ANNUAL REPORT 2005-06

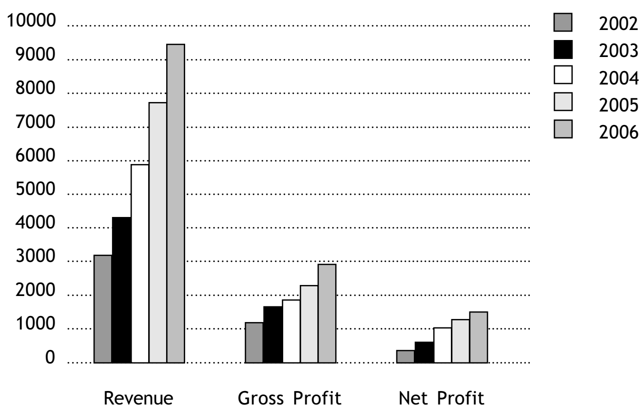
MPHASIS
Architecting Value

IT SERVICES | BPO | SOLUTIONS

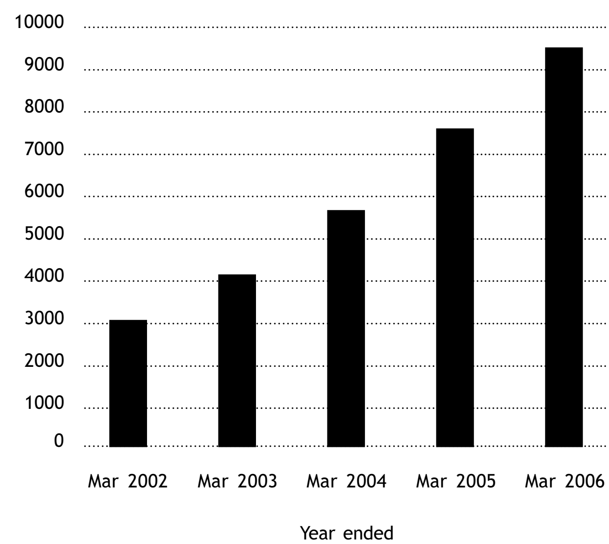
Contents

Key Performance Indicators/Graphs	2
Group Strategy and Overview	4
MphasiS'ing Community Involvement	24
Management Discussion of Risks and Concerns	26
Auditor's Report on Consolidated Financial Statements	33
Consolidated Balance Sheet	34
Consolidated Profit and Loss Account	35
Notes to Consolidated Financial Statements	36
Consolidated Cash Flow Statements	59
Management Discussion and Analysis of Critical Accounting Policies and Glossary of terms used in the Financial Statements	63
Management Discussion and Analysis of Financial Condition and Results of Operations	66
Directors' Profile	78
Directors' Report	81
Corporate Governance	91
Auditors' Report of the Parent Company	103
Balance Sheet of the Parent Company	106
Profit and Loss Account of the Parent Company	107
Notes to the Financial Statements of the Parent Company	108
Cash Flow Statements of the Parent Company	130

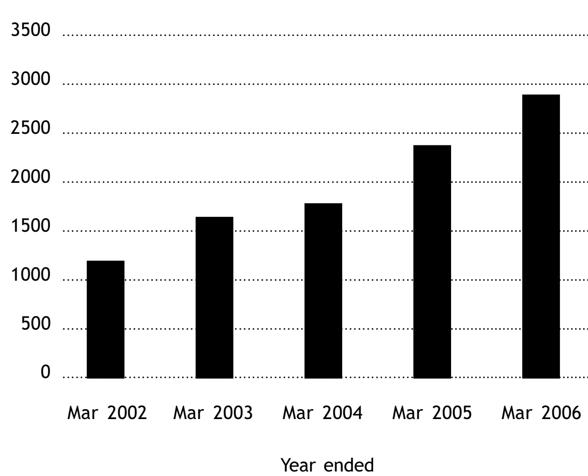
The Year at a Glance



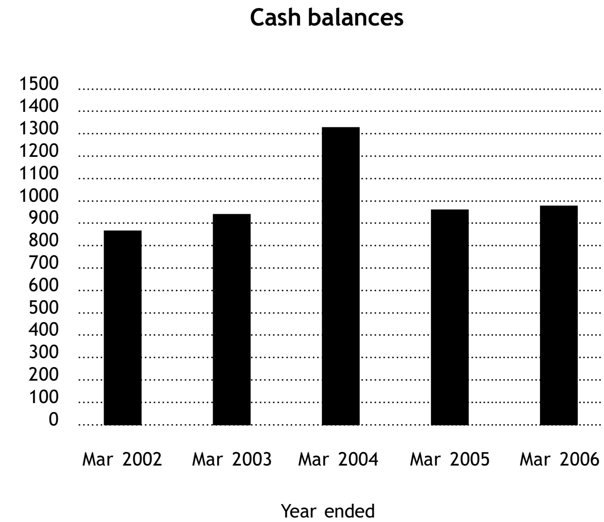
Revenues

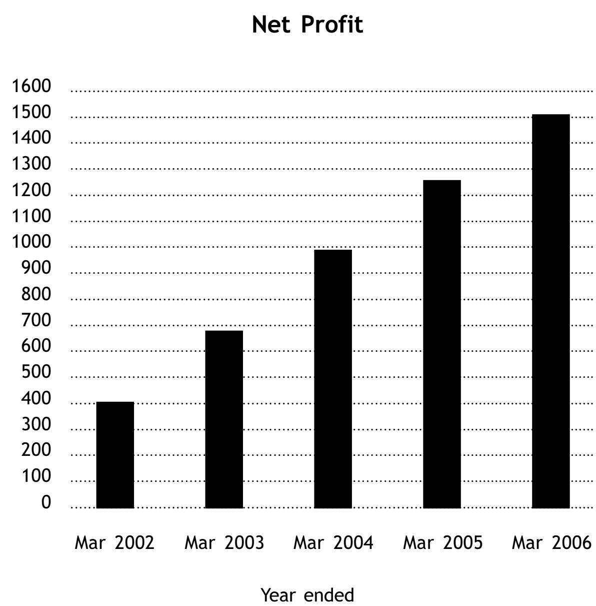


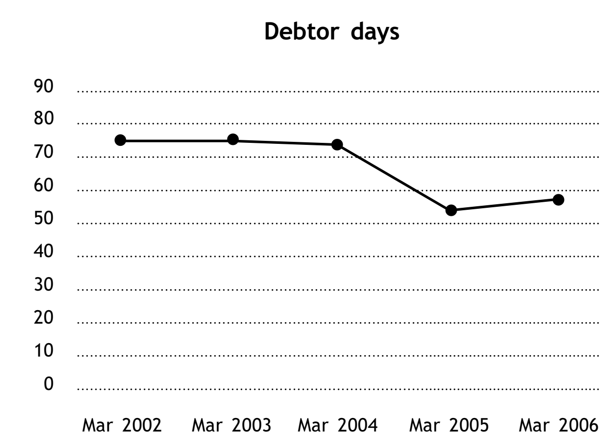
Gross profit



All figures in Rs. Million







All figures in Rs. Million
(Except Debtor Days)

Group Strategy and Overview

Evolving from cost arbitrage to performance arbitrage

The global off-shoring market continues to expand as more companies realize the benefits that accrue from the cost advantages, flexibility and quality of work executed in countries like India, China and Mexico. A recent Nasscom-Mckinsey study (November 2005) pegs the addressable market for global off-shoring at USD 300 billion.

Organizations in the US and Europe are now looking at outsourcing for performance improvement rather than just cost arbitrage. The focus is on increasing the effectiveness of business processes through automation, integration and optimization. As a result, service providers are investing in skill sets like process design and six sigma tools for business process management. MphasiS has long been advocating an integrated IT – BPO approach, providing solutions that span across applications, process design and process execution.

The IT world is delivering increasingly sophisticated tools and platforms to take business process management to the next level. Service Oriented Architectures support the modernization and integration of applications to form seamless business processes. Portals and mobile applications allow easier access to the processes and associated systems. Workflow management software and business monitoring and intelligence tools offer better control and business insights. The opportunities presented by these technologies allow organizations to overhaul their aging IT systems and provide real value to the business.

Additionally, large organizations want their (offshore service) providers to be aligned to their strategy, culture, processes and systems. To ensure success of off-shored programs, MphasiS provides a robust governance framework to manage security, performance management and risk and relationship management.

MphasiS key facts

Chairman and CEO: Jerry Rao

Co-founder and Vice-Chairman: Jeroen Tas

12,000 employees spread across 25 offices in 9 countries

11,000 employees in India

8,000 employees support BPO

India offshore locations:
- Bangalore
- Mumbai
- Pune
- Mangalore
- Noida
- Ahmedabad

Other offshore locations:
- Tijuana, Mexico
- Shanghai, China

MphasiS, one of the fastest growing offshore providers of Applications and BPO services, has a unique blend of industry knowledge, domain expertise and Six Sigma quality. These characteristics, along with a world-class management team and a marquee list of client relationships, have enabled MphasiS to quadruple in size over the past five years.

MphasiS has built its business by consistently delivering best-in-class improvements in business performance—reducing costs and increasing control of business processes through automation and outsourcing. MphasiS is distinguished by:

- A 24 x 7 global delivery model that optimizes costs, enhances productivity and improves time-to-market.
- Strong relationships with clients in the financial services, healthcare, high-tech, telecommunications and transportation industries around the world.
- A broad portfolio of BPO and Applications services provided by multi-disciplinary teams of industry experts, technologists and process operations specialists.
- All services delivered with predictable quality and precise performance management evidenced by CMM, Six Sigma, Quality Control methodologies and ongoing performance tracking.
- Core competencies that support the offshore business model through aggressive recruiting and training practices.

MphasiS' Accolades

2005 BPO services ranked #1 by Customer Interaction Solutions

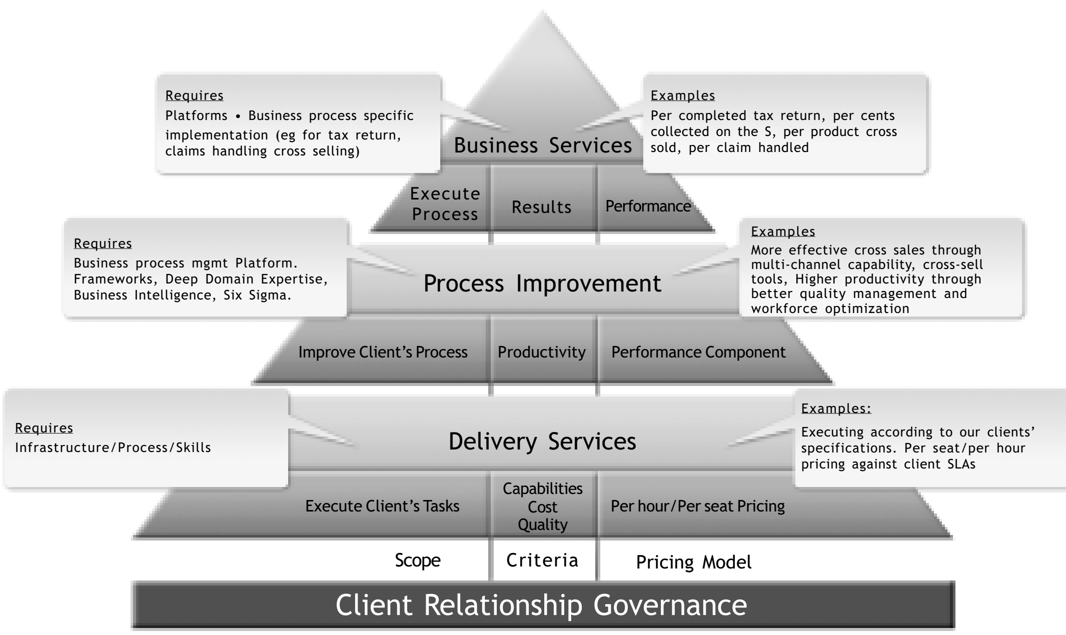
Ranked 4th best managed outsourcing vendor worldwide by the Black Book

2004 Among Forbes global list of 100 best companies < $1 billion
Ranked 4th as one of India's most respected ITES firms by Business World Named Zap Think Thought Leader – as a global leader in SOA

2003 Jerry Rao named ET Entrepreneur of the Year
Jerry Rao and Jeroen Tas named E&Y Entrepreneur of the Year for the New York regiong
Jerry Rao appointed NASSCOM chairman (India's IT association)

Group Strategy and Overview

MphasiS adds value to clients on multiple levels:



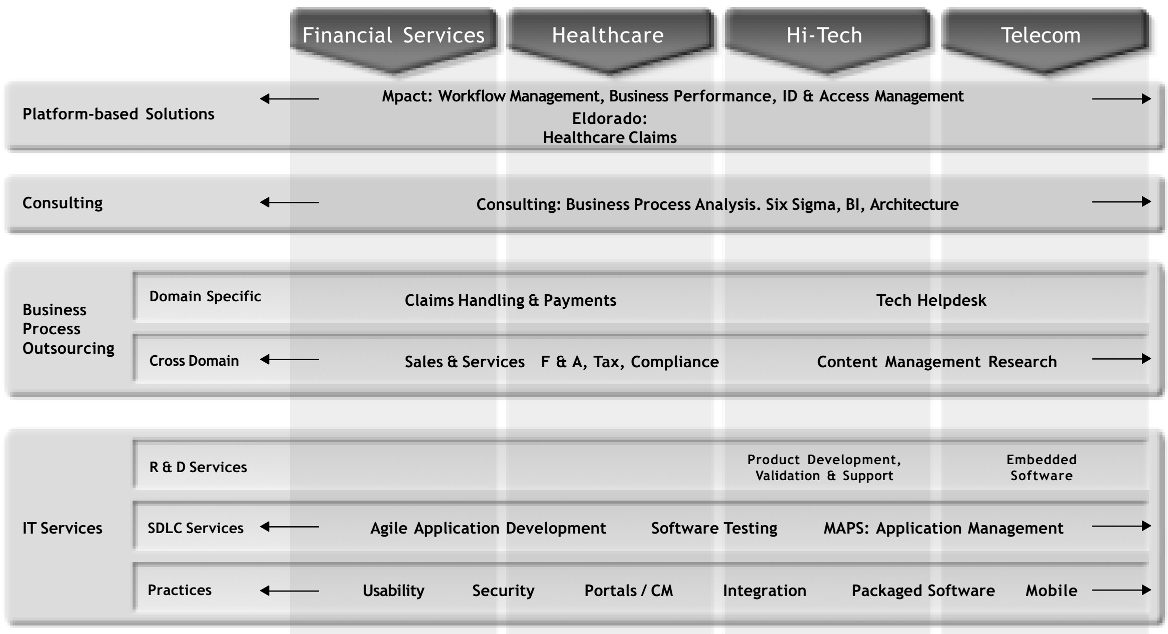
MphasiS Value Creation Pyramid

- At the base level, we seamlessly link with our client's organization to ensure that processes are executed and IT projects delivered according to the client's detailed, custom specifications. These types of engagements are task-based and rely on our excellence in delivering the right skills, quality and cost.
- On the next level, clients are not just assessing us on delivery in accordance with Service Level Agreements, but on our ability to improve the productivity and performance of their processes. This involves higher effectiveness by applying industry best practices and automation, and increased efficiency by applying six sigma methodologies and business intelligence. Examples of performance measures at this level are improved customer satisfaction, better cross selling ratios or reduced number of defects.
- At the highest level, we deliver business results and are measured on the success of the outcomes, such as accounts opened, cents collected on the dollar and claims handled. We completely manage these outcomes using our proprietary platforms and processes. We therefore deliver on Business-Level agreements at this level.

  MphasiS is addressing these diverse needs by developing expertise in selected verticals/processes and through a combination of strong IT and BPO capabilities.

Our in-depth understanding of business domains drives effective solutions

MphasiS focuses on four industries: Financial services, Hi-tech, Telecom and Healthcare.



MphasiS Service

We will continue to build on our dominant position in Financial Services and Hi-Tech while fueling growth of our emerging capabilities in Telecom and Healthcare.

Financial Services

The financial services industry continues to consolidate and globalize. There is a dire need for solutions that offer integrated, secure access to a financial services institution's products and services and systems that track compliance and bring down operational costs.

MphasiS' has an impressive financial services practice, built through continual investment in domain and business expertise. Services focus on Retail Banking, Investment Banking/Brokerage, and Insurance and are designed to help customers with channel integration and world-class portal development. These services improve customer interactions, strengthen workflow management and business intelligence services, and modernize legacy applications to support real-time, flexible business processes. MphasiS Financial Services feature:

- Domain expertise in customer service, account activation, cross-sell/up-sell, collections and back-office support
- Extensive experience in eCare and multi-channel integration across web, branch and phone
- Global best practices in process migration
- MframE™ – channel integration framework
- Mpact™ – business process management platform
- Security and provisioning solutions
- Business continuity and disaster recovery

- 6,000 employees of whom 4,300 are in BPO
- Serves three of the top five retail banks in the world
- 100+ business analysts with financial services industry experience
- 40+ migrations completed successfully using Six Sigma process execution and rigor

Group Strategy and Overview

Telecom

This industry is undergoing rapid change with the introduction of "triple play services" (voice, Internet and cable) and the expansion of broadband to mobile devices.

MphasiS services more than 25 telecom clients including most European majors

MphasiS offers business process operations, application development and maintenance, product engineering and customer support services for the telecom industry.

We improve customer service and increase cross-selling across voice, mobile, Internet and cable. We establish operational excellence by real-time performance tracking and business intelligence. We enhance services on mobile networks by introducing new applications and features.

Hi-Tech

Companies that develop hi-tech products require shortening of R&D cycles, rapid product deployment and world class customer support.

MphasiS services more than 50 clients in R&D and product development

MphasiS creates value through its in-depth expertise in providing high quality, predictable solutions for the technology sector to help their clients develop leading-edge products, applications, portals and process improvement. We are supporting product companies so they can focus on getting world class product to the market in a timely manner.

We aim to dramatically reduce development cost and time-to-market for new products. We help streamline product deployment. We assist in improving customer service. We seamlessly integrate devices into enterprise networks.

Healthcare

Healthcare is taking up an increasing share of GDP in the developed world. The administrative aspect of healthcare still constitutes a large share of the cost and there remains tremendous scope for efficiency improvements.

MphasiS supports more than 130 healthcare customers representing 2.5 million members

MphasiS provides a range of services and solutions for the complex and highly regulated healthcare industry. With solutions spanning application software for hospitals and embedded software for medical devices to BPO services and platforms for claims processing, we deliver greater flexibility and effective execution.

We deliver self service capabilities through user-centric health care portals. We improve timeliness and accuracy by integrating business processes that span patients, providers and payers. We aid in dramatically reducing the cost, timeliness and accuracy of healthcare claims handling through increases in auto adjudication rates and outsourced services. We bring to bear our expertise ranging from IT solutions for life sciences, implementation of hospital administration packages to complete benefits management outsourcing.

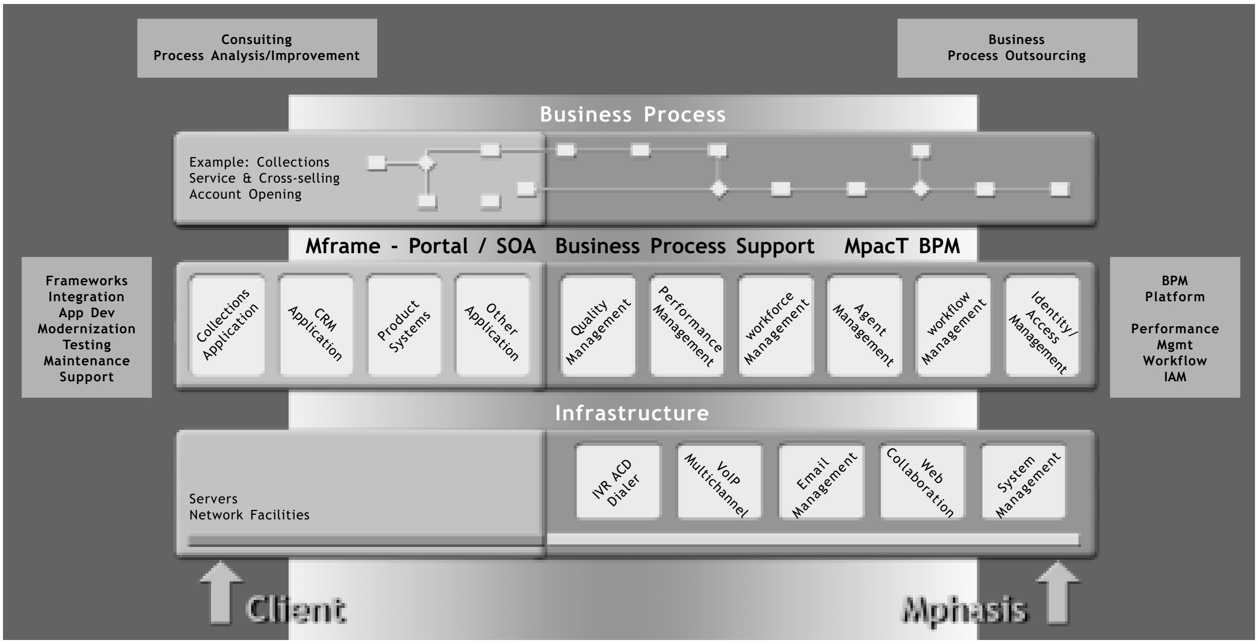


Fig 2: Overview of MphasiS services in the context of Business Process, Applications and Infrastructure

Business Process Expertise

MphasiS' provides customers around the world with offshore customer relationship management and back-office services, using multiple channels of communication. The firm opened one of the first international contact centers in India and was the first to achieve information assurance BS 7799 Part 2:2002 certification. With an additional ISO 9001:2000 certification, MphasiS provides BPO services that can sustain – and often improve – quality while dramatically reducing costs.

Industry-focused BPO Services

- Retail Financial Services (Credit and Debit Cards, Insurance and Banking)
- Telecommunications
- High Tech
- Healthcare
- Retail
- Utilities

MphasiS specializes in selected business processes, leading the way in Customer Interaction Management; Claims Processing & Payments; Content Management & Research and Finance, Accounting & Compliance.

Customer Interaction Management

We help our clients build stronger relationships with their customers, leverage multiple channels (phone, mobile, web, branches) in a seamless manner and dramatically improve customer service, productivity, accuracy and throughput for processes that involve handling of claims and payments.

Content Management & Research

We help structure, clean, integrate, aggregate and improve access to enterprise data and information.

Finance & Accounting, Tax & Compliance

We manage accounting processes and ensure compliance with legal, regulatory and company rules & policies.

We customize our solutions, be it consulting, IT or BPO, based on our detailed understanding of our clients' organization, processes and the way they make their decisions and operate. MphasiS integrates their internal processes and the underlying applications and systems closely with their clients' environments. Additionally, MphasiS provides their clients complete control, security and transparency in the execution of the processes.

In order to make the transition of the client's processes to the MphasiS centers seamless, a robust Transition Management methodology has been evolved ensuring on time movement of processes from client sites to our offshore centers in over 90 instances. The process is so robust that we have never missed a go-live date. Project teams comprised of specialists in areas of process analysis, quality assurance, training, security, networking and systems integration ensure a smooth transition.

BPO 2.0: Delivering sustained cost and performance improvements

As a leader in offshore BPO, MphasiS has recognized the changing customer requirements and competitive landscape. The labor arbitrage benefits of India are well understood and companies are now starting to look for benefits beyond cost savings. In order to provide sustainable cost and performance advantage to clients, MphasiS BPO focuses on providing sustained performance enhancements. We call this high value-add offering "BPO 2.0".

Critical aspects of our BPO 2.0 model are:

- World class execution capabilities
- Highly customized, scalable business process offerings to meet client requirements
- Best practices that utilize technology and business procedures for information security & compliance
- Outstanding transition management to ensure complete knowledge acquisition
- Six sigma methodologies to establish operational excellence
- Business Performance Management Platform (Mpact) to provide real-time monitoring to preempt and resolve issues and to gain insight in the processes
- Automation and integration to improve process flow

The key components of MphasiS' value-added outsourcing include:

Domain knowledge: A deep understanding of the client and their industry for successful execution of business process outsourcing arrangements.

Best practices: MphasiS BPO provides value by implementing best practices distilled out of operational experience in executing client's business processes. Customer experience management and process specific practices for sales & service, claims handling and technical support are some of the areas covered. The HR best practices cover areas such as hiring, training, operational metrics, day-to-day operations, and reward programs.

Process Integration & Automation: Analyzing the business process and automating them through technology has obvious advantages. Competitive advantage comes through the smart use of technology to automate not only parts of the process, but to integrate the entire process and supply chain. Examples include the use of workflow technology to not only optimize the routing of information among the hierarchy of users spread in multiple locations, but also to enable higher accuracy, better customer experience, and faster turnaround.

Quality: Significant process improvements are realized through the applications of tools and methodologies such as Six Sigma and Total Quality Management. Examples include the improvement of customer satisfaction in a technical support environment by applying DMAIC (Define-Measure-Analyze-Improve-Control) methodology from the Six Sigma tool box. These techniques allow for pinpointing variations in processes that cause a deviation from their expected outcome. Systematic application of these tools can provide continuous improvement. The collection and interpretation of statistical data from the processes, using Business Intelligence technologies, support this analysis.

Skill sets: The availability of highly specialized skills (at a fraction of the cost), allows organizations to attain business goals that are otherwise not possible or economical in high cost locations. Examples include utilization of medical doctors to analyze and determine the underwriting risk associated with individual long term care plans or disability plans. Underwriting of such plans is an expensive proposition and insurance companies typically utilize a combination of experienced underwriters without medical degrees and part-time registered nurses to perform this task. By utilizing medical doctors in India to perform such a function, life insurance clients are starting to realize benefits such as improved premium pricing. Another example is the use of certified accountants to analyze 5K and 10K documents of public companies.

Amongst industry specific processes, MphasiS' Brokerage Practice provides brokerage services such as trade execution, account opening and order processing to clients. It also provides Fraud Early Warnings service to MphasiS' Financial Services clients.

Case Study: Leading European online provider of wireless devices and services.

Scope of services

Multi-channel Customer service – We handle customer support ranging from product enquiries on accessories to reporting on order status, managing returns and exchange, collecting deposits, and promotions & shipping.

This means hand holding customer while they are navigating through the pages of the website to make purchases and / or to give them a comparison of the various products available and also to advise them on products. This is done through the online chat service.

Inbound sales – We manage calls in response to promotions posted on the client website and support customers on product information and procurement.

Service level Agreement

We are gauged on the quality and average handle time of our calls, the percentage of abandoned calls, the service level and conversions.

Benefits: We positively impact our clients' operational costs while ensuring performance improvements through incorporation of best practices in the field of customer service.

Case Study: Leading provider of media services in the UK. Media Companies across the world have relied on their reputation for providing fast, fair and accurate information.

Scope of services

We create TV, radio and satellite listings for our client based on their specifications. We also do metro listings and puzzles page which include crosswords, sudokus, word puzzles, word spirals and mini quizzes. The listings prepared are for various regional papers, magazines and tabloids.

We also create and update football fixtures and update the client database with match statistics. We create and update league tables and sports database.

We process over 8000 pages every month and maintain 126 leagues every day. The listings and fixtures appear in newspapers and magazines and on TV. As a result there is tremendous pressure on accuracy and time of delivery.

Benefit to client

Lower costs with higher accuracy at lower turn around time.

MphasiS IT Services increase productivity in Application Development & Maintenance

MphasiS IT services for application development and maintenance ensure process improvement through automation, integration and instrumentation.

MphasiS applies world class architecture skills and ensures predictable, high quality delivery. We specialize in:

- Rapid, collaborative development: building highly effective applications in short cycles, leveraging offshore centers
- Optimized application management: SLA-driven management of legacy applications and consolidation and simplification of systems
- Robust quality assurance: testing is integral to the development cycle, supported by MphasiS architecture and automation approach
- Service Oriented Architectures to optimize the interplay of processes
- Portals and mobile applications for better access to processes and increased self service
- Workflow to orchestrate resources and process throughput

Group Strategy and Overview

- Business intelligence to improve insight in processes and business activity monitoring to monitor performance
- Security and compliance to ensure a safe environment
- Embedded software to integrate devices with the enterprise

MphasiS' applications services offer architecture, design, development and maintenance with a focus on improving business processes. These services feature:

MphasiS' Applications Services include:

- Application Development & Integration
- Application Management
- Testing Services
- Usability Engineering
- Quality Consulting
- Advisory Services

- SEI CMMI Level 5, ISO 9001:2000, Six Sigma and BS 7799-rated services assure quality standards are met or exceeded
- Global delivery that leverages offshore centers to shorten cycles and improve time-to-market
- A wide pool of specialist resources provide flexibility to quickly ramp up or down in a 24 x 7 environment
- Development centers are certified at the highest level of quality.

Leading companies in financial services, logistics and retail verticals are leveraging MphasiS' applications capabilities to improve sales and service processes across branch offices, customer care centers, and mobile and Web-based channels – all integrated with back-end processing systems.

Best-in-class practices serve client requirements.

MphasiS' services for application development and maintenance focus on process improvement through automation, integration and instrumentation. MphasiS brings architecture expertise and industry business analysts to application engagements to ensure well-architected systems, both from a business and technology perspective. Its dedicated practice areas include:

MphasiS Technology Practices

Business Intelligence

- To improve insight in processes and business activity monitoring to monitor performance
- Data architecture
- Business activity monitoring & dashboard design
- Business Intelligence solutions

Enterprise Applications

- CRM (Siebel) Practice
- SAP Structured delivery methodology based on ValueSAP

Mobile Applications

- Wireless access to enterprise systems

Portals & Content Management

- For better access to processes and increased self service
- Portal development, migration
- Portal frameworks & architecture

Workflow

- To orchestrate resources and process throughput

Services Oriented Architecture

- To optimize the interplay of processes
- Set up corporate policies for service manageability & governance
- Application of best practices in service design, development, deployment, testing, and maintenance

Enterprise Application Integration

- Data integration
- Process automation
- Business process modeling

Usability Engineering

- Usability and Human: Computer Interface Design

Embedded SW

- To integrate devices with the enterprise

Security

- To ensure a safe environment
- Design & implementation of Identity and Access Management Solutions

Application Development and Integration

With the introduction of mature technologies for integration, such as web services, and increasingly componentized products in the market place, the development of customized application solutions has taken on a strong integration focus. Proper system integration, cross-application workflows, information exchange and business intelligence are essential to information systems, which support the real-time, integrated business. More than providing a tactical solution to the development and integration of applications, MphasiS helps its clients optimize their business processes, by developing and integrating applications to anticipate and react to their customers' requirements to collaborate with suppliers and partners and identify and exploit new opportunities quickly and effectively.

We support the integration of heterogeneous systems to form seamless business processes: enterprise application integration, web services, portals, content management and workflow management. With roots in component-based development and service oriented architectures, MphasiS has established world-class expertise in the development of Java and .Net based interactive applications.

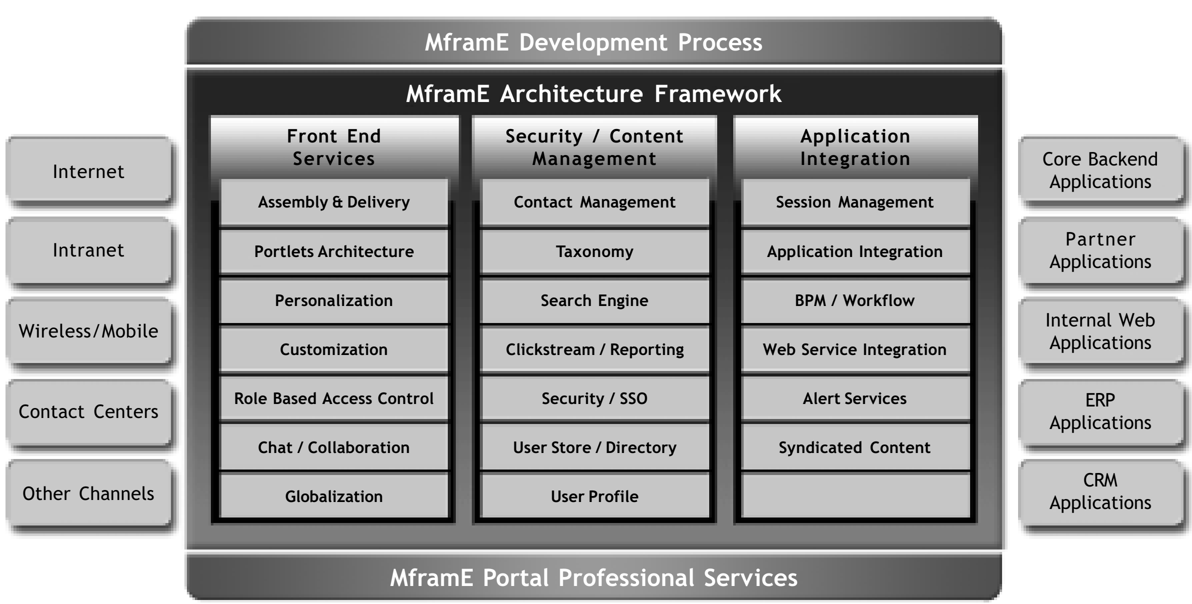
Most large companies use ERP (Enterprise Resource Planning) and CRM (Customer Relationship Management) applications such as SAP, Peoplesoft and Oracle, to run their internal processes. The MphasiS Packaged SW Practice supports customization, implementation, integration, maintenance and support of these packages.

