65,679,393  |
| R Systems (Singapore) Pte Ltd, Singapore   | <b>1,267,375</b>        | -           |
| R Systems Solutions, Inc., USA   | <b>14,041,143</b>       | 25,843,724  |
| ECnet Ltd, Kabushiki Kaisha, Japan   | -                       | 2,674,514   |
| R Systems Europe B.V., Netherlands   | <b>1,483,609</b>        | 2,531,752   |
| <b>Total</b>   | <b>70,227,249</b>       | 143,691,730 |
| <b>Other Income</b>  |                         |             |
| R Systems, Inc., USA   | <b>5,600,693</b>        | 7,603,293   |
| <b>Commission on sales and other expenses paid to</b>  |                         |             |
| R Systems Solutions, Inc., USA   | <b>9,823,169</b>        | -           |
| <b>Interest received from</b>  |                         |             |
| ECnet Ltd, Singapore   | <b>5,951,063</b>        | 3,871,605   |

(Amount in Rs.)

|   | Year ended December 31, |                    |
|---|-------------------------|--------------------|
|   | 2009                    | 2008               |
| <b>Travel and other expenses reimbursed to</b>                            |                         |                    |
| ECnet Ltd, Singapore  | 4,084,555               | 11,612,440         |
| R Systems, Inc., USA  | 66,870,624              | 87,167,533         |
| R Systems (Singapore) Pte Ltd, Singapore                                  | -                       | 1,463,065          |
| R Systems Solutions, Inc., USA  | 470,852                 | -                  |
| R Systems N.V., Belgium   | -                       | 593,655            |
| R Systems Europe B.V., Netherlands  | 536,589                 | 3,547,075          |
| <b>Total</b>  | <b>71,962,620</b>       | <b>104,383,767</b> |
| <b>Travel and other expenses paid by the Company on behalf of</b>         |                         |                    |
| ECnet Ltd, Singapore  | 1,604,783               | 3,466,750          |
| R Systems, Inc., USA  | 8,967,343               | 11,007,943         |
| R Systems (Singapore) Pte Ltd, Singapore                                  | 78,801                  | -                  |
| R Systems Solutions, Inc., USA  | 238,122                 | 2,106,303          |
| R Systems Europe B.V., Netherlands  | 418,307                 | 572,042            |
| <b>Total</b>  | <b>11,307,356</b>       | <b>17,153,038</b>  |
| <b>Reimbursement for purchase of assets from</b>                          |                         |                    |
| R Systems, Inc., USA  | 2,264,039               | -                  |
| <b>Reimbursement for purchase of assets to</b>                            |                         |                    |
| R Systems, Inc., USA  | -                       | 5,907              |
| ECnet Ltd, Singapore  | -                       | 83,194             |
| <b>Total</b>  | <b>-</b>                | <b>89,101</b>      |
| <b>Assets obtained free of cost on returnable basis</b>                   |                         |                    |
| R Systems, Inc., USA  | -                       | 1,919,662          |
| <b>Guarantee given for loans taken by</b>                                 |                         |                    |
| R Systems, Inc., USA  | 39,559,000              | 114,351,400        |
| R Systems Europe B.V., Netherlands  | -                       | 94,620,150         |
| <b>Total</b>  | <b>39,559,000</b>       | <b>208,971,550</b> |
| <b>Investment/ additional investment in</b>                               |                         |                    |
| R Systems Europe B.V., Netherlands (formerly known as Sento Europe, B.V.) | -                       | 42,053,275         |
| R Systems S.A.S., France (formerly known as Sento S.A.S., France)         | -                       | 32,593,766         |
| <b>Total</b>  | <b>-</b>                | <b>74,647,041</b>  |
| <b>Loan given to</b>  |                         |                    |
| ECnet Ltd, Singapore  | 18,599,830              | 38,950,930         |
| <b>Remuneration to key management personnel and their relatives</b>       |                         |                    |
| - Satinder Singh Rekhi  | 15,587,029              | 15,455,824         |

(Amount in Rs.)

|                        | Year ended December 31, |                   |
|------------------------|-------------------------|-------------------|
|                        | 2009                    | 2008              |
| - O'Neil Nalavadi      | 9,342,009               | 10,290,948        |
| - Baldev Singh         | 5,094,444               | 6,583,334         |
| - Raj Swaminathan      | 5,386,449               | 5,601,494         |
| - Mandeep Singh Sodhi  | 13,511,065              | 15,930,938        |
| - Amrita Kaur          | 293,660                 | -                 |
| <b>Total</b>           | <b>49,214,656</b>       | <b>53,862,538</b> |
| <b>Rent</b>            |                         |                   |
| - Satinder Singh Rekhi | 981,120                 | -                 |

(Amount in Rs.)

| Balance outstanding as at the year end                  | As at December 31, |                    |
|---|--------------------|--------------------|
|   | 2009               | 2008               |
| <b>Receivable-trade</b>                                 |                    |                    |
| ECnet Ltd, Singapore                                    | 5,443,997          | 4,306,137          |
| R Systems, Inc., USA                                    | 1,664,858          | 16,970,552         |
| R Systems Solutions, Inc., USA                          | -                  | 11,309,453         |
| R Systems Europe B.V., Netherlands                      | -                  | 633,885            |
| <b>Total</b>  | <b>7,108,855</b>   | <b>33,220,027</b>  |
| <b>Receivable-others</b>                                |                    |                    |
| ECnet Ltd, Singapore                                    | 3,230,398          | -                  |
| R Systems, Inc., USA                                    | 1,431,869          | 1,313,850          |
| R Systems (Singapore) Pte Ltd, Singapore                | 78,531             | -                  |
| R Systems Solutions, Inc., USA                          | 5,332,341          | 5,456,373          |
| R Systems Europe B.V., Netherlands                      | -                  | 192,464            |
| <b>Total</b>  | <b>10,073,139</b>  | <b>6,962,687</b>   |
| <b>Payable</b>  |                    |                    |
| ECnet Ltd, Singapore                                    | 145,757            | 859,236            |
| R Systems, Inc., USA                                    | 3,799,027          | 894,812            |
| R Systems Solutions, Inc. USA                           | 424,213            | -                  |
| R Systems Europe B.V., Netherlands                      | 53,659             | 339,319            |
| R Systems N.V., Belgium                                 | -                  | 593,655            |
| <b>Total</b>  | <b>4,422,656</b>   | <b>2,687,022</b>   |
| <b>Assets obtained free of cost on returnable basis</b> |                    |                    |
| R Systems, Inc., USA                                    | 18,445,610         | 18,445,610         |
| R Systems (Singapore) Pte Ltd, Singapore                | 157,573            | 157,573            |
| <b>Total</b>  | <b>18,603,183</b>  | <b>18,603,183</b>  |
| <b>Guarantee given for loans taken by</b>               |                    |                    |
| R Systems, Inc., USA                                    | 39,559,000         | 114,351,400        |
| R Systems Europe B.V., Netherlands                      | -                  | 94,620,150         |
| <b>Total</b>  | <b>39,559,000</b>  | <b>208,971,550</b> |
| <b>Loan given (fully provided for)</b>                  |                    |                    |
| ECnet Ltd, Singapore                                    | 109,272,900        | 94,822,750         |

## 5. Capital commitments

(Amount in Rs.)

|  | As at<br>December<br>31, 2009 | As at<br>December<br>31, 2008 |
|--|-------------------------------|-------------------------------|
| Commitments for purchase of fixed assets | <b>392,493</b>                | 832,504                       |

## 6. Contingent liabilities not provided for:

(Amount in Rs.)

|  | As at<br>December<br>31, 2009 | As at<br>December<br>31, 2008 |
|--|-------------------------------|-------------------------------|
| Performance guarantees given to Department of telecommunication for Domestic & International 'Other Service Provider' licenses | <b>102,000,000</b>            | 102,000,000                   |
| Guarantees given on behalf of wholly owned subsidiary  |                               |                               |
| - R Systems, Inc., USA   | <b>39,559,000</b>             | 114,351,400                   |
| - R Systems Europe B.V. Netherlands  | -                             | 94,620,150                    |
| <b>Total</b>   | <b>141,559,000</b>            | 310,971,550                   |

Also refer below note 11(a), 11(b) and 11(c) towards support extended to subsidiaries.

## 7. Leases

In case of assets taken on lease

The Company has operating leases for office premises, etc. The future minimum payments required under non-cancelable operating leases at year-end are as follows:

(Amount in Rs.)

|   | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|---|------------------------------------|------------------------------------|
| Lease payments for the year                       | <b>26,463,220</b>                  | 19,565,099                         |
| Minimum Lease Payments:                           |                                    |                                    |
| Not later than one year                           | <b>25,614,860</b>                  | 20,521,800                         |
| Later than one year but not later than five years | <b>12,277,880</b>                  | 15,302,300                         |
| Later than five years                             | -                                  | -                                  |

The operating lease arrangements extend upto a maximum of 3 years from their respective dates of inception. Some of the lease arrangements have a price escalation clause.

## 8. Supplementary statutory information

### 8.1 (a) Directors' remuneration

(Amount in Rs.)

|                                | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|--------------------------------|------------------------------------|------------------------------------|
| Salaries, wages and bonus      | <b>35,256,571</b>                  | 37,778,240                         |
| Contribution to provident fund | <b>153,360</b>                     | 153,360                            |
| <b>Total</b>                   | <b>35,409,931</b>                  | 37,931,600                         |

#### Note:

As the future liability for gratuity and long term compensated absences is provided on an actuarial basis for the Company as a whole, the amount pertaining to the directors is not ascertainable and, therefore, not included above.

### 8.1 (b) Computation of net profit under section 349 of the Companies Act, 1956 for calculation of managerial remuneration under section 198

(Amount in Rs.)

| No. Particulars  | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|--|------------------------------------|------------------------------------|
| <b>1. Profit after taxation</b>  | <b>65,515,857</b>                  | 236,476,025                        |
| <b>Add:</b>  |                                    |                                    |
| (i) Remuneration paid to the whole time directors  | <b>35,409,931</b>                  | 37,931,600                         |
| (ii) Loss on fixed assets sold / discarded   | <b>1,457,305</b>                   | 6,034,659                          |
| (iii) Provision for doubtful debts/advances  | <b>47,120,807</b>                  | 70,236,809                         |
| (iv) Tax for the year  | <b>25,640,564</b>                  | 15,593,827                         |
| (v) Depreciation/amortisation as per books of accounts   | <b>80,461,990</b>                  | 66,317,384                         |
| (vi) Provision for diminution in value of long term investments  | <b>247,321,631</b>                 | -                                  |
| <b>Less:</b>   |                                    |                                    |
| (i) Depreciation/amortisation as envisaged under Section 350 of the Companies Act*                           | <b>80,461,990</b>                  | 66,317,384                         |
| (ii) Write back of provision for doubtful debts/advances (net)   | <b>26,332,596</b>                  | 10,703,381                         |
| <b>Net Profit for the purpose of managerial remuneration</b>   | <b>396,133,499</b>                 | 355,569,539                        |
| Overall maximum remuneration to all managerial personnel at 10% of the net profits as calculated above       | <b>39,613,350</b>                  | 35,556,954                         |
| Overall maximum remuneration to individual managerial personnel at 5% of the net profits as calculated above | <b>19,806,675</b>                  | 17,778,477                         |

\* The Company depreciates fixed assets based on estimated useful lives that are lower than those implicit in Schedule XIV of the Companies Act, 1956. Accordingly, the rates of depreciation used by the Company are higher than the minimum prescribed under Schedule XIV.

## 8.2 Earnings in foreign currency (on accrual basis)

(Amount in Rs.)

|   | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|---|------------------------------------|------------------------------------|
| Exports at F.O.B. Value                         | 1,743,120,475                      | 1,902,321,668                      |
| Interest  | 5,951,063                          | 3,871,605                          |
| Reimbursement of travel/<br>communication costs | 64,601,602                         | 63,478,327                         |
| Miscellaneous income                            | 5,600,693                          | 7,603,293                          |
| <b>Total</b>                                    | <b>1,819,273,833</b>               | <b>1,977,274,893</b>               |

## 8.3 Expenditure in foreign currency (on accrual basis)

(Amount in Rs.)

|   | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|---|------------------------------------|------------------------------------|
| Traveling and conveyance                        | 145,984,589                        | 167,990,682                        |
| Commission-others                               | 8,804,759                          | 4,491,120                          |
| Salaries, wages and bonus                       | 135,786,273                        | 137,371,330                        |
| Consultancy and other<br>miscellaneous expenses | 45,429,534                         | 34,870,616                         |
| <b>Total</b>                                    | <b>336,005,155</b>                 | <b>344,723,748</b>                 |

## 8.4 Value of imports calculated on CIF basis

(Amount in Rs.)

|   | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|---|------------------------------------|------------------------------------|
| Capital goods   | 23,038,755                         | 37,852,208                         |
| Equipments received free of<br>cost on returnable basis | 74,276,141                         | 1,919,662                          |
| <b>Total</b>  | <b>97,314,896</b>                  | <b>39,771,870</b>                  |

## 8.5 Remittance in foreign currency on account of dividend

| Sl. No. | Particulars   | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|---------|---|------------------------------------|------------------------------------|
|         | Year to which dividend relates  | December<br>31, 2008               | December<br>31, 2007               |
| (a)     | Number of non-resident shareholders where<br>direct remittance have been made by the<br>Company | 29                                 | 33                                 |
| (b)     | Number of shares on which dividend<br>is remitted   | 4,957,906                          | 5,538,306                          |
| (c)     | Amount remitted (Rs.)   | 11,898,974                         | 9,968,951                          |

8.6 The Company is engaged in the business of development of Software and Business Process Outsourcing, which is not capable of being expressed in any generic unit. Hence, other information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956 are not applicable to the Company.

9. During the year ended December 31, 2006, Government of India has promulgated an Act namely The Micro, Small and Medium Enterprises Development Act, 2006 which comes into force with effect from October 2, 2006. As per the Act, the Company is required to identify the Micro, Small and Medium suppliers and pay interest to micro and small enterprises on overdue beyond the specified period irrespective of the terms agreed with the suppliers. For the purpose of identification of such suppliers, the Company has sent confirmations to all its suppliers. Based upon the confirmations received so far and the supplier profile available with the Company, the management believes that there are no dues to such suppliers.

(Amount in Rs.)

| Details of dues to Micro, Small and Medium Enterprises as per MSMED Act, 2006  | As at<br>December<br>31, 2009 | As at<br>December<br>31, 2008 |
|--|-------------------------------|-------------------------------|
| The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year   | Nil                           | Nil                           |
| The amount of interest paid by the buyer in terms of section 16 of the Micro Small and Medium Enterprise Development Act, 2006 along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year   | Nil                           | Nil                           |
| The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under Micro Small and Medium Enterprise Development Act, 2006.  | Nil                           | Nil                           |
| The amount of interest accrued and remaining unpaid at The end of each accounting year; and  | Nil                           | Nil                           |
| The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise for the purpose of disallowance as a deductible expenditure under section 23 of the Micro Small and Medium Enterprise Development Act, 2006 | Nil                           | Nil                           |

10. (a) The Issued, subscribed and paid up equity share capital of the Company as on December 31, 2009, includes the following:

- 67,000 equity shares of Rs. 10 each, allotted at a premium of Rs. 10,838 (approx) per equity share pursuant to a contract for share swap with existing shareholders of R Systems, Inc., USA after obtaining necessary regulatory approvals on January 2, 2001.
- 3,600,000 equity shares of Rs. 10 each, allotted as fully paid up bonus shares by way of capitalisation of accumulated profits on January 5, 2001.

The Company had sub divided each of its equity shares of Rs. 10 each into 5 equity shares of Rs. 2 each and accordingly all the afore-mentioned shares had been sub divided on January 5, 2001.

- 3,596,869 equity shares of Rs. 2 each, allotted on March 4, 2002 at a premium of Rs. 113.42 per equity share pursuant to a "Share Purchase Agreement" resulting in share swap with specific shareholders of Indus Software Private Limited (or 'Indus') after obtaining necessary regulatory approvals.
- 1,281,364 equity shares of Rs. 2 each, allotted on December 28, 2002 at a premium of Rs. 113.42 per equity share to the remaining shareholders of Indus, pursuant to the approval of "Scheme of Amalgamation" relating to the amalgamation of Indus with the Company by the High Courts of Delhi and Mumbai.
- The Company had earlier advanced Rs. 115,131,450 to R Systems Employee Stock Option Trust, and allotted 997,500 equity shares at the rate of Rs. 115.42. During the year ended December 31, 2004, the Company bought back these shares at the rate of Rs 115.42 per equity share.
- 495,667 equity shares of Rs. 2 each issued in January 2006 upon conversion of warrants under the Shareholders Agreement dated February 16, 2002.

The Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each and accordingly the afore-mentioned shares had been consolidated on January 30, 2006.

- 5,355,255 equity shares of Rs. 10 each had been allotted on January 30, 2006 as fully paid up bonus shares by utilisation of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956.

**(b)** The Board of Directors of the Company at its meeting held

on September 07, 2008, had approved the Buy-back of the equity shares of Rs. 10 each, not exceeding 1,306,941 number of equity shares from the existing owners, at a maximum price of Rs. 150 per equity share, for an aggregate amount not exceeding Rs. 80,000,000 from the open market through stock exchange(s) in terms of the SEBI (Buy Back of Securities) Regulations, 1998 pursuant to the first proviso to clause (b) of sub-section (2) of Section 77A of the Companies Act, 1956. Consequently, the Company made a public announcement dated October 15, 2008 regarding Buy-back of equity shares.

During the year ended December 31, 2008, the Company had bought back 146,346 equity shares of Rs. 10 each. Out of which 132,670 equity shares of Rs. 10 each had been extinguished till the year end and balance 13,676 equity shares were lying in share suspense account. These equity shares have been extinguished subsequent to December 31, 2008.

Under the Buy-back programme, the Company has bought back 1,265,820 equity shares up to August 27, 2009 inclusive of payout formalities (including 146,346 equity shares up to December 31, 2008) at an average price of Rs. 63.20 per share for an aggregate amount of Rs. 80,000,000 by utilising the Securities Premium Account to the extent of Rs. 67,341,773 and General Reserve to the extent of Rs. 12,658,200. The Capital Redemption Reserve has been created out of General Reserve for Rs. 12,658,200 being the nominal value of equity shares bought back in terms of Section 77AA of the Companies Act, 1956. The Offer for Buy Back has been successfully completed on August 27, 2009.

The Board of Director of the Company had recommended a dividend of Rs. 2.40 per share at its meeting held on February 12, 2009 subject to the approval of the shareholders at the annual general meeting and accordingly made an appropriation of Rs. 31,693,018 and Rs. 5,386,229 towards proposed dividend and dividend distribution tax respectively. Company had announced the record date for distribution of dividend as April 17, 2009 and accordingly reduced the appropriation of Rs. 715,332 and Rs. 121,570 made earlier towards proposed dividend and dividend distribution tax respectively, to adjust for shares bought back subsequent to the earlier appropriation.

Final Dividend of Rs. 2.40 per share (24% on equity share of par value of Rs 10) for the year ended December 31, 2008 was approved by the shareholders in Annual General Meeting held on April 27, 2009 and same was paid during the quarter ended June 30, 2009.

- 11. (a)** During earlier years, the Company had acquired 98.59% shares in ECnet Limited, a company incorporated in Singapore at total consideration of Rs. 34,938,958. The Company had based upon an order of High Court of Delhi written down the investment value to Rs. 10,443,237 and adjusted the write off of Rs. 24,495,721 against the Securities Premium Account as this had not been represented by available assets.

During the year ended December 31, 2007 the Company had settled the liabilities towards certain erstwhile shareholders. As a result thereof, the deferred payment compensation of Rs. 14,452,222 was released, as considered appropriate by the management. Out of above, 10,442,237 had been adjusted against the value of the investment. The reassessed amount payable Rs. 8,916,859 (Previous year Rs. 9,285,242) is shown under 'current liabilities'. The management will extend its continual financial support to enable the subsidiary to meet its working capital and other financing requirements and is pursuing its business plan.

- (b)** During the year ended December 31, 2006 the Company had completed the acquisition and integration of R Systems Solutions, Inc., a technical support company based in the USA. The Company had acquired 8,666,884 Series A convertible preferred stock of "no par" value and 10,335,833 common stock of no par value from the erstwhile shareholders of R Systems Solutions, Inc. The Company had recognised the investment at value of US\$ 2.85 million i.e. Rs. 132,796,088 which represents the consideration assessed as probable to be paid.

Out of such payables, US\$ 1.17 million i.e. Rs. 54,803,268 had been paid at time of acquisition and US\$ 1.41 million i.e. Rs. 62,167,878 had been paid from the date of acquisition till the year ended December 31, 2008. During the year ended December 31, 2008, the Company had reassessed the probable payment for purchase consideration and reversed US\$ 0.07 million i.e. Rs. 3,264,820 against investment appearing in the books. The balance amount payable US\$ 0.20 million i.e. Rs. 9,782,911 as at December 31, 2008 was shown under current liabilities

During the year ended December 31, 2009, the Company had reassessed the probable payment for purchase consideration and reversed US\$ 0.02 million i.e. Rs. 706,178 against investment appearing in the books. The balance purchase consideration of US\$ 0.18 million i.e. Rs. 7,583,873 has been paid during the year 2009.

During the year ended December 31, 2007, the Company invested an additional amount of US\$ 1.00 million i.e. Rs. 43,852,500 towards acquisition of additional 1,000,000 common stock of "no par" value in R Systems Solutions, Inc.

Further during the year, R Systems Solutions, Inc. has received termination notice from a significant customer. Consequently the management has assessed that there is a decline, other than temporary, in the value of the subsidiary and had reduced the carrying amount of investment by Rs. 172,676,590 to recognise the decline in value.

- (c)** R Systems, Inc, USA has net book worth of Rs 101,123,974 as at the year ended December 31, 2009, against the recorded investment value of Rs. 223,358,532. The subsidiary is meeting its short term funding requirements through the parent and the fellow subsidiaries. The management will extend its continual financial support to enable the subsidiary to meet its working capital and other financing requirements and is pursuing its business plan. Accordingly, the management is of the view that the diminution is temporary and there is no need to carry any provision against this investment.
- (d)** During the year ended December 31, 2008, the Company had completed the acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) and R Systems S.A.S, France (formerly known as Sento S.A.S, France), two wholly owned subsidiaries based in Europe effective January 23, 2008. The purchase considerations for the acquisition of R Systems Europe B.V., Netherlands Rs. 42,053,275 and R Systems S.A.S., France Rs. 32,593,766 have been recognised as investment.

During the year, these subsidiaries have received termination notices from two significant customers. Consequently the management had assessed that there is a decline, other than temporary, in the value of these subsidiaries and had reduced the carrying amount of investment in these subsidiaries R Systems Europe B.V., Netherlands by Rs. 42,052,275 and R Systems S.A.S., France by Rs. 32,592,766 to recognise the decline in value of investment.

- 12. (a)** R Systems International Limited - Year 2004 Employee Stock Option Plan ('the plan')

During the year 2004, the Company had instituted the plan for all eligible employees as specified in the rules in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 997,500

options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is "1.60 times the Book Value of the Share as per the audited balance sheet as on December 31, 2003 i.e. Rs. 42 per Share or 1.60 times of the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee as on the date of Exercise whichever is higher".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 42 per share for each Rs. 2 share, the exercise price had been accordingly adjusted to Rs. 105 per equity share. During the year ended December 31, 2008, the Company had obtained a legal opinion confirming that the adjustments undertaken to the number of options vesting to its employees and exercise price, pursuant to the consolidation and subsequent bonus issue during the year ended December 31, 2006, does not tantamount to modification and no additional benefit was offered to the existing option holders.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2009 and year ended December 31, 2008 is set out below:

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <u>At the beginning</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | 83,275                                       | 94,48  |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 61,390                                       | 50,185                                       |

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <u>During the year</u>  |  |  |
| - Options granted (Rs. 10 per share)  | -  | -  |
| - Options exercised (Rs. 10 per share)  | -  | -  |
| - Options lapsed or surrendered (Rs. 10 per share)                              | 3,775  | 11,205                                       |
| <u>At the end</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | 79,500                                       | 83,275                                       |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 65,165                                       | 61,390                                       |

**(b) Indus Software Employees Stock Option Plan – Year 2001 ('the plan'):**

Indus Software Private Limited ('Indus') had outstanding options aggregating to 21,967 equity shares as on March 31, 2002, to be issued to the eligible employees under the Indus Software Employees Stock Option Plan – Year 2001 under various vesting periods as specified in the said Plan, duly approved by the erstwhile shareholders. Indus had established "Indus Software Employees Welfare Trust" ('the Indus Trust') to administer the plan, as approved by the members, for the benefits of the Company's employees and had provided an interest free loan of Rs. 3,382,792. Consequently, Indus had allotted 21,967 equity shares of Rs. 10 each at a premium of Rs. 144 per equity share to the Indus Trust to be further issued to the Indus' eligible employees on the exercise of the underlying options granted to them.

As a result of the merger of Indus with the Company, all employees had surrendered their options in favour of the Indus Trust to enable them to obtain options for shares in R Systems International Limited after the merger. Also, the Company had issued 206,822 equity shares of Rs. 2 each at a premium of Rs. 113.42 per share to the Indus Trust in exchange of 21,967 equity shares of Indus, apropos to the agreed swap ratio. During the earlier years out of the said 206,822 shares 22,079 shares were issued to the employees on exercise of options.

The Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each on January 30, 2006 and then issued 1:1 bonus share to each of the then existing shareholder by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956, consequently total number of shares

issued are now 73,898 equity shares of Rs. 10 each. Accordingly an amount of Rs. 738,980 and Rs. 2,282,728 is shown as deduction from Issued, subscribed and paid-up capital and Securities Premium Account respectively as suggested by the "Guidance Note on Accounting for Employee Share-based Payments" issued by The Institute of Chartered Accountants of India.

The movement in the options (in equivalent number of shares of the Company) held by the Trust during the year ended December 31, 2009 and the year ended December 31, 2008 is set out below:

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <u>At the beginning</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | -  | -  |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 73,898                                       | 73,898                                       |
| <u>During the year</u>  |  |  |
| - Options granted (Rs. 10 per share)  | -  | -  |
| - Options exercised (Rs. 10 per share)  | -  | -  |
| - Options lapsed or surrendered (Rs. 10 per share)                              | -  | -  |
| <u>At the end</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | -  | -  |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 73,898                                       | 73,898                                       |

(c) R Systems International Limited – Year 2004 Employees Stock Option Plan ECnet ('the plan')

The Company had instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 1,000,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is "Book Value of the Share as per the audited Balance Sheet as on 31st December 2003 i.e. Rs. 26 or as on the date of Exercise, the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee which ever is higher".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each and then issued 1:1

bonus share to each of the then existing shareholder (excluding the option holders) by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 26 per share for each Rs. 2 share, the exercise price had been accordingly adjusted to Rs. 65 per equity share. During the year ended December 31, 2008, the Company had obtained a legal opinion confirming that the adjustments undertaken to the number of options vesting to its employees and exercise price, pursuant to the consolidation and subsequent bonus issue during the year ended December 31, 2006, does not tantamount to modification and no additional benefit was offered to the existing option holders.

