



**Audited Condensed Consolidated Financial Statements
for the quarter ended 31 January 2010**

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Auditor's Report

The Board of Directors

MphasiS Limited

We have audited the attached condensed consolidated balance sheet of MphasiS Limited ('the Company') and its subsidiaries (collectively referred to as 'MphasiS Group') as at 31 January 2010, and also the condensed consolidated profit and loss account and the condensed consolidated cash flow statement for the quarter ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that the condensed consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements and AS 25, interim Financial Reporting, notified pursuant to the Companies (Accounting Standards) Rules, 2006, (as amended).

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:

- (a) in the case of the condensed consolidated balance sheet, of the state of affairs of the MphasiS Group as at 31 January 2010;
- (b) in the case of the condensed consolidated statement of profit and loss account, of the profit for the quarter ended on that date; and
- (c) in the case of the condensed consolidated cash flow statement, of the cash flows for the quarter ended on that date.

For S.R. BATLIBOI & CO.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place: Bangalore, India
Date: 24 February 2010

Mphasis Group

CONDENSED CONSOLIDATED BALANCE SHEET

	(Rs 000's)	
	As at 31 January 2010	As at 31 October 2009
SOURCES OF FUNDS		
SHAREHOLDERS' FUNDS		
Share capital	2,096,616	2,095,779
Reserves and surplus	24,100,613	21,350,582
Employee stock options outstanding	6,583	6,994
	26,203,812	23,453,355
LOAN FUNDS		
Secured loans	24,597	33,207
DEFERRED TAX LIABILITY		
	1,432	1,432
	26,229,841	23,487,994
APPLICATION OF FUNDS		
FIXED ASSETS		
Cost	10,025,602	10,043,649
Accumulated depreciation	(7,170,610)	(6,879,945)
Net book value	2,854,992	3,163,704
Capital work-in-progress including capital advances	144,222	127,346
	2,999,214	3,291,050
GOODWILL	2,888,216	2,945,512
INVESTMENTS	10,782,510	7,612,471
DEFERRED TAX ASSETS	719,603	695,378
CURRENT ASSETS, LOANS AND ADVANCES		
Debtors	4,339,690	3,819,513
Unbilled revenues	5,589,325	5,244,297
Cash and bank balances	1,058,129	1,785,698
Interest receivable	1,538	1,295
Loans and advances	7,706,005	7,240,135
	18,694,687	18,090,938
CURRENT LIABILITIES AND PROVISIONS		
Current liabilities	7,053,349	6,413,739
Provisions	2,801,040	2,733,616
	9,854,389	9,147,355
NET CURRENT ASSETS	8,840,298	8,943,583
	26,229,841	23,487,994

Explanatory notes annexed

The explanatory notes form an integral part of these condensed consolidated financial statements

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

For and on behalf of the Board of Directors

For S.R. BATLIBOI & CO.
Chartered Accountants

Balu Ganesh Ayyar
Chief Executive Officer

Nawshir H Mirza
Director

per **Sunil Bhumralkar**
Partner
Membership No. 35141

Ganesh Murthy
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
24 February 2010

Bangalore
24 February 2010

MphasiS Group

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNT

(Rs 000's)

	Quarter ended 31 January 2010	Quarter ended 31 January 2009
Revenues	11,915,600	9,776,635
Cost of revenues	8,209,355	6,578,910
Gross profit	3,706,245	3,197,725
Selling expenses	450,748	418,823
General and administrative expenses	574,566	673,004
Provision for doubtful debts	3,100	-
Operating profit	2,677,831	2,105,898
Foreign exchange gain, net	239,787	30,931
Other income, net	80,917	15,846
Interest income	8,969	17,700
Profit before taxation	3,007,504	2,170,375
Income taxes		
-Current	426,658	270,834
-Deferred	(23,556)	(52,874)
-Minimum alternative tax credit entitlement	(78,260)	(161,628)
-Fringe benefit tax	-	13,885
Net profit	2,682,662	2,100,158
Earning per share (par value Rs 10)		
Basic (Rs)	12.80	10.05
Diluted (Rs)	12.73	10.01
Weighted average number of shares - Basic	209,617,523	208,931,632
Weighted average number of shares - Diluted	210,748,005	209,714,900

Explanatory notes annexed

The explanatory notes form an integral part of these condensed consolidated financial statements

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

For and on behalf of the Board of Directors

For S.R. BATLIBOI & CO.
Chartered Accountants

Balu Ganesh Ayyar
Chief Executive Officer

Nawshir H Mirza
Director

per **Sunil Bhumralkar**
Partner
Membership No. 35141

Ganesh Murthy
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
24 February 2010

Bangalore
24 February 2010

MphasiS Group

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The accompanying interim condensed 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 in accordance with generally accepted accounting principles in India. The Company has followed Accounting Standards prescribed by Companies (Accounting Standards) Rules, 2006, for the purpose of these condensed consolidated financial statements.