Channel Integration: Mframe

Mframe™ is MphasiS' cross-channel application integration framework, which helps customers rapidly develop a new generation of world-class solutions for sales and service business processes in a measurably cost effective manner. Mframe addresses business and technology issues such as:

- Inconsistent customer experience across channels
- Lack of integration of customer contacts and information
- Inability to differentiate service levels to customers based on their profile
- Effectiveness of customer acquisition and cross-sell programs
- Straight through transaction enabling of channel systems

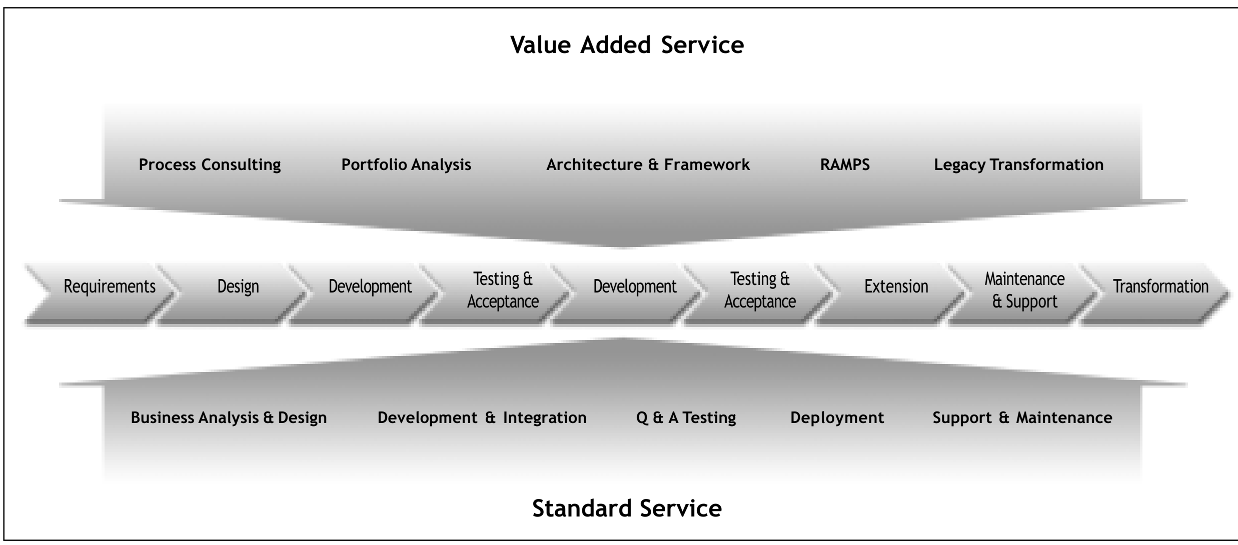
Mframe is of a proven methodology, a well-defined integration architecture framework, using Service Oriented Architecture (SOA), which leverages an experienced development team with offshore economics. The framework covers key technology components such as cross channel presentation tier & Portals, Enterprise Security, Content Management and Enterprise Application Integration (EAI) of core applications. Mframe-based solutions



are implemented for several Fortune 500 customers using a suite of 'best fit' products from leading vendors such as IBM, BEA and Microsoft. The implementations benefit from the MphasiS' experience in key technologies, products and domains as well as its repository of components, templates, and frameworks etc. that are reusable. Use of Mframe has proved to dramatically improve time-to-market of sales/service processes in a multi-channel environment.

Application Management

Today, many enterprises take a piece-meal approach to outsourcing maintenance, support and transformation services. Typically, a single application is outsourced to a vendor and multiple vendors are enlisted for the different applications. Substantial cost is associated with knowledge acquisition by the vendor. Taking a longer time horizon across the complete lifecycle of an application, it is likely that different vendors will be engaged at different times and the vendor will pass on the cost of knowledge acquisition to the client during every such



occasion. Moreover, in most enterprises, applications are interrelated and a single application interfaces with at least 20 other applications. MphasiS sees scope to dramatically improve the cost associated with knowledge acquisition across the entire lifecycle of multiple, interrelated applications.

MphasiS Application Portfolio Services (MAPS) is a structured approach to assisting enterprises in managing their (legacy) IT applications over the entire lifecycle. MAPS is a process framework for managing legacy applications. It offers a set of services consisting of a consulting study to group the applications logically, identifying the services that deliver the maximum value to the client based on the current lifecycle stage of an application, building a knowledge repository and establishing service levels with the client.

The MAPS approach is to build a comprehensive knowledge repository consisting of a technology-neutral view of the application. This knowledge repository will be actively managed throughout the entire engagement, thus ensuring that the knowledge map of the application is always maintained and new investments in knowledge acquisition need not be made at every stage of the lifecycle. With a portfolio approach to managing applications, the slack time of resources is significantly reduced as resources are shared across applications. This results in significant cost savings to the client.

Case Study: Global Financial Services Company

Scope of services

- Following merger of two large financial services entities, the online systems of the two had to be merged, while ensuring transparency to the users of the two systems
- Business Objectives
    - To provide a single, integrated web presence for all customers of both banks
    - To improve customer experience with a provision to cross sell & up-sell
- Architectural Objectives
    - Single back-end data and transaction hub
    - Web Services and Messaging Layer (using SOAP and XML)
    - Enhanced Content Management Capabilities
    - SSO Infrastructure for Authentication

Project Highlights

- Total of 275,000 person hours over one elapsed year
- 60,000 hours of Architecture, Design Effort for 5 months with 70 member team
- 215,000 hours of Development, Integration and Testing Effort for 9 months with 250+ member team
- Multi location Delivery – NY, Delaware, India (Mumbai, Bangalore).

Benefit

On time release of online portal while preserving user comfort

MphasiS Technologies (M-Tec), Turbo Charging R&D and Product Development

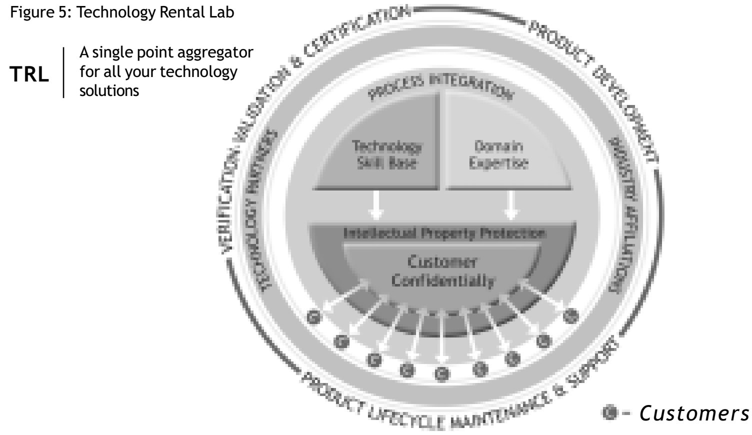
M-Tec's charter is to support technology product companies in the development, testing, deployment and support of their products, so that they can get their products into the market-place faster, at lower cost and with better customer support.

M-Tec services and solutions are delivered through "Technology Rental Lab" concept – a single point technology aggregator and an extension of client's operations.

Technology Rental Lab

The "Technology Rental Lab" (TRL) provides integrated accountability across multiple inputs and players in the product life-cycle. It addresses the key requirements of process integration, IP protection, technology

Figure 5: Technology Rental Lab



partnership, resource scalability and domain knowledge. The TRL and supporting teams combine to provide flexible, innovative and cost-effective technology solutions to MphasiS' customers.

TRL addresses key challenges faced by organizations seeking services from third party service providers:

- Managing multiple inputs, players and responsibilities
- Technology and Domain Knowledge
- Ensuring flexible processes to integrate customer's processes with the service providers
- Resource scalability
- IP protection frameworks
- Industry and Technology affiliations/ memberships
- Frameworks, Re-usable components
- A governance model that gives complete visibility and control across all delivery streams to the client

Industry Verticals

M-Tec offers services and solutions to companies, developing products for the following industry verticals:

Networking, Telecom & Mobile

We work with product companies to provide solutions and services ranging from analysis, design and development to testing of software in the segments of Enterprise Telephony, Management Systems, CRM and Billing Systems. In Mobile Technology, we have extensive expertise in all key areas of the mobile eco-system where we work as technology aggregator for OS and Devices makers, technology partners for application developers / product development companies and as a solution provider for Enterprise mobility.

Industrial Automation

We provide a service mix that blends Industrial Automation domain knowledge, technology and quality processes to create software that aligns plant operations and control throughout the enterprise. Our services cover the gamut of Level 1, 2 and 3 of Industrial automation, building automation, factory automation and vehicle automation.

Consumer Electronics

We architect solutions in the Consumer Electronics space to meet the growing demand for convergence, open source, standard APIs, world-class networking, advanced features to get products such as Digital Imaging Devices like scanners/cameras/Multi-Function-Peripherals, professional and consumer entertainment devices like Set-top-Boxes, AV equipment etc. to market quickly.

Logistics and Transportation

Our expertise in Logistics and transportation has enabled us to become the preferred supplier to the leading names in the industry. Our solutions include be-spoke development of mission critical logistics planning and routing systems. We also excel in development of component vendor agnostic customer service portals for transportation segments like airlines.

Computing Platforms

We have extensive domain know-how and expertise in providing software services to manufacturers of Enterprise computing infrastructure. We address the entire gamut of requirements ranging from BIOS, device drivers and management agents, to Intelligent Infrastructure monitoring and management solutions for equipments like servers, Blades, workstations and laptops, storage devices, controllers and PDA's.

Healthcare

The healthcare focus is on standardization of remote diagnostics and anywhere-anytime availability of patient records. Our software solutions range from healthcare information systems to medical and analytical instruments manufacturers for their product needs. We offer services in HL-7 Compliance, DICOM compliance, verification and validation services for existing applications.

Life Sciences

We are a quality-outsourcing partner in the field of Bio-informatics, developing software solutions that address requirement in combinatorial chemistry, visualization tools for genomic studies, micro-array analysis and plant genomic data analysis.

Case Study: A leading Technology Solutions provider

Project: Enhancement & maintenance of SCSI Storage Controller Driver on UNIX

Scope of services

- To transition, enhance, test and release the existing SCSI device driver on UNIX platform to support the latest Ultra SCSI controllers on Intel based Server platforms.
- To own the maintenance of this driver after its release

Project Highlights

- Transition and understand the existing driver architecture
- Enhancing the existing SCSI device driver to provide the latest Ultra SCSI support, Server Boot support, and Server management support for Servers running UNIX
- Testing & validating the driver on range of Servers before releasing the validated driver
- Maintenance of this driver for further hardware upgrades and server support

Benefits

- Shorter development cycle leading to faster time to market
- Capability to provide support of hardware (server, HBA, storage) on multiple operating systems at the same time.

MphasiS Platforms: performance improvements in a secure environment

Platform-based Solutions

Leading companies are increasingly looking for end-to-end solutions that deliver immediate business results, not just software solutions or process capabilities. For larger organizations with a legacy of disparate systems and business processes, out-of-the-box products or services rarely fit well with their requirements and lack the flexibility to integrate with their processes. Hence, MphasiS has drawn on both its IT and BPO capabilities to present a two-pronged Solutions offering. MphasiS provides Integrated Solutions as well as a Solutions Platform on which Integrated Solutions can be built and delivered.

MphasiS Integrated Solutions are defined by the business value they deliver to its customers. The IT and BPO services combine to provide both the business process capabilities as well as the supporting IT enablers for delivering comprehensive business solutions to customers. MphasiS provides vendor-neutral pre-architected frameworks for these solutions, ensuring that they can be delivered quickly, yet customized, built and operated for the precise requirements of clients.

The Virtual Process Manager (VPM)

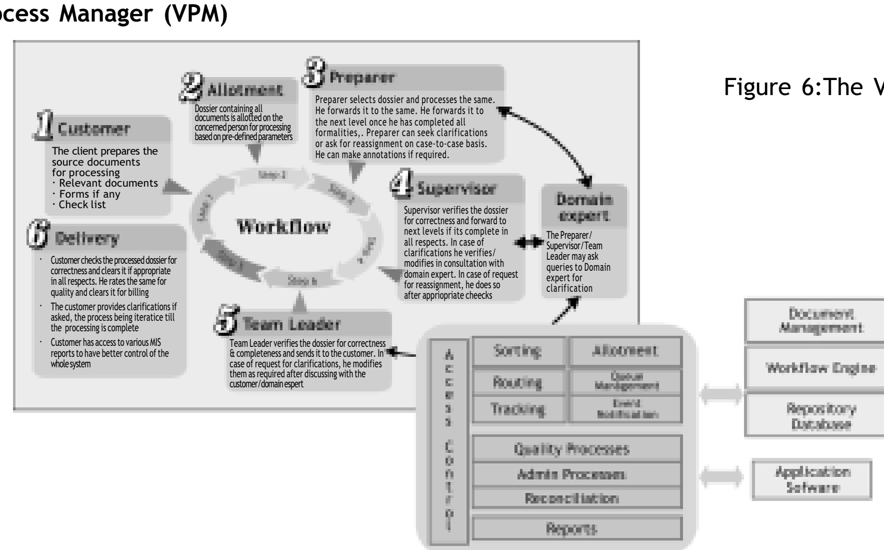


Figure 6:The VPM Engine

Group Strategy and Overview

The Virtual Process Manager (VPM) was designed to have a universal applicability for any workflow driven, document centric process that requires process automation, workflow management, document handling, and team collaboration.

At its core, VPM resides on a flexible process model that allows for rapid tailoring to fit specific business process flows. The flexibility of the framework is evident as it has already been applied from banking loan origination, tax preparation to insurance claims processing. By mapping to a customers organization and roles, the platform allows multiple teams in multiple locations to collaborate and can also effectively load balance work based on intelligent, rule-based decision criterion. In addition, the platform provides a high degree of visibility and control over these processes.

Case Study – A leading financial services company based out of the US

Scope of service

To develop a platform for loan origination to equip the business unit so that it could provide better service to customers while reducing the operational overheads and costs.

Solution Highlights

MphasiS used its proprietary platform for Document Management and workflow to develop the "loan origination platform". This platform ensured:

- One stop application acceptance and entry ensuring completeness of verification and pre-qualification
- Facility to track applications and its status
- Facility to prioritize application processing based on its nature
- Streamlines application processing using rule based workflows for predictable application processing time
- Dashboard view for assessing operations and generate reports for management

Benefits to client

- Decreased cost per application
- Increase in revenues for the business
- Increased customer satisfaction

Technologies Used

BEA WebLogic Application Server, BEA Weblogic Portal Server, BEA WLI

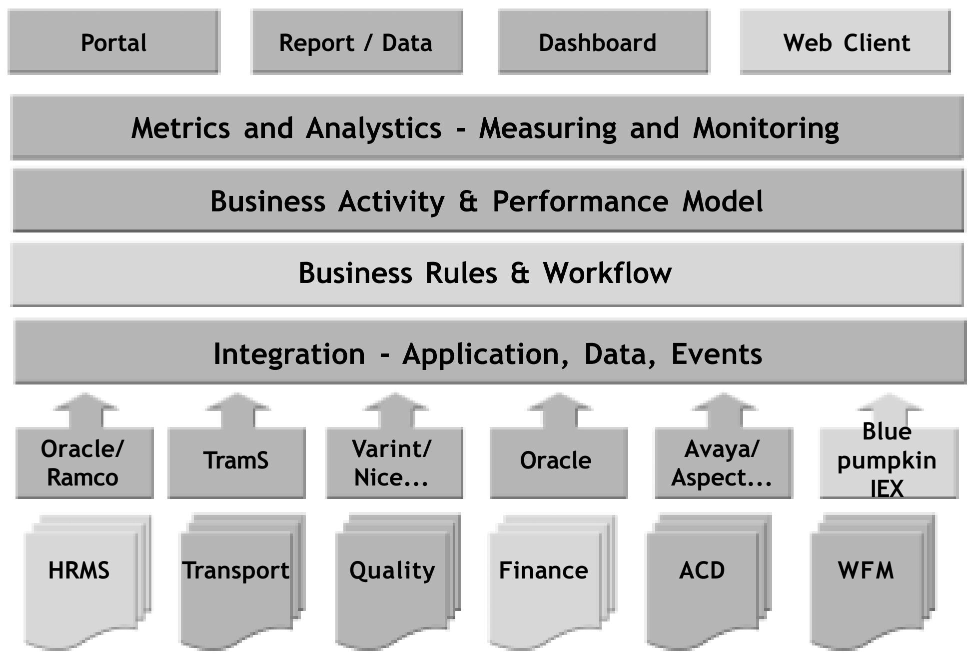
Clients can see significant business benefits from a VPM implementation including reductions in process turnaround time, improvements in output quality, and the ability to dynamically alter processes to achieve the best results as needs demand. A prime differentiator that MphasiS brings to bear in this space is the ability to extensively customize the platform at an affordable cost as well as lean on significant IT services integration experience to deploy the solution within a client's existing technology infrastructure. In utilizing VPM, customers can choose to leverage offshore support services provided by MphasiS or use the platform as a stand alone.

MpacT™ (MphasiS Performance and Collaboration Toolset) offers a comprehensive, integrated and intelligent business performance management platform which helps contact centers to monitor, manage and improve business processes on an ongoing basis.

Contact centers are moving from cost centers to profit centers, fully supporting sales and service processes. To ensure that they execute their goals successfully, contact centers need to measure and manage actual business performance against those goals in a highly coordinated manner.

Performance management represents all the methodologies, metrics, processes, and technology used to ensure performance monitoring, workforce optimization and business intelligence. Performance management incorporates both top-down and bottom-up accountability and visibility. It involves generating tactical data around processes and publishing metrics that roll up and represent the ability of the organization to meet strategic goals.

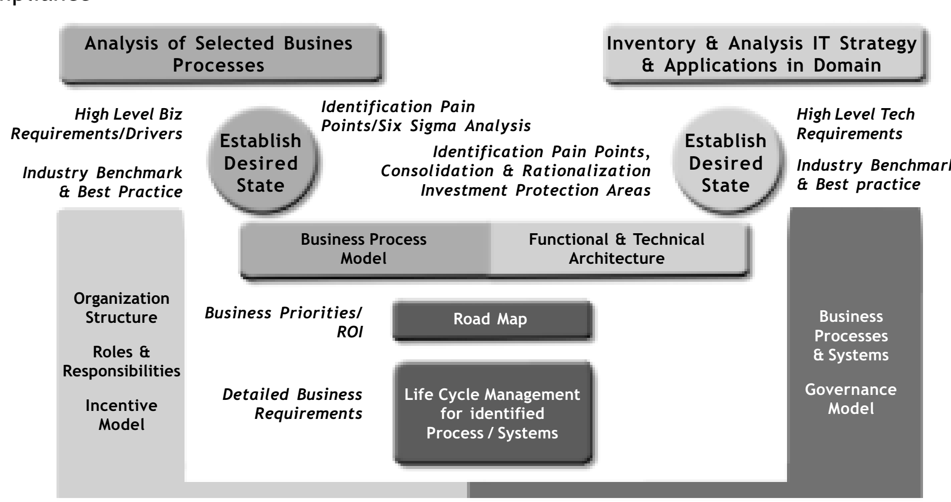
MpacT enables better performance management by presenting real-time information on the business processes executed at the contact or back-office center, through a range of channels keeping in mind the varied user profile. For instance, senior management need high level reports that can be drilled down to provide detailed data for. MpacT satisfies this need by providing a portal based delivery and interaction channel. Team leaders and supervisors, on the other hand need alerts, which are brief and indicate a violation of a threshold through devices that could range from a mobile phone to a PDA.



MphasiS Consulting provides a 360° assessment & solution for process improvement

MphasiS consulting provides Business Performance Management (BPM) and Business Process Improvement (BPI) consulting services focused on the following processes:

- Customer interaction management
- Claims handling and payments
- Finance and Accounting
- Compliance



Group Strategy and Overview

MphasiS consulting utilizes a multi-disciplinary team, comprising domain, functional, six sigma process improvement, business intelligence and usability and technology architecture experts. The team provides a 360° assessment and solution for process improvement thereby eliminating the 'silo' approach, which typically provides a single dimensional view and a sub-optimal solution.

Case Study: Leading financial services company

Scope of service

To set up a measurement system for all operations out of its Offshore Development Center

Deliverables

- Setup Key Performance Indicator (KPI) tree
- Develop a data collection plan
- Automate data collection and publish dashboards

Benefits

The client was able to set up a system for evaluation of Offshore Development Centers on the basis of valid metrics as well as automate the publishing of metrics and dashboards.

Addressing client needs through Global Delivery Platforms

MphasiS has successfully implemented thousands of projects since inception and is currently managing over 70 large- scale processes for its clients. Quality processes distinguish MphasiS' world-class Project Management skills. MphasiS processes are rated SEI CMMi Level 5 and ISO 9001:2000 certified. The Virtual Team engagement model backed by a web- based Knowledge Management system (MIKE) aids delivery by ensuring customer access to the project documentation and development environment.

The Virtual Team Model (VTM)

At MphasiS, geographically distributed teams and experts work collaboratively from multiple locations worldwide. This optimizes utilization of expertise available across global locations for the benefit of the project with minimal travel involved. It also allows immediate involvement of specialists like architects, usability designers, business analysts, quality assurance consultants and others from different locations who collectively form a Virtual Team. The Virtual Team Model results in cost optimization by leveraging lower cost locations.

MIKE (MphasiS Interactive Knowledge Exchange)

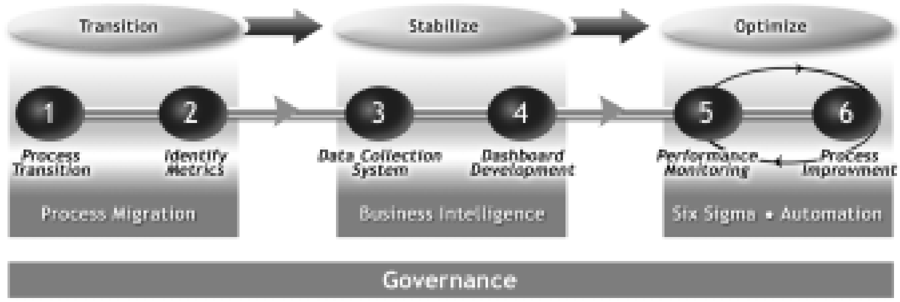
MIKE is an Enterprise Knowledge Portal, designed, developed and used internally by MphasiS and its clients to leverage the tacit and explicit knowledge residing within the organization. MIKE facilitates capture, publish and reuse of information. By creating a corporate group memory and facilitating collaboration, it enables users to establish their own virtual project areas or communities of interest. MIKE forms the basis for the Virtual Team Rooms that allow sharing of all knowledge related to projects and competencies.

Best-in-class Processes: SEI CMMi Level 5 / ISO 9001:2000

The Software Process Consulting Group of MphasiS helps software companies and in-house software development centers of large organizations to define and implement world-class software engineering practices and processes in line with internationally acclaimed process models such as SEI's Capability Maturity Model Integration (SEI-CMMi), ISO 9001:2000 & SPICE.

The group represents the rich, collective experience and skills of MphasiS' Quality Assurance Team, which is well- versed in these models and has successfully led the organization to the coveted CMMi Level 5 rating and ISO 9001:2000 certification.

MphasiS uses the **"Transition - Stabilize - Improve"** model for the processes that it executes on the client's behalf. In the **Transitions** Phase, the knowledge of the process or systems is captured and documented in the instance of the MphasiS Knowledge Base created for the client. The extension of the client's organization, processes and systems is implemented at the Client's Offshore Center @ MphasiS and the work is seamlessly transitioned. In the **Stabilize** Phase the delivery reaches steady state: service level agreements are consistently met and the outcomes are highly predictable. In the Optimize Phase, we deliver performance improvement by applying industry best practices, six sigma methodologies and business intelligence and process automation and integration.



Besides a strong onsite presence at key locations across the globe, the company has an extensive offshore infrastructure including dedicated offshore development centers (ODCs) in India, Mexico and China to provide competitive solutions to its clients. MphasiS supports its clients in transforming existing operational systems and processes to world-class, real-time business services. MphasiS continues to expand this capability through the creation of newer delivery centers.

Quality and Productivity

Process performance is driven by Quality Assurance (QA), Management Information Systems (MIS) and Business Analysis teams, who monitor business and client process performance; and a Six Sigma team of Black Belts for process improvement.

MphasiS centers are ISO 9001:2000 and BS7799 certified. Online business activity monitoring tools help to track performance against Service Level Agreements and internal benchmarks.

Six Sigma

The six sigma methodology helps to increase the efficiency and effectiveness of delivery and makes the organization process dependent. This data driven approach helps to enhance quality, eliminate defects and improve customer satisfaction.

Security and Compliance

The management of user identity and access control across the enterprise has assumed paramount importance in most leading businesses. The Security Practice at MphasiS designs and implements enterprise directories, single sign- on and provisioning to address the needs for higher application security. As a part of the rigor, all our process floors are now paperless. The compliance is focused on designing processes and systems to ensure compliance with regulation and internal policies. Information security focus with the implementation of bio-metric security,demonstrates our commitment to securing the workplace. Desktop hardening and remote management of desktops using Systems Management Server, Group Policy and Image Replication help to create customized and secure environments for our engineers working on client projects.

Fraud Risk Assessment & Management Exercise (FRAME)

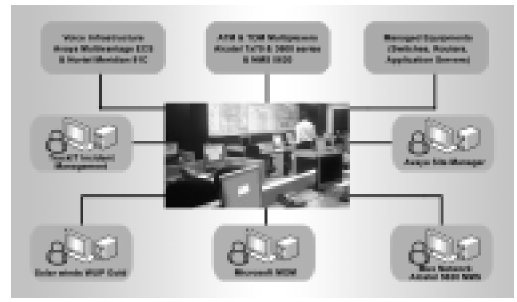
Fraud is a major threat in organizations like ours. As a part of the continuous process of improving the security systems in the company, FRAME was launched.

The objective of FRAME is to establish the nature, form and impact of the fraud risk. We study each of the new processes to identify and list 'means', 'opportunities' and 'motive' for fraud. This study result then dovetails into our Risk Management Process to mitigate the risks.

Technology Infrastructure

We have invested in a Global Network Operations Center and continue to enhance our capabilities. We have commissioned a global dual vendor ATM Managed Services Network with the ability to provide 99.99% link availability as well as quick provisioning of additional bandwidth. We have implemented effective server and application

Group Strategy and Overview



monitoring using state of the art monitoring tools. The MphasiS Global Network Operation Center is a Class 'A' Data Center running 24 X 7 X 365. Apart from state of the art security and fire protection systems it has sufficient redundancy.

Business Continuity Plan

MphasiS BPO Services does not believe that any outage means lost business opportunities and revenue. We have taken into consideration several planned and unplanned scenarios, while putting in place an organization-wide Business Continuity Plan (BCP). The BCP has been implemented with the assistance of PricewaterhouseCoopers. The BCP is in compliance with BS-7799 Part 2: 2002 standards and has covered three levels of redundancy. This includes IT and telecommunication infrastructure, the operation floors and operation centers.

The BCP assists in identifying:

- System, tasks and processes which are crucial to the operation of critical business functions, and define back up procedures for business continuity
- Personnel responsible for business continuity activities
- Levels of outage and responses to individual disruptions
- Alternate processing locations and resources required to effectively function (such as, vital records, office furniture and equipment, data processing hardware and software, supplies, vendors, etc.).

MphasiS BPO Services infrastructure provides for four levels of redundancy to assist in continuity of business. It is equipped with fault tolerant and redundant information technology, telecom and power infrastructure while having multiple operation floors at each contact center. Contact centers in the different cities of Bangalore and Pune in India are equipped with identical infrastructure.

The MphasiS Culture is built on the key values of customer centricity, transparency, flexibility, pro-activeness and commitment

MphasiS culture and its values form the foundation of the way we deal with our clients. It is what helps us build long-term client relationships. More importantly, long term and lasting partnerships.

Customer centricity: We make it our business to understand our clients business, processes, systems and culture and ensure full alignment

Transparency: We give full real-time insight in our delivery processes, thereby increasing control over outsourced processes

Results-driven: Strong performance management culture, based on real-time tracking of KPIs/ metrics, continuous risk management

Pro-activeness: Going beyond what we commit to deliver, drive to improve processes

Flexibility: We understand that markets, regulatory and competitive environments are dynamic and organizations change, so our engagements can change accordingly

We are a people company

MphasiS is a truly global company in terms of the culture, background and experience of its employees. Our workforce has employees of nine nationalities.

Hiring right in MphasiS is critical to out mission to deliver world-class services to our demanding global clients. Every new employee at MphasiS goes through a comprehensive session on our Mission, Vision and Values. The culture and focus on meritocracy has made us one of the employers of choice across multiple pools of talent worldwide.

Our employees across the organization hierarchy constantly undergo programs on skills upgradation through needs-based training – whether technical, management or leadership.

The MphasiS success story is about cross- cultural, cross- functional and cross- hierarchical teams working together and pooling their talents to deliver exceptional quality. Leading institutions such as the Indian Institute of Science, Bangalore and Dutch Television chose MphasiS from a host of companies to depict the lives of employees of a truly global company in a global industry.

"Best High Performing Teams" is a program that focuses on building teams that work exceptionally. The senior management at MphasiS has undergone leadership programs conducted by premier institutes like Indian Institute of Management, Bangalore, Florida International University and internal experts to achieve such boundary-less behavior.

Voice of the employee programs conducted at periodic intervals, covering each and every employee of MphasiS helps the management keep their finger on the pulse of employees. These scores are analysed in depth to improve employee motivation and thereby their performance.

MphasiS in the Community

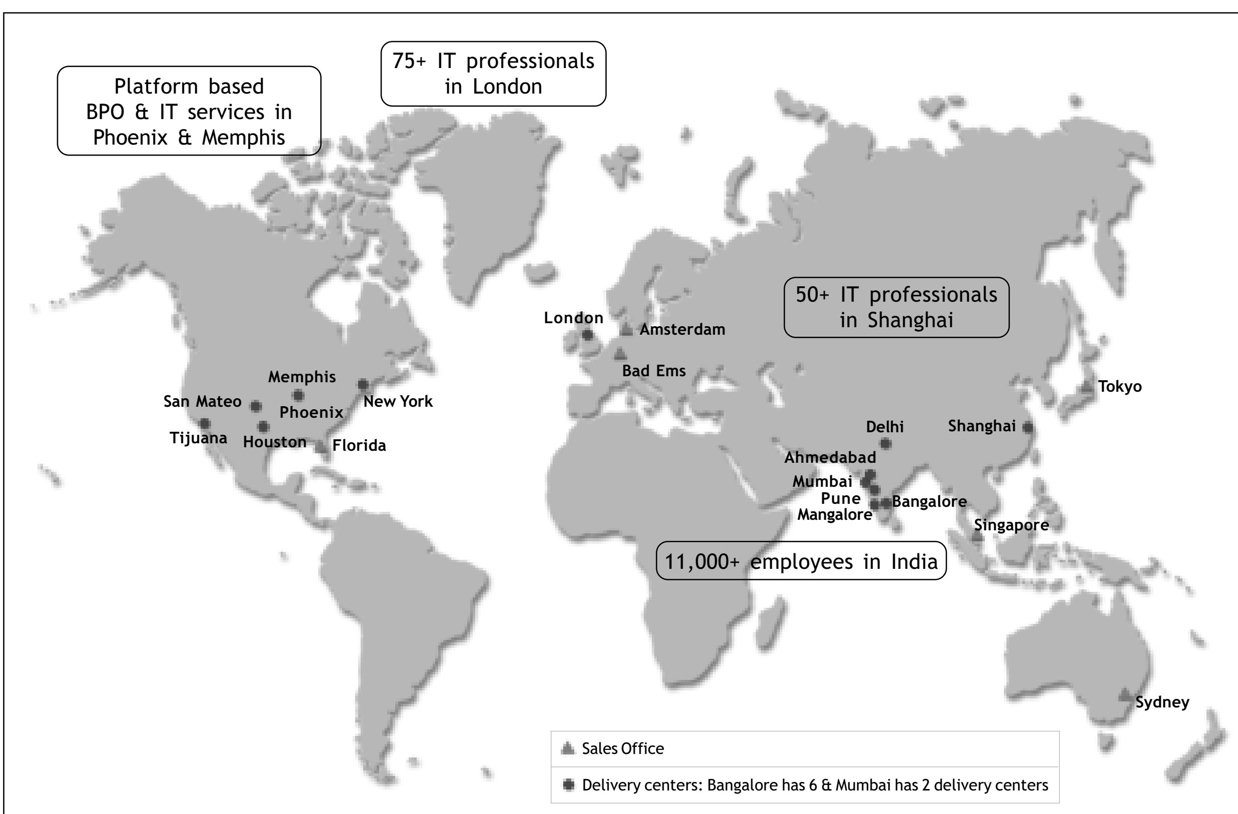
At MphasiS we make a concerted effort to reach out and touch the lives of the under-privileged, both as individuals and as a corporation.

We devote time and energy constantly adding partners to associate with to work in the areas of areas of women and children's empowerment. Recently we added two new NGO partners in Pune. MphasiS has initiated two new projects with these NGOs - one to open non-formal education centers for out-of-school children and two, to sponsor selected underprivileged kids and enable them to complete their graduation in a field of their choice. MphasiS has also been active in organizing various volunteer activities, such as blood donation camp for thalessemia patients in Sassoon Hospital.

Our recruitment drive for the disabled continues with selected disabled candidates undergoing training at NIIT Bangalore in English communication skills and subsequently absorbed into MphasiS, both in BPO and in our IT arm.

Our support to several NGOs in Bangalore & Mumbai continues, in cash, kind and time spent by employees. Of note is Akshay Prathishthan, a disability NGO based in Delhi for whom we have sponsored equipment used for making prosthetic casts.

MphasiS Global Footprint



MphasiS'ing Community Involvement

The MphasiS Corporate Social Responsibility programme, now almost four years old, has continued to focus on 2 key areas identified in 2003 – education for underprivileged children, and services for disabled persons. We have fostered long-term partnerships with 10 NGOs across India, whom we support through donations, volunteering and capacity-building activities. As always, our aim is to create value by helping NGOs to grow and helping them achieve long-term sustainability.