The vesting period is 4 years (40% in 1st year & 20% in 2nd, 3rd & 4th year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2009 and year ended December 31, 2008 is set out below:

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <u>At the beginning</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | 6,800  | 17,801                                       |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 123,241                                      | 112,240                                      |
| <u>During the year</u>  |  |  |
| - Options granted (Rs. 10 per share)  | -  | -  |
| - Options exercised (Rs. 10 per share)  | -  | -  |
| - Options lapsed or surrendered (Rs. 10 per share)                              | -  | 11,001                                       |
| <u>At the end</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | 6,800  | 6,800  |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 123,241                                      | 123,241                                      |

(d) R Systems International Limited Employee Stock Option Scheme 2007 ('the plan')

During the year 2007, the Company had instituted the plan for all eligible employees as specified in the rules in

pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 650,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is Rs. 120.70 being the latest available closing price, prior to the date of the meeting of the Board of Directors/Compensation Committee held on July 11, 2007 in which options are granted, on the stock exchange on which the shares of the Company are listed. Accordingly, the intrinsic value of Employee Stock Option is taken as Rs. Nil.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2009 and year ended December 31, 2008 is set out below:

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <u>At the beginning</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | 560,500                                      | 610,500                                      |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 89,500                                       | 39,500                                       |
| <u>During the year</u>  |  |  |
| - Options granted (Rs. 10 per share)  | -  | -  |
| - Options exercised (Rs. 10 per share)  | -  | -  |
| - Options lapsed or surrendered (Rs. 10 per share)                              | 30,500                                       | 50,000                                       |
| <u>At the end</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | 530,000                                      | 560,500                                      |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 120,000                                      | 89,500                                       |

- (e) For the purpose of valuation of the options granted during earlier years, the management obtained fair value of the options at the date of grant under respective schemes from a firm of Chartered Accountants (N Maini & Co.), to determine accounting impact, if any, of options granted over the periods. In the considered opinion of the valuer (mentioned above), the fair value of option determined using 'Black Scholes Valuation Model' under each of above schemes is "Nil" and thus no accounting thereof is required.

The assumptions used for the purpose of determination of fair value are stated below:

| Assumptions             | Unit         | Scheme<br>(a)* | Scheme<br>(b)** | Scheme<br>(c)*** | Comments by the valuer  |
|-------------------------|--------------|----------------|-----------------|------------------|---|
| Strike price            | Rs.          | 42             | 154             | 26               |   |
| Current share price     | Rs.          | 16             | 140             | 16               | Taken on the basis of NAV and PECV method of valuation.   |
| Expected option life    | No. of Years | 5              | 2.5             | 5                | Being half of the maximum option life.  |
| Volatility              | %            | 1              | 0.5             | 1                | In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.  |
| Risk free return        | %            | 7              | 11.3            | 7                | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE and/or BSE.     |
| Expected dividend Yield | %            | -              | 15              | -                | Company has no set policy so dividend taken as zero. In case of Indus plan, as the dividend had been paid by the erstwhile company, it has been assumed at 15%. |

\*: R Systems International Ltd. - Year 2004 Employee Stock Option Plan under which the price was based on Rs. 2 per share.

\*\* : Indus Software Employees Stock Option Plan - Year 2001 under which originally the price was based on Rs. 10 per share for 21,967 shares. As a result of amalgamation of Indus Software Private Limited into R Systems, R Systems had issued 206,822 equity shares of Rs. 2 each pursuant to the swap ratio approved by Hon'ble High Courts of Delhi and Mumbai.

\*\*\*: R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet under which the price was based on Rs. 2 per share.

The above information is based on Rs. 2 per share prior to consolidation of 5 equity shares of Rs. 2 each into one equity share of Rs. 10 each and subsequent allotment of bonus shares in the ratio of 1 : 1. For further details refer note 10(a).

Further, for the purpose of valuation of the options granted during the year 2005 under R Systems International Limited- Year 2004 Employee Stock Option Plan, the management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N. Maini & Co.), to determine accounting impact, if any, of options granted. In the

considered opinion of the valuer (mentioned above), the fair value of these option determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

The assumptions used by the valuer for the purpose of determination of fair value are stated below:

| Assumptions             | Unit         | Scheme | Comments by the valuer   |
|-------------------------|--------------|--------|--|
| Strike price            | Rs.          | 42     |  |
| Current share price     | Rs.          | 13.58  | Taken on the basis of NAV and PECV method of valuation.  |
| Expected option life    | No. of Years | 5      | Being half of the maximum option life.   |
| Volatility              | %            | 1      | In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.   |
| Risk free return        | %            | 7.42   | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE. |
| Expected dividend Yield | %            | -      | Company has no set policy so dividend taken as zero.   |

The above information is based on Rs. 2 per share prior to consolidation of 5 equity shares of Rs. 2 each into one equity share of Rs. 10 each and subsequent allotment of bonus shares in the ratio of 1 : 1.

- (f) For the purpose of valuation of the options granted during the year ended December 31, 2007 under R Systems International Limited Employee Stock Option Scheme – 2007, the compensation cost relating to Employee Stock Options, calculated as per the intrinsic value method is Nil.

The management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N. Maini & Co.). In the considered opinion of the valuer (mentioned above), the fair value of these options determined using 'Black Scholes Valuation Model' is "Rs. 50.73" per option.

The assumptions used by the valuer for the purpose of determination of fair value are stated below:

| Assumptions         | Unit | Scheme | Comments by the valuer   |
|---------------------|------|--------|--|
| Strike price        | Rs.  | 120.70 |  |
| Current share price | Rs.  | 118.50 | Price on the date of grant by Board of Directors i.e. closing price on July 11, 2007 |

| Assumptions             | Unit         | Scheme | Comments by the valuer   |
|-------------------------|--------------|--------|--|
| Expected option life    | No. of Years | 4      | Being the vesting period.  |
| Volatility              | %            | 44     | On the basis of industry average.  |
| Risk free return        | %            | 7      | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option – taken from sites of NSE. |
| Expected dividend Yield | %            | 0.86   | Company has declared Dividends of 12% in the past. Assuming that it will continue declaring similar dividends in future.                         |

In March 2005 the ICAI has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to 'employee share based plan' the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation in the financial statements. Since the Company used the intrinsic value method the impact on the reported net profit and earnings per share by applying the fair value based method is as follows:

(Amount in Rs.)

| Particulars                            | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------|------------------------------|
| Net Income as reported                 | 65,515,857                   | 236,476,025                  |
| Add: Intrinsic Value Compensation Cost | -                            | -                            |
| Less:- Fair Value Compensation Cost    | 4,673,959                    | 10,790,693                   |
| <b>Adjusted Pro-forma Net Income</b>   | <b>60,841,898</b>            | 225,685,332                  |
| <b>Earning Per Share</b>               |                              |                              |
| <b>Basic</b>                           |                              |                              |
| - As reported                          | 5.17                         | 17.42                        |
| - Performa                             | 4.80                         | 16.63                        |
| <b>Diluted</b>                         |                              |                              |
| - As reported                          | 5.11                         | 17.21                        |
| - Performa                             | 4.74                         | 16.43                        |

### 13. Earnings per share

| Particulars  | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------|------------------------------|
| Basic [nominal value of share Rs.10 (previous year Rs.10)] (Rs.) | 5.17                         | 17.42                        |

| Particulars   | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|---|------------------------------------|------------------------------------|
| Diluted [nominal value of share Rs.10 (previous year Rs.10)] (Rs.)                    | 5.11                               | 17.21                              |
| Net profit after tax (Rs.)  | 65,515,857                         | 236,476,025                        |
| Weighted average number of equity shares for calculating Basic EPS                    | 12,669,756                         | 13,572,178                         |
| Add : Equity shares for no consideration arising on grant of stock options under ESOP | 156,836                            | 165,862                            |
| Weighted average number of equity shares for calculating Diluted EPS                  | 12,826,592                         | 13,738,040                         |

Also refer note no. 12 (f) above.

#### 14. Post employment benefits

The Company has an unfunded defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on separation equal to 15 days salary (last drawn salary) for each completed year of continuous service or part thereof in excess of six months subject to a maximum of Rs. 350,000.

The following table summaries the components of net benefit expense recognised in the Profit and Loss Account.

Net employee benefit expense recognised under Salary, wages and bonus

(Amount in Rs.)

| Particulars                                      | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|--|------------------------------------|------------------------------------|
| Current service cost                             | 14,719,256                         | 9,318,275                          |
| Interest cost on benefit obligation              | 3,205,090                          | 2,490,799                          |
| Expected return on plan assets                   | -                                  | -                                  |
| Net actuarial (gain)/loss recognised in the year | (20,606,765)                       | 12,677,424                         |
| Past service cost                                | -                                  | -                                  |
| Net employee benefit expense                     | (2,682,419)                        | 24,486,498                         |

Details of defined benefit gratuity plan

(Amount in Rs.)

| Particulars                           | As at<br>December<br>31, 2009 | As at<br>December<br>31, 2008 |
|---------------------------------------|-------------------------------|-------------------------------|
| Defined benefit obligation            | 42,199,151                    | 46,466,537                    |
| Fair value of plan assets             | -                             | -                             |
| Present value of unfunded obligations | 42,199,151                    | 46,466,537                    |
| Less: Unrecognised past service cost  | -                             | -                             |
| Plan liability/(asset)                | 42,199,151                    | 46,466,537                    |

Changes in the present value of the defined benefit gratuity plan are as follows:

(Amount in Rs.)

| Particulars                            | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|--|------------------------------------|------------------------------------|
| Opening defined benefit obligation     | 46,466,537                         | 23,306,788                         |
| Interest cost                          | 3,205,090                          | 2,490,799                          |
| Current service cost                   | 14,719,256                         | 9,318,275                          |
| Benefits paid                          | (1,584,967)                        | (1,326,749)                        |
| Actuarial (gains)/losses on obligation | (20,606,765)                       | 12,677,424                         |
| Closing defined benefit obligation     | 42,199,151                         | 46,466,537                         |

The principal assumptions used in determining defined benefit gratuity plan obligations is shown below:

| Particulars                            | Year ended<br>December<br>31, 2009               | Year ended<br>December<br>31, 2008                  |
|--|--|---|
| Discount rate                          | 7.60% p.a.                                       | 5.35% p.a.  |
| Expected rate of return on plan assets | Not applicable                                   | Not applicable                                      |
| Salary Escalation Rate                 | 10.0% p.a. for first year and 7% p.a. thereafter | 10.0% p.a. for first 2 years and 7% p.a. thereafter |
| Attrition rate:                        | As per table below                               | As per table below                                  |

Attrition rate used for the year ended December 31, 2009 and year ended December 31, 2008 are as per the table below:

| Age (Years) | Rates |
|-------------|-------|
| 21 – 30     | 15%   |
| 31 – 34     | 10%   |
| 35 – 44     | 5%    |
| 45 – 50     | 3%    |
| 51 – 54     | 2%    |
| 55 – 59     | 1%    |

The estimates of future salary increases takes into account the inflation, seniority, promotion and other relevant factors.

Amounts for the current and previous four years are as follows:

(Amount in Rs.)

| Particulars                                | Gratuity             |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
|  | December<br>31, 2009 | December<br>31, 2008 | December<br>31, 2007 | December<br>31, 2006 | December<br>31, 2005 |
| Defined benefit obligation                 | 42,199,151           | 46,466,537           | 23,306,788           | 16,885,862           | 13,230,425           |
| Plan assets                                | -                    | -                    | -                    | -                    | -                    |
| Surplus/(deficit)                          | (42,199,151)         | (46,466,537)         | (23,306,788)         | (16,885,862)         | (13,230,425)         |
| Experience adjustments on plan liabilities | (6,981,759)          | 116,082              | 461,423              | 231,590              | -                    |
| Experience adjustments on plan assets      | -                    | -                    | -                    | -                    | -                    |

## 15. Derivative instruments and unhedged foreign currency exposure

| (a) Particulars of derivatives  | Purpose          |
|---|------------------|
| Forward contract outstanding (including outstanding against highly probable forecast transaction) | Hedge of debtors |
| Sell US \$9,750,000 (Previous years US \$7,300,000)   |                  |
| Sell EURO Nil (Previous years EURO 600,000)   |                  |

Particulars of unhedged foreign currency exposure as at December 31, 2009 and at December 31, 2008:

|                             | Currency | Foreign Currency amount |                   | Closing foreign exchange rate |                   | Amount (Rs.)       |                   |
|-----------------------------|----------|-------------------------|-------------------|-------------------------------|-------------------|--------------------|-------------------|
|                             |          | December 31, 2009       | December 31, 2008 | December 31, 2009             | December 31, 2008 | December 31, 2009  | December 31, 2008 |
| <b>Liabilities</b>          |          |                         |                   |                               |                   |                    |                   |
| Deferred compensation       |          |                         |                   |                               |                   |                    |                   |
|                             | SGD      | <b>269,285</b>          | 269,285           | <b>33.11</b>                  | 34.48             | <b>8,916,859</b>   | 9,285,242         |
|                             | USD      | -                       | 196,768           | -                             | 49.72             | -                  | 9,782,911         |
| Creditors                   |          |                         |                   |                               |                   |                    |                   |
|                             | SGD      | <b>4,402</b>            | 24,919            | <b>33.11</b>                  | 34.48             | <b>145,757</b>     | 859,236           |
|                             | USD      | <b>1,118,942</b>        | 69,902            | <b>46.54</b>                  | 49.72             | <b>52,075,563</b>  | 3,475,340         |
|                             | EURO     | <b>805</b>              | 13,311            | <b>66.63</b>                  | 70.09             | <b>53,659</b>      | 932,974           |
| Deferred revenue            |          |                         |                   |                               |                   |                    |                   |
|                             | USD      | <b>135,694</b>          | 46,326            | <b>46.54</b>                  | 49.72             | <b>6,315,200</b>   | 2,303,258         |
|                             | EURO     | <b>8,991</b>            | -                 | <b>66.63</b>                  | -                 | <b>599,106</b>     | -                 |
| <b>Assets</b>               |          |                         |                   |                               |                   |                    |                   |
| Investments* (Gross)        |          |                         |                   |                               |                   |                    |                   |
|                             | USD      | <b>8,741,338</b>        | 8,196,791         | <b>46.54</b>                  | 49.72             | <b>406,821,860</b> | 407,528,038       |
|                             | SGD      | <b>4,201,145</b>        | 4,034,469         | <b>33.11</b>                  | 34.48             | <b>139,112,528</b> | 139,112,528       |
|                             | EURO     | <b>1,172,355</b>        | 1,114,564         | <b>66.63</b>                  | 70.09             | <b>78,118,681</b>  | 78,118,681        |
| Debtors (Gross)             |          |                         |                   |                               |                   |                    |                   |
|                             | USD      | <b>5,978,105</b>        | 8,822,768         | <b>46.54</b>                  | 49.72             | <b>278,221,016</b> | 438,649,947       |
|                             | GBP      | <b>774</b>              | 187,362           | <b>75.19</b>                  | 71.99             | <b>58,224</b>      | 13,487,632        |
|                             | AUD      | <b>46,318</b>           | 25,000            | <b>41.77</b>                  | 34.34             | <b>1,934,888</b>   | 858,500           |
|                             | EURO     | <b>1,489,887</b>        | 1,683,540         | <b>66.63</b>                  | 70.09             | <b>99,277,069</b>  | 117,997,639       |
|                             | JPY      | <b>2,296,907</b>        | -                 | <b>0.50</b>                   | -                 | <b>1,150,750</b>   | -                 |
| Bank balances               |          |                         |                   |                               |                   |                    |                   |
|                             | USD      | <b>2,185,226</b>        | 1,279,086         | <b>46.54</b>                  | 49.72             | <b>101,700,439</b> | 63,593,569        |
|                             | EURO     | <b>27,065</b>           | 28,507            | <b>66.63</b>                  | 70.09             | <b>1,803,424</b>   | 1,998,041         |
|                             | GBP      | <b>3,195</b>            | 853               | <b>75.19</b>                  | 71.99             | <b>240,258</b>     | 61,438            |
|                             | JPY      | <b>11,340,219</b>       | -                 | <b>0.50</b>                   | -                 | <b>5,681,450</b>   | -                 |
| Loans and advances          |          |                         |                   |                               |                   |                    |                   |
|                             | SGD      | <b>97,557</b>           | -                 | <b>33.11</b>                  | -                 | <b>3,230,398</b>   | -                 |
|                             | USD      | <b>147,029</b>          | 136,172           | <b>46.54</b>                  | 49.72             | <b>6,842,741</b>   | 6,770,223         |
|                             | EURO     | -                       | 2,746             | -                             | 70.09             | -                  | 192,464           |
| Unbilled revenue            |          |                         |                   |                               |                   |                    |                   |
|                             | USD      | <b>1,289,621</b>        | 705,562           | <b>46.54</b>                  | 49.72             | <b>60,018,981</b>  | 35,079,057        |
|                             | JPY      | <b>2,306,178</b>        | -                 | <b>0.50</b>                   | -                 | <b>1,155,395</b>   | -                 |
|                             | EURO     | <b>401,643</b>          | -                 | <b>66.63</b>                  | -                 | <b>26,763,066</b>  | -                 |
|                             | SGD      | <b>20,250</b>           | -                 | <b>33.11</b>                  | -                 | <b>670,538</b>     | -                 |
| Loans to subsidiary company |          |                         |                   |                               |                   |                    |                   |
|                             | SGD      | <b>3,300,000</b>        | 2,750,000         | <b>33.11</b>                  | 34.48             | <b>109,272,900</b> | 94,822,750        |

\* Foreign currency amounts represent the balances derived using closing foreign exchange rate.

- (b) As of December 31, 2009 the Company had derivative financial instruments to sell USD 9,750,000 that are designated as ineffective cash flow hedges relating to highly probable forecasted transactions. The Company has recognised mark-to-market gain of Rs. 19,109,927 relating to such derivative financial instruments in the Profit and Loss Account for the year ended December 31, 2009.
16. Details of loans given to subsidiary-ECnet Limited, Singapore (fully provided for) Balance as at December 31, 2009 is Rs. 109,272,900 (SGD 3,300,000) [Previous year Rs. 94,822,750 (SGD 2,750,000)]. Maximum amount outstanding during the year is Rs. 112,662,000 (SGD 3,300,000) [Previous year Rs. 94,822,750 (SGD 2,750,000)].
- Loan is repayable on demand.
17. During the financial year ended December 31, 2007, the Company had received non refundable license fee of Rs. 39,435,000 from one of its customer against sale of eighteen modules / licenses. As at December 31, 2008, the Company had been carrying Rs. 19,717,500 as deferred revenue against unconsumed modules/ licenses. Due to the recent developments in the customer's business, the management believes that it is unlikely that the customer will utilize any additional modules and the customer has confirmed that the Company does not have any outstanding obligation against the aforesaid sale of licenses. Accordingly revenue of Rs. 19,717,500 has been recognised during the year ended December 31, 2009.
18. As of December 31, 2009 there is uncertainty regarding ultimate realisation relating to some of the customers due to their current financial position, therefore revenue aggregating Rs. 18,190,787 (Previous year Rs. 8,858,213) has been deferred till the time the realisation becomes reasonably certain.
19. During the year ended December 31, 2006:
- (a) The Company had made Initial Public Offering (IPO) of 4,408,361 equity shares of Rs. 10 each for cash at premium of Rs. 240 per share comprising of fresh issue of 2,825,006 equity shares by the Company and 1,583,355 equity shares offered for sale by the selling shareholders.
- (b) Expenses of Rs. 101,895,339 net of recovery from certain selling shareholders Rs. 2,795,944 incurred in connection with the public issue of the Company had been adjusted against Securities Premium Account in terms of Section 78 of the Companies Act, 1956.
- (c) Pursuant to initial public offer the Company gathered Rs. 706,250,000 (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows:

(Amount in Rs.)

| Objects   | Total Estimated Project Cost* | Amount incurred till December 31, 2009 | Amount incurred till December 31, 2008 |
|---|-------------------------------|--|--|
| Upgrading and expansion of existing infrastructure* | 229,993,200                   | 229,993,200                            | 229,993,200                            |
| Repayment of outstanding loans                      | 36,550,000                    | 36,550,000                             | 36,550,000                             |
| Financing general working capital requirements      | 179,510,000                   | 179,510,000                            | 174,624,290                            |
| General corporate purposes*                         | 159,059,625                   | 58,619,823                             | 58,619,823                             |
| Meeting offer expenses*                             | 101,137,175                   | 101,137,175                            | 101,137,175                            |
| <b>Total</b>  | <b>706,250,000</b>            | <b>605,810,198</b>                     | <b>600,924,488</b>                     |

\*The Company had obtained approval from its shareholders at the annual general meeting held on May 2, 2008 for reallocation in the estimated project cost among above mentioned heads.

Pending utilisation, balance funds as at December 31, 2009 have been invested in fixed deposit with nationalised banks.

## 20. Cash and bank balances

Details of balances as on balance sheet dates:

(Amount in Rs.)

| SI. No. | Particulars                                | As at<br>December<br>31, 2009 | As at<br>December<br>31, 2008 |
|---------|--|-------------------------------|-------------------------------|
|         | <b>Cash on hand (A)</b>                    | <b>168,760</b>                | 106,116                       |
|         | <b>Balance with scheduled banks</b>        |                               |                               |
|         | <b>On current accounts</b>                 |                               |                               |
| 1       | ICICI Bank Limited                         | <b>2,152,455</b>              | 5,959,079                     |
| 2       | HDFC Bank Limited                          | <b>1,154,377</b>              | 751,053                       |
| 3       | Oriental Bank of Commerce                  | <b>1,113,405</b>              | 199,838                       |
| 4       | Vijaya Bank                                | <b>37,665</b>                 | 70,752                        |
| 5       | State Bank of India                        | <b>2,256,349</b>              | 3,607,140                     |
| 6       | Canara Bank                                | <b>149,888</b>                | 199,954                       |
| 7       | Axis Bank Limited                          | <b>955,315</b>                | 479,690                       |
| 8       | Citibank N.A.                              | <b>26,643</b>                 | 130,813                       |
| 9       | State Bank of Bikaner & Jaipur             | <b>996,095</b>                | 62,000                        |
| 10      | ABN Amro Bank N.V.                         | <b>1,363,516</b>              | 1,497,484                     |
|         | <b>Total (B)</b>                           | <b>10,205,708</b>             | 12,957,803                    |
|         | <b>On cash credit / overdraft accounts</b> |                               |                               |
| 1       | State Bank of India                        | <b>10,058,463</b>             | 7,644,368                     |
| 2       | State Bank of Bikaner & Jaipur             | <b>39</b>                     | -                             |
|         | <b>Total (C)</b>                           | <b>10,058,502</b>             | 7,644,368                     |
|         | <b>On EEFC accounts</b>                    |                               |                               |
| 1       | ICICI Bank Limited - USD                   | <b>28,687,442</b>             | 13,488,300                    |
| 2       | HDFC Bank Limited - USD                    | <b>9,502</b>                  | 6,472                         |
| 3       | State Bank of India - USD                  | <b>32,397,938</b>             | 11,539,776                    |
| 4       | State Bank of India - EURO                 | <b>435,585</b>                | 350,445                       |
| 5       | Citibank, N.A. - USD                       | <b>3,491</b>                  | 3,729                         |
| 6       | Axis Bank Limited - USD                    | <b>2,359,616</b>              | -                             |
|         | <b>Total (D)</b>                           | <b>63,893,574</b>             | 25,388,722                    |
|         | <b>On deposit accounts</b>                 |                               |                               |
| 1       | Oriental Bank of Commerce                  | <b>107,118,970</b>            | 197,508,147                   |
| 2       | Punjab National Bank                       | -                             | 58,930,306                    |
| 3       | Vijaya Bank                                | <b>2,752,759</b>              | 2,739,763                     |
| 4       | State Bank of India                        | <b>35,704,142</b>             | 22,486,267                    |
| 5       | ICICI Bank Limited                         | <b>228,633</b>                | 92,316,147                    |
| 6       | State Bank of Bikaner & Jaipur             | <b>264,392,950</b>            | 92,999,065                    |
| 7       | Axis Bank Ltd.                             | <b>30,663,303</b>             | -                             |
| 8       | HDFC Bank Limited                          | -                             | 5,000,000                     |
| 9       | Canara Bank                                | <b>5,071,675</b>              | 74,068                        |
| 10      | State Bank of Indore                       | <b>141,200,000</b>            | -                             |
|         | <b>Total (E)</b>                           | <b>587,132,432</b>            | 472,053,763                   |

(Amount in Rs.)

| Sl. No. | Particulars                                      | As at<br>December<br>31, 2009 | As at<br>December<br>31, 2008 |
|---------|--|-------------------------------|-------------------------------|
|         | <b>On unclaimed dividend/IPO refund accounts</b> |                               |                               |
| 1       | HDFC Bank Limited                                | <b>383,665</b>                | 258,267                       |
| 2       | ICICI Bank Limited                               | -                             | 75,250                        |
|         | <b>Total (F)</b>                                 | <b>383,665</b>                | 333,517                       |
|         | <b>Balance with other banks</b>                  |                               |                               |
|         | On current accounts                              |                               |                               |
| 1       | Fortis Bank (Netherland) N.V., Netherlands       | <b>1,367,839</b>              | 1,647,596                     |
| 2       | California Bank & Trust, USA                     | <b>38,242,450</b>             | 38,555,292                    |
| 3       | Sumitomo Mitsui Banking Company, Japan           | <b>5,681,450</b>              | -                             |
|         | <b>Total (G)</b>                                 | <b>45,291,739</b>             | 40,202,888                    |
|         | <b>Total as per Balance Sheet</b>                | <b>717,134,380</b>            | 558,687,177                   |

21. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification.

