

FINANCIAL STATEMENTS QUARTER ENDED 30 SEPTEMBER 2008



KEY PERFORMANCE INDICATORS

		Quarter ended 30 September 2008	Quarter ended 30 June 2008	Quarter ended 31 March 2008	Quarter ended 30 June 2007
--	--	---------------------------------------	----------------------------------	-----------------------------------	----------------------------------

INCOME STATEMENT

Gross Margin	%	26.1%	21.2%	20.7%	25.1%
Selling Expenses	%	3.9%	3.8%	3.8%	4.6%
General and Administrative Expenses	%	6.3%	6.1%	6.8%	7.8%
Operating Margin	%	15.8%	11.2%	9.9%	12.6%
Net Margin	%	16.9%	10.6%	10.9%	9.7%

BALANCE SHEET

Cash and cash equivalents	Rs Millions	388.1	1,165.1	952.5	2,399.4
Receivables	Days	41	43	43	41

HUMAN RESOURCES

Employees					
Application Services	Nos	10,585	10,517	10,443	9,354
BPO Services	Nos	14,025	13,820	12,929	9,977
ITO	Nos	4,230	3,916	3,675	2,739
Utilisation					
Application Services	%	77%	71%	69%	74%
BPO Services	%	68%	68%	68%	65%
ITO	%	74%	72%	67%	77%

CLIENTS

Top Client	%	11%	12%	12%	8%
Top 5 Clients	%	31%	33%	31%	29%
Top 10 Clients	%	46%	47%	46%	44%
Clients contributing					
>\$ 1 mm Per annum	Nos	98	94	87	80
>\$ 5 mm Per annum	Nos	32	28	28	25
>\$ 10 mm Per annum	Nos	18	15	16	15
>\$ 20 mm Per annum	Nos	9	7	7	4

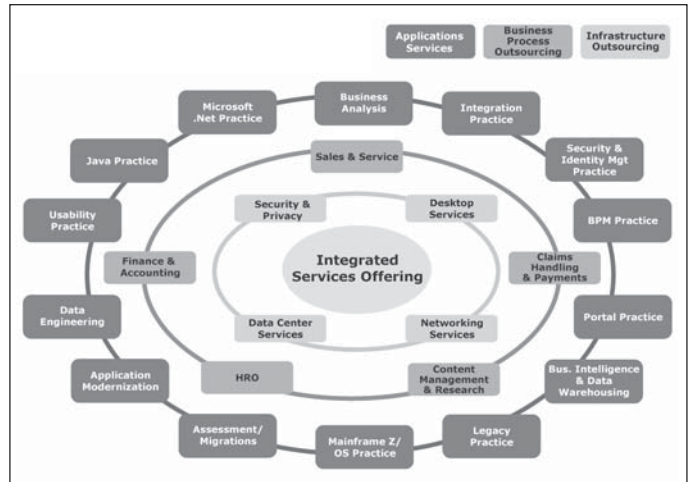
	Page
Group Overview & Trends	1
Management discussion of risks & concerns	5
Auditors' Report	12
Consolidated Balance Sheet	13
Consolidated Profit and Loss Account	14
Notes to the Consolidated Financial Statements	15
Consolidated Cash Flow Statement	41
Management discussion and analysis of critical accounting policies and glossary of terms used in the financial statements	45
Management discussion and analysis of results of operations and financial condition	49

GROUP OVERVIEW & TRENDS

MphasiS supports G1000 companies around the world in the improvement of their business processes. Our unique strength lies in our ability to provide integrated solutions involving Infrastructure Technology, Application Services & Business Process Outsourcing capabilities.

MphasiS: Portfolio

Our portfolio spans across end to end services serving clients across different industries including Financial Services, Manufacturing, Healthcare, Telecom, Communication and Media Entertainment and Consumer & Retail industries. Our business is organized into Application Services (APPS), Business Process Outsourcing (BPO) & Remote Infrastructure Management Services (ITO).

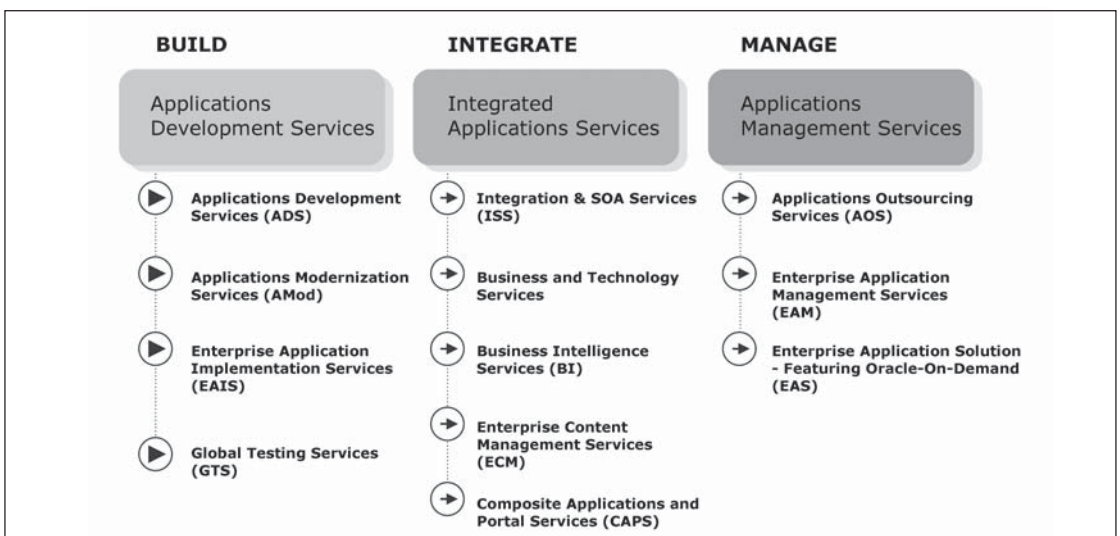


Our lines of businesses are strong full fledged portfolio of offerings and are increasingly becoming more integrated with each other.

Application Services

MphasiS has strong Applications Services expertise that spans Applications Development, Maintenance and Legacy Modernization. Our application services is structured around industries and powered by various practices.

Shifting from opportunities like addition of “higher-value” practices, transition to industry-based “sell/deliver” business model, and leverage of Best Shore® capabilities.

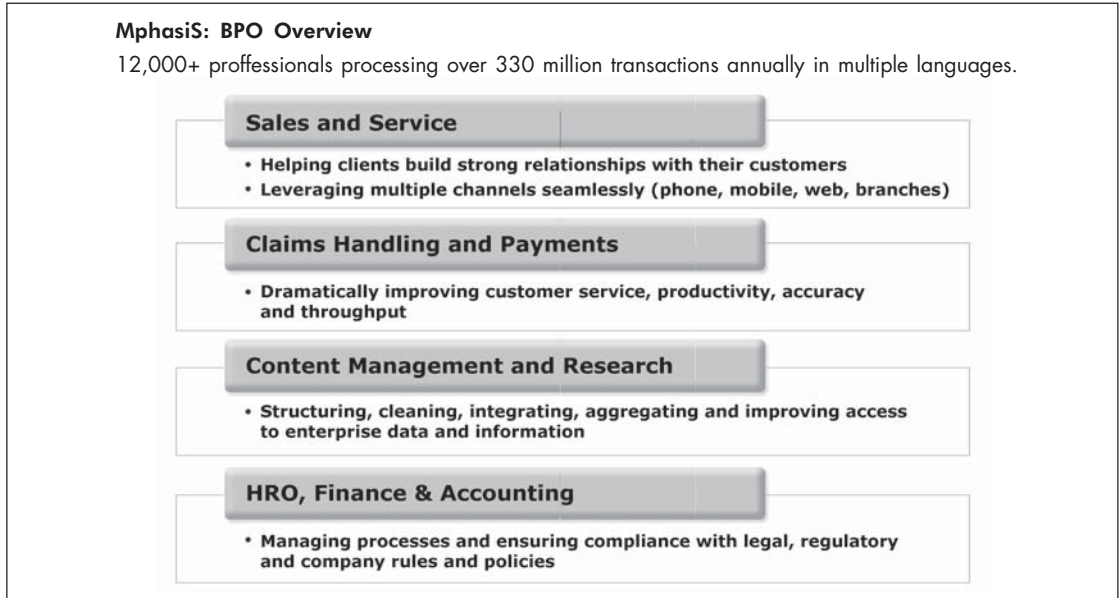


GROUP OVERVIEW & TRENDS

BPO

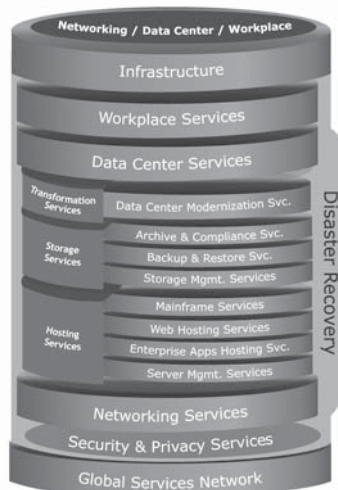
Shifting from BPO to enhanced KPO work processes

MphasiS BPO provides superior offshore contact centre solutions & back-office support to clients across the globe. MphasiS has strong domain expertise in Financial Services, Healthcare, and Telecom and a growing client base in Logistics, Utilities, Retail, Automotive, Media, Consumer Electronics, and Publishing.



ITO Services

MphasiS’ remote infrastructure management business, a new business started about a year ago had a growth of about 250% over the last 12 months.

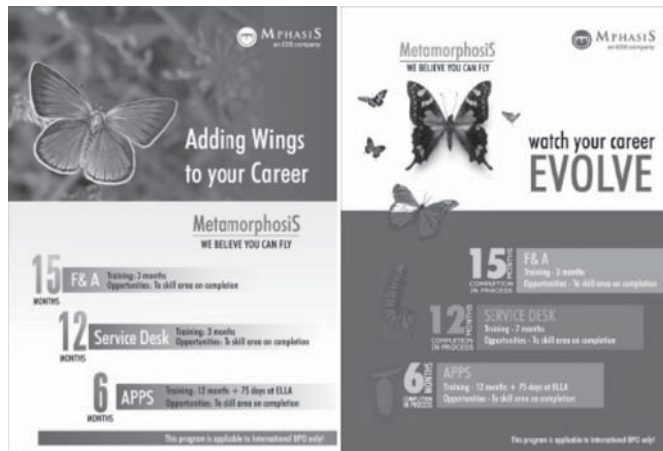


We now have over 4,000 professionals focused on remote infrastructure management services and have capabilities in remote desktop management, database administration, midrange server management, service desk, and data center management capabilities.

Our main differentiator is the talented workforce that continues to be the backbone defining our current and future strategies. We have made significant inroads in the last fiscal in areas related to employee development enabling our business to progressively grow and enhance shareholder value. Some pertinent facts about our workforce:

- o 35% of new hires sourced through employee referrals compared to 16% last year
- o 208 % growth in Tier 2 cities
- o 5000+ recruits from colleges
- o 183 colleges targeted for campus recruitment across 36 cities

- Metamorphosis program
- o Crafting opportunities for employees to be trained in specialized programs



We are extremely focused on reducing risk for our clients and continue to invest strongly in the areas of Security and Privacy

MphasiS’s strategic risk management model aims at ensuring that every entity in the organization exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Our risk management model enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

MphasiS has adopted and is certified against ISO 27001 standards. The standard ISO 27001 provides demonstrable assurance of Information Security best practices implemented within the organization. The Chief Risk Office (CRO) of the organization manages audits, compliance, security and privacy, contracts and business continuity management for all client programs and business functions.

MphasiS risk management framework ensures end to end oversight of the entity’s risks by considering a full range of potential events and positioning the management to identify and proactively mitigate risks by:

- **Aligning risk appetite and strategy** – Conducting risk assessments annually or at instances of substantial changes to operations and processes at MphasiS and externally influencing factors. The risk measures are calculated and the existing countermeasures are implemented based on the risk value and its alignment to the risk appetite to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- **Enhancing risk response decisions** – Identifying and managing multiple and cross-enterprise risks by adopting a risk governance framework that encompasses:
- **Physical Security Oversight:**
- **Business Continuity Management:**
- **Security and Privacy Services:**
- **Audit Office:**
- **Compliance Office:**

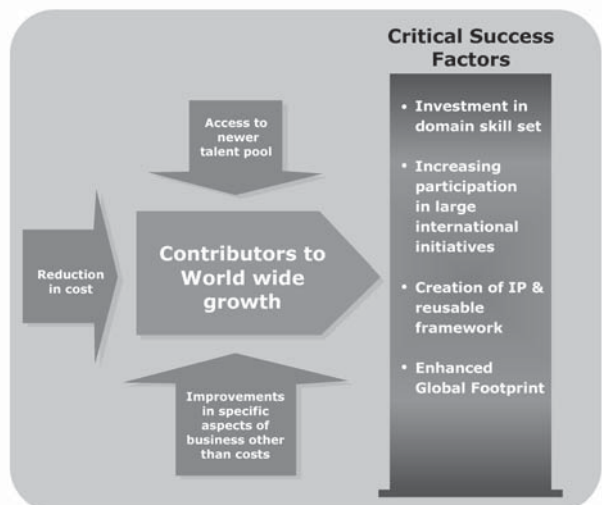
GROUP OVERVIEW & TRENDS

- **Proactively reducing operational surprises and losses** – MphasiS has a matured and tested risk management process with enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses. MphasiS is one of the first Indian organizations to be certified for BS7799-2:2002 now having implemented the process controls around the same successfully for 3 years across all MphasiS delivery locations and getting certified against ISO/IEC 27001:2005. MphasiS has successfully cleared 250+ internal and 50+ external and client sponsored rigorous security audits.