EDUCATION

Our largest partner remains the Each One Teach One Charitable Foundation (EOTO) in Mumbai. We now have under our fold 4 municipal schools, where we support 8 to 10 graders in their studies and extra-curricular activities. One of these 4 schools is also under EOTO's Health and Hygiene programme, under which the entire premises have been spruced up and maintained in partnership with the school authorities, teachers and the students themselves.

In April 2006, we initiated 2 new partnerships in Pune.

- **Non Formal Education classes for out-of-school children in Bibbewadi**

Swadhar- Institute for Development of Women and Children (IDWC) has as its main objective the offering of protection, support and shelter to women and children in distress in order to enable them to become self-reliant and financially independent members of the society. They consider education as the single most vital element in combating poverty, empowering women, protecting children from hazardous and exploitative labour and sexual and other form of exploitation. Their emphasis is on basic education, early childhood care, development and learning through adolescence and adulthood.

Since this is also the objective of MphasiS CSR programme, we decided to help Swadhar to run NFE classes in a designated area. Swadhar normally works in areas which have large numbers of out-of-school children. They make efforts to mainstream as many children as possible. They bring pressure on local school boards to start schools in such areas, and start non-formal classes for those who cannot attend normal classes. They also hold regular Parent Awareness Meetings, and start Adolescent Group classes with special emphasis on continuing education, sex education, empowerment, vocational guidance, family planning. Around 2000 children have gone through their program from 1998 till date. Out of these 500 children have been mainstreamed.

The MphasiS partnership has enabled 80 children to start their education afresh.

- **Support Education for Deserving Underprivileged Students**

Jagruti Seva Sanstha was established a decade ago by a group of like-minded women who wanted to contribute their mite to society. They started with a facility to help educate school dropouts as also to help young children from low income groups to perform better in school. Today they have a busy community center and several balwadis. Over a period of time they have seen their students flourish and settle well into competitive professions like engineering, law and nursing. To provide an environment conducive to study, a hostel facility has been provided where young girls can not only study but also get professional and personal guidance in a home-like atmosphere. Some of these girls are now teaching younger children in the community.

It has been observed that often good and deserving students from underprivileged sections tend to drop out of school due to various reasons and cannot pursue higher education. It is often domestic circumstances and a non conducive atmosphere at home which affects their performance. Therefore Jagruti and MphasiS together decided to identify a few such deserving cases in the community and to provide financial as well as academic support by providing a conducive environment in terms of hostel and counseling facilities. In our experience, the stage when most dropouts take place is usually from Class 10 and above. Therefore it was proposed to identify such children, both girls and boys with a view to support them till Class 12 and beyond. Our aim is to produce all round developed personalities who could then be an asset to their families and the community.

A project coordinator has been selected from the same community who will monitor the progress and also guide the beneficiaries.

It is too early to comment on the impact that these projects have had on the community. However, extrapolating the respective NGOs track record in conducting such programmes, and MphasiS' focus on performance measurement, periodic evaluations, and a regular feedback system for the teachers, students and NGOs, we hope that the impact will be widespread.

DISABILITY

We have recruited over the last 12 months, 18 disabled persons in various capacities across BPO and IT. The numbers are small; to evolve a long term strategy to deal with employment opportunities for the differently-abled, we have partnered with **Enable India,** a pan-Indian NGO that works towards placement of disabled people in the corporate sector.

Many disabled people come from the poorer strata of society. MphasiS discovered that these people do not have a) resources to educate/qualify themselves b) Knowledge/network to seek out new job opportunities c) The instruments with which to successfully execute a given job. Indian has the largest number of disabled people in the world (both in absolute terms as well as a % of the population) and it makes eminent business as well as social sense to engage them as productive members of society.

A participative approach – engagement with NGOs, disabled people and their families on a continuous basis is necessary to understand the needs and aspirations of disabled people, as well as to remove some of the myths surrounding employment of disabled people. In addition, our own experience in dealing & working with disabled employees is continuously shaping our recruitment strategy for the disabled.

We recently donated a prosthetic oven to a Delhi-based disability NGO called Akshay Pratishthan.

A sample of volunteer activities conducted in the last 12 months:

- Blood donation drive in association with the Deenanath Mangeshkar Hospital (Pune), where 140 units of blood were collected.
- Collection of clothes for Tsunami across all processes, a part of which were handed over to Intervida (NGO) to distribute amongst construction workers after a fire at a construction site in Viman Nagar, Pune destroyed all their belongings.
- Collection of food grains and utensils for flood relief; over 500 kgs of wheat donated by MphasiS employees.
- 14th November- Children’s Day; 25 volunteers spent the day at the National Film Archives, Pune where 900 children from the slums were shown a movie and served lunch. Mphasis also sponsored the transport for the children. This was in association with ARC (Action for the Right of the Child).
- A sports day, in association with Sharing Care, was organized for 1000 children working in the brick kilns. MphasiS had been given the responsibility of handling the 4-5 year olds.
- A Blood donation drive was conducted in April 2006, in aid of Thalassaemia patients, in association with Sasoon Hospital, Pune. 133 bottles were collected.
- Change Your World in ½ a day, a fund-raising exercise implemented by the Parikrma Centers of Learning, was carried out in MphasiS Bangalore to raise funds for under-served children.
- Donation of computers to APSA (Bangalore), for children to be trained on Computers.
- Several NGOs are given a platform in MphasiS to exhibit and sell their products, and raise awareness about their cause.

For the next year, we want to achieve greater heights with our employment programme for the differently-abled, as well as create viable career paths for the children under our educational initiatives.

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.

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 that are more about the culture of the organisation rather than an outcome of legal provisions. Thus, it maintains healthy internal systems and practices rather than being bound by legal limitations from without.

Business Risks

Client Concentration Risk

The Group derived 16% of its total revenues during the quarter ended 31 March 2006 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. Management is aware of this risk and has undertaken measures to broaden its client base. However, the overall trend is a declining client concentration and the Group is confident that this will continue.

Business concentration risk by vertical

The Group derived 61% of its revenues 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. The Group is actively pursuing client acquisitions in other verticals.

Geographic concentration risk

The group derived 65% of it revenues from the US, which makes it susceptible to adverse market conditions and events that might exist in the US and thus affect the Group's revenues. To counter this, management is actively pursuing clients in Europe, Japan, Asia Pacific and Middle East regions and thereby reduce the dependence of the Group on US based customers.

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 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 the 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 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; and
- the selling of services to our existing 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.

Therefore management has commenced the integration of the services provided by the software solution services and the BPO capabilities of the Group to counter the integrated offerings that the competition may provide.

However, there can be no assurance that the Group will achieve revenue growth objectives from cross-selling efforts, integrating services and selling new services. The inability to cross-sell services, attract and retain new customers or successfully develop new and enhanced services would harm the Group's business.

International operations risk

The Group has international operations in Australia, Belgium, China, Germany, Hong Kong, Japan, Mexico, Middle East, The Netherlands, Singapore, South Korea, Sri Lanka, 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.

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.

Fixed price contract risk

The Group derived 13% of its total revenues from Fixed Price contracts during the quarter ended 31 March 2006. Such projects require continuous monitoring 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.

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.

Management Discussion of Risks and Concerns

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.

Delivery Disputes

As explained under the fixed price contract risk a significant proportion of the Group's revenues are derived from Fixed Price projects. In many cases the specifications may be not completely defined at the inception of the project, where for competitive reasons the Group still needs to accept the project. 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 the 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 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

One of the Group's growth strategies is to make acquisitions of and investments in complementary businesses, technologies that will enable the Group to add services for the Group's core customer base and for adjacent markets, and to expand geographically. The Group's ability to make these acquisitions and investments will depend on:

- the availability of suitable acquisition candidates and investments at acceptable costs;
- the ability to compete effectively for these acquisition candidates and investments; and
- the availability of capital to complete these acquisitions and investments.

These risks could be heightened if the Group completes several acquisitions or investments within a relatively short period of time. The benefits of an acquisition or investment may often take considerable time to develop, and management cannot guarantee that any acquisition or investment will in fact produce the revenue, earnings or business synergies earlier anticipated. In addition, implementation of this strategy entails a number of risks, including:

- inaccurate assessment of undisclosed liabilities or recoverability of carrying value of assets;
- entry into markets in which the Group has limited or no experience;
- potential loss of key employees or customers of the acquired businesses;
- difficulties in assimilating the operations and products of an acquired business or in realizing projected efficiencies and cost savings;
- reallocation of significant amounts of capital from operating initiatives to acquisitions; and
- increase in the Group's indebtedness and a limitation in the ability to access additional capital when needed.

Also, from an accounting perspective, acquisitions and investments may involve non-recurring charges that could affect operating results. Also given the financial characteristics of the Group's businesses, it may be difficult to avoid making acquisitions that would be dilutive to earnings per share.

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.

Financial Risks

Foreign exchange fluctuation risk

As over 95% of the Group's billings are in foreign currency, 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. A rupee depreciation would affect the Group's import policy especially covering capital items thereby increasing our liability and cost. Conversely a rupee appreciation affects the Group's revenue streams and also reduces the carrying value of current assets especially accounts receivable. These risks are hedged by the purchase of forward covers.

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 mechanisms 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.

Management Discussion of Risks and Concerns

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 due, 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.

Capital expenditure risk

Significant resources are required towards acquisition of capital equipment especially for the Group's BPO business. 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 the future wherein the Group could have to borrow from external financial agencies at un-competitive rates of interest.

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.

Legal & Other Contractual Risks

Regulatory risks

As the Group operates in various countries around the world, it requires legal compliance of 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.

Further, although the Group currently is not providing services on any US Government contracts, the recent approval by the US senate prohibiting US companies from outsourcing work outside the US on such contracts awarded to them, could affect the future growth of the Group. Moreover, though the current regulation pertains only to Government contracts, should the same be extended to all contracts or US companies decide not to outsource the business outside of the US, the operations of the Group could be severely affected.

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.

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

Onsite efforts of the Group would be affected on account of difficulties in obtaining work permits and business visa's especially to the US. This is especially true post 11 September 2001 wherein visa rules have been tightened, which could affect the Groups ability to place the relevant resources onsite.

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.

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.

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 the 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.

Travel risks

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. To minimise this risk the Group has travel arrangements with several alternative airlines.

Health Risks

Given the international spread of business that the Group has, the employees are subject to health risks in various parts of the world. The spread of diseases like Bird Flu in the Far East as also in parts of North America can affect the business of the Group. These affect not only onsite business due to physical proximity but also offshore work as sometimes the clients offices are also closed for fear of the epidemic spreading.

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 improving in recent months.

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 recent acquisitions of Princeton 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 expenditures 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 risk to employees and assets and other business interruptions could adversely affect the Group's business. The Group's operations are vulnerable to interruption by fire, earthquake, 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.

AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF MPHASIS BFL LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF MPHASIS BFL LIMITED AND ITS SUBSIDIARIES

1 We have audited the attached consolidated balance sheet of MphasiS BFL Limited ("the Company") and its subsidiaries [collectively referred to as the "MphasiS BFL Group"] as at 31 March 2006 and also the consolidated profit and loss account for the year ended on that date annexed thereto and the consolidated cash flow statement for the year ended on that date. 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 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 Standard (AS) 21, Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.

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 BFL Group as at 31 March 2006;

(ii) in the case of Consolidated Profit and Loss Account, of the consolidated profit of the MphasiS BFL Group for the year ended on that date; and

(iii) in the case of Consolidated Cash flow Statement, of the consolidated cash flows of the MphasiS BFL Group for the year ended on that date.

for BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership No.48814

Bangalore
11 April 2006

CONSOLIDATED BALANCE SHEET

(Rs 000's)

	Notes	31 March 2006	31 March 2005
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	3	1,610,183	786,070
Reserves and surplus	4	4,921,889	5,526,264
Employee stock options outstanding	5	73,808	85,773
		6,605,880	6,398,107
LOAN FUNDS			
Secured loans	6	36,912	46,297
		6,642,792	6,444,404
APPLICATION OF FUNDS			
FIXED ASSETS	7		
Cost		3,143,202	2,556,945
Accumulated depreciation		(1,801,929)	(1,454,596)
Net book value		1,341,273	1,102,349
Capital work-in-progress		113,981	95,591
		1,455,254	1,197,940
GOODWILL	8	2,676,461	3,491,759
DEFERRED TAX ASSETS	9	166,538	150,112
CURRENT ASSETS, LOANS AND ADVANCES			
Cash and bank balances	10	988,505	954,711
Debtors and unbilled revenues	11	2,050,064	1,834,785
Interest receivable	12	2,111	2,016
Loans and advances	13	711,173	805,527
		3,751,853	3,597,039
CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	14	767,037	1,602,373
Provisions	15	640,277	390,073
		1,407,314	1,992,446
NET CURRENT ASSETS		2,344,539	1,604,593
		6,642,792	6,444,404

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 BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership No. 48814

Bangalore
11 April 2006

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman & Managing Director

Rahul Bhasin
Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
11 April 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Rs 000's)

	Notes	Year ended 31 March 2006	Year ended 31 March 2005
Revenues		9,401,055	7,656,727
Cost of revenues	16	6,485,603	5,290,498
Gross profit		2,915,452	2,366,229
Selling expenses	17	584,603	565,346
General and administrative expenses	18	854,142	782,248
Amortisation of ESOP costs		-	369
Provision for doubtful debts		13,917	1,911
Operating profit		1,462,790	1,016,355
Foreign exchange gain / (loss), net		85,245	68,332
Other income / (expense), net	19	(8,731)	3,632
Interest income / (expense), net	20	17,477	40,899
Profit before taxation		1,556,781	1,129,218
Income taxes (including Fringe Benefit Tax)	21	58,206	(116,944)
Net profit		1,498,575	1,246,162
Earnings per share (Par value - Rs 10)	27		
Basic (Rs)		9.42	8.22
Diluted (Rs)		9.26	7.94

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 BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership No. 48814

Bangalore
11 April 2006

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman & Managing Director

Rahul Bhasin
Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
11 April 2006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of MphasiS BFL Limited ('the Company') and its subsidiaries, collectively referred to as 'the MphasiS BFL Group' or 'the Group', have been prepared under the historical cost convention under the accrual basis of accounting, and comply with the mandatory Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI').

Basis of consolidation

The consolidated financial statements include the financial statements of MphasiS BFL 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 prescribed by the ICAI.

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 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 and from the sale of software licenses & application services.

Revenues from software services and 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.

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 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.

Revenue from 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.

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. Cost of fixed assets also includes exchange differences arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction. Fixed assets purchased in foreign currency are recorded at the actual rupee cost incurred. Acquired intangible assets are capitalised at the acquisition price. 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 Parent 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 Parent 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 software development business	*Years*
Buildings	10
Plant and machinery	4
Computer equipment	2
Office equipment	3
Furniture and fixtures	4
Vehicles	3
For call centre operations	*Years*
Buildings	10
Plant and machinery (including telecom)	5
Computer equipment	5
Office equipment	5
Furniture and fixtures	5
Vehicles	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Freehold land is not depreciated. Leasehold improvements are amortised over the initial contracted lease term or 3 years (5 years for call centre operations), 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. Goodwill arising on an amalgamation in the nature of purchase of business is amortised over the period over which the Group expects to realise future economic benefits.

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.

Retirement benefits

Gratuity and leave encashment costs, 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.

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, except that exchange differences related to acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.

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 (except those related to acquisition of fixed assets) 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 (revised 2003) 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 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 commitments or highly probable forecast transactions. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated and recorded in accordance with paragraphs 36 and 37 of AS-11 (revised 2003). The exchange difference on such a forward exchange contract is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognised in the profit and loss account in the reporting period in which the exchange rates change.

Fringe Benefit Tax

Consequent to the introduction of Fringe Benefit Tax ("FBT") effective 1 April 2005, the Group provides for and discloses the 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 ICAI.

Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between the profit offered for income taxes and the profit as per the financial statements by each entity in the Group. 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 creates a 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.

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' has been amortised on a straight-line basis over the vesting period of the shares issued under Employee Stock Option Plans (ESOP) and included in 'Amortisation of ESOP costs' in the Consolidated Profit and Loss Account.

'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. DESCRIPTION OF THE GROUP

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

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

List of subsidiaries with percentage holding

Subsidiaries	Country of incorporation and other particulars	Percentage 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
Princeton Consulting Limited ('Princeton') (refer note 2(b) below)	a company organised under the laws of the United Kingdom	100
MbrokeR Inc. ('MbrokeR')	a company organised under the laws of Delaware, USA	100
Eldorado Computing Inc. ('Eldorado') (refer note 2(c) below)	a company organised under the laws of Arizona, USA	100
MphasiS Ireland Limited ('MphasiS Ireland') (refer note 2(d) below)	a company organised under the laws of Ireland;	100
MbrokeR (India) Private Ltd. ('MbrokeR India')	a subsidiary of MbrokeR Inc. organised under the laws of India	100
MphasiS Europe BV ('MphasiS Europe')	a subsidiary of MphasiS USA, organised under the laws of The Netherlands	100
MphasiS Pte Ltd ('MphasiS Singapore')	a subsidiary of MphasiS Europe, organised under the laws of Singapore	100
MphasiS UK Limited ('MphasiS UK')	a subsidiary of MphasiS Europe, organised under the laws of United Kingdom	100
MphasiS Software and Services (India) Private Limited ('MphasiS India')	a subsidiary of MphasiS Europe, organised under the laws of India	100
MsourcE Holdings BV, Netherlands ('MsourcE Netherlands')	a subsidiary of MphasiS USA, organised under the laws of The Netherlands	100
MsourcE Mauritius Inc., Mauritius ('MsourcE Mauritius')	a subsidiary of MsourcE Netherlands, organised under the laws of Mauritius	100
MsourcE (India) Private Ltd. ('MsourcE India')	a subsidiary of MsourcE Mauritius, organised under the laws of India	100

2 (a) With effect from 1 June 2004, the Group acquired control of Kshema Technologies Limited ("Kshema") in terms of a definitive Stock Swap and Purchase Agreement ("the Agreement") dated 2 April 2004 approved by the shareholders of the Company at the Extraordinary General Meeting held on 12 May 2004.

The balance consideration payable to the erstwhile shareholders amounting to Rs 17,060,055 (31 March 2005 Rs 17,060,055) is carried as a liability which will be paid after necessary regulatory approvals are obtained (refer note 14).

During the year ended 31 March 2006, the shareholders and the creditors of the Company, and also the creditors of Kshema have approved the Scheme of Amalgamation and Arrangement between Kshema and the Company with effect from 1 April 2005 as per the directions of the Hon'ble High Court of Karnataka. The Scheme has been approved by the Hon'ble High Court on 16 January 2006. As per the Scheme, the assets and liabilities of Kshema as on 1 April 2005 have been fully taken over by the Company at their book values and the book value of investments in shares of Kshema held by the Company has been cancelled. The deficit arising therefrom has been adjusted against the amount in the "Securities Premium Account" of the Company, in accordance with the court order. Balance representing the excess of goodwill over the deficit has been adjusted to opening consolidated profit and loss account.

2 (b) The Company acquired control of Princeton Consulting Limited, UK ("Princeton") on 16 February 2005. According to the terms of the Share Purchase Agreement, an amount of GBP 7,385,000 (Rs 606,585,894) was paid in February 2005, an amount of GBP 100,000 (Rs 8,354,000) was paid in April 2005 in cash and the remaining consideration, amounting to GBP 500,000 (Rs 38,816,251) has been released from Escrow in the month of March 2006 to the selling shareholders of Princeton. The acquisition has resulted in a goodwill of Rs 387,806,166.

2 (c) The Company acquired control of Eldorado Computing Inc., USA ("Eldorado") on 1 March 2005. According to the terms of the Share Purchase Agreement an amount of USD 14,025,000 (Rs 613,523,625) was paid in cash during the quarter ended 30 June 2005 and USD 1,623,222 (Rs.72,420,050) has been paid in the month of March 2006. An amount of USD 885,175 (Rs 39,492,083) is held in an escrow account and is payable upon satisfaction of certain conditions (refer note 13). The acquisition had resulted in a goodwill of Rs 736,823,224.

In addition, as per the Share Purchase Agreement, certain key executives of Eldorado will be paid an earn out for three years commencing from 1 March 2005 to 29 February 2008 if they exceed agreed upon revenue and gross margin targets in each of these three years. The maximum earn out payable over the three years, if both the revenue and gross margin targets are met will be USD 5,000,000, with individual limits fixed for each of the three years. No earn out has been accrued for the year ended 28 February 2006.

2 (d) During the quarter ended 30 September 2005, MphasiS Ireland was incorporated in Ireland as a wholly owned subsidiary of the Company for the purpose of providing IT services in Ireland. The subsidiary is yet to commence operations. During the quarter ended 31 December 2005, the Group invested Euro 10,000 (Rs 541,100) in MphasiS Ireland.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Rs 000's)

		31 March 2006	31 March 2005
3.	SHARE CAPITAL		
	Authorised capital*		
	200,000,000 (31 March 2005: 100,000,000) equity shares of Rs 10 each	2,000,000	1,000,000
	Issued, subscribed and paid-up capital		
	161,025,360 (31 March 2005: 78,614,108) equity shares of Rs 10 each	1,610,254	786,141
	[Of the above 9,486,773 (31 March 2005: 9,486,773) equity shares are allotted for consideration other than cash and 134,167,074 (31 March 2005: 54,039,308) equity shares are allotted as fully paid-up by way of bonus shares from securities premium account /profit and loss account]		
	Less : 14,200 (31 March 2005: 14,200) equity shares of Rs 10 each forfeited	(142)	(142)
	Add : Amount originally paid-up on forfeited shares	71	71
		1,610,183	786,070

(Rs 000's)

	31 March 2006	31 March 2005
4. RESERVES AND SURPLUS		
Securities Premium Account		
Balance brought forward	2,464,363	874,284
Add: Premium on allotment of shares	196,133	177,671
Add: Transferred from employee stock options outstanding	2,482	4,371
Add: Premium on allotment of shares to Kshema	-	701,984
Add: Premium on allotment of shares to MsourcE minority	-	1,073,307
Less: Adjestment on account of merger of Kshema [refer note 2(a)]	816,223	-
Less: Bonus shares issued	681,607	367,254
[Securities premium amounting to Rs 1,122,871 (31 March 2005: Rs 1,936,612) is for consideration other than cash]		
	1,165,148	2,464,363
Foreign Currency Translation Reserve		
Balance brought forward	(28,499)	-
During the year	(21,124)	(28,499)
	(49,623)	(28,499)
Capital reserve		
Balance brought forward from previous year	2,234	2,234
	2,234	2,234
General reserve		
Balance brought forward from previous year	263,932	213,754
Add: Transfer from Profit and loss account	76,226	50,178
	340,158	263,932
Profit and loss account		
Balance brought forward from previous year	2,824,234	2,051,085
Less: Adjestment on account of merger of Kshema [refer note 2(a)]	107,669	-
Add: Net profit for the year	1,498,575	1,246,162
Profit available for appropriation	4,215,140	3,297,258
Appropriations		
Transfer to General Reserve	76,226	50,178
Preference dividend to minority share holders	-	10,159
Final dividend	3,804	240,121
Interim dividend	-	110,592
Proposed dividend	483,168	-
Tax on dividend	68,299	61,974
Issue of bonus shares	119,671	-
Balance carried forward	3,463,972	2,824,234
	4,921,889	5,526,264

5. EMPLOYEE STOCK OPTIONS OUTSTANDING

(Rs 000's)

	31 March 2006	31 March 2005
Balance brought forward	85,773	14,588
Add: Towards swap of MsourcE options	-	83,630
Less: Transferred to securities premium account on exercise of options	2,482	4,371
Less: Reversal on forfeiture / lapse of options granted	9,483	8,074
	73,808	85,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Employee Stock Option Plans (ESOP)

All the ESOPs are in respect of the Parent 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 year ended 31 March 2006 for grants outstanding on and made on or after that date for each of the plans described below (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 1,860,000 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 year ended 31 March 2006 and year ended 31 March 2005 are set out below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	157,752	34.38	211,516
Granted	-	-	-
Forfeited	856	34.38	-
Exercised	27,782	34.38	53,764
Options outstanding at the end	129,114	34.38	157,752
Exercisable at the end of the period	129,114	34.38	

The weighted average share price of options exercised as at the date of exercise was Rs 144.30. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs Nil. The options outstanding as at 31 March 2006 had an exercise price of Rs 34.38. The options are exercisable at any time after the vesting period.

1998 Plan-(Version II): Commencing January 2000, the Company decided to grant all future options at the market price immediately preceding the date of grant. The equity shares covered under these options vest at various dates over a period ranging from twelve to forty-eight months from the date of grant based on the grade of the employee. However, in case of options granted to the 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 movement in the options granted under the 1998 Plan-(Version II) for year ended 31 March 2006 and year ended 31 March 2005 are set out below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	2,208,718	78.34	2,634,736
Granted	285,000	130.57	80,000
Forfeited	277,352	88.98	72,248
Exercised	535,756	46.74	433,770
Options outstanding at the end	1,680,610	94.68	2,208,718
Exercisable at the end of the period	1,221,266	88.01	

The weighted average share price of options exercised as at the date of exercise was Rs 142.56. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs.53.64. The options outstanding as at 31 March 2006 had an exercise price ranging from Rs 23.21 to Rs 130.60 and weighted average remaining contractual life of 8.20 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 year ended 31 March 2006 and year ended 31 March 2005 are set out below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	4,601,238	71.09	7,693,296
Granted	1,261,600	164.41	917,200
Forfeited	639,288	125.59	895,040
Lapsed	392,906	66.57	623,446
Exercised	2,293,508	49.46	2,490,772
Options outstanding at the end	2,537,136	116.09	4,601,238
Exercisable at the end of the period	795,018	92.64	

The weighted average share price of options exercised as at the date of exercise was Rs 138.86. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs 56.11. The options outstanding as at 31 March 2006 had an exercise price ranging from Rs 23.21 to Rs 178.55 and weighted average remaining contractual life of 2.70 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

Notes to the Consolidated Financial Statements

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. The exercise period is two years from the date of vesting.

The movements in the options under the 2003 Plan for the year ended 31 March 2006 and year ended 31 March 2005 are set out below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	1,918,000	129.80	1,540,000
Granted	268,800	130.60	900,000
Forfeited	99,000	102.43	60,000
Exercised	606,000	91.20	462,000
Options outstanding at the end	1,481,800	147.56	1,918,000
Exercisable at the end of the period	78,000	89.88	

The weighted average share price of options exercised as at the date of exercise was Rs 136.36. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs 53.33. The options outstanding as at 31 March 2006 had an exercise price ranging from Rs 85.63 to Rs 175.00 and weighted average remaining contractual life of 2.59 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.

The movements in the options under the 2004 Plan for the year ended 31 March 2006 and year ended 31 March 2005 are summarised below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	1,288,378	92.10	-
Granted	1,003,600	130.47	171,820
Swap of MsourcE 2001 Plan	-	-	1,332,882
Forfeited	340,836	118.72	167,226
Lapsed	45,600	93.62	49,098
Exercised	348,098	69.81	-
Options outstanding at the end	1,557,444	115.82	1,288,378
Exercisable at the end of the period	229,742	91.12	

The weighted average share price of options exercised as at the date of exercise was Rs 137.45. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs 53.27. The options outstanding as at 31 March 2006 had an exercise price ranging from Rs 15.59 to Rs 149.18 and weighted average remaining contractual life of 6.14 years.

6. SECURED LOANS

(Rs 000's)

	31 March 2006	31 March 2005
Finance lease obligation	-	453
Other loans (Secured by hypothecation of the vehicles	36,912	45,844
	36,912	46,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. FIXED ASSETS

(Rs 000's)

Assets	Cost				Accumulated depreciation				Net book value	
	1 April 2005	Additions	Deductions/ Adjustments*	31 March 2006	1 April 2005	Charge	Deductions/ Adjustments	31 March 2006	31 March 2006	31 March 2005
Owned Assets										
Freehold land	27,375	-	-	27,375	-	-	-	-	27,375	27,375
Buildings	1,230	-	-	1,230	492	133	-	625	605	738
Leasehold improvements	242,419	16,180	189	258,788	198,538	23,015	155	221,708	37,080	43,881
Plant and machinery	824,311	274,659	(6,984)	1,091,986	393,279	176,483	(4,060)	565,702	526,284	431,032
Computer equipment	742,432	195,620	(163,345)	774,707	495,150	130,689	(127,375)	498,464	276,243	247,282
Software	227,927	174,986	18,892	421,805	122,309	73,837	(10,818)	185,328	236,477	105,618
Office equipment	133,369	28,782	(1,706)	160,445	70,483	26,797	(1,850)	95,430	65,015	62,886
Furniture and fixtures	277,125	56,242	(786)	332,581	144,515	53,843	(900)	197,458	135,123	132,610
Vehicles	79,464	21,790	(26,969)	74,285	28,537	23,125	(14,448)	37,214	37,071	50,927
	2,555,652	768,259	(180,709)	3,143,202	1,453,303	507,922	(159,296)	1,801,929	1,341,273	1,102,349
Assets taken on finance leases										
Vehicles	1,293	-	(1,293)	-	1,293	-	(1,293)	-	-	-
	1,293	-	(1,293)	-	1,293	-	(1,293)	-	-	-
Total	2,556,945	768,259	(182,002)	3,143,202	1,454,596	507,922	(160,589)	1,801,929	1,341,273	1,102,349
Previous year ended 31 March 2005	2,002,638	594,139	(39,832)	2,556,945	1,084,710	385,560	(15,674)	1,454,596	1,102,349	

* includes the effect of translation of assets held by foreign subsidiaries which are considered as non-integral in terms of AS 11 (revised 2003)

(Rs 000's)

		31 March 2006	31 March 2005
8.	GOODWILL		
	Goodwill arising on consolidation	2,667,919	3,472,985
	Purchased goodwill		
	Balance brought forward	30,010	22,510
	Additions during the year	-	7,500
		30,010	30,010
	Amortisation :		
	Balance brought forward	(11,236)	(1,026)
	During the year	(10,232)	(10,210)
		(21,468)	(11,236)
	Purchased goodwill, net	8,542	18,774
		2,676,461	3,491,759
9	DEFERRED TAX ASSETS		
	On deprciation	34,626	29,366
	On losses carried forward [refer note 9(a) below]	131,912	120,746
		166,538	150,112

9 (a) A deferred tax asset of Rs 12,987,181 have been recognised during the year ended 31 March 2006 as the virtual certainty of obtaining tax credits in respect of the relevant carried forward losses in certain overseas subsidiaries has been established.

		31 March 2006	31 March 2005
10.	CASH AND BANK BALANCES		
	Cash in hand	503	427
	Remittances in transit	1,434	90,201
	Balances with scheduled banks		
	- Current accounts *	50,939	170,980
	- Deposit accounts	578,100	280,297
	- Margin money deposit account	4,008	5,553
	Balances with non-scheduled banks		
	- Current accounts	334,451	405,688
	- Deposit accounts	19,070	1,565
		988,505	954,711

* Includes Rs 1,231,797 and Rs 806,714 representing the balances in unclaimed dividends accounts as at 31 March 2006 and 31 March 2005, respectively [refer note 14].

		31 March 2006	31 March 2005
11.	DEBTORS AND UNBILLED REVENUES		
	Debtors		
	Debts outstanding for a period exceeding six months, unsecured		
	- considered good	48,491	20,805
	- considered doubtful	99,347	77,190
	Other debts, unsecured		
	- considered good	1,650,354	1,344,386
	- considered doubtful	-	9,407
		1,798,192	1,451,788
	Less: Provision for doubtful debts (net of write offs)	99,347	86,597
		1,698,845	1,365,191
	Unbilled revenues	351,219	469,594
		2,050,064	1,834,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Rs 000's)

	31 March 2006	31 March 2005
12. INTEREST RECEIVABLE		
Unsecured, considered good	2,111	2,016
	2,111	2,016
13. LOANS AND ADVANCES		
Secured - considered good		
Employee loans	20,134	16,756
Unsecured - considered good		
Advances recoverable in cash or in kind or for value to be received	311,916	261,359
Loans to ESOP Trusts	22,082	33,083
Deposits		
- premises	196,143	203,015
- with Government authorities	5,438	5,053
- others	8,251	12,901
Advance tax & tax deducted at source	102,307	70,556
Other current assets *	44,902	202,804
Unsecured - considered doubtful		
Advances recoverable in cash or in kind or for value to be received	40,293	40,631
	751,466	846,158
Less: Provisions (net of write offs)	40,293	40,631
	711,173	805,527

* The above amount includes Nil (31 March 2005: GBP 600,000) relating to the acquisition of Princeton Consulting Limited, [refer notes 2(b)], and USD 885,175(31 March 2005:USD 2,475,000) relating to the acquisition of Eldorado Computing Inc., [refer notes 2(c)], totalling to Rs 39,492,083 (31 March 2005: Rs 157,544,917) held in escrow accounts and to be paid on the satisfactory completion of conditions laid down in the respective share purchase agreements. These amounts when paid out of the escrow accounts have been /will be reflected as goodwill on consolidation.

(Rs 000's)

	31 March 2006	31 March 2005
14. CURRENT LIABILITIES		
Sundry creditors	209,898	225,799
Advances from clients	17,717	24,765
Unearned receivables	18,096	53,671
Other liabilities*	520,094	1,297,331
Unclaimed dividends	1,232	807
	767,037	1,602,373

* Included in Other liabilities is an amount of Rs 17,060,055 (31 March 2005: Rs 17,060,055) which represents the balance consideration payable for the acquisition of Kshema Technologies Limited (refer note 2(a)].

