

**LETTERS FROM FIRSTSOURCE SOLUTIONS LIMITED UNDER SEBI (INFORMAL GUIDANCE) SCHEME, 2003**

**I. Letter dated July 27, 2007**

July 27, 2007

The General Manager  
Corporate Finance department  
Division of Issues and Listing  
The Securities and Exchange Board of India  
Bandra Kurla Complex  
Mumbai

**Attn: Ms. Neelam Bharadwaj**

**Re: Request for interpretative letter under SEBI (Informal Guidance) Scheme, 2003 SEBI (DIP) Guidelines, 2000 regarding lock-in of pre-IPO equity share capital**

This is a request for an interpretative letter under the SEBI (Informal Guidance) Scheme, 2003.

**1. Background**

- 1.1 Firstsource Solutions Limited (the “**Company**”) was listed on the Bombay Stock Exchange and the National Stock Exchange w.e.f. February 22, 2007.
- 1.2 The Company, in terms of two pre – IPO employee stock option plans constituted in 2002 and 2003, had granted options to various employees from time to time under the plans. In terms of these stock options, certain options were eligible for exercise prior to the date of filing the draft red herring prospectus with SEBI. Employees from time to time had exercised the options in the years leading up to the filing of the draft red herring prospectus in November 2006.
- 1.3 Of the total employees who received the shares on exercise of the options, employees had left the employment of the Company (“**Ex Employees**”) prior to the filing of the draft red herring prospectus with SEBI. These Ex Employees held 29,90,500 equity shares of the Company as of the date of the filing of the draft red herring prospectus with SEBI. The equity shares held by the ex employees were subject to a lock in from February 15, 2007 for a period of one year in terms of Clause 4.14.1 of the DIP Guidelines.
- 1.4 In terms of Clause 4.14.1, the entire pre issue capital is required to be locked in as minimum promoters contribution for a period of one year from the date of allotment in the IPO. Clause 4.14.2(iii) states as follows:

*“Clause 4.14.1 shall not be applicable to:*

(iii) *pre-IPO shares held by **employees** other than promoters, which were issued under employee stock option or employee stock purchase scheme of the issuer company before the IPO. However the same is subject to the issuer company complying with the requirements laid down in Clause 22.4 of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. (the “**SEBI ESOP Guidelines**”) (emphasis supplied)*

1.5 Clause 22.4 of the SEBI ESOP Guidelines provides:

*“The provisions relating to lock-in of pre-IPO shares specified in SEBI (Disclosure and Investor Protection) Guidelines, 2000 shall not be applicable to the shares allotted to employees other than promoters before the IPO under a pre-IPO ESOS / ESOS, subject to compliance with clauses 15.3 and 22.2.”*

1.6 The term employee has been defined in Clause 1.2.1(xiib) of the DIP Guidelines, as follows:

*“a) a permanent employee of the company working in India or out of India; or  
b) a director of the company, whether a whole time director, part time director or otherwise;  
c) an employee as defined in sub-clauses (a) or (b) of a subsidiary, in India or out of India, or of a holding company of the company.”*

1.7 The Company had complied with disclosure requirements specified above. Several of our Ex Employees have indicated that they would like to sell their shares as the Company’s two pre – IPO employee stock option plans had complied with SEBI ESOP Guidelines requirements and that they have already been locked in for a period of at least one year and that locking them for further periods would result in them not being able to sell the shares held by them as employees of the Company at the time of the shares being issued to them.

2. Query

2.1 As the Ex Employees were strictly not employees of the Company as defined above, the Company is having difficulty permitting such Ex Employees to sell their shares. Thus we request a No-Action Letter clarifying whether Ex Employees would also be covered under the exemption from lock-in provided under Clause 4.14.1 of the DIP Guidelines.

2.2 In addition, we would appreciate receiving any other recommendations you may have in this regard.

3. Compliance with paragraph 6 of the SEBI (Informal Guidance) Scheme, 2003

3.1 In accordance with paragraph 6 of the SEBI (Informal Guidance) Scheme, 2003, this request for a No-action Letter is addressed to Ms. Neelam Bharadwaj, The General Manager of the SEBI, and is accompanied with a Pay Order dated July 27, 2007 bearing no. 140752 for Rs. 25,000 (Rupees Twenty Five Thousand Only) drawn on ICICI Bank, Churchgate branch. Further, all material facts, circumstances and legal provisions which

in our opinion are relevant for the purposes of determination of this request, are stated herein.

We would appreciate receiving your opinion at your earliest convenience. For further assistance or clarifications we request that you contact our legal advisors at the address detailed below:

Attention: **Mr. Rahul Guptan**  
Amarchand Mangaldas and Suresh Shroff & Co.  
5<sup>th</sup> Floor, Peninsula Chambers,  
Ganpatrao Kadam Marg, Lower Parel  
Mumbai – 400 013  
Tel no : 24964455 ; Fax no : 29963666  
Cell no: 9820008519  
Email Id: rahul.guptan@amarchand.com

Thanking You,

For **Firstsource Solutions Limited**

**Sanjay Gupta**  
Company Secretary

**II. Letter dated September 5, 2007**

September 05, 2007

To  
The Manager  
Corporate Finance Department  
Division of Issues and Listing  
The Securities and Exchange Board of India, SEBI Bhavan, Plot No.C-4A,  
G Block, Bandra Kurla Complex  
Mumbai- 400051

**Kind Attn : Ms.Srishti Chavan, Manager**

**Subject : Request for interpretative letter under SEBI ( Informal Guidance) Scheme, 2003  
regarding lock- in of pre- IPO equity share capital.**

With reference to your letter dated August 31, 2007 bearing ref. no. CFD/DIL/SC/ 102914/2007, please find enclosed herewith the following documents/ details as desired by you:

- (i) Copy of disclosures made in the prospectus of the Company in respect of details of the two pre- IPO Employee Stock Option Schemes of the Company i.e ICICI Onesource Stock Option Scheme- 2002 and ICICI Onesource Stock Option Scheme- 2003, as published on page 27-32, 150-152 and 184-186 of the Prospectus of the Company dated February 07, 2007 ( Annexure I )
- (ii) Copy of disclosures made in the prospectus of the Company in respect of lock- in of shares, as appearing on page no. 23 and 24 of the Prospectus ( Annexue II )
- (iii) Statement giving details of the 29,90,500 equity shares issued by the Company under the two pre- IPO Employee Stock Option Plans to employees who had become ex- employees of the Company as on the date of filing draft red herring prospectus of the Company with SEBI ( Annexure III )

Please note that the aforementioned 29,90,500 equity shares are currently under lock-in upto February 15, 2008 in terms of clause 4.14.1 of SEBI (DIP) Guidelines, 2000.