Global Trends in the Offshoring industry

The Shifting Paradigm in the Global Offshoring Industry

- Worldwide technology and related services sector spend grew to nearly \$ 1.7 trillion.
 - Integrating rich domain expertise, broad technical skills, and project management discipline across a network of low-cost locations through consistent and robust processes, tools, and infrastructure to maximize the timely delivery of superior IT and BPO solutions has been the mantra.
- **Application Services** accounts to a third of the total and forms the largest segment of spend with North America and Western Europe collectively accounting for over 80%.
- **Business Process Outsourcing** accounts for about 25% of the spend with 90% coming from the Americas and Western Europe.
- **Infrastructure Technology Outsourcing** is catching up by forming nearly 13% of the spend. This market is concentrated in EMEA & North America with fastest growth coming from Latin America.
- **Domestic India-market** is also growing to touch \$1.3 billion. ITO market in 2008, with workplace & data center services grabbing a CAGR of approximately 20%.
- **Competition amongst India pure plays** too is growing faster because of investment in domain skill sets and increasing participation in large international initiatives. This in turn results in enhanced global footprint, creation of intellectual property and reusable frameworks.
- **Companies invest extensively on physical locations, vertical and domain capabilities, innovation labs and training.** Global players are ramping up offshore, along with establishing branding & reference-ability. They are selling to all geographies to mitigate currency risk and strengthening their consulting capabilities
- **Cost pressure is likely to continue unabated on businesses** as customers continue to demand more for less in an increasingly competitive global environment. With the threat of a potential slowdown in economic growth, the pressure to contain costs is likely to increase further. Global sourcing offers companies an effective means of controlling these costs.



MANAGEMENT DISCUSSION OF RISKS AND CONCERNS

Any Group needs to ensure that it has a proper continuous risk identification and management process. This process will generally involve the following steps:

- Identifying, ranking and sourcing risks inherent in the Group's strategy (including its overall goals and appetite for risk);
- Selecting the appropriate risk management approaches and transferring or avoiding those risks that the business is not competent or willing to manage;
- Implementing controls to manage the remaining risks;
- Monitoring the effectiveness of risk management approaches and controls;
- Learning from experience and making improvements.

Since June 2006, the Group has become a subsidiary of Electronic Data Systems Corporation (EDS). In terms of a merger agreement executed between Electronic Data Systems Corporation, Hewlett-Packard Company ('HP') and Hawk Merger Corporation, the last named company merged into Electronic Data Systems Corporation on 26 August 2008. As a result of this merger, Electronic Data Systems Corporation became a 100% subsidiary of HP and was renamed as Electronic Data Systems LLC. Further, HP became the ultimate holding company of MphasiS.

Hewlett Packard is a technology company that operates in more than 170 countries around the world with a revenue totalling \$113.1 billion for the four fiscal quarters ended July 31, 2008. HP was founded in 1939 and has its Corporate headquarters in Palo Alto, California, USA. This acquisition of EDS by HP has significantly altered the risk profile of the Group as also given it greater access to international markets combined with a strong governance process.

Management has identified certain areas of risk where the Group is vulnerable, listing them below along with actions to deal with the same and thereby mitigate, if not eliminate such risks. Management strives to ensure a policy of strong corporate ethics driven by correct organisation culture rather than by legal requirements. Thus, healthy internal systems and practices are based on best practices rather than on legal compliance.

Business Risks

Client concentration risk

The Group derived 11% of its total revenues during the quarter ended 30 September 2008 from a single client. The Group's profitability and revenues would be affected in case of loss of this client or a significant downsizing of projects given to the Group by this client. The overall trend is a declining client concentration and the Group is confident that this will continue. Increasing volume of the group's business will be sourced through EDS/HP and any significant changes in EDS/HP or in its relationships with the clients it seconds to the Group could also affect revenues. 40% of the total revenues is currently sourced through EDS/HP under the Master Service Agreement.

Business concentration risk by vertical

The Group derived 43% of its revenues for the quarter ended 30 September 2008 from the Financial Services vertical, which include banks, brokerages, insurance companies and financial institutions. A downturn in the fortunes of clients in this group or a reduction in their IT spending / budgets, would adversely affect the Group's own profitability. Due to the association with EDS, the Group has successfully broadened its base into technology, Manufacturing and telecom verticals. The shares of revenue from financial services vertical have not grown during the year. There has been an increase in the area of technology, manufacturing & telecom vertical creating a better balance in the revenue portfolio.

Geographic concentration risk

The Group derived 68% of its revenues for the quarter ended 30 September 2008 from the US, which makes it susceptible to adverse market conditions. The current financial crisis and the recession that is witnessed in US may affect the Group's revenue in future. The management has been successful in sourcing clients from Europe, India & Asia Pacific region and going forward as well the focus would be on diversifying the business across other parts of the world which would reduce the dependence of the Group on US based customers. During the year, US share of revenue has reduced with corresponding growth in Europe and India.

Competition risk

New competitors may enter the markets the Group operates in or current competitors could decide to focus more on these markets, and thereby intensify the highly competitive conditions that already exist. These new entrants and

MANAGEMENT DISCUSSION OF RISKS AND CONCERNS

existing competitors could offer or introduce new technologies, offer a different service model, or could treat the services to be provided by one of our businesses as a component of a larger service offering. Such developments would enable these new and existing competitors to offer similar services at reduced prices. Such developments could harm the Group's business and results of operations.

The market for software development services is highly competitive and subject to rapid technological change, regulatory developments and emerging industry standards that the Group expects will continue. This could result in lower margins in future for the Group and could also result in increased pricing pressures. Certain of the Group's competitors have substantially greater financial, technical, marketing and other resources than the Group, and competitors of the Group have made and continue to make significant investments in the construction of new facilities. To the extent the Group is unable to compete effectively against its competitors, its financial condition and results of operations would be materially and adversely affected.

Management expects competition to persist and increase in the future. Management continuously monitors competition and modifies the business model to adequately compete but it cannot assure that the Group will be able to compete successfully against these or future competitors.

Management expects that a portion of the Group's anticipated future revenue growth in the various business segments will be derived from:

- The continued selling of services to our existing customers;
- The planned introduction of new or enhanced services;
- The selling of services to new customers;

How successful the Group will be in these efforts will depend on a variety of factors, including the Group's:

- Service offerings;
- Effective sales and marketing efforts;
- Ability to attract new as well as retention of new and existing customers;
- Market acceptance and the avoidance of difficulties or delays in development or
- Introduction of new services.

The alignment with EDS has significantly reduced this risk and the Group plans to leverage EDS' existing client relationships to broaden its client base.

International operations risk

The Group has international operations in many countries like Australia, Belgium, China, Germany, Japan, Mexico, The Netherlands, Singapore, UK, and the US. International operations are subject to various risks which could adversely affect those operations or the business as a whole, including:

- Costs of customizing products and services for foreign customers;
- Difficulties in managing and staffing international operations;
- Reduced protection for intellectual property rights in some countries;
- Longer sales and payment cycles;
- The burdens of complying with a wide variety of foreign laws; and
- Exposure to local economic conditions.

HP has operations in 170 countries and MphasiS is expecting to partner with HP and EDS in several of these geographies where it currently may not have a presence. This may increase the risk of international operations within the Group. However, the Group plans to leverage the EDS experience & expertise in operating in these geographies to mitigate these risks to a large extent.

Overseas tax obligation risk

The Group is also required to comply with various state level legislation / statutes in the US which is the largest market for the Group. Based on legal opinion, the Group provides for the Income / Sales taxes in the various states in the US, where it has operations. In the event that there is a dispute with the state authorities, the actual tax liability may be

higher than that recognised hitherto by the Group. The tax calculation and provision are suitably verified by the Group's tax consultants and legal advisors in the US so as to mitigate these risks.

As a large part of the growth in the Group's business is expected to come from and through EDS, a larger proportion of the revenues of the Group would be subject to transfer pricing regulations. This would also necessitate having more rigour around Transfer Pricing mechanisms to ensure that an arm's length is maintained in all transactions.

Fixed price contract risk

The Group derived 6% of its total revenues from Fixed Price contracts during the quarter ended 30 September 2008. Such projects require continuous monitoring and as well as accurate estimation of overall efforts, which directly affects the profitability of the group. If constant and adequate control is not exercised, it will result in cost overruns and eventual losses for the Group besides loss in client goodwill on account of delayed delivery, quality and failure to meet contractual obligations. It also results in revenue variability as it depends on new project wins once an existing project is complete. During the year the share of fixed price contracts has reduced with corresponding increase in the time and material contracts.

Management minimises this risk through a process of periodic monitoring of the profitability of fixed price contracts, including reviewing the estimate of efforts to complete and appropriate corrective action being undertaken by the concerned client management teams. These actions ensure that the estimated profitability of these contracts is maintained.

Termination of contracts by clients

A significant portion of the Group's contracts with its clients is on a non-exclusive, project-by-project basis. The clients, with or without cause, may terminate the contracts, including fixed-price contracts, by providing an advance notice varying between zero to 90 days. Further, these contracts do not carry a commitment of future volume of business. The Group's business is therefore dependant on the decisions and actions of the client, which are outside the Group's control, and could result in the termination of the said contracts. These actions could include:

- Financial difficulties for the client;
- A change in strategic priorities;
- A demand for reduction in prices; and
- A change in outsourcing strategy by shifting work to in-house IT departments or to the Group's competitors.

The Group may also potentially lose out on the prospects and revenue because such prospects and clients may perceive themselves to be in conflict with EDS or may not have had a good relationship with EDS in the past. Also after the EDS transaction, the Group is viewed as part of a bigger company & hence may be perceived as unwilling to take on small contracts. This may adversely impact the business, particularly in the domestic market. However, any such loss is likely to be more than offset by the new business that would flow to the Group because of its association with EDS.

Delivery Disputes

Where for competitive reasons the Group needs to accept a project it may do so even where the specifications may not have been completely defined at inception. This could lead to differences in opinion with the client at the time of delivery of the project. The Group's client relationships are sufficiently strong whereby such disputes can be resolved to the mutual satisfaction of the client and the Group. But in future if such disputes are not resolved, they could have an impact on the operating results of the Group. These risks are heightened in cases where clients face budgetary constraints or have internal management issues. The Group also maintains adequate insurance for professional indemnity and errors and omissions to cover such cases.

Onsite – Offshore proportion

Some clients insist on onsite efforts to exercise better control and to monitor progress of the project. The Group is moving towards offshore efforts over a period of time once clients are convinced of the Group's ability to deliver and execute projects as per plan or even ahead of such plans. However, requirements by the customers to maintain a specified number of resources onsite could significantly impact the results of operations of the Group.

Operational Results / Issues

The Group's ability to improve profit margins will depend on factors that include the degree to which and the speed with which the Group will be able to increase operational efficiencies and reduce operating costs. Delays or difficulties in implementing and consolidating process improvements, such as those designed to reduce travel, telecommunication

MANAGEMENT DISCUSSION OF RISKS AND CONCERNS

and customer service costs, or installing new products and services and in consolidating various functions, including administrative functions, eliminating duplicate operations and consolidating facilities could adversely affect the timing or effectiveness of cost reduction and margin improvement efforts. The Group has an effective system of forecasting and budgeting for costs so as to ensure optimum utilisation of resources. It is continuously in the process of reviewing its systems and procedures to implement tighter controls.

Customer retention is an important factor in the amount and predictability of revenue and profits in the Group's businesses. The Group's ability to retain existing customers depends on a number of factors, including:

- Customer satisfaction;
- Service offerings by competitors;
- Customer service levels; and
- Price.

In providing services, the Group would incur installation and conversion costs in connection with new customers that will need to be recovered before the contractual relationship will provide incremental profit. Longer customer relationships are likely to be more profitable.

As discussed under the 'Competition risk', a significant portion of the Group's revenues is generated from existing clients and the Group has also been successful in adding new clients every year. However, there can be no assurance that the Group would be able to retain all/significant proportion of its existing clients.

Mergers & Acquisitions

While the focus of the Group is currently more on the organic growth, it would not be averse to inorganic growth opportunities especially if these significantly increase the delivery capabilities from India or other offshore/ near shore locations.

