



**Audited Consolidated Financial Statements  
for the quarter ended 30 June 2008**

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## **Auditors' report**

To the Board of Directors  
MphasiS Limited

- 1 We have audited the attached consolidated balance sheet of MphasiS Limited ("the Company") and its subsidiaries [collectively referred to as the "MphasiS Group"] as at 30 June 2008 and also the consolidated profit and loss account of the MphasiS Group for the quarter ended on that date and the consolidated cash flow statement of the MphasiS Group for the quarter ended on that date, annexed thereto. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements and AS 25, Interim Financial Reporting prescribed by Companies (Accounting Standards) Rules, 2006.
- 4 In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (i) in the case of the consolidated balance sheet, of the consolidated state of affairs of the MphasiS Group as at 30 June 2008;
  - (ii) in the case of consolidated profit and loss account, of the consolidated profit of the MphasiS Group for the quarter ended on that date; and
  - (iii) in the case of consolidated cash flow statement, of the consolidated cash flows of the MphasiS Group for the quarter ended on that date.

*for B S R & Co.*  
*Chartered Accountants*

**Zubin Shekary**  
*Partner*  
Membership No. 48814

Bangalore  
25 July 2008

# MphasiS Group

## Consolidated Balance Sheet

		(Rs 000's)	
	Notes	30 June 2008	31 March 2008
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	3	2,088,738	2,087,309
Reserves and surplus	4	10,440,863	9,420,739
Employee stock options outstanding	5	60,718	60,718
		<b>12,590,319</b>	<b>11,568,766</b>
<b>LOAN FUNDS</b>			
Secured loans	6	58,725	56,780
		<b>12,649,044</b>	<b>11,625,546</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Cost	7	8,479,924	7,701,719
Accumulated depreciation		(5,278,678)	(4,823,768)
Net book value		3,201,246	2,877,951
Capital work-in-progress		570,019	754,865
		3,771,265	3,632,816
<b>GOODWILL</b>	<b>8</b>	2,617,836	2,448,977
<b>DEFERRED TAX ASSETS</b>	<b>9</b>	290,033	260,129
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Cash and bank balances	10	1,165,081	952,506
Debtors and unbilled revenues	11	6,962,914	5,801,899
Interest receivable	12	4,644	2,542
Loans and advances	13	3,004,793	2,955,611
		11,137,432	9,712,558
<b>CURRENT LIABILITIES AND PROVISIONS</b>			
Current liabilities	14	3,652,006	3,025,901
Provisions	15	1,515,516	1,403,033
		5,167,522	4,428,934
<b>NET CURRENT ASSETS</b>		<b>5,969,910</b>	<b>5,283,624</b>
		<b>12,649,044</b>	<b>11,625,546</b>

Significant Accounting Policies

1

The notes referred to above form an integral part of these consolidated financial statements

This is the consolidated balance sheet referred to in our report attached

**For and on behalf of the Board of Directors**

*for B S R & Co.*  
*Chartered Accountants*

**Michael Coomer**  
*Chairman*

**Jeya Kumar**  
*Chief Executive Officer*

**Zubin Shekary**  
*Partner*  
Membership No. 48814

**Susanto Banerjee**  
*Chief Financial Officer (Interim)*

**A. Sivaram Nair**  
*Company Secretary*

Bangalore  
25 July 2008

Bangalore  
25 July 2008

## Mphasis Group

### Consolidated Profit and Loss Account

		(Rs 000's)	
	Notes	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Revenues</b>		<b>7,422,120</b>	<b>5,315,632</b>
Cost of revenues *	16	5,851,695	3,979,357
<b>Gross profit</b>		<b>1,570,425</b>	<b>1,336,275</b>
Selling expenses	17	279,185	246,809
General and administrative expenses	18	454,141	416,604
Provision for doubtful debts		2,141	415
<b>Operating profit</b>		<b>834,958</b>	<b>672,447</b>
Foreign exchange gain / (loss), net		(15,909)	(179,350)
Other income / (expense), net	19	682	2,768
Interest income	20	32,653	30,004
<b>Profit before taxation</b>		<b>852,384</b>	<b>525,869</b>
Income taxes (including Fringe Benefit Tax)	21	62,327	12,821
<b>Net profit</b>		<b>790,057</b>	<b>513,048</b>
<b>Earnings per share (Par value - Rs 10)</b>	<b>27</b>		
Basic (Rs)		3.79	2.46
Diluted (Rs)		3.77	2.44

\* Includes accelerated amortization of visa costs amounting to Rs. 92,786 incurred in prior periods. This is a change in accounting treatment from previous periods. Consequently the profit for the period is lower by the same amount.

Significant Accounting Policies

1

The notes referred to above form an integral part of these consolidated financial statements

This is the consolidated profit and loss account referred to in our report attached

**For and on behalf of the Board of Directors**

*for B S R & Co.*  
*Chartered Accountants*

**Michael Coomer**  
*Chairman*

**Jeya Kumar**  
*Chief Executive Officer*

**Zubin Shekary**  
*Partner*  
Membership No. 48814

**Susanto Banerjee**  
*Chief Financial Officer (Interim)*

**A. Sivaram Nair**  
*Company Secretary*

Bangalore  
25 July 2008

Bangalore  
25 July 2008

## Notes to the Consolidated Financial Statements

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

The consolidated financial statements of MphasiS Limited ('the Company') and its subsidiaries, collectively referred to as 'the MphasiS Group' or 'the Group', have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the mandatory Accounting Standards ('AS') prescribed in the Companies (Accounting Standards) Rules, 2006.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of MphasiS Limited and all its subsidiaries, which are more than 50% owned or controlled. Please refer to Note 2 for the description of the Group.

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 AS 21, Consolidated Financial Statements prescribed by Companies (Accounting Standards), Rules 2006.

The financial statements of the parent company and subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-Group balances / transactions and resulting unrealised profits in full. Unrealised losses resulting from intra-Group transactions have also been eliminated except to the extent that the recoverable value of related assets are lower than their cost to the Group. The amounts shown in respect of reserves comprise the amount of the relevant reserves as per the balance sheet of the parent company and its share in the post-acquisition increase in the relevant reserves of subsidiaries.

Minority interest is the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and its share of movements in the equity since that date. Any excess consideration received from minority shareholders of subsidiaries over the amount of equity attributable to the minority on the date of investment is reflected under Reserves and Surplus.

Consolidated financial statements are prepared using uniform accounting policies across the Group.

#### **Use of estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period reported. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

#### **Revenue recognition**

The Group derives its revenues primarily from software services & projects, call centre & business process outsourcing operations, infrastructure outsourcing services and from licensing arrangements & application services.

Revenues from software services & projects comprise income from time-and-material and fixed-price contracts. Revenue from time-and-material contracts is recognised on the basis of software developed and billable in accordance with the terms of the contracts with clients. Revenue from fixed-price contracts is recognised using the percentage of completion method, calculated as the proportion of the cost of efforts incurred up to the reporting date to estimated total cost of efforts.

Revenue from call centre & business process outsourcing operations arises from both time-based and unit-priced client contracts. Such revenue is recognised on completion of the related services and is billable in accordance with the specific terms of the contracts with the client.

Revenue from infrastructure outsourcing services arises from time-and-material contracts and accordingly, revenue is recognised on the basis of services billable in accordance with the terms of the contracts with the clients.

Revenues from licensing arrangements are recognised over the period of delivery and installation. Revenues from the provision of application services are recognised as revenues in the period that the services are utilized by the client.

Maintenance revenue is recognised ratably over the period of the underlying maintenance agreement.

Provisions for estimated losses on incomplete contracts are recorded in the period in which such losses become probable based on the current contract estimates. 'Unbilled revenues' included in current assets represent revenues in excess of amounts billed to clients as at the balance sheet date. 'Unearned receivables' included in current liabilities represent billings in excess of revenues recognised.

Advances received for services are reported as liabilities until all conditions for revenue recognition are met.

