

## Management's discussion and analysis of results of operations and financial condition

Except for the historical information and discussions contained herein, statements included in this release include "forward-looking statements". These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those that may be projected by these forward looking statements. These risks and uncertainties include, but are not limited to, competition, acquisitions, attracting, recruiting and retaining highly skilled employees and managing risks associated with customer projects as well as other risks. The Mphasis Group undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof.

The following discussion and analysis should be read in conjunction with the Group's Indian GAAP Audited Consolidated financial statements and the notes thereon.

The Group, pursuant to the approval from its Board of Directors, has changed the financial year from April-March to November-October with effect from 1<sup>st</sup> November 2008 to align to the financial quarters and year of HP consequent to the merger of EDS, which is majority shareholder of the Group, with HP. The current period is reported for the month of October 2008 and the 7 months financial year ended October 08. The following table compares the audited financials of October 2008 with unaudited financials of October 2007 and the seven months ended October 2008 with unaudited financials of seven months ended October 2007. The transactions of October 2007 and seven months ended, though, were audited as part of the reporting periods of quarter ended December 2007 and year ended March 2008, the respective financial cut offs for the month of October 2007 and seven months ended October 2007 are unaudited.

### **October 2007/2008 and YTD October 2007/2008 Financials**

	ME Oct-08	ME Oct-07 (unaudited)	7 ME Oct-08	7 ME Oct-07 (unaudited)
<b>Revenues</b>	<b>3,282.5</b>	<b>2,189.8</b>	<b>19,065.2</b>	<b>13,522.3</b>
Cost of revenues	2,227.5	1,688.2	14,254.6	10,257.5
<b>Gross Profit</b>	<b>1,055.0</b>	<b>501.6</b>	<b>4,810.6</b>	<b>3,264.7</b>
<i>Gross Margin %</i>	<i>32.1%</i>	<i>22.9%</i>	<i>25.2%</i>	<i>24.1%</i>
<b>Selling General &amp; Administrative Expenses</b>				
Selling expenses	121.9	91.6	727.7	589.5
General and administrative expenses	210.9	150.6	1,192.3	992.2
Provision for doubtful debts	1.5	0.0	11.3	12.6
<b>Total Selling General &amp; Administrative Expenses</b>	<b>334.3</b>	<b>242.2</b>	<b>1,931.3</b>	<b>1,594.3</b>
<i>S G &amp; A %</i>	<i>10.2%</i>	<i>11.1%</i>	<i>10.1%</i>	<i>11.8%</i>
<b>Operating Profit</b>	<b>720.7</b>	<b>259.4</b>	<b>2,879.3</b>	<b>1,670.4</b>
<i>Operating Margin %</i>	<i>22.0%</i>	<i>11.8%</i>	<i>15.1%</i>	<i>12.4%</i>
Foreign exchange gain, net	30.8	-24.4	163.9	(241.4)
Other Income	3.3	-	8.5	3.7
Interest, net	2.4	3.1	45.4	55.1
<b>Profit before tax</b>	<b>757.3</b>	<b>238.1</b>	<b>3,097.1</b>	<b>1,487.8</b>
Income tax	3.8	14.5	142.7	88.1
<b>Net Profit</b>	<b>753.5</b>	<b>223.6</b>	<b>2,954.4</b>	<b>1,399.7</b>
<i>Net Margin %</i>	<i>23.0%</i>	<i>10.2%</i>	<i>15.5%</i>	<i>10.4%</i>

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## A. Results of operations - Mphasis Group

### 1. Month ended 31 October 2008

The revenues were Rs 3,282.5 million for the month ended 31 October 2008, representing an increase of Rs 1,092.7 million or 49.9% over revenues of Rs 2,189.8 million for the month ended 31 October 2007. Increased volumes from existing clients as well as business from new clients resulted in growth in revenues. Higher billing realisations and depreciation of Indian Rupee against US Dollar also led to the growth in revenues. Volumes from all the verticals have grown significantly. Banking & Financial and Healthcare & Pharma verticals contributed higher volumes. US revenues remained constant, Europe share has grown by 1%, while India share is dropped. Revenues from Applications grew by 44.0%, BPO grew by 41.3% and ITO grew by 97.1% during the month ended 31 October 2008 over the period ending October 2007. 7 new clients including 6 relationships through EDS were added during the current month.