Thanking You

Yours Truly,

For **Firstsource Solutions Limited**

**Sanjay Gupta**  
**Company Secretary**

## Annexure I

### Extract of disclosures made in the prospectus of the Company in respect of details of the two pre- IPO Employee Stock Option Schemes of the Company



5. Our Company, our Directors, the BRLMs and the CBRLM have not entered into any buy-back and/or standby arrangements for the purchase of Equity Shares of our Company from any person, other than as disclosed in this Prospectus.
6. Our Promoters have not been issued Equity Shares for consideration other than cash.
7. Our Promoters, Directors and our Promoter Group have not purchased or sold any Equity Shares within the six months preceding the date of filing of this Prospectus with the RoC other than as disclosed below:

Transferor	Transferee	Number of Equity Shares	Price per Equity Share (Rs.)	Date of Transfer
SIF	ICICI Bank	94,465,761	10	January 17, 2007
ICICI Bank	ICICI BANK LIMITED – FIRSTSOURCE ESCROW ACCOUNT*	20,800,000	62	December 27, 2006
ICICI Bank	Metavante	5,500,000	62	December 28, 2006
SIF	Metavante**	36,233,539	36.34	December 29, 2006
Reclamation Properties (India) Pvt. Ltd	ICICI Trusteeship Services Limited	100	10	October 27, 2006
Reclamation Realty (India) Pvt. Ltd	ICICI Investment Management Company Limited	100	10	October 27, 2006

\* At the time the Red Herring Prospectus was filed, the Equity Shares held in the "ICICI BANK LIMITED – FIRSTSOURCE ESCROW ACCOUNT" were being held for the benefit of Galleon Technology Offshore, Limited and Galleon Technology Partners II, L.P. . We have subsequently been informed by ICICI Bank, in its capacity as escrow agent, that Galleon Technology Offshore, Limited and Galleon Technology Partners II, L.P. have assigned their rights to acquire these Equity Shares to TCP Asia Master Fund SPC, Limited. The Equity Shares continue to remain in the "ICICI BANK LIMITED – FIRSTSOURCE ESCROW ACCOUNT".

\*\* This transfer is the result of Metavante exercising its call option pursuant to a share purchase agreement between Metavante, ICICI Bank and SIF dated March 31, 2006. For details of the call option, see the section titled "History and Corporate Structure" on page 77 of this Prospectus.

#### 8. **Employee Stock Option Schemes**

We have two employee stock option schemes in force, which are applicable to all of our Directors, employees and employees of our Subsidiaries. Please note that the information given in this paragraph 8 is as on January 17, 2007.

Employee Stock Option	Outstanding Options	Remarks
ESOP 2002	1,700,000	The special resolution passed by our Company at its EGM dated August 22, 2002 approved the grant of up to 10% of the then existing issued equity share capital. The special resolution passed by the shareholders of our Company at an EGM on September 3, 2003 approved the grant of options under the ESOP 2003 within the approved limit of 10% of the then existing issued equity share capital. By way of a resolution dated August 26, 2005, the shareholders approved the grant of options up to a limit 28,443,681 options which was further increased to a limit of 48,159,517 on May 3, 2006. Further, by way of a resolution dated November 20, 2006, the Directors approved a grant of 8,182,000 options which further increased the limit of options to 56,341,517. The aggregate stock option pool available for options under ESOP 2002 and ESOP 2003 is 12% of the equity share capital on a fully diluted basis.
ESOP 2003	39,211,750	

**ESOP 2002**

**Particulars**

Options granted Exercise price of options

**Details**

4,565,000

Year	No. of options exercised	Exercise Price
Fiscal 2005	2,500	12.83
Fiscal 2005	212,500	11.25
Fiscal 2006	258,125	11.25
Fiscal 2006	8,750	12.83
Fiscal 2007	30,000	12.83
Fiscal 2007	206,250	11.25

Total options vested 2,383,750 (includes options exercised)  
Options exercised 718,125  
Total number of Equity Shares arising as a result of full exercise of options already granted 700,625  
Options forfeited/lapsed/cancelled 2,146,875  
Variations in terms of options Nil  
Money realised by exercise of options 8,144,081  
Options outstanding (in force) 1,700,000

Details of options granted to:

- (i) Directors and Key Managerial Personnel
- (ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year

Refer Note 1 below

Name	No. of options
Ganesh K. (resigned)	225,000
Susheel Kurien (resigned)	225,000
Prashant M. J.	125,000
Gayatri Anand	30,000
Namit Kaushal	30,000
Krishnan V.	30,000
Devendra Mankare	20,000

- (iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant Nil

Fully diluted EPS on a pre-Issue basis Nil

Vesting schedule

<i>No. of options</i>	<i>From the date of grant</i>
25%	at the end of 12 months
12.5%	at the end of 18 months
12.5%	at the end of 24 months
12.5%	at the end of 30 months
12.5%	at the end of 36 months
12.5%	at the end of 42 months
12.5%	at the end of 48 months

Lock-in

None

Impact on profits and EPS of the last three years

Nil

### **ESOP 2003**

#### **Particulars**

Options granted Exercise price of options

#### **Details**

49,568,000

<i>Year</i>	<i>No. of options exercised</i>	<i>Exercise Price</i>
Fiscal 2005	256,250	12.89
Fiscal 2006	20,000	19.85
Fiscal 2006	1,005,625	12.89
Fiscal 2007	621,250	19.85
Fiscal 2007	58,750	22.20
Fiscal 2007	506,250	12.89