Interest on the deployment of surplus funds is recognised using the time-proportion method, based on underlying interest rates.

Dividend income is recognised when the right to receive the dividend is established.

# MphasiS Group

## Fixed assets and capital work-in-progress

Fixed assets are stated at the cost of acquisition or construction less accumulated depreciation. Direct costs are capitalised until assets are ready to be put to use. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised. Fixed assets purchased in foreign currency are recorded at cost, based on the exchange rate on the date of purchase. Acquired intangible assets are capitalised at the acquisition price. Internally generated intangible assets are stated at cost that can be measured reliably during the development phase and when it is probable that future economic benefits that are attributable to the assets will flow to the company. Fixed assets held by foreign subsidiaries are translated into Indian rupees at the closing rate (refer accounting policy on foreign currency included in this note).

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Such assets acquired are capitalised at the fair value of the asset or the present value of the minimum lease payments at the inception of the lease, whichever is lower.

Advances paid towards acquisition of fixed assets and the cost of assets not ready for use as at the balance sheet date are disclosed under capital work-in-progress.

## Goodwill arising on consolidation

The excess of cost to the Company of its investment in subsidiaries over its portion of equity in the subsidiaries at the respective dates on which investment in subsidiaries was made is recognised in the financial statements as goodwill. The Company's portion of equity in the subsidiaries is determined on the basis of the value of assets and liabilities as per the financial statements of the subsidiaries as on the date of investment.

## Depreciation and amortization

Depreciation on fixed assets is provided using the straight-line method over the estimated useful lives of assets. Depreciation is charged on a proportionate basis for all assets purchased and sold during the period. Individual assets costing less than Rs 5,000 are depreciated in full in the period of purchase. The estimated useful lives of assets are as follows:

### For assets used in Call Center services

	Years
Buildings	10
Plant and machinery (including telecom equipments)	5
Computer equipment	5
Office equipment	5
Furniture and fixtures	5
Vehicles	3

### For assets used in other services

	Years
Buildings	10
Plant and machinery	4
Computer equipment	2
Office equipment	3
Furniture and fixtures	4
Vehicles	3

Freehold land is not depreciated. Leasehold improvements are amortised over the lease term or 3 years (5 years for Call Center services), whichever is shorter. Significant purchased application software and internally generated software that is an integral part of the Group's computer systems, expected to provide lasting benefits, is capitalised at cost and amortised on the straight line method over its estimated useful life or 3 years, whichever is shorter. Internally generated software for sale expected to provide lasting benefits is amortised on the straight line method over its estimated life or 7 years, whichever is shorter.

## Investments

Long-term investments are valued at cost less provision for diminution, other than temporary, in the value of such investments. Current investments are valued at the lower of cost and fair value.

## Employee benefits

Gratuity and compensated absences, which are defined benefits, are accrued based on independent actuarial valuations as at the balance sheet date.

Contributions payable to recognised provident funds and approved superannuation schemes, which are defined contribution schemes, are charged to the profit and loss account.

# MphasiS Group

## Foreign currency

Foreign exchange transactions are recorded at the rates of exchange prevailing on the dates of the respective transactions. Exchange differences arising on foreign exchange transactions settled during the period are recognised in the profit and loss account of the period.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the exchange rates on that date. The resultant exchange differences are recognised in the profit and loss account.

The financial statements of the foreign subsidiaries being non-integral operations in terms of para 24 of AS-11, the Effects of Changes in Foreign Exchange Rates, are translated into Indian rupees as follows:

- a) Income and expense items are translated at the exchange rates on the dates of the transactions.
- b) Assets (including goodwill) and liabilities, both monetary and non-monetary are translated at the closing rate.
- c) All resulting exchange differences are accumulated in a foreign currency translation reserve which is reflected under Reserves and Surplus.
- d) Contingent liabilities are translated at the closing rate.

Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated and recorded in accordance with paragraphs 36 and 37 of AS-11. The exchange difference on such a forward exchange contract is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognised in the profit and loss account in the reporting period in which the exchange rates change.

## Fringe Benefit Tax

The Group provides for and discloses the Fringe Benefit Tax ("FBT") as part of Taxes in accordance with the provisions of Section 115 WC of the Income Tax Act, 1961 and the guidance note on FBT issued by the Institute of Chartered Accountants of India ('ICAI'). The Finance Act, 2007 levied FBT on Employees Stock Option Plan. Such FBT liability crystallises on the date of exercise of stock option and is accounted for accordingly.

## Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations. Minimum Alternative Tax ("MAT") paid in accordance with the tax laws which gives rise to future economic benefits in the form of adjustments of future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal tax after the tax holiday period. MAT credit entitlement can be carried forward and utilised for a period of seven years from the year in which the same is availed. Accordingly, it is recognised as an asset in the balance sheet when it is probable that the future economic benefit associated with it will flow to the Company and the asset can be measured reliably.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between taxable profits and accounting profits. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period is recognised in the period in which the timing differences originate. For this purpose the timing difference which originates first is considered to reverse first. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that includes the enactment date. Deferred tax assets on timing differences are recognised only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. However, deferred tax assets on the timing differences when unabsorbed depreciation and losses carried forward exist, are recognised only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are reassessed for the appropriateness of their respective carrying values at each balance sheet date. The legal entities within the Group offsets, on a year on year basis, the current and deferred tax assets and liabilities, where it has a legally enforceable right and where it intends to settle such assets and liabilities on a net basis.

# MphasiS Group

## **Provisions and contingent liabilities**

The Group recognizes provision when there is a present obligation as a result of an obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts, i.e. contracts where the expected unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event, based on a reliable estimate of such obligation.

## **Impairment of assets**

The Group assesses at each balance sheet date whether there is any indication that a fixed asset including goodwill may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost. In respect of goodwill, the impairment loss will be reversed only when it was caused by specific external events and their effects have been reversed by subsequent external events.

## **Earnings per share**

The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share, and also the weighted average number of equity shares which would have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at the average market value of the outstanding shares. In computing dilutive earnings per share, only potential equity shares that are dilutive and that either reduces earnings per share or increase loss per share are included.

## **Stock-based compensation**

The Group accounts for stock based compensation based on the intrinsic value method. 'Option Discount' is amortised on a straight-line basis over the vesting period of the shares issued under Employee Stock Option Plans ("ESOP").

'Option Discount' means the excess of the market price of the underlying shares as at the date of grant of the options over the exercise price of the options.

## MphasiS Group

### 2. DESCRIPTION OF THE GROUP

The MphasiS Group, a global, multicultural organisation headquartered jointly in Bangalore, India and New York, USA, specialises in providing a suite of application development and maintenance services, infrastructure outsourcing services and business process outsourcing solutions to clients around the world.

MphasiS Limited is registered under the Indian Companies Act, 1956 with its registered office in Bangalore. This is the flagship company of the Group and is listed on the principal stock exchanges of India.