#### Cost of Revenues

The cost of revenues represented 67.9% and 73.9% of revenues for the month/quarter ended 31 October 2008 and 30 September 2008 respectively. Though the cost has gone up in absolute values, the cost of revenues dropped as a % over previous quarter ended 30 September 2008.

The cost of revenues were Rs 2,227.5 million for the month ended 31 October 2008, an increase of 31.9% over the cost of revenues of Rs 1,688.2 million for the month ended 31 October 2007. The cost of revenues represented 67.9% and 77.1% of revenues for the month ended 31 October 2008 and 31 October 2007 respectively. The percentage decrease in cost of revenues over the month ended 31 October 2007 is due to significant increase in revenue. Increased manpower cost, Travel (including Visa cost) and investments in new facilities and infrastructure led to the increase in cost of revenues. Applications Headcount increased by 13, BPO increased by 2,864 and ITO increased by 1,036 taking the Group total to 28,975 as on 31 October 2008 as against 24,882 as of 31 October 2007, a net increase of 3,913 in group headcount.

#### Gross Profit/Margin

The gross margin increased by 6.0% from 26.1% for the quarter ended 30 September 2008 to 32.1% for the month ended 31 October 2008. Significant growth in revenues with marginal increase in costs led to higher gross margin over the previous quarter. Improved onsite utilisation by 2% also contributed to higher gross margins.

Gross profit was Rs 1,055.0 million for the month ended 31 October 2008 as against the gross profit of Rs 501.6 million for the month ended 31 October 2007, resulting in an increase of Rs 553.4 million or 110.3%. As a percentage of revenues, the gross margin increased by 9.2 % from 22.9% for the month ended 31 October 2007 to 32.1% for the month ended 31 October 2008. The overall increase in the gross profits is mainly attributable to increased revenues with marginal increase in costs and favourable exchange rate between Indian Rupee and the US Dollar. Improved offshore utilisation excluding trainees and better billing realisations also fuelled the significant growth in gross margins.

#### Selling Expenses

Selling expenses increased by 12.0% during the month ended 31 October 2008 over the quarter ended 30 September 2008. The increase in expenses is primarily due to depreciation of Indian Rupee against US Dollar as most of the selling expenses are in US Dollar. As a percentage of revenues, selling expenses were marginally lower by 0.2% from 3.9% for the quarter ended 30 September 2008 to 3.7% for the month ended 31 October 2008 due to significant growth in revenues.

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Selling expenses were Rs 121.9 million for the month ended 31 October 2008, representing an increase of Rs 30.3 million or 33.1 % over the expenses of Rs 91.6 million for the month ended 31 October 2007. As a percentage of revenues, selling expenses decreased by 0.5% from 4.2% for the month ended 31 October 2007 to 3.7% for the month ended 31 October 2008 due to significant growth in sales productivity achieved through higher operating leverage. The increase in selling expenses during the month is primarily on account of investment in additional sales force, annual increments of existing sales force and depreciation of Indian Rupee against US Dollar as most of the selling expenses are in US Dollars.

### General and Administrative Expenses

As a percentage of revenues, General and administrative expenses were marginally increased by 0.1% from 6.3% for the quarter ended 30 September 2008 to 6.4% for the month ended 31 October 2008.

General and administrative expenses were Rs 210.9 million for the month ended 31 October 2008, representing increase of 40.1% or Rs 60.3 million over the general and administrative expenses of Rs 150.6 million for the month ended 31 October 2007. The increase is mainly due to salary increments and the increase in manpower to support the growth in business volumes. As a percentage of revenues, the general and administrative expenses decreased by 0.5% from 6.9% for the month ended 31 October 2007 to 6.4% for the month ended 31 October 2008 due to significant growth in revenues & higher operating leverage.

### Provision for Doubtful Debts

Provision for doubtful debts was Rs 1.5 million for the month ended 31 October 2008 as against Rs 7.6 million for the quarter ended 30 September 2008.