As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

Sd/-  
**per Sanjay Vij**  
Partner  
Membership No. 95169

Place : Gurgaon  
Date : February 21, 2010

Sd/-  
**Satinder Singh Rekhi**  
[Chairman & Managing  
Director]

Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

Sd/-  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior  
Executive Director]

Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Raj Swaminathan**  
[Director & Chief  
Operating Officer]

Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Shankar Seetharaman**  
[Chief Financial Officer]

Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Suresh Kumar Bhutani**  
[Company Secretary &  
Compliance Officer]

Place : NOIDA  
Date : February 21, 2010

**Statement Pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Companies**

| Name of the Subsidiary  | R Systems (Singapore) Pte Limited, Singapore | R Systems Inc., USA                      | Indus Software, Inc., USA               | R Systems Solutions, Inc., USA  | R Systems NV, Belgium                 | R Systems Europe B.V., Netherlands        | R Systems S.A.S., France                  | ECnet Limited, Singapore                             | ECnet (M) SDN. BHD, Malaysia                   | ECnet, Inc., USA                      | ECnet (Hong Kong) Limited, Hongkong        | ECnet Systems (Thailand) Co. Limited, Thailand  | ECnet Kabushiki Kaisha, Japan               | ECnet (Shanghai) Co. Limited, China      |
|---|--|--|---|---|---------------------------------------|---|---|--|--|---------------------------------------|--|---|---|--|
| 1 The financial year of the subsidiary ended on   | December 31, 2009                            | December 31, 2009                        | December 31, 2009                       | December 31, 2009   | December 31, 2009                     | December 31, 2009                         | December 31, 2009                         | December 31, 2009                                    | December 31, 2009                              | December 31, 2009                     | December 31, 2009                          | December 31, 2009                               | December 31, 2009                           | December 31, 2009                        |
| 2 Date from which it became Subsidiary Company  | September 19, 2000                           | January 2, 2001                          | April 1, 2002                           | August 24, 2006   | August 28, 2007                       | January 23, 2008                          | January 23, 2008                          | January 8, 2004                                      | January 8, 2004                                | January 8, 2004                       | January 8, 2004                            | January 8, 2004                                 | January 8, 2004                             | January 8, 2004                          |
| 3 a Shares held by the holding company in the subsidiary (including its nominees in the subsidiary)                         | 4,070,000 ordinary shares of no par value    | 2,000 common shares of no par value      | 243,750 common shares of no par value   | 11,335,833 common shares of no par value and 8,666,884 series A preferred stock of no par value | 200 common shares of Euro 310 each    | 3,170 ordinary shares of Euro 100 each    | 10,000 ordinary shares of Euro 15.24 each | 98.59% of 17,904,335 ordinary shares of no par value | 98.59% of 200,000 ordinary shares of RM 1 each | 98.59% of 1,000 shares of US\$ 2 each | 98.59% of 2 ordinary shares of HK\$ 1 each | 98.59% of 400,000 ordinary shares of 5 THB each | 98.59% of 200 shares of 50,000 Yen each     | 98.59% of shares of no par value         |
| 3 b Extent of interest of holding company at the end of the financial year of the Subsidiary Company                        | 100%   | 100%                                     | 100%                                    | 100%  | 100%                                  | 100%                                      | 100%                                      | 98.59%   | 98.59%   | 98.59%                                | 98.59%                                     | 98.59%  | 98.59%                                      | 98.59%                                   |
| 4 The net aggregate amount of the Subsidiary Company Profit/(Loss) so far as it concerns the members of the Holding Company |  |  |   |   |                                       |   |   |  |  |                                       |  |   |   |  |
| a Not dealt with in the Holding Company's accounts  |  |  |   |   |                                       |   |   |  |  |                                       |  |   |   |  |
| (i) For the financial year ended December 31, 2009*   | Loss SGD 201,708 i.e. Rs. 66.79 lakhs        | Loss USD 1,448,174 i.e. Rs. 673.98 lakhs | Loss USD 50,103 i.e. Rs. 23.32 lakhs    | Loss USD 2,821,843 i.e. Rs. 1,313.29 lakhs  | Loss Euro 6,730 i.e. Rs. 4.48 lakhs   | Profit Euro 119,628 i.e. Rs. 79.71 lakhs  | Profit Euro 49,244 i.e. Rs. 32.81 lakhs   | Loss SGD 550,754 i.e. Rs. 182.37 lakhs               | Profit RM 316,339 i.e. Rs. 43.07 lakhs         | Loss USD 349 i.e. Rs. 0.16 lakhs      | Profit HKD 193,548 i.e. Rs. 11.58 lakhs    | Profit THB 2,704,746 i.e. Rs. 38.14 lakhs       | Profit Yen 2,838,183 i.e. Rs. 14.16 lakhs   | Profit CNY 138,361 i.e. Rs. 9.40 lakhs   |
| (ii) For the previous financial years of the Subsidiary Company since it became the Holding Company's Subsidiary            | Loss SGD 299,424 i.e. Rs. 76.74 lakhs        | Loss USD 1,286,207 i.e. Rs. 566.48 lakhs | Loss USD 3,21,688 i.e. Rs. 151.58 lakhs | Loss USD 612,036 i.e. Rs. 267.38 lakhs  | Loss Euro 16,331 i.e. Rs. 10.26 lakhs | Profit Euro 453,798 i.e. Rs. 318.06 lakhs | Profit Euro 49,531 i.e. Rs. 34.72 lakhs   | Loss SGD 5,616,114 i.e. Rs. 1,724.33 lakhs           | Profit RM 763,126 i.e. Rs. 93.49 lakhs         | Profit USD 919 i.e. Rs. 2.26 lakhs    | Profit HKD 1,327,605 i.e. Rs. 80.77 lakhs  | Profit THB 5,924,833 i.e. Rs. 69.20 lakhs       | Profit Yen 16,544,025 i.e. Rs. 103.31 lakhs | Loss CNY 3,065,466 i.e. Rs. 147.34 lakhs |
| b Dealt with in Holding Company's accounts  |  |  |   |   |                                       |   |   |  |  |                                       |  |   |   |  |
| (i) For the financial year ended December 31, 2009  | NIL  | NIL                                      | NIL                                     | NIL   | NIL                                   | NIL                                       | NIL                                       | NIL  | NIL  | NIL                                   | NIL  | NIL   | NIL   | NIL                                      |
| (ii) For the previous financial years of the Subsidiary Company since it became the Holding Company's Subsidiary            | NIL  | NIL                                      | NIL                                     | NIL   | NIL                                   | NIL                                       | NIL                                       | NIL  | NIL  | NIL                                   | NIL  | NIL   | NIL   | NIL                                      |

Note: \*Rupees equivalents have been given on the basis of conversion of foreign currency into rupee using closing rate as on 31 December, 2009.

|             |       |
|-------------|-------|
| 1 SGD = Rs  | 33.11 |
| 1 USD = Rs  | 46.54 |
| 1 EURO = Rs | 66.63 |
| 1 RM = Rs   | 13.53 |
| 1 HKD = Rs  | 5.98  |
| 1 THB = Rs  | 1.41  |
| 1 YEN = Rs  | 0.50  |
| 1 CNY = Rs  | 6.80  |

**Disclaimer**

We have translated the foreign currency amounts in the financial data derived from our subsidiaries' financial statements at the closing rate as on December 31, 2009. The translation should not be considered as a representation that such foreign currency amounts have been, could have been or could be converted into rupees, at any particular rate, rates states above, or at all.

**For and on behalf of the Board of Directors of R Systems International Limited**
**Sd/-**
**Satinder Singh Rekhi**  
 [Chairman & Managing Director]  
 Place : Chicago, IL, U.S.A.  
 Date : February 21, 2010

**Sd/-**
**Lt. Gen. Baldev Singh (Retd.)**  
 [President & Senior Executive Director]  
 Place : NOIDA  
 Date : February 21, 2010

**Sd/-**
**Raj Swaminathan**  
 [Director & Chief Operating Officer]  
 Place : NOIDA  
 Date : February 21, 2010

**Sd/-**
**Shankar Seetharaman**  
 [Chief Financial Officer]  
 Place : NOIDA  
 Date : February 21, 2010

**Sd/-**
**Suresh Kumar Bhutani**  
 [Company Secretary & Compliance Officer]  
 Place : NOIDA  
 Date : February 21, 2010

## Balance Sheet Abstract and Company's General Business Profile

### I. REGISTRATION DETAILS

Registration No.       State Code   (Refer Code List)  
Balance Sheet Date Date   Month   Year

### II. CAPITAL RAISED DURING THE YEAR (AMOUNT IN RS. THOUSANDS)

Public Issues        Right Issues         
Bonus Issues        Private Placements

### III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMOUNT IN RS. THOUSANDS)

Total Liabilities        Total Assests

#### SOURCES OF FUND

Paid-up Capital        Reserve & Surplus         
Secured Loans        Unsecured Loans#

# Consists of deferred tax liability (net)

#### APPLICATION OF FUNDS

Net Fixed Assests        Investments         
Net Current Assests        Misc. Expenditures         
Accumulated Losses

### IV. PERFORMANCE OF COMPANY (AMOUNT IN RS. THOUSANDS)

Turnover\*        Total Expenditure         
\* includes other income  
Profit / Loss before Tax        Profit / Loss after Tax

(Please tick Appropriate Box + for Profit – for Loss)

Earning Per Shares in Rs.        Dividend Rate %

The diluted earning per share is Rs. 5.11

### V. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS/ SERVICES OF COMPANY (AS PER MONETARY TERMS)

Item Code No. (ITC Code)                       
Product Description                     
&

For and on behalf of the Board of Directors of R Systems International Limited

Sd/-  
**Satinder Singh Rekhi**  
[Chairman & Managing Director]

Place : Chicago, IL U.S.A.  
Date : February 21, 2010

Sd/-  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior Executive Director]

Place : NOIDA.  
Date : February 12, 2010

Sd/-  
**Raj Swaminathan**  
[Director & Chief Operating Officer]

Place : NOIDA  
Date : February 12, 2010

Sd/-  
**Shankar Seetharaman**  
[Chief Financial Officer]

Place : NOIDA  
Date : February 12, 2010

Sd/-  
**Suresh Kumar Bhutani**  
[Company Secretary & Compliance Officer]

Place : NOIDA  
Date : February 12, 2010

# Auditors' Report

On Consolidated Financial Statements

To,  
Board of Directors  
R Systems International Limited  
B-104A, Greater Kailash - I  
New Delhi- 110048

1. We have audited the attached Consolidated Balance Sheet of R Systems International Limited ("the Company") and its subsidiaries (as per the list appearing at Note 2 under Schedule 18 to the consolidated financial statements) as at December 31, 2009, and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto, prepared in accordance with accounting principles generally accepted in India. These financial statements are the responsibility of the R Systems International Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. These financial statements of Company's subsidiaries have been prepared in accordance with accounting policies generally accepted in their respective countries and have been audited by other auditors prepared under generally accepted auditing standards of their respective countries. The management has converted these audited financial statements of the Company's subsidiaries to accounting principles generally accepted in India. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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.
3. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect:
  - (i) in relation to R Systems, Inc., USA subsidiary, total assets (net) of Rs. 188,429,802 (US\$ 4,048,771) as at December 31, 2009, the total revenues of Rs. 582,171,010 (US\$ 12,060,996) and cash flows amounting to Rs. 618,614 (US\$ 12,816) for the year then ended.
  - (ii) in relation to Indus Software, Inc., USA subsidiary, total assets (net) of Rs. 10,445,586 (US\$ 224,443) as at December 31, 2009, the total revenues of Rs. 61,947,920 (US\$ 1,283,392) and cash flows amounting to Rs. 2,912,891 (US\$ 60,347) for the year then ended.
  - (iii) in relation to R Systems Solutions, Inc., USA subsidiary, total assets (net) of Rs. 29,929,176 (US\$ 643,085) as at December 31, 2009, the total revenues of Rs. 77,900,309 (US\$ 1,613,882) and cash flows amounting to Rs. 113,939 (US\$ 2,360) for the year then ended.
  - (iv) in relation to ECNet Limited and its subsidiaries, Singapore subsidiary, total assets (net) of Rs.87,025,782 (Sing \$ 2,628,161) as at December 31, 2009, the total revenues of Rs.199,083,082 (Sing \$ 6,084,893) and cash flows amounting to Rs. 13,762,409 (Sing \$ 420,643) for the year then ended.
  - (v) in relation to the R Systems (Singapore) Pte Ltd., Singapore subsidiary, total assets (net) of Rs. 114,407,817 (Sing \$ 3,455,093) as at December 31, 2009, the total revenues of Rs. 15,632,251 (Sing \$ 477,793) and cash flows amounting to Rs. 330,480 (Sing \$ 10,101) for the year then ended.
  - (vi) in relation to R Systems S.A.S., (Formerly known as Sento S.A.S.), France subsidiary, total assets (net) of Rs. 62,801,630 (Euro 942,492) as at December 31, 2009, the total revenues of Rs. 120,010,379 (Euro 1,783,933) and cash flows amounting to Rs. 37,942 (Euro 564) for the year then ended.
  - (vii) in relation to R Systems Europe B.V., (formerly known as Sento B.V.), Netherlands subsidiary, total assets (net) of Rs. 172,114,740 (Euro 2,583,002) as at December 31, 2009 the total revenues of Rs. 557,225,016 (Euro 8,283,053) and cash flows amounting to Rs. 59,814,704 (Euro 889,135) for the year then ended.
  - (viii) in relation to R Systems, NV, Belgium subsidiary, total assets (net) of Rs. 2,600,050 (Euro 39,020) as at December 31, 2009, the total revenues of Rs. Nil (Euro Nil) and cash flows (negative) amounting to Rs. 6,593 (Euro 98) for the year then ended.

4. The financial statements of these subsidiaries have been prepared in accordance with accounting policies generally accepted in their respective countries and have been audited by other auditors who have submitted their audit opinions, prepared under generally accepted auditing standards of their respective countries, to the shareholders of the respective companies, copies of which have been provided to us by the Company. The management has converted these audited financial statements of the Company's subsidiaries to accounting principles generally accepted in India. Our opinion thus, in so far it relates to amounts included in respect of these subsidiaries, is based solely on the reports of the other auditors under the accounting policies generally accepted in respective countries and our review of the conversion process followed by management.
5. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, notified pursuant to the Companies (Accounting Standards) Rules, 2006 and on the basis of the separate audited financial statements of R Systems International Limited and its subsidiaries included in the consolidated financial statements.
6. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other

financial information of the components and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Consolidated Balance Sheet, of the state of affairs of R Systems International Limited and its subsidiaries as at December 31, 2009;
- (b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of R Systems International Limited and its subsidiaries for the year then ended; and
- (c) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of R Systems International Limited and its subsidiaries for the year ended on that date.

**For S.R. BATLIBOI & ASSOCIATES**

Chartered Accountants

**Sd/-**

**per Sanjay Vij**

Partner

Membership No. 95169

Place: Gurgaon

Date : February 21, 2010

## Consolidated Balance Sheet as at December 31, 2009

|   | Schedule No. | As at December 31, 2009 Rs. | As at December 31, 2008 Rs. |
|---|--------------|-----------------------------|-----------------------------|
| <b>SOURCES OF FUNDS</b>                             |              |                             |                             |
| <b>Shareholders' funds</b>                          |              |                             |                             |
| Share capital                                       | 1            | 122,429,880                 | 133,624,620                 |
| Reserves and surplus                                | 2            | 1,551,499,811               | 1,582,900,944               |
|   |              | <b>1,673,929,691</b>        | 1,716,525,564               |
| <b>Minority interest</b>                            |              |                             |                             |
|   | 3            | -                           | -                           |
| <b>Loan funds</b>                                   |              |                             |                             |
| Secured loans                                       | 4            | 14,520,120                  | 32,564,922                  |
|   |              | <b>14,520,120</b>           | 32,564,922                  |
| <b>Deferred tax liability (net)</b>                 |              |                             |                             |
|   | 5            | 21,062,934                  | 16,877,430                  |
| <b>TOTAL</b>  |              | <b>1,709,512,745</b>        | 1,765,967,916               |
| <b>APPLICATION OF FUNDS</b>                         |              |                             |                             |
| <b>Fixed assets</b>                                 |              |                             |                             |
| Gross block   | 6            | 1,095,004,248               | 1,217,551,358               |
| Less : Accumulated depreciation / amortisation      |              | 582,337,250                 | 474,171,437                 |
| Net block   |              | 512,666,998                 | 743,379,921                 |
| Capital work-in-progress including capital advances |              | 17,604,314                  | 3,213,404                   |
|   |              | <b>530,271,312</b>          | 746,593,325                 |
| <b>Investments</b>                                  |              |                             |                             |
|   | 7            | 25,000                      | 25,000                      |
| <b>Current assets, loans and advances</b>           |              |                             |                             |
| Sundry debtors                                      | 8            | 496,516,685                 | 790,220,878                 |
| Cash and bank balances                              | 9            | 871,975,170                 | 636,438,263                 |
| Other current assets                                | 10           | 191,029,999                 | 145,892,575                 |
| Loans and advances                                  | 11           | 178,472,317                 | 98,139,268                  |
|   |              | <b>(A)</b>                  | 1,670,690,984               |
| <b>Less : Current liabilities and provisions</b>    |              |                             |                             |
| Current liabilities                                 | 12           | 368,032,490                 | 452,407,268                 |
| Provisions  | 13           | 190,745,248                 | 198,934,125                 |
|   |              | <b>(B)</b>                  | 651,341,393                 |
| <b>Net current assets</b>                           | <b>(A-B)</b> | <b>1,179,216,433</b>        | 1,019,349,591               |
| <b>TOTAL</b>  |              | <b>1,709,512,745</b>        | 1,765,967,916               |
| <b>Notes to accounts</b>                            |              |                             |                             |
|   | 18           |                             |                             |

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.  
As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

Sd/-  
**per Sanjay Vij**  
Partner  
Membership No. 95169  
Place : Gurgaon  
Date : February 21, 2010

Sd/-  
**Satinder Singh Rekhi**  
[Chairman & Managing  
Director]  
Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

Sd/-  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior  
Executive Director]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Raj Swaminathan**  
[Director & Chief  
Operating Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Shankar Seetharaman**  
[Chief Financial Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Suresh Kumar Bhutani**  
[Company Secretary &  
Compliance Officer]  
Place : NOIDA  
Date : February 21, 2010

## Consolidated Profit and Loss account for the year ended December 31, 2009

|  | Schedule No. | For the year ended December 31, 2009 Rs. | For the year ended December 31, 2008 Rs. |
|--|--------------|--|--|
| <b>INCOME</b>  |              |  |  |
| Sale of software products and rendering software development services  |              | <b>3,275,252,244</b>                     | 3,593,922,986                            |
| Other income   | 14           | <b>80,422,325</b>                        | 54,942,824                               |
| <b>TOTAL</b>   |              | <b>3,355,674,569</b>                     | 3,648,865,810                            |
| <b>EXPENDITURE</b>   |              |  |  |
| Personnel expenses   | 15           | <b>2,029,651,378</b>                     | 2,164,503,133                            |
| Operating and other expenses   | 16           | <b>866,955,095</b>                       | 1,056,195,410                            |
| Depreciation / amortisation  | 6            | <b>134,818,322</b>                       | 115,690,057                              |
| Goodwill impairment (refer note 9 (c) & 9 (f) under schedule 18)   |              | <b>208,713,911</b>                       | -  |
| Financial expenses   | 17           | <b>10,262,732</b>                        | 12,301,113                               |
| <b>TOTAL</b>   |              | <b>3,250,401,438</b>                     | 3,348,689,713                            |
| <b>Profit before tax</b>   |              | <b>105,273,131</b>                       | 300,176,097                              |
| Current tax [Including Rs. 9,986,274 related to earlier years (Previous year Rs. 718,550 excess provision written back)]           |              | <b>65,594,243</b>                        | 31,787,205                               |
| Less: MAT credit entitlement [Including credit entitlement relating to earlier years Rs. 9,737,293, (Previous year Rs. 4,493,844)] |              | <b>(42,678,064)</b>                      | (11,703,591)                             |
| Net current tax liability  |              | <b>22,916,179</b>                        | 20,083,614                               |
| Deferred tax   |              | <b>4,185,477</b>                         | (7,552,119)                              |
| Fringe benefit tax   |              | <b>968,061</b>                           | 7,980,375                                |
| <b>Total tax expense</b>   |              | <b>28,069,717</b>                        | 20,511,870                               |
| <b>Profit available for appropriation</b>  |              | <b>77,203,414</b>                        | 279,664,227                              |
| <b>Appropriations</b>  |              |  |  |
| Proposed final dividend (refer note 8 (b) under schedule 18)   |              | <b>28,845,195</b>                        | 31,693,018                               |
| Tax on proposed final dividend (refer note 8 (b) under schedule 18)  |              | <b>4,902,243</b>                         | 5,386,229                                |
| Transfer to General Reserve  |              | <b>6,551,586</b>                         | 23,647,603                               |
| <b>Surplus carried to Balance Sheet</b>  |              | <b>36,904,390</b>                        | 218,937,377                              |
| Earnings per share (refer note 11 under Schedule 18)   |              |  |  |
| Basic [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]   |              | <b>6.09</b>                              | 20.61                                    |
| Diluted [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]   |              | <b>6.02</b>                              | 20.36                                    |
| <b>Notes to accounts</b>   | 18           |  |  |

The schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Account. As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

Sd/-  
**per Sanjay Vij**  
Partner  
Membership No. 95169  
Place : Gurgaon  
Date : February 21, 2010

Sd/-  
**Satinder Singh Rekhi**  
[Chairman & Managing Director]  
Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

Sd/-  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior Executive Director]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Raj Swaminathan**  
[Director & Chief Operating Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Shankar Seetharaman**  
[Chief Financial Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Suresh Kumar Bhutani**  
[Company Secretary & Compliance Officer]  
Place : NOIDA  
Date : February 21, 2010

## Consolidated Cash Flow Statement for the year ended December 31, 2009

|  | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|--|--|--|
| <b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>  |  |  |
| <b>Net profit before taxation</b>  | <b>105,273,131</b>                             | 300,176,097                                    |
| Adjustments for:   |  |  |
| Depreciation / amortisation  | <b>134,818,322</b>                             | 115,690,057                                    |
| Goodwill impairment  | <b>208,713,911</b>                             | -  |
| Loss on impairment of investment   | -  | 13,344,649                                     |
| Debts and advances provided / written off  | <b>54,121,799</b>                              | 39,636,307                                     |
| Loss on sale / discard of fixed assets   | <b>2,108,558</b>                               | 6,034,659                                      |
| Unrealised foreign exchange loss / (gain)  | <b>(42,838,878)</b>                            | 10,346,296                                     |
| Interest income  | <b>(51,722,351)</b>                            | (36,639,483)                                   |
| Write back of provision for doubtful debts   | <b>(26,332,596)</b>                            | (10,703,381)                                   |
| Other excess provisions written back   | <b>(405,828)</b>                               | (411,763)                                      |
| Interest expense   | <b>2,799,326</b>                               | 5,328,914                                      |
| <b>Operating profit before working capital changes</b>   | <b>386,535,394</b>                             | 442,802,352                                    |
| Movements in working capital:  |  |  |
| Decrease / (Increase) in sundry debtors  | <b>252,704,779</b>                             | (63,135,941)                                   |
| (Increase) in other current assets   | <b>(38,271,849)</b>                            | (12,969,574)                                   |
| Decrease / (Increase) in loans and advances  | <b>(18,811,687)</b>                            | 22,242,568                                     |
| (Increase) in margin money deposit   | <b>(25,311,864)</b>                            | (45,312,652)                                   |
| (Decrease) in current liabilities and provisions   | <b>(80,238,515)</b>                            | (11,285,368)                                   |
| <b>Cash generated from operations</b>  | <b>476,606,258</b>                             | 332,341,385                                    |
| Direct taxes paid, net of refunds  | <b>(43,957,916)</b>                            | (38,989,045)                                   |
| <b>Net cash from operating activities (A)</b>  | <b>432,648,342</b>                             | 293,352,340                                    |
| <b>B. CASH FLOWS USED IN INVESTING ACTIVITIES</b>  |  |  |
| Purchase of fixed assets   | <b>(95,193,811)</b>                            | (104,236,047)                                  |
| Proceeds from sale of fixed assets   | <b>4,548,990</b>                               | 1,537,727                                      |
| Investment in R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V., Netherlands)  | -  | (27,745,486)                                   |
| Investment in R Systems, S.A.S. France (formerly known as Sento S.A.S., France)  | -  | (27,102,640)                                   |
| Acquisition of subsidiary (net of deferred compensation to the erstwhile shareholders of R Systems Solutions, Inc. USA) (refer note 9 (c) under Schedule 18) | <b>(7,583,873)</b>                             | (23,468,978)                                   |
| Interest received  | <b>30,565,912</b>                              | 31,053,707                                     |
| Investment in long term fixed deposits with scheduled banks  | <b>(547,427,379)</b>                           | (468,766,926)                                  |
| Proceeds from long term fixed deposits with scheduled banks  | <b>478,360,574</b>                             | 432,579,210                                    |
| <b>Net cash used in investing activities (B)</b>   | <b>(136,729,587)</b>                           | (186,149,433)                                  |
| <b>C. CASH FLOWS USED IN FINANCING ACTIVITIES</b>  |  |  |
| Proceeds from borrowings   | <b>2,268,082</b>                               | 1,647,300                                      |
| Repayment of borrowings  | <b>(19,060,808)</b>                            | (51,307,039)                                   |
| Margin money deposit against borrowings  | <b>(62,250,000)</b>                            | -  |

|   | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|---|--|--|
| Buyback of equity shares                                      | (72,969,023)                                   | (7,030,950)                                    |
| Interest paid   | (2,799,327)                                    | (5,328,914)                                    |
| Dividends paid  | (30,927,538)                                   | (24,288,716)                                   |
| Tax on dividend paid  | (5,264,659)                                    | (4,155,087)                                    |
| <b>Net cash used in financing activities (C)</b>              | <b>(191,003,273)</b>                           | <b>(90,463,406)</b>                            |
| <b>Net increase in cash and cash equivalents (A + B + C)</b>  | <b>104,915,482</b>                             | <b>16,739,501</b>                              |
| <b>Cash and cash equivalents at the beginning of the year</b> | <b>204,388,827</b>                             | <b>187,649,326</b>                             |
| <b>Cash and cash equivalents at the end of the year</b>       | <b>309,304,309</b>                             | <b>204,388,827</b>                             |

| Components of cash and cash equivalents as at                                 | December 31, 2009<br>Rs. | December 31, 2008<br>Rs. |
|---|--------------------------|--------------------------|
| Cash and cheques on hand  | 418,739                  | 348,826                  |
| Balances with scheduled banks   |                          |                          |
| On current accounts   | 10,205,708               | 12,957,803               |
| On cash credit / overdraft accounts   | 10,058,502               | 7,644,368                |
| On EEFC accounts  | 63,893,574               | 25,388,722               |
| On deposit accounts   | 587,132,432              | 472,053,763              |
| On unclaimed dividend / IPO refund accounts*                                  | 383,665                  | 333,517                  |
| Balances with other banks   |                          |                          |
| On current accounts   | 183,850,377              | 112,666,834              |
| On cash credit / overdraft accounts   | 11,112,256               | -                        |
| On deposit accounts   | 4,919,917                | 5,044,430                |
|   | <b>871,975,170</b>       | <b>636,438,263</b>       |
| Less : Margin money deposit   | (207,625,739)            | (120,063,875)            |
| Less : Long term deposits   | (359,656,693)            | (290,589,888)            |
| Less : Unclaimed dividend / IPO refund accounts                               | (383,665)                | (333,517)                |
| Less : Unrealised loss / (gain) on foreign currency cash and cash equivalents | 4,995,236                | (21,062,156)             |
| <b>Net cash and cash equivalents</b>  | <b>309,304,309</b>       | <b>204,388,827</b>       |

\* These balances are not available for use by the Company as they represent corresponding unpaid dividend liabilities.

**Note:**

The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 "Cash Flow Statement" issued by the Institute of Chartered Accountants of India.