Telecommunication infrastructure risk

The use of strategically located software development centres provides the Group with cost advantages, ability to attract and retain highly skilled personnel and consequently the ability to provide the clients with services 24 hours a day and 7 days a week. This delivery model involves the maintenance of active voice and data communication links between the Group's call centres, its software development centres and clients. Although the Group maintains redundancy facilities and satellite communication links, any loss in its ability to transmit voice and data through satellite and telephone communication links could adversely affect the Group's ability to complete client projects on a timely basis thereby affecting its revenues and operational performance. The delivery centres of the Group have moved on to a state of the art, global secured network put in place by EDS with built in redundancies and fall back options. This network is widely recognised as the only one of its kind in the world and is a source of significant competitive advantage.

Financial Risks

Foreign exchange fluctuation risk

As a predominant part of the Group's billings are in foreign currency, which is 93% for the quarter ended 30 September 2008, it is exposed to currency fluctuations and volatility against the Indian rupee. Principal currencies dealt with by the Group include the US Dollar, British Pound, Euro, Singapore Dollar, Japanese Yen and the Australian Dollar. To the extent that there is a significant appreciation of the rupee, it would affect our earnings negatively. Such volatility would also affect our assets located at various locations worldwide in terms of their carrying value. Rupee depreciation would affect the Group's import policy especially covering capital items thereby increasing our liability and cost. The expected increase in offshore work may heighten the risk of rupee appreciation. To mitigate this the Group is moving towards acquiring significant amount of domestic business which is immune to currency fluctuations as also working with EDS in several geographies to increase its onsite presence to provide a natural hedge in the business model. Currently the Group has a policy of hedging the balance sheet and is actively considering putting in place cash flow hedges on future earnings as well.

Credit risk

The Group's ability to recover dues from a client is dependent on the credit terms given to the client. With clients and operations all across the world, effective procedures and recovery mechanism have to be in place to avoid excessive

bad debts. The Group constantly reviews credibility of existing customers and follows rigorous credit checks on prospective clients before fixing credit limits and credit periods. With the increased size of operations and the marquee clients that the Group has access to through EDS, the credit checks will become more stringent leading to a reduction in the credit risk.

Liquidity risk

The Corporate Finance Department of the Group is responsible for ensuring that the Group's liquidity position is satisfactory at all times. The Group's cash flow is dependent to a large extent on the credit terms extended to clients and the effective recovery of dues from them. Delays in recovery of dues, has a direct impact on the Groups liquidity position. Investment of surplus cash resources of the Group is also an area of risk in terms of safety and liquidity and balancing this with returns. The Group also has expansion plans for its delivery infrastructure which may strain its liquidity position to a certain extent. However, given the financial strength of the Group and its access to a much larger parent company, the access to funds is not expected to be a hindrance to the business or growth.

Employee Benefits

Employee benefits consists of contribution to provident and gratuity funds.

Contributions to provident fund is as per defined contribution plan wherein both employee and the Company make monthly contributions that is equal to a specified percentage of the employee's salary to the Regional Provident Fund Office. The Company has no further obligations beyond its monthly contributions.

Contributions to gratuity and compensated absences under defined benefits are based on actuarial valuation and the contribution is made to the fund. Actuarial liability is ascertained as per the guidance issued by the Actuarial Society of India with assumptions on salary escalation, withdrawal rate, rate of discount and mortality rates. Though the assumptions are in line with the industry, a change in any of these assumptions could affect our earnings. Similarly, if the earnings of the fund is inadequate, the Company has an obligation to make good the shortfall, which would affect our earnings.

Capital expenditure risk

Significant resources are required towards acquisition of capital equipment. The Group is currently able to meet this requirement through internal accruals and has not resorted to borrowings from external lending agencies. However, this may not be the case in future wherein the Group could have to borrow from external financial agencies to tide over short term gap which are not significant.

Investment in property

The Group does not generally invest in property in the form of land and buildings. However, the Group owns certain properties purchased earlier which are held for use and future expansion. These properties are valued at cost. Due to fluctuations in the real estate market, the market value of these properties may fall below the cost at which they were originally purchased. Should these properties be sold there is a risk that the sale price may be lower than the value at which such properties are recorded in the books.

Indian Taxation risk

Currently, the Group's Indian operations enjoy several significant tax concessions provided by the laws in India. These benefits include, a tax holiday from profits generated from the export of computer software and the exemption from import customs duties on assets purchased that are to be used in export revenue generating activities.

Any amendment to the Indian taxation statutes could adversely affect the Group's financial results and competitive advantage vis a vis other countries across the world. With the Software Technology Park (STP) scheme in a sunset phase, the Group is moving towards Special Economic Zone (SEZ) schemes where it would continue to enjoy tax holidays.

Legal & Other Contractual Risks

Regulatory risks

As the Group operates in various countries round the world, it requires legal compliances of all rules, regulations and laws in these countries. Non-compliance exposes the whole Group to penal and or monetary repercussions besides generating negative publicity for the Group. The Group has appointed legal counsel and consultants in the various countries where it operates to ensure compliance with their respective regulations.

MANAGEMENT DISCUSSION OF RISKS AND CONCERNS

EDS also has a robust governance process & has legal counsels around the world whom the Group can consult.

Further, any regulatory pronouncements by any government putting restriction on outsourcing work outside recipient country can significantly affect group's operations.

Directors, Managers, Officers and other employees' liability risk

These are the legal risks of the above individuals towards third parties. If such cases are decided against such individuals, the liability could fall on the Group to make good any losses. The Group is sufficiently insured to cover such risks and also there are adequate controls in place to mitigate this.

Contractual risks

This risk pertains to liquidated damages and other penalties associated with the non-fulfilment of contractual obligations either with clients or with other parties. In addition to providing performance guarantees, the Group also makes sufficient provision for warranties and post contract customer support to cover such eventualities wherever required. The Group also has insurance cover for 'errors and omissions'.

Changes in visa / work permit / immigration rules and terrorism

Onsite efforts of the Group would be affected on account of difficulties in obtaining work permits and business visa's especially to the US. With increased focus on offshoring & more stringent norms for visa coming in, it may become challenging to deliver & come upto clients' expectation.

Some of the recently publicised events involving people from Bangalore have given the city and the country unwanted publicity and undeserved scrutiny. The fact that one of these people was apparently employed by a reputed IT company in Bangalore has not helped either.

Insider Trading

The risk of insider trading and its consequences has become a matter of concern for any organisation.

To mitigate this risk detailed insider trading guidelines are in place and these are rigorously implemented and monitored.

Technological risks

Technology risks

The Group's ability to remain competitive depends on the ability to adapt to changing technology. As a provider of information technology services, the Group strives to adapt and respond to the technological advances offered by competitors and the technological requirements of clients, in order to maintain and improve the Group's competitive position. However, there can be no assurance that the Group will develop and release new products and services or product and service enhancements within the projected time frames and within targeted costs. Significant delays, difficulties or added costs in introducing new services or enhancements, either through internal development, acquisitions or cooperative relationships with other companies, could adversely affect the market acceptance of the Group's services and operating results. The Group has now access to EDS technology that it could leverage to its advantage.

Obsolescence risks

Management continues efforts to transition to new or enhanced data processing systems and/or software, including systems that process customer data and internal management information systems. The successful implementation of these new or enhanced systems will be critical to the effective delivery of products and services and the efficient operation of the Group. Problems or delays with the installation or initial operation of the new or enhanced systems could disrupt or increase costs in connection with delivery of services and with operations planning, financial reporting and management.

Human Resources

Attracting and retaining professional talent

The Group's future success will depend in part on continued ability to hire, assimilate and retain qualified personnel. Competition for such personnel is intense, and management may not be successful in attracting or retaining such personnel. The loss of any key employee, the failure of any key employee to perform in his or her current position or the

Group's inability to attract and retain skilled employees, particularly technical and management, as needed, could harm the Group's business. The loss of the services of any executive officer or other key technical or management personnel could also harm the Group's business.

The Group strives to provide excellent staff welfare measures to promote employee satisfaction and thereby attract and retain efficient manpower. Further, to ensure that employees grow with technology the Group conducts regular training programmes. The Group has undertaken various initiatives to ensure that succession planning for key employees is put in place. The acquisition of the group by EDS significantly opens up new opportunities for our people and this should mitigate the risk of attrition to a significant degree.

Travel risks & Health Risk

Due to the nature of the Group's business, the employees are frequently required to travel abroad. In recent times, travel related risks have increased and also employees are subject to health risks in various parts of the world. The Group has a policy of taking mandatory health and travel insurance for all its employees who travel overseas.

Others

Political risks

The political establishment in India is sufficiently fragile to warrant this risk in terms of policies and restrictions that could be imposed. India's relationship with its neighbours has been and continues to be a cause of concern although there are reasons to believe that these relationships are gradually improving.

While the software development business is split between offshore and onsite, the call centre operations are largely concentrated in India. This makes it all the more susceptible to risks associated with India. The Indian call centre industry also faces competition from other countries notably Philippines and Ireland. Should clients decide to shift business out of India to other countries, this could adversely affect the Group's business. To counter this, the Group has opened a Spanish language call centre in Mexico and also a software development centre in China that will serve as a backup to the existing centres. The Group has facilities in Slough, UK and Phoenix, USA through its acquisitions of MphasiS Consulting and Eldorado Computing respectively.

The Group's Indian operations have enjoyed several tax concessions provided by the laws in India. Should the Indian authorities amend taxation statutes again, this could adversely affect the Group's financial results.

Economic risks

Trade, monetary and fiscal policies and economic conditions could substantially change. As the Group's business has grown, the Group has become susceptible to changes in general economic conditions, which could result in reductions in capital expenditure by end-user customers, longer sales cycles, deferral or delay of purchase commitments for the Group's services, and increased price competition. Although these factors have not materially impacted the Group in recent years, this would be the case if the current economic slowdown continues or worsens thus adversely affecting the Group's business and operations.

Accidents, natural calamities and safety of employees and assets

The risk of natural calamities, labour unrest, accidents with peril to employees, assets and other business interruptions could adversely affect the Group's business. The Group's operations are vulnerable to interruption by fire, earthquake, flood, power loss, telecommunications failure and other events beyond management control. Our facilities in India are currently subject to electrical blackouts as a consequence of a shortage of available electrical power. In the event these blackouts continue or increase in severity, they could disrupt the operations of affected facilities. The Group is sufficiently insured to cover such risks and interruptions to operations and the real estate strategy of the Group requires it to have 2 sites in the same city, to mitigate such risks besides having a disaster recovery and business continuity plan in place.

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 September 2008 and also the consolidated profit and loss account of the Mphasis Group for the quarter and six months ended on that date and the consolidated cash flow statement of the Mphasis Group for the six months 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 the 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 September 2008; and
 - (ii) in the case of the consolidated profit and loss account, of the consolidated profit of the Mphasis Group for the quarter and six months ended on that date; and
 - (iii) in the case of the consolidated cash flow statement, of the consolidated cash flows of the Mphasis Group for the six months ended on that date.

for **B S R & Co.**

Chartered Accountants

Zubin Shekary

Partner

Membership No. 48814

Bangalore

16 October 2008

CONSOLIDATED BALANCE SHEET

		(Rs 000's)	
	Notes	30 September 2008	31 March 2008
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	3	2,089,280	2,087,309
Reserves and surplus	4	11,939,124	9,420,739
Employee stock options outstanding	5	60,718	60,718
		14,089,122	11,568,766
LOAN FUNDS			
Secured loans	6	54,408	56,780
		14,143,530	11,625,546
APPLICATION OF FUNDS			
FIXED ASSETS			
	7		
Cost		9,139,844	7,701,719
Accumulated depreciation		(5,759,805)	(4,823,768)
Net book value		3,380,039	2,877,951
Capital work-in-progress		753,308	754,865
		4,133,347	3,632,816
GOODWILL	8	2,797,833	2,448,977
DEFERRED TAX ASSETS	9	333,572	260,129
CURRENT ASSETS, LOANS AND ADVANCES			
Cash and bank balances	10	388,082	952,506
Debtors and unbilled revenues	11	8,166,762	5,801,899
Interest receivable	12	1,162	2,542
Loans and advances	13	3,254,319	2,955,611
		11,810,325	9,712,558
CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	14	4,024,850	3,025,901
Provisions	15	906,697	1,403,033
		4,931,547	4,428,934
NET CURRENT ASSETS		6,878,778	5,283,624
		14,143,530	11,625,546

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

Jeya Kumar
Chief Executive Officer

Jim Bridges
Director

Zubin Shekary
Partner
Membership No. 48814

Susanto Banerjee
Chief Financial Officer (Interim)

A. Sivaram Nair
Company Secretary

Bangalore
16 October 2008

Bangalore
16 October 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Rs 000's)			
	Notes	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six Months ended 30 September 2007
Revenues		8,360,598	6,016,875	15,782,718	11,332,507
Cost of revenues	16	6,175,458	4,589,941	12,027,153	8,569,298
Gross profit		2,185,140	1,426,934	3,755,565	2,763,209
Selling expenses	17	326,612	251,122	605,797	497,931
General and administrative expenses	18	527,296	425,013	981,437	841,617
Provision for doubtful debts		7,622	12,176	9,763	12,591
Operating profit		1,323,610	738,623	2,158,568	1,411,070
Foreign exchange gain / (loss), net		149,010	(37,650)	133,101	(217,000)
Other income / (expense), net	19	4,534	942	5,216	3,710
Interest income	20	10,322	21,985	42,975	51,989
Profit before taxation		1,487,476	723,900	2,339,860	1,249,769
Income taxes (including Fringe Benefit Tax)	21	76,633	60,781	138,960	73,602
Net profit		1,410,843	663,119	2,200,900	1,176,167
Earnings per share (Par value - Rs 10)	27				
Basic (Rs)		6.76	3.18	10.55	5.65
Diluted (Rs)		6.72	3.15	10.49	5.59

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

Jeya Kumar
Chief Executive Officer

Jim Bridges
Director

Zubin Shekary
Partner
Membership No. 48814

Susanto Banerjee
Chief Financial Officer (Interim)

A. Sivaram Nair
Company Secretary

Bangalore
16 October 2008

Bangalore
16 October 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 and other pronouncements of the Institute of the Chartered Accountants of India ('ICAI').