#### List of subsidiaries with percentage holding

<b>Subsidiaries</b>	<b>Country of incorporation and other particulars</b>	<b>% of holding</b>
MphasiS Corporation ('MphasiS USA')	a company organised under the laws of Delaware, USA	100
MphasiS Deutschland GmbH ('MphasiS GmbH')	a company organised under the laws of Germany	91
BFL Software Asia Pacific Pte Ltd ('BFL APAC')	a company organised under the laws of Singapore	100
MphasiS Australia Pty Ltd ('MphasiS Australia')	a company organised under the laws of Australia	100
MphasiS (Shanghai) Software & Services Company Limited ('MphasiS China')	a company organised under the laws of The People's Republic of China	100
MphasiS Consulting Limited ('formerly Princeton Consulting Limited') ('MphasiS Consulting')[refer note 2(b)]	a company organised under the laws of United Kingdom	100
Eldorado Computing Inc. ('Eldorado')	a company organised under the laws of Arizona, USA	100
MphasiS Finsource Limited ('MphasiS Finsource')	a company organised under the laws of India	100
MphasiS Ireland Limited ('MphasiS Ireland')	a company organised under the laws of Ireland	100
MphasiS Belgium BVBA ('MphasiS Belgium') [Refer note 2(e)]	a company organised under the laws of Belgium	100
MphasiS Europe BV ('MphasiS Europe')	a subsidiary of MphasiS USA, organised under the laws of The Netherlands	100
MphasiS Pte Ltd ('MphasiS Singapore')	a subsidiary of MphasiS Europe, organised under the laws of Singapore	100
MphasiS UK Limited ('MphasiS UK')	a subsidiary of MphasiS Europe, organised under the laws of United Kingdom	100
MphasiS Software and Services (India) Private Limited ('MphasiS India')	a subsidiary of MphasiS Europe, organised under the laws of India	100
MsourceE Mauritius Inc. ('MsourceE Mauritius')	a subsidiary of MphasiS Europe, organised under the laws of Mauritius	100
MsourceE (India) Private Limited ('MsourceE India')	a subsidiary of MsourceE Mauritius, organised under the laws of India	100

## Mphasis Group

- 2(a) The Company acquired control of Kshema Technologies Limited (“Kshema”) on 1 June 2004. Kshema was been amalgamated with Mphasis Limited with effect from 1 April 2005.

The balance consideration payable to the erstwhile shareholders of Kshema amounting to Rs 17,060,055 (31 March 2008: Rs 17,060,055) is carried as a liability which will be paid after necessary regulatory approvals are obtained (refer note 14).

- 2(b) The name of the subsidiary stands changed to Mphasis Consulting Limited (formerly Princeton Consulting Limited) with effect from 31 March 2008 based on the approval by the shareholders of the subsidiary in the meeting held on 5 March 2008.

The Company acquired control of Mphasis Consulting on 16 February 2005. During the year ended 31 March 2008, the Company paid the erstwhile shareholders of Mphasis Consulting GBP 209,547 (Rs 16,500,015) as the final consideration. The acquisition had resulted in a goodwill of Rs 409,644,187.

- 2(c) During July 2006, the Board of the Company approved the amalgamation of EDS Electronic Data Systems (India) Private Limited (‘EDS India’), a wholly owned subsidiary of Electronic Data Systems Corporation USA, (‘EDS’) into Mphasis Limited. The scheme of amalgamation was approved by the shareholders at their meeting on 13 November 2006, and by the Hon’ble High Courts of Maharashtra and Karnataka on 2 February 2007 and 19 June 2007 respectively. The necessary formalities to give effect to the amalgamation have been completed thereafter. Under the scheme, the Company issued 44,104,064 shares to EDS World Corporation (Far East), the holding company of EDS India and a subsidiary of EDS and 1 share to EDS World Corporation, (Netherlands) on 6 August 2007. Post allotment of the shares, EDS, through EDS Asia Pacific Holdings, Mauritius (formerly TH Holdings, Mauritius,) EDS World Corporation (Far East) and EDS World Corporation (Netherlands) holds 127,106,266 equity shares forming more than 50% of the paid up share capital of the Company.

- 2(d) During the year ended 31 March 2008, MbrokeR India, a subsidiary of the Company made an application to the Registrar of Companies, Karnataka, to strike off its name from the Register of Companies. The name was struck off on 16 June 2008 from the Register of Companies and MbrokeR India stands dissolved.

- 2(e) During April 2008, Mphasis Belgium BVBA was incorporated as a subsidiary of Mphasis Limited.

## MphasiS Group

	(Rs 000's)	
	30 June 2008	31 March 2008
<b>3.SHARE CAPITAL</b>		
<b>Authorised capital</b>		
245,000,000 (31 March 2008: 245,000,000) equity shares of Rs 10 each	2,450,000	2,450,000
<b>Issued, subscribed and paid-up capital</b>		
208,880,921 (31 March 2008: 208,737,972) equity shares of Rs 10 each [Of the above 53,590,838 (31 March 2008: 53,590,838) equity shares are allotted for consideration other than cash and 134,176,474 (31 March 2008: 134,174,374) equity shares are allotted as fully paid-up by way of bonus shares.]	2,088,809	2,087,380
Less: 14,200 (31 March 2008: 14,200) equity shares of Rs 10 each forfeited	(142)	(142)
Add: Amount originally paid up on forfeited shares	71	71
	<b>2,088,738</b>	<b>2,087,309</b>
<b>4. RESERVES AND SURPLUS</b>		
Securities premium account		
Balance brought forward	1,543,318	1,475,515
Add: Premium on allotment of shares	14,813	67,641
Add: Transferred from employee stock options outstanding [Securities premium amounting to Rs 1,126,867 (31 March 2008: Rs 1,126,867) is for consideration other than cash]	-	162
	1,558,131	1,543,318
Foreign currency translation reserve		
Balance brought forward	(373,156)	(44,676)
Add / (Less): During the period	215,827	(328,480)
	(157,329)	(373,156)
Capital reserve		
Balance brought forward from previous year	96,234	96,234
	96,234	96,234
General reserve		
Balance brought forward	692,461	471,692
Add: Transfer from Profit and loss account	-	220,769
	692,461	692,461
Profit and loss account		
Balance brought forward	7,461,882	5,937,125
Add: Net profit for the period	790,057	2,552,873
Profit available for appropriation	8,251,939	8,489,998
Appropriations		
Transfer to General reserve	-	220,769
Final dividend	-	1,210
Proposed dividend	472	688,788
Tax on dividend	80	117,265
Issue of bonus shares	21	84
	8,251,366	7,461,882
	<b>10,440,863</b>	<b>9,420,739</b>

## MphasiS Group

	(Rs 000's)	
	30 June 2008	31 March 2008
<b>5. EMPLOYEE STOCK OPTIONS OUTSTANDING</b>		
Balance brought forward	60,718	67,235
Less: Transferred to Securities premium account on exercise of options	-	162
Less: Reversal on forfeiture/ lapse of options granted	-	6,355
	<b>60,718</b>	<b>60,718</b>

### Employee Stock Option Plans (ESOP)

All the ESOPs are in respect of the Company's shares where each stock option is equivalent to one share. In accordance with the Guidance Note on "Accounting for Employee Share-based Payments" issued by the ICAI with effect from 1 April 2005, the necessary disclosures have been made for the quarter ended 30 June 2008 and for the year ended 31 March 2008 for grants outstanding on and made on or after that date for each of the plans described below (Also refer note 28).

Employees Stock Option Plan-1998 (the 1998 Plan): The Company instituted the 1998 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 31 July 1998. The 1998 Plan provides for the issuance of 3,720,000 options to eligible employees as recommended by the ESOP Committee constituted for this purpose.

In accordance with the 1998 Plan, the Committee has formulated 1998 Plan - (Version I) and 1998 Plan - (Version II) during the year 1998-1999 and 1999-2000 respectively.

*1998 Plan - (Version I):* Each option, granted under the 1998 Plan - (Version I), entitles the holder thereof with an option to apply for and be issued one equity share of the Company at an exercise price of Rs 34.38 per share. The equity shares covered under these options vest at various dates over a period ranging from six to sixty-six months from the date of grant based on the length of service completed by the employee to the date of grant. The options are exercisable any time after their vesting period.

The movements in the options granted under the 1998 Plan - (Version I) for the quarter ended 30 June 2008 and year ended 31 March 2008 are set out below:

	Quarter ended 30 June 2008		Year ended 31 March 2008	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	77,196	34.38	79,028	34.38
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	1,832	34.38
Options outstanding at the end	77,196	34.38	77,196	34.38
Exercisable at the end of the period	77,196	34.38	77,196	34.38

The weighted average share price of options exercised as at the date of exercise was Rs Nil (31 March 2008: Rs 308.79). The options outstanding as at 30 June 2008 had an exercise price of Rs 34.38 (31 March 2008: Rs 34.38).