As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

Sd/-  
**per Sanjay Vij**  
Partner  
Membership No. 95169  
Place : Gurgaon  
Date : February 21, 2010

Sd/-  
**Satinder Singh Rekhi**  
[Chairman & Managing  
Director]  
Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

Sd/-  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior  
Executive Director]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Raj Swaminathan**  
[Director & Chief  
Operating Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Shankar Seetharaman**  
[Chief Financial Officer]  
Place : NOIDA  
Date : February 21, 2010

Sd/-  
**Suresh Kumar Bhutani**  
[Company Secretary &  
Compliance Officer]  
Place : NOIDA  
Date : February 21, 2010

## Consolidated Schedules

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 1: SHARE CAPITAL</b>   |                                   |                                   |
| <b>Authorised</b>  |                                   |                                   |
| 20,000,000 (Previous year 20,000,000) equity shares of Rs. 10 each   | <b>200,000,000</b>                | 200,000,000                       |
| <b>Issued, subscribed and paid up</b>  |                                   |                                   |
| 13,782,206 (Previous year 13,782,206) equity shares of Rs. 10 each fully paid-up   | <b>137,822,060</b>                | 137,822,060                       |
| Less: Equity shares buy-back   |                                   |                                   |
| 997,500 (Previous year 997,500) equity shares of Rs. 2 each fully paid-up (equivalent to 199,500 (Previous year 199,500) equity shares of Rs. 10 each) (refer note 8(a) under Schedule 18) | <b>1,995,000</b>                  | 1,995,000                         |
| 13,582,706 (Previous year 13,582,706) equity shares of Rs. 10 each fully paid-up (refer note 8(a) under Schedule 18)   | <b>135,827,060</b>                | 135,827,060                       |
| Less: Equity shares buy-back (refer note 8(b) under Schedule 18)   | <b>12,658,200</b>                 | 1,326,700                         |
| 1,265,820 (Previous year 132,670) equity shares of Rs.10 each fully paid-up  | <b>123,168,860</b>                | 134,500,360                       |
| Less: Nil (Previous year 13,676 ) equity shares of Rs.10 each fully paid-up lying in Share Suspense Account (refer note 8(b) under Schedule 18)  | -                                 | 136,760                           |
|  | <b>123,168,860</b>                | 134,363,600                       |
| Less: Advance to Indus Software Employees Welfare Trust (refer note 10(b) under Schedule 18)   | <b>738,980</b>                    | 738,980                           |
|  | <b>122,429,880</b>                | 133,624,620                       |

**Note:**

- 1) Refer note 8(a) under Schedule 18 for bonus shares and shares issued for consideration other than cash.
- 2) Also refer note 10 under Schedule 18 for details of options in respect of equity shares.

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 2: RESERVES AND SURPLUS</b>   |                                   |                                   |
| <b>Capital Redemption Reserve</b>   |                                   |                                   |
| Balance as per last account   | <b>1,463,460</b>                  | -                                 |
| Add: Transferred from General Reserve (refer note 8(b) under Schedule 18)                         | <b>11,194,740</b>                 | 1,463,460                         |
|   | <b>12,658,200</b>                 | 1,463,460                         |
| <b>Securities Premium Account</b>   |                                   |                                   |
| Balance as per last account   | <b>976,120,078</b>                | 981,687,568                       |
| Less: Utilised for buy back of equity shares (refer note 8(b) under Schedule 18)                  | <b>61,774,283</b>                 | 5,567,490                         |
|   | <b>914,345,795</b>                | 976,120,078                       |
| Less: Advance to Indus Software Employees Welfare Trust (also refer note 10(b) under Schedule 18) | <b>2,282,728</b>                  | 2,282,728                         |
|   | <b>912,063,067</b>                | 973,837,350                       |
| <b>Capital Reserve</b>  | <b>31,726</b>                     | 31,726                            |
| <b>General Reserve</b>  |                                   |                                   |
| Balance as per last account   | <b>42,824,862</b>                 | 20,640,719                        |
| Add: Transferred from current year Profit and Loss Account  | <b>6,551,586</b>                  | 23,647,603                        |
| Less: Transfer to Capital Redemption Reserve (refer note 8(b) under Schedule 18)                  | <b>11,194,740</b>                 | 1,463,460                         |
|   | <b>38,181,708</b>                 | 42,824,862                        |

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 2: RESERVES AND SURPLUS</b>                             |                                   |                                   |
| Profit and Loss Account   |                                   |                                   |
| Balance as per last account   | <b>538,420,913</b>                | 317,221,755                       |
| Add: Adjustment in accordance with transitional provisions of AS-30 | -                                 | 2,261,781                         |
| Add: Transferred from current year Profit and Loss Account          | <b>36,904,390</b>                 | 218,937,377                       |
|   | <b>575,325,303</b>                | 538,420,913                       |
| Foreign currency translation reserve                                |                                   |                                   |
| Balance as per last account   | <b>26,322,633</b>                 | (26,716,226)                      |
| Less: Current year translation differences                          | <b>(13,082,826)</b>               | 53,038,859                        |
|   | <b>13,239,807</b>                 | 26,322,633                        |
| <b>TOTAL</b>  | <b>1,551,499,811</b>              | 1,582,900,944                     |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 3: MINORITY INTEREST</b>                                       |                                   |                                   |
| Minority interest in ECnet Limited at the time of acquisition              | <b>149,585</b>                    | 149,585                           |
| Less: Minority interest in post acquisition losses to the extent allocable | <b>149,585</b>                    | 149,585                           |
|  | -                                 | -                                 |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 4: SECURED LOANS</b>   |                                   |                                   |
| <b>- From Banks</b>  |                                   |                                   |
| Cash credit facilities for R Systems Europe B.V., Netherlands<br>(Secured by pledge of account receivables that have been created or will be created in ordinary course of business) | -                                 | 10,603,014                        |
| For motor vehicles (refer note 1 below)<br>(Secured by hypothecation of underlying motor vehicles)   | <b>797,756</b>                    | 3,574,873                         |
| <b>- From Others</b>   |                                   |                                   |
| For motor vehicles (refer note 1 below)<br>(Secured by hypothecation of underlying motor vehicles)   | <b>2,355,657</b>                  | 541,666                           |
| Finance lease obligation (refer note 2 below)<br>(Secured by respective assets taken on lease)(refer note 5(b) under Schedule 18)  | <b>11,366,707</b>                 | 17,845,369                        |
|  | <b>14,520,120</b>                 | 32,564,922                        |

**Note:**

- 1) Included in secured loans above, the amount payable within one year is Rs. 1,422,367 (Previous year Rs. 2,124,002).
- 2) In case of finance lease obligation, amount repayable within one year is Rs. 7,642,661 (Previous year Rs. 10,839,848)

|  | <b>As at December<br/>31, 2009<br/>Rs.</b> | As at December<br>31, 2008<br>Rs. |
|--|--|-----------------------------------|
| <b>SCHEDULE 5: DEFERRED TAX LIABILITY (NET)</b>  |  |                                   |
| <b>Deferred tax liability</b>  |  |                                   |
| Differences in depreciation / amortisation and other differences in block of fixed assets as per tax books and financial books | <b>45,077,959</b>                          | 40,650,154                        |
| <b>Gross deferred tax liability</b>  | <b>45,077,959</b>                          | 40,650,154                        |
| <b>Deferred tax assets</b>   |  |                                   |
| Provision for gratuity   | <b>12,846,618</b>                          | 14,351,012                        |
| Provision for long term compensated absences   | <b>11,168,407</b>                          | 9,421,712                         |
| <b>Gross deferred tax assets</b>   | <b>24,015,025</b>                          | 23,772,724                        |
| <b>Net deferred tax liability</b>  | <b>21,062,934</b>                          | 16,877,430                        |

**SCHEDULE 6: FIXED ASSETS**

(Amount in Rs.)

|   | Land - freehold  | Land - leasehold  | Building - freehold | Building including leasehold improvement (1) & (2) | Computers (2)      | Office and electrical equipment (2) | Furniture and fittings (2) | Vehicle (3)       | Software (2)       | Product development cost | Right to provide services | Goodwill (5) | Total                | Previous Year |
|---|------------------|-------------------|---------------------|--|--------------------|-------------------------------------|----------------------------|-------------------|--------------------|--------------------------|---------------------------|--------------|----------------------|---------------|
| <b>Gross block</b>  |                  |                   |                     |  |                    |                                     |                            |                   |                    |                          |                           |              |                      |               |
| As at January 1, 2009   | 4,765,674        | 10,005,968        | 31,198,298          | 136,887,371  | 359,452,825        | 137,749,067                         | 141,619,734                | 39,944,425        | 120,613,091        | 19,567,953               | 6,326,864                 | 209,420,088  | <b>1,217,551,358</b> | 804,077,599   |
| Acquisition of R Systems Europe B.V. (formerly known as Sento Europe B.V.,) (Refer note 9 (e) (ii) and 9 (e) (iii) under Schedule 18) |                  |                   |                     |  |                    |                                     |                            |                   |                    |                          |                           |              |                      | 214,319,668   |
| Acquisition of R Systems S.A.S., (formerly known as Sento S.A.S.,) (Refer note 9 (e) (v) and 9 (e) (vi) under Schedule 18)            |                  |                   |                     |  |                    |                                     |                            |                   |                    |                          |                           |              |                      | 21,984,357    |
| Additions   | -                | -                 | -                   | 3,649,227  | 31,588,503         | 9,140,619                           | 2,107,371                  | 3,982,540         | 75,284,096         | -                        | -                         | -            | <b>125,752,356</b>   | 162,985,522   |
| Deletions / adjustments   | -                | -                 | -                   | 2,837,327  | 8,798,499          | 3,489,598                           | 3,109,511                  | 11,076,055        | 3,241,524          | -                        | 6,326,864                 | 706,177      | <b>39,585,555</b>    | (14,184,212)  |
| Goodwill impairment   | -                | -                 | -                   | -  | -                  | -                                   | -                          | -                 | -                  | -                        | -                         | 208,713,911  | <b>208,713,911</b>   | -             |
| <b>At December 31, 2009</b>   | <b>4,765,674</b> | <b>10,005,968</b> | <b>31,198,298</b>   | <b>137,699,271</b>                                 | <b>382,242,829</b> | <b>143,400,088</b>                  | <b>140,617,594</b>         | <b>32,850,910</b> | <b>192,655,663</b> | <b>19,567,953</b>        | -                         | -            | <b>1,095,004,248</b> | 1,217,551,358 |
| <b>Depreciation / amortisation</b>  |                  |                   |                     |  |                    |                                     |                            |                   |                    |                          |                           |              |                      |               |
| As at January 1, 2009   | -                | 773,390           | 3,680,248           | 32,980,294   | 193,385,993        | 55,310,110                          | 65,318,652                 | 12,487,823        | 95,973,198         | 7,934,865                | 6,326,864                 | -            | <b>474,171,437</b>   | 243,467,096   |
| Acquisition of R Systems Europe B.V. (formerly known as Sento Europe B.V.) (Refer note 9 (e) (ii) and 9 (e) (iii) under Schedule 18)  |                  |                   |                     |  |                    |                                     |                            |                   |                    |                          |                           |              |                      | 85,824,513    |
| Acquisition of R Systems S.A.S. (formerly known as Sento S.A.S.) (Refer note 9 (e) (v) and 9 (e) (vi) under Schedule 18)              |                  |                   |                     |  |                    |                                     |                            |                   |                    |                          |                           |              |                      | 18,315,845    |
| For the year  | -                | 163,097           | 513,504             | 10,466,246   | 60,484,049         | 12,680,512                          | 11,565,310                 | 4,138,107         | 30,929,805         | 3,877,692                | -                         | -            | <b>134,818,322</b>   | 115,690,057   |
| Deletions / adjustments   | -                | -                 | -                   | 1,930,538  | 5,866,450          | 2,358,847                           | 2,251,368                  | 4,921,307         | 2,997,135          | -                        | 6,326,864                 | -            | <b>26,652,509</b>    | (10,873,926)  |
| <b>At December 31, 2009</b>   | -                | <b>936,487</b>    | <b>4,193,752</b>    | <b>41,516,002</b>                                  | <b>248,003,592</b> | <b>65,631,775</b>                   | <b>74,632,594</b>          | <b>11,704,623</b> | <b>123,905,868</b> | <b>11,812,557</b>        | -                         | -            | <b>582,337,250</b>   | 474,171,437   |
| <b>Net block</b>  |                  |                   |                     |  |                    |                                     |                            |                   |                    |                          |                           |              |                      |               |
| <b>At December 31, 2009</b>   | <b>4,765,674</b> | <b>9,069,481</b>  | <b>27,004,546</b>   | <b>96,183,269</b>                                  | <b>134,239,237</b> | <b>77,768,313</b>                   | <b>65,985,000</b>          | <b>21,146,287</b> | <b>68,749,795</b>  | <b>7,755,396</b>         | -                         | -            | <b>512,666,998</b>   | 743,379,921   |
| At December 31, 2008  | 4,765,674        | 9,232,578         | 27,518,050          | 103,907,077  | 166,066,832        | 82,438,958                          | 76,301,082                 | 27,456,602        | 24,639,893         | 11,633,088               | -                         | 209,420,088  | <b>17,604,314</b>    | 3,213,404     |
| Capital work in progress (including capital advances of Rs. 80,875 (Previous year Rs. 1,785,639))                                     |                  |                   |                     |  |                    |                                     |                            |                   |                    |                          |                           |              | <b>530,271,312</b>   | 746,593,325   |

**Notes:**

- 1) Includes Rs. 21,155,390 (Previous Year Rs. 21,155,390) paid towards land and building under a composite lease for which no separate values are assignable.
- 2) Refer note 5 (b) under Schedule 18 for assets obtained on finance lease included in gross book value and net book value.
- 3) Vehicles amounting to Rs 8,735,500 (Previous year Rs. 13,231,668) are hypothecated against term loans for vehicle finance from banks & others.
- 4) The goodwill arising on acquisition of ECnet Limited has been written off during the year ended December 31, 2005 against Securities Premium Account (also refer note 9 (b) under Schedule 18).
- 5) Refer note 9 (c) and 9 (f) under Schedule 18 for goodwill impairment.

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 7: INVESTMENTS</b>   |                                   |                                   |
| <b>Long term investments (at cost)</b>   |                                   |                                   |
| <b>Other than trade, unquoted</b>  |                                   |                                   |
| Equity Shares, fully paid up<br>2,500 (Previous year 2,500) equity shares of Rs.10 each fully paid up in The Saraswat<br>Co-operative Bank Limited | <b>25,000</b>                     | 25,000                            |
|  | <b>25,000</b>                     | 25,000                            |
| Aggregate amount of unquoted investments   | <b>25,000</b>                     | 25,000                            |
| Aggregate amount of quoted investments   | -                                 | -                                 |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 8: SUNDRY DEBTORS</b>                          |                                   |                                   |
| <b>Debts outstanding for a period more than six months</b> |                                   |                                   |
| Unsecured, considered good                                 | <b>29,631,105</b>                 | 35,938,315                        |
| Unsecured, considered doubtful                             | <b>115,019,498</b>                | 115,315,808                       |
| <b>Other debts</b>   |                                   |                                   |
| Unsecured, considered good                                 | <b>466,885,580</b>                | 754,282,563                       |
| Unsecured, considered doubtful                             | <b>3,298,230</b>                  | 19,251,120                        |
|  | <b>614,834,413</b>                | 924,787,806                       |
| Less : Provision for doubtful debts                        | <b>118,317,728</b>                | 134,566,928                       |
|  | <b>496,516,685</b>                | 790,220,878                       |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 9: CASH AND BANK BALANCES</b>                |                                   |                                   |
| Cash on hand   | <b>418,739</b>                    | 348,826                           |
| <b>Balances with scheduled banks</b>                     |                                   |                                   |
| On current accounts                                      | <b>10,205,708</b>                 | 12,957,803                        |
| On cash credit / overdraft accounts (refer note 4 below) | <b>10,058,502</b>                 | 7,644,368                         |
| On EEFC accounts   | <b>63,893,574</b>                 | 25,388,722                        |
| On deposit accounts                                      | <b>587,132,432</b>                | 472,053,763                       |
| On unclaimed dividend / IPO refund accounts              | <b>383,665</b>                    | 333,517                           |
| <b>Balances with other banks</b>                         |                                   |                                   |
| On current accounts                                      | <b>183,850,377</b>                | 112,666,834                       |
| On cash credit / overdraft accounts (refer note 5 below) | <b>11,112,256</b>                 | -                                 |
| On deposit accounts                                      | <b>4,919,917</b>                  | 5,044,430                         |
|  | <b>871,975,170</b>                | 636,438,263                       |

**Notes:**

- 1) Balances with scheduled banks - on deposit accounts include receipts lien marked with banks against guarantees issued in favour of various

Government departments Rs. 124,623,420 (Previous year Rs. 120,063,875) and against credit / derivative facilities taken Rs. 83,002,319 (Previous year Rs. Nil).

- 2) Also refer note 16 (c) under Schedule 18 for investment of balance funds from IPO proceeds pending its utilisation.
- 3) Also refer note 17 under Schedule 18 for details of cash and bank balances.
- 4) Cash credit facilities with schedule banks are secured by first charge over current assets and collateral charge over the immovable property and fixed assets.
- 5) Cash credit facilities with other banks are secured by pledge of account receivables that have been created or will be created in ordinary course of business.

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 10: OTHER CURRENT ASSETS</b> |                                   |                                   |
| Interest accrued on deposits             | <b>18,878,205</b>                 | 4,152,431                         |
| Interest accrued on staff advance        | <b>61,250</b>                     | 39,495                            |
| Unbilled revenue                         | <b>172,090,544</b>                | 141,700,649                       |
|  | <b>191,029,999</b>                | 145,892,575                       |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 11: LOANS AND ADVANCES</b>   |                                   |                                   |
| (Unsecured, considered good, except where otherwise stated)  |                                   |                                   |
| Advances recoverable in cash or in kind or for value to be received<br>[including Rs. 7,259,862 (Previous year Rs. 9,142,953) considered doubtful] | <b>71,524,739</b>                 | 56,754,471                        |
| Mark-to-market on forward contracts  | <b>19,109,927</b>                 | -                                 |
| MAT credit receivable  | <b>59,361,869</b>                 | 16,683,805                        |
| Balances with customs, excise, etc.  | <b>4,164,272</b>                  | 2,774,281                         |
| Deposits - others  | <b>31,403,708</b>                 | 31,069,664                        |
| Advance fringe benefit tax [net of provisions amounting to Rs. 13,986,408 (Previous year Rs. Nil)]   | <b>167,664</b>                    | -                                 |
|  | <b>185,732,179</b>                | 107,282,221                       |
| Less: Provision for doubtful loans and advances  | <b>7,259,862</b>                  | 9,142,953                         |
|  | <b>178,472,317</b>                | 98,139,268                        |

|  | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|--|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 12: CURRENT LIABILITIES</b>  |                                   |                                   |
| Sundry creditors   | <b>298,691,791</b>                | 284,976,484                       |
| Mark-to-market on forward contracts  | -                                 | 46,759,066                        |
| Deferred payment compensation to the erstwhile shareholders of ECnet Limited<br>(refer note 9 (a) under schedule 18)             | <b>8,916,859</b>                  | 9,285,242                         |
| Deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc.<br>(refer note 9 (c) under schedule 18) | -                                 | 9,782,911                         |
| Book overdraft   | <b>1,438,598</b>                  | 1,122,609                         |
| Deferred revenue   | <b>21,775,942</b>                 | 47,785,442                        |
| Investor education and protection fund (not due)   |                                   |                                   |
| (a) Unclaimed dividend   | <b>383,665</b>                    | 258,267                           |
| (b) Unclaimed application money received for allotment of equity shares and due for refund                                       | -                                 | 75,250                            |
| Security deposits  | <b>1,687,662</b>                  | 2,087,590                         |
| Other liabilities  | <b>35,137,973</b>                 | 50,274,407                        |
|  | <b>368,032,490</b>                | 452,407,268                       |

|   | As at December<br>31, 2009<br>Rs. | As at December<br>31, 2008<br>Rs. |
|---|-----------------------------------|-----------------------------------|
| <b>SCHEDULE 13: PROVISIONS</b>  |                                   |                                   |
| Employee bonus  | <b>24,993,938</b>                 | 20,774,350                        |
| Income tax [net of advance taxes amounting to Rs. 123,889,896 (Previous year Rs. 79,110,112)] | <b>18,489,335</b>                 | 5,684,898                         |
| Fringe benefit tax [net of advance taxes amounting to Rs. Nil (Previous year Rs. 18,384,772)] | -                                 | 264,270                           |
| Proposed final dividend   | <b>29,560,527</b>                 | 31,693,018                        |
| Tax on proposed final dividend  | <b>5,023,813</b>                  | 5,386,229                         |
| Gratuity (refer note 12 under Schedule 18)  | <b>42,199,151</b>                 | 46,466,537                        |
| Long term compensated absences  | <b>70,478,484</b>                 | 88,664,823                        |
|   | <b>190,745,248</b>                | 198,934,125                       |

|   | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|---|--|--|
| <b>SCHEDULE 14: OTHER INCOME</b>  |  |  |
| <u>Interest on:</u>   |  |  |
| - Bank deposits [Gross of tax deducted at source Rs. 6,408,588 (Previous year Rs. 8,437,338)] | <b>51,722,351</b>                              | 36,639,483                                     |
| Provision for doubtful debts and advances written back  | <b>26,332,596</b>                              | 10,703,381                                     |
| Other excess provisions written back, as no longer required                                   | <b>405,828</b>                                 | 411,763  |
| Miscellaneous income  | <b>1,961,550</b>                               | 7,188,197                                      |
|   | <b>80,422,325</b>                              | 54,942,824                                     |

|   | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|---|--|--|
| <b>SCHEDULE 15: PERSONNEL EXPENSES</b>            |  |  |
| Salaries, wages and bonus                         | <b>1,861,038,342</b>                           | 1,989,807,205                                  |
| Contribution to provident fund and other payments | <b>130,846,577</b>                             | 139,404,548                                    |
| Staff welfare expenses                            | <b>37,766,459</b>                              | 35,291,380                                     |
|   | <b>2,029,651,378</b>                           | 2,164,503,133                                  |

|  | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|--|--|--|
| <b>SCHEDULE 16: OPERATING AND OTHER EXPENSES</b> |  |  |
| Recruitment and training expenses                | <b>13,641,047</b>                              | 22,215,693                                     |
| Travelling and conveyance                        | <b>195,102,179</b>                             | 233,432,306                                    |
| Insurance  | <b>12,625,131</b>                              | 13,658,309                                     |
| Commission others                                | <b>5,030,384</b>                               | 5,185,607                                      |
| Repair and maintenance                           | <b>55,960,433</b>                              | 53,777,759                                     |
| Provision for doubtful debts and advances        | <b>47,881,700</b>                              | 39,477,670                                     |
| Bad debts and advances written off               | <b>6,240,099</b>                               | 158,637  |
| Rent - premises                                  | <b>84,405,826</b>                              | 79,177,803                                     |
| Rent - equipment                                 | <b>6,746,765</b>                               | 12,365,911                                     |
| Power and fuel                                   | <b>41,539,489</b>                              | 36,822,611                                     |
| Communication costs                              | <b>71,289,540</b>                              | 70,609,382                                     |
| Printing and stationery                          | <b>6,871,040</b>                               | 8,440,870                                      |
| Advertising and sales promotion                  | <b>11,691,825</b>                              | 15,141,277                                     |
| Legal and professional fees                      | <b>273,862,546</b>                             | 344,737,394                                    |
| Auditor's remuneration                           |  |  |
| - Statutory audit fee                            | <b>1,350,000</b>                               | 1,350,000                                      |
| - Quarterly audit fee                            | <b>1,800,000</b>                               | 1,874,160                                      |
| - Other services                                 | <b>1,180,000</b>                               | 1,043,540                                      |
| - Out of pocket expenses                         | <b>212,850</b>                                 | 164,948  |
| Directors' sitting fee                           | <b>225,000</b>                                 | 210,000  |
| Loss on sale/discard of fixed assets (net)       | <b>2,108,558</b>                               | 6,034,659                                      |
| Loss on impairment of investment                 | -  | 13,344,649                                     |
| Rates and taxes                                  | <b>7,720,415</b>                               | 6,220,524                                      |
| Loss on exchange fluctuation (net)               | <b>5,685,688</b>                               | 74,500,175                                     |
| Watch and ward expenses                          | <b>4,991,737</b>                               | 4,897,514                                      |
| Membership and subscription                      | <b>4,676,961</b>                               | 4,259,777                                      |
| Miscellaneous expenses                           | <b>4,115,882</b>                               | 7,094,235                                      |
|  | <b>866,955,095</b>                             | 1,056,195,410                                  |

|  | For the year ended<br>December 31, 2009<br>Rs. | For the year ended<br>December 31, 2008<br>Rs. |
|--|--|--|
| <b>SCHEDULE 17: FINANCIAL EXPENSES</b> |  |  |
| Interest on loan                       | <b>2,799,326</b>                               | 5,328,914                                      |
| Bank charges                           | <b>7,463,406</b>                               | 6,972,199                                      |
|  | <b>10,262,732</b>                              | 12,301,113                                     |

## SCHEDULE 18: NOTES TO ACCOUNTS

### 1. Statement of Significant Accounting Policies

#### (a) Basis of preparation

The consolidated financial statements of R Systems International Limited (the 'Company') and its subsidiaries (collectively referred to as 'R Systems Group' or the 'Group') have been prepared to comply in all material respects with notified Accounting Standards by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis, except for derivative financial instruments that have been measured at fair value. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

As far as possible, the consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented, to the extent possible, in the same manner as the Company's stand alone financial statements. Differences in accounting policies, if any, are disclosed separately.

All figures are in Rupees except where expressly stated.

The consolidated financial statements include the financial statements of R Systems International Limited and its subsidiaries. These accounts do not include enterprises, which are set-up for the benefit of employees like ESOP trusts (explained in note 10(b) below) as not required to be consolidated as per Accounting Standard 21. The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under Accounting Standard 21 issued by the Institute of Chartered Accountants of India. All material inter-company transactions and accounts are eliminated on consolidation.

Certain subsidiaries of the Company have significant losses at the year-end. These subsidiaries are meeting their short term funding requirement through parent and fellow subsidiaries loans. The management will extend its continual financial support during the financial year 2010 to enable these subsidiaries to meet its working capital and other financing requirements and considers it appropriate to prepare these accounts on going concern basis.

As per Accounting Standard Interpretation (ASI)-15 on Notes to the Consolidated Financial Statements, only the notes

involving items which are material need to be disclosed. Materiality for this purpose is assessed in relation to the information contained in the consolidated financial statements. Further, additional statutory information disclosed in separate financial statements of the subsidiary and/or a parent having no bearing on the true and fair view of the consolidated financial statements need not be disclosed in the consolidated financial statements. Therefore, based upon ASI-15, certain disclosures have not been made such as:

- Earnings in foreign exchange classified under the following heads, namely;:
  - (a) Exports at F.O.B. Value;
  - (b) Interest and dividend;
  - (c) Other income, indicating the nature thereof.
- Expenditure in foreign currency during the financial year on account of royalty, know how, professional and consultation fees, interest and other matters.
- Value of imports calculated on CIF basis by the group entities during the financial year in respect of:
  - (a) raw material;
  - (b) capital goods
- Remittance in foreign currency on account of dividend.
- Disclosure of directors' remuneration and computation of net profit under section 349 of the Companies Act, 1956 for calculation of managerial remuneration under section 198.
- Details of dues to Micro, Small and Medium Enterprises as per MSMED Act, 2006.

#### (b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

#### (c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

**(d) Depreciation**

Depreciation is provided on Straight Line method over the remaining estimated useful lives of the fixed assets.