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 the 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 rateably 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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 other services		For assets used in call center services	
	Years		Years
Buildings	10	Buildings	10
Plant and machinery	4	Plant & machinery (including telecom eqpts)	5
Computer equipment	2	Computer equipment	5
Office equipment	3	Office equipment	5
Furniture and fixtures	4	Furniture and fixtures	5
Vehicles	3	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.

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, Accounting for 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 and also to hedge the foreign currency risk of firm commitment or highly probable forecast transaction. The premium or discount on forward contracts that are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, 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.

With effect from 1 April 2008, the Company has adopted the principles of Accounting Standard ('AS') 30 "Financial Instruments: Recognition and Measurement" in respect of its derivative financial instruments that are not covered by AS 11 "Accounting for the Effects of Changes in Foreign Exchange Rates" and that relate to a firm commitment or a highly probable forecast transaction. In accordance with AS 30, such derivative financial instruments, which qualify for cash flow hedge accounting and where Company has met all the conditions of AS 30, are fair valued at balance sheet date and the resultant exchange gain / loss is credited / debited to the hedging reserve included in the Reserves and Surplus. This gain / loss would be recorded in profit and loss account when the underlying transactions affect earnings. Other derivative instruments that relate to a firm commitment or a highly probable forecast transaction and that do not qualify for hedge accounting have been recorded at fair value at the reporting date and the resultant exchange gain / loss has been credited / debited to profit and loss account for the period.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Group 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 Group 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.

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.

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.

In terms of a merger agreement executed between Electronic Data Systems Corporation, Hewlett-Packard Company ('HP') and Hawk Merger Corporation, the last named company merged into Electronic Data Systems Corporation on 26 August 2008. As a result of this merger, Electronic Data Systems Corporation became a 100% subsidiary of HP and was renamed as Electronic Data Systems LLC. Further, HP became the ultimate holding company of MphasiS.

List of subsidiaries with percentage holding

Subsidiaries	Country of incorporation and other particulars	% of holding
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 ('MphasiS Consulting')	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(d)]	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries	Country of incorporation and other particulars	% of holding
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
MsourcE Mauritius Inc. ('MsourcE Mauritius')	a subsidiary of MphasiS Europe, organised under the laws of Mauritius	100
MsourcE (India) Private Limited ('MsourcE India')	a subsidiary of MsourcE Mauritius, organised under the laws of India	100

2(a) The Company acquired control of Kshema Technologies Limited ("Kshema") on 1 June 2004. Kshema was 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) 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 then 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. During August 2008, EDS was acquired by Hewlett Packard Company ('HP') and resultingly HP is the ultimate holding company.

2(c) 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(d) During April 2008, MphasiS Belgium BVBA was incorporated as a subsidiary of MphasiS Limited.

(Rs 000's)

30 September 2008 31 March 2008

3. SHARE CAPITAL**Authorised capital**

245,000,000 (31 March 2008: 245,000,000)

equity shares of Rs. 10 each	2,450,000	2,450,000
------------------------------	-----------	-----------

Issued, subscribed and paid-up capital

208,935,060 (31 March 2008: 208,737,972) equity shares of Rs 10 each

	2,089,351	2,087,380
--	-----------	-----------

[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].

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
--	----	----

	2,089,280	2,087,309
--	------------------	------------------

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Rs 000's)

	30 September 2008	31 March 2008
4. RESERVES AND SURPLUS		
Securities Premium Account		
Balance brought forward	1,543,318	1,475,515
Add: Premium on allotment of shares	20,649	67,641
Add: Transferred from employee stock options outstanding	-	162
[Securities premium amounting to Rs 1,126,867 (31 March 2008: Rs 1,126,867) is for consideration other than cash]		
	1,563,967	1,543,318
Foreign currency translation reserve		
Balance brought forward	(373,156)	(44,676)
Add/(Less): During the period	435,374	(328,480)
	62,218	(373,156)
Capital reserve		
Balance brought forward from previous period	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
Hedging reserve	(137,820)	-
Profit and loss account		
Balance brought forward	7,461,882	5,937,125
Add: Net profit for the period	2,200,900	2,552,873
Profit available for appropriation	9,662,782	8,489,998
Appropriations		
Transfer to General reserve	-	220,769
Final dividend	596	1,210
Proposed dividend	-	688,788
Tax on dividend	101	117,265
Issue of bonus shares	21	84
	9,662,064	7,461,882
	11,939,124	9,420,739

(Rs 000's)

	30 September 2008	31 March 2008
5. EMPLOYEE STOCK OPTIONS OUTSTANDING		
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
	60,718	60,718

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 six months ended 30 September 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 six months ended 30 September 2008 and year ended 31 March 2008 are set out below:

	Six months ended 30 September 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 September 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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

	Six months ended 30 September 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	39,980	99.65	105,300	105.20
Options outstanding at the end	855,128	94.44	895,108	94.68
Exercisable at the end of the period	839,928	93.79	857,108	93.08

The weighted average share price of options exercised as at the date of exercise was Rs 233.65 (31 March 2008: Rs 271.11). The options outstanding as at 30 September 2008 had an exercise price ranging from Rs 22.63 to Rs 275.00 (31 March 2008: Rs 23.21 to Rs 275.00) and weighted average remaining contractual life of 5.15 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 six months ended 30 September 2008 and year ended 31 March 2008 are set out below:

	Six months ended 30 September 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	18,050	127.67	70,720	133.12
Lapsed	44,429	134.81	145,983	124.82
Exercised	51,327	125.64	121,486	122.49
Options outstanding at the end	753,919	138.19	867,725	137.06
Exercisable at the end of the period	484,361	135.90	390,688	137.01

The weighted average share price of options exercised as at the date of exercise was Rs 222.14 (31 March 2008: Rs 286.78). The options outstanding as at 30 September 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 1.71 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.

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

	Six months ended 30 September 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	15,827	102.19	11,500	91.50
Exercised	34,350	117.51	174,100	167.56
Options outstanding at the end	175,950	116.64	229,877	116.00
Exercisable at the end of the period	128,600	111.50	130,177	104.82

The weighted average share price of options exercised as at the date of exercise was Rs 219.53 (31 March 2008: Rs 273.46). The options outstanding as at 30 September 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 1.5 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 Msource Corporation as on 20 September 2004, pursuant to its merger with Mphasis Corporation and the assumption of the Msource 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 Msource 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 Msource 2001 plan, the exercise price being the equivalent amount payable by the option holder under the Msource 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 Msource 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Six months ended 30 September 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	12,402	133.08	224,229	115.86
Lapsed	26,889	132.48	81,211	133.11
Exercised	69,331	117.24	136,836	130.40
Options outstanding at the end	461,351	125.76	569,973	125.20
Exercisable at the end of the period	342,005	121.41	311,892	115.44

The weighted average share price of options exercised as at the date of exercise was Rs 222.63 (31 March 2008: Rs 306.90). The options outstanding as at 30 September 2008 had an exercise price ranging from Rs 15.59 to Rs 184.50 (31 March 2008: Rs 50.34 to Rs 184.50) and weighted average remaining contractual life of 3.29 years (31 March 2008: 4.08 years).

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 on 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, ('EDS') the holding company, had issued Restricted Stock Units ('RSU') to certain employees of the Group. These would be replaced by RSUs of Hewlett Packard Company (HP), pursuant to the merger. Cost incurred by EDS upon issuing such RSU's for the quarter and six months ended 30 September 2008 amounted to Rs 30,034,691 and Rs 58,619,433 respectively (quarter and six months ended 30 September 2007: Rs 15,889,981 and Rs. 37,278,627 respectively). However, the cost has been borne by EDS and accordingly this has not been accounted as an expense by the Group.

	(Rs 000's)	
	30 September 2008	31 March 2008
6. SECURED LOANS		
Other loans	54,408	56,780
(Secured by the hypothecation of vehicles)		
	54,408	56,780

7. FIXED ASSETS (Rs 000's)

Assets	Cost			Accumulated depreciation			Net book value		
	1 April 2008	Additions	Deductions/ Adjustments*	30 September 2008	1 April 2008	Charge	Deductions/ Adjustments*	30 September 2008	31 March 2008
Tangible assets									
Freehold land	27,375	-	-	27,375	-	-	-	27,375	27,375
Buildings	1,230	-	-	1,230	861	62	-	307	369
Leasehold improvements	1,071,790	201,379	2,397	1,275,566	718,847	109,501	1,593	445,625	352,943
Plant and machinery	1,773,596	194,462	56,838	2,024,896	1,011,228	148,843	39,628	825,197	762,368
Computer equipment	2,198,224	302,690	20,078	2,520,992	1,515,667	276,007	20,078	709,240	682,557
Office equipment	806,520	64,253	4,330	875,103	482,656	92,304	2,305	297,838	323,864
Furniture and fixtures	936,338	81,076	7,587	1,025,001	530,402	91,549	7,587	395,463	405,936
Vehicles	100,619	14,631	(9,761)	105,489	44,014	14,297	(6,778)	53,956	56,605
Intangible assets									
Software	786,027	453,901	44,264	1,284,192	520,093	124,820	14,241	625,038	265,934
Total	7,701,719	1,312,392	125,733	9,139,844	4,823,768	857,383	78,654	3,380,039	2,877,951
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	(Rs 000's)	
	30 September 2008	31 March 2008
8. GOODWILL		
Goodwill arising on consolidation	2,797,833	2,448,977
	2,797,833	2,448,977
9. DEFERRED TAX ASSETS		
On depreciation	260,382	199,974
On provisions for doubtful debts	24,518	23,274
On provisions for employee benefits	48,672	36,881
	333,572	260,129
10. CASH AND BANK BALANCES		
Cash in hand	801	476
Remittances in transit	12,116	5,464
Balances with scheduled banks		
- Current accounts *	195,640	144,821
- Deposit accounts **	14,145	554,067
- Margin money deposit account	913	943
Balances with non-scheduled banks		
- Current accounts	164,467	246,735
	388,082	952,506
* Includes Rs 1,251,941 and Rs 1,275,586 representing the balances in unclaimed dividends accounts as at 30 September 2008 and 31 March 2008 respectively.		
** Includes restricted deposits of Rs 10,732,170 as at 30 September 2008 (31 March 2008: Rs 10,732,170) [refer note 31]		
11. DEBTORS AND UNBILLED REVENUES		
Debts outstanding for a period exceeding six months, unsecured		
- considered good	23,060	64,731
- considered doubtful	164,827	143,035
Other debts, unsecured		
- considered good	3,206,609	3,021,992
	3,394,496	3,229,758
Less: Provisions for doubtful debts (net of write-offs)	(164,827)	(143,035)
	3,229,669	3,086,723
Unbilled revenues	4,937,093	2,715,176
	8,166,762	5,801,899

(Rs 000's)

	30 September 2008	31 March 2008
--	-------------------	---------------

12. INTEREST RECEIVABLE

Unsecured - considered good	1,162	2,542
	1,162	2,542

13. LOANS AND ADVANCES

Unsecured - considered good		
Employee loans	3,951	5,469
Advances recoverable in cash or in kind or for value to be received	789,571	701,846
Loan to a ESOP Trust	3,575	3,575
Deposits		
- premises	1,028,924	1,021,544
- with government authorities	10,907	10,683
- others	11,782	11,024
Advance tax and tax deducted at source	1,086,848	1,009,674
MAT credit entitlement	318,761	191,796
Unsecured - considered doubtful		
Advances recoverable in cash or in kind or for value to be received	43,345	40,990
	3,297,664	2,996,601
Less: Provisions (net of write-offs)	(43,345)	(40,990)
	3,254,319	2,955,611

14. CURRENT LIABILITIES

Sundry creditors	1,200,326	760,489
Advances from clients	21,041	28,320
Unearned receivables	45,401	92,388
Salary related costs	740,581	1,028,801
Other liabilities*	2,016,249	1,114,627
Unclaimed dividends	1,252	1,276
	4,024,850	3,025,901

* 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)].