### Operating Profit/Margin

The operating margin for the month ended 31 October 2008 increased by 6.2% to 22.0% over the operating margin for the quarter ended 30 September 2008. Higher gross margins as discussed earlier resulted in increase in operating margin for the quarter.

The operating profit was Rs 720.7 million for the month ended 31 October 2008 , representing an increase of Rs 461.3 million or 177.8 % over the operating profit of Rs 259.4 million for the month ended 31 October 2007. As a percentage of revenues, operating margin has increased by 10.2 % from 11.8% for the month ended 31 October 2007 to 22.0% for the month ended 31 October 2008. Increase in gross profits has resulted in increase in operating profit.

### Foreign Exchange Gain/(Loss), net

The gain on foreign exchange during the month ended 31 October 2008 was Rs 30.8 million as against a loss of Rs 24.4 million in the month ended 31 October 2007. Net gain on foreign exchange was a result of higher restatement gains as the Indian Rupee depreciated against the US Dollar during the month ended 31 October 2008.

### Other income / ( expense), net

The net other income for the month ended 31 October 2008 was Rs 3.3 million as against Rs. 4.5 million in quarter ended 30 September 2008.

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## Interest income / (expense), net

Interest income was Rs 2.4 million for the month ended 31 October 2008 as compared to a net income of Rs 3.1 million for the month ended 31 October 2007 respectively.

## Income Taxes (including Fringe Benefit Tax)

Income tax for the month ended 31 October 2008 was Rs 3.8 million compared to Rs. 14.5 million for the month ended 31 October 2007.

## Net Profit/Net Margin

The net margin increased from 16.9% for the quarter ended 30 September 2008 to 23.0% for the month ended 31 October 2008. Higher operating profit as discussed earlier, net gain on exchange fluctuation and lower tax provision has resulted in increase in net profit and net margins during the quarter.

The net profit after taxes was Rs 753.5 million for the month ended 31 October 2008, an increase of Rs 529.9 million or 236.9% over the net profit of Rs 223.6 million for the month ended 31 October 2007. Higher operating profits as discussed earlier together with foreign exchange gain resulted in higher net profit. As a percentage of revenues, the net margin increased by 12.8% to 23.0% for the month ended 31 October 2008 as against 10.2% for the month ended 31 October 2007.

## **2. Seven Months ended 31 October 2008 compared to seven months ended 31 October 2007**

### Revenues

The total revenues were Rs 19,065.2 million for seven months ended 31 October 2008, representing an increase of Rs 5,542.9 million or 41.0% over total revenues of Rs 13,522.3 million during the seven months ended 31 October 2007. Higher volumes of business from existing clients and service offerings to new clients contributed to the growth in revenues. Banking & Financial Services, Technology & OEMs, Manufacturing & Retail and Healthcare & Pharma vertical revenues grew significantly. Higher billing realisations and depreciation of Indian Rupee against US Dollar also contributed to the growth in revenues. 47 new clients including 38 relationships through EDS were added during the seven months ended 31 October 2008. Revenues from Apps grew by 36.4%, BPO revenues grew by 33.0% and ITO revenues grew by 82.8%. ITO segment is the highest growth segment during the seven months ended 31 October 2008 compared to seven months ended 31 October 2007.

### Cost of Revenues

The cost of revenues were Rs 14,254.6 million for the seven months ended 31 October 2008, an increase of Rs 3,997.1 million or 39.0 % over the cost of revenues of Rs 10,257.5 million for the seven months ended 31 October 2007. The cost of revenues represented 74.8% and 75.9% of total revenues for the seven months ended 31 October 2008 and 31 October 2007, respectively. The increase in cost of revenue is in line with the increase in volume of business. Annual salary increments, investment in new facilities, accelerated amortisation of visa costs incurred in prior periods led to the increase in cost of revenues. Applications Headcount increased by 13, BPO increased by 2,864 and ITO increased by 1,036 taking the Group total to 28,795 as on 31 October 2008 as against 24,882 as of 31 October 2007, a net increase of 3,913 in group headcount.