The useful lives of the fixed assets have been estimated giving due consideration to environment in respective countries by the Group management as below:

| Category of fixed assets                    | Estimated useful life                |
|---|--------------------------------------|
| Furniture and fittings                      | 5-15 years                           |
| Office and electrical equipments            | 3-20 years                           |
| Leasehold improvements                      | Lower of lease period or useful life |
| Building- freehold / leasehold              | Lower of lease period or 61 years    |
| Land lease hold                             | Lease period                         |
| Computer hardware and network installations | 3-6 years                            |
| Vehicles                                    | 7 –10 years                          |

Individual assets costing up to Rs. 5,000 in the parent company and US \$ 250 in its US companies are considered fully depreciated in the year of use.

**(e) Intangibles**

*Product development costs*

Product development cost represents direct cost incurred by the Group for developing new product. Research costs are expensed as incurred. Development expenditure incurred on an individual product is carried forward when its future recoverability can reasonably be regarded as assured. The expenditure incurred is carried forward under capital work in progress till the product is ready to be marketed. Expenditure carried forward is charged off over the expected useful life of product of 48 months beginning in the month when revenue from the product starts accruing.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

*Computer software*

Costs relating to acquired software are capitalised and amortised on a straight-line basis over their useful lives estimated by the management at 3 years or below in specific cases.

**(f) Expenditure on new projects**

Expenditure directly relating to construction activity is

capitalised. Indirect expenditure incurred during construction period is capitalised to the extent allocable. Other indirect expenditure (including borrowing costs) incurred during the construction period which is not related to the construction activity nor is incidental thereto is charged to the Profit and Loss Account.

**(g) Goodwill / capital reserve**

Goodwill / capital reserve represents the cost to the parent of its investment in subsidiaries over / under the parent's portion of equity of the subsidiary, at the date on which the investment in the subsidiaries is made.

**(h) Impairment**

The carrying amounts of assets, including intangibles and goodwill, are reviewed at each balance sheet date if there is any indication of impairment based on internal / external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

After impairment, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

The Group evaluates the carrying value of its goodwill whenever events or changes in circumstances indicate that its carrying value may be impaired. Impairment is recognised in the year/period of such determination. Management also ascertains the future revenue and earnings of the acquired entities and analyses sustainability thereof to determine impairment. For ascertaining impairment, consideration is given to fair value of the acquired entities.

**(i) Leases**

*Where the Group is the lessee*

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that the Group will obtain the ownership by the end of the lease term, capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

**(j) Investments**

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the long term investments.

**(k) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

*Sale of software products*

Revenue from the sale of software license is recognised when the sale has been completed with the transfer of title.

*Rendering of services*

Revenue from software development and maintenance services projects comprise income from time-and-material and fixed-price contracts.

Revenue associated with software development and maintenance services / customisation of products and business process outsourcing services rendered on time and materials basis is recognised when services are rendered. The same is calculated based on man-hours incurred for rendering services.

Fixed-price contracts vary in duration depending on the terms of the work being performed. Revenue from fixed price contracts (including maintenance and support contracts) is recognised using the percentage of completion method, when reasonable progress has been made on the

milestones achieved as specified in the contracts. The stage of completion of project is determined by the proportion that contract efforts incurred for work performed up to the balance sheet date bear to the estimated total contract effort. Changes in contract performance, estimated profitability and final contract settlements may result in revisions to costs and revenue and are recognised in the period in which the revisions are determined. If a loss is projected on any contract in process, the entire projected loss is recognised immediately.

In terms of contracts excess/shortfall of revenue over the billed as at the period/year -end is carried in financial statement as unbilled revenue/deferred revenue separately.

Management fees from the customers for managing projects are being recognised on time basis over the estimated life of the project.

Revenue from subscription services is recognised over the term of subscription period.

*Interest*

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

**(l) Foreign currency translation**

Foreign currency transactions

(i) Initial recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(ii) Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

(iii) Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as

expense in the year in which they arise except those arising from investments in non-integral operations.

- (iv) Forward exchange contracts not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts (except outstanding against firm commitments and highly probable forecast transaction) is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the year.

- (v) Translation of non-integral foreign operations

In translating the financial statements of a non-integral foreign operation for incorporation in consolidated financial statements, the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation are translated at the closing rate; income and expense items of the non-integral foreign operations are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve until the disposal of net investment. On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation are recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2009, the rates used were US \$ 1= Rs. 48.27, Euro 1= Rs. 67.27 and Singapore \$ 1 = Rs. 32.72. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 46.54, Euro 1= Rs. 66.63 and Singapore \$ 1= Rs. 33.11.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2008, the rates used were US \$ 1= Rs. 43.81, Euro 1= Rs. 64.13 [except for R System Europe B.V. (formerly known as Sento Europe B.V.) and R Systems S.A.S. (formerly known as Sento .S.A.S.) at Euro 1= Rs. 64.53] and Singapore \$ 1 = Rs. 30.93. For translating assets and liabilities at the year-end, the rates

used were US \$ 1= Rs. 49.72, Euro 1= Rs. 70.09 and Singapore \$ 1= Rs. 34.48.

- (vi) Translation of Integral foreign operation

The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the company itself.

#### **(m) Employee benefits**

- (i) Retirement benefits in the form of defined contribution schemes are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.
- (ii) Gratuity liability is defined benefit obligations and is provided for on the basis of an actuarial valuation made at the end of each financial period/year for the employees of the Company on projected unit credit method. The gratuity plan is not funded.
- (iii) Long term compensated absences are provided for based on actuarial valuation done. The actuarial valuation is done as per projected unit credit method.
- (iv) Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.
- (v) Bonus paid to employees / directors of the Company, wherein the amount becomes proportionately recoverable in case the employees / directors do not complete the stipulated period of service, is expensed off proportionately over the period stipulated / agreed with the respective employee.

#### **(n) Income taxes**

Tax expense comprises of current, deferred and fringe benefit tax.

Current income tax expense comprises of taxes on income from operations in India and in foreign jurisdictions. Income tax payable in India is determined in accordance with the provisions of the Income Tax Act, 1961. Tax expense relating to overseas operations is determined in accordance with tax laws applicable in countries where such operations are domiciled.

Deferred income tax reflects the impact of current year timing differences between taxable income and accounting

income and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the Group does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

If the Group has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

The Company claims exemption under section 10A of the Income Tax Act, 1961 in respect of taxable income. Deferred tax is recognised after eliminating timing differences, which reverse during the tax holiday period.

At each balance sheet date the Group re-assesses unrecognised deferred tax assets. It recognises the unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realized.

MAT credit is recognised as an asset only when and to the extent there is convincing evidence that the company will pay normal income tax during the specified year. In the year in which the Minimum Alternative Tax (MAT) credit becomes eligible to be recognised as an asset in accordance with the recommendations contained in Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of a credit to the profit and loss account and shown as MAT Credit Entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

The companies in the Group are subject to tax legislation as applicable in the respective country of incorporation. Accordingly, the calculations does not represent tax liability / income attributable to Group results, if these were to be analysed under the local legislation of the parent company.

**(o) Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

**(p) Government grants and subsidies**

Grants and subsidies from the government are recognised when there is reasonable assurance that the grant/subsidy will be received and all attaching conditions will be complied with.

When the grant or subsidy relates to an expense item, it is deducted in reporting the related expenses over the periods necessary to match them on a systematic basis to the costs, which it is intended to compensate.

**(q) Provisions**

A provision is recognised when the Group has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on management's best estimate required to settle the obligation at the each Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the management's current estimates.

**(r) Earnings per share**

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders, share split and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

**(s) Segment reporting policies**

*Identification of segments:*

The Group's operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and

serves different markets. The analysis of geographical segments is based on the areas in which the major customers of the Group operate.

*Inter segment transfers:*

The Group generally accounts for inter segment sales and transfers as if the sales or transfers were to third parties at current market prices.

*Allocation of common costs :*

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

*Unallocated items:*

The corporate and other segment include general corporate income and expense items which are not allocated to any business segment.

*Segment Policies:*

The Group prepares its segment information in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group as a whole.

**(t) Employee stock compensation cost**

Measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the intrinsic value method. Compensation expense is amortized over the vesting period of the option on a straight line basis.

**(u) Accounting for derivatives**

The Company uses foreign exchange forward contracts (derivative financial instrument) to hedge its exposure to movements in foreign exchange rates. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts or options for trading or speculation purposes.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value

at each balance sheet date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the Profit and Loss Account.

The fair value of foreign exchange forward contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the Profit and Loss Account. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the Profit and Loss Account.

### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the Profit and Loss Account. Amounts taken to equity are transferred to the Profit and Loss Account when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the Profit and Loss Account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs. The Company uses forward exchange contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. (refer note 13(b) for more details).

subsidiaries (collectively referred to as 'R Systems Group' or the 'Group') is a leading global provider of IT solutions and Business Process Outsourcing ("BPO") services. R Systems Group' primary focus is to provide full service IT solutions, software engineering, technical support, customer care and other IT enabled services to the high technology sector, independent software vendors (ISV's), banks, financial services companies, telecom, insurance and the health care sector. R Systems Group' develops and markets a suite of applications under the brand name "Indus" for the retail lending sector and undertakes turnkey software projects in the banking and financial services segment. R Systems Group' through its subsidiary ECnet Ltd develops and markets its proprietary supply chain solution under the brand name "ECnet", primarily to the high technology sector. R Systems Group' services are provided out of its eight global development and service centres in India, USA, Europe and Singapore.

The parent Company, R Systems International Limited is registered under the Companies Act, 1956 with its Registered Office at New Delhi.

## 2. Description of the Group

R Systems International Limited (the 'Company') and its

| Subsidiary  | Holding | Country of incorporation and other particulars  |
|---|---------|---|
| R Systems, Inc. , USA   | 100%    | A company registered under the laws of California, USA in 1993 and subsidiary of the Company since January 2, 2001. R Systems Inc. has a division in Japan.   |
| R Systems (Singapore) Pte Limited, Singapore  | 100%    | A company registered under the laws of Singapore in 1997 and subsidiary of the Company since September 19, 2000.  |
| Indus Software, Inc., USA   | 100%    | A company registered under the laws of Delaware, USA in 1996 and subsidiary of the Company since April 1, 2002.   |
| R Systems Solution, Inc., USA   | 100%    | A company registered under the laws of California, USA in 2000 and subsidiary of the Company since August 24, 2006.   |
| R Systems N.V., Belgium   | 100%    | A company registered under the laws of Belgium in 2007 and subsidiary of the Company since August 28, 2007.   |
| R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V., Netherlands) | 100%    | A company registered under the laws of Netherlands in 1999 and subsidiary of the Company since January 23, 2008.  |
| R Systems S.A.S., France (formerly known as Sento S.A.S, France)                      | 100%    | A company registered under the laws of France in 2000 and subsidiary of the Company since January 23, 2008.   |
| ECnet Limited, Singapore  | 98.59%  | A company registered under the laws of Singapore in 1996. The Company has acquired majority share on January 8, 2004. ECnet Limited, Singapore has subsidiaries in Malaysia, Thailand, China, Hong Kong, USA and Japan. |

ECnet Limited, Singapore has following wholly owned subsidiaries:

| Name                              | Holding | Country of incorporation   |
|-----------------------------------|---------|----------------------------|
| ECnet (M) Sdn Bhd                 | 100 %   | Malaysia                   |
| ECnet Systems (Thailand) Co. Ltd. | 100 %   | Thailand                   |
| ECnet (Shanghai) Co. Ltd.         | 100 %   | People's Republic of China |
| ECnet (Hong Kong) Ltd.            | 100 %   | Hong Kong                  |
| ECnet, Inc.                       | 100 %   | United States of America   |
| ECnet Kabushiki Kaisha            | 100 %   | Japan                      |

### 3. Segment information

Business Segments:

R Systems Group is a leading global provider of IT solutions and Business Process Outsourcing (BPO) services. The Group considers business segment as the basis for primary segmental reporting. The Group is organised into two business segments – software development and customisation services and BPO services. Costs and expenses which cannot be allocated to any business segment are reflected in the column 'corporate and others'. Segments have been identified and reported based on the nature of the services, the risks and returns, the organization structure and the internal financial reporting system.

Geographical Segments :

The Group reports secondary segment information on the basis of the geographical location of the customers. Although the Group's major operating divisions are managed on a worldwide basis, they operate in five principal geographical areas of the world which are: India, United States of America, South East Asian countries, Europe and Other areas.

The following table provides required information for the primary segments for the years ended December 31, 2009 and December 31, 2008: (Amount in Rs.)

| Particulars                    | Software development & customisation services |                      | Business process outsourcing services |                      | Eliminations            |                  | Corporate and others    |              | Total                   |                      |
|--------------------------------|---|----------------------|---------------------------------------|----------------------|-------------------------|------------------|-------------------------|--------------|-------------------------|----------------------|
|                                | Year ended December 31,                       |                      | Year ended December 31,               |                      | Year ended December 31, |                  | Year ended December 31, |              | Year ended December 31, |                      |
|                                | 2009  | 2008                 | 2009                                  | 2008                 | 2009                    | 2008             | 2009                    | 2008         | 2009                    | 2008                 |
| <b>REVENUE</b>                 |   |                      |                                       |                      |                         |                  |                         |              |                         |                      |
| External sales                 | 2,447,394,512                                 | 2,565,621,144        | 827,857,732                           | 1,028,301,842        | -                       | -                |                         |              | 3,275,252,244           | 3,593,922,986        |
| Inter-segment sales            | 1,222,019                                     | 5,509,214            | 9,228,581                             | -                    | 10,450,600              | 5,509,214        | -                       | -            | -                       | -                    |
| <b>Total revenue</b>           | <b>2,448,616,531</b>                          | <b>2,571,130,358</b> | <b>837,086,313</b>                    | <b>1,028,301,842</b> | <b>10,450,600</b>       | <b>5,509,214</b> | <b>-</b>                | <b>-</b>     | <b>3,275,252,244</b>    | <b>3,593,922,986</b> |
| <b>RESULT</b>                  |   |                      |                                       |                      |                         |                  |                         |              |                         |                      |
| Segment result                 | 291,425,369                                   | 249,476,190          | (189,222,174)                         | 75,536,545           |                         |                  |                         |              | 102,203,195             | 325,012,735          |
| Unallocated corporate expenses |   |                      |                                       |                      |                         |                  |                         | 63,747,167   | 48,220,467              | 63,747,167           |
| <b>Operating profit</b>        |   |                      |                                       |                      |                         |                  |                         |              | <b>53,982,728</b>       | <b>261,265,568</b>   |
| Interest expenses              |   |                      |                                       |                      |                         |                  |                         | (5,328,914)  | (2,799,326)             | (5,328,914)          |
| Interest income                |   |                      |                                       |                      |                         |                  |                         | 36,639,483   | 51,722,351              | 36,639,483           |
| Other income                   |   |                      |                                       |                      |                         |                  |                         | 7,599,960    | 2,367,378               | 7,599,960            |
| Income taxes                   |   |                      |                                       |                      |                         |                  |                         | (20,511,870) | (28,069,717)            | (20,511,870)         |
| <b>Net profit</b>              |   |                      |                                       |                      |                         |                  |                         |              | <b>77,203,414</b>       | <b>279,664,227</b>   |

(Amount in Rs.)

| Particulars                       | Software development & customisation services |                      | Business process outsourcing services |                    | Eliminations       |                    | Corporate and others |                    | Total                |                      |
|-----------------------------------|---|----------------------|---------------------------------------|--------------------|--------------------|--------------------|----------------------|--------------------|----------------------|----------------------|
|                                   | December 31,                                  |                      | December 31,                          |                    | December 31,       |                    | December 31,         |                    | December 31,         |                      |
|                                   | 2009  | 2008                 | 2009                                  | 2008               | 2009               | 2008               | 2009                 | 2008               | 2009                 | 2008                 |
| <b>OTHER INFORMATION</b>          |   |                      |                                       |                    |                    |                    |                      |                    |                      |                      |
| Segment assets                    | 1,426,956,292                                 | 1,498,909,410        | 278,263,556                           | 515,169,472        | 267,502,784        | 213,379,077        |                      |                    | 1,437,717,064        | 1,800,699,805        |
| Unallocated corporate assets      |   |                      |                                       |                    |                    |                    | 771,043,886          | 599,925,699        | 771,043,886          | 599,925,699          |
| Income tax assets                 |   |                      |                                       |                    |                    |                    | 59,529,533           | 16,683,805         | 59,529,533           | 16,683,805           |
| <b>Total assets</b>               | <b>1,426,956,292</b>                          | <b>1,498,909,410</b> | <b>278,263,556</b>                    | <b>515,169,472</b> | <b>267,502,784</b> | <b>213,379,077</b> | <b>830,573,419</b>   | <b>616,609,504</b> | <b>2,268,290,483</b> | <b>2,417,309,309</b> |
| Segment liabilities               | 387,044,994                                   | 451,477,288          | 400,298,308                           | 398,329,633        | 267,502,784        | 213,379,077        |                      |                    | 519,840,518          | 636,427,844          |
| Unallocated corporate liabilities |   |                      |                                       |                    |                    |                    | 29,944,192           | 36,143,074         | 29,944,192           | 36,143,074           |
| Income tax liabilities            |   |                      |                                       |                    |                    |                    | 44,576,082           | 28,212,827         | 44,576,082           | 28,212,827           |
| <b>Total liabilities</b>          | <b>387,044,994</b>                            | <b>451,477,288</b>   | <b>400,298,308</b>                    | <b>398,329,633</b> | <b>267,502,784</b> | <b>213,379,077</b> | <b>74,520,274</b>    | <b>64,355,901</b>  | <b>594,360,792</b>   | <b>700,783,745</b>   |
| Capital expenditures              | 103,665,430                                   | 89,183,109           | 36,477,836                            | 27,257,491         |                    |                    |                      |                    | 140,143,266          | 116,440,600          |
| Depreciation and amortization     | 85,379,850                                    | 71,511,217           | 49,438,472                            | 44,178,840         |                    |                    |                      |                    | 134,818,322          | 115,690,057          |
| Other non-cash expenses           | 51,768,732                                    | 43,094,673           | 213,175,536                           | 15,920,942         |                    |                    |                      |                    | 264,944,268          | 59,015,615           |

*Geographical segments:*

The Group reports secondary segment information on the basis of the geographical location of the customers. The management views the domestic and export markets as distinct geographical segments.

The geographical segments considered for disclosure are based on the sales within India and sales outside India on the basis of location of customers.

The following is the distribution of the Group's revenue by geographical market:

(Amount in Rs.)

|                 | For the year ended<br>December 31, 2009 | For the year ended<br>December 31, 2008 |
|-----------------|---|---|
| India           | <b>168,310,666</b>                      | 136,160,588                             |
| USA             | <b>1,715,406,807</b>                    | 2,067,163,554                           |
| South East Asia | <b>290,061,721</b>                      | 271,655,670                             |
| Europe          | <b>908,750,539</b>                      | 943,205,533                             |
| Others          | <b>192,722,511</b>                      | 175,737,641                             |
| <b>Total</b>    | <b>3,275,252,244</b>                    | 3,593,922,986                           |

Assets and additions to tangible and intangible fixed assets by geographical area:

The following table shows the carrying amount of assets and addition to fixed assets and intangible assets by geographical area in which assets are located:

(Amount in Rs.)

|                 | Carrying amount<br>of assets as at<br>December 31, |               | Addition to fixed assets<br>and intangible assets<br>for the year ended<br>December 31, |             |
|-----------------|--|---------------|---|-------------|
|                 | 2009   | 2008          | 2009  | 2008        |
| India           | <b>1,365,961,330</b>                               | 1,068,276,128 | <b>114,564,285</b>  | 72,271,391  |
| USA             | <b>436,408,372</b>                                 | 755,650,839   | <b>13,034,791</b>   | 32,139,568  |
| South East Asia | <b>108,957,769</b>                                 | 117,959,530   | <b>1,071,068</b>  | 4,161,791   |
| Europe          | <b>302,028,087</b>                                 | 403,640,875   | <b>11,473,122</b>   | 7,827,721   |
| Others          | <b>54,934,925</b>                                  | 71,781,937    | -   | 40,129      |
| <b>Total</b>    | <b>2,268,290,483</b>                               | 2,417,309,309 | <b>140,143,266</b>  | 116,440,600 |

**4. Related party disclosure**

(i) Names of related parties (Also refer note 2 for 'R Systems Group')

*Key management personnel*

| Sl. No. | Name of person       | Designation                    | Company                         |
|---------|----------------------|--------------------------------|---------------------------------|
| 1       | Satinder Singh Rekhi | Chairman and Managing Director | R Systems International Limited |

| Sl. No. | Name of person                        | Designation  | Company  |
|---------|---------------------------------------|--|--|
|         |                                       | Director<br>Director<br>Director<br>Director<br>Director | R Systems, Inc., USA<br>R Systems (Singapore) Pte Ltd, Singapore<br>Indus Software, Inc., USA<br>R Systems Solution, Inc., USA<br>R Systems, NV, Belgium<br>R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) |
| 2       | O'Neil Nalavadi<br>(Resigned in 2009) | Director Finance & Chief Financial Officer<br>Director   | R Systems International Limited<br>R Systems, NV, Belgium  |
| 3       | Lt. Gen. Baldev Singh<br>(Retd.)      | President and Senior Executive Director                  | R Systems International Limited  |
| 4       | Raj Swaminathan                       | Director and Chief Operating Officer                     | R Systems International Limited  |
| 5       | Mrs. Harpreet Rekhi                   | Director<br>Director<br>Director                         | R Systems (Singapore) Pte Ltd., Singapore<br>Indus Software, Inc, USA<br>R Systems, Inc, USA   |
| 6       | Tan Cant Wee                          | Director<br>Director                                     | ECnet Ltd, Singapore<br>R Systems (Singapore) Pte Ltd, Singapore   |
| 7       | Tarun Shankar Mathur                  | Director<br>Director                                     | ECnet Ltd, Singapore<br>R Systems (Singapore) Pte Ltd, Singapore   |
| 8       | Sartaj Singh Rekhi                    | Director<br>Director<br>Director<br>Executive Manager    | R Systems Solution, Inc., USA<br>R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.)<br>R Systems, NV, Belgium<br>R Systems, Inc., USA  |
| 9       | Bart V Eunen                          | Director<br>Director                                     | R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.)<br>R Systems S.A.S., France (formerly known as Sento S.A.S)   |
| 10      | Ramneet Singh Rekhi                   | Director   | R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.)   |

*Relatives of Key management personnel*

| Sl. No. | Name of person      | Related to                    | Designation  |
|---------|---------------------|-------------------------------|--|
| 1       | Mandeep Singh Sodhi | Lt. Gen. Baldev Singh (Retd.) | Vice President - Sales (R Systems International Limited)     |
| 2       | Amrita Kaur         | Satinder Singh Rekhi          | Assistant Business Manager (R Systems International Limited) |

- (ii) Details of transactions with related parties for the years ended December 31, 2009 and December 31, 2008:

(Amount in Rs.)

| Key management personnel & their relatives | For the year ended December 31, 2009 | For the year ended December 31, 2008 |
|--|--------------------------------------|--------------------------------------|
| <b>Remuneration</b>                        |                                      |                                      |
| Satinder Singh Rekhi                       | 15,587,029                           | 15,455,824                           |
| O'Neil Nalavadi                            | 9,342,008                            | 10,290,948                           |
| Lt. Gen. Baldev Singh (Retd.)              | 5,094,444                            | 6,583,334                            |
| Raj Swaminathan                            | 5,386,449                            | 5,601,494                            |
| Tarun Shankar Mathur                       | 7,176,040                            | 8,220,402                            |
| Bart V Eunen                               | 8,627,469                            | 7,833,805                            |
| Tan Cant Wee                               | 196,305                              | 185,592                              |
| Sartaj Singh Rekhi                         | 2,740,197                            | 2,618,126                            |
| Mandeep Singh Sodhi                        | 13,511,066                           | 15,930,938                           |
| Amrita Kaur                                | 293,660                              | -                                    |
| <b>Rent</b>                                |                                      |                                      |
| Satinder Singh Rekhi                       | 6,338,965                            | 5,783,448                            |
| <b>Total</b>                               | <b>74,293,632</b>                    | <b>78,503,911</b>                    |

#### 5. Leases - In case of assets taken on lease

- (a) The Group has operating leases for office premises, office equipment, vehicle etc. The future minimum payments required under non-cancelable operating leases at year -end are as follows

(Amount in Rs.)

|   | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|------------------------------|------------------------------|
| Lease payments for the year                       | 84,859,523                   | 77,328,948                   |
| Minimum Lease Payments:                           |                              |                              |
| Not later than one year                           | 69,194,763                   | 85,566,687                   |
| Later than one year but not later than five years | 31,911,892                   | 89,639,531                   |
| Later than five years                             | Nil                          | Nil                          |

The operating lease arrangements extend upto a maximum of 5 years from their respective dates of inception. Some of the lease arrangements have a price escalation clause.

- (b) The Group has finance leases for computers hardware and software, furniture and fixture, leasehold improvements, office and electrical equipment. The lease term is from 3 to 5 years and after the expiry of initial lease term, the Group has an option to buy the assets under finance lease at a nominal

value. Gross block & net block includes assets obtained on finance lease as per the details given below:-

(Amount in Rs.)

|   | Gross block        |                   | Net block          |                   |
|---|--------------------|-------------------|--------------------|-------------------|
|   | As at December, 31 |                   | As at December, 31 |                   |
|   | 2009               | 2008              | 2009               | 2008              |
| Furniture and fittings                      | 5,293,510          | 5,568,010         | 1,189,660          | 2,252,433         |
| Computers                                   | 6,673,684          | 7,019,755         | 245,871            | 1,837,683         |
| Software                                    | 2,913,927          | 3,065,032         | 40,899             | 827,661           |
| Office and electrical equipment             | 30,428,192         | 26,064,697        | 10,167,251         | 11,250,192        |
| Building leasehold (leasehold improvements) | 13,269,518         | 13,957,622        | 6,711,978          | 6,379,535         |
| <b>Total</b>                                | <b>58,578,831</b>  | <b>55,675,116</b> | <b>18,355,659</b>  | <b>22,547,504</b> |

Minimum lease payments and present values for assets obtained on finance lease are as follows:-

(Amount in Rs.)

|  | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------|------------------------------|
| Total minimum lease payments during the year   | 11,936,684                   | 14,735,584                   |
| Less : Amount representing finance charges   | 615,479                      | 1,445,666                    |
| Present value of minimum lease payments  | 11,321,204                   | 13,289,918                   |
| Minimum Lease Payments:  |                              |                              |
| Not later than one year [For finance lease: Present value Rs. 7,642,661 as on December 31, 2009 (Rs. 10,839,848 as on December 31, 2008)]                          | 7,822,923                    | 11,446,131                   |
| Later than one year but not later than five years [For finance lease: Present value Rs. 3,724,046 as on December 31, 2009 (Rs. 7,005,520 as on December 31, 2008)] | 3,729,285                    | 7,200,581                    |
| Later than five years [For finance lease : Present value Rs. Nil as on December 31, 2009 (Rs. Nil as on December 31, 2008)]  | Nil                          | Nil                          |

#### 6. Capital Commitments

(Amount in Rs.)

|  | As at December 31, 2009 | As at December 31, 2008 |
|--|-------------------------|-------------------------|
| Commitments for purchase of fixed assets | 392,493                 | 832,504                 |

**7. Contingent liabilities not provided for:**

(Amount in Rs.)

|  | As at<br>December<br>31, 2009 | As at<br>December<br>31, 2008 |
|--|-------------------------------|-------------------------------|
| Performance guarantees given to Department of telecommunication for Domestic & International 'Other Service Provider' licenses | 102,000,000                   | 102,000,000                   |
| Guarantees given on behalf of wholly owned subsidiary R Systems, Inc., USA   | 39,559,000                    | 114,351,400                   |
| R Systems Europe B.V., Netherlands   | -                             | 94,620,150                    |
| <b>TOTAL</b>   | <b>141,559,000</b>            | <b>310,971,550</b>            |

**8. (a)** The Issued, subscribed and paid up equity share capital of the Company as on December 31, 2009, includes the following:

- 67,000 equity shares of Rs. 10 each, allotted at a premium of Rs. 10,838 (approx) per equity share pursuant to a contract for share swap with existing shareholders of R Systems, Inc., USA after obtaining necessary regulatory approvals on January 2, 2001.
- 3,600,000 equity shares of Rs. 10 each, allotted as fully paid up bonus shares by way of capitalisation of accumulated profits on January 5, 2001.