Total options vested

11,618,498 (includes options exercised)

Options exercised

2,468,125

Total number of Equity Shares arising as a result of full exercise of options already granted

2,390,625

Options forfeited/lapsed/cancelled

7,888,125

Variations in terms of options

Yes\*

Money realised by exercise of options

36,824,194

Options outstanding (in force)

39,211,750

Details of options granted to:

- (i) Directors and Key Managerial Personnel
- (ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year

Refer Note 1 below

<i>Name</i>	<i>No. of options</i>
Ayan Chatterjee (resigned) Raja	1,400,000
Gopalakrishnan (resigned) Raju	925,000
Bhatnagar (resigned)	1,400,000

(iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant

Name	No. of options
Ananda Mukerji	2,655,500
Raju Bhatnagar (resigned)	1,400,000
Raja Gopalakrishnan (resigned)	925,000
Sanjiv Dalal	925,000
Matthew Vallance	1,525,000
Aashu Calapa	975,000
Rahul Basu	925,000

Fully diluted EPS on a pre-Issue basis

Nil

Vesting schedule\*

No. of options	From the date of grant
25%	at the end of 12 months
12.5%	at the end of 18 months
12.5%	at the end of 24 months
12.5%	at the end of 30 months
12.5%	at the end of 36 months
12.5%	at the end of 42 months
12.5%	at the end of 48 months

Lock-in

None

Impact on profits and EPS of the last three years

Nil

*The Compensation cum Board Governance Committee of the Company at its meeting held on April 27, 2006 amended the vesting schedule for options granted on May 1, 2006 to General Managers and above grade of employees and to non-executive Directors. The vesting schedule for 15,980,000 options granted pursuant to the above is set forth below*

No. of Options	From the Date of Grant
50%	at the end of 24 months at
50%	the end of 36 months

#### Options granted to our Directors and our Key Managerial Personnel

Name of Director/ Key Managerial Personnel of the Company and its Subsidiaries	No. of options granted under ESOP 2002	No. of options vested under ESOP 2002	No. of options outstanding under ESOP 2002 (inc. unvested)	No. of options granted under ESOP 2003	No. of options vested under ESOP 2003	No. of options outstanding under ESOP 2003 (inc. unvested)	No. of Equity Shares held*
Ananda Mukerji	400,000	400,000	400,000	4,655,500	1,991,623	4,655,500	Nil
Raju Venkatraman	Nil	Nil	Nil	3,000,000	350,000	3,000,000	Nil
Matthew Vallance	175,000	175,000	175,000	2,825,000	1,143,750	2,825,000	Nil
Rahul Basu	175,000	175,000	175,000	1,425,000	693,750	1,425,000	Nil
Sanjiv Dalal	175,000	175,000	175,000	1,425,000	693,750	1,425,000	Nil
Aashu Calapa	125,000	125,000	125,000	1,475,000	731,250	1,475,000	Nil
Rajesh Subramaniam	125,000	125,000	125,000	1,275,000	306,250	1,275,000	Nil
Charles Miller Smith	Nil	Nil	Nil	495,000	153,125	495,000	Nil



Name of Director/ Key Managerial Personnel of the Company and its Subsidiaries	No. of options granted under ESOP 2002	No. of options vested under ESOP 2002	No. of options outstanding under ESOP 2002 (inc. unvest ed)	No. of options granted under ESOP 2003	No. of options vested under ESOP 2003	No. of options outstanding under ESOP 2003 (inc. unvested)	No. of Equity Shares held*
Ashok Ganguly	Nil	Nil	Nil	1,090,000	306,250	1,090,000	Nil
Shailesh Mehta	Nil	Nil	Nil	250,000	Nil	250,000	245,000
Y. H. Malegam	Nil	Nil	Nil	250,000	Nil	250,000	Nil
Santanu Nandi	Nil	Nil	Nil	1,300,000	Nil	1,300,000	Nil
Sanjeev Sinha	Nil	Nil	Nil	1,000,000	281,250	1,000,000	Nil

\* Also includes the Equity Shares acquired other than by way of exercise of options.

Our Directors and the Key Managerial Personnel who have been granted options or Equity Shares on the exercise of the options pursuant to the ESOPs have confirmed to us that they do not intend to sell any Equity Shares arising from such options for three months after the date of listing of the Equity Shares under this Issue. Other employees holding Equity Shares at the time of the listing of Equity Shares under the Issue and Equity Shares on exercise of vested options may sell their Equity Shares within the three month period after the listing of the Equity Shares. This disclosure is made in accordance with paragraph 15.3 (b) and 15.3 (c) of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 2000.

9. In accordance with Rule 19 (2) (b) of the SCRR, this being an Issue for less than 25% of the post-Issue capital, the Issue is being made through the 100% Book Building Process whereby at least 60% of the Net Issue will be allocated on a proportionate basis to QIBs, out of which 5% shall be available for allocation on a proportionate basis to Mutual Funds only. The remainder shall be available for allocation on a proportionate basis to QIBs and Mutual Funds, subject to valid Bids being received from them at or above the Issue Price. If at least 60% of the Net Issue cannot be allocated to QIBs, then the entire application money will be refunded forthwith. Further, up to 10% of the Net Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and up to 30% of the Net Issue will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. Under-subscription, if any, in any category, except the QIB Portion, would be met with spill over from other categories at our discretion in consultation with the BRLMs and the CBRLM.
10. Up to 1,200,000 Equity Shares have been reserved for allocation to the Eligible Employees on a proportionate basis, subject to valid Bids being received at or above the Issue Price. Only Eligible Employees, as defined, would be eligible to apply in this Issue under the Employee Reservation Portion. Employees that do not fall within the definition of Eligible Employee are not eligible to participate in the Employee Reservation Portion. If the aggregate demand in the Employee Reservation Portion is greater than 1,200,000 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis subject to a minimum Allotment to any Employee of 100 Equity Shares. Under-subscription, if any, in the Employee Reservation Portion shall be added back to the Net Issue.
11. Except for options granted under the ESOPs, there are no outstanding warrants, options or rights to convert debentures, preference shares, loans or other instruments convertible into Equity Shares.
12. A Bidder cannot make a Bid for more than the number of Equity Shares offered through the Issue and Bidders are subject to the maximum limit of investment prescribed under relevant laws applicable to each category of Bidder.
13. We have not raised any bridge loan against the Issue Proceeds.
14. Our Promoters and members of our Promoter Group will not participate in this Issue.
15. Subject to the Equity Shares to be issued pursuant to the ESOPs, there would be no further issue of capital, whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner, during the period commencing from submission of the Red Herring Prospectus to SEBI until the Equity Shares issued pursuant to this Issue have been listed.