15. PROVISIONS

Compensated absences	186,784	141,985
Gratuity (refer note 29)	132,724	89,391
Proposed dividend	-	688,788
Tax on dividend	-	117,060
Taxation	587,189	365,809
	906,697	1,403,033

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	(Rs 000's)			
	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
16. COST OF REVENUES				
Salary and allowances	3,517,047	2,637,115	6,857,314	4,917,988
Contribution to provident and other funds	305,605	209,741	573,126	371,904
Staff welfare	204,705	151,111	380,086	279,336
Travel*	244,978	212,398	593,081	444,689
Recruitment charges	22,912	58,530	43,102	99,908
Communication expenses	211,081	157,220	387,023	310,305
Rent	324,646	211,722	622,506	385,866
Professional charges	11,851	39,247	15,987	43,442
Depreciation and amortisation	420,920	300,304	800,629	567,064
Software development charges	256,234	151,533	523,224	359,690
Staff training expenses	21,947	17,031	21,947	70,286
Electricity	111,608	93,419	208,724	174,132
Software support and annual maintenance charges	410,596	261,375	776,485	413,038
Miscellaneous expenses	111,328	89,195	223,919	131,650
	6,175,458	4,589,941	12,027,153	8,569,298
* Six months ended 30 September 2008 includes accelerated amortization of visa costs amounting to Rs 92,786 incurred in prior periods owing to a change in accounting treatment. Consequently, the profit of the six months ended 30 September 2008 is lower by the same amount.				
17. SELLING EXPENSES				
Salary and allowances	232,125	182,085	426,297	361,808
Contribution to provident and other funds	23,137	15,464	43,822	31,569
Staff welfare	2,754	2,954	6,251	5,644
Travel	28,386	18,437	53,230	38,721
Communication expenses	11,522	9,508	20,915	16,917
Rent	5,735	5,907	13,670	12,546
Professional charges	5,225	2,532	7,471	5,116
Depreciation and amortisation	2,809	3,772	5,866	7,011
Recruitment expenses	4,340	2,309	9,282	2,855
Business meeting expenses	444	2,579	2,706	3,606
Miscellaneous expenses	10,135	5,575	16,287	12,138
	326,612	251,122	605,797	497,931
18. GENERAL AND ADMINISTRATIVE EXPENSES				
Salary and allowances	224,079	173,825	436,684	334,591
Contribution to provident and other funds	17,326	10,967	33,507	23,060
Staff welfare	20,670	11,005	44,395	32,969
Travel	18,499	19,682	31,171	32,246
Communication expenses	17,366	20,774	32,420	43,598
Rent	31,703	21,690	55,846	40,477
Professional charges	33,245	14,965	72,581	38,985
Depreciation and amortisation	22,000	36,381	50,888	71,073

	(Rs 000's)			
	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
GENERAL AND ADMINISTRATIVE EXPENSES (continued)				
Auditor's remuneration	2,550	2,000	5,100	4,000
Bank charges	1,999	4,381	5,244	5,952
Insurance	6,901	5,274	14,702	11,875
Rate and taxes	11,233	2,251	13,711	4,227
Repair and maintenance				
- Plant and machinery	13,156	6,710	18,767	11,192
- Building	3,393	5,648	7,438	12,301
- Others	43,610	35,160	63,254	74,342
Membership and subscriptions	3,284	1,518	5,046	2,342
Printing and stationery	14,696	12,440	20,007	22,427
Postage and courier charges	2,796	2,275	4,105	3,481
Miscellaneous expenses	38,790	38,067	66,571	72,479
	527,296	425,013	981,437	841,617
19. OTHER INCOME / (EXPENSE), NET				
Profit on sale of fixed assets	806	938	1,463	3,575
Miscellaneous income / (expense)	3,728	4	3,753	135
	4,534	942	5,216	3,710
20. INTEREST INCOME				
Interest on deposits and loans	10,322	21,985	42,975	51,989
	10,322	21,985	42,975	51,989
21. INCOME TAXES [INCLUDING FRINGE BENEFIT TAX]				
Current taxes				
Domestic taxes	158,635	67,543	253,815	126,721
Foreign taxes	43,889	3,090	60,360	5,840
Deferred taxes				
Domestic taxes	(43,296)	(15,363)	(72,217)	(72,858)
Foreign taxes	-	43,411	(548)	41,227
MAT credit entitlement	(94,285)	(43,193)	(126,965)	(59,071)
Fringe Benefit Tax	11,690	5,293	24,515	31,743
	76,633	60,781	138,960	73,602

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 148,261,665 as at 30 September 2008 (31 March 2008: Rs 137,546,790) have been furnished to the Customs authorities in this regard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**23. Contingent liabilities and commitments**

- (a) Claims against the Group not acknowledged as debts amounting to Rs 329,468,312 (31 March 2008: Rs 695,561,259);
- (b) Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at 30 September 2008: Rs 858,726,579 (31 March 2008: Rs 717,025,017);
- (c) Guarantees outstanding including those furnished to the Customs authorities as at 30 September 2008: Rs 340,066,490 (31 March 2008: Rs 433,125,680); and
- (d) Forward contracts outstanding as at 30 September 2008 are as below:

Currency	Amount	Amount in INR
USD	144,850,000	6,802,850,250
GBP	3,450,000	292,146,000
EUR	1,500,000	101,111,250
SGD	9,796,712	320,891,302

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

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 accounted in accordance with AS 11, amounted to Rs 15,787,350 as at 30 September 2008 (31 March 2008: 976,269)

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

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 177,153,903 and Rs 338,051,542 for the quarter and six months ended 30 September 2008 respectively and Rs 126,590,144 and Rs 243,237,585 for the quarter and six months ended 30 September 2007 respectively.

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

Period	(Rs 000's)
Not later than 1 year	819,831
Later than 1 year and not later than 5 years	1,083,409
More than 5 years	-
	1,903,240

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 184,929,391 and Rs 353,970,030 for the quarter and six months ended 30 September 2008 respectively and Rs 112,728,837 and Rs 195,651,839 for the quarter and six months ended 30 September 2007 respectively.

25. Related party transactions**(a) Entities where control exists:**

- Hewlett Packard Company, USA (ultimate holding company)
- Hewlett Packard Eagle Corporation, USA (100% subsidiary of Hewlett Packard Company, USA)
- Electronic Data Systems LLC, USA (formerly Electronic Data Systems Corporation, USA), (100% subsidiary of Hewlett Packard Eagle Corporation, USA)*

*EDS Asia Pacific Holdings, Mauritius (formerly TH Holding, Mauritius) and EDS World Corporation (Far East), the subsidiaries of Electronic Data Systems LLC, USA (formerly Electronic Data Systems Corporation, USA) hold 39.73% and 21.11% 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
- Jose de la Torre Director
- Nawshir H Mirza Director
- D S Brar Director
- Joseph Eazor Director
- Vinita Bali Director
- Jim Bridges Director
- Anthony Glasby Director – Appointed on 08 October 2008
- Andreas W Mattes Director – Appointed on 08 October 2008
- Jeroen Tas Non-executive Vice Chairman - resigned w.e.f 13 October 2008
- Thomas Erhardt Director - resigned w.e.f 06 October 2008
- Michael Ronald Koehler Director - resigned w.e.f 06 October 2008

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

- | | |
|--|---|
| ■ TH Consulting India Private Limited | ■ EDS (Australia) PTY Limited |
| ■ EDS World Corporation (Far East) | ■ EDS Business Services PTY Limited |
| ■ EDS (Operations) Pty Limited | ■ EDS Gulf States, WLL |
| ■ EDS Operations Services GmbH | ■ EDS (China) Co. Limited |
| ■ EDS Answare SA | ■ EDS Sweden AB |
| ■ Electronic Data Systems Limited | ■ EDS International (Singapore) Pte Limited |
| ■ Electronic Data Systems (EDS) International B.V. | ■ EDS (Thailand) Co. Ltd. |
| ■ EDS (New Zealand) Limited | ■ Electronic Data Systems Taiwan Corporation |
| ■ EDS Information Services LLC | ■ EDS International (Greece) SA |
| ■ Electronic Data Systems Belgium N.V. | ■ EDS Application Services GmbH |
| ■ EDS Canada Inc | ■ EDS (SCHWEIZ) AG |
| ■ EDS Information Business GmbH | ■ EDS Electronic Data Systems (Hong Kong) Limited |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- 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
- EDS Poland Sp.Z.O.O
- GEMS Techno Solutions India Private Ltd
- Hewlett Packard India Limited
- Hewlett Packard India Sales Pvt. Ltd.
- HP India Software Operation Pvt Ltd
- Compaq Computer India Pvt Ltd
- Hewlett Packard AP (Hong Kong) Ltd
- Hewlett Packard International Sarl
- Hewlett-Packard Asia Pacific
- Hewlett-Packard India Sales Pvt. Ltd.
- Mercury Interactive (Singapore) Pte Ltd
- Neoware Inc

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

	(Rs 000's)			
	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Rendering of services to other related parties	4,832,778	2,796,898	8,866,653	5,103,264
- EDS Information Services, LLC	3,730,038	2,472,906	6,991,557	4,665,627
- Others	1,102,740	323,992	1,875,096	437,637
Software development charges paid to other related parties	28,172	16,300	50,952	19,431
- RelQ Software Private Limited	15,230	7,989	32,883	7,989
- Electronic Data Systems Corporation-US	12,942	8,311	18,069	11,442
Software support and annual maintenance charges paid to other related parties **	390,234	246,885	732,958	383,674
- EDS International (Singapore) Pte Limited	390,234	246,885	732,958	383,674
Remuneration to executive key management personnel	12,472	6,307	42,071	13,492
- Deepak Patel	-	6,307	17,130	13,492
- Jeya Kumar	12,472	-	24,941	-
Commission to non-executive directors	1,938	2,363	4,000	4,125
- Davinder Singh Brar	600	600	1,200	1,200
- Jose de la Torre	438	563	1,000	1,125
- Vinita Bali	300	600	600	600
- Nawshir H Mirza	600	600	1,200	1,200
Exercise of stock option by non-executive directors	-	-	-	26,250
- Jeroen Tas (Director)	-	-	-	26,250
Loan given to BFL Employee Equity Reward Trust	-	2,500	5,000	2,500
Loan refunded by BFL Employee Equity Reward Trust	5,000	-	5,000	37,500

*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 September 2008, the provisioning for such services has been made on best estimate basis.

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

(Rs 000's)

	30 September 2008	31 March 2008
Interest free loans to BFL Employee Equity Reward Trust, included in Loans and advances	3,575	3,575
Sundry debtors and unbilled revenue - other related parties	5,274,632	3,131,811
- EDS Information Services, LLC	3,991,202	2,384,042
- Electronic Data Systems Ltd	-	119,359
- Others	1,283,430	628,410
Sundry creditors - other related parties, included in Current liabilities	630,537	430,369
- EDS International (Singapore) Pte Limited	547,071	415,531
- Others	83,466	14,838

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 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Segment revenue				
Application Services	5,378,190	4,003,327	10,087,233	7,477,922
BPO Services	1,727,950	1,314,476	3,365,245	2,558,713
ITO Services	1,254,458	699,072	2,330,240	1,295,872
	8,360,598	6,016,875	15,782,718	11,332,507
Segment profit				
Application Services	1,355,357	939,870	2,274,748	1,862,479
BPO Services	489,628	311,865	899,139	636,365
ITO Services	340,155	175,199	581,678	264,365
	2,185,140	1,426,934	3,755,565	2,763,209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Primary segment information (continued)

(Rs 000's)

	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Interest income, net	10,322	21,985	42,975	51,989
Other unallocable expenditure, net of unallocable income	(707,986)	(725,019)	(1,458,680)	(1,565,429)
Profit before taxation	1,487,476	723,900	2,339,860	1,249,769
Income taxes (Including Fringe benefit tax)	76,633	60,781	138,960	73,602
Profit after taxation	1,410,843	663,119	2,200,900	1,176,167
			30 September 2008	31 March 2008
Segment assets				
Application Services			10,202,489	8,601,129
BPO Services			4,961,901	3,995,127
ITO Services			1,487,935	865,976
Unallocated assets			2,422,752	2,592,248
			19,075,077	16,054,480
Segment liabilities				
Application Services			3,247,234	1,430,845
BPO Services			727,296	545,157
Unallocated liabilities			1,011,425	2,509,712
			4,985,955	4,485,714
	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Capital expenditure				
Application Services	461,104	429,376	827,811	780,737
BPO Services	200,999	207,178	335,749	302,533
ITO Services	62,205	10,217	88,647	29,075
Unallocated	42,592	49,391	58,628	67,124
	767,900	696,162	1,310,835	1,179,469
Depreciation and amortisation				
Application Services	246,855	133,735	455,150	232,508
BPO Services	124,877	121,472	247,962	243,657
ITO Services	9,776	11,001	20,436	21,263
Unallocated	64,222	74,249	133,835	147,720
	445,730	340,457	857,383	645,148

Secondary segment information (revenues) (Rs 000's)

	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Region				
USA	5,650,331	4,007,549	10,599,214	7,623,737
Europe	1,619,977	1,205,664	3,005,459	2,178,570
Asia Pacific	343,499	275,636	643,372	534,275
Japan	53,445	60,339	110,309	103,906
The Middle East and India	693,346	467,687	1,424,364	892,019
Total	8,360,598	6,016,875	15,782,718	11,332,507

Revenues by geographic area are based on the geographical location of the client.