	31 March 2006	31 March 2005
15. PROVISIONS		
Leave encashment	10,415	13,298
Superannuation	-	3,526
Gratuity	26,784	59,833
Proposed dividend	483,168	235,867
Tax on dividend	67,764	33,081
Taxation	52,146	44,468
	640,277	390,073

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
16. COST OF REVENUES		
Salary and allowances	3,923,978	3,044,444
Contribution to provident & other funds	374,484	296,891
Staff welfare	222,899	159,710
Travel	361,592	386,279
Recruitment charges	74,977	44,811
Communication expenses	212,050	298,849
Software / material purchases	21,415	30,880
Rent	280,768	242,928
Professional charges	10,058	13,104
Depreciation and amortisation	443,085	336,153
Software development charges	214,658	130,609
Staff training expenses	42,837	29,374
Electricity	104,589	70,948
Annual maintenance charges	53,499	52,612
Miscellaneous expenses	144,714	152,906
	6,485,603	5,290,498

The above expenses for the year ended 31 March 2006 are net of Rs.15,589,912, Rs 6,182,210 and Rs 5,918,460 being the write back of provisions no longer required on account of travel, rent and miscellaneous expenses.

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
17. SELLING EXPENSES		
Salary and allowances	347,254	311,918
Contribution to provident & other funds	36,868	33,620
Staff welfare	14,672	7,183
Travel	53,638	72,027
Communication expenses	35,386	43,598
Rent	25,903	27,453
Commission	4,026	-
Professional charges	12,014	3,852
Depreciation and amortisation	18,718	16,929
Advertisement & publicity charges	451	1,817
Market research cost	8,665	6,867
Recruitment expenses	3,870	9,015
Business meeting expenses	4,081	5,325
Miscellaneous expenses	19,057	25,742
	584,603	565,346

The above expenses for the year ended 31 March 2006 are net of Rs 2,694,546 being the write back of provisions no longer required on account of commission.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
18. GENERAL AND ADMINISTRATIVE EXPENSES		
Salary and allowances	310,690	230,537
Contribution to provident & other funds	28,284	27,898
Staff welfare	34,387	23,073
Travel	44,235	70,388
Communication expenses	34,608	36,010
Rent	36,995	30,437
Professional charges	58,986	101,933
Depreciation and amortisation	56,351	42,688
Auditors' remuneration	5,800	4,412
Bank charges	8,001	5,642
Insurance	19,555	27,594
Rates and taxes	39,056	12,062
Repairs and maintenance		
- Plant and machinery	24,277	15,928
- Buildings	7,847	6,218
- Others	19,506	11,600
Membership and subscription	14,075	17,435
Printing and stationery	18,302	15,535
Postage and courier charges	11,430	10,943
Miscellaneous expenses	81,757	91,915
	854,142	782,248

The above expenses for the year ended 31 March 2006 are net of Rs 3,700,041 and Rs 10,994,353 being the write back of provisions no longer required on account of Salary and Miscellaneous expenses respectively.

	Year ended 31 March 2006	Year ended 31 March 2005
19. OTHER INCOME / (EXPENSE), NET		
Profit / (loss) on sale of fixed assets	736	6,629
Miscellaneous (expense) / income	(9,467)	(2,997)
	(8,731)	3,632
20. INTEREST INCOME / (EXPENSE), NET		
Interest on deposits and loans	17,481	41,050
Interest expense	(4)	(151)
	17,477	40,899
21. INCOME TAXES		
Current taxes		
Domestic taxes	33,038	(5,394)
Foreign taxes	16,570	16,126
Deferred taxes		
Domestic taxes	(5,260)	(6,376)
Foreign taxes	(12,987)	(121,300)
Fringe Benefit Tax	26,845	-
	(58,206)	(116,944)

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 14,719,810 as at 31 March 2006 (31 March 2005: Rs 12,976,780) have been furnished to the Customs authorities in this regard.

23. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Claims against the Group not acknowledged as debts amounting to Rs.226,151,020 [31 March 2005:Rs.16,361,703]

(b) Potential liability on account of provident fund contribution on leave encashment for the period October 1994 to April 2005, pending, final decision by the appropriate authority is approximately Rs.76 Lakhs.

(c) Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at 31 March 2006: Rs 50,765,895 (31 March 2005: Rs 105,449,216);

(d) Guarantees outstanding including those furnished to the Customs authorities as at 31 March 2006: Rs 98,671,873 (31 March 2005: Rs 190,742,943);

(e) Letters of credit outstanding as at 31 March 2006: Rs Nil (31 March 2005: Rs 5,454,083);

(f) Forward contracts outstanding as at 31 March 2006: Rs 3,066,296,374 (US$ 68,727,925) [31 March 2005: Rs 5,836,420,410 (US$ 133,419,143)]. Unamortized premium on forward exchange contracts as at 31 March 2006: Rs 12,650,753 (31 March 2005: Rs 47,208,344). The Group does not have any foreign currency exposure which is not hedged by forward contracts;

(g) Income Tax demand including interest in respect of the assessment year 2002-03 estimated at Rs 6,043,000 (31 March 2005: Rs.6,540,000), net of provision made in the books, has been remanded for *de novo* adjudication to the Assessing Officer. Based on expert advice, the Company believes that it has a good case to defend and no further liability is expected to arise in this regard.

(h) 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 Rs 119,357,840 for the year ended 31 March 2006 and Rs 138,644,276 for the year ended 31 March 2005.

Future minimum lease payments under non-cancellable operating leases as at 31 March 2006 are as follows:

(Rs 000's)

Period	
Not later than 1 year	85,583
Later than 1 year and not later than 5 years	61,401
	146,984

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 224,308,048 for the year ended 31 March 2006 and Rs 162,173,802 for the year ended 31 March 2005.

25. RELATED PARTY TRANSACTIONS

(a) Subsidiaries and entities where control exists:

The related parties where control exists are subsidiaries referred to in Note 2, BFL Employees Equity Reward Trust and Kshema Employees Welfare Trust.

Notes to the Consolidated Financial Statements

(b) Principal shareholder:

- Baring India Investments Limited.

(c) 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

- Jaithirth Rao — Chairman and Managing Director
- Jeroen Tas — Director

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

- Richard Braddock — Director
- N Subramaniam — Director
- Rahul Bhasin — Director
- Ashish Dhawan — Director
- BR Menon — Director
- Jose de la Torre — Director
- Nawshir H Mirza — Director
- D S Brar — Director
- Ian Donald Cormack — Director ; Resigned w.e.f. 31 August 2005

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

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Remuneration to executive key management personnel	21,474	22,865
Commission to non-executive directors	2,000	2,000
Exercise of stock options by non-executive key management personnel	29,569	-
Exercise of stock options by executive key management personnel	37,500	-
Consideration for acquisition of minority interest in MsourcE USA to executive key management personnel	-	137,774
Consideration for acquisition of minority interest in MsourcE USA to non-executive key management personnel	-	105,453
Consideration for acquisition of minority interest in MsourcE USA to a principal shareholder	-	1,350,390
Loan given to BFL Trust	32,230	-
Loan refunded by BFL Trust	43,300	-

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

	31 March 2006	31 March 2005
Interest free loans to ESOP Trusts, included in Loans and advances	22,082	33,083

(f) Others

1,206,000 options as at 31 March 2006 (31 March 2005: 2,385,000) of the various ESOP plans of the Company are held by key management personnel at market price immediately preceding the date of grant.

26. SEGMENT REPORTING

The Group's operations predominantly relate to providing information technology (IT) and business process outsourcing (BPO) services, delivered to clients operating globally. Secondary segment reporting is done on the basis of the geographical location of clients.

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 practicable 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)

	Year ended 31 March 2006	Year ended 31 March 2005
Segment revenue		
IT Services	6,426,622	4,814,783
BPO Services	2,974,433	2,841,944
	9,401,055	7,656,727
Segment profit		
IT Services	2,205,570	1,549,303
BPO Services	709,882	816,926
	2,915,452	2,366,229
Interest income / (expenses)	17,477	40,899
Other unallocable expenditure, net of unallocable income	1,376,148	1,277,910
Profit before taxation	1,556,781	1,129,218
Income taxes	58,206	(116,944)
Profit after taxation	1,498,575	1,246,162

	31 March 2006	31 March 2005
Segment assets		
IT Services	5,405,845	5,952,180
BPO Services	2,025,533	1,980,124
Unallocated assets	618,728	504,546
	8,050,106	8,436,850
Segment liabilities		
IT Services	847,498	1,487,349
BPO Services	112,218	281,639
Unallocated liabilities	484,510	269,755
	1,444,226	2,038,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Capital expenditure		
IT Services	261,977	180,722
BPO Services	524,672	324,931
	786,649	505,653
Depreciation and amortisation		
IT Services	168,312	126,702
BPO Services	349,842	269,068
	518,154	395,770

Secondary segment information (revenues)

Region		
USA	6,035,042	5,303,392
Europe	2,532,053	1,809,913
Asia Pacific	324,473	165,500
Japan	117,903	179,704
The Middle East and India	391,584	198,218
Total	9,401,055	7,656,727

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

Secondary segment information (segment assets)

	31 March 2006	31 March 2005
Region		
USA	2,570,875	2,380,006
The Middle East and India	5,348,579	5,942,702
Others	130,652	114,142
Total	8,050,106	8,436,850

Secondary segment information (capital expenditure)

	Year ended 31 March 2006	Year ended 31 March 2005
Region		
USA	120,267	49,115
The Middle East and India	644,181	403,742
Others	22,201	52,796
Total	786,649	505,653

27. EARNINGS PER SHARE ('EPS')

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

Number of weighted average shares considered for calculation of basic earnings per share	159,019,018	150,385,784
Add: Dilutive effect of stock options	2,758,088	5,213,280
Number of weighted average shares considered for calculation of diluted earnings per share	161,777,106	155,599,064

265,886 shares (31 March 2005: 557,706 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.

During the year (record date 14 November 2005) the Company allotted bonus shares of one equity share for every existing equity share (1:1). Since the issue of bonus shares is an issue without additional consideration, the issue is treated as if it had occurred at the beginning of the earliest period reported, for the purpose of calculating both the basic and diluted EPS. Similar treatment was given for outstanding options (refer note 5).

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)

	Year ended 31 March 2006
Net profit as reported	1,498,575
Add: Stock based employee compensation expense determined under the intrinsic value method	-
Less : Stock based employee compensation expenses determined under the fair value method	43,286
Pro-forma net profit	1,455,289
Earning per share: Basic	
As reported	9.42
Pro-forma	9.15
Earning per share: Diluted	
As reported	9.26
Pro-forma	9.00

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:

	Year ended 31 March 2006
Dividend yield %	1.44
Expected life	1 to 4 years
Risk free interest rates	5.78% to 6.55%
Expected volatility (annualised) *	67.12%

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

29. Consequent to the order passed by the Hon'ble Karnataka High Court in favour of the Department on the Sales Tax demand pertaining to the years 1996-97 to 2001-02 amounting to Rs 6,705,308 and interest & penalties of Rs 3,773,544, the Company being aggrieved by the aforesaid order, has preferred an appeal to the Supreme Court. As a matter of prudence, the Company has made adequate provisions for the aforesaid amount.

30. The Group has 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-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 of US$ 175,000 (Rs 7,650,875) with the insurance companies. The amount has since been received in cash. Accordingly, the Group expects to recover a substantial part of the aforesaid claim.

31. The Group has arranged a short term working capital facility of USD 5,000,000 or equivalent from a bank. This facility is usable interchangeably by the Group companies in India. The facility has not been utilized as at 31 March 2006.

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

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman & Managing Director

Rahul Bhasin
Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
11 April 2006

CONSOLIDATED CASH FLOW STATEMENT

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Cash flows from operating activities:		
Profit before taxation	1,556,781	1,129,218
Adjustments for:		
Amortisation of ESOP costs	-	369
Interest income on deposits	(17,481)	(41,050)
Interest expense	4	151
(Profit) / Loss on sale of fixed assets	(736)	(6,629)
Depreciation and amortisation	518,154	395,770
Effect of exchange rate changes	7,236	(3,426)
Operating profit before working capital changes	2,063,958	1,474,403
Increase in debtors and unbilled revenues	(226,391)	(17,341)
Decrease in loans and advances	50,860	12,674
(Decrease) / Increase in current liabilities and provisions	(124,511)	147,687
Cash generated from operations	1,763,916	1,617,423
Income taxes paid	(99,875)	(10,616)
Net cash provided by operating activities	1,664,041	1,606,807
Cash flows from investing activities:		
Interest received	17,386	45,482
Proceeds from sale of fixed assets	16,391	16,966
Purchase of fixed assets	(801,748)	(556,532)
Recovery of Inter-corporate deposites	-	115,000
Payment towards purchased goodwill	-	(7,500)
Proceeds from sale of other investments	-	2
Payment to acquire minority shareholders of MbrokeR	-	(100)
Payment towards purchase consideration to Princeton, net of cash acquired	(50,264)	(305,572)
Payment towards purchase consideration to Eldorado, net of cash acquired	(734,571)	11,707
Payment towards MsourcE BV	(6,113)	-
Payment towards purchase consideration / direct cost of MsourcE minority interest acquisition	(772)	(679,834)
Payment towards purchase consideration to Kshema, net of cash acquired	-	(336,582)
Net cash used in investing activities	(1,559,691)	(1,696,963)

Consolidated Cash Flow Statement

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Consolidated Cash Flow Statement (Continued)		
Cash flows from financing activities:		
Proceeds from issue of share capital	22,835	16,228
Proceeds of premium from issue of share capital	196,133	181,098
Proceeds from issue of common stock to minority shareholders	-	15,676
Repayments under finance lease obligation	(453)	(693)
Loans from vehicle finance company	-	46,019
Repayment of loans to vehicle finance company	(8,932)	(25,843)
Dividend paid including tax thereon	(272,862)	(260,394)
Interest paid	(4)	(151)
Net cash used in financing activities	(63,283)	(28,060)
Effect of exchange rate changes	(7,273)	(91,668)
Decrease in cash and cash equivalents	(41,067)	(209,884)
Cash and cash equivalents at beginning of the period	954,711	1,210,971
Less : Opening cash of BFL Equity Reward Trust	-	(46,376)
Cash and cash equivalents at end of the period	988,505	954,711

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

for and on behalf of the Board of Directors

for BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership No. 48814

Jaithirth Rao
Chairman & Managing Director

Rahul Bhasin
Director

Alok C. Mirsa
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
11 April 2006

Bangalore
11 April 2006

CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of consolidated financial statement items with consolidated cash flow items (Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Purchase of fixed assets		
As per the Consolidated Balance Sheet	768,259	594,139
Add: Closing capital work-in-progress	113,981	95,591
Add: Opening creditors for capital goods	23,779	25,686
Less: Opening capital work-in-progress	(95,591)	(107,272)
Less: Closing creditors for capital goods	(8,738)	(23,779)
Add : Effect of exchange on subsidiary translation	58	4,196
Less: Kshema assets considered separately	-	(21,953)
Less: Opening Princeton asset acquired	-	(3,216)
Less: Opening Eldorado asset acquired	-	(6,860)
Balance considered for preparing the Consolidated Cash Flow Statement	801,748	556,532
Loans and advances		
As per the Consolidated Balance Sheet	711,173	805,527
Less: Advance income tax & tax deducted at source considered separately	(102,307)	(70,556)
Add/(Less): Effect of foreign exchange translation	6,468	3,790
Less: Current assets on Kshema acquisition	-	(36,629)
Less: Amount in escrow account for Eldorado	(39,492)	(108,269)
Less: Current assets on Princeton acquisition	-	(9,762)
Add: Current assets on Eldorado acquisition	-	2,671
	575,842	586,772
Less: Opening balance considered	626,702	599,446
Balance considered for preparing the Consolidated Cash Flow Statement	(50,860)	(12,674)
Current Liabilities and Provisions		
As per the Consolidated Balance Sheet	1,407,314	1,992,446
Less: Creditors for capital goods, liability for unclaimed dividend, provision for taxation and proposed dividend & tax thereon considered separately	(613,048)	(337,937)
Less: Liability for Navion Investment considered separately	(3,067)	(3,067)
Less: Current Liabilities in Princeton	-	(115,288)
Less: Current Liabilities in Eldorado	-	(102,441)
Less: Current liabilities and provisions of Kshema considered separately	(17,060)	(35,272)
Less: Liabilities for Kshema acquisition considered separately	-	(17,060)
Less: Liability for Princeton Investment considered separately	(109)	(2,604)
Less: Liability for Eldorado Investment considered separately	-	(728,132)
Less : Liability for acquisition of minority interest considered separately	(560)	(860)
Add: Effect of foreign exchange translation	4,805	3,982
	778,275	653,767
Less: Opening balance considered	902,786	506,080
Balance considered for preparing the Consolidated Cash Flow Statement	124,511	147,687

CONSOLIDATED CASH FLOW STATEMENT

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

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Income taxes paid		
As per the Consolidated Profit and Loss Account	58,206	(116,944)
Add: Increase in deferred taxes	16,426	127,676
Add: Increase /(decrease) in provision for taxation	(7,678)	(28,621)
Less: Deferred tax of Kshema considered separately	-	(9,373)
Less: Deferred tax of Princeton	-	(6,005)
Less: Deferred tax of Eldorado	-	631
Less: Increase in balance in advance income tax and tax deducted at source	31,751	43,576
Add: / (Less): Effect of exchange rate changes	1,170	(324)
Balance considered for preparing the Consolidated Cash Flow Statement	99,875	10,616
Interest / Dividend income from Investments		
Interest on deposits and loans	17,481	41,050
Add: Opening interest and dividends receivable	2,016	6,448
Less: Closing interest and dividends receivable	(2,111)	(2,016)
Balance considered for preparing the Consolidated Cash Flow Statement	17,386	45,482
Sundry debtors and unbilled revenue		
As per the Consolidated Balance Sheet	2,050,064	1,834,785
Less: Acquired from Kshema	-	(110,744)
Less: Acquired from Princeton	-	(64,375)
Less: Acquired from Eldorado	-	(44,241)
Add: Effect of foreign exchange translation	11,112	76,058
	2,061,176	1,539,367
Less: Opening balance considered	1,834,785	1,522,026
Balance considered for preparing the Consolidated Cash Flow Statement	226,391	17,341

for and on behalf of the Board of Directors

Jaithirth Rao
Chairman & Managing Director

Rahul Bhasin
Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
11 April 2006

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 BFL 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 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.

Management Discussion And Analysis of Critical Accounting Policies And Glossary of Terms Used in the Financial Statements

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 reserve for expected credit losses based on managements past experience with similar receivables and believe such reserves 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.

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.

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's Discussion And Analysis of Financial Condition and Results of Operations

Except for the historical information and discussions contained herein, statements included in this analysis 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. MphasiS BFL 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. Overview

MphasiS is a premier global IT (Information Technology) and BPO (Business Process Outsourcing) Services Group ('the Group') formed in the year 2000 after the merger of Bangalore, India, based BFL Software Limited (formed in 1993) and California, US, based MphasiS Corporation (formed in 1998).

The Group offers solutions to the world's leading companies in selected industries, such as banking & financial services, logistics, telecom, technology and retail, based on a portfolio of world-class IT and BPO capabilities. The Group sees tremendous opportunities to strengthen its BPO business through technology in the areas of integration, automation, workflow management, business activity monitoring and business intelligence. At the same time, a deep understanding of its clients' business processes allows MphasiS to identify focused solutions for the IT services business.

IT and BPO are closely related. Both require detailed understanding of the client organization, their domain, their processes and the way clients make decisions, work and operate. In order to be effective in transitioning and managing their client's engagements, MphasiS integrates their internal processes and the underlying applications and systems with the client's environment. Additionally, they provide their clients complete control, security and transparency of the execution of the processes. The Group is combining its expertise in both IT and BPO as well as its domain knowledge in specific industries like banking and financial services to develop platform based solutions that are ready to market and where the Group owns the intellectual property (IPR). Some of the platform based solutions have been successfully rolled out in FY06.

The Group's financial strength and ability to adapt to the current market and economic conditions are dependent in part on the generation of cash flows, effective management of working capital and other obligations, as well as the growth of the business.

During the year ended 31 March 2006 ('FY06') consolidated revenues were Rs 9,401.1 million, a growth of Rs 1,744.5 million or 22.8% over the year ended 31 March 2005 ('FY05'). IT services revenues increased by 33.4% as a result of growth in its core business areas and consolidation of the acquisitions made in FY05. BPO services revenue increased by 4.8% in FY06 over FY05.

The consolidated net profit was Rs 1,498.6 million in FY06, an increase of Rs 252.4 million or 20.3% over FY05. As a percentage of total revenues, the net profit was 15.9% in FY06 compared to 16.3% in FY05.

Further during FY06, the Group generated cash flows from operations amounting to Rs 1,664.0 million, an increase of Rs 57.2 million or 3.6%. Cash flows from operations were reduced by higher investment in working capital and higher payment of taxes in FY 06. The Group has also invested

- Rs 801.7 million in fixed assets,
- Rs 734.6 million towards acquisition of Eldorado Computing Inc., USA,
- Rs 6.1 million towards payment of tax on increased authorised capital of of MsourcE Holding BV,
- Rs 0.8 million towards the remaining cash component of the acquisition of the minority interest in MsourcE Corporation, USA,
- Rs 50.3 million towards remaining purchase consideration for the acquisition of Princeton Consulting Limited, UK

The Group has recorded a net increase in cash and cash equivalents of Rs 43.8 million for the year ended 31 March 2006.

The Group intends the discussion of the consolidated financial condition and results of operations that follows to provide information that will assist in understanding the financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect these financial statements.

For a detailed analysis of the Group, its service offerings and risks faced by the Group please refer to the 'Group overview and strategy' and 'Management Discussion and Analysis ('MD&A') on risks and concerns' sections in this annual report.

A. Critical accounting policies and estimates

The preparation of the Group's consolidated financial statements require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and other assumptions that are believed to be reasonable at the time and under the circumstances. To the extent that actual results differ from these estimates, assumptions or judgments, the Group's results will be affected. The significant accounting policies and estimates that the Group considers critical in fully understanding and evaluating the reported financial results and terms used in the financial statements are included in the 'MD&A on critical accounting policies and glossary of terms used in the financial statements' section of this annual report and should be read in conjunction with the notes to the consolidated financial statements.

B. Results of operations

The following table summarises the historical results of operations of the Group for FY06 with comparatives for FY05.

(Rs 000's)

	FY06			FY05		
	IT Services	**BPO**	**TOTAL**	**IT Services**	**BPO**	**TOTAL**
Revenues	6,426,622	2,974,433	9,401,055	4,814,783	2,841,944	7,656,727
Cost of revenues	4,221,052	2,264,551	6,485,603	3,265,480	2,025,018	5,290,498
Gross profit	2,205,570	709,882	2,915,452	1,549,303	816,926	2,366,229
Selling expenses	458,384	126,219	584,603	400,779	164,567	565,346
General and administrative expenses	568,899	285,243	854,142	517,694	264,554	782,248
Amortisation of ESOP costs	-	-	-	369	-	369
Provision for doubtful debts	7,449	6,468	13,917	2,460	(549)	1,911
Operating profit	1,170,838	291,952	1,462,790	628,001	388,354	1,016,355
Foreign exchange gain, net	64,786	20,459	85,245	47,270	21,062	68,332
Other income	(6,842)	(1,889)	(8,731)	6,381	(2,749)	3,632
Interest, net	(18,123)	35,600	17,477	30,866	10,033	40,899
Profit before taxation	1,210,659	346,122	1,556,781	712,518	416,700	1,129,218
Income taxes	61,405	(3,199)	58,206	(42,678)	(74,266)	(116,944)
Net profit	**1,149,254**	**349,321**	**1,498,575**	**755,196**	**490,966**	**1,246,162**

Management's Discussion And Analysis of Financial Condition and Results of Operations

The following table sets forth, for the periods indicated, financial data as percentages of consolidated revenues and the absolute increase (or decrease) by item over the previous year.

	% of revenues		Increase/(decrease)
	FY06	FY05	in FY06 over FY05
			(Rs 000s)
Revenues	100.0%	100.0%	1,744,328
Cost of revenues	69.0%	69.1%	1,195,105
Gross profit	31.0%	30.9%	549,223
Selling expenses	6.2%	7.4%	19,257
General and administrative expenses	9.1%	10.2%	71,894
Amortisation of ESOP costs	-	-	(369)
Provision for doubtful debts	0.1%	-	12,006
Operating profit	15.6%	13.3%	446,435
Foreign exchange gain, net	0.9%	0.9%	16,913
Other income	(0.1%)	-	(12,363)
Interest, net	0.2%	0.6%	(23,422)
Profit before tax	16.6%	14.8%	427,563
Income taxes	0.6%	(1.5%)	175,150
Net profit	**15.9%**	**16.3%**	**252,413**

Revenues

During the year ended 31 March 2006, revenues grew by 1,744.5 million or 22.8%, which was largely contributed by IT Services which increased by 33.4%. The growth was brought about by volume growth in its core business areas as well as by consolidation of the acquisitions made in financial year 2004-05. The acquisitions helped the Group to expand its revenue base and increase its service offerings in healthcare, consulting and technology spaces. The acquisition of Kshema Technologies Limited in early 2004-05 also helped the Group expand its service offerings in the areas of embedded software, device drivers, industrial automation and mobile telephony. IT Services added a total of 47 clients during the year, as well as 792 employees. Revenues from BPO services grew by 4.8%, which was primarily on account of change in the revenue mix towards domestic business, as well as volume discounts. BPO Services added a total of 10 clients during the year, while employee numbers rose by 2,247.

A detailed analysis of the segmental revenues of the Group is presented below:

(Rs millions)

Segment	FY06	%	FY05	%
IT Services				
Financial Services	3,501	37.2%	2,350	30.7%
Retail, Logistics and Transportation	1,174	12.5%	1,290	16.9%
Technology	1,746	18.6%	1,174	15.3%
BPO Services				
Financial Services	2,150	22.9%	2,342	30.6%
Retail, Logistics and Transportation	417	4.4%	308	4.0%
Technology	413	4.4%	192	2.5%
	9,401	**100.0%**	**7,656**	**100.0%**

In FY06, the financial services segment continued to be the single largest segment, contributing over 60% of the Group's revenues. The retail, logistics and transportation services sector showed a decline over FY05. This however was compensated by a growth in the Technology segment both in IT and BPO services. The Group has not analysed the profitability of each operating segment individually, as there are significant expenses that are unallocable and therefore the analysis may not be meaningful.

A key analysis of revenues by business (IT and BPO Services) is summarised in the following sections.

IT Services

Revenues by Project type (Rs millions)

Project Type	**FY06**	**%**	**FY05**	**%**
Time and Material ('T&M')	5,272	82.1%	3,982	82.7%
Fixed Price ('FP')	1,149	17.9%	932	17.3%
Total	**6,421**	**100.0%**	**4,814**	**100.0%**

IT Services revenues are generated principally from services provided on either a time-and-material or a fixed-price basis. Revenues from service provided on a time-and-material basis are recognised in the period that services are performed. Revenues from services provided on a fixed-price basis are recognised under the percentage of completion method of accounting when the work executed can be reasonably estimated. The percentage of completion estimates are subject to periodic revisions and the cumulative impact of any revision in the estimates of the percentage of completion are reflected in the period in which the changes become known. The group also generated revenues from licensing arrangements and provision of application services with the acquisition of Eldorado Computing Inc. which took place towards the end of FY05. The share of T&M project type revenues and FY project type revenues remained more or less in line with FY05.

Revenues by Delivery location

The following tables give the composition of revenues based on the location where services are performed along with the number of employees at the respective locations.

(Rs millions)

Delivery Location	**FY06**	**%**	**FY05**	**%**
Revenues				
Onsite	3,774	58.8%	3,031	63.0%
Offshore	2,647	41.2%	1,783	37.0%
	6,421	**100.0%**	**4,814**	**100.0%**

Delivery Location	**FY06**	**%**	**FY05**	**%**
Number of employees				
Onsite	806	22.8%	639	23.3%
Offshore	2,727	77.2%	2,102	76.7%
	3,533	**100.0%**	**2,741**	**100.0%**

The Group charges higher billing rates and incurs higher compensation expenses for work performed by the onsite teams at a customer's premises as compared to work performed at its offshore centres. Services performed onsite typically generate higher revenues per capita than the same amount of services performed at its offshore centres in India. While both onsite and offshore revenues have shown a growth, the share of offshore revenues grew in FY06 due to more projects transitioning offshore. The total number of employees grew by 29% in FY06 over FY05.

Client concentration

	FY06	FY05
Revenues from Top Client	17%	17%
Revenues from Top 5 Clients	45%	52%
Revenues from Top 10 Clients	61%	67%
Clients Contributing more than:		
$ 1 million Revenues	26	21
$ 5 million Revenues	8	6
$ 10 million Revenues	3	3

During FY06, IT Services continued to derive 17% of its revenues from a single client as in FY05. 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. Management is aware of this risk and has undertaken measures to broaden its client base. With the acquisitions of Kshema Technologies Limited (India), Princeton Consulting Limited (UK), and Eldorado Computing Inc. (USA) during FY05, and with 47 new clients being added during the year, service offerings and customer base have been broadened to decrease its dependency on a few large customers.

BPO Services

Revenues by Service type

Summarised below is an analysis of revenues of BPO Services by service type.

(Rs millions)

Service Type	FY06	%	FY05	%
Customer Service	2,170	72.8%	1,844	65.0%
Transaction Service	476	16.0%	606	21.0%
Technical Help Desk	155	5.2%	183	6.0%
Financial Research	36	1.2%	11	1.0%
Others	143	4.8%	198	7.0%
Total	**2,980**	**100.0%**	**2,842**	**100.0%**

Customer service and transaction processing comprise revenues generated from both inbound and outbound call services. While customer services includes help desk services, collections, product support, enrolment etc provided to clients, transaction processing includes claims and mortgage processing, account opening and maintenance, data processing and management etc. With a change in the revenue mix in the operations of BPO Services, there has been a change in the share of contribution of each of the service types. However, revenues from Customer service remained BPO's top service type.

Revenues by Project type

The following table gives the composition of revenues from the BPO operations based on the nature of services provided.

(Rs millions)

Project Type	FY06	%	FY05	%
Inbound Voice	2,337	78.5%	2,016	70.9%
Transaction Service	61	2.0%	338	11.9%
Others	582	19.5%	488	17.2%
Total	**2,842**	**100.0%**	**2,842**	**100.0%**

Voice based services continued to generate close to 80 per cent of the revenues from the BPO operations, largely with the inclusion of new domestic customers. However, there has been a significant drop in data/ transaction processing work, with a loss of a significant customer towards the end of FY05.

Client concentration

	FY06	FY05
Revenues from Top Client	17%	17%
Revenues from Top 3 Clients	39%	39%
Revenues from Top 5 Clients	54%	57%
Clients Contributing more than:		
$ 1 million Revenues	13	11
$ 5 million Revenues	6	6
$ 10 million Revenues	1	1

The effect of the increased scale of operations of BPO Services is evident from the number of clients generating revenues in excess of $ 1 million in FY06. The top 3 client contribution remained at the same level as the previous year. However, the customer base and nature of services has expanded, as evidenced by the drop in contribution from the top 5 clients.

Consolidated operations

Revenues by Geography

(Rs millions)

Regions	FY06	%	FY05	%
USA	6,030	64.1%	5,304	69.3%
Europe	2,527	26.9%	1,810	23.6%
Asia Pacific	234	2.5%	163	2.1%
Japan	119	1.3%	180	2.4%
The Middle East & India	491	5.2%	200	2.6%
Total	**9,401**	**100.0%**	**7,657**	**100.0%**

The USA continues to remain the Group's primary focus and consequently there has been a concerted effort on the part of management to increase its customers based outside of the USA. This is evidenced by the increased business in Europe mainly in the UK, and in the domestic market.

Price – volume analysis

In the IT Services, the growth is attributable to a 38.7% increase in overall volumes which has been offset by a decrease by 3.9% in blended billing rates and impact of 1.3% due to appreciation of the Indian Rupee to the US Dollar. In the BPO Services, the entire increase is a factor of increased billed hours by 40% offset by a drop in the blended billing rates because of new domestic business.

Cost of Revenues

Cost of revenues primarily comprise salary and other employee compensation expenses of direct employees, staff welfare expenses, depreciation, data communication expenses and link charges, computer maintenance, cost of software purchased for internal use, direct overheads such as rent and electricity and foreign travel expenses.

In the IT Services 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 shorter. 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 shorter.

In the BPO business the assets are depreciated over five years except buildings and vehicles, which are depreciated over ten and three years respectively. Leasehold improvements are depreciated over the initial contracted lease term or five years whichever is shorter.

The consolidated cost of revenues of the Group in FY06 of Rs. 6,485.7 million increased by 22.6% over the cost of revenues of Rs 5,290.5 million in FY05 and represented 69.0% and 69.1% of the consolidated revenues of FY06 and FY05 respectively. This increase in costs is in line with the increase in volumes of business, increased manpower, annual increments and additional facilities. There was a decline in the cost of revenues of IT services as a percentage of revenues from 68% to 66%, with greater economies of scale. During the current year, IT Services employees increased by 792 persons.

Meanwhile the cost of revenues of BPO services has increased from 71% in FY05 to 76% in FY06, largely as a result of change in the revenue mix, and the new facilities. BPO services employees increased by 2,247 to reach a total of 7,881 as on 31 March 2006. The Group also added three new facilities in the BPO business – one each in Bangalore, Ahmedabad and Noida, to service domestic clients.

Gross Profit

The consolidated growth in revenues in excess of direct costs resulted in an increase in the gross profit by Rs 549 million or 23.2%. As a percentage of total revenues, the consolidated gross profit marginally increased to 31.0% for the year ended 31 March 2006 from 30.9% for the year ended 31 March 2005. Analysed below are the individual gross margins at the IT Services and the BPO operations of the Group.

IT Services

The gross profit increased by Rs 656.2 million or 42.4% over FY05. As a percentage of revenues, the margins grew from 32.3% in FY05 to 34.3% in FY06. The growth is primarily attributable to increased operations of core businesses, consolidation of the acquisitions made in the previous year, leading to increased economies of scale. There were improvements in both onsite and offshore utilisation, as indicated in the analysis below.