2. EXPLANATORY NOTES

2.1 Description of the Group

The MphasiS Group, a global, multicultural organisation headquartered in Bangalore, India, 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

Subsidiaries	Country of incorporation and other particulars	% of holding
MphasiS Corporation	a company organised under the laws of Delaware, USA	100
MphasiS Deutschland GmbH	a company organised under the laws of Germany	91
BFL Software Asia Pacific Pte Ltd [Refer Note 2.6]	a company organised under the laws of Singapore	100
MphasiS Australia Pty Ltd	a company organised under the laws of Australia	100
MphasiS (Shanghai) Software & Services Company Limited	a company organised under the laws of The People's Republic of China	100
MphasiS Consulting Limited	a company organised under the laws of United Kingdom	100
Eldorado Computing Inc. [Refer Note 2.8]	a company organised under the laws of Arizona, USA	100
MphasiS FinsourcE Limited	a company organised under the laws of India	100
MphasiS Ireland Limited	a company organised under the laws of Ireland	100
MphasiS Belgium BVBA	a company organised under the laws of Belgium	100
MphasiS FinSolutions Private Limited. [Refer Note 2.5]	a company organised under the laws of India	100
MphasiS Europe BV	a subsidiary of MphasiS USA, organised under the laws of The Netherlands	100
MphasiS Pte Ltd	a subsidiary of MphasiS Europe, organised under the laws of Singapore	100
MphasiS UK Limited	a subsidiary of MphasiS Europe, organised under the laws of United Kingdom	100
MphasiS Software and Services (India) Private Limited	a subsidiary of MphasiS Europe, organised under the laws of India	100
Msource Mauritius Inc.	a subsidiary of MphasiS Europe, organised under the laws of Mauritius	100
Msource (India) Private Limited	a subsidiary of Msource Mauritius, organised under the laws of India	100

MphasiS Group

- 2.2** The Group has followed the same accounting policies in preparation of the condensed consolidated financial statements as those followed in preparation of the annual financial statements as at and for the year ended 31 October 2009 except for change in respect of revised hedge accounting methodology discussed in note 2.3 below. These interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and the related notes for the year ended 31 October 2009.
- 2.3** Until 31 October 2009, the Group used the spot discounted method wherein the changes in the spot rate of derivative financial instruments designated as cash flow hedges were recognized directly in Hedging Reserve and reclassified into the profit and loss account upon the occurrence of the hedged transaction. Changes in fair value relating to the premia/discount on the derivative financial instruments were recognized in the profit and loss account. For the new cash flow hedges taken from 01 November 2009, the Group adopted the forward discounted method in accordance with its revised hedge accounting methodology, wherein the forward rate is used to record changes in fair value of derivative financial instruments and that such changes are recognised directly in Hedging Reserve and reclassified into the profit and loss account upon the occurrence of the hedged transaction. As a result of this change, net profit for the quarter is higher by Rs. 6,241,385.
- 2.4** The Company acquired control of Kshema Technologies Limited (“Kshema”) on 1 June 2004. Kshema has been amalgamated with MphasiS Limited with effect from 1 April 2005.
- The balance consideration payable to the erstwhile shareholders amounting to Rs 17,060,055 (31 October 2009: Rs 17,060,055) is carried as a liability which will be paid after necessary regulatory approvals are obtained.
- 2.5** The Company acquired AIG Systems Solutions Private Limited, a subsidiary of AIG Inc effective 1 October 2009. The name of the acquired company stands changed to MphasiS FinSolutions Private Limited with effect from 13 October 2009. During November 2009, the Board of Directors of the Company approved the merger of MphasiS FinSolutions Private Limited with the Company. Accordingly, the merger application was filed with the Hon’ble High Court of Karnataka and the Hon’ble High Court of Judicature at Madras on 28 January 2010 and 15 February 2010 respectively. If approved, the merger will be with retrospective effect from 1 November 2009. Pending high court and requisite approvals, the merger has not been given effect to, in the financial statements.
- 2.6** During the year ended 31 October 2009, the Company filed an application with Reserve Bank of India for closure of its subsidiary BFL Software Asia Pacific Pte Ltd.
- 2.7** As part of its overall strategy, the Company decided to set up an offshore development centre in Sri Lanka. In pursuance of this objective, MphasiS Lanka (Private) Limited was incorporated as a wholly owned subsidiary of MphasiS Limited on 12 February 2010.
- 2.8** During November 2009, the Board of Directors of MphasiS Limited approved the merger of Eldorado Computing Inc. with MphasiS Corporation. The Company is in the process of filing the application for merger with the relevant statutory authorities.
- 2.9** The Group provides for and discloses the Fringe Benefit Tax (“FBT”) as a part of taxes in accordance with the provisions of section 115WC of the Income tax Act, 1961 and the guidance note on FBT issued by the Institute of Chartered Accountants of India. The Finance Act, 2009 has withdrawn FBT w.e.f. 1 April 2009.
- 2.10** Loans and advances include service tax input credit receivable Rs. 2,094,844,400 (31 October 2009: Rs 1,931,711,218)
- 2.11** 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 31 January 2010, the provisioning of such services has been made on best estimate basis.
- 2.12 Contingent liabilities**
- (a) Claims against the Group not acknowledged as debts amount to Rs 716,674,981 (31 October 2009: Rs 855,926,880);
- (b) Guarantees outstanding including those furnished to the Customs authorities as at 31 January 2010: Rs.389,885,474 (31 October 2009: Rs 412,787,640);
- (c) The Group has issued performance guarantees to certain clients for executed contracts.