*1998 Plan - (Version II):* Commencing January 2000, the Company decided to grant all future options at the market price immediately preceding the date of grant. The equity shares covered under these options vest at various dates over a period ranging from twelve to forty-eight months from the date of grant based on the grade of the employee. However, in case of options granted to the then Managing Director or Chief Executive Officer, the vesting period of the options, subject to minimum period of one year from the date of grant, is determined by the ESOP Committee and approved by the Board. The options are to be exercised within a period of ten years from their date of vesting.

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The movements in the options granted under the 1998 Plan - (Version II) for the quarter ended 30 June 2008 and year ended 31 March 2008 are set out below:

	Quarter ended 30 June 2008		Year ended 31 March 2008	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	895,108	94.68	1,040,644	97.09
Granted	-	-	-	-
Forfeited	-	-	32,736	129.52
Lapsed	-	-	7,500	130.43
Exercised	26,940	102.12	105,300	105.20
Options outstanding at the end	868,168	94.44	895,108	94.68
Exercisable at the end of the period	852,968	93.80	857,108	93.08

The weighted average share price of options exercised as at the date of exercise was Rs 242.17 (31 March 2008: Rs 271.11). The options outstanding as at 30 June 2008 had an exercise price ranging from Rs 85.63 to Rs 130.43 (31 March 2008: Rs 23.21 to Rs 275.00) and weighted average remaining contractual life of 5.40 years (31 March 2008: 5.63 years).

*Employees Stock Option Plan-2000 (the 2000 Plan):* Effective 25 July 2000, the Company instituted the 2000 Plan. The shareholders and ESOP Committee approved the 2000 Plan in July 2000. The 2000 Plan provides for the issue of equity shares to employees and directors of the Company and its subsidiaries.

The 2000 Plan is administered by an ESOP Committee appointed by the Board. Under the 2000 Plan, options will be issued to employees at an exercise price, which shall not be less than the market price immediately preceding the date of grant. The equity shares covered under these options vest over a period ranging from twelve to forty-eight months from the date of grant. The exercise period is one to two years from the date of vesting.

The movements in the options under the 2000 Plan for the quarter ended 30 June 2008 and year ended 31 March 2008 are set out below:

	Quarter ended 30 June 2008		Year ended 31 March 2008	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	867,725	137.06	1,205,914	133.88
Granted	-	-	-	-
Forfeited	17,750	127.19	70,720	133.12
Lapsed	29,922	130.76	145,983	124.82
Exercised	31,575	129.38	121,486	122.49
Options outstanding at the end	788,478	137.83	867,725	137.06
Exercisable at the end of the period	482,764	136.22	390,688	137.01

The weighted average share price of options exercised as at the date of exercise was Rs 227.04 (31 March 2008: Rs 286.78). The options outstanding as at 30 June 2008 had an exercise price ranging from Rs 71.88 to Rs 208.45 (31 March 2008: Rs 62.13 to Rs 208.45) and weighted average remaining contractual life of 1.91 years (31 March 2008: 2.06 years).

*Employees Stock Option Plan - 2003 (the 2003 Plan):* The shareholders at the Annual General Meeting on 2 June 2003 approved a new Employee Stock Option Plan. The 2003 Plan provides for the issue of equity shares to employees and directors of the Company and its subsidiaries and is administered by an ESOP Committee appointed by the Board of Directors. Options will be issued to employees at an exercise price which shall not be less than the market price immediately preceding the date of grant. The equity shares covered under these options vest over a period ranging from twelve to forty-eight months from the date of grant. However, certain options were granted to executive directors having a target stock price condition and a one year service condition as vesting conditions. The exercise period is two years from the date of vesting.

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The movements in the options under the 2003 Plan for the quarter ended 30 June 2008 and year ended 31 March 2008 are set out below:

	Quarter ended 30 June 2008		Year ended 31 March 2008	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	229,877	116.00	478,427	130.93
Granted	-	-	-	-
Forfeited	3,750	130.60	62,950	91.31
Lapsed	5,827	130.60	11,500	91.50
Exercised	24,600	112.32	174,100	167.56
Options outstanding at the end	195,700	115.75	229,877	116.00
Exercisable at the end of the period	148,350	111.01	130,177	104.82

The weighted average share price of options exercised as at the date of exercise was Rs 222.58 (31 March 2008: Rs 273.46). The options outstanding as at 30 June 2008 had an exercise price ranging from Rs 85.63 to Rs 130.60 (31 March 2008: Rs 85.63 to Rs 130.60) and weighted average remaining contractual life of 1.67 years (31 March 2008: 1.76 years).

*Employees Stock Option Plan - 2004 (the 2004 Plan):* At the Extraordinary General Meeting on 12 May 2004, the shareholders approved a new Employee Stock Option Plan. The 2004 Plan provides for the issuance of equity shares to employees and directors of the Company and its subsidiaries and for the exchange of outstanding stock options of MsourceE Corporation as on 20 September 2004, pursuant to its merger with Mphasis Corporation and the assumption of the MsourceE stock options by the Company.

The 2004 Plan is administered through an ESOP Committee appointed by the Board of Directors of the Company and comprises two programs. Under Program A, outstanding options of MsourceE Corporation were exchanged for options in the Company on the agreed exchange ratio of 0.14028 stock options with underlying equity shares of the Company for each stock option in the MsourceE 2001 plan, the exercise price being the equivalent amount payable by the option holder under the MsourceE 2001 plan. The equity shares underlying these options vest over a period up to forty-eight months from the date of assumption by the Company and shall be exercisable within a period of ten years from the original date of grant under the MsourceE 2001 plan.

Options under Program B represent fresh grants and will be issued to employees at an exercise price which shall be equal to the fair value of the underlying shares at the date of grant. The equity shares covered under these options vest over a period ranging from twelve to forty-eight months from the date of grant. The exercise period is two years from the date of vesting.

The movements in the options under the 2004 Plan for the quarter ended 30 June 2008 and year ended 31 March 2008 are set out below:

	Quarter ended 30 June 2008		Year ended 31 March 2008	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	569,973	125.20	1,012,249	124.47
Granted	-	-	-	-
Forfeited	9,800	130.46	224,229	115.86
Lapsed	25,165	131.39	81,211	133.11
Exercised	57,734	114.71	136,836	130.40
Options outstanding at the end	477,274	126.03	569,973	125.20
Exercisable at the end of the period	338,974	120.71	311,892	115.44

The weighted average share price of options exercised as at the date of exercise was Rs 223.05 (31 March 2008: Rs 306.90). The options outstanding as at 30 June 2008 had an exercise price ranging from Rs 50.34 to Rs 184.50 (31 March 2008: Rs 50.34 to Rs 184.50) and weighted average remaining contractual life of 3.53 years (31 March 2008: 4.08 years).

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### Fringe benefit tax on ESOPs

Fringe Benefit Tax (FBT) on Employee Stock Options (ESOPs) exercised during the period has been remitted to the Government, as per our understanding of the clarifications issued by the Income Tax Department in the matter. We are awaiting further clarification on certain specific issues related to FBT on ESOP. As per the ESOP schemes of the Company, all the taxes, including FBT, are to be borne by the employees and hence, this will not have an impact on the profit and loss account of the Group.

### Restricted Stock Units

Electronic Data Systems Corporation, USA ('EDS'), the ultimate holding company has issued Restricted Stock Units (RSU) to certain employees of the Group. Cost incurred by EDS upon issuing such RSU's for the quarter ended 30 June 2008 amounted to Rs 28,584,742 (quarter ended 30 June 2007: Rs 21,388,646). However, the cost has been borne by EDS and accordingly this has not been accounted as an expense by the Group.