	FY06	%	FY05	%
Number of employees				
Onsite	806	22.8%	639	23.3%
Offshore	2,727	77.2%	2,102	76.7%
	3,533	**100.0%**	**2,741**	**100.0%**

Utilisation rates (including trainees)

	FY06	FY05
Onsite	87%	86%
Offshore	71%	66%
Average	**75%**	**72%**

Further, due to the prevailing economic and market conditions billing rates continued to be stable during the year. A comparative in the annual billing rates for the periods presented is given below.

(USD per hour)

	FY06	FY05
Onsite	64	63
Offshore	21	20

BPO Services

The gross profit from the BPO services decreased by Rs 107.0 million or (13.1%) over FY05, mainly attributable to the change in the revenue mix, increased manpower and opening of 3 new facilities for the domestic business. The gross margins decreased to 23.9% in FY06 from 28.8% in FY05 as a percentage of revenue. The average billing rates also reduced from $12 per hour to $10 per hour in FY06 due to an increased share of domestic business.

An analysis of the employees by location and their utilisation is given below.

	FY06	FY05
Number of employees		
Onsite	10	25
Offshore	7,871	5,609
	7,881	**5,634**

	FY06	FY05
Utilisation rates		
Process utilisation	70%	67%
Utilisation including pre-process	57%	54%

Selling expenses

Selling expenses primarily comprise expenses relating to advertisements, brand building, rentals of sales and marketing offices and 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.

Consolidated selling expenses increased marginally from Rs 565.3 million in FY05 to Rs. 584.6 million, an increase of Rs 19.2 million or 3.4%. As a percentage of revenues, selling expenses decreased from 7.4% during the year ended 31 March 2005 to 6.2% for the year ended 31 March 2006, owing to synergies within the group.

General and administrative (G&A) expenses

General and Administrative expenses primarily comprise 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.

General and Administrative expenses increased from Rs 782.2 million in the year ended 31 March 2005 to Rs 854.0 million in the year ended 31 March 2006, an increase of Rs 71.9 million or 9.2% - primarily on account of increased manpower cost, legal and professional charges per statutory regulations and rates & taxes. As a percentage of total revenues, G&A expenses decreased to 9.1% for the year ended 31 March 2006 as against 10.2% for the year ended 31 March 2005.

Amortisation of ESOP costs

Amortisation of ESOP costs reduced from Rs 0.4 million in the year ended 31 March 2005 to Rs Nil in the year ended 31 March 2006 as deferred employee compensation cost was fully amortised during the year ended 31 March 2005.

Provision for doubtful debts

Provision for doubtful debts increased from Rs 1.9 million in the year ended 31 March 2005 to Rs 13.8 million in the year ended 31 March 2006 due to stringent provisioning norms.

Operating Profit

Operating profit during the year ended 31 March 2006 stood at Rs 1,463.0 million as against an operating profit of Rs 1,016.4 million in the year ended 31 March 2005, an increase of Rs 446.7 million or 44.0%. As a percentage of revenues, operating profits were 15.6% for the year ended 31 March 2006 as against 13.3% for year ended 31 March 2005. The increase was on account of improved gross margins and improved operating leverage as analysed above.

Foreign exchange gain / (loss), net

Foreign exchange gain during the year ended 31 March 2006 was Rs 85.3 million as compared to a gain of Rs 68.3 million during the year ended 31 March 2005. This is due to improved hedging strategies.

Other income / (expense), net

The net other expense during the year ended 31 March 2006 was Rs 8.7 million as compared to a net income of Rs 3.6 million during the year ended 31 March 2005. The income during the year ended 31 March 2005 was mainly on account of the sale of immovable property. The expenses during the year ended 31 March 2006 included a sales tax demand settled by the Group.

Interest, net

Net interest income in the year ended 31 March 2006 decreased to Rs 17.4 million from Rs 40.9 million during the year ended 31 March 2005 due to lower investible surpluses attributable to payouts for acquisitions and a higher dividend payout.

Income taxes

Income taxes represent the provision for corporate & income taxes in various countries where the Group's 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. In estimating these taxes, adjustments are made for deferred tax assets and liabilities.

The Group's operations in India enjoy a tax exemption under Indian Income Tax laws as they are predominantly in the nature of export of software and related services with earnings 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 tax.

Provision for income taxes was Rs 58.4 million for the year ended 31 March 2006 as compared to a tax credit of Rs 116.9 million during the year ended 31 March 2005. The tax credit in the year ended 31 March 2005 was attributable to deferred tax credits in respect of tax losses brought forward in the US and tax refund obtained on account of the assessment year 2003-2004. The tax charge for the year ended 31 March 2006 was attributable to reversal of deferred tax assets overseas as businesses have turned profitable and past losses recouped, and as increased by the Fringe Benefit Tax introduced with effect from 1 April 2005.

Net Profit

The net profit after taxes was Rs 1,498.6 million for the year ended 31 March 2006, an increase of Rs 252.4 million or 20.3% over the net profit of Rs 1,246.2 million for the year ended 31 March 2005. As a percentage of total revenues, the net profit decreased to 15.9% for the year ended 31 March 2006 as against 16.3% for the year ended 31 March 2005.

D. Liquidity and Capital Resources

(Rs 000's)

	FY06	FY05	Change
Working capital	2,334,539	1,604,593	729,946
Cash provided by operating activities	1,664,041	1,606,807	57,234
Cash (used in) investing activities	(1,559,691)	(1,696,963)	137,272
Cash (used in)/ provided by financing activities	(63,283)	(28,060)	(35,223)
Cash and cash equivalents	988,505	954,711	33,794

The Group has historically been financed partly through cash generated from operations and from the proceeds of issuance of equity and preference stock. The Group does not have significant borrowings (both long and short term) and the borrowings reflected in the financial statements represent future capital lease obligations.

Working capital

Changes in working capital have been discussed under the caption '*cash flows from operating activities*'.

Cash flows from operating activities

Increase in debtors, decrease in current liabilities and provisions and higher income taxes had reduced the net cash inflows from operating activities in FY06. The Group recorded a cash profit of Rs 2,063.9 million in FY06 as against Rs 1,474.4 million in FY05, an increase of 40.0%. Decrease in current liabilities includes the impact of the adjustments for the acquisitions during FY 05 of Rs 249.02 million made in the opening balance of adjusted current liabilities in FY 06 (Refer reconciliation of consolidated financial statement items with consolidated cash flow items in the consolidated financial statements). Increase in the Days Sales Outstanding from 54 to 58 days coupled with increase in volume of business resulted in the increase in Debtors. The unbilled revenues however decreased from Rs 469.6 million in FY05 to Rs 351.2 million in FY06. The following table shows Days Sales Outstanding.

Number of days

	FY06	FY05	FY04
IT Services	59	57	75
BPO	56	50	60
Group	**58**	**54**	**73**

In FY06 the Group had higher cash outflow for income taxes of Rs 99.9 million as against Rs 10.6 million in FY05. The lower tax payouts in FY05 were attributable to tax refund obtained on account of the assessment year 2003-2004. The higher tax payouts in FY 06 were attributable to payment of Fringe Benefit tax introduced in FY 06 and higher interest income earned by the Indian entities.

Cash used in investing activities

In FY06, the Group incurred capital expenditure of Rs 801.7 million for the increased scale of operations in both, BPO Services and IT Services. These costs have been incurred primarily for the Group's new facilities at Noida, Ahmedabad and Bangalore and enhancement of existing facilities.

The Group also spent:

- Rs 734.6 million towards acquisition of Eldorado Computing Inc., USA,
- Rs 6.1 million towards payment of tax on increased authorised capital of of MsourcE Holding BV,
- Rs 0.8 million towards the remaining cash component of the acquisition of the minority interest in MsourcE Corporation, USA
- Rs 50.3 million towards remaining purchase consideration for the acquisition of Princeton Consulting Limited, UK

The Group's treasury policy calls for investing only in deposits with highly rated banks and financial institutions for short to medium maturities. The Group maintains balances both in 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 the Group parent company, MphasiS BFL Limited is incorporated in India. Investments by it in subsidiaries overseas are subject to exchange control regulations of the Government of India.

Cash provided by financing activities

In FY06 the cash provided by financing activities included Rs 218.9 million received primarily on account of the exercising of stock options, as against Rs 197.3 million in FY05.

The group has available credit lines with banks in India. The total non funded credit lines at the disposal of the Group as at 31 March 2006 and 31 March 2005 were Rs 350 million. The credit lines were utilised only towards providing guarantees. During the year ended 31 March 2005 a short term working capital facility of USD 5 million or equivalent was obtained. This facility can be used interchangeably by any of the Group companies in India. This facility remained unutilised as at 31 March 2006.

Cash and cash equivalents

The Group's cash balances are held in numerous locations throughout the world. Cash and cash equivalents comprise highly liquid investments with a remaining maturity of three months or less, as on the date of purchase. These balances also include amounts that are restricted in use, either as margin monies given to banks for guarantees issued in the normal course of business or amounts held in escrow accounts attributable to acquisitions made. An analysis of restricted cash balances as at 31 March 2006 and 2005 is given below.

(Rs 000's)

	As at 31 March 2006	As at 31 March 2005
Margin money deposits	4,008	5,553
Unclaimed dividends	1,232	807
TOTAL	**5,240**	**6,360**
As a % of total cash balances	**0.5%**	**0.6%**

Contractual commitments

The following table summarises the Group's contractual commitments as at 31 March 2006 and their related effects on the Group's liquidity and cash flows in the future periods. These commitments exclude amounts recognised as current liabilities and/or advances recognised as loans and advances in the balance sheet.

Obligations/Commitments (Rs 000's)

		By period		
	TOTAL	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Capital commitments #	50,766	50,766	-	-
Finance lease obligations *	-	-	-	-
Operating leases	146,984	85,583	61,401	-
Total contractual cash obligations	**197,750**	**136,349**	**61,401**	**-**

The obligations towards capital commitments primarily represent amounts to be expended towards assets and equipment for the Group's contact centres. These amounts have not been recorded as liabilities in the balance sheet as at 31 March 2006, as the related assets have not been received on the reporting date.

* *This amount represents the principal amount payable for assets acquired on finance leases and does not include the interest payable thereon.*

Contractual obligations that are contingent upon the achievement of certain milestones are not included in the table above.

The expected timing of payment of the obligations discussed above is estimated based on currently available information. The timing and actual amounts paid may differ based on the time of receipt of assets/services or changes to agreed amounts for some obligations. Amounts disclosed as contingent may also vary significantly.

Off balance sheet arrangements

As part of its ongoing business, the Group does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or Special Purpose Entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of 31 March 2006 the Group was not involved in any material unconsolidated SPE transactions.

Stock based compensation

The Group accounts for stock based compensation as per the guidelines issued by the Securities and Exchange Board of India ('SEBI') and the guidance note issued by the Institute of Chartered Accountants of India. The 'option discount' (computed in accordance with SEBI guidelines) representing the excess of the market price/fair value of the shares as on the date of the grant of the options over the option exercise price, is amortised over the vesting period of the options. *(For a detailed analysis of the various stock option plans initiated by the Group, refer to note 5 of the consolidated financial statements)*. Consequent to the issuance of the Guidance Note on Accounting for Employee share based payments by the ICAI recognising the need for fair value disclosures of Employee Stock Option Plans and permitting the intrinsic value method to be used in accounting for option grants made on or after 1 April 2005, sufficient disclosures have been made in the detailed analysis referred above in the consolidated financial statements.

B. Business outlook

Due to the continued uncertainty and global economic conditions, companies continue to seek to outsource IT spending offshore to offshore IT service providers as also to reduce costs by outsourcing their business processes to offshore service providers with a proven track record. Management believes that this has contributed to continued growth in the Group's revenues. Looking ahead into 2006-07, the Group expects to continue to grow in consolidated revenues and profits.

In line with the increasing scale of operations, the Group expects to invest approximately $12-15 million in the year ending 31 March 2007, for capital expenditure, primarily comprising the purchase of plant and machinery, computer equipment etc.

F. Recent accounting pronouncements

Accounting for Employee Benefits

Accounting Standard (AS) 15, Employee Benefits (revised 2005) issued by the ICAI, comes into effect as mandatory in respect of accounting periods commencing on or after 1 April 2006 and will be applicable to all employee benefits except employee share based payments. The statement requires an enterprise to recognise (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future and (b) an expense when the enterprise consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits. The impact of the standard on the consolidated financial statements of the Group would be dependent on the nature and extent of the share based payments made by the Group in future.

Directors' Profile

Stephen Heidt, Chairman

Stephen (Steve) Heidt, Chairman of the Board, is a representative of Electronic Data Systems Corporation (EDS), the majority shareholder holding 83 million shares (51.39% as on 30 June 2006) of the Company through its investment arm, TH Holdings. He holds a Certificate in Business Programming from the School of Computer Technology, Pittsburgh, PA. He joined the Board of MphasiS in June 2006.

At EDS, Steve is the Vice President of Business Workforce and Capacity Management, reporting directly to the office of the COO. He has responsibility for all EDS Best Shore℠ activities, providing one single, globally integrated plan for Best Shore℠ across Information Technology Outsourcing, Business Process Outsourcing and Applications.

Steve began his career with EDS in the Operations Development Program and accepted his first assignment in operations management at the Dallas Regional Data Center. Since joining EDS in 1980, Steve has held numerous leadership roles directing both technical and field teams. His previous roles with EDS - Vice President of BPO Service Delivery, President of EDS Distributed Systems Services, and President of Information Solutions for EMEA region, President of EDS Global Delivery, and Director of the Technical Infrastructure group - reflect the diversity of his experience.

Jaithirth Rao, CEO and Managing Director

Jaithirth (Jerry) Rao holds a Masters degree from the University of Chicago and a MBA from Indian Institute of Management, Ahmedabad. Jerry joined the Board in January 2000.

Prior to founding MphasiS, Jerry was with Citigroup, where he built and developed Citibank's Consumer businesses as the Country/Regional Manager in India, Middle East, Eastern Europe and UK. He earlier headed Citibank's Global Technology Development Division and their Global Electronic Cards Division. Jerry is a seasoned veteran in Consumer and Corporate Financial Services and in Technology Management. With his vast experience on the subject, Jerry has testified before the US Congress on e-commerce.

Currently, Jerry is also on the Boards of Cadbury India Limited, The Arvind Mills Limited, IDFC Asset Management Company Limited, Gabriel India Limited, Royal Orchids Hotels Limited, Rao Properties Private Ltd., Sanvijay Tours and Travels Private Ltd. and Bangalore Review and Magazines Co. Private Ltd. He is the Founder Member and Director of Development Gateway Foundation, USA, and a Trustee of the NASSCOM Foundation, Sujay Foundation, India Foundation for the Arts and Mathematical Sciences Foundation. He is also a Settlor and Executive Committee Member in IIMA Alumni Association Trust.

Rahul Bhasin, Director

Rahul Bhasin is a MBA from Indian Institute of Management, Ahmedabad. He joined the Board in June 1998. He is also the Managing Partner for Baring India Private Equity Fund. Previously he was a Fund Manager with Citibank Global Asset Management in London.

Prior to moving to London, he was based in Citibank's Delhi Office where he was in charge of Treasury. Rahul was earlier the Chairman of MphasiS BFL Limited. Currently, he is also on the boards of Siro Clinpharm Private Ltd, Hindustan Oil Exploration Company Limited, Secova eServices and Baring Private Equity International.

Nawshir H Mirza, Director

Nawshir Mirza is a Fellow of the Institute of Chartered Accountants of India having qualified in the year 1973. He spent most of his career with Ernst & Young and its Indian member firm, S.R.Batliboi & Co, Chartered Accountants, and its predecessor firm, Arthur Young, being a Partner from 1974 to 2003. He joined the Board of MphasiS in January 2004.

He has contributed to the accounting profession, being a Speaker or the Chairperson at a large number of professional conferences in India & abroad.

He is also a Director on the boards of Esab India Limited, Tata Industries Limited, RPG Guardian Private Limited and Foodworld Supermarkets Limited. As a philanthropist, he is actively involved with Childline, an all-India NGO for abused & distressed children.

Davinder Singh Brar, Director

D S Brar is a B.E. (Electrical) from Thapar Institute of Engineering & Technology, Patiala, and a Masters in Management from Faculty of Management Studies, University of Delhi (Gold Medalist - 1974). He joined the Board in April 2004. Brar started his career with Associated Cement Companies (ACC) and later joined Ranbaxy Laboratories Limited where he rose to the position of CEO and Managing Director.

Currently, he is also on the boards of Reserve Bank of India, Suraj Hotels (P) Ltd, Madhubani Investments (P) Ltd, Suraj Overseas (P) Ltd, Green Valley Land and Development (P) Ltd, Davix Management Services Private Ltd, GVK Bio Sciences Private Ltd, GVK Davix Technologies Private Ltd and Inogent Laboratories Private Ltd and Member of Board of Governors in Indian Institute of Management, Lucknow. He is also a Special Advisor to the Board of Directors of Codexis, a California based Company.

Dr. Jose de la Torre, Director

Dr. Jose de la Torre is a Doctor in Business Administration from Harvard University and MBA (Management) and B.S. (Aerospace Engineering) from the Pennsylvania State University. He is the Dean of the Chapman Graduate School of Business at Florida International University, Miami, Florida and holds the Byron Harless Chair in Management.

He joined the Board in June 2000. Dr. de la Torre was previously a professor of International business strategy at the Anderson School at UCLA and at INSEAD in France. He is also on the International Advisory Board of EDHEC in Lille and Nice, France.

Thomas Haubenstricker, Director

Thomas (Tom) Haubenstricker is a representative of EDS on the Board of the Company and joined the Board of MphasiS in June 2006. He holds a Bachelor's degree in Business Administration from Central Michigan University.

At EDS, he is the interim co-Chief Financial Officer and shares joint responsibility for the controllership, treasury, tax, investor relations, audit, supply chain management, corporate financial analysis, procurement finance and corporate administration functions for EDS' worldwide operations. He reports directly to the Chairman and CEO of EDS.

Tom joined EDS' finance organization in 1985 and has held various financial accounting, planning and reporting positions in the United States and EMEA (EDS' Europe, Middle East and Africa region). Tom has been Vice President for Finance Administration since January 2003 and has responsibility for EDS' corporate business development, corporate planning and financial analysis organizations. He has also served the roles of Vice President of Strategic Planning and Business Development and Managing Director of Financial Planning and Reporting.

Ronald Vargo, Director

Ronald P (Ron) Vargo is also a representative of EDS on the Board of the Company. He too joined the Board in June 2006. Ron holds a MBA degree in Finance from Stanford University and BA degree in Economics from Dartmouth College.

He joined EDS in 2004 and is currently the interim co-Chief Financial Officer and shares joint responsibility for the controllership, treasury, tax, investor relations, audit, supply chain management, corporate financial analysis, procurement finance and corporate administration functions for EDS' worldwide operations. He reports directly to the Chairman and CEO of EDS.

Before joining EDS, Ron was Corporate Treasurer and Vice President of Investor Relations at TRW Inc., now part of Northrop Grumman. Before TRW, Ron spent 10 years advancing through assignments in finance and treasury, planning and development, and general management at The Standard Oil Company (subsequently British Petroleum). Previously, he held various auditing and financial positions at General Electric (GE) where he graduated from GE's Financial Management Program.

Directors' Profile

Douglas W. Davis, Director

Douglas (Doug) Davis is also a representative of EDS on the Board of the Company, since June 2006. Doug holds a Bachelor's degree in both Accounting and Business Administration from Evangel College and a MBA degree in finance from Southwest Missouri State University. He has also completed Executive Development programs from the London Business School, Duke University and Thunderbird University.

He is the Vice President of Service Delivery for the Europe, Middle East and Africa (EMEA) region with EDS. He is responsible for the end-to-end delivery to all clients across the region, including service, contractual and financial performance, as well as growing the existing business for EDS.

Before joining EDS, Doug was Director for Strategy, Planning and Negotiations with General Motors (GM) on a worldwide basis. He began his career with GM as an operations analyst with the Packard Electric Division.

Paul W. Currie, Director

Paul W. Currie, representative of EDS on the Board of the Company, also joined the Board in June 2006. He is a Canadian Chartered Accountant and was honored as an Ontario Institute silver medalist and named to the Canadian Institute honor roll.

At EDS, he is the Executive Vice President responsible for Corporate Strategy and Business Development. His responsibilities include oversight for developing EDS' corporate strategies and developing growth plans to build the company's business portfolio through related merger and acquisition activities. He reports directly to the EDS Chairman and CEO and serves as a member of EDS' Executive Committee.

Earlier, Paul served as managing partner of Currie & Company, a consultancy providing strategic, corporate development, financial and operational advice, and related services primarily to large multinational corporations. His previous assignments include Chief Executive Officer of Symcor (a leading BPO services provider in Canada) and Executive Vice President for Corporate Development and Mergers and Acquisitions for Newcourt Credit Group (a global provider of leasing and capital asset lending). He also served as a partner with Coopers & Lybrand for more than a decade.

Paul currently serves on the board of directors of CEI Corporation and is on the Dean's Advisory Council for York University Business School.

Joseph Eazor, Director

Joseph (Joe) Eazor is also a representative of EDS on the Board of the Company since June 2006. He has a MBA degree from the University of Chicago and a BSc. Degree from the Colorado School of Mines.

At EDS, he is the President of EDS Asia and Chairman of EDS China. In this position, Joe leads EDS' efforts in ASEAN, China, Hong Kong, India, Japan, Korea and Taiwan. Previously, he was the Vice President and General Manager of the EDS' BPO unit. As head of BPO, he was responsible for EDS' financial processing, administrative processing, CRM, F&A and HR outsourcing businesses, including ExcellerateHRO.

Before leading EDS' BPO business, Joe was the head of Corporate Strategy and Operations Improvement, working for the Chairman and CEO. A former A.T. Kearney Vice President and global industry practices leader, Joe has also worked with Ernst and Young as a partner and co-leader of its Strategic Advisory Services Practice. He also served as a Principal with AlixPartners LLC, a management turnaround and consulting firm, and as President and CEO of Springbow Solutions, a business-to-business software solutions company.

Directors' Report

Dear Shareholders,

We have pleasure in presenting to you the Fourteenth Annual Report of your Company for the financial year ended 31 March 2006.

CONSOLIDATED PERFORMANCE

Your Company and its subsidiaries' (Group's) total revenue grew by 23% from Rs.7656.7 million in the previous year to Rs.9401.1 million for the year 2005-06. The profit before taxes for the same period grew by 38% from Rs.1129.2 million to Rs.1556.8 million. Basic earnings per share (adjusted for 1:1 Bonus during the year) grew from Rs.8.22 to Rs.9.42. The following appropriations were made from the net profits of the Company, which are subject to the approval of the members at the General Meeting:

(Rs. millions)

	2005-06	2004-05
Provision for proposed dividend	483.16	350.71
Tax on Dividend	68.29	61.97
Transfer to General Reserve	76.22	50.18

OUTLOOK

Your Group has completed a satisfactory year, with IT business showing excellent growth and profitability and BPO business remaining steady despite several challenges faced at the beginning of the year. Your Group has added to its robust list of clients and hopes to improve the performance of both IT and BPO businesses in an integrated manner, in the next fiscal.

SHARE CAPITAL

The issued share capital of the Company as on 31 March 2006 stood at Rs.1610.2 million (which is inclusive of 177,510 shares of Rs.10/- each amounting to Rs.1,775,100/- held by the BFL Employees Equity Reward Trust) and Reserves and Surplus of the Group stood at Rs.4921.9 million. There has been an increase in the capital on account of 1:1 bonus issue made by the Company and allotments made during the year under various ESOP Plans to option holders exercising their options through the BFL Employees Equity Reward Trust.

DIVIDEND

Your Directors are pleased to recommend a final dividend of Rs.3/- per equity share of Rs.10/- each for the year ended 31 March 2006, subject to your approval at the ensuing Annual General Meeting.

CORPORATE GOVERNANCE

A note on corporate governance is annexed to this report.

OTHER DEVELOPMENTS

(A) OPEN OFFER FOR SHARES BY EDS CORPORATION

Electronic Data Systems Corporation (EDS), through its wholly owned subsidiary TH Holdings, Mauritius, made an open offer for purchase of 83 million shares of your Company in April 2006. EDS is the world's second largest IT Service Company and founded the information technology outsourcing industry more than four decades ago. The offer was successfully closed in June 2006 and EDS, through TH Holdings, currently holds 83 million shares forming approximately 51.39% of the paid up capital of the Company as on 30 June 2006.

The acquisition will bolster EDS' current offshore delivery capabilities in priority growth areas and allow it to deliver a stronger value proposition to better align with clients' changing needs. For MphasiS, this means being able to offer our clients infrastructure outsourcing services in addition to our current application services and BPO offerings. Your Board acknowledges that this partnership with a leading Company like EDS will enable the Company to broaden its offering to its customers and also provide enhanced prospects to the employees and looks forward to the management continuing to maintain the tradition of the highest standards of customer service and delivery. Your Company will continue to operate under the current name and management team.

Consequent upon this acquisition, the Board of your Company has been reconstituted and EDS has nominated Mr. Stephen Heidt, Mr. Thomas Haubenstricker, Mr. Ronald Vargo, Mr. Paul Currie, Mr. Joseph Eazor and Mr. Douglas Davis as its representatives on the Board of the Company.

The Board has also approved the merger of EDS Electronic Data Systems Private Limited (the Indian subsidiary of EDS) with MphasiS BFL Limited, pending statutory, shareholders and any other applicable approvals.

(B) MERGER OF KSHEMA TECHNOLOGIES LIMITED WITH MPHASIS BFL LIMITED

In order to improve operational and administrative efficiencies, your Directors had proposed the merger of the wholly owned subsidiary, Kshema Technologies Limited with the parent Company, MphasiS BFL Limited. The approval of shareholders had also been obtained at the Court Convened Meeting held on 29 September 2005. In terms of this approval, the Hon'ble High Court of Karnataka, vide its order dated 16 January 2006 approved the Scheme of Amalgamation between Kshema Technologies Limited and MphasiS BFL Limited with effect from 1 April 2005.

EMPLOYEES

Your Company is a truly global organization, drawing strength from the diversity of its people. With worldwide locations and unique offshore, onsite and offsite delivery capabilities, your Company offers professionals opportunities to grow and explore their skills and proficiency by giving them challenging assignments, facilitating career growth through the education policy and conducting regular training programs.

Your Company has consistently believed that a broader employee ownership of its shares has a positive impact on its performance and employee motivation. The Company's Employee Stock Option Schemes are extended to employees at all levels.

EMPLOYEES STOCK OPTION PLAN

In order to attract and retain the best talents, your Company has an Employees Stock Option Plan (ESOP) to recognize and reward performance. The ESOP is administered through the BFL Employees Equity Reward Trust.

The information to be disclosed as per SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999, is annexed to this Report.

Your Company currently has four Plans in operation for rewarding the employees, namely, ESOP 1998 Plan (Version I and II), ESOP 2000 Plan, ESOP 2003 Plan and ESOP 2004 Plan.

SUBSIDIARIES

As on 31 March 2006, your Company had subsidiaries in Australia, Germany, India, Ireland, Mauritius, Netherlands, Peoples Republic of China, Singapore, the United Kingdom and the United States of America.

Your Company has received the approval from the Department of Company Affairs, Ministry of Finance, New Delhi vide their letter No. 47/195/2006-CL-III dated 28 April 2006 granting an exemption from attaching the audited accounts of the subsidiaries to the Annual Accounts of your Company, for the financial year ended 31 March 2006. Your Company, however, continues to publish the consolidated financial statements of the Group.

Your Directors wish to inform you that the annual accounts of subsidiary companies would be available for inspection at the registered office of the Company.

DIRECTORS

Consequent to the acquisition of majority stake in the Company by EDS, the Board stands reconstituted and the following directors have been appointed as representatives of EDS on the Board of your Company:

(i) Mr. Stephen Heidt

(ii) Mr. Thomas Haubenstricker

(iii) Mr. Douglas Davis

(iv) Mr. Paul Currie

(v) Mr. Joseph Eazor

(vi) Mr. Ronald Vargo

Mr. Stephen Heidt has been unanimously elected as the Chairman of the Board. Mr. Jaithirth Rao continues to be the CEO & Managing Director of the Company and Mr. Jeroen Tas continues to serve the Board in an advisory role.

As Additional Directors, their tenure comes to an end at the forthcoming Annual General Meeting and all these directors have been proposed for appointment as directors liable to retire by rotation at the same meeting.

Further, in accordance with the Articles of Association of the Company, Dr. Jose de la Torre will retire by rotation and is eligible for re-election.

The profiles of the present Directors of your Company are provided in the Annual Report.

The following Directors resigned following the reconstitution of the Board:

(i) Mr. Ashish Dhawan (w.e.f. 22 June 2006)

(ii) Mr. Jeroen Tas (w.e.f. 24 June 2006)

(iii) Mr. B R Menon (w.e.f. 26 June 2006)

(iv) Mr. Richard Braddock (w.e.f. 27 June 2006)

(v) Mr. N Subramaniam (w.e.f. 27 June 2006)

Mr. Ian D Cormack had also resigned on 31 August 2005 due to other preoccupations.

The Board wishes to place on record its appreciation for the invaluable services rendered by these Directors during their tenure.

DIRECTORS' INTEREST

The interest of the Directors in the share capital of the Company as at the date of this report is provided herein. The Directors interest include, where appropriate, ordinary shares held in the form of stock options, subject to satisfying the relevant vesting conditions. No Director was materially interested in any contracts or arrangements existing during or at the end of the financial year that was significant in relation to the business of the Company. The Directors' interests in the share capital of the Company were as follows:

Name of Director	No. of shares
Mr. Jaithirth Rao	5,121,897
Dr. Jose de la Torre	169,000
Mr. Rahul Bhasin	1,600

Details of Directors' options are disclosed in the report on Corporate Governance.

Directors' Report

SIGNIFICANT SHARE HOLDINGS

The Company has been notified of the following shareholdings of 5% and more of the Company's issued share capital as at 31 March 2006:

Name of the Shareholder	Percentage Owned
Baring India Investments Limited, PCC	34.79%
FID Funds (Mauritius) Limited	7.92%
HSBC Global Investment Funds Mauritius Limited	5.37%

Subsequent to the acquisition of 83,000,000 shares by EDS, the details of shareholdings in excess of 5% has undergone a change and the details, as on 30 June 2006 are given below:

TH Holdings (investment arm of EDS)	51.39%
Baring India Investments Limited, PCC	11.31%

DIRECTORS RESPONSIBILITY STATEMENT

Information as per Section 217(2AA) of the Companies Act, 1956 is annexed and forms part of this Report.

AUDITORS

M/s BSR & Co., Chartered Accountants, Bangalore, have expressed their willingness to continue in office and a resolution proposing their re-appointment at a rate of remuneration to be fixed by the Directors and billed progressively, is submitted to the Annual General Meeting.

PARTICULARS OF EMPLOYEES' REMUNERATION

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed and forms part of this Report.

In terms of the Notification No.G.S.R.212(E) dated 24 March 2004 issued by the Department of Company Affairs, Ministry of Finance, Information Technology companies have been exempted from providing the particulars of employees including their remuneration, if they have been posted/working in a country outside India. The particulars of these employees are not provided in the annexure. Members desirous of getting these details, may write to the Company for the information.

PARTICULARS REGARDING CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Your Company's operations involve low energy consumption. However, efforts to conserve energy will continue. Particulars relating to Technology absorption are not applicable. Information relating to foreign exchange earnings or outgo during the year under review is provided in the financial statements forming part of this Annual Report.

FIXED DEPOSITS

Your Company has not accepted any deposits from the public and as such no amount of principal or interest was outstanding as on the date of the Balance Sheet.

ACKNOWLEDGMENTS

Your Directors would like to place on record their appreciation for the contribution made by the employees at all levels, who, through their competence, hard work, solidarity, co-operation, support and commitment have enabled the Company to achieve its strong growth.

Your Directors acknowledge with thanks the continued support and valuable co-operation extended by the business constituents, investors, vendors, bankers and shareholders of the Company. Your Directors also thank the Software Technology Parks of India, the Department of Electronics, the Government of India, Governments of Karnataka, Maharashtra, Gujarat and Uttar Pradesh, Reserve Bank of India, other governmental agencies and NASSCOM for their support during the year, and look forward to their continued support.

For and on behalf of the Board of Directors

Bangalore	STEPHEN HEIDT	JAITHIRTH RAO
26 July 2006	Chairman	CEO & Managing Director

Annexure to the Directors' Report

DETAILS OF EMPLOYEES STOCK OPTIONS AS ON 31 MARCH 2006

The details of Employees Stock Option Plan required to be provided as per Clause 12 of the SEBI [Employees Stock Option Scheme and Employees Stock Purchase Scheme] Guidelines, 1999.