## ANNEXURE IV (Continued)

### Significant accounting policies and notes to the summarised restated financial information

#### 6. Employee Stock Option Plan

##### *Stock option scheme 2002 ('Scheme 2002')*

In September 2002, the Board of the Company approved the ICICI OneSource Stock Option Scheme 2002 ('the Scheme'), which covers the employees and directors of the Company including its holding Company and subsidiaries. The Scheme is administered and supervised by the members of the Board Governance Committee (the 'Committee').

As per the scheme, the Committee shall issue stock options to the employees at an exercise price, equal to the fair value of the equity share on the date of grant, as determined by an independent valuer. The Scheme provides that these options would vest in tranches over a period of 4 years as follows:

Period within which options will vest unto the participant	% of options that will vest
End of 12 months from the date of grant of options	25.0
End of 18 months from the date of grant of options	12.5
End of 24 months from the date of grant of options	12.5
End of 30 months from the date of grant of options	12.5
End of 36 months from the date of grant of options	12.5
End of 42 months from the date of grant of options	12.5
End of 48 months from the date of grant of options	12.5

Further, the participants shall exercise the options within a period of nine years commencing on or after the expiry of twelve months from the date of the grant of the options.

Employee stock option activity under Scheme 2002 is as follows:

	Nine months period ended 31 December 2006
Outstanding at beginning of the period	1,968,750
Granted during the period	(32,500)
Forfeited during the period	(236,250)
Exercised during the period (Refer note 2 below)	
Outstanding at the end of the period (Refer note 1 below)	1,700,000
Vested and exercisable at the end of the period	
Note 1:	
<b>Exercise price range</b>	<b>1,665,625</b>
10.00 – 14.99	
Note 2: Options exercised includes 17,500 options pending allotment.	
	<b>1,700,000</b>

**ANNEXURE IV (Continued)**

**Significant accounting policies and notes to the summarised restated financial information**

**6. Employee Stock Option Plan (Continued)**

*Employee stock option scheme 2003 ('Scheme 2003')*

In September 2003, the Board and the Members of the Company approved the ICICI OneSource Stock Option Scheme 2003 ('Scheme 2003'). The terms and conditions under this Scheme are similar to those under 'Scheme 2002' except for the following, which were included in line with the amended 'SEBI (Employee stock option scheme and employee stock purchase scheme) guidelines, 1999':

- The Scheme is administered and supervised by the members of the Compensation committee, which was previously done by the Board Governance Committee;
- Exercise period within which the employees would exercise the options would be 5 years from the date of grant;
- Exercise price shall be determined based on a fair valuation exercise done at the beginning of every six months for options granted during those respective periods;
- The face value of shares to be allotted under Scheme 2003 to all persons resident outside India shall not exceed five percent of the share capital of the Company subject to approval of the shareholders in the General Meeting; and

The above Scheme 2003 was effective from 11 October 2003.

Employee stock option activity under Scheme 2003 is as follows:

	<b>Nine months period ended 31 December 2006</b>
Outstanding at beginning of the period	<b>21,043,000</b>
Granted during the period (Refer note 3 below)	<b>22,382,500</b>
Forfeited during the period	<b>(3,027,500)</b>
Exercised during the period (Refer note 2 below)	<b>(1,186,250)</b>
Outstanding at the end of period (Refer note 1 below)	<b>39,211,750</b>
Vested and exercisable at the end of the period	<b>9,150,373</b>
Note 1:	
<b>Exercise price range</b>	
10.00 – 14.99	<b>8,495,500</b>
15.00 – 19.99	<b>2,226,250</b>
20.00 – 24.99	<b>5,970,000</b>
25.00 – 29.99	
30.00 – 34.99	<b>20,275,000</b>
35.00 – 39.99	<b>2,245,000</b>
	<b>39,211,750</b>

Note 2: Options exercised includes 77,500 options pending allotment.

Note 3: The Compensation cum Board Governance Committee of Firstsource, at its meeting held on 27 April 2006 amended the vesting schedule for stock options to be granted on 1 May 2006 to General Managers and above grade of employees and to non-executive directors. The vesting schedule for 15,980,000 stock options granted pursuant to the above is set forth below:

<b>Period within which options will vest unto the participant</b>	<b>% of options that will vest</b>
End of 24 months from the date of grant of options	50.0
End of 36 months from the date of grant of options	50.0

Note 4: The aggregate stock option pool available for issuance of options under Employee Stock Option Scheme 2002 and Employee Stock Option Scheme 2003 is 12% of the equity capital on a fully diluted basis.