2.13 Segment reporting

The Group’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.

Application services cover 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. Also refer note 2.3 as regards change in revised hedge accounting methodology.

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’.

MphasiS Group

Primary segment information	(Rs 000's)	
	Quarter ended 31 January 2010	Quarter ended 31 January 2009
Segment revenue		
Application Services	8,095,945	6,361,006
BPO Services	1,849,363	1,765,222
ITO Services	1,970,292	1,650,407
	11,915,600	9,776,635
Segment profit		
Application Services	2,721,327	2,163,469
BPO Services	332,374	398,793
ITO Services	652,544	635,463
	3,706,245	3,197,725
	As at	As at
	31 January 2010	31 October 2009
Segment assets		
Application Services	9,756,200	8,453,031
BPO Services	5,757,127	6,131,431
ITO Services	2,634,110	2,920,603
Unallocated assets	17,936,793	15,130,284
	36,084,230	32,635,349
Segment liabilities		
Application Services	4,171,523	3,449,877
BPO Services	1,616,138	1,611,095
ITO Services	1,441,224	1,513,894
Unallocated liabilities	2,651,533	2,607,128
	9,880,418	9,181,994
	As at	As at
	31 January 2010	31 October 2009
Capital Employed		
Application Services	5,584,677	5,003,154
BPO Services	4,140,989	4,520,336
ITO Services	1,192,886	1,406,709
Unallocated assets	15,285,260	12,523,156
	26,203,812	23,453,355

- 2.14** 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 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.

MphasiS Group

2.15 The figures of previous period have been regrouped/ reclassified, wherever necessary, to conform with the current period classification.

For S.R. BATLIBOI & CO.
Chartered Accountants

For and on behalf of the Board of Directors

per **Sunil Bhumralkar**
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24 February 2010

MphasiS Group

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Rs 000's)

	Quarter ended 31 January 2010	Quarter ended 31 January 2009
Cash flows generated by operating activities	2,578,246	2,929,182
Cash flows used in investing activities	(3,281,046)	(2,457,375)
Cash flows (used in)/generated by financing activities	6,271	(3,808)
Net (decrease)/increase in cash and cash equivalents	(696,529)	467,999
Effect of exchange rate changes	(31,040)	(51,440)
Cash and cash equivalents at beginning of period*	1,785,698	731,198
Cash and cash equivalents at end of period*	1,058,129	1,147,757

* Cash and cash equivalents consists of cash and bank balances and short-term funds that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. It also includes restricted deposits amounting Rs 70,732,170 (31 January 2009: Rs 10,732,170).

For S.R. BATLIBOI & CO.
Chartered Accountants

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