Stock Options granted to employees of MphasiS BFL Limited & its subsidiaries

(All figures adjusted for 1:1 Bonus Issue made in November 2005)

Particulars	ESOP 1998		ESOP 2000	ESOP 2003	ESOP 2004
	Version I	Version II			
Options Granted	1,324,552	4,780,000	20,213,944	2,708,800	2,511,302
Options Vested	611,636	2,486,968	9,742,710	1,146,000	577,840
Options exercised	482,522	1,265,702	8,957,692	1,068,000	348,098
No. of shares arising out of exercise of options	482,522	1,265,702	8,957,692	1,068,000	348,098
Options lapsed [options reverted to trust due to resignations]	712,916	1,833,688	8,717,116	159,000	605,760
Money realised by exercise of options (Rs.) (for the year)	955,145	24,988,051	113,449,442	55,267,180	24,313,402
Total No. of Options in force.	129,114	1,680,610	2,539,136	1,481,800	1,557,444
Pricing formula	No options have been granted under this Scheme during 2005-06. Earlier, under this plan the options were granted at a strike price of Rs.275 per share. The price of Rs.275 was arrived at based on SEBI Guide-lines on Pricing of Preferential Allotment.	During the year 2005-06, options under this scheme have been granted at the Market Price as defined under SEBI ESOP Guidelines.* Earlier, for employees in service as on 10 January 2000, the market price prevalent on the 15 day from the Board Meeting held on 10 January 2000 i.e. Rs. 795 per share and for all the recruits thereafter, market price prevalent on the date of joining unless the ESOP Committee decides otherwise was taken as the grant price. For options	During the year 2005-06, options under this scheme have been granted at the Market Price as defined under SEBI ESOP Guidelines.* Earlier, for employees in the service of the Company as on 25 July 2000, the market price prevalent on 25 July 2000 i.e. Rs.494.20 per share was taken as the grant price and for employees joining thereafter, the market price prevalent on the last working day of the month in which they join. For options granted from September 2003, the grant was calculated as per	During the year 2005-06, options under this scheme have been granted at the Market Price as defined under SEBI ESOP Guidelines.* Earlier, for options granted from September 2003, the grant price was calculated as per sub clause 10 of clause 2.1 of the amendment to SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 dated 30 June 2003, which is the average of the two weeks high and low price of share preceding the date of grant of option on the stock exchange on which the shares	<u>**Program A**</u> The original exercise price per the original grant made by MsourcE Corporation while granting its options, converted at the exchange rate between USD and INR as on 12 May 2004, and as adjusted for the swap ratio of the MsourcE acquisition and the bonus shares issued by MBFL after 12 May 2004. <u>**Program B**</u> The Market Price as per the applicable guidelines prescribed by Securities Exchange Board of India (SEBI) from time to

Annexure to the Directors' Report

Particulars	ESOP 1998		ESOP 2000	ESOP 2003	ESOP 2004
	Version I	Version II			
		granted from September 2003, the grant price was calculated as per sub clause 10 of clause 2.1 of the amendment to SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 dated 30 June 2003, which was the average of the two weeks high and low price of shares preceding the date of grant of option on the stock exchange on which the shares of the Company are listed.	sub clause 10 of clause 2.1 of the amendment to SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 dated 30 June 2003, which was the average of the two weeks high and low price of share preceding the date of grant of option on the stock exchange on which the shares of the Company are listed.	of the Company are listed.	time.*

* The present ESOP guidelines define 'Market Price' as the "latest available closing price, prior to the date of the meeting of the Board of Directors in which options are granted, on the stock exchange on which the shares of the company are listed and if the shares are listed on more than one stock exchange, then the stock exchange where there is highest trading volume on the said date shall be considered."

Employees Stock Options-Summary:

1.	Options granted	:	31,538,598
2.	Options vested	:	14,565,154
3.	Options exercised	:	12,122,014
4.	Options lapsed	:	12,028,480
5.	Total no. of options in force	:	7,388,104
6.	Money realized by exercise of options (for the year)	:	Rs. 218,973,220

During the period under review, there has not been any variation to the ESOP Plans.

Options granted to senior managerial personnel during the year are as follows:

Name	Details of Options Granted
Sandeep Dhar	85,000
Mohan Krishnan	30,000
Bhaskar Menon	20,000
Alok Chandra Misra	7,700
Anant Koppar	200

During the year, the following employee was in receipt of grants amounting to 5% or more of total options granted:

Mr. Sandeep Dhar - 85,000 options

There were no employees who were granted options equal to or exceeding 1% of the issued capital of the Company at the time of grant.

Diluted Earning Per Share [EPS] of the Group for the year, pursuant to issue of shares on exercise of options is Rs.9.26. (Refer note 27 of the consolidated financial statements)

ADDITIONAL DISCLOSURE AS PER AMENDMENT TO SEBI (EMPLOYEES STOCK OPTION SCHEME AND EMPLOYEE STOCK PURCHASE SCHEME) GUIDELINES, 1999 VIDE CIRCULAR DATED 30 JUNE 2003:

Your Company computes employee compensation cost using the intrinsic value of stock options. The impact of the difference on the profits and EPS of the Company and Group using the fair value method for the grants made after the notification, is given below:

1a) Impact on Profit:-

(Rs. in thousands)

	MphasiS BFL Limited	**MphasiS BFL Group**
Audited	762,257	1,498,577
Adjusted	671,427	1,407,749

1b) Impact on EPS:-

	MphasiS BFL Limited		**MphasiS BFL Group**	
	Basic	Diluted	Basic	Diluted
Audited	4.79	4.71	9.42	9.26
Adjusted	4.22	4.15	8.85	8.70

2) Weighted average exercise price and weighted average fair value of options:

The exercise price of the stock options is determined as per clause 2.1(10) of SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, as amended.

Plan	Weighted Average Exercise Price (Rs.)	Weighted Average Fair Value (Rs.)
ESOP 1998 Version I	144.30	144.30
ESOP 1998 Version II	142.56	196.20
ESOP 2000	138.86	194.97
ESOP 2003	136.36	189.69
ESOP 2004	137.45	190.72

3) Method and significant assumptions:

Your Company has adopted Black Scholes option pricing model to determine the fair value of stock options.

The significant assumptions are:

1	Risk free interest rate	5.78% - 6.55%
2	Expected life	1 - 4 years
3	Expected volatility	67.12%
4	Expected dividend yield %	1.44
5	Market price on date of grant (weighted average)	
	ESOP 1998 Ver I	144.30
	ESOP 1998 Ver II	142.56
	ESOP 2000	138.86
	ESOP 2003	136.36
	ESOP 2004	137.45

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance with Section 217(2AA) of the Companies Act, 1956, your directors confirm and state as follows:

1. That in preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
2. That your Directors have selected such accounting policies and have applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the period under review.
3. That your Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. That your Directors have prepared the annual accounts on a going concern basis.

DECLARATION BY CEO UNDER CLAUSE 49 OF THE LISTING AGREEMENT

As required under Clause 49 of the Listing Agreement with Stock Exchanges, it is hereby confirmed that for the year ended 31 March 2006, the Directors of MphasiS BFL Limited have affirmed compliance with the Code of Conduct for Board Members as applicable to them and members of the senior management have affirmed compliance with the Employee Code of Conduct as applicable to them.

Bangalore
26 July 2006

JAITHIRTH RAO
CEO & Managing Director

Annexure to the Directors' Report

Particulars of subsidiaries forming part of the Directors' Report for the year ended 31 March 2006.

Information as per the approval under Section 212(3) of the Companies Act,1956, and forming part of the Directors' Report for the year ended 31 March 2006.

ADDITIONAL INFORMATION

Amount (Rs 000's)

Subsidiary	Capital			Reserves	Total assets	Total liabilities	Details of invest-ment (Other than in subsidi-aries)	Turnover	Profit before taxation	Provision for taxation	Profit after taxation	Proposed Dividend
	Equity	Prefe-rence	Total						Profit / (Loss)	Expense / (Credit)		
MphasiS Corporation		988,121	988,121	336,969	3,772,754	2,447,664	-	5,052,099	259,438	(7,655)	267,093	-
MphasiS Deutscheland GmbH	2,100	-	2,100	(10,257)	103,712	111,869	-	61,154	(1,214)	-	(1,214)	-
BFL Software APAC Pte Ltd	5,960	-	5,960	(7,425)	3,161	4,626	-	-	(79)	-	(79)	-
MphasiS Australia Pty Ltd	46	-	46	639	716	31	-	1,329	279	-	279	-
MphasiS (Shanghai) Software & Services Co. Ltd	238,756	-	238,756	(211,307)	99,622	72,173	-	54,230	5,506	-	5,506	-
Princeton Consulting Ltd	1,337	-	1,337	290,227	373,361	81,797	-	334,812	26,187	8,194	17,993	-
MbrokeR Inc.	34,667	-	34,667	(27,719)	36,784	29,836	-	2,352	(3,216)	-	(3,216)	-
Eldorado Computing Inc.	148,455	46,394	194,849	(137,726)	185,558	128,435	-	407,326	74,860	(4,817)	79,677	-
MbrokeR India Private Ltd	500	-	500	87	3,494	2,907	-	3,421	108	-	108	-
MphasiS Europe BV	225,079	-	225,079	(123,668)	362,166	260,755	-	-	(2,802)	-	(2,802)	-
MphasiS Pte Ltd	7,772	-	7,772	(55,431)	108,230	155,889	-	126,385	(2,357)	5,249	(7,606)	-
MphasiS UK Ltd	67	-	67	(49,480)	311,411	360,824	-	344,973	(17,200)	-	(17,200)	-
MphasiS Software & Services (India) P Ltd	100,000	94,000	194,000	262,281	833,181	376,900	-	643,034	97,093	8,944	88,149	-
MsourcE Holdings BV	1,084,883	-	1,084,883	(66,563)	1,072,514	54,194	-	-	-	-	-	-
MsourcE Mauritius Inc.	1,001,561	-	1,001,561	2,437	1,005,250	1,252	-	-	82	-	82	-
MsourcE India Private Ltd	71,607	-	71,607	1,887,317	2,729,673	770,749	-	2,663,768	331,187	21,637	309,550	-
MphasiS Ireland Ltd	540	-	540	(1)	539	-	-	-	(1)	-	(1)	-
Total	**2,923,330**	**1,128,515**	**4,051,845**	**2,090,380**	**11,002,126**	**4,859,901**	**-**	**9,694,883**	**767,871**	**31,552**	**736,319**	**-**

The exchange rates as at 31 March 2006 are as under:

1 USD = INR 44.615, 1 SGD = INR 27.555, 1 GBP = INR 77.495, 1 AUD = INR 31.813, 1 EUR = INR 54.005, 1 JPY = INR 0.379, 1 CNY = INR 5.738

Annexure to the Directors' Report

Information as per Section 217(2A) of the Companies Act,1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, and forming part of the Directors' Report for the year ended 31 March 2006

Sl.No	Employee Name	Designation	Qualification	Date of Joining	Experience (No of Years)	Gross Remune-ration(Rs)	Previous Employment
Part A: Persons employed throughout the 12 months period and who were in receipt of remuneration which in aggregrate was not less than Rs.24 lakhs for the year ended 31 March 2006							
1	Bose Manab	Senior Vice President & CHRO	MA	1-Sep-04	26	8,196,365	Tata Sons Limited
2	CR Balaji	Senior Vice President	BE (Electrical)	8-Mar-95	22	2,784,863	ELKO Computers
3	Goel Sudhir	Senior Vice President	BSc, PGDM	30-Nov-01	22	3,177,652	Amsoft Information Services (I) Ltd
4	Joseph Louis B	Senior Vice President -HR	MA	1-Aug-97	20	2,642,225	Kshema Technologies Limited
5	Koppar Anant R	President	MTech (IIT)	1-Aug-97	23	6,299,447	Kshema Technologies Limited
6	Krishnan Mohan	President	MBA (IIM Ahmedabad)	1-Apr-05	21	8,017,752	MphasiS Corporation
7	Misra Alok Chandra	Chief Financial Officer	BCom, ACA	1-Dec-00	20	3,986,237	ITC Limited
8	Padhye Ashok Narayan	Vice President	BTech	9-Nov-95	22	2,609,281	Cosystems Inc.
9	Padmanaban Ramesh	Chief Operating Officer	BSc & PGDM (Software Technology)	1-Apr-05	21	3,487,961	MphasiS Software & Services India Pvt Ltd
10	Rajadhyaksha Vinay	Senior Vice President	MBA	1-Apr-05	19	3,864,173	
11	Rao Jaithirth	Chairman & Managing Director	MA (Chicago), MBA (IIM Ahmedabad)	1-Nov-01	33	12,946,356	MphasiS Software & Services India Pvt Ltd
12	Sengupta Shome	Senior Vice President	BE - CS	13-Sep-04	18	4,034,450	MphasiS Corporation
13	Shenoy Preeti	Regional Manager - India & Asia Pacific	PGDM (Marketing)	1-Apr-05	18	4,593,371	TCG Software Services Pvt Ltd

MphasiS Software & Services India Pvt Ltd

Annexure to the Directors' Report

Information as per Section 217(2A) of the Companies Act,1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, and forming part of the Directors' Report for the year ended 31 March 2006

Sl.No	Employee Name	Designation	Qualification	Date of Joining	Experience (No of Years)	Gross Remune-ration(Rs)	Previous Employment
Part B: Persons employed for less than 12 months during the period under report and were in receipt of remuneration which in aggregate is not less than 2 lakhs per month during the period							
14	Bhatia Ashok	Director-Advisory Services	BSc., MSc.	31-Aug-04	30	1,089,168	Hongkong & Shanghai Banking Corporation
15	Iyer Santhosh	Project Manager	PGDM	30-Nov-00	11	1,448,121	i2 Technologies Limited
16	Menon Adithya Dhananjaya	Vice President -Technology Solutions	BA, MSc	2-Dec-03	21	2,359,179	Neptune Software Plc
17	Mutalik Anand R	Chief Operating Officer	BE	1-Aug-97	22	1,468,720	Kshema Technologies Limited
18	Ramu Ravi	CFO & Director Strategic Initiatives	BCom, ACA(Eng & Wales)	25-Jun-01	26	5,534,683	Ivega Corporation
19	Singh Abnash	Group Chief Information Officer	Btech, MBA	16-Aug-05	14	2,469,718	vMoksha Technologies Pvt Ltd
20	Soman Madhavi	Senior Vice President	BCom, MMS	1-Apr-05	15	3,067,284	MphasiS Software & Services India Pvt Ltd
21	Sood Punit	President	BE, MBA	9-Jun-04	14	1,901,113	Capital One Finance Corporation
22	Verma Sanjay	Senior Vice President & COO	BE	18-Oct-04	18	412,345	Progeon Limited

NOTE:

1 Remuneration includes Salary, Company's contribution to PF and Superannuation Fund and Taxable value of Perquisites and allowances as per Income Tax Act, 1961 and Rules made thereunder.

2 All appointments are contractual.

3 None of the employees is related to any director of the Company.

Corporate Governance

I. COMPANY'S POLICY ON CORPORATE GOVERNANCE

MphasiS Corporate Governance is directed at the enhancement of shareholder value, keeping in mind the interests of the other stake holders, viz., clients, employees, investors, regulatory bodies, etc. The functions of the Board of Directors of the Company are well defined. The Company has taken various steps including setting up of various sub-committees of the Board to oversee the functions of the Management. MphasiS is committed to good corporate governance and has bench marked itself against global best practices.

II. BOARD OF DIRECTORS

MphasiS BFL Limited has a Board comprising 11 Directors of whom one is an Executive Director, six are representatives of the holding company, Electronic Data Systems Corporation (EDS) and four Directors are Independent.

Mr. Jaithirth Rao was both the Chairman as well as the Managing Director of the Company upto 27 June 2006, when, after the re-organisation of the Board and induction of EDS representatives, he stepped down from the post of Chairman for regulatory reasons. He continues to be the CEO & Managing Director of the Company. Mr. Stephen Heidt, representative of EDS on the Board of the Company, is the current Chairman of the Board.

The Board is primarily responsible for the overall management of the Company's business. The role, functions and responsibilities of the Board are clearly laid down and defined. All the Directors of the company participate in its Board Meetings and have a good understanding of various relevant fields of knowledge viz., Information Technology, Business Process Outsourcing, Finance, Legal, Accounting and Management Sciences. Apart from reviewing the corporate performance, the Board also undertakes the following functions:

- Laying down corporate philosophy and mission
- Appraising strategic and business plans presented by the management
- Reviewing and taking on record the financial plans and budgets
- Reviewing corporate performance against strategic and business plans
- Monitoring the overseas operations
- Setting standards for ethical behavior
- Keeping shareholders informed regarding plans, strategies and performance
- Appraising the process for compliance with laws and regulations.

During the Financial Year 2005-06, eight (8) meetings of the Board were held on 11 April 2005, 11 July 2005, 31 August 2005, 10 September 2005, 29 September 2005, 11 October 2005, 8&9 December 2005 and 10 January 2006.

In accordance with the Articles of Association of the Company, Dr. Jose de la Torre will retire by rotation in the ensuing annual general meeting and being eligible offers himself for re-appointment.

Category and other details of Directors

Name	Category	Attendance		Particulars of other Directorships, Committee Memberships/Chairmanships		
		Board Meetings	Last AGM	Other Directorship*	Committee Membership**	Committee Chairmanship**
Mr. Jaithirth Rao	Whole time Director	8	Yes	5	2	Nil
Mr. N Subramaniam (resigned on 27 June 2006)	Independent, Non-Executive Director	8	Yes	Nil	2	Nil
Mr. Rahul Bhasin	Independent, Non Executive Director	7	No	1	1	Nil
Mr. Ashish Dhawan (resigned on 22 June 2006)	Independent, Non Executive Director	1	No	3	Nil	Nil
Mr. B R Menon (resigned on 26 June 2006)	Independent, Non-Executive Director	6	Yes	Nil	2	1

Name	Category	Attendance		Particulars of other Directorships, Committee Memberships/Chairmanships		
		Board Meetings	Last AGM	Other Directorship*	Committee Membership**	Committee Chairmanship**
Mr. Richard S Braddock (resigned on 27 June 2006)	Independent, Non-Executive Director	1	No	Nil	Nil	Nil
Dr. Jose de la Torre	Independent, Non-Executive Director	1	No	Nil	Nil	Nil
Mr. Jeroen Tas (resigned on 24 June 2006)	Non-Executive Director	5	No	Nil	Nil	Nil
Mr. Nawshir H Mirza	Independent, Non-Executive Director	6	Yes	3	3	2
Mr. D S Brar	Independent, Non-Executive Director	3	No	Nil	1	Nil
Mr. Ian D Cormack (resigned on 31 August 2005)	Independent, Non-Executive Director	Nil	No	Nil	Nil	Nil
Mr. Stephen Heidt (appointed on 27 June 2006)	Promoter Director	NA	NA	Nil	Nil	Nil
Mr. Thomas Haubenstricker (appointed on 27 June 2006)	Promoter Director	NA	NA	Nil	Nil	Nil
Mr. Ronald Vargo (appointed on 27 June 2006)	Promoter Director	NA	NA	Nil	Nil	Nil
Mr. Douglas Davis (appointed on 27 June 2006)	Promoter Director	NA	NA	Nil	Nil	Nil
Mr. Paul Currie (appointed on 27 June 2006)	Promoter Director	NA	NA	Nil	Nil	Nil
Mr. Joseph Eazor (appointed on 27 June 2006)	Promoter Director	NA	NA	Nil	Nil	Nil

* Alternate directorships, directorships in private companies and membership in governing councils, chambers and other bodies not included.

** Membership/Chairmanship in Audit Committee and Shareholder Grievance Committee of companies, including MphasiS BFL Limited.

Notes:

1. Eight meetings of the Board of Directors were held during the year.
2. In addition to the meetings attended as detailed in the table above, Mr. Richard Braddock and Dr. Jose de la Torre also attended 4 meetings each through video-conference. Mr. Ashish Dhawan and Mr. Jeroen Tas attended 1 meeting through video-conference while Mr. D S Brar attended 1 meeting through tele-conference.

III. COMMITTEES

Audit Committee:

The primary functions of the Audit Committee as per its Charter, are to provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community and others relating to :

- the integrity of the Company's financial statements;
- the financial reporting process;
- the systems of internal accounting and financial controls;
- the performance of the Company's internal auditors and statutory auditors;
- the statutory auditors qualifications and independence;
- the internal audit report and recommendations;
- the fairness of transactions with related parties;
- the system of financial and risk management;
- the Company's compliance with ethics policies and legal and regulatory requirements;
- the functioning of the Whistle blower mechanism; and
- the reasons for any defaults in meeting payment obligations.

Five (5) meetings of the Audit Committee were held during 2005-06 on 11 April 2005, 11 July 2005, 11 October 2005, 10 January 2006 and 23 March 2006.

The Composition of the Committee and the attendance of the members at each of the meetings held during 2005-06 is given below:

Member	*No. of Meetings held during tenure*	*No. of Meetings attended*
Mr. Nawshir Mirza, Chairman	5	4
Mr. N Subramaniam (up to 27 June 2006)	5	5
Mr. B R Menon (up to 26 June 2006)	5	3
Mr. D S Brar	5	2
Mr. Rahul Bhasin (up to 23 March 2006)	4	4
Mr. Thomas Haubenstricker (since 27 June 2006)	Nil	Nil

Share Transfer Committee:

The Company has the practice of holding Share Transfer Committee meetings for approving the transfers/ transmissions of equity shares. The Company has appointed ALPHA Systems (P) Limited, a SEBI registered transfer agent, as its Share Transfer Agent.

Nine (9) meetings of the Share Transfer Committee were held during 2005-06 on 11 April 2005, 16 May 2005, 10 June 2005, 12 August 2005, 26 September 2005, 14 November 2005, 26 December 2005, 30 January 2006 and 16 February 2006.

The Composition of the Committee and the attendance of the members at each of the meetings held during the year is given below:

Member	*No. of Meetings held during tenure*	*No. of Meetings attended*
Mr. N Subramaniam, Chairman (up to 27 June 2006)	9	8
Mr. Jaithirth Rao	9	5
Mr. B R Menon (up to 26 June 2006)	9	6
Mr. Stephen Heidt, Chairman (since 27 June 2006)	Nil	Nil
Mr. Paul Currie (since 27 June 2006)	Nil	Nil

The Company ensures that the transfer of shares is effected within one month of their due lodgment.

Compensation Committee:

The Compensation Committee has the exclusive power and authority to decide all matters that must be determined in connection with compensation to senior management. The Compensation Committee comprises the following members:

- Mr. Richard Braddock, Chairman of the Committee (up to 27 June 2006)
- Mr. Rahul Bhasin (up to 27 June 2006)
- Dr. Jose de la Torre (Chairman of the Committee (since 27 June 2006)
- Mr. D S Brar (up to 27 June 2006)
- Mr. Stephen Heidt (since 27 June 2006)
- Mr. Joseph Eazor (since 271 June 2006)

Details of Remuneration to Directors for the year 2005-06

(Rs. in '000s)

Name of Director	*Salary*	*Benefits*	*Commission*	*PF & other Funds*	*Total*	*Stock Options* (Nos.)*
Mr. Jaithirth Rao	9,822	-	-	3,124	12,946	-
Mr. N Subramaniam	-	-	-	-	-	-
Mr. Rahul Bhasin	-	-	-	-	-	-
Mr. Ashish Dhawan	-	-	-	-	-	-
Mr. B R Menon	-	-	-	-	-	20,000
Mr. Richard S Braddock	-	-	-	-	-	40,000
Dr. Jose de la Torre	-	-	-	-	-	20,000
Mr. Jeroen Tas	-	-	-	-	-	-
Mr. Nawshir H Mirza	-	-	1,200	-	1,200	-
Mr. D S Brar	-	-	800	-	800	-
Mr. Ian D Cormack	-	-	-	-	-	-
Mr. Stephen Heidt	NA	NA	NA	NA	NA	NA
Mr. Thomas Haubenstricker	NA	NA	NA	NA	NA	NA
Mr. Ronald Vargo	NA	NA	NA	NA	NA	NA
Mr. Douglas Davis	NA	NA	NA	NA	NA	NA
Mr. Paul Currie	NA	NA	NA	NA	NA	NA
Mr. Joseph Eazor	NA	NA	NA	NA	NA	NA

* These stock options were granted during the year at the market price prevailing on the day before the grant and have been adjusted for bonus shares issued in November 2005. The period over which the above options are accrued and exercisable is in accordance with the relevant ESOP Schemes.

Notes:

None of the directors are paid any sitting fees for attending the meetings of the Board / Committees on which they are members. There was no material pecuniary relationship or transaction with any director other than that reported above.

Mr. Jaithirth Rao is the CEO & Managing Director of the Company and his contract is valid for the period 1 November, 2001 to 31 October, 2006.

The details of shares and stock options held by directors as on 31 March 2006 are given below:

Name of Director	Number of Shares	Number of Stock Options Outstanding
Mr. Jaithirth Rao	6,385,592	600,000
Mr. N Subramaniam	Nil	Nil
Mr. Rahul Bhasin	1,600	Nil
Mr. B R Menon	176,000	70,000
Mr. Jeroen Tas	Nil	300,000
Mr. Richard Braddock	752,324	170,000
Dr. Jose de la Torre	214,000	66,000
Mr. Nawshir Mirza	Nil	Nil
Mr. D S Brar	Nil	Nil
Mr. Ashish Dhawan	Nil	Nil
Mr. Ian D Cormack	Nil	Nil
Mr. Stephen Heidt	NA	NA
Mr. Thomas Haubenstricker	NA	NA
Mr. Ronald Vargo	NA	NA
Mr. Douglas Davis	NA	NA
Mr. Paul Currie	NA	NA
Mr. Joseph Eazor	NA	NA

ESOP Committee:

The ESOP Committee has the exclusive power, authority and discretion to select the employees to whom options may be granted, determine the number of options to be granted and the general administration of the various stock option plans. The ESOP Committee comprises the following members:

Mr. Jaithirth Rao, (Chairman of the Committee)

Mr. N Subramaniam (up to 27 June 2006)

Mr. B R Menon (up to 26 June 2006)

Mr. D S Brar (since 27 June 2006)

Mr. Nawshir Mirza (since 27 June 2006)

During the year 2005-06, the ESOP Committee passed resolutions on 6 April 2005, 17 May 2005, 27 May 2005, 31 May 2005, 03 June 2005, 15 June 2005, 29 June 2005, 27 July 2005, 19 August 2005, 26 August 2005, 6 September 2005, 16 September 2005, 14 October 2005, 21 October 2005, 28 October 2005, 11 November 2005, 25 November 2005, 2 December 2005, 19 December 2005, 26 December 2005, 12 January 2006, 16 January 2006, 20 January 2006, 30 January 2006, 3 February 2006, 7 February 2006, 10 February 2006, 17 February 2006, 24 February 2006, 3 March 2006, 6 March 2006, 10 March 2006, 17 March 2006 and 24 March 2006.

Investor Grievance Committee:

The Investor Grievance Committee looks into the redressal of Investor complaints and requests on a regular basis. Since the investors hold about 99.80% of the company's shares in electronic form, there have been very few instances of investor queries and the same have been attended to promptly.

Mr. A Sivaram Nair, Company Secretary & Head – Legal is also the Compliance Officer of the Company for the purpose of compliance with the Listing Agreement.

The Committee comprises the following members:

Mr. B R Menon, Chairman (up to 26 June 2006)

Mr. N Subramaniam (up to 27 June 2006)

Mr. D S Brar, Chairman (since 27 June 2006)

Mr. Stephen Heidt (since 27 June 2006)

Analysis of shareholders' letters received during the year 2005-06

Sl. No.	*Nature of Letter*	*Received*	*Replied*
1.	Change of Address	1	1
2.	Revalidation of Dividend Warrants	15	15
3.	Non-receipt of Dividend Warrants*	9	9
4.	Power of Attorney Registrations	2	2
5.	Correction of Name	1	1
6.	Issue of Duplicate Share Certificates	5	5
7.	Deletion/Transmission of Shares	7	7
8.	Non-receipt of Share Certificates*	3	3
9.	Non-receipt of Annual Report*	1	1
10.	General enquiry on annual report/dividend and bonus/others	127	127
	TOTAL	**171**	**171**

* Complaints

The are no requests for share transfers pending as on 31 March 2006. During the year 2005-06, the Company received 13 complaints, all of which were promptly redressed, and no complaints were pending for redressal at the end of the year.

Operations Committee

The Company constituted an Operations Committee with effect from 27 June 2006. The powers and functions of the Operations Committee include approval of customer contracts, review of corporate financing activity, acquisitions, divestitures and internal transactions and matters relating to the subsidiaries of the Company. The Operations Committee also proposes detailed guidelines and policies for treasury operations, specifies hedging strategies and instruments and identifies alternate investment avenues from time to time.

The Operations Committee comprises the following members:

Mr. Stephen Heidt, Chairman

Mr. Douglas Davis

Mr. Ronald Vargo

Mr. Jaithirth Rao, CEO & Managing Director and Mr. Jeroen Tas, Special Advisor to the Board, are permanent invitees to this Committee

The Finance Committee and the Nomination Committee stand discontinued with effect from 27 June 2006.

IV. MEETINGS OF THE SHAREHOLDERS:

The following is the summary of the general meetings of shareholders of the Company held during the last three years:

Nature of the Meeting	*Date & Time*	*Venue*
Eleventh Annual General Meeting	2 June 2003 11:00 a.m.	Taj Residency, 41/3, M G Road, Bangalore – 560 001.
Twelfth Annual General Meeting	30 July 2004 11:00 a.m.	Taj Residency, 41/3, M G Road, Bangalore – 560 001.
Thirteenth Annual General Meeting	29 September 2005 10.00 a.m	The Oberoi, 37-39, M G Road, Bangalore – 560 001.
Extraordinary General Meeting	12 May 2004 10:00 a.m.	Registered Office of the Company No.139/1, Hosur Road, Koramangala, Bangalore – 560 095

Special Business Transacted at the General Meetings held in the Last Three Years with Voting Pattern:

Special business transacted at the Thirteenth Annual General Meeting held on 29 September 2005.

- Increase in authorised capital from Rs.100 crores to Rs.200 crores.
- Issue of Bonus Shares in the ratio of 1:1.
- Ratification of disclosure made for approving various ESOP Schemes.
- Utilisation of Securities Premium Account for adjusting the difference arising out of book value of investments in and book value of assets and liabilities of Kshema Technologies Limited.
- Increase in Borrowing Limits.

The Chairman put the above resolutions to vote and declared the resolutions as carried unanimously by show of hands.

Special business transacted at the Twelfth Annual General Meeting held on 30 July 2004.

- Appointment of Mr. Nawshir H Mirza as Director of the Company.
- Appointment of Mr. D S Brar as Director of the Company.
- Remuneration to Non-Executive Directors.

The Chairman put the above resolutions to vote and declared the resolutions as carried unanimously by show of hands.

Special business transacted at the Eleventh Annual General Meeting held on 2 June 2003.

- Appointment of Mr. Arthur Flew as Director of the Company.
- Revision in the terms of remuneration payable to Mr. Jaithirth Rao, Chairman and Managing Director of the Company.
- Delisting of Company's equity shares from Bangalore, Calcutta, Ahmedabad and Jaipur Stock Exchanges.
- Capitalization of Reserves and Issue of Bonus shares.
- New Employee Stock Option Plan(ESOP 2003).

The Chairman put the above resolutions to vote and declared the resolutions as carried unanimously by show of hands.

Special Business Transacted at the Extraordinary General Meeting held on 12 May 2004.

- Increase in Authorised Capital from Rs.40 crores to Rs.100 crores.
- Allotment of shares on Preferential Basis to the selling shareholders of MsourcE Corporation, USA.
- Allotment of shares on Preferential Basis to the optionholders of MsourcE Corporation, USA.
- Increase in the limit of investments by FIIs and NRIs in the Company.
- Remuneration to Managing Director.
- Issue of ADRs / GDRs and permission for listing on NYSE/NASDAQ/International Stock Exchange.
- Issue of shares on Preferential basis to the selling shareholders of Kshema Technologies Limited.
- Capitalisation of Reserves / Issue of Bonus Shares.

The Chairman put the above resolutions to vote and declared the resolutions as carried unanimously by show of hands.

No resolution has been passed by Postal Ballot in the last three years.

V. DISCLOSURES:

During the period under review, the Company did not have any materially significant related party transactions i.e., transactions of the Company of material nature with its promoters, directors or the management, their subsidiaries or relatives etc. that has potentially conflicted with the interests of the Company at large.

Also Stock Exchanges or Securities & Exchange Board of India or any other statutory authority did not impose any penalty on any matter relating to Capital Markets during the last three years.

At MphasiS, we understand the need to make a concerted effort to create a free and fair channel of communication for any integrity concerns and the MphasiS BFL Whistleblower Policy, adopted in 2004, is an effort in that direction. The objective of the Whistleblower Policy is to provide anyone, who observes any unethical practice within the organization, an opportunity to raise a concern to the Audit Committee without any fear of retaliation. All employees of the MphasiS Group are free to raise such concerns through written complaints placed in drop boxes kept at all our offices, through email or through the whistleblower hotline numbers.

Corporate Governance

The Company has complied with all mandatory requirements of the revised Clause 49 of the Listing agreement which came into effect from 1 January 2006. Further the Company has also complied with the non-mandatory requirements relating to constitution of Remuneration Committee, Shareholder Rights and establishing the Whistleblower Policy.

VI. INTERNAL CONTROLS:

Management is of the opinion that the internal controls in place are sufficient considering the complexity, size and nature of operations of the Company. In addition, the Company uses the services of an external firm to periodically review various aspects of the internal control system to ensure that such controls are operating in the way expected and if any modification is required. The internal audit function is also reviewed by the Audit Committee of the Board.

VII. MEANS OF COMMUNICATION:

The Board of Directors of the Company approves and takes on record the audited financial quarterly results and the results are announced to all Stock Exchanges where the shares of the Company are listed as also to various news agencies all over India. Further, the quarterly audited financial results are also published in leading newspapers within 48 hours of the conclusion of the meeting of the Board in which they are taken on record. Generally, the quarterly results are published in various editions of The Economic Times and in Kannada Prabha. The quarterly results are sent to the shareholders apart from being made available on the Company's website www.mphasis.com. The website also contains a copy of presentations on the financial results of the Company. The Management Discussion and Analysis Report forms part of this Annual Report.

VIII. GENERAL SHAREHOLDERS INFORMATION:

Date & Time of AGM	:	Wednesday, 30 August 2006 at 10.30 a.m.
Venue	:	Taj Residency, 41/3, M G Road, Bangalore - 560 001

ATTENDANCE

Every member shall have a right to attend, speak and vote at the Annual General Meeting. A person is considered to be a member of the Company if his name appears on the Register of Members or as a beneficiary holder in the books of National Securities Depositories Limited or the Central Depository Services (India) Limited as on the date of General Meeting.