**ANNEXURE IV (Continued)**
**Significant accounting policies and notes to the summarised restated financial information**
**6. Employee Stock Option Plan (Continued)**

The Guidance Note on 'Accounting for employee share based payments' ('Guidance Note') issued by ICAI establishes financial accounting and reporting principles for employees share based payment plans. The Guidance Note applies to employee share based payments, the grant date in respect of which falls on or after 1 April 2005. The Company follows the intrinsic value method to account compensation expense arising from issuance of stock options to the employees. Since all stock options are granted at intrinsic value, no compensation cost has been recorded in respect of these options. Had compensation cost been determined under the fair value approach described in the Guidance Note, using the Black Scholes pricing model, the Company's net income and basic and diluted earnings per share (as restated) would have been reduced to the proforma amounts as set out below:

(Rs. In Million)

Particulars	Nine months ended 31 December 2006	Year ended 31 March 2006
Net income as reported	512.00	157.71
Less: Stock-based employee compensation expense (fair value method)	35.88	6.73
Proforma net income	476.12	150.98
Basic earnings per share as reported (Rs)	2.28	0.78
Proforma basic earnings per share (Rs)	2.12	0.75
Diluted earnings per share as reported (Rs)	1.35	0.51
Proforma diluted earnings per share (Rs)	1.26	0.49

The key assumptions used to estimate the fair value of options are :

Particulars	Nine months ended 31 December 2006	Year ended 31 March 2006
Dividend yield %	0%	0%
Expected life	3-5 years	3-5 years
Risk free interest rate	6.50% to 7.50 %	6.50% to 7.50 %
Volatility (since unlisted)	0%	0%

**Significant accounting policies and notes to the summarized restated consolidated financial information**
**3. Adjustments to the consolidated statement of assets and liabilities and statement of profit and loss**

Accounting Standard ('AS') 15 (revised 2005) - "Employee benefits" issued by The Institute of Chartered Accountants of India became mandatory for financial years commencing on or after 1 April 2006. As per the transitional provisions specified in the Standard, the difference in the liability as per the existing policy followed by the company and that arising on adoption of this Standard is required to be charged to opening reserves and surplus. The Group adopted the revised AS 15 effective 1 April 2006. However, there is no significant impact on adoption of the Standard which is required to be adjusted to the opening balance of reserves and surplus. Hence, figures for the earlier years have not been adjusted to give effect to the changes, if any, that would have arisen had the revised Standard been applied retrospectively as management believes that it is not practical to do so.

There are no restatements, regroupings and/or adjustments made in the summary consolidated statements referred to in Annexures X and XI.

**4. Employee Stock Option Plan**
**Stock option scheme 2002 ('Scheme 2002')**

In September 2002, the Board of the Company approved the ICICI OneSource Stock Option Scheme 2002 ("the Scheme"), which covers the employees and directors of the Company including its holding Company and subsidiaries. The Scheme is administered and supervised by the members of the Board Governance Committee (the 'Committee').

As per the scheme, the Committee shall issue stock options to the employees at an exercise price, equal to the fair value of the equity share on the date of grant, as determined by an independent valuer. The Scheme provides that these options would vest in tranches over a period of 4 years as follows:

<b>Period within which options will vest unto the participant</b>	<b>% of options that will vest</b>
End of 12 months from the date of grant of options	25.0
End of 18 months from the date of grant of options	12.5
End of 24 months from the date of grant of options	12.5
End of 30 months from the date of grant of options	12.5
End of 36 months from the date of grant of options	12.5
End of 42 months from the date of grant of options	12.5
End of 48 months from the date of grant of options	12.5

Further, the participants shall exercise the options within a period of nine years commencing on or after the expiry of twelve months from the date of the grant of the options.

**ANNEXURE XIII (Continued)**
**Significant accounting policies and notes to the summarized restated consolidated financial information**
**4. Employee Stock Option Plan (Continued)**

Employee stock option activity under Scheme 2002 is as follows:

	31 December 2006	31 December 2005
Outstanding at beginning of the period	1,968,750	2,453,750
Granted during the period	(32,500)	(113,125)
Forfeited during the period	(236,250)	(135,625)
Exercised during the period (Refer note 2 below)		
Outstanding at the end of the period (Refer note 1 below)	1,700,000	2,205,000
Vested and exercisable at the end of the period Note 1:		
Exercise price range 10.00 – 14.99	1,665,625	1,618,125
Note 2: Options exercised includes 17,500 options pending allotment.		

**Employee stock option scheme 2003 ('Scheme 2003')**

In September 2003, the Board and the Members of the Company approved the ICICI OneSource Stock Option Scheme 2003 ('Scheme 2003'). The terms and conditions under this Scheme are similar to those under 'Scheme 2002' except for the following, which were included in line with the amended 'SEBI (Employee stock option scheme and employee stock purchase scheme) guidelines, 1999':

- The Scheme would be administered and supervised by the members of the Compensation committee, which was previously done by the Board Governance Committee;
- Exercise period within which the employees would exercise the options would be 5 years from the date of grant;
- Exercise price shall be determined based on a fair valuation exercise done at the beginning of every six months for options granted during those respective periods;
- The face value of shares to be allotted under Scheme 2003 to all persons resident outside India shall not exceed five percent of the share capital of the Company subject to approval of the shareholders in the General Meeting; and

The above Scheme 2003 was effective from 11 October 2003.

Employee stock option activity under Scheme 2003 is as follows:

	31 December 2006	31 December 2005
- Outstanding at beginning of the period	21,043,000	16,885,500
- Granted during the period (Refer note 3 below)	22,382,500	6,750,000
Forfeited during the period	(3,027,500)	(1,959,375)
Exercised during the period (Refer note 2 below)	(1,186,250)	(768,125)
Outstanding at the end of period (Refer note 1 below)	39,211,750	20,908,000
Vested and exercisable at the end of the period Note 1:	9,150,373	5,963,374
Exercise price range		
10.00 - 14.99	8,495,500	10,045,500
15.00 - 19.99	2,226,250	4,837,500
20.00 - 24.99	5,970,000	6,475,000
25.00 - 29.99	-	-
30.00 - 34.99	20,275,000	-
35.00 – 39.99	2,245,000	-
Outstanding at the end of period (Refer note 1 below)	39,211,750	20,908,000

**ANNEXURE XIII (Continued)**
**Significant accounting policies and notes to the summarized restated consolidated financial information**
**4. Employee Stock Option Plan (Continued)**

2. Options exercised includes 77,500 options pending allotment
3. The Compensation Cum Board Governance Committee of Firstsource, at its meeting held on 27 April 2006 amended the vesting schedule for stock options granted on 1 May 2006 to General Managers and above grade of employees and to non-executive directors. The vesting schedule for 15,980,000 stock options granted pursuant to the above is set forth below.