	<b>(Rs 000's)</b>	
	<b>30 June 2008</b>	<b>31 March 2008</b>
<b>6. SECURED LOANS</b>		
Other loans	58,725	56,780
(Secured by the hypothecation of vehicles)		
	<b>58,725</b>	<b>56,780</b>

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### 7. FIXED ASSETS

(Rs 000's)

Assets	Cost				Accumulated depreciation				Net book value	
	1 April 2008	Additions	Deductions/ Adjustments*	30 June 2008	1 April 2008	Charge	Deductions/ Adjustments*	30 June 2008	30 June 2008	31 March 2008
<b>Tangible assets</b>										
Freehold land	27,375	-	-	27,375	-	-	-	-	27,375	27,375
Buildings	1,230	-	-	1,230	861	31	-	892	338	369
Leasehold improvements	1,071,790	80,948	1,213	1,153,951	718,847	53,912	833	773,592	380,359	352,943
Plant and machinery	1,773,596	63,979	30,785	1,868,360	1,011,228	73,872	25,964	1,111,064	757,296	762,368
Computer equipment	2,198,224	103,253	11,072	2,312,549	1,515,667	128,045	9,101	1,652,813	659,736	682,557
Office equipment	806,520	27,738	2,376	836,634	482,656	45,763	2,130	530,549	306,085	323,864
Furniture and fixtures	936,338	33,472	3,808	973,618	530,402	44,650	3,688	578,740	394,878	405,936
Vehicles	100,619	8,568	(5,539)	103,648	44,014	6,941	(4,273)	46,682	56,966	56,605
<b>Intangible assets</b>										
Software	786,027	409,823	6,709	1,202,559	520,093	58,440	5,813	584,346	618,213	265,934
<b>Total</b>	<b>7,701,719</b>	<b>727,781</b>	<b>50,424</b>	<b>8,479,924</b>	<b>4,823,768</b>	<b>411,654</b>	<b>43,256</b>	<b>5,278,678</b>	<b>3,201,246</b>	<b>2,877,951</b>
Previous year ended 31 March 2008	5,768,065	2,013,028	(79,374)	7,701,719	3,494,533	1,401,947	(72,712)	4,823,768	2,877,951	

\* includes the effect of translation of assets held by foreign subsidiaries, which are considered as non-integral in terms of AS 11

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	(Rs 000's)	
	30 June 2008	31 March 2008
<b>8. GOODWILL</b>		
Goodwill arising on consolidation	2,617,836	2,448,977
	<b>2,617,836</b>	<b>2,448,977</b>
<b>9. DEFERRED TAX ASSETS</b>		
On depreciation	223,828	199,974
On provisions for doubtful debts	23,706	23,274
On provisions for employee benefits	42,499	36,881
	<b>290,033</b>	<b>260,129</b>
<b>10. CASH AND BANK BALANCES</b>		
Cash in hand	638	476
Remittance in transit	15,973	5,464
Balances with scheduled banks		
- Current accounts *	209,661	144,821
- Deposit accounts **	882,133	554,067
- Margin money deposit account	913	943
Balances with non-scheduled banks		
- Current accounts	55,763	246,735
	<b>1,165,081</b>	<b>952,506</b>

\* Includes Rs 1,239,674 and Rs 1,275,586 representing the balances in unclaimed dividends accounts as at 30 June 2008 and 31 March 2008 respectively.

\*\* Includes restricted deposits of Rs 10,732,170 as at 30 June 2008 (31 March 2008: Rs 10,732,170) [refer note 31]

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	(Rs 000's)	
	30 June 2008	31 March 2008
<b>11. DEBTORS AND UNBILLED REVENUES</b>		
Debts outstanding for a period exceeding six months, unsecured		
- considered good	46,681	64,731
- considered doubtful	150,992	143,035
Other debts, unsecured		
- considered good	3,410,746	3,021,992
	3,608,419	3,229,758
Less: Provision for doubtful debts (net of write-offs)	(150,992)	(143,035)
	3,457,427	3,086,723
Unbilled revenues	3,505,487	2,715,176
	<b>6,962,914</b>	<b>5,801,899</b>
<b>12. INTEREST RECEIVABLE</b>		
Unsecured - considered good	4,644	2,542
	<b>4,644</b>	<b>2,542</b>
<b>13. LOANS AND ADVANCES</b>		
Unsecured - considered good		
Employee loans	4,042	5,469
Advances recoverable in cash or in kind or for value to be received	705,945	701,846
Loan to a ESOP trust	8,575	3,575
Deposits		
- premises	1,113,520	1,021,544
- with government authorities	10,907	10,683
- others	13,231	11,024
Advance tax and tax deducted at source	924,097	1,009,674
MAT credit entitlement	224,476	191,796
Unsecured - considered doubtful		
Advances recoverable in cash or in kind or for value to be received	40,990	40,990
	3,045,783	2,996,601
Less: Provisions (net of write-offs)	(40,990)	(40,990)
	<b>3,004,793</b>	<b>2,955,611</b>

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	(Rs 000's)	
	30 June 2008	31 March 2008
<b>14. CURRENT LIABILITIES</b>		
Sundry creditors	941,154	760,489
Advances from clients	29,112	28,320
Unearned receivables	60,804	92,388
Salary related costs	1,262,896	1,028,801
Other liabilities *	1,356,800	1,114,627
Unclaimed dividends	1,240	1,276
	<b>3,652,006</b>	<b>3,025,901</b>

\* The above amount includes Rs 17,060,055 (31 March 2008: Rs 17,060,055) which represents the remaining consideration payable for the acquisition of Kshema Technologies Limited [refer note 2(a)].

<b>15. PROVISIONS</b>		
Compensated absences	154,758	141,985
Gratuity [refer note 29]	109,667	89,391
Proposed dividend	689,260	688,788
Tax on dividend	117,140	117,060
Taxation	444,691	365,809
	<b>1,515,516</b>	<b>1,403,033</b>

	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>16. COST OF REVENUES</b>		
Salary and allowances	3,340,267	2,280,873
Contribution to provident and other funds	267,521	162,163
Staff welfare	175,381	128,225
Travel *	348,103	232,291
Recruitment charges	20,190	41,378
Communication expenses	175,942	153,085
Rent	297,860	174,144
Professional charges	4,136	4,195
Depreciation and amortisation	379,709	266,760
Software development charges	266,990	208,157
Electricity	97,116	80,713
Software support and annual maintenance charges	365,889	151,663
Miscellaneous expenses	112,591	95,710
	<b>5,851,695</b>	<b>3,979,357</b>

\* Includes accelerated amortization of visa costs amounting to Rs. 92,786 incurred in prior periods. This is a change in accounting treatment from previous periods. Consequently the profit for the period is lower by the same amount.

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	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>17. SELLING EXPENSES</b>		
Salary and allowances	194,172	179,723
Contribution to provident and other funds	20,685	16,105
Staff welfare	3,497	2,690
Travel	24,844	20,284
Communication expenses	9,393	7,409
Rent	7,935	6,639
Professional charges	2,246	2,584
Depreciation and amortisation	3,057	3,239
Recruitment expenses	4,942	546
Business meeting expenses	2,262	1,027
Miscellaneous expenses	6,152	6,563
	<b>279,185</b>	<b>246,809</b>
<b>18. GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salary and allowances	212,605	160,766
Contribution to provident and other funds	16,181	12,093
Staff welfare	23,725	21,964
Travel	12,672	12,564
Communication expenses	15,054	22,824
Rent	24,143	18,787
Professional charges	39,336	24,020
Depreciation and amortisation	28,888	34,692
Auditor's remuneration	2,550	2,000
Bank charges	3,245	1,571
Insurance	7,801	6,601
Rates and taxes	2,478	1,976
Repairs and maintenance		
- Plant and machinery	5,611	4,482
- Building	4,045	6,653
- Others	19,644	39,182
Membership and subscriptions	1,762	824
Printing and stationery	5,311	9,987
Postage and courier charges	1,309	1,206
Miscellaneous expenses	27,781	34,412
	<b>454,141</b>	<b>416,604</b>

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	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>19. OTHER INCOME / (EXPENSE), NET</b>		
Profit /(loss) on sale of fixed assets	657	2,637
Miscellaneous income / (expense)	25	131
	<b>682</b>	<b>2,768</b>
<b>20. INTEREST INCOME</b>		
Interest on deposits and loans	32,653	30,004
	<b>32,653</b>	<b>30,004</b>
<b>21. INCOME TAXES [INCLUDING FRINGE BENEFIT TAX]</b>		
<b>Current taxes</b>		
Domestic taxes	95,180	59,178
Foreign taxes	16,471	2,750
<b>Deferred taxes</b>		
Domestic taxes	(28,921)	(57,495)
Foreign taxes	(548)	(2,184)
<b>MAT credit entitlement</b>	(32,680)	(15,878)
<b>Fringe Benefit Tax</b>	12,825	26,450
	<b>62,327</b>	<b>12,821</b>

22. The Group's software development centres and call centres in India are 100% Export Oriented Units ('EOU') / Software Technology Park ('STP') Units under the Software Technology Park guidelines issued by the Government of India. They are exempted from customs and central excise duties and levies on imported and indigenous capital goods and stores and spares. The Group has executed legal undertakings to pay customs duty, central excise duty, levies and liquidated damages payable, if any, in respect of imported and indigenous capital goods and stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled. Bank guarantees aggregating to Rs 293,801,805 as at 30 June 2008 (31 March 2008: Rs 293,130,430) have been furnished to the Customs authorities in this regard.