- *If you intend coming to the meeting*

If you intend coming to the meeting in person, please do complete and bring the Attendance Slip and the copy of your Annual Report. Copies of the Annual Report will not be distributed at the meeting. Kindly note that all the joint shareholders may attend and speak at the meeting.

- *If you do not intend coming in person but would like to appoint someone to act on your behalf*

If you do not wish or are unable to attend the meeting, your vote is still important. We would urge you, regardless of the number of shares you own, to appoint someone to act on your behalf and to vote in the event of a poll. The person so appointed by you is known as a proxy. In case you wish to appoint a proxy, we call upon you to complete, sign and return the accompanying proxy form. However, it may be noted that appointment of a proxy will not preclude yourself from attending the meeting in person. In case you wish to attend the meeting after appointing a proxy, then the proxy shall be deemed to have been revoked.

The accompanying form of proxy enables you to appoint either the chairman of the meeting or someone else of your choice to act as a proxy on your behalf.

Before completing the form please read the following explanatory notes.

You may appoint more than one proxy. However, only one proxy may attend the meeting. Please date, sign and affix a revenue stamp of Rs. 1/- on the proxy form. In case of joint holders any one of the holders can sign.

Where the person appointing the proxy is a corporation, the form must be either under its Common Seal or under the hand of a duly authorised officer or attorney and the appropriate power of attorney or other authority must be lodged along with the proxy form.

To be valid, the proxy form, together with any authority must be received at the Registered Office of the Company not later than 10.30 a.m. on 28 August 2006.

- *Attendance Slips*

The Members & Proxies are requested to bring their Attendance Slips sent herewith duly completed in all respects.

PROCEEDINGS AT THE MEETING

After his opening remarks, the Chairman of the meeting will explain in detail the procedures for the conduct of meeting, particularly for asking questions and voting on resolutions. The resolutions, which are set out in the notice of the meeting, will then be put to the meeting.

- *Voting By Show of Hands*

You should raise your hand, so that the Chairman could see and take count of votes, indicating you are voting either for or against each resolution as the Chairman puts the resolutions to vote. Only shareholders, or authorized representatives of corporate shareholders may vote on a show of hands.

- *Voting on a Poll*

As per Article 74 of the Articles of Association of the Company, before or on the declaration of the results of the voting on any resolution by a show of hands, a poll may be ordered to be taken by the Chairman of the meeting of his own motion or shall be ordered to be taken by him on a demand made in that behalf by any member or members present in person or by proxy and holding shares in the Company:

1. which confer a power to vote on the resolution not being less than one-tenth of the total voting power in respect of the resolution; or
2. on which an aggregate sum of not less than Rs.50,000 has been paid up.

   For the purpose of voting, staff volunteers would distribute the ballot papers. Please complete the same, as per the instructions contained therein, and drop it in the ballot boxes kept for the purpose.

- *Voting Rights*

Article 76 of the Articles of Association of the Company provides as follows with respect to voting rights:

1. Save as hereinafter provided, on a show of hands every member present in person and being a holder of equity shares shall have one vote and every person present either as a proxy on behalf of a holder of equity shares, or as a duly authorized representative of a body corporate, being a holder of equity shares, if he is not entitled to vote in his own right, shall have one vote.
2. Save as otherwise provided, on a poll the voting rights of a holder of equity shares shall be as specified in section 87 of the Companies Act, 1956.
3. No company or body corporate shall vote by proxy so long as a resolution of its Board of Directors under the provisions of section 187 of the Companies Act, 1956 is in force and the representatives named in such resolution is present at the general meeting at which the vote by proxy is tendered.

As per Article 86 (1) any objection as to the admission or rejection of a vote, either on a show of hands or on a poll made in due time, shall be referred to the Chairman who shall forthwith determine the same, and such determination made in good faith shall be final and conclusive. As per Article 86 (2) no objection shall be raised to the qualification of any vote except at the meeting or adjourned meeting at which the vote objected to is given or tendered and every vote not disallowed to such meeting shall be valid for all purposes.

BOOK CLOSURE DATES

In pursuance of section 154 of the Companies Act, 1956, the Register of Members and the Share Transfer Books of the Company will be closed from 28 August 2006 to 30 August 2006 (both dates inclusive).

Corporate Governance

LISTING OF SHARES

Equity shares of the Company are listed for trading on the following Stock Exchanges:

- Bombay Stock Exchange Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001, Telephone: 022-22655860/61, Fax No.: 022-2265 8121.
- National Stock Exchange of India Ltd., Exchange Plaza, Plot No. C/1, G Block, Bandra- Kurla Complex, Bandra (E) Mumbai - 400 051. Telephone: 022-2659 8100-8114. Fax No. 022-2265 8237-38
- The Calcutta Stock Exchange Association Limited, 7, Lyons Range, Calcutta - 700 001. Telephone: 033-2220 3741, Fax: 033-2210 4492/2210 4500. *(Application for delisting pending)*

Scrip Code

Scrip Code of the Company on Bombay Stock Exchange Limited is 526299 and on National Stock Exchange of India Limited is MPHASISBFL.

Dematerialisation of Equity Shares

The Securities & Exchange Board of India has specified that the shares of the company would be traded only in demat form by all the investors effective 29 November 1999. Accordingly, the Company has entered into an agreement with the following Depositories, who are providing the services of Dematerialisation of equity shares:

- National Securities Depository Limited, Trade World, 4th & 5th Floors, Kamala Mills Compound, Senapathi Bapat Marg, Lower Parel, Mumbai-400013. Telephone: 022-2499 4200, Fax No: 022-2497 2993 & 2497 6351.
- Central Depository Services (India) Limited, Phiroze Jeejeebhoy Towers, 17th Floor, Dalal Street, Mumbai – 400023. Telephone: 022-2272 3333, Fax No: 022-2272 3199.

As on 31 March 2006, 98.40% shareholders hold 99.80% of shares in demat form.

Market Quotation

The month wise high and low prices and the volume of shares of the Company traded for the period 1 April 2005 to 31 March 2006 on the National Stock Exchange is given below:

Month	*Highest*				*Lowest*			
	Rate (Rs.)	**Date**	**Volume**	**NIFTY**	**Rate (Rs.)**	**Date**	**Volume**	**NIFTY**
April-05	279.00	12-Apr-05	1,873,861	2027.80	219.00	29-Apr-05	116,489	1896.30
May-05	277.80	17-May-05	465,723	2024.60	217.05	3-May-05	102,164	1911.00
June-05	297.40	23-Jun-05	500,575	2192.10	260.00	2-Jun-05	106,331	2062.55
July-05	327.00	19-Jul-05	515,397	2246.70	255.00	29-Jul-05	506,189	2280.85
August-05	280.90	11-Aug-05	528,683	2387.30	235.00	25-Aug-05	1,844,169	2320.70
September-05	263.00	20-Sep-05	576,130	2582.80	236.00	23-Sep-05	337,834	2453.05
October-05	272.00	13-Oct-05	1,875,778	2589.35	240.30	28-Oct-05	181,979	2307.45
November-05	266.25	9-Nov-05	382,866	2519.40	126.10	16-Nov-05	2,423,937	2559.45
December-05	155.55	19-Dec-05	1,118,063	2846.00	138.00	1-Dec-05	610,763	2641.95
January-06	175.55	25-Jan-06	1,307,176	2949.10	145.25	2-Jan-06	353,870	2825.40
February-06	185.00	24-Feb-06	366,088	3072.00	168.50	7-Feb-06	168,239	2991.25
March-06	216.00	21-Mar-06	938,040	3292.15	170.25	1-Mar-06	1,130,057	3064.00

Note: April to November 2005 prices mentioned above are pre-bonus.

Market Capitalization

Based on the closing quotation of Rs.208.45 as at 31 March 2006 at The National Stock Exchange, the market capitalization of the Company was approximately Rs.3,356 crores.

Members' Profile

The shareholding pattern of the members of the Company as on 31 March 2006 was:

Category	*Total No. of Shares*	*% to Total Capital*
Bodies Corporate	67,096,134	41.67
Foreign Institutional Investors	50,332,942	31.26
Financial Institutions	180,191	0.11
Resident Indians	11,914,063	7.40
Mutual Funds & Banks	21,551,842	13.39
Non Resident Indians	2,366,472	1.47
Directors and Relatives	7,569,516	4.70
TOTAL	161,011,160	100.00

Distribution of shareholding as on 31 March 2006

Range	*Shareholders*		*Shares held*	
No. of Shares	Number	% to total	Number	% to total
1-100	13,659	54.56	790,684	0.49
101-500	7,596	30.34	1,936,941	1.20
501-1000	1,840	7.35	1,451,237	0.90
1001-5000	1,418	5.66	3,256,665	2.02
5001-10000	227	0.91	1,647,773	1.02
10001-100000	212	0.85	6,362,625	3.95
100001 & above	81	0.32	145,565,235	90.41
Total	25,033	100.00	161,011,160	100.00

Financial Calendar

Results Announced	:	11 April 2006
Book Closure Dates	:	28 August 2006 to 30 August 2006 (Both dates inclusive)
Posting of Annual Reports	:	7 August 2006
Annual General Meeting	:	30 August 2006
Dividend Payment Date	:	Within 30 days from date of AGM

Address For Communication

All correspondences relating to share transfers and matters relating to investor relations may be addressed to the following:

MR. A SIVARAM NAIR
Company Secretary,
MphasiS BFL Limited,
139/1, Hosur Road,
Koramangala, Bangalore-560 095.
Phone: 080-2552 2713/714
Fax No. 080-2552 2719

ALPHA SYSTEMS PRIVATE LIMITED
Unit: MphasiS BFL Limited,
(Attn: Mr. Guruswamy Babu - AVP)
No. 30, Ramana Residency,
4th Cross, Sampige Road,
Malleswaram, Bangalore-560 003
Phone: 080-2346 0815-818 Fax No. 080-2346 0819

Auditors' Certificate

To the Members of MphasiS BFL Limited.

We have examined the compliance of conditions of corporate governance by MphasiS BFL Limited ("the Company") for the year ended on 31 March 2006, as stipulated in Clause 49 of the Listing Agreement of the Company with the stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has compiled with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership Number: 48814

Bangalore
23 July 2006

AUDITORS' REPORT TO THE MEMBERS MPHASIS BFL LIMITED

We have audited the attached balance sheet of MphasiS BFL Limited ('the Company'), as at 31 March 2006 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditor's Report) Order, 2003 ('the Order'), as amended, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

(i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

(ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

(iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

(iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

(v) on the basis of written representations received from the directors, as at 31 March 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as at 31 March 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956 on the said date;

(vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

   (a) in the case of the balance sheet, of the state of affairs of the Company as at 31 March 2006;

   (b) in the case of the profit and loss account, of the profit for the year ended on that date; and

   (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

for BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership Number: 48814

Bangalore
11 April 2006

ANNEXURE TO THE AUDITORS' REPORT

Annexure referred to in our report to the members of MphasiS BFL Limited ('the Company') for the year ended 31 March 2006. We report that:

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
2. The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. The Company is in the process of reconciliation of physically verified fixed assets with the fixed assets register and management represents based on their judgement that there will not be any material discrepancies.
3. Fixed assets disposed off during the year were not substantial and therefore, do not affect the going concern assumption.
4. The Company is a service company, primarily rendering information technology solutions and services. Accordingly it does not hold any physical inventory. Thus, paragraph 4(ii) of the Order is not applicable.
5. The Company has neither granted nor taken any loans, secured or unsecured to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
6. In our opinion and according to the information and explanations given to us, there are is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not observed any major weakness in the internal controls during the course of the audit.
7. In our opinion, and according to the information and explanations given to us, there are no contracts and arrangements the particulars of which need to be entered into the register maintained under section 301 of the Companies Act, 1956.
8. The Company has not accepted any deposits from the public.
9. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
10. The Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 for services rendered by the Company.
11. According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including, Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth-tax, Service tax, Customs duty and any other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund, Excise duty and Cess.

    According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, and other material statutory dues were in arrears as at 31 March 2006 for a period of more than six months from the date they became payable.
12. According to the information and explanations given to us, there are no dues in respect of Wealth tax, Service Tax, Sales tax, Excise duty and Cess etc., that have not been deposited with the appropriate authorities on account of any dispute.

    According to the information and explanations given to us, the following dues of Income tax and Customs Duty have not been deposited by the Company on account of disputes:

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income tax Act, 1961	Tax/penalty/interest demanded	105,973,020	2002 – 03	CIT Appeals
Income tax Act, 1961	Tax/penalty/interest demanded	6,843,257	2002 – 03	CIT Appeals
Customs Act, 1962	Customs duty demanded	8,735,374	2002 – 03	Customs Authority
Internal Revenue Services (IRS), USA	Tax/interest demanded	83,907,202	2002 – 03	IRS Supervisor

13. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
14. The Company did not have any outstanding dues to any financial institutions, banks or debentureholders during the year.
15. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
16. In our opinion and according to the information and explanation given to us, the Company is not a chit fund/nidhi/mutual benefit fund/society.
17. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
18. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
19. The Company did not have any term loans outstanding during the year.
20. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
21. The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under section 301 of the Companies Act, 1956.
22. The Company did not have any outstanding debentures during the year.
23. The Company has not raised any money by public issues during the year.
24. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

for BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership No. 48814

Bangalore
11 April 2006

Balance Sheet

(Rs 000's)

	Notes	31 March 2006	31 March 2005
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	3	1,610,183	786,070
Reserves and surplus	4	3,643,054	4,860,137
Employee stock options outstanding	5	73,808	85,773
Deferred employee stock compensation expense	6	-	-
		5,327,045	5,731,980
LOAN FUNDS			
Secured loans	7	15,535	12,435
		5,342,580	5,744,415
APPLICATION OF FUNDS			
FIXED ASSETS	8		
Cost		877,184	747,971
Accumulated depreciation		(699,836)	(624,891)
Net book value		177,348	123,080
Capital work-in-progress		4,156	3,879
		181,504	126,959
INVESTMENTS	9	4,597,378	5,545,151
DEFERRED TAX ASSET	10	23,599	6,770
CURRENT ASSETS, LOANS AND ADVANCES			
Cash and bank balances	11	199,297	100,290
Inter corporate cash deposits	12	104,279	223,700
Sundry debtors and unbilled revenues	13	1,392,767	1,124,796
Interest and dividends receivable	14	3,406	6,072
Loans and advances	15	939,837	865,020
		2,639,586	2,319,878
CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	16	1,500,185	1,962,289
Provisions	17	599,302	292,054
		2,099,487	2,254,343
NET CURRENT ASSETS		540,009	65,535
		5,342,580	5,744,415

Significant Accounting Policies and Notes to the Financial Statements 1

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

This is the Balance Sheet referred to in our report attached

for BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership No. 48814

Bangalore
11 April 2006

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman & Managing Director

Rahul Bhasin
Director

Alok C. Misra
Chief Financial Officer

A Sivaram Nair
Company Secretary

Bangalore
11 April 2006

PROFIT AND LOSS ACCOUNT

(Rs 000's)

	Notes	Year ended 31 March 2006	Year ended 31 March 2005
Revenues		3,806,739	2,477,681
Cost of revenues	18	2,601,422	1,792,008
Gross profit		1,205,317	685,673
Selling expenses	19	178,441	173,614
General and administrative expenses	20	253,338	116,339
Amortisation of ESOP costs	5 & 6	-	369
Provision for doubtful debts, net		8,661	1,084
Operating profit		764,877	394,267
Foreign exchange gain / (loss)		53,091	50,593
Other income / (expense), net	21	(6,857)	5,645
Interest income (expense), net	22	(22,201)	41,419
Profit before taxation		788,910	491,924
Income taxes (including Fringe Benefit Tax)	23	26,653	(9,860)
Profit after taxation		762,257	501,784
Profit brought forward		2,151,033	2,112,112
Profit available for appropriations		2,913,290	2,613,896
Appropriations			
Transfer to General Reserve		76,226	50,178
Proposed Dividend		483,168	235,865
Final Dividend		3,804	4,254
Interim Dividend		-	110,592
Tax on Dividend		68,299	61,974
Issue of Bonus shares		119,671	-
Profit carried forward		2,162,122	2,151,033
Earnings Per Share (Par Value - Rs 10)	34		
Basic (Rs)		4.79	3.33
Diluted (Rs)		4.71	3.22

Significant Accounting Policies and Notes to the Financial Statements 1

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

This is the Profit and Loss account referred to in our report attached

For and on behalf of the Board of Directors

for BSR & Co.
Chartered Accountants

Jaithirth Rao
Chairman & Managing Director

Rahul Bhasin
Director

Zubin Shekary
Partner
Membership No. 48814

Alok C. Misra
Chief Financial Officer

As Sivaram Nair
Company Secretary

Bangalore
11 April 2006

Bangalore
11 April 2006

NOTES TO THE FINANCIAL STATEMENT

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of MphasiS BFL Limited ('the Company') have been prepared under the historical cost convention on the accrual basis of accounting and comply with the mandatory Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI').

Use of estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

Revenue recognition

The Company derives its revenues primarily from software services & projects and business process outsourcing operations.

Revenues from software services and 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 upto the reporting date to estimated total cost of efforts.

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 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.

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

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. Cost of fixed assets also includes exchange differences, arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction. Fixed assets purchased in foreign currency are recorded at the actual rupee cost incurred. Acquired intangible assets are capitalised at the acquisition price. Internally generated intangible assets are stated at costs that can be measured reliably during the development phase and when it is probable that future economic benefits that are attributable to the asset will flow to the Company.

Leases under which the Company 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.

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 year. 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:

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

Leasehold improvements are amortized over the lease term or 3 years, whichever is shorter. Significant purchased application software and internally generated software that is an integral part of the Company's computer systems, expected to provide lasting benefits, is capitalised and amortised on the straight-line method over its estimated useful life or 3 years, whichever is shorter. Goodwill arising on an amalgamation in the nature of purchase of business is amortised over the period over which the Company expects to realise future economic benefits.

Investments

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

Retirement benefits

Gratuity and leave encashment costs, 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.

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, except that exchange differences related to acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.

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 (except those related to acquisition of fixed assets) are recognised in the profit and loss account.

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 commitments or highly probable forecast transactions. The premium or discount on all such contracts arising at the inception of the 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 recognized 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 (Revised 2003). 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 recognized in the profit and loss account in the reporting period in which the exchange rates change.

NOTES TO THE FINANCIAL STATEMENT

Fringe Benefit Tax

Consequent to the introduction of Fringe Benefit Tax ("FBT") effective 1 April 2005, the Company provides for and discloses the 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 ICAI.

Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between the profit offered for income taxes and the profit as per the financial statements. Deferred tax in respect of timing difference which originate during the tax holiday period but reversed after the tax holiday period is recognised in the year in which the timing difference originate. For this purpose the timing differences which originate 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 in situation of unabsorbed depreciation and losses carried forward 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. Other deferred tax assets 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. Deferred tax assets are reassessed for the appropriateness of their respective carrying values at each balance sheet date. The Company offsets, on a year on year basis, current tax, deferred tax 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 Company recognises a 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.

Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset including goodwill may be impaired. If any such indication exists, the Company 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. In respect of goodwill the impairment loss will be reversed only when it was caused by specific external events and its effect has 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 could 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 fair value (i.e. the average market value of the outstanding shares). In computing dilutive earnings per share, only potential equity shares that are dilutive and that either reduce earnings per share or increase loss per share are included.

Stock-based compensation

The Company accounts for stock based compensation based on the intrinsic value method. 'Option Discount' has been amortised on a straight-line basis over the vesting period of the shares issued under Employee Stock Option Plans (ESOP) and included in 'Amortisation of ESOP costs' in the Profit and Loss Account.

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

2. DESCRIPTION OF THE COMPANY

The Company is a global, multicultural organisation headquartered in Bangalore, India, specialising in providing a suite of information technology solutions and services specifically tailored to meet the requirements of the Financial Services, Retail, Logistics & Transportation and Technology.

MphasiS BFL Limited is registered under the Indian Companies Act, 1956 with its Registered Office in Bangalore. The Company and its subsidiaries are collectively referred to as 'the Group'. This is the flagship company of the Group and is listed on the principal stock exchanges of India.

List of subsidiaries with percentage holding:

Subsidiaries	Country of incorporation and other particulars	Percentage of holding (%)
MphasiS Corporation ('MphasiS USA')	a company organised under the laws of Delaware, USA	100
MphasiS Deutschland GmbH (formerly BFL Software 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 (Formerly Navion (Shanghai) Software Development Limited) ('MphasiS China')	a company organised under the laws of The People's Republic of China	100
MbrokeR Inc. ('MbrokeR')	a company organised under the laws of Delaware, USA	100
Princeton Consulting Limited ('Princeton') (refer (note b) below)	a company organised under the laws of the United Kingdom	100
Eldorado Computing Inc., ('Eldorado') (refer (note c) below)	a company organised under the laws of Arizona, USA	100
MphasiS Ireland Limited (MphasiS Ireland) (refer (note d) below)	a company organised under the laws of Ireland	100
MbrokeR (India) Private Ltd. ('MbrokeR India')	a subsidiary of MbrokeR Inc. organised under the laws of India	100
MphasiS Europe BV ('MphasiS Europe')	a subsidiary of MphasiS USA, organised under the laws of The Netherlands	100
MphasiS Pte Ltd ('MphasiS Singapore')	a subsidiary of MphasiS Europe, organised under the laws of Singapore	100
MphasiS UK Limited ('MphasiS UK')	a subsidiary of MphasiS Europe, organised under the laws of United Kingdom	100
MphasiS Software and Services (India) Private Limited ('MphasiS India')	a subsidiary of MphasiS Europe, organised under the laws of India	100
MsourcE Holdings BV, Netherlands ('MsourcE Netherlands')	a subsidiary of MphasiS USA, organised under the laws of The Netherlands	100
MsourcE Mauritius Inc., Mauritius ('MsourcE Mauritius')	a subsidiary of MsourcE Netherlands, organised under the laws of Mauritius	100
MsourcE (India) Private Ltd. ('MsourcE India')	a subsidiary of MsourcE Mauritius, organised under the laws of India	100

NOTES TO THE FINANCIAL STATEMENT

a) With effect from 1 June 2004, the Group acquired the control of Kshema Technologies Limited ("Kshema") in terms of a definitive stock Swap and Purchase Agreement ("the Agreement") dated 2nd April 2004 approved by the shareholders of the Company at the Extraordinary General Meeting held on 12 May 2004.

The balance consideration payable to the erstwhile shareholders amounting to Rs 17,060,055 (31 March 2005: Rs 17,060,055) is carried as a liability which will be paid after necessary regulatory approvals are obtained (refer note 16).

During the year ended 31 March 2006, the shareholders and creditors of the Company, and also the creditors of Kshema have approved the Scheme of amalgamation and arrangement between Kshema and the Company with effect from 1 April 2005 as per the directions of the Hon'ble High Court of Karnataka. The Scheme has been approved by the Hon'ble High Court on 16 January 2006. As per the Scheme, the assets and liabilities of Kshema as on 1 April 2005 have been fully taken over by the Company at their book values and the book value of investments in shares of Kshema held by the Company has been cancelled. The deficit arising there from has been adjusted against the amount in the "Securities Premium Account" of the Company, in accordance with the court order.

b) The Company had acquired control of Princeton Consulting Limited, UK ("Princeton") on 16 February 2005. According to the terms of the Share Purchase Agreement, an amount of GBP 7,385,000 (Rs 606,585,894) was paid in February 2005, an amount of GBP 100,000 (Rs 8,354,000) was paid in April 2005 and remaining consideration, amounting to GBP 500,000 (Rs 38,816,251) was paid in March 2006 in cash to the selling shareholders of Princeton.

c) The Company acquired control of Eldorado Computing Inc., USA ("Eldorado") on 1 March 2005. According to the terms of the Share Purchase Agreement an amount of USD 15,648,222 (Rs 685,943,675) was paid in cash to the selling shareholders during the year. An amount of USD 885,175 (Rs 39,492,083) is held in an escrow account and is payable upon satisfaction of certain conditions (refer note 15).

In addition, as per the Share purchase agreement, certain key executives of Eldorado Computing will be paid an earn out for three years commencing from 1 March 2005 to 29 February 2008 if they are able to exceed the agreed upon revenue and gross margin targets in each of these three years. The maximum earn out payable over three years if both the revenue and gross margin targets are met will be USD 5,000,000, with individual limits fixed for each of the three years. No earn out has been accrued for the year ended 28 February 2006.

d) During the year, MphasiS Ireland was incorporated in Ireland as a wholly owned subsidiary of the Company for the purpose of providing IT services in Ireland. The subsidiary is yet to commence operations. During the year ended 31 March 2006, the Company invested Euro 10,000 (Rs 541,100) in MphasiS Ireland.

(Rs 000's)

	31 March 2006	31 March 2005
3. SHARE CAPITAL		
Authorised capital *		
200,000,000 (31 March 2005: 100,000,000) equity shares of Rs 10 each	2,000,000	1,000,000
Issued, subscribed and paid-up capital		
161,025,360 (31 March 2005: 78,614,108) equity shares of Rs 10 each	1,610,254	786,141
[Of the above, 9,486,773 (31 March 2005: 9,486,773) equity shares are allotted for consideration other than cash]		
[Of the above shares 134,167,074 (31 March 2005: 54,039,308) shares are allotted as fully paid-up by way of bonus shares]		
Less: Face value of 14,200 (31 March 2005: 14,200) equity shares of Rs 10 each forfeited	142	142
Add: Amount originally paid-up on forfeited shares	71	71
	1,610,183	786,070

* During the year ended 31 March 2006, the shareholders of the Company resolved to increase the authorised share capital of the Company from Rs 1,000,000,000 divided into 100,000,000 equity shares of Rs 10 each to Rs 2,000,000,000 divided into 200,000,000 equity shares of Rs 10 each.

3 (a) At the Annual General Meeting held on 29 September 2005, the members approved a bonus issue of one equity share for every existing share (1:1) in the Company. The bonus shares were issued on 14 November 2005. The number of options and exercise price disclosed in these financial statements has been adjusted to reflect the bonus issue.

(Rs 000's)

	31 March 2006	31 March 2005
4. RESERVES AND SURPLUS		
Securities premium account		
Balance brought forward	2,464,363	874,284
Add: Premium on allotment of shares	196,133	177,671
Add: Transferred from Employee Stock Options Outstanding	2,482	4,371
Add: Premium on allotment of shares to Kshema	-	701,984
Less: Bonus shares issued	681,607	367,254
Less: Adjestment on account of merger of Kshema (refer note 2 (a))	816,223	-
Add: Premium on allotment of shares to MsourcE minority	-	1,073,307
[Of the securities premium account Rs 1,122,871 (31 March 2005: Rs 1,936,612) is received for consideration other than cash]		
	1,165,148	2,464,363
Foreign currency translation reserve		
During the year	(5,183)	-
	(5,183)	-
General Reserve		
Balance brought forward from previous year	244,741	194,563
Add: Transfer from Profit and Loss Account	76,226	50,178
	320,967	244,741
Profit and loss account balance	2,162,122	2,151,033
	3,643,054	4,860,137

NOTES TO THE FINANCIAL STATEMENT

(Rs 000's)

		31 March 2006	31 March 2005
5.	EMPLOYEE STOCK OPTIONS OUTSTANDING		
	Balance brought forward	85,773	14,588
	Less : Transferred to securities premium account on exercise of Options	2,482	4,371
	Less : Reversal on forfeiture of options granted	9,483	8,074
	Add : Options granted towards swap of MsourcE options	-	83,630
		73,808	85,773
6.	DEFERRED EMPLOYEE STOCK COMPENSATION EXPENSE		
	Balance brought forward	-	985
	Less: Amortisation	-	896
	Less: Reversal on forfeiture of stock options granted	-	89
		-	-

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 year ended 31 March 2006 for grants outstanding on and made on or after that date for each of the plans described below. (refer note 35)

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 1,860,000 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 movement in the options granted under the 1998 Plan - (Version I) for the year ended 31 March 2006 and year ended 31 March 2005 is set out below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	157,752	34.38	211,516
Granted	-	-	-
Forfeited	856	34.38	-
Exercised	27,782	34.38	53,764
Options outstanding at the end	129,114	34.38	157,752
Exercisable at the end of the period	129,114	34.38	

The weighted average share price of options exercised as at the date of exercise was Rs 144.30. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs Nil. The options outstanding as at 31 March 2006 had an exercise price of Rs 34.38. The options are exercisable at any time after the vesting period.

1998 Plan-(Version II): Commencing January 2000, the Company decided to grant all future options at the market price immediately preceding the date of grant. The equity shares covered under these options vest at various dates over a period ranging from twelve to forty-eight months from the date of grant based on the grade of the employee. However, in case of options granted to the 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 movement in the options granted under the 1998 Plan-(Version II) for the year ended 31 March 2006 and year ended 31 March 2005 is set out below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	2,208,718	78.34	2,634,736
Granted	285,000	130.57	80,000
Forfeited	277,352	88.98	72,248
Exercised	535,756	46.74	433,770
Options outstanding at the end	1,680,610	94.68	2,208,718
Exercisable at the end of the period	1,221,266	88.01	

The weighted average share price of options exercised as at the date of exercise was Rs 142.56. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs 53.64. The options outstanding as at 31 March 2006 had an exercise price ranging from Rs 23.21 to Rs 130.60 and weighted average remaining contractual life of 8.20 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 movement in the options under the 2000 Plan for the year ended 31 March 2006 and year ended 31 March 2005 is set out below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	4,601,238	71.09	7,693,296
Granted	1,261,600	164.41	917,200
Forfeited	639,288	125.59	895,040
Lapsed	392,906	66.57	623,446
Exercised	2,293,508	49,46	2,490,772
Options outstanding at the end	2,537,136	116.09	4,601,238
Exercisable at the end of the period	795,018	92.64	

The weighted average share price of options exercised as at the date of exercise was Rs 138.86. The weighted average fair value of the options granted during the period as at the respective grant dates was

NOTES TO THE FINANCIAL STATEMENT

Rs 56.11. The options outstanding as at 31 March 2006 had an exercise price ranging from Rs 23.21 to Rs 178.55 and weighted average remaining contractual life of 2.70 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. The exercise period is two years from the date of vesting.

The movement in the options under the 2003 Plan for the year ended 31 March 2006 and year ended 31 March 2005 is set out below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	1,918,000	129.80	1,540,000
Granted	268,800	130.60	900,000
Forfeited	99,000	102.43	60,000
Exercised	606,000	91.20	462,000
Options outstanding at the end **	1,481,800	147.56	1,918,000
Exercisable at the end of the period	78,000	89.88	

** Includes 1,200,000 options as at 31 March 2006 (31 March 2005: 1,320,000) held by key management personnel.

The weighted average share price of options exercised as at the date of exercise was Rs 136.36. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs 53.33. The options outstanding as at 31 March 2006 had an exercise price ranging from Rs 85.63 to Rs 175.00 and weighted average remaining contractual life of 2.59 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.

The movement in the options under the 2004 Plan for year ended 31 March 2006 and year ended 31 March 2005 is summarised below:

	Year ended 31 March 2006		Year ended 31 March 2005
	No of Options	Weighted Average Exercise Price	No of Options
Options outstanding at the beginning	1,288,378	92.10	-
Granted	1,003,600	130.47	171,820
Swap of MsourcE 2001 Plan	-	-	1,332,882
Forfeited	340,836	118.72	167,226
Lapsed	45,600	93.62	49,098
Exercised	348,098	69.81	-
Options outstanding at the end	1,557,444	115.82	1,288,378
Exercisable at the end of the period	229,742	91.12	

The weighted average share price of options exercised as at the date of exercise was Rs 137.45. The weighted average fair value of the options granted during the period as at the respective grant dates was Rs 53.27. The options outstanding as at 31 March 2006 had an exercise price ranging from Rs 15.59 to Rs 149.18 and weighted average remaining contractual life of 6.14 years.