The Company had sub divided each of its equity shares of Rs. 10 each into 5 equity shares of Rs. 2 each and accordingly all the afore-mentioned shares had been sub divided on January 5, 2001.

- 3,596,869 equity shares of Rs. 2 each, allotted on March 4, 2002 at a premium of Rs. 113.42 per equity share pursuant to a "Share Purchase Agreement" resulting in share swap with specific shareholders of Indus Software Private Limited (or 'Indus') after obtaining necessary regulatory approvals.
- 1,281,364 equity shares of Rs. 2 each, allotted on December 28, 2002 at a premium of Rs. 113.42 per equity share to the remaining shareholders of Indus, pursuant to the approval of "Scheme of Amalgamation" relating to the amalgamation of Indus with the Company by the High Courts of Delhi and Mumbai.
- The Company had earlier advanced Rs. 115,131,450 to R Systems Employee Stock Option Trust, and allotted 997,500 equity shares at the rate of Rs. 115.42. During the year ended December 31, 2004, the Company

bought back these shares at the rate of Rs 115.42 per equity share.

- 495,667 equity shares of Rs. 2 each issued in January 2006 upon conversion of warrants under the Shareholders Agreement dated February 16, 2002.

The Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each and accordingly the afore-mentioned shares had been consolidated on January 30, 2006.

- 5,355,255 equity shares of Rs. 10 each had been allotted on January 30, 2006 as fully paid up bonus shares by utilisation of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956.

- (b) The Board of Directors of the Company at its meeting held on September 07, 2008, had approved the Buy-back of the equity shares of Rs. 10 each, not exceeding 1,306,941 number of equity shares from the existing owners, at a maximum price of Rs. 150 per equity share, for an aggregate amount not exceeding Rs. 80,000,000 from the open market through stock exchange(s) in terms of the SEBI (Buy Back of Securities) Regulations, 1998 pursuant to the first proviso to clause (b) of sub-section (2) of Section 77A of the Companies Act, 1956. Consequently, the Company made a public announcement dated October 15, 2008 regarding Buy-back of equity shares.

During the year ended December 31, 2008, the Company had bought back 146,346 equity shares of Rs. 10 each. Out of which 132,670 equity shares of Rs. 10 each had been extinguished till the year end and balance 13,676 equity shares were lying in share suspense account. These equity shares have been extinguished subsequent to December 31, 2008.

Under the Buy-back programme, the Company has bought back 1,265,820 equity shares up to August 27, 2009 inclusive of payout formalities (including 146,346 equity shares up to December 31, 2008) at an average price of Rs. 63.20 per share for an aggregate amount of Rs. 80,000,000 by utilising the Securities Premium Account to the extent of Rs. 67,341,773 and General Reserve to the extent of Rs. 12,658,200. The Capital Redemption Reserve has been created out of General Reserve for Rs. 12,658,200 being the nominal value of equity shares bought back in terms of Section 77AA of the Companies Act, 1956. The Offer for Buy Back has been successfully completed on August 27, 2009.

The Board of Director of the Company had recommended a

dividend of Rs. 2.40 per share at its meeting held on February 12, 2009 subject to the approval of the shareholders at the annual general meeting and accordingly made an appropriation of Rs. 31,693,018 and Rs. 5,386,229 towards proposed dividend and dividend distribution tax respectively. Company had announced the record date for distribution of dividend as April 17, 2009 and accordingly reduced the appropriation of Rs. 715,332 and Rs. 121,570 made earlier towards proposed dividend and dividend distribution tax respectively, to adjust for shares bought back subsequent to the earlier appropriation.

Final Dividend of Rs. 2.40 per share (24% on equity share of par value of Rs 10) for the year ended December 31, 2008 was approved by the shareholders in Annual General Meeting held on April 27, 2009 and same was paid during the quarter ended June 30, 2009.

9. (a) During earlier years, the Company had acquired 98.59% shares in ECnet Limited, a Company incorporated in Singapore at total consideration of Rs. 34,938,958. During the year ended December 31, 2007 the Company had settled the liabilities towards certain erstwhile shareholders. As a result thereof, the deferred payment compensation of Rs. 14,452,222 was released, as considered appropriate by the management. The reassessed amount payable Rs. 8,916,859 (Previous year Rs. 9,285,242) is shown under 'current liabilities'.
- (b) As referred in note 9(a) above, the Company had invested Rs. 34,938,958 towards acquisition of 98.59% shareholding in ECnet Limited, Singapore. During the earlier years, the Company had based upon an order of High Court of Delhi written down the goodwill value to Rs. Nil and adjusted the write off of Rs. 24,495,721 against the Securities Premium Account as this had not been represented by available assets.
- (c) During the year ended December 31, 2006 the Company had completed the acquisition and integration of R Systems Solutions, Inc., a technical support company based in the USA. The Company had acquired 8,666,884 Series A convertible preferred stock of "no par" value and 10,335,833 common stock of no par value from the erstwhile shareholders of R Systems Solutions, Inc. The Company had recognised the investment at value of US\$ 2.85 million i.e. Rs. 132,796,088 which represents the consideration assessed as probable to be paid. The goodwill arising on acquisition of Rs. 135,983,568 had been recorded in the books.

Out of such payables, US\$ 1.17 million i.e. Rs. 54,803,268 had been paid at time of acquisition and US\$ 1.41 million i.e.

Rs. 62,167,878 had been paid from the date of acquisition till the year ended December 31, 2008. During the earlier years, the Company had reassessed the probable payment for purchase consideration and reversed US\$ 0.07 million i.e. Rs. 3,264,820 against goodwill appearing in the books. The amount payable US\$ 0.20 million i.e. Rs. 9,782,911 as at December 31, 2008 was shown under current liabilities.

During the year ended December 31, 2009, the Company had reassessed the probable payment for purchase consideration and reversed US\$ 0.02 million i.e. Rs. 706,177 against goodwill appearing in the books. The balance purchase consideration of US\$ 0.18 million i.e. Rs. 7,583,873 has been paid during the year 2009.

Further during the year ended December 31, 2009, R Systems Solutions, Inc., had received termination notice from a significant customer. Consequently the management has assessed that there is impairment of goodwill recognized in the books on acquisition of these subsidiaries and has impaired the goodwill amounting to Rs. 132,012,571.

- (d) During the year ended December 31, 2008, the Group has reassessed the market value of its current investments in certain USA companies as Nil after considering the financial position and operations of these companies and has accordingly recognised loss of Rs. 13,344,649.
- (e) (i) During the year ended December 31, 2008, the Company has completed the acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) and R Systems S.A.S., France (formerly known as Sento S.A.S., France), two wholly owned subsidiaries based in Europe effective January 23, 2008. The purchase consideration for the acquisition of R Systems Europe B.V., Netherlands is Rs. 42,053,275 and R Systems S.A.S., France is Rs. 32,593,766.
- (ii) The details of assets acquired on acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) are as under:

(Amount in Rs.)

| Assets                                      | Gross block        | Accumulated depreciation |
|---|--------------------|--------------------------|
| Building leasehold (leasehold improvements) | 31,369,037         | 12,606,433               |
| Computers                                   | 14,482,088         | 9,099,580                |
| Software                                    | 36,944,459         | 35,335,722               |
| Furniture and fittings                      | 30,691,656         | 16,997,121               |
| Office and electrical equipment             | 26,166,658         | 11,785,657               |
| <b>Total</b>                                | <b>139,653,898</b> | <b>85,824,513</b>        |

- (iii) Breakup of assets and liabilities acquired on acquisition of the R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) as noted in 9 (e) (i) above:

| Assets   | Rs.                 |
|--|---------------------|
| Cash and bank balances                         | 14,307,789          |
| Sundry debtors                                 | 67,801,553          |
| Other current assets                           | 34,605,151          |
| Loans and advances                             | 9,433,952           |
| <b>Fixed assets</b>                            |                     |
| Gross block                                    | 139,653,898         |
| Less : Accumulated depreciation / amortisation | 85,824,513          |
| Net block                                      | 53,829,385          |
| <b>Total assets</b>                            | <b>179,977,830</b>  |
| <b>Liabilities</b>                             |                     |
| Secured loan                                   | 26,278,388          |
| Current liability and provisions               | 186,311,937         |
| <b>Total liability</b>                         | <b>212,590,325</b>  |
| <b>Net assets (A)</b>                          | <b>(32,612,495)</b> |
| To be discharged by:                           |                     |
| Cash already paid                              | 42,053,275          |
| <b>Total Consideration (B)</b>                 | <b>42,053,275</b>   |
| <b>Goodwill arising on acquisition (B-A)</b>   | <b>74,665,770</b>   |

- (iv) All profits / losses relating to R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) subsequent to the date of acquisition are included in these consolidated financial statements. Accordingly, profit for the period from January 23, 2008 to December 31, 2008 is incorporated in the Profit and Loss Account. Further, goodwill, as mentioned above, has been computed on the basis of accounts of the subsidiary as on January 23, 2008. For the purpose of above computation, the amounts in foreign currencies have been translated at the applicable rates on the acquisition date, i.e., Euro 1= Rs. 57.46.
- (v) The details of assets acquired on acquisition of R Systems S.A.S., France (formerly known as Sento S.A.S) are as under:

(Amount in Rs.)

| Assets                          | Gross block       | Accumulated depreciation |
|---------------------------------|-------------------|--------------------------|
| Software                        | 6,001,012         | 6,001,012                |
| Furniture and fittings          | 6,910,041         | 6,146,717                |
| Office and electrical equipment | 7,037,734         | 6,168,116                |
| <b>Total</b>                    | <b>19,948,787</b> | <b>18,315,845</b>        |

- (vi) Breakup of assets and liabilities acquired on acquisition of the R Systems S.A.S, France (formerly known as Sento S.A.S) as noted in 9 (e) (i) above:

| Assets   | Rs.               |
|--|-------------------|
| Cash and bank balances                         | 5,491,126         |
| Sundry debtors                                 | 687,186           |
| Other current assets                           | 499,385           |
| Loans and advances                             | 46,844,249        |
| <b>Fixed assets</b>                            |                   |
| Gross block                                    | 19,948,787        |
| Less : Accumulated depreciation / amortisation | 18,315,845        |
| Net block                                      | 1,632,942         |
| <b>Total assets</b>                            | <b>55,154,888</b> |
| <b>Liabilities</b>                             |                   |
| Current liability and provisions               | 24,596,692        |
| <b>Total liability</b>                         | <b>24,596,692</b> |
| <b>Net assets (A)</b>                          | <b>30,558,196</b> |
| <b>To be discharged by:</b>                    |                   |
| Cash already paid                              | 32,593,766        |
| <b>Total Consideration (B)</b>                 | <b>32,593,766</b> |
| <b>Goodwill arising on acquisition (B-A)</b>   | <b>2,035,570</b>  |

- (vii) All profits / losses relating to R Systems S.A.S, France (formerly known as Sento S.A.S) subsequent to the date of acquisition are included in these consolidated financial statements. Accordingly, profit for the period from January 23, 2008 to December 31, 2008 is incorporated into the Profit and Loss Account. Further, goodwill, as mentioned above, has been computed on the basis of accounts of the subsidiary as on January 23, 2008. For the purpose of above computation, the amounts in foreign currencies have been translated at the applicable rates on the acquisition date, i.e., Euro 1= Rs. 57.46.

- (f) During the year ended December 31, 2009, R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) and R Systems S.A.S, France (formerly known as Sento S.A.S, France) have received termination notices from two significant customers. Consequently the management has assessed that there is impairment of goodwill recognized in the books on acquisition of these subsidiaries and has impaired the goodwill amounting to Rs. 74,665,770 for R Systems Europe B.V., Netherlands and Rs. 2,035,570 for R Systems S.A.S., France

10. (a) R Systems International Limited - Year 2004 Employee Stock Option Plan ('the plan')

During the year 2004, the Company had instituted the plan for all eligible employees as specified in the rules in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 997,500 options to eligible employees as recommended by the

Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is "1.60 times the Book Value of the Share as per the audited balance sheet as on December 31, 2003 i.e. Rs. 42 per Share or 1.60 times of the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee as on the date of Exercise whichever is higher".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 42 per share for each Rs. 2 share, the exercise price had been accordingly adjusted to Rs. 105 per equity share. During the year ended December 31, 2008, the Company had obtained a legal opinion confirming that the adjustments undertaken to the number of options vesting to its employees and exercise price, pursuant to the consolidation and subsequent bonus issue during the year ended December 31, 2006, does not tantamount to modification and no additional benefit was offered to the existing option holders.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2009 and year ended December 31, 2008 is set out below:

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <b>At the beginning</b>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | 83,275                                       | 94,480                                       |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 61,390                                       | 50,185                                       |
| <b>During the year</b>  |  |  |
| - Options granted (Rs. 10 per share)  | -  | -  |

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| - Options exercised (Rs. 10 per share)  | -  | -  |
| - Options lapsed or surrendered (Rs. 10 per share)                              | 3,775  | 11,205                                       |
| <b>At the end</b>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | 79,500                                       | 83,275                                       |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | 65,165                                       | 61,390                                       |

(b) **Indus Software Employees Stock Option Plan – Year 2001 ('the plan'):**

Indus Software Private Limited ('Indus') had outstanding options aggregating to 21,967 equity shares as on March 31, 2002, to be issued to the eligible employees under the Indus Software Employees Stock Option Plan – Year 2001 under various vesting periods as specified in the said Plan, duly approved by the erstwhile shareholders. Indus had established "Indus Software Employees Welfare Trust" ('the Indus Trust') to administer the plan, as approved by the members, for the benefits of the Company's employees and had provided an interest free loan of Rs. 3,382,792. Consequently, Indus had allotted 21,967 equity shares of Rs. 10 each at a premium of Rs. 144 per equity share to the Indus Trust to be further issued to the Indus' eligible employees on the exercise of the underlying options granted to them.

As a result of the merger of Indus with the Company, all employees had surrendered their options in favour of the Indus Trust to enable them to obtain options for shares in R Systems International Limited after the merger. Also, the Company had issued 206,822 equity shares of Rs. 2 each at a premium of Rs. 113.42 per share to the Indus Trust in exchange of 21,967 equity shares of Indus, apropos to the agreed swap ratio. During the earlier years out of the said 206,822 shares 22,079 shares were issued to the employees on exercise of options.

The Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each on January 30, 2006 and then issued 1:1 bonus share to each of the then existing shareholder by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956, consequently total number of shares issued are now 73,898 equity shares of Rs. 10 each. Accordingly an amount of Rs. 738,980 and Rs. 2,282,728 is shown as deduction from Issued, subscribed and paid-up capital and Securities Premium Account respectively as

suggested by the "Guidance Note on Accounting for Employee Share-based Payments" issued by The Institute of Chartered Accountants of India.

The movement in the options (in equivalent number of shares of the Company) held by the Trust during the year ended December 31, 2009 and the year ended December 31, 2008 is set out below:

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <u>At the beginning</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | -  | -  |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | <b>73,898</b>                                | 73,898                                       |
| <u>During the year</u>  |  |  |
| - Options granted (Rs. 10 per share)  | -  | -  |
| - Options exercised (Rs. 10 per share)  | -  | -  |
| - Options lapsed or surrendered (Rs. 10 per share)                              | -  | -  |
| <u>At the end</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | -  | -  |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | <b>73,898</b>                                | 73,898                                       |

(c) R Systems International Limited – Year 2004 Employees Stock Option Plan ECnet ('the plan')

The Company had instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 1,000,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is "Book Value of the Share as per the audited Balance Sheet as on 31st December 2003 i.e. Rs. 26 or as on the date of Exercise, the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee which ever is higher".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act,

1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 26 per share for each Rs. 2 share, the exercise price had been accordingly adjusted to Rs. 65 per equity share. During the year ended December 31, 2008, the Company had obtained a legal opinion confirming that the adjustments undertaken to the number of options vesting to its employees and exercise price, pursuant to the consolidation and subsequent bonus issue during the year ended December 31, 2006, does not tantamount to modification and no additional benefit was offered to the existing option holders.

The vesting period is 4 years (40% in 1<sup>st</sup> year & 20% in 2<sup>nd</sup>, 3<sup>rd</sup> & 4<sup>th</sup> year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2009 and year ended December 31, 2008 is set out below:

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <u>At the beginning</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | <b>6,800</b>                                 | 17,801                                       |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | <b>123,241</b>                               | 112,240                                      |
| <u>During the year</u>  |  |  |
| - Options granted (Rs. 10 per share)  | -  | -  |
| - Options exercised (Rs. 10 per share)  | -  | -  |
| - Options lapsed or surrendered (Rs. 10 per share)                              | -  | 11,001                                       |
| <u>At the end</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | <b>6,800</b>                                 | 6,800  |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | <b>123,241</b>                               | 123,241                                      |

(d) R Systems International Limited Employee Stock Option Scheme 2007 ('the plan')

During the year 2007, the Company had instituted the plan for all eligible employees as specified in the rules in

pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 650,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is Rs. 120.70 being the latest available closing price, prior to the date of the meeting of the Board of Directors/Compensation Committee held on July 11, 2007 in which options are granted, on the stock exchange on which the shares of the Company are listed. Accordingly, the intrinsic value of Employee Stock Option is taken as Rs. Nil.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2009 and year ended December 31, 2008 is set out below:

|   | Year ended<br>December<br>31, 2009<br>(Nos.) | Year ended<br>December<br>31, 2008<br>(Nos.) |
|---|--|--|
| <u>At the beginning</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | <b>560,500</b>                               | 610,500                                      |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | <b>89,500</b>                                | 39,500                                       |
| <u>During the year</u>  |  |  |
| - Options granted (Rs. 10 per share)  | -  | -  |
| - Options exercised (Rs. 10 per share)  | -  | -  |
| - Options lapsed or surrendered (Rs. 10 per share)                              | <b>30,500</b>                                | 50,000                                       |
| <u>At the end</u>   |  |  |
| - Grants outstanding under the plan (Rs. 10 per share)                          | <b>530,000</b>                               | 560,500                                      |
| - Grants pending determination by the Compensation Committee (Rs. 10 per share) | <b>120,000</b>                               | 89,500                                       |

- (e) For the purpose of valuation of the options granted during earlier years, the management obtained fair value of the options at the date of grant under respective schemes from a firm of Chartered Accountants (N Maini & Co.), to determine accounting impact, if any, of options granted over the periods. In the considered opinion of the valuer (mentioned above), the fair value of option determined using 'Black Scholes Valuation Model' under each of above schemes is

"Nil" and thus no accounting thereof is required.

The assumptions used for the purpose of determination of fair value are stated below:

| Assumptions             | Unit         | Scheme (a) * | Scheme (b) ** | Scheme (c)*** | Comments by the valuer  |
|-------------------------|--------------|--------------|---------------|---------------|---|
| Strike price            | Rs.          | 42           | 154           | 26            |   |
| Current share price     | Rs.          | 16           | 140           | 16            | Taken on the basis of NAV and PECV method of valuation.   |
| Expected option life    | No. of Years | 5            | 2.5           | 5             | Being half of the maximum option life.  |
| Volatility              | %            | 1            | 0.5           | 1             | In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.  |
| Risk free return        | %            | 7            | 11.3          | 7             | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE and/or BSE.     |
| Expected dividend Yield | %            | -            | 15            | -             | Company has no set policy so dividend taken as zero. In case of Indus plan, as the dividend had been paid by the erstwhile company, it has been assumed at 15%. |

\*: R Systems International Ltd. - Year 2004 Employee Stock Option Plan under which the price was based on Rs. 2 per share.

\*\* : Indus Software Employees Stock Option Plan - Year 2001 under which originally the price was based on Rs. 10 per share for 21,967 shares. As a result of amalgamation of Indus Software Private Limited into R Systems, R Systems had issued 206,822 equity shares of Rs. 2 each pursuant to the swap ratio approved by Hon'ble High Courts of Delhi and Mumbai.

\*\*\*: R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet under which the price was based on Rs. 2 per share.

The above information is based on Rs. 2 per share prior to consolidation of 5 equity shares of Rs. 2 each into one equity share of Rs. 10 each and subsequent allotment of bonus shares in the ratio of 1 : 1. For further details refer note 8(a).

Further, for the purpose of valuation of the options granted during the year 2005 under R Systems International Limited-Year 2004 Employee Stock Option Plan, the management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N. Maini & Co.), to determine accounting impact, if any, of options granted. In the considered opinion of the valuer (mentioned above), the fair value of these option determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

The assumptions used by the valuer for the purpose of determination of fair value are stated below:

| Assumptions             | Unit         | Scheme | Comments by the valuer   |
|-------------------------|--------------|--------|--|
| Strike price            | Rs.          | 42     |  |
| Current share price     | Rs.          | 13.58  | Taken on the basis of NAV and PECV method of valuation.  |
| Expected option life    | No. of Years | 5      | Being half of the maximum option life.   |
| Volatility              | %            | 1      | In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.   |
| Risk free return        | %            | 7.42   | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE. |
| Expected dividend Yield | %            | -      | Company has no set policy so dividend taken as zero.   |

The above information is based on Rs. 2 per share prior to consolidation of 5 equity shares of Rs. 2 each into one equity share of Rs. 10 each and subsequent allotment of bonus shares in the ratio of 1: 1

- (f) For the purpose of valuation of the options granted during the year ended December 31, 2007 under R Systems International Limited Employee Stock Option Scheme – 2007, the compensation cost relating to Employee Stock Options, calculated as per the intrinsic value method is Nil.

The management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N. Maini

& Co.). In the considered opinion of the valuer (mentioned above), the fair value of these options determined using 'Black Scholes Valuation Model' is "Rs. 50.73" per option.

The assumptions used by the valuer for the purpose of determination of fair value are stated below:

| Assumptions             | Unit         | Scheme | Comments by the valuer   |
|-------------------------|--------------|--------|--|
| Strike price            | Rs.          | 120.70 |  |
| Current share price     | Rs.          | 118.50 | Price on the date of grant by Board of Directors i.e. closing price on July 11, 2007   |
| Expected option life    | No. of Years | 4      | Being the vesting period.  |
| Volatility              | %            | 44     | On the basis of industry average.  |
| Risk free return        | %            | 7      | Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option – taken from sites of NSE. |
| Expected dividend Yield | %            | 0.86   | Company has declared Dividends of 12% in the past. Assuming that it will continue declaring similar dividends in future.                         |

In March 2005 the ICAI has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to 'employee share based plan' the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation in the financial statements. Since the Company used the intrinsic value method the impact on the reported net profit and earnings per share by applying the fair value based method is as follows:

(Amount in Rs.)

| Particulars                          | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--------------------------------------|------------------------------|------------------------------|
| Net Income as reported               | <b>77,203,414</b>            | 279,664,227                  |
| Less: Fair Value Compensation Cost   | <b>4,673,959</b>             | 10,790,693                   |
| <b>Adjusted Pro-forma Net Income</b> | <b>72,529,455</b>            | 268,873,534                  |
| <b>Earning Per Share</b>             |                              |                              |
| <b>Basic</b>                         |                              |                              |
| - As reported                        | <b>6.09</b>                  | 20.61                        |
| - Proforma                           | <b>5.72</b>                  | 19.81                        |
| <b>Diluted</b>                       |                              |                              |
| - As reported                        | <b>6.02</b>                  | 20.36                        |
| - Proforma                           | <b>5.65</b>                  | 19.57                        |

| 11. Earning per share*   | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|--|------------------------------------|------------------------------------|
| Basic [nominal value of share Rs. 10 (previous year Rs. 10)] (in Rs.)                  | 6.09                               | 20.61                              |
| Diluted [nominal value of share Rs. 10 (previous year Rs. 10)] (in Rs.)                | 6.02                               | 20.36                              |
| Net profit after tax (in Rs.)  | 77,203,414                         | 279,664,227                        |
| Weighted average number of equity shares for calculating Basic EPS                     | 12,669,756                         | 13,572,178                         |
| Add : Equity shares for no consideration arising on grant of stock options under ESOP. | 156,836                            | 165,862                            |
| Weighted average number of equity shares for calculating Diluted EPS                   | 12,826,592                         | 13,738,040                         |

\*Also refer note no. 10 (f) above.

## 12. Post employment benefits

The Company has an unfunded defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on separation equal to 15 days salary (last drawn salary) for each completed year of continuous service or part thereof in excess of six months subject to a maximum of Rs. 350,000.

The following table summaries the components of net benefit expense recognised in the Profit and Loss Account.

Net employee benefit expense recognised under Salary, wages and bonus.

(Amount in Rs.)

| Particulars  | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|--|------------------------------------|------------------------------------|
| Current service cost                               | 14,719,256                         | 9,318,275                          |
| Interest cost on benefit obligation                | 3,205,090                          | 2,490,799                          |
| Expected return on plan assets                     | -                                  | -                                  |
| Net actuarial (gain) / loss recognised in the year | (20,606,765)                       | 12,677,424                         |
| Past service cost                                  | -                                  | -                                  |
| Net employee benefit expense                       | (2,682,419)                        | 24,486,498                         |

Details of defined benefit gratuity plan

(Amount in Rs.)

| Particulars                           | As at<br>December<br>31, 2009 | As at<br>December<br>31, 2008 |
|---------------------------------------|-------------------------------|-------------------------------|
| Defined benefit obligation            | 42,199,151                    | 46,466,537                    |
| Fair value of plan assets             | -                             | -                             |
| Present value of unfunded obligations | 42,199,151                    | 46,466,537                    |
| Less: Unrecognised past service cost  | -                             | -                             |
| Plan liability / (asset)              | 42,199,151                    | 46,466,537                    |

Changes in the present value of the defined benefit gratuity plan are as follows:

(Amount in Rs.)

| Particulars                              | Year ended<br>December<br>31, 2009 | Year ended<br>December<br>31, 2008 |
|--|------------------------------------|------------------------------------|
| Opening defined benefit obligation       | 46,466,537                         | 23,306,788                         |
| Interest cost                            | 3,205,090                          | 2,490,799                          |
| Current service cost                     | 14,719,256                         | 9,318,275                          |
| Benefits paid                            | (1,584,967)                        | (1,326,749)                        |
| Actuarial (gains) / losses on obligation | (20,606,765)                       | 12,677,424                         |
| Closing defined benefit obligation       | 42,199,151                         | 46,466,537                         |

The principal assumptions used in determining defined benefit gratuity plan obligations is shown below:

| Particulars                            | Year ended<br>December<br>31, 2009               | Year ended<br>December<br>31, 2008                  |
|--|--|---|
| Discount rate                          | 7.60% p.a.                                       | 5.35% p.a.  |
| Expected rate of return on plan assets | Not applicable                                   | Not applicable                                      |
| Salary Escalation Rate                 | 10.0% p.a. for first year and 7% p.a. thereafter | 10.0% p.a. for first 2 years and 7% p.a. thereafter |
| Attrition rate:                        | As per table below                               | As per table below                                  |

Attrition rate used for the year ended December 31, 2009 and year ended December 31, 2008 are as per the table below:

| Age (Years) | Rates |
|-------------|-------|
| 21 – 30     | 15%   |
| 31 – 34     | 10%   |
| 35 – 44     | 5%    |
| 45 – 50     | 3%    |
| 51 – 54     | 2%    |
| 55 – 59     | 1%    |

The estimates of future salary increases takes into account the inflation, seniority, promotion and other relevant factors.