### 23. Contingent liabilities and commitments

- Claims against the Group not acknowledged as debts amounting to Rs 770,912,047 (31 March 2008: Rs 695,561,259);
- Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at 30 June 2008: Rs 1,067,800,000 (31 March 2008: Rs 717,025,017);
- Guarantees outstanding including those furnished to the Customs authorities as at 30 June 2008: Rs 429,110,630 (31 March 2008: Rs 433,125,680); and
- Forward contracts outstanding as at 30 June 2008 are as below:

Currency	Amount	Amount in INR
USD	85,200,000	3,647,412,000
GBP	3,383,756	288,992,753
EUR	1,101,311	74,459,409
SGD	7,694,028	241,658,647

Forward contracts outstanding as at 31 March 2008 are as follows:

Currency	Amount	Amount in INR
USD	76,040,000	3,048,823,800
GBP	2,809,520	224,653,181
EUR	655,046	41,486,697
CAD	1,105,171	43,388,213

Unamortised premium on forward exchange contracts as at 30 June 2008 is Rs 7,143,688 (31 March 2008: 976,269)

- The Group has issued performance guarantees to certain clients for executed contracts.

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### 24. Operating leases

The Group is obligated under non-cancellable leases for office and residential space that are renewable on a periodic basis at the option of both the lessor and the lessee. Total rental expense under non-cancellable operating leases amounted to Rs 160,897,639 for the quarter ended 30 June 2008 and Rs 116,643,441 for the quarter ended 30 June 2007.

Future minimum lease payments under non-cancellable operating leases as at 30 June 2008 are as follows:

Period	(Rs 000's)
Not later than 1 year	1,016,417
Later than 1 year and not later than 5 years	2,029,586
More than 5 years	-
	<b>3,046,003</b>

The Group also leases office facilities and residential facilities under cancellable operating lease agreements. The Group intends to renew such leases in the normal course of its business. Total rental expense under cancellable operating leases was Rs 169,040,639 for the quarter ended 30 June 2008 and Rs 82,927,002 for the quarter ended 30 June 2007.

### 25. Related party transactions

#### (a) Entities where control exists:

- Electronic Data Systems Corporation, USA Ultimate holding company\*

\*EDS Asia Pacific Holdings, Mauritius (formerly TH Holding, Mauritius) and EDS World Corporation (Far East), the subsidiaries of the Ultimate holding company hold 39.74% and 21.12% of the equity capital of the Company respectively.

The related parties where control exists also include BFL Employees Equity Reward Trust and Kshema Employees Welfare Trust.

#### (b) Key management personnel:

The key management personnel of the Group are as mentioned below:

##### Executive key management personnel represented on the Board of the Company

- Jeya Kumar Chief Executive Officer
- Deepak Patel Managing Director – Resigned w.e.f 10 June 2008

##### Non-executive / independent directors on the Board of the Company

- Michael Coomer Non-executive Chairman
- Jeroen Tas Non-executive Vice Chairman
- Jose de la Torre Director
- Nawshir H Mirza Director
- D S Brar Director
- Joseph Eazor Director
- Vinita Bali Director
- Thomas Erhardt Director
- Michael Ronald Koehler Director
- Jim Bridges Director

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**(c) Other related parties with whom transactions have taken place:**

- TH Consulting India Private Limited
- EDS World Corporation (Far East)
- EDS (Operations) Pty Limited
- EDS Operations Services Gmbh
- EDS Answare SA
- Electronic Data Systems Limited
- Electronic Data Systems (EDS) International B.V.
- EDS (New Zealand) Limited
- EDS Information Services LLC
- Electronic Data Systems Belgium N.V
- EDS Canada Inc
- EDS Information Business Gmbh
- EDS (Australia) PTY Limited
- EDS Business Services PTY Limited
- EDS Gulf States, WLL
- EDS (China) Co. Limited
- EDS Sweden AB
- EDS International (Singapore) Pte Limited
- EDS (Thailand) Co. Ltd.
- Electronic Data Systems Taiwan Corporation
- EDS International (Greece) SA
- EDS Application Services Gmbh
- EDS (SCHWEIZ) AG
- EDS Electronic Data Systems (Hong Kong) Limited
- RelQ Software Private Limited
- EDS Itellium Gmbh
- EDS UK Limited
- EDS Electronic Data Systems Hungary Limited
- EDS Electronic Data Systems Italia SPA
- Electronic Data Systems (Egypt) SAE
- EDS Electronic Data Systems France SAS
- Electronic Data Systems Corporation-US
- EDS Columbia

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(d) The following is a summary of significant transactions with related parties by the Group\*:

	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Rendering of services to other related parties</b>	<b>4,033,875</b>	<b>2,306,368</b>
-EDS Information Services, LLC	3,311,083	2,192,721
-Others	722,792	113,647
<b>Software development charges paid to entities where control exists</b>	<b>5,127</b>	<b>3,391</b>
-Electronic Data Systems Corporation-US	5,127	3,391
<b>Software development charges paid to other related parties</b>	<b>17,653</b>	<b>-</b>
-RelQ Software Private Limited	17,653	-
<b>Software support and annual maintenance charges paid to other related parties **</b>	<b>342,634</b>	<b>136,789</b>
-EDS International (Singapore) Pte Limited	342,634	136,789
<b>Remuneration to executive key management personnel</b>	<b>29,599</b>	<b>7,713</b>
-Deepak Patel	17,130	7,713
-Jeya Kumar	12,469	-
<b>Commission to non-executive directors</b>	<b>2,063</b>	<b>1,763</b>
-Davinder Singh Brar	600	600
-Jose de la Torre	563	563
-Vinita Bali	300	-
-Nawshir H Mirza	600	600
<b>Exercise of stock option by non-executive directors</b>	<b>-</b>	<b>26,250</b>
-Jeroen Tas	-	26,250
<b>Loan given to BFL Employee Equity Reward Trust</b>	<b>5,000</b>	<b>-</b>
<b>Loan refunded by BFL Employee Equity Reward Trust</b>	<b>-</b>	<b>35,000</b>

\*This does not include remuneration paid to certain non-executive directors who are paid by the ultimate parent company and its affiliates as they are employees of the said companies.

\*\*The Group has accrued expenses for certain services received from a related party where significant influence exists for which the Master Service Agreement ("MSA") has been signed and the statement of work is expected to be signed upon completion of the ongoing negotiation of terms. As at 30 June 2008, the provisioning for such services has been made on best estimate basis.