Secondary segment information (segment assets)

	30 September 2008	31 March 2008
Region		
USA	1,664,962	1,758,112
The Middle East and India	17,045,099	13,853,346
Others	356,016	443,022
Total	19,075,077	16,054,480

Secondary segment information (capital expenditure)

	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Region				
USA	44,579	46,525	114,510	79,159
The Middle East and India	722,179	646,877	1,194,369	1,094,218
Others	1,142	2,760	1,956	6,092
Total	767,900	696,162	1,310,835	1,179,469

27. Earnings Per Share ('EPS')

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

	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Number of weighted average shares considered for calculation of basic earnings per share	208,683,691	208,323,797	208,631,842	208,251,460
Add: Dilutive effect of stock options	1,263,196	1,874,221	1,233,977	1,988,432
Number of weighted average shares considered for calculation of diluted earnings per share	209,946,887	210,198,018	209,865,819	210,239,892

205,426 weighted average number of shares (30 September 2007: 214,189 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Net profit as reported	1,410,843	663,119	2,200,900	1,176,167
Add: Stock based employee compensation expense determined under the intrinsic value method	-	-	-	-
Less: Stock based employee compensation expense determined under the fair value method	4,595	3,627	9,879	4,446
Pro-forma net profit	1,406,248	659,492	2,191,021	1,171,721
Earning per share: Basic				
As reported	6.76	3.18	10.55	5.65
Pro-forma	6.74	3.17	10.50	5.63
Earning per share: Diluted				
As reported	6.72	3.15	10.49	5.59
Pro-forma	6.70	3.14	10.44	5.57

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

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

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)	
	30 September 2008	31 March 2008
Change in projected benefit obligation		
Obligations at period beginning	204,098	173,034
Service cost	40,052	60,553
Interest cost	8,139	13,634

Reconciliation of the projected benefit obligations (continued)

	(Rs 000's)	
	30 September 2008	31 March 2008
Benefits paid	(15,590)	(10,161)
Actuarial gain/(loss)	(1,858)	(32,962)
Obligations at period end	234,841	204,098
Change in plan assets		
Plan assets at period beginning, at fair value	114,707	95,532
Expected return on plan assets	4,300	6,973
Actuarial gain/(loss)	(1,981)	1,722
Contributions	681	20,641
Benefits paid	(15,590)	(10,161)
Plans assets at period end, at fair value	102,117	114,707
Reconciliation of present value of obligation and fair value of plan assets		
Fair value of plan assets at the end of the period	102,117	114,707
Present value of defined benefit obligation at the end of the period	234,841	204,098
Liability recognised in the balance sheet	(132,724)	(89,391)
Assumptions		
Interest rate	8.62%	7.92%
Expected rate of return on plan assets	8.62%	7.92%
Expected contribution over next one year	25,000	25,000

	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Gratuity cost for the period				
Service cost	17,480	15,179	40,052	40,640
Interest cost	3,943	3,288	8,139	6,818
Expected return on plan assets	(2,053)	(1,811)	(4,300)	(3,057)
Actuarial loss/(gain)	3,688	5,182	123	(35,645)
Net gratuity cost	23,058	21,838	44,014	8,756

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.

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

	Quarter ended 30 September 2008	Quarter ended 30 September 2007	Six months ended 30 September 2008	Six months ended 30 September 2007
Revenue recognised on customised software development contracts	2,596,361	2,001,018	4,864,154	3,620,019
	2,596,361	2,001,018	4,864,154	3,620,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Disclosure for contracts in progress at the reporting date

	(Rs 000's)	
	30 September 2008	31 March 2008
Fixed Price projects:		
Revenue recognised until the reporting date	823,382	693,271
Unbilled revenue	363,179	124,305
Unearned receivable	11,335	14,709
Time and material projects:		
Revenue recognised during the quarter	2,241,347	1,780,856
Unbilled revenue	1,378,504	757,815
Unearned receivable	232,191	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's figures have been regrouped/reclassified, wherever necessary, to conform to the current period presentation.

For and on behalf of the Board of Directors

Jeya Kumar
Chief Executive Officer

Jim Bridges
Director

Susanto Banerjee
Chief Financial Officer (Interim)

A. Sivaram Nair
Company Secretary

Bangalore
16 October 2008

CONSOLIDATED CASH FLOW STATEMENT

(Rs 000's)

	Six months ended 30 September 2008	Six months ended 30 September 2007
Cash flows from operating activities:		
Profit before taxation	2,339,860	1,249,769
Adjustments for:		
Interest income	(42,975)	(51,989)
Loss / (Profit) on sale of fixed assets	(1,463)	(3,575)
Depreciation and amortisation	857,383	645,148
Effect of exchange rate changes	41,797	21,929
Operating profit before working capital changes	3,194,602	1,861,282
Debtors and unbilled revenues	(2,503,953)	(748,194)
Loans and advances	(159,632)	(187,929)
Current liabilities and provisions	1,045,763	780,274
Cash generated from operations	1,576,750	1,705,433
Income taxes (paid)/ refund	(194,484)	(314,976)
Net cash provided by operating activities	1,382,296	1,390,457
Cash flows from investing activities:		
Interest received	44,355	58,717
Proceeds from sale of fixed assets	3,547	4,633
Purchase of fixed assets	(1,210,647)	(1,058,986)
Net cash used in investing activities	(1,162,745)	(995,636)

CONSOLIDATED CASH FLOW STATEMENT (continued)**(Rs 000's)**

	Six months ended 30 September 2008	Six months ended 30 September 2007
Cash flows from financing activities:		
Proceeds from issue of share capital	1,950	4,185
Proceeds of premium from issue of share capital	20,649	54,235
Availment of secured loans	14,482	31,775
Repayment of secured loans	(16,854)	(14,156)
Dividend paid including dividend tax	(806,569)	(731,305)
Net cash used in financing activities	(786,342)	(655,266)
Changes in cash and cash equivalents	(566,791)	(260,445)
Effect of exchange rate changes	2,367	(8,094)
Cash and cash equivalents at beginning of the period	952,506	1,892,557
Cash and cash equivalents at end of the period [refer note 10]	388,082	1,624,018

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

For and on behalf of the Board of Directorsfor **B S R & Co.***Chartered Accountants***Jeya Kumar***Chief Executive Officer***Jim Bridges***Director***Zubin Shekary***Partner*

Membership No. 48814

Susanto Banerjee*Chief Financial Officer (Interim)***A. Sivaram Nair***Company Secretary*

Bangalore

16 October 2008

Bangalore

16 October 2008

CONSOLIDATED CASH FLOW STATEMENT**Reconciliation of consolidated financial statement items with consolidated cash flow items****(Rs 000's)**

	Six months ended 30 September 2008	Six months ended 30 September 2007
Purchase of fixed assets		
As per the Consolidated Balance Sheet	1,312,392	1,061,712
Add: Closing capital work-in-progress	753,308	362,570
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	(300,684)	(143,353)
Add: Effect of foreign exchange translation	61,216	-
Purchase of fixed assets	1,210,647	1,058,986
Loans and advances		
As per the Consolidated Balance Sheet	3,254,319	2,061,481
Less: Advance income tax & tax deducted at source considered separately	(1,086,848)	(807,033)
Less: MAT credit entitlement considered separately	(318,761)	(59,071)
Add: Effect of foreign exchange translation	65,063	24,777
	1,913,773	1,220,154
Less: Opening balance considered	1,754,141	1,032,225
Changes in loans and advances	159,632	187,929
Current Liabilities and Provisions		
As per the Consolidated Balance Sheet	4,931,547	3,212,715
Less: Creditors for capital goods, liability for unclaimed dividend, provision for taxation and proposed dividend & tax thereon considered separately	(889,125)	(387,435)
Less: Liability for Kshema acquisition considered separately	(17,060)	(17,060)
Less: Liability for EDS India merger expenses considered separately	(66,688)	(64,992)
Add: Effect of foreign exchange translation	120,062	43,119
	4,078,736	2,786,347
Less: Opening balance considered	3,032,973	2,006,073
Changes in current liabilities and provisions	1,045,763	780,274

CONSOLIDATED CASH FLOW STATEMENT (continued)**Reconciliation of consolidated financial statement items with consolidated cash flow items (continued)**

	(Rs 000's)	
	Six months ended 30 September 2008	Six months ended 30 September 2007
Income taxes paid/(refund)		
As per the Consolidated Profit and Loss Account	138,960	73,602
Add: Increase in deferred taxes	73,443	27,180
Less: (Increase)/ decrease in provision for taxation	(221,380)	(87,514)
Add: Increase in balance in advance income tax and tax deducted at source	77,174	247,090
Add: Increase in balance in MAT credit entitlement	126,965	59,071
Less: Effect of exchange rate changes	(678)	(4,453)
Income taxes paid	194,484	314,976
Interest Received,		
Interest income, Net	42,975	51,989
Add: Opening interest receivable	2,542	11,449
Less: Closing interest receivable	(1,162)	(4,721)
Interest received	44,355	58,717
Sundry debtors and unbilled revenue		
As per the Consolidated Balance Sheet	8,166,762	4,872,750
Add: Effect of foreign exchange translation	139,090	85,564
	8,305,852	4,958,314
Less: Opening Balance considered	5,801,899	4,210,120
Changes in sundry debtors and unbilled revenue	2,503,953	748,194

For and on behalf of the Board of Directors

Jeya Kumar

Chief Executive Officer

Jim Bridges

Director

Susanto Banerjee

Chief Financial Officer (Interim)

A. Sivaram Nair

Company Secretary

Bangalore

16 October 2008

MANAGEMENT DISCUSSION AND ANALYSIS OF CRITICAL ACCOUNTING POLICIES AND GLOSSARY OF TERMS USED IN THE FINANCIAL STATEMENTS

A. Management discussion of critical accounting policies

Critical Accounting Policies

The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend the business activities of an organisation. To aid in the understanding of the MphasiS Group's financial statements, management has identified certain "critical accounting policies". These policies have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

The discussion and analysis of the Group's financial condition and results of operations are based upon the Group's Audited Consolidated Financial Statements, which have been prepared in accordance with the accounting standards pronounced by the Institute of Chartered Accountants of India and accounting principles generally accepted in India. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities as at the date of the financial statements. Management estimates, judgments and assumptions are continually evaluated based on available information and experience. Due to the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Certain of the Group's accounting policies require higher degrees of judgment than others in their application. A "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The management believes that the accounting policies discussed below fit this definition. In addition, Note 1 to the Audited Consolidated Financial Statements includes further discussion of the Group's significant accounting policies.

Revenue Recognition

The Group provides services under time-and-material, unit-price or fixed-price contracts, which may extend beyond the current financial period. Under time-and-material and unit-price contracts under which costs are generally incurred in proportion with contracted billing schedules, revenue is recognised when the customer may be billed. Such method is expected to result in reasonably consistent profit margins over the contract term. For fixed-price contracts, the Group follows the percentage-of-completion method. The percentage-of-completion methodology generally results in the recognition of reasonably consistent profit margins over the life of a contract. Amounts recognised as revenue are calculated using the percentage of services completed, on a current cumulative cost to total cost basis. Cumulative revenues recognised may be less or greater than cumulative billings at any point in time during a contract's term. The resulting difference is recognised as unbilled revenue or unearned receivable, depending on whether the revenue recognised is greater or less than the cumulative billings, respectively.

Any estimation process, including that used in preparing contract accounting models, involves inherent risk. Management reduce the inherent risks relating to revenue and cost estimates in percentage-of-completion models through corporate policy, approval and monitoring processes. Risks relating to service delivery, usage, productivity and other factors are considered in the estimation process. If considerable risk exists, a zero-profit methodology is applied to a specific client contract's percentage-of-completion model whereby the amount of revenue recognised is limited to the amount of costs incurred until such time as the risks have been partially or wholly mitigated through performance. Management estimates of revenues and expenses on client contracts change periodically in the

MANAGEMENT DISCUSSION AND ANALYSIS OF CRITICAL ACCOUNTING POLICIES AND GLOSSARY OF TERMS USED IN THE FINANCIAL STATEMENTS

normal course of business, occasionally due to modifications of contractual arrangements. In addition, the implementation of cost saving initiatives and achievement of productivity gains generally results in a reduction of estimated total contract expenses on the relevant client contracts. For client contracts accounted for under the percentage-of-completion method, such changes would be reflected in the results of operations as a change in the accounting estimate in the period the revisions are determined. For all client contracts, provisions for estimated losses, i.e. where the total contract costs are expected to exceed the total contract revenues, on individual contracts are made in the period in which such losses first become apparent.