Amounts for the current and previous four years are as follows:

(Amount in Rs.)

|  | Gratuity             |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
|  | December<br>31, 2009 | December<br>31, 2008 | December<br>31, 2007 | December<br>31, 2006 | December<br>31, 2005 |
| Defined benefit obligation                 | 42,199,151           | 46,466,537           | 23,306,788           | 16,885,862           | 13,230,425           |
| Plan assets                                | -                    | -                    | -                    | -                    | -                    |
| Surplus / (deficit)                        | (42,199,151)         | (46,466,537)         | (23,306,788)         | (16,885,862)         | (13,230,425)         |
| Experience adjustments on plan liabilities | (6,981,759)          | 116,082              | 461,423              | 231,590              | -                    |
| Experience adjustments on plan assets      | -                    | -                    | -                    | -                    | -                    |

**13. Derivative instruments and unhedged foreign currency exposure**

| (a) Particulars of derivatives   | Purpose          |
|--|------------------|
| Forward contract outstanding (including outstanding against highly probable forecast transaction)<br>Sell US \$ 9,750,000 (Previous years US \$7,300,000)<br>Sell EURO Nil (Previous years EURO 600,000) | Hedge of debtors |

Particulars of unhedged foreign currency exposure as at December 31, 2009 and at December 31, 2008

|                       | Currency | Foreign Currency amount |                   | Closing foreign exchange rate |                   | Amount in Rs.      |                   |
|-----------------------|----------|-------------------------|-------------------|-------------------------------|-------------------|--------------------|-------------------|
|                       |          | December 31, 2009       | December 31, 2008 | December 31, 2009             | December 31, 2008 | December 31, 2009  | December 31, 2008 |
| <b>Liabilities</b>    |          |                         |                   |                               |                   |                    |                   |
| Deferred compensation |          |                         |                   |                               |                   |                    |                   |
|                       | SGD      | <b>269,285</b>          | 269,285           | <b>33.11</b>                  | 34.48             | <b>8,916,859</b>   | 9,285,242         |
|                       | USD      | -                       | 196,768           | -                             | 49.72             | -                  | 9,782,911         |
| Creditors             |          |                         |                   |                               |                   |                    |                   |
|                       | USD      | <b>1,152,157</b>        | 53,204            | <b>46.54</b>                  | 49.72             | <b>49,398,149</b>  | 2,645,137         |
| Deferred revenue      |          |                         |                   |                               |                   |                    |                   |
|                       | USD      | <b>135,694</b>          | 46,326            | <b>46.54</b>                  | 49.72             | <b>6,315,200</b>   | 2,303,258         |
|                       | EURO     | <b>8,991</b>            | -                 | <b>66.63</b>                  | -                 | <b>599,106</b>     | -                 |
| <b>Assets</b>         |          |                         |                   |                               |                   |                    |                   |
| Debtors (Gross)       |          |                         |                   |                               |                   |                    |                   |
|                       | USD      | <b>6,055,910</b>        | 8,375,188         | <b>46.54</b>                  | 49.72             | <b>274,733,216</b> | 416,397,176       |
|                       | GBP      | <b>4,619</b>            | 225,077           | <b>75.19</b>                  | 71.99             | <b>347,343</b>     | 16,202,607        |
|                       | AUD      | <b>46,318</b>           | 25,000            | <b>41.77</b>                  | 34.34             | <b>1,934,888</b>   | 858,500           |
|                       | EURO     | <b>1,494,674</b>        | 1,677,194         | <b>66.63</b>                  | 70.09             | <b>99,595,485</b>  | 117,552,870       |
|                       | JPY      | <b>2,296,907</b>        | -                 | <b>0.50</b>                   | -                 | <b>1,150,750</b>   | -                 |
| Bank balances         |          |                         |                   |                               |                   |                    |                   |
|                       | USD      | <b>2,233,906</b>        | 846,581           | <b>46.54</b>                  | 49.72             | <b>103,966,000</b> | 42,090,281        |
|                       | GBP      | <b>3,195</b>            | 853               | <b>75.19</b>                  | 71.99             | <b>240,258</b>     | 61,405            |
|                       | EURO     | <b>27,065</b>           | 23,507            | <b>66.63</b>                  | 70.09             | <b>1,803,424</b>   | 1,647,596         |
|                       | JPY      | <b>11,340,219</b>       | -                 | <b>0.50</b>                   | -                 | <b>5,681,450</b>   | -                 |
| Unbilled revenue      |          |                         |                   |                               |                   |                    |                   |
|                       | USD      | <b>1,289,621</b>        | 625,086           | <b>46.54</b>                  | 49.72             | <b>59,889,386</b>  | 31,078,018        |
|                       | JPY      | <b>2,306,178</b>        | -                 | <b>0.50</b>                   | -                 | <b>1,155,395</b>   | -                 |
|                       | EURO     | <b>401,643</b>          | -                 | <b>66.63</b>                  | -                 | <b>26,763,066</b>  | -                 |

(b) As of December 31, 2009 the Company had derivative financial instruments to sell USD 9,750,000 that are designated as ineffective cash flow hedges relating to highly probable forecasted transactions. The Company has recognised mark-to-market gain of Rs. 19,109,927 relating to such derivative financial instruments in the Profit and Loss Account for the year ended December 31, 2009.

14. During the financial year ended December 31, 2007, the Company had received non refundable license fee of Rs. 39,435,000 from one of its customer against sale of eighteen modules / licenses. As at December 31, 2008, the Company had been carrying Rs. 19,717,500 as deferred revenue against unconsumed modules / licenses. Due to the recent developments in the customer's business, the management believes that it is unlikely that the customer will utilize any additional modules and the customer has confirmed that the Company does not have any outstanding obligation against the aforesaid sale of licenses. Accordingly revenue of Rs. 19,717,500 has been recognised during the year ended December 31, 2009.

15. As of December 31, 2009 there is uncertainty regarding ultimate realisation relating to some of the customers due to their current financial position, therefore revenue aggregating Rs. 18,190,787 (Previous year Rs. 8,858,213) has been deferred till the time the realisation becomes reasonably certain.

16. During the year ended December 31, 2006:

- (a) The Company had made Initial Public Offering (IPO) of 4,408,361 equity shares of Rs. 10 each for cash at premium of Rs. 240 per share comprising of fresh issue of 2,825,006 equity shares by the Company and 1,583,355 equity shares offered for sale by the selling shareholders.
- (b) Expenses of Rs. 101,895,339 net of recovery from certain selling shareholders Rs. 2,795,944 incurred in connection with the public issue of the Company had been adjusted against Securities Premium Account in terms of Section 78 of the Companies Act, 1956.
- (c) Pursuant to initial public offer the Company gathered Rs. 706,250,000 (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows:

(Amount in Rs.)

| Objects   | Total Estimated Project Cost* | Amount incurred till December 31, 2009 | Amount incurred till December 31, 2008 |
|---|-------------------------------|--|--|
| Upgrading and expansion of existing infrastructure* | 229,993,200                   | 229,993,200                            | 229,993,200                            |
| Repayment of outstanding loans                      | 36,550,000                    | 36,550,000                             | 36,550,000                             |
| Financing general working capital requirements      | 179,510,000                   | 179,510,000                            | 174,624,290                            |
| General corporate purposes*                         | 159,059,625                   | 58,619,823                             | 58,619,823                             |
| Meeting offer expenses *                            | 101,137,175                   | 101,137,175                            | 101,137,175                            |
| <b>Total</b>  | <b>706,250,000</b>            | <b>605,810,198</b>                     | <b>600,924,488</b>                     |

\* The Company had obtained approval from its shareholders at the annual general meeting held on May 2, 2008 for reallocation in the estimated project cost among above mentioned heads.

Pending utilisation, balance funds as at December 31, 2009 have been invested in fixed deposit with nationalised banks.

**17. Cash and bank balances**

Details of balances as on balance sheet dates:

(Amount in Rs.)

| Sl. No. | Particulars                                | As at December 31, 2009 | As at December 31, 2008 |
|---------|--|-------------------------|-------------------------|
|         | <b>Cash on hand (A)</b>                    | <b>418,739</b>          | 348,826                 |
|         | <b>Balance with scheduled banks</b>        |                         |                         |
|         | <b>On current accounts</b>                 |                         |                         |
| 1       | ICICI Bank Limited                         | <b>2,152,455</b>        | 5,959,079               |
| 2       | HDFC Bank Limited                          | <b>1,154,377</b>        | 751,053                 |
| 3       | Oriental Bank of Commerce                  | <b>1,113,405</b>        | 199,838                 |
| 4       | Vijaya Bank                                | <b>37,665</b>           | 70,752                  |
| 5       | State Bank of India                        | <b>2,256,349</b>        | 3,607,140               |
| 6       | Canara Bank                                | <b>149,888</b>          | 199,954                 |
| 7       | Axis Bank Limited                          | <b>955,315</b>          | 479,690                 |
| 8       | Citibank N.A.                              | <b>26,643</b>           | 130,813                 |
| 9       | State Bank of Bikaner & Jaipur             | <b>996,095</b>          | 62,000                  |
| 10      | ABN Amro Bank N. V.                        | <b>1,363,516</b>        | 1,497,484               |
|         | <b>Total (B)</b>                           | <b>10,205,708</b>       | 12,957,803              |
|         | <b>On cash credit / overdraft accounts</b> |                         |                         |
| 1       | State Bank of India                        | <b>10,058,463</b>       | 7,644,368               |
| 2       | State Bank of Bikaner & Jaipur             | <b>39</b>               | -                       |
|         | <b>Total (C)</b>                           | <b>10,058,502</b>       | 7,644,368               |
|         | <b>On EEFC accounts</b>                    |                         |                         |
| 1       | ICICI Bank Limited - USD                   | <b>28,687,442</b>       | 13,488,300              |
| 2       | HDFC Bank Limited - USD                    | <b>9,502</b>            | 6,472                   |
| 3       | State Bank of India - USD                  | <b>32,397,938</b>       | 11,539,776              |
| 4       | State Bank of India - EURO                 | <b>435,585</b>          | 350,445                 |
| 5       | Citibank, N.A. - USD                       | <b>3,491</b>            | 3,729                   |
| 6       | Axis Bank Limited-USD                      | <b>2,359,616</b>        | -                       |
|         | <b>Total (D)</b>                           | <b>63,893,574</b>       | 25,388,722              |
|         | <b>On deposit accounts</b>                 |                         |                         |
| 1       | Oriental Bank of Commerce                  | <b>107,118,970</b>      | 197,508,147             |
| 2       | Punjab National Bank                       | -                       | 58,930,306              |
| 3       | Vijaya Bank                                | <b>2,752,759</b>        | 2,739,763               |
| 4       | State Bank of India                        | <b>35,704,142</b>       | 22,486,267              |
| 5       | ICICI Bank Limited                         | <b>228,633</b>          | 92,316,147              |
| 6       | State Bank of Bikaner & Jaipur             | <b>264,392,950</b>      | 92,999,065              |
| 7       | HDFC Bank Limited                          | -                       | 5,000,000               |
| 8       | Canara Bank                                | <b>5,071,675</b>        | 74,068                  |
| 9       | State Bank of Indore                       | <b>141,200,000</b>      | -                       |
| 10      | Axis Bank Ltd.                             | <b>30,663,303</b>       | -                       |
|         | <b>Total (E)</b>                           | <b>587,132,432</b>      | 472,053,763             |

(Amount in Rs.)

| Sl. No. | Particulars  | As at December 31, 2009 | As at December 31, 2008 |
|---------|--|-------------------------|-------------------------|
|         | <b>On unclaimed dividend / IPO refund accounts</b> |                         |                         |
| 1       | HDFC Bank Limited                                  | 383,665                 | 258,267                 |
| 2       | ICICI Bank Limited                                 | -                       | 75,250                  |
|         | <b>Total (F)</b>                                   | <b>383,665</b>          | <b>333,517</b>          |
|         | <b>Balance with other banks</b>                    |                         |                         |
|         | <b>On current accounts</b>                         |                         |                         |
| 1       | California Bank Trust, USA                         | 80,184,764              | 79,192,612              |
| 2       | Citibank Singapore Ltd, Singapore                  | 13,515,173              | 8,774,015               |
| 3       | DBS Bank Ltd, Singapore                            | 1,012,284               | 1,878,263               |
| 4       | Malayan Banking Berhad, Malaysia                   | 10,195,794              | 3,303,406               |
| 5       | Hang Seng Bank Limited, Hong Kong                  | 436,058                 | 205,445                 |
| 6       | Citibank NA, Thailand                              | 3,004,006               | 816,946                 |
| 7       | Bank of China, China                               | 9,732,867               | 7,292,319               |
| 8       | Industrial and Commercial Bank of China Ltd, China | 677,124                 | 995,084                 |
| 9       | Sumitomo Mitsui Banking Corporation, Japan         | 5,710,966               | 469,158                 |
| 10      | Mizuho Bank Ltd, Japan                             | 92,852                  | 81,091                  |
| 11      | The Bank of Tokyo-Mitsubishi UFJ, Ltd., Japan      | 396,446                 | 50,062                  |
| 12      | Citibank N.A., USA                                 | 2,014,546               | 110,860                 |
| 13      | ING Belgium NV, Belgium                            | 2,311,036               | 2,437,729               |
| 14      | Fortis Bank (Netherland) N.V., Netherlands         | 52,207,770              | 3,227,378               |
| 15      | ABN AMRO Bank, Netherlands                         | 1,570,287               | 3,054,648               |
| 16      | ABN AMRO Bank, France                              | 788,404                 | 777,818                 |
|         | <b>Total (G)</b>                                   | <b>183,850,377</b>      | <b>112,666,834</b>      |
|         | <b>On cash credit / overdraft Account</b>          |                         |                         |
| 1       | Fortis Bank N.V., Netherlands (Fortis FCF)         | 11,112,256              | -                       |
|         | <b>Total (H)</b>                                   | <b>11,112,256</b>       | <b>-</b>                |
|         | <b>On deposit accounts</b>                         |                         |                         |
| 1       | California Bank Trust, USA                         | 232,700                 | 248,590                 |
| 2       | ABN AMRO Bank, Netherland                          | 4,687,217               | 4,795,840               |
|         | <b>Total (I)</b>                                   | <b>4,919,917</b>        | <b>5,044,430</b>        |
|         | <b>Total as per Balance sheet</b>                  | <b>871,975,170</b>      | <b>636,438,263</b>      |

- 18 (a) Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification.
- (b) As indicated in note 2 above, certain changes had taken place in the group structure. Accordingly, the current year figures are not strictly comparable with previous year figures.

As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

**Sd/-**  
**per Sanjay Vij**  
Partner  
Membership No. 95169  
Place : Gurgaon  
Date : February 21, 2010

**Sd/-**  
**Satinder Singh Rekhi**  
[Chairman & Managing  
Director]  
Place : Chicago, IL, U.S.A.  
Date : February 21, 2010

**Sd/-**  
**Lt. Gen. Baldev Singh (Retd.)**  
[President & Senior  
Executive Director]  
Place : NOIDA  
Date : February 21, 2010

**Sd/-**  
**Raj Swaminathan**  
[Director & Chief  
Operating Officer]  
Place : NOIDA  
Date : February 21, 2010

**Sd/-**  
**Shankar Seetharaman**  
[Chief Financial Officer]  
Place : NOIDA  
Date : February 21, 2010

**Sd/-**  
**Suresh Kumar Bhutani**  
[Company Secretary &  
Compliance Officer]  
Place : NOIDA  
Date : February 21, 2010

**Information of Subsidiary Companies disclosed as per terms of exemption under Section 212 (B) of the Companies Act, 1956 granted by the Central Government.**  
(Rs. in lakhs)

| Name of the Subsidiary  | R Systems (Singapore) Pte Limited, Singapore      | R Systems, Inc., USA                        | Indus Software Inc., USA                    | R Systems Solutions, Inc., USA  | R Systems NV, Belgium                      | R Systems Europe B.V., Netherlands             | R Systems S.A.S., France                          | R Systems Limited, Singapore                         | ECnet (M) SDN. BHD, Malaysia          | ECnet, Inc., USA                      | ECnet (Hong Kong) Limited, Hong Kong       | ECnet Systems (Thailand) Co. Limited, Thailand  | ECnet Kabushiki Kaisha, Japan           | ECnet (Shanghai) Co. Limited, China |
|---|---|---|---|---|--|--|---|--|---------------------------------------|---------------------------------------|--|---|---|-------------------------------------|
| 1 The financial year of the subsidiary ended on   | December 31, 2009                                 | December 31, 2009                           | December 31, 2009                           | December 31, 2009   | December 31, 2009                          | December 31, 2009                              | December 31, 2009                                 | December 31, 2009                                    | December 31, 2009                     | December 31, 2009                     | December 31, 2009                          | December 31, 2009                               | December 31, 2009                       | December 31, 2009                   |
| 2 Holding company's Interest  | 100%  | 100%  | 100%  | 100%  | 100%                                       | 100%   | 100%  | 98.59%   | 98.59%                                | 98.59%                                | 98.59%                                     | 98.59%  | 98.59%                                  | 98.59%                              |
| 3 Shares held by the holding company in the subsidiary (including its nominees in the subsidiary)   | 100% of 4,070,000 ordinary shares of no par value | 100% of 2,000 common shares of no par value | 100% of 2,000 common shares of no par value | 100% of 11,335,833 common shares of no par value and series a preferred stock of no par value | 100% of 200 common shares of Euro 310 each | 100% of 3,170 ordinary shares of Euro 100 each | 100% of 10,000 ordinary shares of Euro 15.24 each | 98.59% of 17,904,335 ordinary shares of no par value | 98.59% of 200,000 shares of RM 1 each | 98.59% of 1,000 shares of US\$ 2 each | 98.59% of 2 ordinary shares of HK \$1 each | 98.59% of 400,000 ordinary shares of 5 THB each | 98.59% of 200 shares of 50,000 Yen each | 98.59% of shares of no par value    |
| 4 Capital   | 1,347.69  | 312.22                                      | 113.44                                      | 1,549.78  | 41.31                                      | 211.23   | 101.58  | 26,221.68  | 27.06                                 | 0.93                                  | 0.00                                       | 28.20   | 49.89                                   | 112.51                              |
| 5 Reserves  | (230.42)  | 699.02                                      | (336.06)                                    | (1,598.13)  | (15.37)                                    | 58.27  | 332.60  | (27,429.18)  | (62.09)                               | (1,475.80)                            | 2.92                                       | 126.03  | (280.10)                                | (222.47)                            |
| 6 Total assets  | 1,191.17  | 1,864.96                                    | 102.88                                      | 305.98  | 26.00                                      | 1,719.66                                       | 628.49  | 815.43   | 223.75                                | 20.73                                 | 10.00                                      | 182.34  | 5.97                                    | 126.68                              |
| 7 Total liabilities   | 73.89   | 853.72                                      | 325.50                                      | 354.33  | 0.05                                       | 1,450.16                                       | 194.31  | 2,022.93   | 258.78                                | 1,495.60                              | 7.08                                       | 28.11   | 236.19                                  | 236.64                              |
| 8 Details of investments  | -   | -   | -   | -   | -  | -  | -   | -  | -                                     | -                                     | -  | -   | -                                       | -                                   |
| 9 Turnover  | 217.87  | 5,622.71                                    | 597.29                                      | 847.25  | 0.02                                       | 5,521.57                                       | 1,188.73  | 1,334.91   | 431.55                                | 0.00                                  | 35.73                                      | 288.01  | 60.80                                   | 169.05                              |
| 10 Profit/(loss) before taxation  | (66.82)   | (252.53)                                    | 15.98                                       | (1,237.46)  | (4.48)                                     | 99.64  | 45.07   | (177.70)   | 58.76                                 | (0.16)                                | 13.65                                      | 47.93   | 14.36                                   | 9.54                                |
| 11 Provisions for taxation/(benefit)  | (0.02)  | 421.46                                      | 39.30                                       | 75.82   | -  | 19.93  | 12.25   | 7.27   | 15.07                                 | -                                     | 1.90                                       | 9.24  | -                                       | -                                   |
| 12 Profit/(loss) after taxation   | (66.79)   | (673.98)                                    | (23.32)                                     | (1,313.29)  | (4.48)                                     | 79.71  | 32.81   | (184.98)   | 43.69                                 | (0.16)                                | 11.75                                      | 38.69   | 14.36                                   | 9.54                                |
| 13 Proposed dividend  | Nil   | Nil   | Nil   | Nil   | Nil  | Nil  | Nil   | Nil  | Nil                                   | Nil                                   | Nil  | Nil   | Nil                                     | Nil                                 |
| 14 Material change between the end of the financial year of the subsidiary company and the Company's financial year ended December 31, 2009 | N/A   | N/A   | N/A   | N/A   | N/A  | N/A  | N/A   | N/A  | N/A                                   | N/A                                   | N/A  | N/A   | N/A                                     | N/A                                 |
| a Fixed assets  | N/A   | N/A   | N/A   | N/A   | N/A  | N/A  | N/A   | N/A  | N/A                                   | N/A                                   | N/A  | N/A   | N/A                                     | N/A                                 |
| b Investments   | N/A   | N/A   | N/A   | N/A   | N/A  | N/A  | N/A   | N/A  | N/A                                   | N/A                                   | N/A  | N/A   | N/A                                     | N/A                                 |
| c Money lent  | N/A   | N/A   | N/A   | N/A   | N/A  | N/A  | N/A   | N/A  | N/A                                   | N/A                                   | N/A  | N/A   | N/A                                     | N/A                                 |
| d Money borrowed other than those for meeting current liabilities   | N/A   | N/A   | N/A   | N/A   | N/A  | N/A  | N/A   | N/A  | N/A                                   | N/A                                   | N/A  | N/A   | N/A                                     | N/A                                 |

**Note:** Rupee equivalents have been given on the basis of conversion of foreign currency into rupee using closing rate as on 31 December, 2009.

|             |       |
|-------------|-------|
| 1 SGD = Rs  | 33.11 |
| 1 USD = Rs  | 46.54 |
| 1 EURO = Rs | 66.63 |
| 1 RM = Rs   | 13.53 |
| 1 HKD = Rs  | 5.98  |
| 1 THB = Rs  | 1.41  |
| 1 YEN = Rs  | 0.50  |
| 1 CNY = Rs  | 6.80  |

**Disclaimer**

We have translated the foreign currency amounts in the financial data derived from our subsidiaries' financial statements at the closing rate as on December 31, 2009. The translation should not be considered as a representation that such foreign currency amounts have been, could have been or could be converted into rupees, at any particular rate, rates states above, or at all.

**For and on behalf of the Board of Directors of R Systems International Limited**

|  |   |  |  |
|--|---|--|--|
| <b>Sd/</b><br><b>Satinder Singh Rekhi</b><br>[Chairman & Managing Director]<br>Place : Chicago, IL, U.S.A.<br>Date : February 21, 2010 | <b>Sd/</b><br><b>Raj Swaminathan</b><br>[Director & Chief Operating Officer]<br>Place : NOIDA<br>Date : February 21, 2010 | <b>Sd/</b><br><b>Shankar Seetharaman</b><br>[Chief Financial Officer]<br>Place : NOIDA<br>Date : February 21, 2010 | <b>Sd/</b><br><b>Suresh Kumar Bhutani</b><br>[Company Secretary & Compliance Officer]<br>Place : NOIDA<br>Date : February 21, 2010 |
|--|---|--|--|

## Statement pursuant to Section 215(2) of the Companies Act, 1956

As per Section 215 of the Companies Act, 1956 every balance sheet and every profit and loss account of a company shall be signed on behalf of the Board of Directors - by its manager or secretary, if any, and by not less than two directors of the company one of whom shall be the managing director where there is one.

Since Mr. Satinder Singh Rekhi, Chairman & Managing Director, was travelling overseas for business reasons he could not sign the financial statements as required under Section 215 of the Companies Act, 1956 in India and has signed the financial statements in Chicago, IL, U.S.A. This statement of explanation is therefore attached along with the balance sheet and the profit and loss account of R Systems International Limited for the year ended December 31, 2009.

It may please be noted that the annual report of R Systems International Limited contains amongst others the following financial statements:

- Balance Sheet as at December 31, 2009 (standalone);
- Profit and loss account for the year ended December 31, 2009 (standalone);
- Cash flow statement for the year ended December 31, 2009 (standalone);
- Statements pursuant to Section 212 of the Companies Act, 1956 relating to the subsidiary companies;
- Balance Sheet as at December 31, 2009 (consolidated);
- Profit and loss account for the year ended December 31, 2009

(consolidated) and;

- Cash flow statement for the year ended December 31, 2009 (consolidated).

These were placed before the Board of Directors at its meeting held on February 21, 2010 for its approval. The Board of Directors has approved the aforementioned financial statements and authorised Mr. Satinder Singh Rekhi, Chairman and Managing Director, Lt. Gen. Baldev Singh (Retd), President and Senior Executive Director, Mr. Raj Swaminathan, Director and Chief Operating Officer, Mr. Shankar Seetharaman, Chief Financial Officer and Mr. Suresh Kumar Bhutani, Company Secretary and Compliance Officer of the Company to sign the same on behalf of the Board. The Board also took note of the fact that Mr. Satinder Singh Rekhi, Chairman and Managing Director of the Company, could not physically attend the said Board meeting as explained above. He has however attended the meeting via teleconference. The Board therefore authorised Mr. Satinder Singh Rekhi to simultaneously sign the financial statements in Chicago, IL, U.S.A. and forward the same to India.