Period within which options will vest unto the participant	% of options that will vest
End of 24 months from the date of grant of options	50.0
End of 36 months from the date of grant of options	50.0

4. The aggregate stock option pool available for issuance of options under Employee Stock Option Scheme 2002 and Employee Stock Option Scheme 2003 is 12% of the Equity share capital on a fully diluted basis.

The Guidance Note on 'Accounting for employee share based payments' issued by ICAI ('Guidance Note') establishes financial accounting and reporting principles for employees share based payment plans. The Guidance Note applies to employee share based payments, the grant date in respect of which falls on or after 1 April 2005. The Company follows the intrinsic value method to account compensation expense arising from issuance of stock options to the employees. Since all stock options are granted at intrinsic value, no compensation cost has been recorded in respect of these options. Had compensation cost been determined under the fair value approach described in the Guidance Note, using the Black Scholes pricing model, the Company's net income and basic and diluted earnings per share (as restated) would have been reduced to the proforma amounts as set out below:

*(Rs. In Million)*

Particulars	Nine months ended 31 December 2006	Year ended 31 March 2006
Net income as reported	623.39	246.68
Less: Stock-based employee compensation expense (fair value method)	35.88	6.73
Proforma net income	587.51	239.95
Basic earnings per share as reported (Rs)	2.77	1.23
Proforma basic earnings per share (Rs)	2.61	1.19
Diluted earnings per share as reported (Rs)	1.65	0.80
Proforma diluted earnings per share (Rs)	1.55	0.77

The key assumptions used to estimate the fair value of options are :

*(Rs. In Million)*

Particulars	Nine months ended 31 December 2006	Year ended 31 March 2006
Dividend yield %	0%	0%
Expected life	3-5 years	3-5 years
Risk free interest rate	6.50% to 7.50 %	6.50% to 7.50 %
Volatility (since unlisted)	0%	0%

## Annexure II

### Extract of disclosures made in prospectus of Company in respect of lock- in of shares



Date of Allotment/ Transfer	No. of Equity Shares	Face Value (Rs.)	Price (Rs.)	Nature of Consideration	Reasons for Allotment/ Transfer	Cumulative No. of Equity Shares	Nature of Transaction
<b>B. SIF</b>							
March 18, 2003	49,300	10	10	Cash	Transfer from ICICI Trusteeship Services Ltd	49,300	Purchase
March 18, 2003	34,950,000	10	10	Cash	Transfer from ICICI Trusteeship Services Ltd	34,999,300	Purchase
June 18, 2004	105,000,000	10	10	Cash	Conversion of Series 'A' POCPS into Equity Shares	139,999,300	Purchase
December 29, 2006	36,233,539	10	36.34	Cash	Transfer of Equity Shares to Metavante**	103,765,761	Sale
January 17, 2007	94,465,761	10	10	Cash	Transfer of Equity Shares from SIF to ICICI Bank	9,300,000	Sale

\* At the time the Red Herring Prospectus was filed, the Equity Shares held in the "ICICI BANK LIMITED – FIRTSOURCE ESCROW ACCOUNT" were being held for the benefit of Galleon Technology Offshore, Limited and Galleon Technology Partners II, L.P. . We have subsequently been informed by ICICI Bank, in its capacity as escrow agent, that Galleon Technology Offshore, Limited and Galleon Technology Partners II, L.P. have assigned their rights to acquire these Equity Shares to TCP Asia Master Fund SPC, Limited. The Equity Shares continue to remain in the "ICICI BANK LIMITED – FIRTSOURCE ESCROW ACCOUNT".

\*\* This transfer is the result of Metavante exercising its call option pursuant to a share purchase agreement between Metavante, ICICI Bank and SIF dated March 31, 2006. For details of the call option, see the section titled "History and Corporate Structure" on page 77 of this Prospectus.

All Equity Shares which are being locked in are eligible for computation of Promoters' contribution and are being locked in under Clauses 4.6 and 4.11.1 of the SEBI Guidelines.

#### **Details of Promoters' contribution locked in for three years**

Name of Promoter	Date of Allotment/ Acquisition and when made fully paid-up	Nature of Allotment	Nature of Consideration	Number of Equity Shares locked in*	Face Value (Rs.)	Purchase Price (Rs.)	% of Post-Issue Paid-up Capital
ICICI Bank	January 17, 2007	Equity Shares	Cash	83,252,210	10	10	20%
<b>TOTAL</b>				<b>83,252,210</b>			<b>20%</b>

\* Commencing from the date of the Allotment of the Equity Shares in the Issue.

The Promoters' contribution has been brought in to the extent of not less than the specified minimum lot and from the persons defined as promoters under the SEBI Guidelines.

#### **Details of share capital locked in for one year**

In addition to the lock-in of the Promoters' contribution specified above, the remainder of the pre-Issue share capital of the Company (excluding the Equity Shares being offered in the Offer for Sale), which comprises 263,708,838 Equity Shares of our Company, shall be locked in for a period of one year from the date of Allotment of Equity Shares in this Issue with the exception of those Equity Shares disclosed in the table below.



**Details of share capital not locked in for one year**

Particulars	Number of Equity Shares
Equity Shares held by employees pursuant to the ESOPs	
Equity Shares held by WestBridge Capital Partners, which is a registered FVCI and has held those fully paid up shares/convertible instruments for more than one year.	100,750
	31,644,644*

\* WestBridge Capital Partners has agreed with the Underwriters to subject these Equity Shares to a contractual lock-up for period of 30 days following listing of the Equity Shares pursuant to this Issue. The Underwriters are entitled to waive these lock-up provisions at their discretion prior to the expiration dates of such lock-up agreement.