### Gross Profit

The gross profit increased to Rs 4,810.6 million for the seven months ended 31 October 2008, as against the gross profit of Rs 3,264.7 million for the seven months ended 31 October 2007, representing an increase of Rs 1,545.8 million or 47.3%. As a percentage of total revenues, the gross margin increased to 25.2% for the seven months ended 31 October 2008 from 24.1% for the seven months ended 31 October 2007. The overall increase in

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the gross margin as a % of revenue is mainly attributable to the increase in billing rates and improvement in utilisations.

## Selling Expenses

Selling expenses were Rs 727.7 million for the seven months ended 31 October 2008, representing an increase of Rs 138.2 million or 23.4 % over Rs 589.5 million for the seven months ended 31 October 2007. The increase was mainly on account of salary increments, increase in the sales force and depreciation of Indian Rupee against US Dollar as most of the selling expenses are in US Dollar. As a percentage of revenues, selling expenses decreased by 0.6% from 4.4% for the seven months ended 31 October 2007 to 3.8% for the seven months ended 31 October 2008 due to significant growth in revenues and better operating leverage.

## General and Administrative Expenses

General and administrative expenses were Rs 1,192.3 million for the seven months ended 31 October 2008, representing an increase of Rs 200.1 million or 20.2% over Rs 992.2 million during the seven months ended 31 October 2007. The increase was due to salary increments, increase in manpower to support growth in business volumes. As a percentage of revenues, the general and administrative expenses decreased by 1.0% from 7.3% for the seven months ended 31 October 2007 to 6.3% for the seven months ended 31 October 2008 for the seven months ended 31 October 2008 due to significant growth in revenues and better operating leverage.

## Provision for Doubtful Debts

Provision for doubtful debts was Rs 11.3 million for the seven months ended 31 October 2008 as against Rs 12.6 million for the seven months ended 31 October 2007.

## Operating Profit

The operating profit during the seven months ended 31 October 2008 increased to Rs 2,879.3 million from Rs 1,670.4 million for the seven months ended 31 October 2007, an increase of 72.4%. As a percentage of revenues, operating margins increased from 12.4% for the seven months ended 31 October 2007 to 15.1% for the seven months ended 31 October 2008. Higher gross profits as discussed earlier and better leverage of selling and general & administrative expenses led to higher operating profits.

## Foreign Exchange Gain/(Loss), net

The gain on foreign exchange for the seven months ended 31 October 2008 was Rs 163.9 million as against a loss of Rs 241.4 million for the seven months ended 31 October 2007. The gain on foreign exchange in the seven months ended 31 October 2008 was on account of gain on restatements due to depreciating Indian Rupee against the US dollar.

## Foreign Exchange Gain / (Loss) on Cash Flow Hedging as per AS 30

The Company has adopted the principles of Accounting Standard 30 relating to cash flow hedge accounting with effect from 1 April 2008 wherein the resultant exchange gain/loss is credited/debited to the hedging reserve included in the Reserves and Surplus instead of the profit and loss account. As at 31 October 2008 hedging reserve has a debit balance of Rs 312.3 million.

## Other income / ( expense), net

The net other income for the seven months ended 31 October 2008 was Rs 8.5 million as compared to net other income of Rs 3.7 million for the seven months ended 31 October 2007.

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### Interest income / (expense), net

Net interest income for the seven months ended 31 October 2008 was Rs 45.4 million, as against a net interest income of Rs 55.1 million for the seven months ended 31 October 2007. Net interest income in the current period is lower compared to the same period last year because of lower investible surplus owing to higher capital payments.

### Income Taxes (including Fringe Benefit Tax)

Income taxes were Rs 142.7 million for the seven months ended 31 October 2008 as compared to income tax of Rs 88.1 million for the seven months ended 31 October 2007. The increase in income tax for the seven months ended 31 October 2008 was on account of completion of tax holiday period for few licences & higher profits before tax during the current period.

### Net Profit

The net profit after taxes was Rs 2,954.4 million for the seven months ended 31 October 2008, an increase of Rs. 1,554.6 million or 111.1% over the net profit of Rs 1,399.7 million for the seven months ended 31 October 2007. As a percentage of total revenues, the net margin increased to 15.5% for the seven months ended 31 October 2008 as against 10.4% for the seven months ended 31 October 2007. Higher Operating profit along with foreign exchange gain contributed to the increase in net profit and improved net margin.