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(e) The balances receivable from and payable to related parties are as follows:

	(Rs 000's)	
	30 June 2008	31 March 2008
<b>Interest free loans to BFL Employee Equity Reward Trust, included in Loans and advances</b>	<b>8,575</b>	<b>3,575</b>
<b>Sundry debtors and unbilled revenue - other related parties</b>	<b>4,018,916</b>	<b>3,131,811</b>
-EDS Information Services, LLC	3,148,849	2,384,042
-Others	870,067	747,769
<b>Sundry creditors – other related parties, included in Current liabilities</b>	<b>643,572</b>	<b>430,369</b>
-EDS International (Singapore) Pte Limited	556,582	415,531
-Others	86,990	14,838

## Mphasis Group

### 26. Segment reporting

The Company's operations predominantly relate to providing application development and maintenance (Application) Services, business process outsourcing (BPO) services and infrastructure outsourcing (ITO) services delivered to clients operating globally. Secondary segmental reporting is done on the basis of the geographical location of clients.

Application Services covers consulting, application development, testing and application maintenance services. BPO Services provide voice, transaction based services and knowledge based processes. ITO covers a range of infrastructure management services and service/technical help desks.

The accounting policies consistently used in the preparation of the financial statements are also applied to record revenue and expenditure in individual segments.

Assets, liabilities, revenues and direct expenses in relation to segments are categorised based on items that are individually identifiable to that segment, while other items, wherever allocable, are apportioned to the segments on an appropriate basis. Certain items are not specifically allocable to individual segments as the underlying services are used interchangeably. The Group therefore believes that it is not practical to provide segment disclosures relating to such items, and accordingly such items are separately disclosed as 'unallocated'.

Client relationships are driven based on client domicile. The geographical segments include United States of America (USA), Europe, Asia Pacific, Japan, the Middle East and India.

#### Primary segment information

	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Segment revenue</b>		
Application Services	4,709,043	3,474,595
BPO Services	1,637,295	1,244,237
ITO Services	1,075,782	596,800
	<b>7,422,120</b>	<b>5,315,632</b>
<b>Segment profit</b>		
Application Services	919,391	922,609
BPO Services	409,511	324,500
ITO Services	241,523	89,166
	<b>1,570,425</b>	<b>1,336,275</b>
Interest income, net	32,653	30,004
Other unallocable expenditure, net of unallocable income	(750,694)	(840,410)
<b>Profit before taxation</b>	<b>852,384</b>	<b>525,869</b>
Income taxes (Including Fringe benefit tax)	62,327	12,821
<b>Profit after taxation</b>	<b>790,057</b>	<b>513,048</b>
	<b>30 June 2008</b>	<b>31 March 2008</b>
<b>Segment assets</b>		
Application Services	10,237,934	8,601,129
BPO Services	4,373,410	3,995,127
ITO Services	1,112,255	865,976
Unallocated assets	2,092,967	2,592,248
	<b>17,816,566</b>	<b>16,054,480</b>
<b>Segment liabilities</b>		
Application Services	2,931,695	1,430,845
BPO Services	670,542	545,157
Unallocated liabilities	1,624,010	2,509,712
	<b>5,226,247</b>	<b>4,485,714</b>

## MphasiS Group

	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Capital expenditure</b>		
Application Services	366,707	351,361
BPO Services	134,750	95,355
ITO Services	25,442	18,858
Unallocated	16,036	17,733
	<b>542,935</b>	<b>483,307</b>
<b>Depreciation and amortisation</b>		
Application Services	208,295	98,772
BPO Services	123,086	122,185
ITO Services	10,660	10,262
Unallocated	69,613	73,472
	<b>411,654</b>	<b>304,691</b>
<b>Secondary segment information (revenues)</b>		
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Region</b>		
USA	4,948,883	3,616,188
Europe	1,385,482	972,906
Asia Pacific	299,873	258,639
Japan	56,864	43,567
The Middle East and India	731,018	424,332
<b>Total</b>	<b>7,422,120</b>	<b>5,315,632</b>
Revenues by geographic area are based on the geographical location of the client.		
<b>Secondary segment information (segment assets)</b>		
	30 June 2008	31 March 2008
<b>Region</b>		
USA	1,459,825	1,758,112
The Middle East and India	15,964,980	13,853,346
Others	391,760	443,022
<b>Total</b>	<b>17,816,565</b>	<b>16,054,480</b>
<b>Secondary segment information (capital expenditure)</b>		
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Region</b>		
USA	69,931	32,634
The Middle East and India	472,190	447,341
Others	814	3,332
	<b>542,935</b>	<b>483,307</b>

## MphasiS Group

### 27. Earnings Per Share ('EPS')

Reconciliation of basic and diluted shares used in computing earnings per share:

	Quarter ended 30 June 2008	Quarter ended 30 June 2007
Number of weighted average shares considered for calculation of basic earnings per share	208,581,678	208,177,660
Add: Dilutive effect of stock options	1,220,500	2,096,354
Number of weighted average shares considered for calculation of diluted earnings per share	<b>209,802,178</b>	<b>210,274,014</b>

205,426 weighted average number of shares (30 June 2007: 210,257 weighted average number of shares) held by the BFL Employees Equity Reward Trust and Kshema Employee Welfare Trust have been reduced from the equity shares outstanding for computing basic and diluted earnings per share.

### 28. Stock Based Compensation

The Group uses the intrinsic value method of accounting for its employee stock options. The Group has therefore adopted the pro-forma disclosure provisions as required by the Guidance Note on "Accounting for Employee Share-based Payments" issued by the ICAI with effect from 1 April 2005.

Had the compensation cost been determined in a manner consistent with the fair value approach described in the aforesaid Guidance Note, the Group's net profit and EPS as reported would have been adjusted to the pro-forma amounts indicated below:

	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
Net profit as reported	790,057	513,048
Add: Stock based employee compensation expense determined under the intrinsic value method	-	-
Less: Stock based employee compensation expense determined under the fair value method	5,284	819
Pro-forma net profit	784,773	512,229
Earning per share: Basic		
As reported	3.79	2.46
Pro-forma	3.76	2.46
Earning per share: Diluted		
As reported	3.77	2.44
Pro-forma	3.75	2.44

The fair value of each stock option is estimated by management on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Quarter ended 30 June 2008	Quarter ended 30 June 2007
Dividend yield	1.44% to 1.98%	1.44% to 1.98%
Expected life	1 to 4 years	1 to 4 years
Risk free interest rates	5.78% to 8.00%	5.78% to 8.00%
Expected volatility (annualised) *	67.12% to 69.48%	67.12% to 69.48%

\* Expected volatility (annualised) is computed based on historical share price movement since April 2001.

## MphasiS Group

### 29. Gratuity Plan

The following tables set out the status of the gratuity plan as required under revised AS 15.

#### Reconciliation of the projected benefit obligations

	(Rs 000's)	
	Quarter ended 30 June 2008	Year ended 31 March 2008
<b>Change in projected benefit obligation</b>		
Obligations at period beginning	204,098	173,034
Service cost	22,572	60,553
Interest cost	4,196	13,634
Benefits paid	(8,294)	(10,161)
Actuarial gain	(3,488)	(32,962)
<b>Obligations at period end</b>	<b>219,084</b>	<b>204,098</b>
<b>Change in plan assets</b>		
Plan assets at period beginning, at fair value	114,707	95,532
Expected return on plan assets	2,247	6,973
Actuarial gain	77	1,722
Contributions	680	20,641
Benefits paid	(8,294)	(10,161)
<b>Plans assets at period end, at fair value</b>	<b>109,417</b>	<b>114,707</b>
<b>Reconciliation of present value of obligation and fair value of plan assets</b>		
Fair value of plan assets at the end of the period	109,417	114,707
Present value of defined benefit obligation at the end of the period	219,084	204,098
<b>Liability recognised in the balance sheet</b>	<b>(109,667)</b>	<b>(89,391)</b>
<b>Assumptions</b>		
Interest rate	8.69%	7.92%
Expected rate of return on plan assets	8.69%	7.92%
Expected contribution over next one year	25,000	25,000

	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Gratuity cost for the period</b>		
Service cost	22,572	25,461
Interest cost	4,196	3,530
Expected return on plan assets	(2,247)	(1,246)
Actuarial loss/(gain)	(3,565)	(40,827)
<b>Net gratuity cost</b>	<b>20,956</b>	<b>(13,082)</b>