Our Directors and the Key Managerial Personnel who have been granted options or Equity Shares on the exercise of the options pursuant to ESOPs have confirmed to us that they do not intend to sell any shares arising from such options for three months after the date of listing of the Equity Shares in this Issue. Other employees holding Equity Shares at the time of listing and/or Equity Shares on the exercise of vested options may sell Equity Shares within the three month period after the listing. This disclosure is made in accordance with para 15.3 (b) and 15.3 (c) of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 2000.

The locked in Equity Shares held by the Promoters, as specified above, can be pledged only with banks or financial institutions as collateral security for loans granted by such banks or financial institutions, provided that the pledge of the Equity Shares is one of the terms of the sanction of the loan.

In accordance with Clause 4.16.1 (b) of the SEBI Guidelines, the Equity Shares held by the Promoters may be transferred to and amongst the promoter group or to new promoters or persons in control of our Company subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable.

In accordance with Clause 4.16.1 (a) of the SEBI Guidelines, the Equity Shares held by persons other than the Promoters prior to the Issue may be transferred to any other person holding the Equity Shares that are locked-in as per Clause 4.14 of the SEBI Guidelines, subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable.

In addition, the Equity Shares subject to lock-in will be transferable subject to compliance with the SEBI Guidelines, as amended from time to time.

**3. Shareholders Of Our Company And The Number Of Equity Shares Held By Them**

Our top ten shareholders and the number of Equity Shares held by them as of three days prior to filing of this Prospectus with the RoC are:

No.	Name of the Shareholder	No. of Equity Shares	Shareholding (%)
1.	ICICI Bank	106,149,599	29.80
2.	Aranda	91,925,269	25.80
3.	Metavante	85,765,863	24.07
4.	WestBridge	38,983,367	10.94
5.	ICICI BANK LIMITED - FIRSTSOURCE ESCROW ACCOUNT*	20,800,000	5.84
6.	SIF	9,300,000	2.61
7.	Raja Gopalakrishnan	593,750	0.17
8.	Raju Bhatnagar	525,000	0.15
9.	Jyotsna Goswami	250,000	0.07
10.	Rup Goswami	250,000	0.07
	<b>TOTAL HELD BY TOP 10 SHAREHOLDERS</b>	<b>354,542,848</b>	<b>99.52</b>

There has been no change in the shareholding of our top ten shareholders as of the date of the filing of this Prospectus with the RoC.

### Annexure III

#### Details of Shares Issued to Ex- Employees which are under lock -in

Sr. No.	Name of the shareholder	Number of locked-in shares
1	Raja Gopalakrishnan	593,750
2	Raju Bhatnagar	525,000
3	Jyotsna Goswami	250,000
4	Rup Goswami	250,000
5	Sameer Chadha	221,250
6	Supriyo Sanyal	93,750
7	Jimmy Aspi Patel	81,250
8	J M Lease Consultants Ltd	75,000
9	Rajdeep Singh Puri	70,000
10	K Ganesh	56,250
11	Geetha Panda	56,250
12	Meena	43,750
13	Nayasheel Kumar Ahuja	43,750
14	Anil Kumar Dhankher	43,750
15	Devindra Mankare	41,250
16	Laxmi Bhan Rajan	40,000
17	Shaily Gupta	40,000
18	Sarika Saraf	34,500
19	Jaideep Narendra Sampat	33,000
20	Ajay Prakash Vernekar	28,125
21	Krishna M C	28,125
22	Girish V Lakhe	27,500
23	Joseph George	27,500
24	S Ramasubramanian	25,000
25	Tanaya Mishra	25,000
26	Ayan Chatterjee	25,000
27	Parag Pande	18,750
28	Rajiv Dutta	18,750
29	Tina Dhawan	18,750
30	Ganesh Sundaresan Iyer	15,000
31	Vishwajit Singh Negi	15,000
32	Shrinivas Patil	12,500
33	Pooja Sharma	12,500
34	Ratnakar R Chinchore	10,000
35	G Sivasubramanian	7,500
36	H Vijayabalan	7,500
37	Raghavendra	6,250
38	Bipin Wadhwa	5,000
39	Sourabh Bhutiani	5,000
40	Teena Jaisinghani	5,000
41	Ranjan Raja	5,000
42	Anand Sarkar	5,000
43	Divya Krishnan	3,750
44	Tarit Kumar	3,750
45	Siddharth Savkur	3,750

46	Sajan B	3,750
47	Narayanan Sathish	3,750
48	Sonia Katyal	2,500
49	Percy Bakhtiyar Dubash	2,500
50	Dayalu Arasappa	2,500
51	Munish Kumar Arora	2,500
52	Adesh Kumar Singh	2,500
53	Ashok Mehta	2,500
54	Shalini N Menon	2,500
55	Debmalya Banerjee	2,500
56	Jaipal Singh Varma	2,500
57	H.G. Vasudeva	2,500
58	Nayan Kumar Keshri	500
<b>TOTAL</b>		<b>2,990,500</b>

**SEBI'S INTERPRETIVE LETTER UNDER SEBI (INFORMAL GUIDANCE) SCHEME, 2003**

**Neelam Bhardwaj**  
General Manager  
Corporation Finance Department  
Division of Issues and Listing

CFD/DIL/ SC/ 108412 /2007  
November 14, 2007

Shri Sanjay Gupta  
Company Secretary  
Firstsource Solutions Limited  
6<sup>th</sup> Floor, Peninsula Chambers,  
Ganpatrao Kadam Marg,  
Lower Parel,  
Mumbai – 400 013.