Provision for Doubtful Debts

Most of the Group's receivables are generated on a fee-for-service basis and are subject to credit losses. Management have attempted to provide for expected credit losses based on managements past experience with similar receivables and believe such provisions to be adequate. It is possible, however, that the accuracy of management estimation process could be materially impacted as the composition of this pool of receivables changes over time. Management continually reviews and refines the estimation process to make it as reactive to these changes as possible.

Specifically, the management makes estimates of the collectibility of receivables. Management specifically analyses receivables and analyses historical bad debts, client concentrations, client credit-worthiness, current economic trends and changes in the Group's client payment terms when evaluating the adequacy of the provision for doubtful debts. Management evaluates the collectibility of the Group's receivables on a case-by-case basis, and makes adjustments to the provision for doubtful debts for expected losses.

Income taxes

As part of the process of preparing the Group's consolidated financial statements management is required to estimate the Group's income taxes in each of the jurisdictions in which the Group operates. This process involves management estimating the Group's actual current tax exposure together with assessing timing differences resulting from differing treatment of items, such as depreciation, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Group's consolidated balance sheet. Management must then assess the likelihood that the Group's deferred tax assets will be recovered from future taxable income and to the extent management believes that recovery is not virtually certain no deferred tax assets are created.

Significant management judgment is required in determining the Group's provision for income taxes, the Group's deferred tax assets and liabilities. This is based on management estimates of taxable income by jurisdiction in which the Group operates and the period over which the Group's deferred tax assets will be recoverable. In the event that actual results differ from these estimates or management adjusts these estimates in future periods management may need to make an additional provision for taxation which could impact the groups financial position and results of operations.

B. Glossary of Terms used in the Financial Statements

Revenues

The Group derives its revenues primarily from software and call centre services. Revenues from software services comprise income from time and material and fixed price contracts while those from call centre services are mainly from time and material contracts. Revenue with respect to time and material contracts is recognised as services are provided and related costs are incurred. Revenue from fixed price contracts is recognised using the percentage of completion method, under which the revenue recognised is determined by relating the actual cost of work performed upto the balance sheet date to the estimated total cost for each contract. Estimates of costs remaining for completion are subject to periodic revisions. Provisions for estimated losses on incomplete contracts are recorded in the period in which such losses become probable based on the current contract estimates. The asset 'unbilled revenues' represents revenues in

excess of amounts billed to clients as at the balance sheet date for work done between contract milestones. Revenue in the call centres is recognised based on the amounts actually billed / billable to clients in terms of the relevant contracts.

Cost of Revenues

Cost of revenues primarily consists of salary and other employee compensation expenses, staff welfare expenses, rent, depreciation, data communications expenses and link charges, computer maintenance, cost of software purchased for internal use, and foreign travel expenses. In the software development business the Group depreciates all computers over two years, buildings over ten years, plant & machinery as well as furniture & fixtures in four years and office equipment and vehicles in three years. Leasehold improvements are depreciated over the initial period of the lease or over three years, whichever is lower. Third party software is expensed in the period in which it is acquired whereas significant purchased application software which is integral to the Group's computer systems are capitalised and depreciated over the estimated useful life of the software or three years, whichever is lower. In the call centre and business process outsourcing business the assets are depreciated over five years except vehicles and buildings, which are depreciated over three years and ten years, respectively. The Group assumes full project management responsibility for each project that it undertakes.

Gross Profit

Gross profit represents the difference between Revenues and Costs of Revenues as explained above.

Selling Expenses

Selling expenses primarily consist of expenses relating to advertisements, brand building, rentals of sales and marketing offices, salaries of personnel in sales & marketing. Also included are travelling & conveyance expenses and expenses relating to communications, depreciation of assets used in marketing offices and other related miscellaneous expenses for sales and marketing.

General & Administrative Expenses

General and Administrative expenses primarily consist of expenses relating to rentals of general and administrative offices, salaries of senior management and personnel in finance & administration, legal and human resources. Also included are travelling & conveyance expenses and expenses relating to communications, finance and administration, legal and professional charges, insurance, miscellaneous administrative costs, depreciation of assets used in administrative offices and other related miscellaneous expenses.

Employee Benefits

Gratuity and compensated absences, which are defined benefits, are accrued based on actuarial valuations at the balance sheet date, carried out by an independent actuary.

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

Amortisation of ESOP Costs

"Option Discount" calculated as per the guidelines issued by the Securities and Exchange Board of India is amortised over the vesting period of the options. Option Discount means the excess of the market price / fair value of the shares as on the date of grant of the Options over the Option exercise price.

Provision for Doubtful Debts

This relates to the charge for debts that the Group no longer considers recoverable. Provisions are made based on the financial stability and health of the debtor and assessed periodically.

MANAGEMENT DISCUSSION AND ANALYSIS OF CRITICAL ACCOUNTING POLICIES AND GLOSSARY OF TERMS USED IN THE FINANCIAL STATEMENTS

Operating Profit

Operating Profit represents the profits from operations i.e. the Gross Profit less Selling Expenses, General and Administrative Expenses, Amortisation of ESOP Costs, Provision for Doubtful Debts and other exceptional or non-recurring items.

Foreign Exchange Gain / (Loss), net

This represents the net gain or loss on translation of foreign currency assets and liabilities held in the books of the Group's Indian companies into Rupees. This would be offset partially by the gain or loss on the hedging transactions undertaken by the Group, mostly through forward covers. The net gain or loss on translation of foreign currency assets and liabilities held in the books of the Group's overseas subsidiaries into Rupees is taken directly to the Balance Sheet under foreign currency translation reserves.

Other Income/ (expense), net

Other income includes profit or loss on sale of assets and other miscellaneous income or expense.

Interest, net

This represents interest income net of interest expenses. Interest income includes interest from overnight bank balances deposits with banks, interest & dividends earned from investments in Money Market instruments, and interest on deposits with Financial Institutions.

Income Taxes

Income Taxes represent the provision for Corporate & Income Taxes in various countries where revenues are earned. These taxes are based on the capital structure of the Companies in the relevant countries as also the revenues earned and expenses incurred in these locations as increased by an allocation of corporate overheads and expenses. In estimating these taxes, adjustments are made for Deferred Tax assets and liabilities.

The Group's operations in India enjoy a tax holiday under Indian Income Tax laws as they are predominantly in the nature of export of software and related services and the earnings are in foreign currencies. The Group's earnings in India from Domestic customers as well as non-software related income such as interest or rental incomes are, however, subject to taxation in India.

MANAGEMENT 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.

A. Results of operations – MphasiS Group

1. Quarter ended 30 September 2008 compared to Quarter ended 30 June 2008

Revenues

The revenues were Rs 8,360.6 million for the quarter ended 30 September 2008, representing an increase of Rs 938.5 million or 12.6% over revenues of Rs 7,422.1 million for the quarter ended 30 June 2008. 20 new clients including 15 relationships through EDS were added during the quarter. Banking & Financial, Healthcare & Pharma, Logistics and Transportation verticals increased their share of revenue. Applications revenue grew by 14.2% BPO revenue grew by 5.5% and ITO services revenue grew by 16.6% over the quarter ended 30 June 2008. Improved offshore utilisation, higher billing realisation coupled with increased volumes resulted in significant growth in revenues. Depreciation of Indian Rupee against US Dollar contributed to growth in revenues.

Cost of Revenues

The cost of revenues were Rs 6,175.5 million for the quarter ended 30 September 2008, an increase of 5.5% over the cost of revenues of Rs 5,851.7 million for the quarter ended 30 June 2008. The cost of revenues represented 73.9% and 78.8% of revenues for the quarters ended 30 September 2008 and 30 June 2008 respectively. The quarter ended 30 September 2008 saw a net increase in headcount by 68 in Applications, an increase by 205 in BPO and an increase by 314 in ITO taking the Group total to 28,840 as of 30 September 2008 from 28,253 as of 30 June 2008, a net increase of 587 in group headcount.

Gross Profit

The gross profit increased by Rs 614.7 million or 39.1% from Rs 1,570.4 million for the quarter ended 30 June 2008 to Rs 2,185.1 million for the quarter ended 30 September 2008. As a percentage of revenue, the gross margin increased by 4.9% from 21.2% for the quarter ended 30 June 2008 to 26.1 % for the quarter ended 30 September 2008. Improvement in utilisation & billing realisations in Applications & ITO Services resulted in higher gross profits. Depreciation of Indian Rupee against US Dollar also led to gross margin improvement over the previous quarter.

Selling Expenses

Selling expenses were Rs 326.6 million for the quarter ended 30 September 2008, representing an increase of Rs 47.4 million or 17.0% over Rs 279.2 million for the quarter ended 30 June 2008. As a percentage of revenues, selling expenses marginally increased by 0.1% over the quarter ended 30 June 2008. Selling expenses during the quarter increased primarily due to additional sales force and depreciation of the Indian Rupee against US Dollar, as most of the selling expenses are in US Dollars.

General and Administrative Expenses

General and Administrative expenses were Rs 527.3 million for the quarter ended 30 September 2008, representing an increase of Rs 73.2 million or 16.1% over Rs 454.1 million for the quarter ended 30 June 2008. As a percentage of revenues, general and administrative expenses increased marginally by 0.2% from 6.1% for the quarter ended 30 June 2008 to 6.3% for the quarter ended 30 September 2008. The increase general and administrative expenses is primarily on account of additional manpower hired to support future growth.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Provision for Doubtful Debts

Provision for doubtful debts was Rs 7.6 million for the quarter ended 30 September 2008 as compared to Rs 2.1 million for the quarter ended 30 June 2008.

Operating Profit

The operating profit was Rs 1,323.6 million for the quarter ended 30 September 2008, representing an increase of Rs 488.6 million or 58.5% over the operating profit of Rs 835.0 million for the quarter ended 30 June 2008. As a percentage of revenues, the operating margin increased by 4.6% from 11.2% for the quarter ended 30 June 2008 to 15.8% for the quarter ended 30 September 2008. Higher gross profits as discussed earlier resulted in increase in operating profit for the quarter.

Foreign Exchange Gain/(Loss), net

The gain on foreign exchange during the quarter ended 30 September 2008 was Rs 149.0 million as against a loss of Rs 15.9 million during the quarter ended 30 June 2008. The net gain on foreign exchange resulted from restatements as the Indian Rupee depreciated against the US Dollar during the quarter.

Other income /(expense), net

The net other income during the quarter ended 30 September 2008 was Rs 4.5 million as compared to Rs 0.7 million for the quarter ended 30 June 2008. Dividend income earned from investment in debt funds has increased the other income by Rs. 3.8 million during the quarter.

Interest income/(expense), net

Interest income, net of expenses, resulted in a net income of Rs 10.3 million for the quarter ended 30 September 2008 as compared to a net income of Rs 32.7 million for the quarter ended 30 June 2008. The lower interest income is due to lower investible surplus during the quarter.

Income Taxes (including Fringe Benefit Tax)

Income tax for the quarter ended 30 September 2008 was Rs 76.6 million compared to Rs 62.3 million in the quarter ended 30 June 2008. Higher profitability over last quarter resulted in higher taxes during the current quarter.

Net Profit

The net profit after taxes were Rs 1,410.8 million for the quarter ended 30 September 2008, compared to the net profit of Rs 790.1 million for the quarter ended 30 June 2008. As a percentage of revenues, the net margin increased from 10.6% for the quarter ended 30 June 2008 to 16.9% for the quarter ended 30 September 2008. Higher operating profit along with foreign exchange gain due to favourable exchange rate has resulted in increase in net profit and net margins during the quarter.

2. Quarter ended 30 September 2008 compared to quarter ended 30 September 2007

Revenues

The revenues were Rs 8,360.6 million for the quarter ended 30 September 2008, representing an increase of Rs 2,343.7 million or 39.0% over revenues of Rs 6,016.9 million for the quarter ended 30 September 2007. Increased volumes from existing clients as well as business from new clients resulted in growth in revenues. Depreciation of Indian Rupee against US Dollar also led to the growth in revenues. Improved utilisation and billing rates also contributed to the growth in revenues. Volumes from all the verticals have grown significantly. USA share is up by 1%, while Europe share is dropped. Revenues from Applications grew by 34.3%, BPO grew by 31.5% and ITO grew by 79.4% during the quarter ended 30 September 2008.

