



Annual Report 2004 - 2005

iGATE Global Solutions Limited

Position Papers

iTOPS - Delivering sustainable
advantages from outsourcing

Creating a nimbler IT Organization

Delivering iTOPS solutions using
our quality enabled client delivery
framework

Managing risks of a flexible
delivery model - our stable financial
modeling approach

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It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage, than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old institutions and merely lukewarm defenders in those who would gain by the new ones.

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Contents

Chairman's message	1
CEO's letter to shareholders	2
iTOPS - Delivering sustainable advantages from outsourcing	5
Creating a nimbler IT organization	7
Delivering iTOPS solutions using our quality enabled client delivery framework	9
Managing risks of a flexible delivery model - our stable financial modeling approach	12
Board of Directors	14
Directors' Report	15
Report on Corporate Governance	24
Financial Statements - Indian GAAP	36
Consolidated Financial Statements - Indian GAAP	62
Management Discussion & Analysis	80
Financial Statements - US GAAP	90
Notice	123

The cover of this year's annual report carries a quote from Machiavelli, the master strategist - "there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage, than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old institutions and merely lukewarm defenders in those who would gain by the new ones."

The past year has been one of progress and of transformation for your company, as we break new ground in performance-driven, accountable, variable solutions and newer, more innovative delivery models. In the pages that follow we have included short position papers that outline our progress from the business vision we outlined last year to the reality that is iGATE Global today.





Chairman's message:

Transforming iGATE

Dear Shareholders

“ All progress that has ever been made has been a result of bold thought and action.

— ” Last year we made some bold changes to our business. We redefined our business model, we transformed our delivery engine to be offshore centric, we reworked our levels of engagement with our clients and we brought in a top-tier management team with the vision and execution excellence to be able to make a difference.

The results speak for themselves.

This year we returned to profitability with favourable revenue and business indicators and added an impressive roster of new clients, many of them in the Fortune 1000 space.

Some of the highlights of last year's performance have been:

- completion of the organizational restructuring efforts initiated last year resulting in better operational efficiencies for iGATE, and enhanced service delivery for our customers
- the consolidation of our offshore delivery infrastructure and moving to an industry-standard onsite to offshore ratio that has resulted in improved project management capabilities at a lower TCO for our clients and enhanced profitability and utilization rates for us
- the build-out of our Integrated Technology and Operations (iTOPS) business model resulting in two new large multi-year client engagements.

This success clearly means a lot to us because it has been achieved in the face of several challenges, key among them the fact that we compete in a highly demanding business environment and need to be ever more relevant to our customers while making changes to our organi-

zation and transforming our delivery engine. Given the ongoing consolidation of service providers in the BPO and IT outsourcing space, we need to move very quickly with our differentiated iTOPS solutions to be able to carve a niche for ourselves.

The new management team we put in place last year under the leadership of Phaneesh Murthy has made significant progress, but we are aware that challenges remain.

The change in our operating model has kept our top line almost flat despite a 20% volume growth, and margin expansion. This year the focus is on growing revenues. Our gross margin, although at a healthy 30%, is still short of industry best-in-class and we need to improve that.

As an entrepreneurial organization, we believe that the only way we can create great shareholder value is by nurturing innovation, creating the next disruption in the marketplace and thinking one step ahead of our customers' needs. We look forward to your support as we work towards realizing this vision.

Thank you

Ashok Trivedi
Chairman

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CEO's letter to shareholders:

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A mechanic was fixing the car of a famous heart surgeon and the doctor was looking on. After replacing a particularly intricate engine part the mechanic turned to the surgeon and exclaimed 'Doc, we both do just about the same kind of job but I sure don't understand why I don't get the same sort of respect you get for your job.'

The surgeon replied 'Maybe you should try doing what you just did while the engine is still running.'

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When I took charge as the CEO of this company last year, I had said that to create a strong, successful and profitable company in the prevailing competitive outsourcing landscape we needed to drive the creation of the next discontinuity in the marketplace. I felt that our Integrated Technology and Operations (iTOPS) business model was the answer to creating this discontinuity.

During the year under review, my team and I have spent considerable time and energy moving our iTOPS model beyond a statement of vision. We have created a shared organizational vision of iTOPS, have reengineered our extended organizational infrastructure to support solutions delivery to our customers on this integrated model, created iTOPS solutions for identified high potential client verticals and put in place frameworks, processes and quality systems for seamless services delivery. More importantly, we have been able to create an iTOPS roadmap for several of our customers.

In parallel, we have also worked hard at delivering on our promise of creating a gold standard organization. We have created a truly world class offshore delivery infrastructure adding over 300,000 sq.ft to our delivery centers, put in place better project management frameworks that resulted in a significant change to our onsite to offshore effort ratio from 70:30 in 2003 to 34:66 as of Q4 FY2005, improved operational efficiencies by rationalizing cost structures and improved revenue productivity. We also now have in place a good brand and a robust HR organization to attract and retain the best of global talent.