For and on behalf of the Board of Directors of R Systems International Limited

**Sd/-**  
**Lt. Gen. Baldev Singh (Retd.)**  
[President and Senior  
Executive Director]

Place : NOIDA  
Date : February 21, 2010

**Sd/-**  
**Raj Swaminathan**  
[Director and Chief  
Operating Officer]

Place : NOIDA  
Date : February 21, 2010

## Notice

### R SYSTEMS INTERNATIONAL LIMITED

#### NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING

(Registered Office: B - 104A, Greater Kailash - I, New Delhi - 110 048)

Website: www.rsystems.com; Email: investors@india.rsystems.com

NOTICE is hereby given that Sixteenth Annual General Meeting of the shareholders of R SYSTEMS INTERNATIONAL LIMITED (the "Company" / "R Systems") will be held on Thursday, May 20, 2010 at 10.00 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010 for transacting the following business:

#### AS ORDINARY BUSINESS

- To receive, consider and adopt the audited balance sheet as at December 31, 2009 and the profit and loss account for the year ended on that date together with the reports of auditors and directors thereon.
- To declare dividend on equity shares for the year ended December 31, 2009.
- To appoint a director in place of Lt. Gen. Baldev Singh (Retd.), who retires by rotation and being eligible, offers himself for reappointment.
- To appoint a director in place of Mr. Raj Kumar Gogia, who retires by rotation and being eligible, offers himself for reappointment.
- To appoint Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. M/s. S. R. Batliboi & Associates, the retiring Auditors are eligible for reappointment.

#### AS SPECIAL BUSINESS

- To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

**"RESOLVED THAT** pursuant to the provisions of Section 198, 269 read with Schedule XIII, 309 and 311 of the Companies Act, 1956 read with Article 165 and 167 of the Articles of Association of the Company and other applicable provisions, if any, and subject to the approval of the Central Government and other authorities, if required, consent of the members of the Company be and is hereby accorded for the reappointment of and payment of remuneration to Mr. Raj Swaminathan as Director and Chief

Operating Officer of the Company, for a period of three years i.e. w.e.f September 29, 2009 to September 29, 2012 in accordance with applicable R Systems' policies and on the following terms and conditions:

| Monthly Salary Particulars  |                  |
|---|------------------|
|   | INR              |
| Basic   | 145,455          |
| HRA   | 72,728           |
| Conveyance Allowance  | 800              |
| Executive Allowance   | 144,654          |
| <b>Gross Per Month</b>  | <b>363,637</b>   |
| Annual Allowances   |                  |
| Leave Travel Assistance   | 120,000          |
| Food Coupon   | 12,000           |
| Company's Contribution to Provident Fund  | 9,360            |
| <b>Gross Annual Allowances</b>  | <b>141,360</b>   |
| Annual Reimbursements   |                  |
| Medical Reimbursement   | 15,000           |
| Petrol Reimbursement  | 144,000          |
| <b>Gross Annual Reimbursements</b>  | <b>159,000</b>   |
| <b>Gross Per Annum</b>  | <b>4,664,004</b> |
| In addition to the above, he will be eligible for the Group Medclaim and Personal Accident Insurance as per Company policy.   |                  |
| He may also be eligible for a performance incentive consisting of a fixed bonus of Rs. 1,100,000 paid pro rata for period of service in the year, at the end of each year and a variable bonus subject to a maximum of Rs. 1,000,000 per annum and subject to his being on the rolls of the Company at the time the same is declared. This incentive is discretionary and is based on the Company's performance in that financial year and also his own annual performance. |                  |

**"RESOLVED FURTHER THAT** as per the usual terms and conditions of the employment of Mr. Raj Swaminathan with the Company, he will be entitled for a maximum annual increment of 15% per annum at the discretion of the Managing Director and

Chief Executive Officer and subject to the approval of the Remuneration Committee and the Board on the total cost to the Company effective on October 01, 2010, October 01, 2011 and October 01, 2012.

**“RESOLVED FURTHER THAT** in the event of absence or inadequacy of profits in any financial year during the tenure of Mr. Raj Swaminathan as Director and Chief Operating Officer of the Company, the Company shall pay him the remuneration as specified above as minimum remuneration.

**“RESOLVED FURTHER THAT** the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe.”

7. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

**“RESOLVED THAT** pursuant to Section 61 and other applicable provisions of the Companies Act, 1956 and in accordance with the provisions prescribed under Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, Listing Agreement entered into with the stock exchanges and subject to such other statutory approvals as may be necessary and subject to such conditions and modifications as may be prescribed in granting such approvals / sanctions and subject to such other conditions, if any imposed by the Securities and Exchange Board of India (“SEBI”), consent of the members of the Company be and is hereby accorded for extension of time up to June 30, 2012 for utilisation of balance unutilised proceeds of the initial public offer as stated in the prospectus and subsequently revised.

**“RESOLVED FURTHER THAT** the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe.”

By Order of the Board  
For R Systems International Limited

**Sd/-**  
**Suresh Kumar Bhutani**  
(Company Secretary &  
Compliance Officer)

Place : NOIDA  
Date : April 10, 2010

## NOTES

- (i) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY SO APPOINTED NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES IN ORDER TO BE EFFECTIVE SHOULD BE DULY COMPLETED, STAMPED AND SIGNED AND MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE AFORESAID MEETING.
- (ii) Corporate members intending to send their authorised representatives are requested to send a duly certified copy of the board or governing body resolution authorising the representatives to attend and vote at the Annual General Meeting.
- (iii) Members / proxies attending the meeting are requested to
  - bring their copies of annual report sent to the members as copies of the annual report shall not be distributed at the Annual General Meeting;
  - note that no gift coupons shall be distributed at the Annual General Meeting and
  - quote their Folio / Client ID and DP ID number in all correspondence.
- (iv) The register of members and share transfer books of the Company shall remain closed from May 11, 2010 to May 20, 2010 (both days inclusive).
- (v) The dividend of 24% for the year ended December 31, 2009 as recommended by the Board, if declared at the Annual General Meeting, will be payable to those members whose names appear
  - as beneficial owners as per list to be furnished by the depositories in respect of the shares held in demat form and
  - as members on the register of members of the Company as at opening business hours on May 11, 2010 after giving effect to all valid share transfers in physical form which would be received by the Company’s registrar and share transfer agent M/s Link Intime India Private Limited up to the end of business hours on May 10, 2010.
- (vi) Payment of dividend through NECS / ECS
  - Members holding shares in physical form are advised to submit particulars of their bank account, viz. name and

address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number to the Company's registrar and share transfer agent M/s Link Intime India Private Limited, A - 40, 2nd Floor, Naraina Industrial Area, Phase - II, Near Batra Banquet Hall, New Delhi - 110 028

- Members holding shares in demat form are advised to inform the particulars of their bank account to their respective depository participants.
- (vii) Shareholders holding shares in electronic form may kindly note that their bank account details as furnished by their depositories to the Company will be printed on their dividend warrants as per applicable regulations of the depositories and the Company will not entertain any direct request from such shareholders for deletion of / change in such bank details. Further instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in electronic mode. Members holding shares in electronic form are advised to notify the changes, if any, in their address / bank details / mandate to their respective depository participants.
- (viii) Any query proposed to be raised at the Annual General Meeting may be sent to the Company at its registered office at least seven days prior to the date of Meeting to enable the management to compile the relevant information to respond to the query in the meeting. The envelope may please be superscribed "Attention: Mr. Suresh Kumar Bhutani, Company Secretary & Compliance Officer".
- (ix) Members holding shares in physical form, may write to the Company or to the registrar and share transfer agent M/s Link Intime India Private Limited for any change in their addresses and bank mandate. Members holding shares in electronic form may write to their depository participants for immediate updation so as to enable the Company to dispatch the dividend warrants to the correct addresses.
- (x) The statutory register maintained under Section 307 of the Companies Act, 1956 and the certificate of the auditors of the Company certifying the implementation of the Company's stock option plans / schemes in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the resolutions passed by the members in the general meeting, will be available at the venue of the Annual General Meeting for inspection by members.
- (xi) All documents referred to in the Notice and accompanying explanatory statements as well as the annual accounts of the subsidiaries etc., are open for inspection at the registered office of the Company on all working days between 11.00 A.M. and

02.00 P.M. up to the date of the Annual General Meeting.

- (xii) Members / proxies are requested to bring the attendance slips duly filled in and signed for attending the Meeting.
- (xiii) Pursuant to the provisions of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the registrar and share transfer agent M/s Link Intime India Private Limited or can be downloaded from the following URL <http://www.linkintime.co.in/site/downloads.asp>
- (xiv) Pursuant to provisions of Section 205A (5) of the Companies Act, 1956, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account, is required to be transferred by the Company to Investor Education and Protection Fund ('IEPF'), established by the Central Government under the provisions of Section 205C of the Companies Act, 1956. Shareholders are advised to claim the unclaimed dividend lying in the unpaid dividend account from the Company's registrar and share transfer agent M/s Link Intime India Private Limited or directly from the Company. It may be noted that once the unclaimed dividend is transferred to IEPF of the Central Government as above, no claim shall lie in respect thereof against the Company or IEPF.
- (xv) Additional information, pursuant to Clause 49 of the Listing Agreement entered into with stock exchanges, in respect of directors recommended for approval of appointment / reappointment at the Annual General Meeting and Explanatory Statement as required under Section 173(2) of the Companies Act, 1956, in respect of special business under item numbers 6 and 7 of the Notice is appended hereto and forms part of this Notice. Further, disclosures required to be made in terms of Section II Clause C of Part II of Schedule XIII with respect to the proposed resolutions for the reappointment of and payment of remuneration to Mr. Raj Swaminathan, Director and Chief Operating Officer under item number 6 are also given in the said Explanatory Statement and form part of this Notice of the Annual General Meeting.

**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956**

**ITEM NO. 6**

**REAPPOINTMENT OF AND PAYMENT OF REMUNERATION TO MR. RAJ SWAMINATHAN AS DIRECTOR AND CHIEF OPERATING OFFICER OF THE COMPANY**

Mr. Raj Swaminathan, aged about 50 years, has over 25 years of

experience in IT & Financial Services Industry. He has done Post Graduate Diploma in Business Management from Xavier Labour Relations Institute, Jamshedpur after his Bachelor of Engineering (Mechanical) from Bangalore University. Prior to joining R Systems, Raj has had a distinguished 11 years' career at GE, where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses.

Mr. Raj Swaminathan joined the Board of the Company as director on September 29, 2006 for a term of three years. Since then, he is continuously providing his guidance and support on the Board. The said term of his appointment had completed and considering his continued contributions and efforts towards the success of the Company, the Board on the approval and recommendation of the Remuneration Committee reappointed him for a further term of three years i.e. w.e.f. September 29, 2009 to September 29, 2012 subject to the approval of the Shareholders, Central Government and other authorities, if applicable. Presently Mr. Raj Swaminathan is heading the Indus operations of R Systems and his presence is crucial for the effective and efficient operations of the business.

Mr. Raj Swaminathan is not holding any office of director / member in other company's board / committee. Further as on the date of this notice he does not hold any share in the Company. Apart from the employment benefits as Director and Chief Operating Officer of R Systems, he does not have any pecuniary or other relationship with the Company.

The Board recommends that the shareholders approve the said reappointment and remuneration by way of a special resolution.

None of the Directors except Mr. Raj Swaminathan so far as it relates to his own reappointment and remuneration, is concerned or interested in the proposed resolution.

### Statement containing the prescribed information as required in terms of Section II Clause C of Part II of Schedule XIII of the Companies Act, 1956

#### I. GENERAL INFORMATION

(1) Nature of Industry:

The Company is engaged in the business of providing software engineering, information technology related services, business process outsourcing services, developing and selling software products for the retail-lending sector and in supply chain execution.

(2) Date or expected date of commencement of commercial

production:

The Company is already in existence and is in operation since May 14, 1993.

- (3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:

Not Applicable.

- (4) Financial performance based on given indicators:

Financial performance of the Company for last 3 years is as follows:

| Particulars  | Financial Year ended<br>(Rs. in lakhs) |            |            |
|--|--|------------|------------|
|  | 31.12.2009                             | 31.12.2008 | 31.12.2007 |
| <b>Total income</b>  | <b>20,031.17</b>                       | 21,013.01  | 16,467.65  |
| Profit before depreciation, exceptional items and tax                                | <b>4,189.39</b>                        | 3,183.88   | 3,360.47   |
| Less : Depreciation  | <b>804.62</b>                          | 663.18     | 534.49     |
| Less : Exceptional item (Provision for diminution in value of long term investments) | <b>2,473.21</b>                        | -          | -          |
| <b>Profit before tax</b>   | <b>911.56</b>                          | 2,520.70   | 2,825.98   |
| Less : Current tax (net of MAT credit)   | <b>204.87</b>                          | 151.66     | 266.07     |
| Less : Deferred tax  | <b>41.85</b>                           | (75.52)    | 75.98      |
| Less : Fringe benefit tax  | <b>9.68</b>                            | 79.80      | 66.79      |
| <b>Profit after tax (available for appropriation)</b>                                | <b>655.16</b>                          | 2,364.76   | 2,417.14   |
| Proposed final dividend  | <b>288.45</b>                          | 316.93     | 244.49     |
| Corporate dividend tax on final dividend   | <b>49.02</b>                           | 53.86      | 41.55      |
| Transfer to general reserve  | <b>65.52</b>                           | 236.48     | 181.29     |
| <b>Balance carried forward to Balance Sheet</b>                                      | <b>252.17</b>                          | 1,757.49   | 1,949.81   |

- (5) Export performance and net foreign exchange collaborations:

R Systems has investments from non residents and foreign bodies corporate. Foreign exchange earnings and outgo of the Company for last 3 years is as follows:

| Particulars                     | Financial Year ended<br>(Rs. in lakhs) |            |            |
|---------------------------------|--|------------|------------|
|                                 | 31.12.2009                             | 31.12.2008 | 31.12.2007 |
| (a) Earnings (Accrual Basis)    | <b>18,192.74</b>                       | 19,772.75  | 14,881.89  |
| (b) Expenditure (Accrual Basis) | <b>3,360.05</b>                        | 3,447.24   | 2,496.00   |
| (c) CIF value of imports        | <b>973.15</b>                          | 397.72     | 348.29     |

- (6) Foreign investments or collaborators, if any:

R Systems has investments from non residents and foreign bodies corporate and R Systems has made investments

outside India. As on date R Systems has 8 subsidiaries, all incorporated and based outside India. One of its subsidiaries, ECnet Limited, based in Singapore has six subsidiaries. Therefore in terms of the provisions of the Companies Act, 1956 R Systems has in aggregate fourteen subsidiaries all incorporated and based outside India.

## II. INFORMATION ABOUT THE APPOINTEE

(1) Background details:

Mr. Raj Swaminathan, aged about 50 years, has over 25 years of experience in IT & Financial Services Industry. He has done Post Graduate Diploma in Business Management from Xavier Labour Relations Institute, Jamshedpur, after his Bachelor of Engineering (Mechanical) from Bangalore University. Prior to joining R Systems, Raj has had a distinguished 11 years' career at GE, where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses.

Mr. Raj Swaminathan joined the Board of the Company as director on September 29, 2006 for a term of three years. Since then he is continuously providing his guidance and support on the Board. Presently Mr. Raj Swaminathan is heading the Indus operations of R Systems and his presence is crucial for the effective and efficient operations of the business.

(2) Past remuneration:

Income during the last 3 years

|                                      | Total Cost to the Company (in Rs.) | Rs. Per Month |
|--------------------------------------|------------------------------------|---------------|
| For the year ended December 31, 2007 | 5,434,548                          | 452,879       |
| For the year ended December 31, 2008 | 5,601,494                          | 466,791       |
| For the year ended December 31, 2009 | 5,386,449                          | 448,871       |

(3) Recognition or awards:

Mr. Raj Swaminathan holds Post Graduate Diploma in Business Management from Xavier Labour Relations Institute, Jamshedpur and Bachelor of Engineering (Mechanical) from Bangalore University.

(4) Job profile and his suitability:

Mr. Raj Swaminathan, aged about 50 years, has over 25 years of experience in IT & Financial Services Industry. Mr. Raj Swaminathan is presently heading the Indus

operations of R Systems. He has done Post Graduate Diploma in Business Management from Xavier Labour Relations Institute, Jamshedpur, after his Bachelor of Engineering (Mechanical) from Bangalore University. Prior to joining R Systems, Raj has had a distinguished 11 years' career at GE, where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses. Considering his experience and knowledge, R Systems will benefit from his capabilities and wishes to reappoint him as Director and Chief Operating Officer of the Company.

(5) Remuneration proposed:

Mr. Raj Swaminathan is proposed to be reappointed on the following remuneration:

| Monthly Salary Particulars  |                  |
|---|------------------|
|   | INR              |
| Basic   | 145,455          |
| HRA   | 72,728           |
| Conveyance Allowance  | 800              |
| Executive Allowance   | 144,654          |
| <b>Gross Per Month</b>  | <b>363,637</b>   |
| Annual Allowances   |                  |
| Leave Travel Assistance   | 120,000          |
| Food Coupon   | 12,000           |
| Company's Contribution to Provident Fund  | 9,360            |
| <b>Gross Annual Allowances</b>  | <b>141,360</b>   |
| Annual Reimbursements   |                  |
| Medical Reimbursement   | 15,000           |
| Petrol Reimbursement  | 144,000          |
| <b>Gross Annual Reimbursements</b>  | <b>159,000</b>   |
| <b>Gross Per Annum</b>  | <b>4,664,004</b> |
| In addition to the above, he will be eligible for the Group Medclaim and Personal Accident Insurance as per Company policy.   |                  |
| He may also be eligible for a performance incentive consisting of a fixed bonus of Rs. 1,100,000 paid pro rata for period of service in the year, at the end of each year and a variable bonus subject to a maximum of Rs. 1,000,000 per annum and subject to his being on the rolls of the Company at the time the same is declared. This incentive is discretionary and is based on the Company's performance in that financial year and also his own annual performance. |                  |

In addition, as per the usual terms and conditions of his employment, he will be entitled for a maximum annual increment of 15% per annum at the discretion of the Managing Director and Chief Executive Officer and subject to the approval of the Remuneration Committee and the Board on the total cost to the Company effective on October 01, 2010, October 01, 2011 and October 01, 2012 and he will be entitled to the aforementioned minimum remuneration and annual increment as approved even in the case of absence or inadequacy of profits in any financial year during his tenure.

- (6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin):

The proposed remuneration is reasonably justified in comparison with the general market trends and remuneration package of top-level managerial persons having comparable qualification and experience.

- (7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any:

Apart from remuneration stated herein above, Mr. Raj Swaminathan has also been granted 60,000 stock options under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007.

As on the date of this notice, Mr. Raj Swaminathan does not hold any share in R Systems. Further except the proposed remuneration, he does not have any pecuniary or other relationship with the Company or with any of the managerial personnel.

### III. OTHER INFORMATION

- (1) Profitability of R Systems:

Reasons for inadequate profits: The Company has made a reasonable profit during the last financial year ended December 31, 2009. R Systems total income decreased to Rs. 20,031.17 lakhs as against Rs. 21,013.01 lakhs during the same period in the previous year, a decline of 4.67%. Profit after tax for the year ended December 31, 2009 was Rs. 655.16 lakhs as against Rs. 2,364.76 lakhs during the same period in the previous year, a decline of 72.29%.

During the year, R Systems technical support business in U.S.A. and Europe was severely affected by loss of 3 key

customers. Consequently the management had assessed that there was a decline, other than temporary, in the value of investment in R Systems Solutions, Inc., (U.S.A.), R Systems Europe B.V., (The Netherlands) and R Systems S.A.S., (France) and reduced the carrying amount of investment in these subsidiaries by Rs. 2,473.21 lakhs to recognise the decline in value.

- (2) Strategy for performance enhancement:

Steps taken or proposed to be taken for improvement: R Systems management process involves taking continuous steps to improve performance through growth in revenues, managing costs and improving productivity. The financial strategy involves maintaining a secure financial position, managing risks and ensuring accurate and timely reporting of performance.

- (3) Expected increase in productivity and profits in measurable terms:

Barring unforeseen circumstances, R Systems expects to close the current financial year with improved sales and profitability.

### IV. DISCLOSURES

- (1) The Members are being informed of the remuneration package by way of explanatory statement as given above.
- (2) The details of remuneration etc. of other directors are included in the Directors' report under the heading Corporate Governance.

### ITEM NO. 7

#### EXTENSION OF TIME FOR UTILISATION OF INITIAL PUBLIC OFFER PROCEEDS

The initial public offer ("IPO") of R Systems International Limited had closed on March 31, 2006 and the equity shares got listed with National Stock Exchange of India Limited and Bombay Stock Exchange Limited w.e.f. April 26, 2006. At the time of IPO, R Systems International Limited had given the details in the offer document with respect to requirement of funds as given below in column number (1). The said details were revised as given in column number (2) with the approval of the shareholders at the annual general meeting held on May 01, 2007. Thereafter they were again revised as given in column number (3) with the approval of the shareholders at the annual general meeting held on May 02, 2008 to be utilised till December 31, 2010.

The details of amount utilised and balance unutilised till December 31, 2009 are given under column number (4) and (5) respectively.

(Rs. in lakhs)

| S. No. | Objects  | Original IPO<br>(1) | First revision<br>01.05.2007<br>(2) | Second revision<br>02.05.2008<br>(3) | Utilisation till<br>31.12.2009<br>(4) | Balance Un-utilised<br>(5) |
|--------|--|---------------------|-------------------------------------|--------------------------------------|---------------------------------------|----------------------------|
| 1.     | Upgrading and expansion of existing infrastructure | 3,150.00            | 3,265.43                            | 2,299.93                             | 2,299.93                              | -                          |
| 2.     | Repayment of outstanding loans                     | 365.50              | 365.50                              | 365.50                               | 365.50                                | -                          |
| 3.     | Financing general working capital requirements     | 1,795.10            | 1,795.10                            | 1,795.10                             | 1,795.10                              | -                          |
| 4.     | General corporate purposes                         | 621.90              | 617.52                              | 1,590.60                             | 586.20                                | 1,004.40                   |
| 5.     | Meeting offer expenses                             | 1,130.00            | 1,018.95                            | 1,011.37                             | 1,011.37                              | -                          |
|        | <b>Total</b>                                       | <b>7,062.50</b>     | <b>7,062.50</b>                     | <b>7,062.50</b>                      | <b>6058.10</b>                        | <b>1,004.40</b>            |

Considering the limited opportunities and the present economic scenario, the management does not foresee the optimum utilisation of the balance unutilised funds till December 31, 2010. Accordingly the management wishes to seek your approval for extension of time for

utilisation of balance unutilised funds till June 30, 2012.

The proposed extension is in the best interest of the Company and the same has been approved by the audit committee and the Board at their respective meetings held on February 21, 2010.

The board of directors recommends that the shareholders approve the said resolution by way of special resolution.

None of the directors is concerned or interested in the proposed resolution.

By Order of the Board  
For R Systems International Limited

**Sd/-**  
**Suresh Kumar Bhutani**  
(Company Secretary &  
Compliance Officer)

Place : NOIDA  
Date : April 10, 2010

**PROFILE OF DIRECTORS SEEKING APPROVAL FOR REAPPOINTMENT OR REMUNERATION AT THE ANNUAL GENERAL MEETING PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT**

| <b>Particulars</b>   | <b>Lt. Gen. Baldev Singh (Retd.)</b>   | <b>Mr. Raj Kumar Gogia</b>  | <b>Mr. Raj Swaminathan</b>   |
|--|--|---|--|
| Date of Birth  | September 21, 1940   | November 09, 1939   | May 23, 1959   |
| Qualification  | Masters degree in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.   | B. Tech Honors (First Class First) in Electrical Engineering from IIT, Kharagpur  | Post Graduate Diploma in Business Management from Xavier Labour Relations Institute, Jamshedpur and Bachelor of Engineering (Mechanical) from Bangalore University   |
| Expertise and experience in specific functional areas                    | Lt. Gen. Baldev Singh (Retd.) has more than 44 years of experience, including handling top managerial, diplomatic and human resource development related assignments. He joined the Board of R Systems on September 01, 1997. Since then, he is continuously providing his guidance and advice to the Board of R Systems International Limited.            | Mr. Raj Kumar Gogia, aged about 70 years, has a rich and vast experience of 47 years serving various Indian, multinational and foreign concerns. He joined the Board of R Systems on July 09, 2002. Since then, he is continuously providing his guidance and advice to the Board of R Systems International Limited. | Mr. Raj Swaminathan has over 25 years of experience in IT and Financial Services Industry. Prior to joining R Systems, Raj has had a distinguished 11 years career at GE where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses. He joined the Board of R Systems on September 29, 2006. Since then, he is continuously providing his guidance and advice to the Board of R Systems International Limited. |
| Directorship / Membership in other board / committees / bodies corporate | Nil  | Nil   | Nil  |
| Shareholding in the Company  | As on the date of this notice, he holds 70,000 equity shares of Rs. 10 each being 0.57% of the total paid up share capital in R Systems. Further as on date 2,770 stock options of Rs. 10 each out of the total options granted to Lt. Gen. Baldev Singh (Retd.) under R Systems International Ltd. - Year 2004 Employees Stock Options Plan are in force. | Nil   | Nil. Further he holds 60,000 stock options under R Systems International Limited Employees Stock Option Scheme 2007. As on the date of this notice, out of aforementioned options, 30,000 options are already vested but not exercised.  |







## R SYSTEMS INTERNATIONAL LIMITED

Registered Office: B - 104A, Greater Kailash - I, New Delhi - 110 048  
Corporate Office: C - 40, Sector - 59, Noida (U.P.) - 201 307  
Sixteenth Annual General Meeting to be held on Thursday, May 20, 2010 at 10.00 A.M. at  
Air Force Auditorium, Subroto Park, New Delhi - 110 010

### PROXY FORM

I / We ..... of ..... being a member(s)  
of R Systems International Limited hereby appoint.....  
of .....or failing him / her .....  
of.....as my / our proxy to attend and vote for me / us on my / our behalf at the Sixteenth Annual General Meeting  
of the Company to be held on Thursday, May 20, 2010 at 10.00 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010 and any  
adjournment thereof.

In witness whereof

I / We have signed on this.....day of.....2010

Registered Folio No.....(or)

Demat Account No.....D.P. ID. No.....

Notes:

1. The Proxy form should be signed by the member across the stamp.
2. A member intending to appoint a Proxy should complete the Proxy form and deposit it at the Company's Registered Office at least 48 hours before the meeting.
3. Those who hold shares in Demat form to quote their Demat Account No. and Depository Participant (D.P.) ID. No.

Affix a  
Revenue  
Stamp

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### ATTENDANCE SLIP

Registered Folio No..... (or)

Demat Account No..... D.P. ID. No .....

Name of shareholder(s).....

I / We certify that I am / we are Member(s) / Proxy of the Member(s) of the Company holding..... shares.  
I hereby record my presence at the Sixteenth Annual General Meeting of the Company to be held on Thursday, May 20, 2010 at 10.00 A.M. at  
Air Force Auditorium, Subroto Park, New Delhi - 110 010.

.....  
Signature of Member / Proxy

Notes:

1. A member or his duly appointed Proxy wishing to attend the meeting must complete this Attendance Slip and hand it over at the entrance.
2. Name of the Proxy in Block letters.....  
(in case the Proxy attends the meeting)
3. Those who hold shares in Demat form to quote their Demat Account No. and Depository Participant (D.P.) ID. No.

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**R SYSTEMS INTERNATIONAL LIMITED**

Registered Office: B - 104A, Greater Kailash - I, New Delhi - 110 048 (INDIA)  
Corporate Office: C - 40, Sector - 59, Noida (U.P.) - 201 307 (INDIA)

[www.rsystems.com](http://www.rsystems.com)