Dear Sirs,

**Sub.: Request for interpretative letter under SEBI (Informal Guidance) Scheme, 2003 regarding lock-in of pre-IPO equity share capital.**

- 1.0 Please refer to your letters dated July 27, 2007 and September 5, 2007 seeking informal guidance (No-Action Letter) under the captioned scheme on the issue whether ex-employees would also be covered under the exemption from lock-in provided under clause 4.14.1 of the SEBI (DIP) Guidelines.
- 2.0 In your aforesaid letters you submitted as follows:
  - 2.1 That Firstsource Solutions Limited (the company) had made an Initial Public Offer (IPO) and the draft red herring prospectus was filed with SEBI in November 2006. The company has been listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) since February 22, 2007.
  - 2.2 That prior to its IPO the company, in terms of two pre-IPO employee stock option plans constituted in 2002 and 2003, had granted options to various employees from time to time under the plans. In terms of these stock options, certain options were eligible for exercise prior to the date of filing the draft red herring prospectus with SEBI. Employees from time to time had exercised the options in the years leading up to the filing of the draft red herring prospectus in November 2006.
  - 2.3 Of the total employees who received the shares on exercise of the options, 58 employees (Ex-Employees) had left the employment of the company prior to the filing of the draft red herring prospectus with SEBI. These Ex-Employees

held 29,90,500 equity shares of the company as of the date of the filing of the draft red herring prospectus with SEBI

- 2.4 In terms of clause 4.14.1 of the SEBI (DIP) Guidelines, the entire pre-issue capital (other than the locked in as minimum promoters' contribution) is required to be locked-in for one year from the date of allotment in the proposed IPO. As per clause 4.14.2(iii) of the SEBI (DIP) Guidelines, the provisions of clause 4.14.1 of the SEBI (DIP) Guidelines are not applicable in respect of Pre-IPO shares are held by employees (other than promoters) if such shares were issued under an ESOP scheme of the issuer before the IPO, and the issuer has complied with requirements of clause 22.4 of the SEBI (ESOS & ESPS) Guidelines, 1999. Further, in terms of clause 1.2.1(xiib) of the SEBI (DIP) Guidelines 'employee' means –
- a) a permanent employee of the company working in India or out of India;
  - b) a director of the company, whether a whole time director, part time director or otherwise ; or
  - c) an employee as defined in sub-clause (a) or (b) of a subsidiary, in India or out of India or out of India, or of a holding company of the company.
- 2.5 The company has complied with the disclosure requirements specified in clause 4.14.1 of the SEBI (DIP) Guidelines, 2000 and clause 22.4 of the SEBI (ESOS & ESPS) Guidelines, 1999. Therefore, the equity shares held by the Ex-Employees were subject to a lock-in with effect from February 15, 2007 for a period of one year in terms of clause 4.14.1 of the SEBI (DIP) Guidelines and disclosures to that effect had been made in the prospectus of the company.
- 2.6 Several of the Ex-Employees of the company have indicated that they would like to sell their shares, as the company's two pre-IPO employee stock option plans had complied with the requirements of the SEBI (ESOS & ESPS) Guidelines and that they have already been locked in for a period of at least one year from the date of allotment of shares under the stock option plans and that locking them for further periods would result in them not being able to sell the shares held by them as employees of the company at the time of shares being issued by them.
- 2.7 Since the Ex-Employees were strictly not employees of the company as defined in clause 1.2.1(xiib) of the SEBI (ESOS & ESPS) Guidelines, the company is having difficulty in permitting such Ex-Employees to sell their shares.
- 3.0 Without necessarily agreeing with your analysis our views on the issue raised by you are as under :
- 3.1 Under the Informal Guidance Scheme, a no action letter can be sought wherein a Department of SEBI indicates that it would not be recommend any action under the Act, rules, regulations, guidelines, etc. administered by SEBI to the Board if the proposed transaction described in the request is consummated. In the case referred by you it is noted that the transaction prescribed in your letter

has already consummated and the entire pre-issue capital (other than the locked-in as minimum promoters contribution) of the company has been locked in for one year as disclosed in the prospectus of the company.

3.2 The issue is therefore examined by way of interpretive letter giving interpretation of the provisions referred by you.

3.3 The provisions governing the pre issue share capital of an unlisted company are governed by clause 4.14 of the SEBI (DIP) Guidelines, which provides as follows :

**4.14 Lock in of pre-issue share capital of an unlisted company**

**4.14.1** *The entire pre-issue capital, other than that locked-in as minimum promoters' contribution, shall be locked-in for a period of one year from the date of allotment in the proposed public issue.*

3.4 Clause 4.14.2(iii) of the SEBI (DIP) Guidelines provides an exemption from requirement of one year lock-in of entire pre-issue capital of the issuer as specified in clause 4.14.1 of the DIP Guidelines. This exemption is, however, available subject to the following pre-conditions-

- a) Pre-IPO **shares are held by employees** (other than promoters)
- b) Such shares were **issued** under an ESOP scheme of the issuer company **before the IPO**; and
- c) Issuer company has complied with requirements of clause 22.4 of SEBI (ESOS & ESPS) Guidelines, 1999.

3.5 As per clause 1.2.1(xiib) of the SEBI (DIP) Guidelines, *'Employee' means-*

- (a) a permanent employee of the company working in India or out of India;*
- (b) a director of the company, whether a whole time director, part time director or otherwise; or*
- (c) an employee as defined in sub-clause (a) or (b) of a subsidiary, in India or out of India or out of India, or of a holding company of the company.*

3.6 Thus, as per the said definition, any person who ceased to be in the employment of the company is not covered in the above definition of 'employee'. Therefore, the exemption from lock in of shares as contained in clause 4.14.2(iii) of the SEBI (DIP) Guidelines is not available to shares held by any person who has ceased to be an employee of the company prior to the filing of the red herring prospectus as stated in your letter under reference.

4.0 This position is based on the representation made to the Department in your letter under reference. Different facts or conditions might require a different result. This letter does not express a decision of the Board on the questions referred.

5.0 Please note that this position is only with respect to the interpretation of SEBI (Disclosure and Investor Protection) Guidelines, 2000 and does not affect applicability of any Act, Rules or Regulations, Guidelines and Circulars administered by SEBI or any other authority or the provisions of the rules, regulations and by-laws or Listing Agreement of the stock exchange.

Yours faithfully,

Neelam Bhardwaj