Clearly, our efforts on both fronts have borne fruit. Recently, we signed two large multi-year iTOPS deals with clients in the Fortune 1000 space and both these businesses were awarded to us over larger global competitors - a clear recognition of the merit of our differentiated business model. A 40% increase in offshore leverage this year helped us return to profitability and we had a 20% volume growth. We make steady progress towards achieving industry standard operating metrics and financial ratios.

There have been other early indicators of success as well. iGATE is today recognized as a leader among the Offshore Mortgage BPO players with proven delivery experience, and our Financial Analytics offering is recognized by clients for the strong domain experience we bring to the table. We have what is possibly the only fully developed iTOPS offering for Finance & Accounting outsourcing in the industry today that can be priced on a per-transaction model and we are developing more such solutions in the insurance, enterprise solutions and financial markets domains.

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In an effort to promote employee commitment to iGATE, I have championed an organization-wide corporate transformation program 'iGATE Onward' that comprises seven strategic initiatives addressing all stakeholders of the organization. This program is run by executive sponsors chosen by me who are assisted by a team of nominated as well as opt-in volunteers. These teams carry specific 'iGATE Onward' targets over and above their functional responsibilities in areas like building new iTOPS solutions, mining existing customers, new customer acquisition, building organizational capabilities in the IT and BPO space and improving operational efficiency and quality, and are working very hard to vault iGATE Global Solutions into the ranks of the most admired, successful and recognized technology services companies globally.

In the next few pages you will see position papers on what we have done over the past one year in moving the iTOPS model from a vision statement to a successful business strategy. These papers will give you an overview of the various aspects involved in the build-out of our iTOPS solutions, the challenges we faced in enabling an IT organization to operate at the leading edge of process and technology and our risk abatement strategies for managing flux in a revenue model that is tied to our clients' business cycles.

My personal vision for iGATE this year will be to create substantial and sustainable revenue streams through our technology and operations solutions and focus on customers and closely align with their business objectives.

I believe that great organizations are ones that can successfully weather challenging business environments and internal change and create enduring value for their stakeholders. In the past few years your company has dealt with some of the toughest times ever for the industry, pulled through a period of significant internal change and is now resting with a stable management team. This augurs well for the future.

Phaneesh Murthy
CEO and Managing Director

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If we have learned one thing from the history of invention and discovery, it is that, in the long run - and often in the short one - the most daring prophecies seem laughably conservative.

~ Arthur C. Clarke

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Position paper 1

iTOPS - Delivering sustainable advantages from outsourcing

Recently there has been much debate about the sustainability of a business model that is based purely on labour arbitrage as the means to a cost advantage. Sourcing decisions made solely for cost benefits are susceptible to loss of quality and control and the possibility of not being aligned with the strategic objectives of the organization. From the service provider perspective, there is always a risk that the cost advantage declines as a result of environmental or macro-economic changes.

What could be a sustainable model in the BPO space where cost advantages based on labour arbitrage seems to be a key driver for business decisions today? What is the win-win situation for clients and the service provider?

iGATE's integrated technology and operations (iTOPS) model is a unique business solution where the service partner is responsible not just for the outsourced business process but also for the underlying technology components. Through this model, iGATE is able to provide substantial and sustainable advantages to clients by way of year-on-year cost savings and efficiency improvements, through a combination of process optimization, technology automation and a globally distributed delivery model.

The integration of process and technology in an outsourcing engagement leads to better efficiency, higher economic advantage and improved organizational ability to manage business transformation. This is because a holistic view allows one to trade-off the benefits of automation, reengineering and people investments.

Some examples of advantages beyond labour arbitrage are a mortgage bank that benefits from sophisticated analytics techniques to ensure that

70% of loans are decisioned automatically. Or an insurance company that set up an alternative sales channel where the provider is rewarded on the number of sales closed, allowing them to variabilize what was earlier a fixed cost.

Driving process improvements - the iTOPS way

At iGATE we have a cross-functional team of people with the requisite technology/platform skills, process and domain expertise to analyze the business case, the process and technology synergies and come up with a custom iTOPS blueprint for every client engagement. This allows us to proactively recommend innovations like automated credit decisioning or a custom workflow system which benefits a client with multiple data silos across their ERP implementation, or a sophisticated spend optimization algorithm for an accounts payable outsourcer.

To ensure a robust integrated process and technology delivery model, we have invested significantly in the development of proprietary tools, frameworks and accelerators to better enable business processes. For example, through the integration of our workflow and imaging solutions

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