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## B. Analysis of Revenues & Human Resources

### I. Revenues

#### (a) Revenues by Vertical/ Industry

Vertical/Industry	Rs. Millions					
	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct	31-Oct	30-Sep	31-Oct	31-Oct	31-Mar
	2008	2007	2008	2008	2007	2008
Banking & Financial Services	1,460 45%	905 41%	3,607 43%	8,030 42%	5,914 43%	10,128 42%
Technology & OEMs	776 24%	562 26%	1,883 23%	4,470 24%	3,111 23%	5,701 23%
Telecom	333 10%	271 12%	960 11%	2,153 11%	1,714 13%	3,178 13%
Manufacturing & Retail	375 11%	238 11%	1,098 13%	2,589 14%	1,427 11%	2,838 12%
Logistics, Airlines & Transportation	172 5%	148 7%	474 6%	1,033 5%	955 7%	1,679 7%
Healthcare & Pharma	166 5%	66 3%	339 4%	790 4%	401 3%	707 3%
<b>Total</b>	<b>3,282</b>	<b>2,190</b>	<b>8,361</b>	<b>19,065</b>	<b>13,522</b>	<b>24,231</b>

#### (b) Revenues by Geography

Regions	Rs. Millions					
	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct	31-Oct	30-Sep	31-Oct	31-Oct	31-Mar
	2008	2007	2008	2008	2007	2008
USA	2,305 69%	1,512 69%	5,651 68%	12,905 68%	9,136 68%	16,088 66%
Europe	658 20%	424 19%	1,620 19%	3,664 19%	2,603 19%	4,893 21%
Asia Pacific	117 5%	107 5%	397 5%	870 5%	744 5%	1,268 5%
India & Middle East	202 6%	147 7%	693 8%	1,626 8%	1,039 8%	1,982 8%
<b>Total</b>	<b>3,282</b>	<b>2,190</b>	<b>8,361</b>	<b>19,065</b>	<b>13,522</b>	<b>24,231</b>

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## (c) Revenues by Service Type

Service Type	Rs. Millions					
	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct 2008	31-Oct 2007	30-Sep 2008	31-Oct 2008	31-Oct 2007	31-Mar 2008
Application Maintenance & Other Services	1,141 35%	773 35%	2,782 33%	6,364 33%	4,653 34%	8,214 34%
Application Development	980 30%	701 32%	2,596 31%	5,844 31%	4,303 32%	7,601 31%
Customer Service	284 8%	218 10%	858 10%	1,954 10%	1,474 11%	2,678 11%
Service / Technical Help Desk	290 9%	188 9%	647 8%	1,535 8%	1,159 8%	1,984 8%
Transaction Processing Service	194 6%	119 6%	466 6%	1,111 6%	744 6%	1,383 6%
Infrastructure Management Services	263 8%	116 5%	688 8%	1,513 8%	667 5%	1,395 6%
Knowledge Processes	130 4%	75 3%	324 4%	744 4%	522 4%	976 4%
<b>Total</b>	<b>3,282</b>	<b>2,190</b>	<b>8,361</b>	<b>19,065</b>	<b>13,522</b>	<b>24,231</b>

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## (d) Revenues by Project Type

Project Type	Rs. Millions					
	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct	31-Oct	30-Sep	31-Oct	31-Oct	31-Mar
	2008	2007	2008	2008	2007	2008
Time and Material	3,122	2,101	7,876	18,226	12,948	23,341
	95%	96%	94%	96%	96%	96%
Fixed Price	160	89	485	839	574	890
	5%	4%	6%	4%	4%	4%
<b>Total</b>	<b>3,282</b>	<b>2,190</b>	<b>8,361</b>	<b>19,065</b>	<b>13,522</b>	<b>24,231</b>

## (e) Revenues by Delivery Location

Delivery Location	Rs. Millions					
	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct	31-Oct	30-Sep	31-Oct	31-Oct	31-Mar
	2008	2007	2008	2008	2007	2008
Onsite	931	533	2,150	4,877	3,187	5,348
	28%	24%	26%	26%	24%	22%
Offshore	2,351	1,657	6,211	14,188	10,335	18,883
	72%	76%	74%	74%	76%	78%
<b>Total</b>	<b>3,282</b>	<b>2,190</b>	<b>8,361</b>	<b>19,065</b>	<b>13,522</b>	<b>24,231</b>