Cost of Revenues

The cost of revenues were Rs 6,175.5 million for the quarter ended 30 September 2008, an increase of 34.5% over the cost of revenues of Rs 4,590.1 million for the quarter ended 30 September 2007. The cost of revenues represented

73.9% and 76.3% of revenues for the quarters ended 30 September 2008 and 30 September 2007, respectively. The increase in cost of revenues over the quarter ended 30 September 2008 is in line with the increase in volume of business. Salary increments, investments in new facilities and infrastructure also led to the increase in cost of revenues. Applications Headcount increased by 85, BPO increased by 3,317 and ITO increased by 1,360 taking the Group total to 28,840 as on 30 September 2008 as against 24,078 as of 30 September 2007, a net increase of 4,762 in group headcount.

Gross Profit

Gross profit was Rs 2,185.1 million for the quarter ended 30 September 2008 as against the gross profit of Rs 1,426.9 million for the quarter ended 30 September 2007, resulting in an increase of Rs 758.2 million or 53.1%. As a percentage of revenues, the gross margin increased by 2.4 % from 23.7% for the quarter ended 30 September 2007 to 26.1% for the quarter ended 30 September 2008. The overall increase in the gross profits is mainly attributable to increased revenues and favourable exchange rate between Indian Rupee and the US Dollar.

Selling Expenses

Selling expenses were Rs 326.6 million for the quarter ended 30 September 2008, representing an increase of Rs 75.5 million or 30.0 % over the expenses of Rs 251.1 million for the quarter ended 30 September 2007. As a percentage of revenues, selling expenses decreased by 0.3% from 4.2% for the quarter ended 30 September 2007 to 3.9% for the quarter ended 30 September 2008 due to significant growth in revenues. The increase in selling expenses during the quarter 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

General and administrative expenses were Rs 527.3 million for the quarter ended 30 September 2008, representing an increase of 24.1% or Rs 102.3 million over the general and administrative expenses of Rs 425.0 million for the quarter ended 30 September 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 0.8% from 7.1% for the quarter ended 30 September 2007 to 6.3% for the quarter ended 30 September 2008 due to significant growth in revenues & higher operating leverage.

Provision for Doubtful Debts

Provision for doubtful debts was Rs 7.6 million for the quarter ended 30 September 2008 as against Rs 12.1 million for the quarter ended 30 September 2007.

Operating Profit

The operating profit was Rs 1,323.6 million for the quarter ended 30 September 2008, representing an increase of Rs 585.0 million or 79.2 % over the operating profit of Rs 738.6 million for the quarter ended 30 September 2007. As a percentage of revenues, operating margin has increased by 3.5 % from 12.3% for the quarter ended 30 September 2007 to 15.8% for the quarter ended 30 September 2008. Increase in gross profits along with favourable exchange rate has resulted in increase in operating profit.

Foreign Exchange Gain/(Loss), net

The gain on foreign exchange during the quarter ended 30 September 2008 was Rs 149.0 million as against a loss of Rs 37.7 million in the quarter ended 30 September 2007. Gain on foreign exchange was a result of higher restatement gains as the Indian Rupee depreciated against the US Dollar during the quarter ended 30 September 2008.

Other income /(expense), net

The net other income for the quarter ended 30 September 2008 was Rs 4.5 million as against Rs 0.9 million for the quarter ended 30 September 2007.

Interest income /(expense), net

Interest income, net of expenses resulted in a net income of Rs 10.3 million for the quarter ended 30 September 2008 as compared to a net income of Rs 22.0 million for the quarter ended 30 September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The lower interest income was mainly due to lower investible surplus during the quarter ended 30 September 2008 due to higher investment in capital expenditure.

Income Taxes (including Fringe Benefit Tax)

Income tax for the quarter ended 30 September 2008 Rs 76.6 million compared to Rs 60.8 million for the quarter ended 30 September 2007. Higher tax liability is on account of completion of tax holiday period for few licences and higher profitability during the current quarter.

Net Profit

The net profit after taxes was Rs 1,410.8 million for the quarter ended 30 September 2008, an increase of Rs 747.7 million or 112.8% over the net profit of Rs 663.1 million for the quarter ended 30 September 2007. Foreign exchange gain together with higher operating profits resulted in higher net profit. As a percentage of revenues, the net margin increased by 5.9% to 16.9% for the quarter ended 30 September 2008 as against 11.0% for the quarter ended 30 September 2007.

3. Six Months ended 30 September 2008 compared to six months ended 30 September 2007

Revenues

The total revenues were Rs 15,782.7 million for half year ended 30 September 2008, representing an increase of Rs 4,450.2 million or 39.3 % over total revenues of Rs 11,332.5 million during the half year ended 30 September 2007. Higher volumes of business from existing clients and service offerings to new clients contributed to the growth in revenues. Technology & OEMs, Manufacturing & Retail vertical revenues grew significantly while revenues from Banking & Financial Service vertical dropped. Better billing realisations and improved utilisation also fuelled the growth in revenues. Depreciation of Indian Rupee against US Dollar also contributed to the growth in revenues. Revenues from Apps grew by 34.9%, BPO revenues grew by 31.5% and ITO revenues grew by 79.8%.

Cost of Revenues

The cost of revenues were Rs 12,027.2 million for the half year ended 30 September 2008, an increase of Rs 3,457.9 million or 40.3 % over the cost of revenues of Rs 8,569.3 million for the half year ended 30 September 2007. The cost of revenues represented 76.2% and 75.6% of total revenues for the half year ended 30 September 2008 and 30 September 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 85, BPO increased by 3,317 and ITO increased by 1,360 taking the Group total to 28,840 as on 30 September 2008 as against 24,078 as of 30 September 2007, a net increase of 4,762 in group headcount.

Gross Profit

The gross profit increases to Rs 3,755.6 million for the half year ended 30 September 2008, as against the gross profit of Rs 2,763.2 million for the half year ended 30 September 2007, representing an increase of Rs 992.4 million or 35.9%. As a percentage of total revenues, the gross margin decreased to 23.8% for the half year ended 30 September 2008 from 24.4% for the half year ended 30 September 2007. The overall decrease in the gross margin as a % of revenue is mainly attributable to increased manpower cost and additional investment in delivery capacity for future growth.

Selling Expenses

Selling expenses were Rs 605.8 million for the half year ended 30 September 2008, representing an increase of Rs 107.9 million or 21.7 % over Rs 497.9 million for the half year ended 30 September 2007. The increase was mainly on account of salary increments, incentives and increase in the sales force. As a percentage of revenues, selling expenses decreased by 0.6% from 4.4% for the half year ended 30 September 2007 to 3.8% for the half year ended 30 September 2008.

General and Administrative Expenses

General and administrative expenses were Rs 981.4 million for the half year ended 30 September 2008, representing an increase of Rs 139.8 million or 16.6% over Rs 841.6 million during the half year ended 30 September 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 1.2% from 7.4% for the half year ended 30 September 2007 to 6.2% for the half year ended 30 September 2008.

Provision for Doubtful Debts

Provision for doubtful debts was Rs 9.8 million for the half year ended 30 September 2008 as against Rs 12.6 million for the half year ended 30 September 2007.

Operating Profit

The operating profit during the half year ended 30 September 2008 increased to Rs 2,158.6 million from Rs 1,411.1 million for the half year ended 30 September 2007. As a percentage of revenues, operating margins increased from 12.5% for the half year ended 30 September 2007 to 13.7% for the half year ended 30 September 2008. Higher gross profits 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 half year ended 30 September 2008 was Rs 133.1 million as against a loss of Rs 217.0 million for the half year ended 30 September 2007. The gain on foreign exchange in the half year ended 30 Sept 2008 was on account of gain on restatements due to depreciating Indian Rupee against the US dollar.

Other income /(expense), net

The net other income for the half year ended 30 September 2008 was Rs 5.2 million as compared to net other income of Rs 3.7 million for the half year ended 30 September 2007.

Interest income /(expense), net

Net interest income for the half year ended 30 September 2008 was Rs 43.0 million, as against a net interest income of Rs 52.0 million for the half year ended 30 September 2007. The decrease in interest income has been due to decrease in the investible surplus within the Group

Income Taxes (including Fringe Benefit Tax)

Income taxes were Rs 139.0 million for the half year ended 30 September 2008 as compared to income tax of Rs 73.7 million for the half year ended 30 September 2007. The increase in income tax for the six months ended 30 September 2008 was on account of completion of tax holiday period for few licences & higher profitability during the current period.

Net Profit

The net profit after taxes was Rs 2,200.9 million for the half year ended 30 September 2008, an increase of Rs 1,024.7 million or 87.1% over the net profit of Rs 1,176.2 million for the half year ended 30 September 2007. As a percentage of total revenues, the net margin increased to 13.9% for the half year ended 30 September 2008 as against 10.4% for the half year ended 30 September 2007. Higher Operating profit and operating margin along with foreign exchange gain contributed to the increase in net profit and improved net margin.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

B. Analysis of Revenues & Human Resources

I. Revenues

(a) Group - Revenues by Vertical/Industry

Rs millions

Vertical/Industry	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
Banking & Financial Services	3,607 43%	2,962 40%	2,713 45%	10,128 42%
Technology & OEMs	1,883 23%	1,812 24%	1,317 23%	5,701 23%
Telecom	960 11%	859 12%	716 12%	3,178 13%
Manufacturing & Retail	1,098 13%	1,116 15%	624 10%	2,838 12%
Logistics, Airlines & Transportation	474 6%	387 5%	419 7%	1,679 7%
Healthcare & Pharma	339 4%	286 4%	174 3%	707 3%
Total	8,361	7,422	6,017	24,231

(b) Group - Revenues by Geography

Rs millions

Regions	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
USA	5,650 68%	4,949 66%	4,008 67%	16,088 66%
Europe	1,620 19%	1,385 19%	1,206 20%	4,893 21%
Asia Pacific	397 5%	357 5%	336 5%	1,268 5%
India & Middle East	694 8%	731 10%	467 8%	1,982 8%
Total	8,361	7,422	6,017	24,231

(c) Revenues by Service Type

Rs millions

Service Type	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
Application Maintenance & Other Services	2,782 33%	2,441 33%	2,027 34%	8,215 34%
Application Development	2,596 31%	2,268 30%	1,976 33%	7,600 31%
Customer Service	858 10%	812 11%	643 11%	2,678 11%
Service / Technical Help Desk	647 8%	598 8%	505 8%	1,984 8%
Transaction Processing Service	466 6%	451 6%	327 5%	1,383 6%
Infrastructure Management Services	688 8%	562 8%	311 5%	1,395 6%
Knowledge Processes	324 4%	290 4%	228 4%	976 4%
Total	8,361	7,422	6,017	24,231

(d) Revenues by Delivery Location

Rs millions

Delivery Location	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
Onsite	2,150 26%	1,796 24%	1,373 23%	5,348 22%
Offshore	6,211 74%	5,626 76%	4,644 77%	18,883 78%
Total	8,361	7,422	6,017	24,231

(e) Revenues by Project Type

Rs millions

Project Type	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
Time and Material	7,876 94%	7,228 97%	5,714 95%	23,341 96%
Fixed Price	485 6%	194 3%	303 5%	890 4%
Total	8,361	7,422	6,017	24,231

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

(f) Group - Client Concentration

	Rs millions			
	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
Revenues from Top Client	11%	12%	8%	10%
Revenues from Top 5 Clients	31%	33%	29%	30%
Revenues from Top 10 Clients	46%	47%	46%	46%
Clients Contributing more than:				
\$ 1 million Revenues	98	94	86	85
\$ 5 million Revenues	32	28	26	27
\$ 10 million Revenues	18	15	15	15
\$ 20 million Revenues	9	7	7	6
Receivables Days	41	43	42	40

II. Human Resources

(a) Number of Employees

	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
Onsite				
- Applications	1,495	1,380	1,070	1,278
- BPO	120	94	82	99
Offshore				
- Applications	9,090	9,137	9,430	9,165
- BPO	13,905	13,726	10,626	12,830
- ITO	4,230	3,916	2,870	3,675
Total	28,840	28,253	24,078	27,047

(b) Average Billing Rates

	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
Onsite				
- Applications	69	68	68	68
Offshore				
- Applications	22	22	21	22
- BPO	10	10	10	10
- ITO	21	21	20	21

(c) Average Utilisation Rates

	Quarter ended		Year ended	
	30 September 2008	30 June 2008	30 September 2007	31 March 2008
Applications				
Excluding Trainees				
- Onsite	85%	85%	86%	85%
- Offshore	79%	73%	77%	73%
- Blended	80%	75%	78%	74%
Including Trainees				
- Onsite	85%	85%	86%	85%
- Offshore	76%	69%	71%	69%
- Blended	77%	71%	73%	71%
BPO				
Process Utilisation (excluding trainees)	68%	68%	68%	67%
Process Utilisation (including trainees)	57%	56%	57%	55%
ITO				
Excluding Trainees	79%	76%	72%	71%
Including Trainees	74%	72%	72%	69%

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 30 September 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 30 September 2008 the balance of cash and cash equivalents in the Group was Rs 388.1 million as against Rs 1,165.1 million as on 30 June 2008 and Rs 1,624.0 million as on 30 September 2007. The balance of cash and cash equivalents have decreased due to early salary payouts and dividend payout during the quarter.

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.