The estimate of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

## MphasiS Group

### 30. Disclosure in accordance with paragraphs 38 and 39 of Accounting standard (AS) 7-Construction contracts

	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
Revenue recognised on customised software development contracts	2,267,793	1,619,001
	<b>2,267,793</b>	<b>1,619,001</b>

### Disclosure for contracts in progress at the reporting date

	(Rs 000's)	
	30 June 2008	31 March 2008
<b>Fixed Price projects:</b>		
Revenue recognised until the reporting date	476,155	693,271
Unbilled revenue	113,391	124,305
Unearned receivable	1,736	14,709
<b>Time and material projects:</b>		
Revenue recognised during the quarter	1,961,988	1,780,856
Unbilled revenue	824,770	757,815
Unearned receivable	10,799	29,875

31. The Group paid an amount of US\$ 397,217 (Rs 17,529,186) against a claim received from a client in respect of alleged identity theft pertaining to customer bank accounts involving the Group's employees and ex-employees. Liquid assets and properties worth US\$ 228,489 (Rs 10,055,790) of the alleged offenders have been frozen by the authorities and legal action has been instituted against them. Under a separate deed of assignment, the client has assigned any amount recoverable from the aforesaid frozen assets of the alleged offenders to the Group. During the quarter ended 31 December 2005, the Group has reached settlements for US\$ 175,000 (Rs 7,650,875) with the insurance companies. The amount has since been received in cash.

During July 2007, the Group has received from the client, who was given this amount by the Court to be held in trust, an amount of Rs 10,732,170 including interest from the aforesaid frozen assets. The said amount has been assigned by the client to the group and has been kept in Fixed Deposit, until such time the Court in a final, non-appealable written order holds that the amounts may be appropriated by the the Group or the client.

32. Previous period figures have been regrouped/reclassified, wherever necessary, to conform to the current period presentation.

### For and on behalf of the Board of Directors

**Michael Coomer**  
*Chairman*

**Jeya Kumar**  
*Chief Executive Officer*

**Susanto Banerjee**  
*Chief Financial Officer (Interim)*

**A. Sivaram Nair**  
*Company Secretary*

Bangalore  
25 July 2008

# Mphasis Group

<b>Consolidated Cash Flow Statement</b>	<b>(Rs 000's)</b>	
	<b>Quarter ended 30 June 2008</b>	<b>Quarter ended 30 June 2007</b>
<b>Cash flows from operating activities:</b>		
Profit before taxation	852,384	525,869
Adjustments for:		
Interest income	(32,653)	(30,004)
Loss / (Profit) on sale of fixed assets	(657)	(2,637)
Depreciation and amortisation	411,654	304,691
Effect of exchange rate changes	21,171	21,793
Operating profit before working capital changes	1,251,899	819,712
Debtors and unbilled revenues	(1,229,548)	(317,996)
Loans and advances	(131,747)	(54,842)
Current liabilities and provisions	703,462	627,084
Cash generated from operations	594,066	1,073,958
Income taxes (paid)/ refund	39,983	(201,144)
<b><i>Net cash provided by operating activities</i></b>	<b>634,049</b>	<b>872,814</b>
<b>Cash flows from investing activities:</b>		
Interest received	30,551	33,037
Proceeds from sale of fixed assets	1,918	3,373
Purchase of fixed assets	(559,103)	(439,891)
<b><i>Net cash used in investing activities</i></b>	<b>(526,634)</b>	<b>(403,481)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issue of share capital	1,408	3,072
Proceeds of premium from issue of share capital	14,813	42,544
Availment of secured loans	8,568	7,877
Repayment of secured loans	(6,623)	(8,402)
Dividend paid including dividend tax	(36)	(3)
<b><i>Net cash used in financing activities</i></b>	<b>18,130</b>	<b>45,088</b>
Changes in cash and cash equivalents	125,545	514,421
Effect of exchange rate changes	87,030	(7,568)
<b>Cash and cash equivalents at beginning of the period</b>	<b>952,506</b>	<b>1,892,557</b>
<b>Cash and cash equivalents at end of the period [refer note 10]</b>	<b>1,165,081</b>	<b>2,399,410</b>

This is the Consolidated Cash Flow Statement referred to in our report attached.

For and on behalf of the Board of Directors

for BSR & Co.  
Chartered Accountants

Michael Coomer  
Chairman

Jeya Kumar  
Chief Executive Officer

Zubin Shekary  
Partner  
Membership No. 48814

Susanto Banerjee  
Chief Financial Officer (Interim)

A. Sivaram Nair  
Company Secretary

Bangalore  
25 July 2008

Bangalore  
25 July 2008

## MphasiS Group

### Consolidated Cash Flow Statement

#### Reconciliation of consolidated financial statement items with consolidated cash flow items

	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Purchase of fixed assets</b>		
As per the Consolidated Balance Sheet	727,781	351,204
Add: Closing capital work-in-progress	570,019	376,916
Add: Opening creditors for capital goods	139,280	22,870
Less: Opening capital work-in-progress	(754,865)	(244,813)
Less: Closing creditors for capital goods	(145,648)	(66,286)
Add: Effect of foreign exchange translation	22,536	-
<b>Purchase of fixed assets</b>	<b>559,103</b>	<b>439,891</b>
<b>Loans and advances</b>		
As per the Consolidated Balance Sheet	3,004,793	1,692,523
Less: Advance income tax & tax deducted at source considered separately	(924,097)	(582,732)
Less: MAT credit entitlement considered separately	(224,476)	(15,878)
Add: Effect of foreign exchange translation	29,668	19,281
	<b>1,885,888</b>	<b>1,113,194</b>
Less: Opening balance considered	1,754,141	1,058,352
<b>Changes in loans and advances</b>	<b>131,747</b>	<b>54,842</b>
<b>Current Liabilities and Provisions</b>		
As per the Consolidated Balance Sheet	5,167,522	3,565,145
Less: Creditors for capital goods, liability for unclaimed dividend, provision for taxation and proposed dividend & tax thereon considered separately	(1,397,978)	(856,001)
Less: Liability for Kshema acquisition considered separately	(17,060)	(17,060)
Less: Liability for EDS India merger expenses considered separately	(66,688)	(66,688)
Add: Effect of foreign exchange translation	50,640	30,900
	<b>3,736,435</b>	<b>2,656,296</b>
Less: Opening balance considered	3,032,973	2,029,212
<b>Changes in current liabilities and provisions</b>	<b>703,462</b>	<b>627,084</b>

## Mphasis Group

### Reconciliation of consolidated financial statement items with consolidated cash flow items (continued)

	(Rs 000's)	
	Quarter ended 30 June 2008	Quarter ended 30 June 2007
<b>Income taxes paid/(refund)</b>		
As per the Consolidated Profit and Loss Account	62,327	12,821
Add: Increase in deferred taxes	29,904	56,298
Less: (Increase)/ decrease in provision for taxation	(78,882)	(13,300)
Add: Increase in balance in advance income tax and tax deducted at source	(85,577)	132,828
Add: Increase in balance in MAT credit entitlement	32,680	15,878
Less: Effect of exchange rate changes	(435)	(3,381)
<b>Income taxes paid</b>	<b>(39,983)</b>	<b>201,144</b>
<b>Interest Received,</b>		
Interest income, Net	32,653	30,004
Add: Opening interest receivable	2,542	11,449
Less: Closing interest receivable	(4,644)	(8,416)
<b>Interest received</b>	<b>30,551</b>	<b>33,037</b>
<b>Sundry debtors and unbilled revenue</b>		
As per the Consolidated Balance Sheet	6,962,914	4,461,275
Add: Effect of foreign exchange translation	68,533	66,841
	<b>7,031,447</b>	<b>4,528,116</b>
Less: Opening Balance considered	5,801,899	4,210,120
<b>Changes in sundry debtors and unbilled revenue</b>	<b>1,229,548</b>	<b>317,996</b>

### For and on behalf of the Board of Directors

**Michael Coomer**  
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25 July 2008