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## (f) Group - Client Concentration

	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct	31-Oct	30-Sep	31-Oct	31-Oct	31-Mar
	2008	2007	2008	2008	2007	2008
Revenues from Top Client	13%	10%	11%	12%	8%	10%
Revenues from Top 5 Clients	31%	32%	31%	31%	29%	30%
Revenues from Top 10 Clients	45%	48%	46%	45%	45%	46%
Clients Contributing more than:						
\$ 1 million Revenues	91	92	98	96	84	85
\$ 5 million Revenues	34	26	32	30	25	27
\$ 10 million Revenues	21	15	18	18	15	15
\$ 20 million Revenues	7	9	9	9	6	6
Receivables Days	41	54	41	41	40	40

## II Human Resources

### (a) Number of employees

	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct	31-Oct	30-Sep	31-Oct	31-Oct	31-Mar
	2008	2007	2008	2008	2007	2008
Onsite						
- Applications	1,519	1,093	1,495	1,519	1,093	1,278
- BPO	118	85	120	118	85	99
Offshore						
- Applications	9,072	9,485	9,090	9,072	9,485	9,165
- BPO	13,854	11,023	13,905	13,854	11,023	12,830
- ITO	4,232	3,196	4,230	4,232	3,196	3,675
<b>Total</b>	<b>28,795</b>	<b>24,882</b>	<b>28,840</b>	<b>28,795</b>	<b>24,882</b>	<b>27,047</b>

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## (b) Average Billing Rates

	\$/hr					
	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct 2008	31-Oct 2007	30-Sep 2008	31-Oct 2008	31-Oct 2007	31-Mar 2008
<b>Onsite</b>						
- Applications	69	68	69	69	68	68
<b>Offshore</b>						
- Applications	22	22	22	22	21	22
- BPO	10	10	10	10	10	10
- ITO	21	20	21	21	20	21

## (c) Average Utilisation Rates

	Month ended		Quarter ended	7 Months ended		Year ended
	31-Oct 2008	31-Oct 2007	30-Sep 2008	31-Oct 2008	31-Oct 2007	31-Mar 2008
	<b>Applications</b>					
<b>Excluding Trainees</b>						
- Onsite	87%	87%	85%	85%	87%	85%
- Offshore	79%	71%	79%	77%	75%	73%
- Blended	80%	73%	80%	78%	77%	74%
<b>Including Trainees</b>						
- Onsite	87%	87%	85%	85%	87%	85%
- Offshore	75%	66%	76%	73%	71%	69%
- Blended	77%	68%	77%	75%	73%	71%
<b>BPO</b>						
Process Utilisation (excluding trainees)	68%	69%	68%	68%	67%	67%
Process Utilisation (including trainees)	57%	54%	57%	57%	56%	55%
<b>ITO</b>						
Excluding Trainees	78%	72%	79%	75%	70%	71%
Including Trainees	73%	69%	74%	71%	69%	69%

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## C. Liquidity and Capital Resources

### Credit Lines Available & Utilisation

The Group has available credit lines with banks in India. The total funded and non funded credit lines at the disposal of the Group as at 31 October 2008 was Rs 225.0 million. The credit lines were utilised only towards providing guarantees and letters of credit.

### Investment of Cash Surpluses

The Group's treasury policy calls for investing only in highly rated banks, debt instruments through mutual funds and companies for short to medium maturities. The Group maintains balances both in Indian Rupee and foreign currency accounts in India and overseas. The investment philosophy of the Group is to ensure capital preservation and liquidity in preference to returns. As on 31 October 2008 the balance of cash and cash equivalents in the Group was Rs 528.1 million as against Rs 388.1 million as on 30 September 2008 and Rs 1,016.4 million as on 31 October 2007. Lower cash and cash equivalents as on 31 October 2008 compared to 31 October 2007 was due to early payout of salaries in October 2008.

As the Group parent company, Mphasis Limited is incorporated in India, investments by it in subsidiaries overseas are subject to exchange control regulations of the Government of India.