(Rs 000's)

	31 March 2006	31 March 2005
7. SECURED LOANS		
Other loans		
(Secured by hypothecation of the vehicles)	15,535	12,435
	15,535	12,435

NOTES TO THE FINANCIAL STATEMENT

8. FIXED ASSETS

(Rs 000's)

Assets	Cost					Accumulated depreciation					Net book value	
	1 April 2005	Adjustment on account of Kshema merger *	Additions	Deductions	31 March 2006	1 April 2005	Adjustment on account of Kshema merger *	Charge for the year	Deductions	31 March 2006	31 March 2006	31 March 2005
Owned assets												
Freehold land	27,375	-	-	-	27,375	-	-	-	-	-	27,375	27,375
Buildings	1,230	-	-	-	1,230	493	-	132	-	625	605	737
Leasehold Improvements	174,742	56,954	2,047	-	233,743	168,821	53,588	6,136	-	228,545	5,198	5,921
Plant and machinery	83,747	17,348	11,132	5,288	106,939	81,856	12,332	3,295	4,269	93,214	13,725	1,891
Computer equipment	296,359	64,838	62,730	143,920	280,007	277,122	54,000	31,624	126,743	236,003	44,004	19,237
Software	45,323	367	38,762	-	84,452	19,947	5	16,334	-	36,286	48,166	25,376
Office equipment	17,343	745	3,835	506	21,417	15,135	75	2,056	506	16,760	4,657	2,208
Furniture and fixtures	41,779	10,820	4,907	1,352	56,154	36,770	9,516	3,265	1,173	48,378	7,776	5,009
Vehicles	30,063	8,955	11,707	15,220	35,505	13,511	2,443	10,704	8,452	18,206	17,299	16,552
Books	-	352	-	-	352	-	352	-	-	352	-	-
	717,961	160,379	135,120	166,286	847,174	613,655	132,311	73,546	141,143	678,369	168,805	104,306
Purchased Goodwill	30,010	-	-	-	30,010	11,236	-	10,231	-	21,467	8,543	18,774
Total	747,971	160,379	135,120	166,286	877,184	624,891	132,311	83,777	141,143	699,836	177,348	123,080
Previous year ended 31 March 2005	687,988	-	86,498	26,515	747,971	599,365	-	46,041	20,515	624,891	123,080	

* refer note 2(a)

NOTES TO THE FINANCIAL STATEMENT

(Rs 000's)

		31 March 2006	31 March 2005
9.	INVESTMENTS		
	Long term – Unquoted (non-trade)		
	In subsidiaries		
	MphasiS USA	2,035,578	2,044,592
	100 (31 March 2005: 100) shares of common stock of US $ 0.01 each fully paid up		
	MphasiS USA (refer note (a) and (b)) 1,840,000 (31 March 2005: 1,840,000) 8% cumulative convertible redeemable preference stock of US $ 2.50 each, having par value of US $ 0.001 each, fully paid-up and 5,291,010 (31 March 2005: 5,291,010) 8% cumulative convertible redeemable preference stock of US $ 3.00 each, having par value of US $ 0.001 each fully paid up	987,962	987,962
	MphasiS Australia 2,000 (31 March 2005: 2,000) shares of common stock of Australian $ 1 each fully paid up	49	49
	MphasiS India (refer note (c)) 940,000 (31 March 2005: 940,000) 8% non-cumulative redeemable preference shares of Rs 100 each fully paid up	94,000	94,000
	BFL APAC 218,482 (31 March 2005: 218,482) shares of common stock of Singapore $ 1 each fully paid up	5,927	5,927
	MphasiS GmbH	2,524	2,524
	MphasiS, China 100% (31 March 2005: 100%) share holding interest	105,345	105,345
	MbrokeR Inc. 40,000 (31 March 2005: 40,000) shares of common stock of US $ 0.01 each fully paid up	34,439	34,439
	Princeton (refer note 2(b)) 7,953,393 (31 March 2005: 7,953,393) ordinary shares of £ 0.002 each fully paid up	663,816	616,114
	Eldorado (refer note 2(c)) 5,400,000 (31 March 2005: Nil) shares of Class B non-voting common stock and 600,000 (31 March 2005: Nil) shares of Class A voting common stock	695,082	621,055
	MphasiS Ireland 10,000 (31 March 2005: Nil) shares of common stock of • 1 each fully paid up	542	-
	Kshema (refer note 2(a)) Nil (31 March 2005: 3,088,930) equity shares of Rs 10 each fully paid up.	-	1,061,030
		4,625,264	5,573,037
	Less : Provision for diminution, other than temporary, in the value of investment	27,886	27,886
		4,597,378	5,545,151

NOTES TO THE FINANCIAL STATEMENT

Long-term investments include:

a) Rs 119,962,500 (USD 2,500,000) (31 March 2005: Rs 119,962,500) made in Series A Preferred stock of MphasiS USA is redeemable in four equal quarterly instalments beginning on 30 September 2010, Rs 24,487,500 (USD 500,000) (31 March 2005: Rs 24,487,500) in Series B Preferred Stock redeemable in four equal quarterly instalments beginning on 30 November 2010, Rs 77,952,000 (USD 1,600,000) (31 March 2005: Rs 77,952,000) in Series C Preferred Stock redeemable in four equal quarterly instalments beginning on 31 March 2012, Rs 214,792,844 (USD 4,432,374) (31 March 2005: Rs 214,792,844) in Series D Preferred Stock redeemable in four quarterly instalments beginning on 30 September 2012, Rs 142,737,362 (USD 2,954,919) (31 March 2005: Rs 142,737,362) in Series E Preferred Stock redeemable in four quarterly instalments beginning on 30 November 2012, Rs 265,388,321 (USD 5,540,466) (31 March 2005: Rs 265,388,321) in Series F Preferred Stock redeemable in four quarterly instalments beginning on 31 January 2013 and Rs 142,641,473 (USD 2,945,271) (31 March 2005: Rs 142,641,473) in Series G Preferred Stock redeemable in four quarterly instalments beginning on 31 May 2013.

b) Subsequent to 31 March 2006, the Board of Directors of the Company have resolved to convert the 7,131,010 Series A to G preference shares in MphasiS USA into 3,000 common stock of MphasiS USA, pending regulatory approvals. These regulatory approvals are yet to be obtained.

c) Rs 94,000,000 (31 March 2005: Rs 94,000,000) made in MphasiS India, a 100% subsidiary of MphasiS Europe. The preference shares are redeemable at the end of 10 years from the date of allotment at par.

(Rs 000's)

	31 March 2006	31 March 2005
10. DEFERRED TAX ASSET		
On depreciation	23,599	6,770
	23,599	6,770
11. CASH AND BANK BALANCES		
Cash in hand	84	37
Remittances in transit	11	16,533
Balances with scheduled banks		
- Current accounts *	45,704	50,596
- Deposit accounts	89,837	28,500
Balances with non-scheduled banks		
- Current accounts (Refer note 31)	63,661	4,624
	199,297	100,290

* Includes Rs 1,231,797 and Rs 806,714 representing the balances in unclaimed dividends accounts as at 31 March 2006 and 31 March 2005 respectively. Also refer schedule 16.

	31 March 2006	31 March 2005
12. INTER CORPORATE CASH DEPOSITS		
With subsidiaries	104,279	223,700
	104,279	223,700
13. SUNDRY DEBTORS AND UNBILLED REVENUES		
Sundry debtors		
Debts outstanding for a period exceeding six months, unsecured		
- considered good	596,174	564,280
- considered doubtful	39,595	26,960
Other debts, unsecured		
- considered good	701,169	375,485
	1,336,938	966,725
Less: Provision for doubtful debts	39,595	26,960
	1,297,343	939,765
Unbilled revenues	95,424	185,031
	1,392,767	1,124,796

(Rs 000's)

	31 March 2006	31 March 2005
14. INTEREST AND DIVIDENDS RECEIVABLE		
Unsecured		
- considered good	3,406	6,072
	3,406	6,072
15. LOANS AND ADVANCES		
Secured - considered good		
Employee loans	1,291	421
Unsecured - considered good		
Advances recoverable in cash or in kind or for value to be received	789,365	621,928
Deposits		
- premises	48,715	41,714
- with Government authorities	4,112	4,067
- others	2,669	2,014
Loans to BFL Employees Equity Reward Trust	18,497	29,567
Tax deducted at source and Advance tax	35,172	7,764
Other current assets*	40,016	157,545
Unsecured - considered doubtful		
Advances recoverable in cash or in kind or for value to be received	35,932	35,932
	975,769	900,952
Less: Provision for doubtful loans and advances	35,932	35,932
	939,837	865,020

* The above amount includes Nil (31 March 2005: GBP 600,000) relating to the acquisition of Princeton Consulting Limited and USD 885,175 (31 March 2005 : USD 2,475,000) pertaining to the acquisition of Eldorado Computing Inc., totalling to Rs 39,492,083 (31 March 2005: Rs 157,544,917) held in escrow accounts and to be paid on the satisfactory completion of conditions laid down in the share purchase agreements (refer notes 2(b) and 2 (c)).

	31 March 2006	31 March 2005
16. CURRENT LIABILITIES		
Sundry creditors*	761,086	561,268
Advances from clients	3,480	3,651
Unearned receivables	-	3,238
Other liabilities**	514,737	1,173,325
Unclaimed dividends	1,232	807
Intercorporate cash deposits	219,650	220,000
	1,500,185	1,962,289

* There are no dues to small scale industrial undertakings.

** Included in Other liabilities is an amount of Rs Nil (31 March 2005: Rs 728,132,200) which represents the consideration payable for the acquisition of Eldorado Computing Inc. (refer note 2(c)) and an amount of Rs 17,060,055 (31 March 2005: Rs 17,060,055) which represents the balance consideration payable for the acquisition of Kshema Technologies Limited (refer note 2(a)).

	31 March 2006	31 March 2005
17. PROVISIONS		
Leave encashment	5,024	5,680
Superannuation	-	3,526
Gratuity	18,488	9,912
Taxation	24,858	3,989
Proposed dividend	483,168	235,865
Tax on dividend	67,764	33,082
	599,302	292,054

NOTES TO THE FINANCIAL STATEMENT

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
18. COST OF REVENUE		
Salary and allowances	596,533	322,626
Contribution to provident & other funds	32,189	23,576
Staff welfare	25,363	12,006
Travel	106,460	66,250
Recruitment charges	21,487	4,894
Communication expenses	22,972	10,028
Software / material purchases	20,017	28,621
Rent	34,944	29,748
Professional Charges	1,114	692
Depreciation and amortisation	54,334	27,340
Software development charges	1,619,788	1,230,092
Electricity charges	25,762	13,856
Miscellaneous expenses	40,459	22,279
	2,601,422	1,792,008

The above expense for the year ended 31 March 2006 are net of Rs 4,018,463 being the write back of provisions no longer required on account of miscellaneous expenses.

	Year ended 31 March 2006	Year ended 31 March 2005
19. SELLING EXPENSES		
Salary and allowances	36,946	12,044
Contribution to provident & other funds	1,506	651
Staff welfare	1,281	111
Travel	5,055	2,274
Communication expenses	1,171	117
Rent	1,092	570
Commission	124,845	155,059
Professional charges	497	341
Depreciation and amortisation	1,255	426
Miscellaneous expenses	4,793	2,021
	178,441	173,614
20. GENERAL AND ADMINISTRATIVE EXPENSES		
Salary and allowances	93,952	11,558
Contribution to provident & other funds	8,126	2,608
Staff welfare	15,820	581
Travel	5,298	3,734
Communication expenses	9,844	2,886
Rent	2,983	800
Professional charges	14,490	7,991
Depreciation and amortisation	28,188	18,275
Auditors' remuneration		
- Statutory audit fees	2,300	1,400
- Tax audit fees	350	200
- Other Services	2,000	2,700
Bank charges	2,189	930
Insurance	3,264	1,896
Rates and taxes	17,978	1,029
Repairs and maintenance		
- Plant and machinery	199	22
- Buildings	16	82
- Others	19,400	3,104
Membership & Subscriptions	4,134	2,710
Provision for diminution in the value of investment	-	21,959
Miscellaneous expenses	22,807	31,874
	253,338	116,339

The above expense for the year ended 31 March 2006 are net of Rs 7,000,102 being the write back of the provisions no longer required on account of miscellaneous expenses.

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
21. OTHER INCOME		
Profit on sale of assets, net	1,843	9,573
Miscellaneous income / (expense)	(8,700)	(3,928)
	(6,857)	5,645
22. INTEREST INCOME / (EXPENSE), NET		
Interest on deposits and loans	(22,201)	41,419
	(22,201)	41,419
23. INCOME TAXES		
Current taxes		
Domestic taxes #	24,652	(11,904)
Foreign taxes	2,079	3,086
Deferred taxes		
Domestic taxes	(7,347)	(1,042)
Foreign taxes	-	-
Fringe benefit taxes	7,269	-
	26,653	(9,860)

The above includes a sum of Rs Nil (31 March 2005: Rs 33,226,791) in respect of foreign tax credits claimed by the company in its return. The Company's claim has been prima facie accepted under Section 143 (1) of the Income Tax Act, 1961 and a refund has been issued accordingly.

24. The Company's software development centres in India are 100% Export Oriented ('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 Company has executed legal undertakings to pay customs duty, central excise duty, levies and liquidated damages, 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. 5,807,240 as at 31 March 2006 (31 March 2005: Rs 2,565,000) have been furnished to the Customs authorities in this regard.

25. CONTINGENT LIABILITIES AND COMMITMENTS

a. Claims against the Company not acknowledged as debts amounting to Rs 205,458,853 (31 March 2005: Rs 16,361,703);

b. Potential liability on account of provident fund contribution on leave encashment for the period October 1994 to April 2005, pending, final decision by the appropriate authority is approximately Rs. 62 lakhs;

c. Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at 31 March 2006: Rs. 20,567,567 (31 March 2005: Rs 1,628,001);

d. Guarantees outstanding including those furnished to Customs Authorities as at 31 March 2006: Rs 11,150,453 (31 March 2005: Rs 11,150,453);

e. Forward covers contracts outstanding as at 31 March 2006: USD 31,108,573 or Rs 1,387,908,984 (31 March 2005: USD 57,305,130 or Rs 2,506,812,912). Unamortised premium on forward exchange contracts as at 31 March 2006 Rs. 6,183,328 (31 March 2005: Rs 20,618,252). The Company does not have any foreign currency exposure which is not hedged by forward contracts;

f. The Company has issued performance guarantee on behalf of its subsidiaries for any future liabilities which may arise out of contracts.

NOTES TO THE FINANCIAL STATEMENT

26. OPERATING LEASES

The Company is obligated under non-cancellable lease for office and residential space that are renewable on a periodic basis at the option of both the lessor and lessee. The total rental expenses under non-cancellable operating leases amounted to Rs 4,827,240 for the year ended 31 March 2006 and Rs Nil for the year ended 31 March 2005.

Future minimum lease payments under non-cancellable operating lease as at 31 March 2006 are as follows:

Period	Rs 000's
Not later than 1 year	4,827
Later than 1 year and not later than 5 years	805

The Company leases office facilities and residential facilities under cancellable operating lease agreements. The Company intends to renew such leases in the normal course of its business. Total rental expense under cancellable operating leases was Rs 34,191,760 and Rs 31,117,331 for the year ended 31 March 2006 and 31 March 2005 respectively.

27. RELATED PARTY TRANSACTIONS

(a) Subsidiaries and entities where control exists:

The related parties where control exists are subsidiaries as referred to in Note 2 to the financial statements. BFL Employees Equity Reward Trust and Kshema Employees Welfare Trust.

(b) Principal Shareholder:

- Baring India Investments Limited.

(c) Key management personnel:

The key management personal of the Company are as mentioned below:

Key executive management personal represented on the board

- Jaithirth Rao — Chairman and Managing Director

Non-executive / independent directors on the Board

- Jeroen Tas — Director
- Richard Braddock — Director
- N Subramaniam — Director
- Rahul Bhasin — Director
- Ashish Dhawan — Director
- BR Menon — Director
- Jose de la Torre — Director
- Nawshir H Mirza — Director
- D S Brar — Director
- Ian Donald Cormack — Director – resigned with effect from 31 August 2005

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

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Rendering of services to subsidiaries	320,484	182,361
Commission to non-executive directors	2,000	2,000
Interest income from deposits to subsidiaries	9,459	14,657
Interest payable on deposits received from subsidiaries	48,727	2,003
Proceeds from sale of fixed assets to subsidiaries	-	1,202
Receiving of services from subsidiaries	1,709,144	1,374,765
Provision for diminution in value of investments in subsidiaries	-	21,959
Investment in subsidiaries	113,257	1,837,615
Deposits placed with subsidiaries	392,202	427,800
Deposits received from subsidiaries	1,402,000	220,000
Deposits repaid by subsidiaries	511,623	290,000
Deposits repaid to subsidiaries	1,402,350	-
Exercise of stock options by non executive key management personnel	44,569	-
Exercise of stock options by executive key management personnel	22,500	-
Loan given to BFL trust	32,230	-
Loan refunded by BFL trust	43,300	-

In addition to the above, the Company has issued performance guarantee on behalf of its subsidiaries for any future liabilities which may arise out of contracts, in the normal course of business.

Further, in addition to the above, the Company and its subsidiaries incur reimbursable expenses on behalf of each other in the normal course of business.

(e) Managerial remuneration and stock compensation

Expenses include the following remuneration to the managing director:

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Salaries and allowances	9,822	9,002
Provident and other funds	1,179	6,169
Monetary value of perquisites	472	22
	11,473	15,193

Computation of net profit in accordance with Section 198, read with Section 349 of the Companies Act, 1956, and calculation of commission payable to the Managing Director:

	Year ended 31 March 2006	Year ended 31 March 2005
Profit after taxation	762,257	501,784
Add:		
Director's remuneration	11,473	15,193
Depreciation as per the accounts	83,777	46,041
Provision for taxation	26,653	(9,860)
Amortisation of deferred compensation expense	-	369
	884,160	553,527

NOTES TO THE FINANCIAL STATEMENT

Less:		
Depreciation as per Section 350 of the Companies Act, 1956*	83,777	46,041
Profit on sale of fixed assets	1,843	9,573
Net Profit on which commission is payable	798,540	497,913

* Depreciation computed based on useful lives which are lower than lives as mentioned in Schedule XIV of the Companies Act, 1956

Commission payable*	-	-

**Waived by the managing director*

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

(Rs 000's)

	31 March 2006	31 March 2005
Sundry debtors- subsidiaries	682,461	636,828
Sundry creditors- subsidiaries	758,328	540,844
Advances recoverable in cash or in kind or for value to be received- subsidiaries	684,600	516,583
Inter-corporate cash deposits received from - subsidiaries	219,650	220,000
Loans (interest free) to BFL Trust, included in Loans and Advances	18,497	29,567
Inter-corporate cash deposits placed with - subsidiaries	104,279	223,700
Other liabilities- subsidiaries	358,148	325,801

28. C.I.F. VALUE OF IMPORTS

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Capital goods	37,782	22,338

29. EARNINGS IN FOREIGN CURRENCY

Revenues	3,657,005	2,439,949

30. EXPENDITURE IN FOREIGN CURRENCY

	Year ended 31 March 2006	Year ended 31 March 2005
Software development charges	1,576,740	1,385,151
Travel expenses	12,893	38,013
Professional charges	5,191	1,059
Others	2,417	8,358
	1,597,241	1,432,581

Additionally, during the year, the Company has remitted dividend of Rs 179,720,193 (31 March 2005: Rs 115,579,482) to non-residents holding 59,906,731 (31 March 2005: 38,526,494) equity shares of the Company.

	Year ended 31 March 2006	Year ended 31 March 2005
Number of shareholders	469	86
Number of shares held	59,906,731	38,526,494
Amount remitted	179,720,193	115,579,482
Year to which the dividend relates	2004-05	2003-04

31. Details of closing balances held with non-scheduled banks in current accounts are as follows:

(Rs 000's)

	31 March 2006	31 March 2005
Bank of America, USA – Operations	22	222
Bank of America, USA – US collections	57,267	4,520
Bank of America, USA – Payroll	22	(173)
Barclays Bank, UK	52	55
SBI - Canada	42	-
Suntrust checking account	67	-
Suntrust money market account	6,189	-
	63,661	4,624

Details of maximum balances held in current accounts with non-scheduled banks are as follows:

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Bank of America, USA – Operations	357	13,441
Bank of America, USA – US collections	74,499	105,671
Bank of America, USA – Payroll	346	15,729
Barclays Bank, UK	55	55
SBI - Canada	42	-
Suntrust checking account	143	-
Suntrust money market account	31,742	-

None of the directors or their relatives are interested in any of the banks mentioned above.

32. Details of reimbursable expenses receivable from subsidiaries included in advances recoverable in cash or in kind or for value to be received

(Rs 000's)

	31 March 2006	31 March 2005
MphasiS India	131,045	59,541
MsourcE India	100,014	43,598
MphasiS GmbH	6,826	8,516
MphasiS USA	366,569	352,406
MphasiS Singapore	6,368	1,847
Mphasis China	3,699	2,122
Mphasis UK	20,663	12,671
Mbroker India	275	21
Kshema	-	12,888
Mbroker Inc.	24,565	22,732
MphasiS Media BV	228	241
Princeton Consulting Ltd	11,565	-
Eldorado Computing Inc.	12,136	-
MphasiS Europe BV	647	-
	684,600	516,583

Details of Loans and advances to controlled trust

BFL Employees Equity Reward Trust	18,497	29,567

NOTES TO THE FINANCIAL STATEMENT

Details of maximum balances of reimbursable expenses receivable from subsidiaries included in advances recoverable in cash or in kind or for value to be received

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
MphasiS India	131,045	90,122
MsourcE India	100,114	82,664
MphasiS GmbH	9,745	12,267
MphasiS USA	458,000	391,946
MphasiS Singapore	6,593	1,847
MphasiS China	3,797	2,383
MphasiS UK	20,664	20,684
MbrokeR India	275	21
Kshema	12,888	12,888
Mbroker Inc.	24,565	46,355
MphasiS Media	241	479
Princeton Consulting Ltd	11,603	-
Eldorado Computing Inc	12,137	-
MphasiS Europe BV	647	-

Details of maximum balances for Loans and advances to controlled trust

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
BFL Employees Equity Reward Trust	29,567	29,567

33. SEGMENT REPORTING

The Company's operations predominantly relate to providing information technology (IT) and business process outsourcing (BPO) services, delivered to clients operating globally. Secondary segmental reporting is done on the basis of the geographical location of clients.

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 Company therefore believes that it is not practicable to provide segment disclosures relating to such items, and accordingly such items are separately disclosed as 'unallocated'.

A significant part of the fixed assets of the Company are located in India.

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

Primary segment information (Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Segment revenue		
IT Services	3,761,250	2,430,592
BPO Services	45,489	47,089
	3,806,739	2,477,681
Segment profit		
IT Services	1,171,232	659,363
BPO Services	34,085	26,310
	1,205,317	685,673

Interest, net	(22,201)	41,419
Other unallocable expenditure, net of unallocable income	394,206	235,168
Profit before taxation	788,910	491,924
Income taxes	26,653	(9,860)
Profit after taxation	762,257	501,784

(Rs 000's)

	31 March 2006	31 March 2005
Segment assets		
IT Services	2,778,364	2,433,761
BPO Services	7,554	5,312
Unallocated assets	4,656,149	5,559,685
	7,442,067	7,998,758
Segment liabilities		
IT Services	1,500,185	2,111,873
BPO Services	-	437
Unallocated liabilities	614,837	154,468
	2,115,022	2,266,778

Secondary segment information (revenues)

(Rs 000's)

	31 March 2006	31 March 2005
USA	2,962,043	2,168,876
Europe	657,893	211,314
Asia Pacific	18,150	12,584
Japan	5,358	16,226
Middle East and India	163,295	68,681
	3,806,739	2,477,681

34. Earnings Per Share ('EPS')

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

	Year ended 31 March 2006	Year ended 31 March 2005
Number of weighted average shares considered for calculation of basic earnings per share	159,019,018	150,487,544
Add: Dilutive effect of stock options	2,758,088	5,115,082
Number of weighted average shares considered for calculation of diluted earnings per share	161,777,106	155,602,626

265,886 shares (31 March 2005: 310,274 shares) held by the ESOP Trust have been reduced from the equity shares outstanding for computing basic and diluted earnings per share.

During the year (record date 14 November 2005) the Company allotted bonus shares of one equity share for every existing equity share (1:1). Since the issue of bonus shares is an issue without additional consideration, the issue is treated as if it had occurred at the beginning of the earliest period reported, for the purpose of calculating both the basic and diluted EPS. Similar treatment was given for outstanding options (refer note 5).

35. Stock Based Compensation

The Company uses the intrinsic value method of accounting for its employee stock options. The Company 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.

CASH FLOW STATEMENT

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

	Year ended 31 March 2006
Net profit as reported	762,257
Add: Stock based employee compensation expense determined under the intrinsic value method	-
Less : Stock based employee compensation expenses determined under the fair value method	43,286
Pro-forma net profit	718,971
Earning per share: Basic	
As reported	4.79
Pro-forma	4.52
Earning per share: Diluted	
As reported	4.71
Pro-forma	4.44

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

	Year ended 31 March 2006
Dividend yield %	1.44
Expected life	1 to 4 years
Risk free interest rates	5.78% to 6.55%
Expected volatility (annualised) *	67.12%

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

36. The Company is engaged in the business of software development services, projects and professional services. Such services are not capable of being expressed in any generic unit and hence, it is not possible to give the quantitative details required under paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956.

37. The Company has as short term working capital facility of USD 5,000,000 or equivalent from a bank. This facility is usable interchangeably by the Company and its subsidiaries in India. The facility has not been utilised as at 31 March 2006.

38. The figures of the current year are inclusive of Kshema Technologies Limited which has been merged with the Company with effect from 1 April 2005 (refer note 2(a)). Hence, figures of the current year and of the previous year are not strictly comparable.

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

For and on behalf of the Board of Directors

Jaithirth Rao *Chairman & Managing Director*	Rahul Bhasin *Director*
Alok C. Misra *Chief Financial Officer*	A. Sivaram Nair *Company Secretary*

Bangalore
11 April 2006

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Cash flow from operating activities:		
Profit before taxation	788,910	491,924
Adjustments for:		
Depreciation	83,777	46,041
Amortisation of ESOP costs	-	369
Profit on sale of fixed assets	(1,843)	(9,573)
Provision for diminution, other than temporary, in the value of investment	-	21,959
Interest on deposits and loans	22,201	(41,419)
Operating profit before working capital changes	893,045	509,301
Increase in sundry debtors and unbilled revenues	(117,142)	241,252
Increase in loans and advances	(83,196)	(361,350)
Increase in current liabilities and provisions	137,294	397,540
Cash generated from operations	830,001	786,743
Income tax paid	(38,685)	(4,178)
Net cash provided by operating activities	791,316	782,565
Cash flow from investing activities:		
Interest / dividend income from investments	-	45,115
Proceeds from sale of fixed assets	26,986	15,574
Purchase of fixed assets	(143,045)	(77,718)
Deposits refunded by body corporate	-	115,000
Deposits placed with MphasiS Software & Services (India) Private Limited	(392,202)	(427,800)
Deposits refunded by MphasiS Software & Services (India) Private Limited	511,623	290,000
Deposits accepted from MsourcE India Private Limited	1,402,000	220,000
Deposits refunded to MsourcE India Private Limited	(1,402,350)	-
Investment with MphasiS Corporation, USA – cumulative convertible redeemable preference stock	(300)	(636,781)
Investment with MbrokeR Inc.	-	(6,670)
Investment with Kshema Technologies Limited	-	(330,292)
Investment with Princeton Consulting Limited, UK	(50,264)	(613,509)
Investment with Eldorado Computing Inc. including Escrow	(734,574)	-
Investment with MphasiS Corporation, USA	(469)	-
Investment with MphasiS Ireland	(542)	-
Net cash used in investing activities	(783,137)	(1,407,081)

Cash Flow Statement

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Cash flow from financing activities:		
Proceeds from issue of share capital (including premium)	218,968	193,899
Loan from vehicle finance company, net	412	1,514
Dividends paid (including tax on dividend)	(272,861)	(250,236)
Interest paid	(18,697)	-
Net cash used in financing activities	(72,178)	(54,823)
Net decrease in cash and cash equivalents during the period	(63,999)	(679,339)
Effect of exchange rate changes	(3,993)	-
Cash and cash equivalents at the beginning of the year	100,290	779,629
Cash Acquired from Kshema (refer note 2 (a)	166,999	-
Cash and cash equivalents at the end of the year	199,297	100,290

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

For and on behalf of the Board of Directors

for BSR & Co.
Chartered Accountants

Zubin Shekary
Partner
Membership No. 48814

Bangalore
11 April 2006

Jaithirth Rao
Chairman & Managing Director

Alok C. Misra
Chief Financial Officer

Bangalore
11 April 2006

Rahul Bhasin
Director

A. Sivaram Nair
Company Secretary

CASH FLOW STATEMENT

Reconciliation of financial Statement items with cash flow items.

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Addition to fixed assets		
As per the Balance Sheet	135,120	86,498
Add: Closing capital work-in progress	4,156	3,879
Add: Opening creditors for capital goods	9550	9,014
Less: Opening capital work-in-progress	(3,879)	(12,123)
Less: Closing creditors for capital goods	(1,902)	(9,550)
Balance considered for preparing the Cash Flow Statement	143,045	77,718
Loans and advances		
As per the Balance Sheet	939,837	865,020
Less: Other current assets related to Eldorado Computing Inc. investment considered separately	(39,492)	(108,269)
Less: Tax deducted at source and Advance income tax considered separately	(35,172)	(7,764)
	865,173	748,987
Less: Opening balance considered	(781,977)	(387,637)
Balance considered for preparing the Cash Flow Statement	83,196	361,350
Current Liabilities and Provisions		
As per the Balance Sheet	2,099,487	2,254,343
Less: Creditors for capital goods considered separately	(1,902)	(9,550)
Less: Creditors for investment in subsidiaries considered separately	(3,627)	(6,531)
Less: Liability for unclaimed dividend considered separately	(1,232)	(742)
Less: Provision for taxation considered separately	(24,858)	(3,989)
Less: Liability to erstwhile shareholders of subsidiaries considered separately	(17,060)	(746,384)
Less: Deposit accepted from MsourcE India Pvt. Ltd. considered separately	(219,650)	(220,000)
Less: Provision for proposed dividend and tax thereon considered separately	(550,932)	(268,947)
	1,280,226	998,200
Less: Opening balance considered	(1,142,932)	(600,660)
Balance considered for preparing the Cash Flow Statement	137,294	397,540

CASH FLOW STATEMENT

Reconciliation of financial Statement items with cash flow items.

(Rs 000's)

	Year ended 31 March 2006	Year ended 31 March 2005
Income tax paid		
As per the Profit and Loss Account	26,653	(9,860)
Decrease in deferred taxes	7,347	1,042
Decrease/(Increase) in provision for taxation	(14,932)	7,151
(Decrease)/Increase in advance tax and tax deducted at source	19,617	5,845
Balance considered for preparing the Cash Flow Statement	38,685	4,178
Interest / Dividend from Deposit/Investments		
Interest on deposits and loans, net	(22,201)	41,419
Add: Opening Interest and dividend receivable	6,072	9,768
Less: Closing interest and dividends receivable	(3,406)	(6,072)
Add: Acquired from Kshema	838	-
Balance considered for preparing the Cash Flow Statement	(18,697)	45,115

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman & Managing Director

Rahul Bhasin
Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
11 April 2006

ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956

BALANCE SHEET ABSTRACT AND THE COMPANIES GENERAL BUSINESS PROFILE

1 Registration Details

Registration No. U30007KA1999PLC025294

Balance Sheet Date 31 03 06

2 Capital Raised During the year (Amount in Rs. Thousands)

Public Issue	Rights Issue
NIL	NIL

Bonus Issue	Private Placement
801278	22835

3 Position of Mobilisation and Deployment of Funds (Amount in Rs.Thousands)

Total Liabilities	Total Assets
5342580	5342580

Sources of Funds

Paid-up-Capital	Reserves & Surplus (includes share premium account)
1611183	3643054

Secured Loans	Unsecured Loans
15535	NIL

Application of Funds

Net Fixed Assets	Investments
181504	4597378

Net current Assets	Miscellaneous Expenditure
540099	NIL

Accumulated Losses
NIL

4 Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
3830772	3041862

Profit / (Loss) Before Tax	Profit / (Loss) After Tax
+ - 788910	+ - 762257

Basic earnngs per share in Rs.	Dividend Rate (%)
4.79	30.00

5 Generic Names of three Principal Products / Services of the Company (As per monetary terms) - N.A-

Item Code No. (ITC Code)	Product Description
85249009.10	SOFTWARE SERVICES

United States of America

New York

460 Park Avenue South
Suite 1101
New York, NY 10016
Tel: (91) 212-686-6655
Fax: (91) 212-686-2422

Memphis

SouthWind Executive Suites & Office Center 3238& 3242 Players Club Circle ,Memphis,
Tennessee 38125

Houston

11600 Jones Road, Cypress Center
Suite # 108/14,
Houston, TX 77070
Tel: (1)-281-517-5108
Fax: (1)-281-517-5107

San Mateo

Home Office Business Centre,
1670, South Amphlett Blvd,
Suite 214, San Mateo,
CA-94402

Mexico

Seccion I, S.A De C.V
Blvd Insurgentes No 6101
Fracc. Guaycura, Tijuana B.C
Mexico
Tel: 52-664-660 9345

Phoenix

5353N, 16th Street,
Suite 400
Phoenix, Arizona-85016
Tel: (91) 602-604-3100

Australia

PO Box 189
Oyster Bay NSW 2225
Sydney
Tel: (61)-2-9589-4404
Fax: (61)-2-9589-4405

Singapore

101 Cecil Street
25-05 Tong Eng Building
Singapore 069533
Tel: 65-6372-1737
Fax: 65-6372-1739

Netherlands

Planetenweg 69
2132 HM Hoofddrorp
The Netherlands
Tel: (31)-23-5541410
Fax: (31)-23-5655132

Ireland

3 Burlington Road,
Dublin 4,
Dublin

India

Bangalore

Corporate Office
139/1, Hosur Road,
Koramangala
Bangalore 560 095
Tel: (91)-80-2552-2713
Fax: (91)-80-2552-2719

45/3, Gopalakrishna Complex
Residency Road Cross
Bangalore 560 025

8/1, Balaji Mansion
Bannerghatta Main Road
J.P.Nagar Indl. Estate
Bangalore 560 084.
Tel: (91)-80-2658-1672.
Fax: (91)-80-2658-3140

The Millenia,
Tower A & B, No 1 & 2,
Murphy Road, Ulsoor,
Bangalore – 560 008.
Tel: (91)-(80)-2556-7500
Fax: (90)-80-2556-7515

Kshema Dhama
1, Global Village, Mysore Road,
Bangalore- 560 059.
Tel: (91)-80-28603600/ 28603619
Fax: (91) 80 28603372

Meriside Heights
2nd & 3rd Floors,
No.1 Old Madras Road
Bangalore-560016
Tel: (91) 80 41765500.

10/5, Rathnam Complex
Kasturba Road
Opp: Mahatma Gandhi Park
Bangalore - 560001.

Mumbai

Leela Business Park.
2nd Floor, Andheri – Kurla Road,
Sahar,
Andheri (East),
Mumbai - 400 059.
Tel:(91)-22-5677 7777
Fax:(91)-22-5677 7700.

Gentech Building
A/2, Jitendra Indl Estate
1st Floor, MV Road, Andheri East,
Mumbai 400 096
Tel: (91)-22-5696-9200
Fax: (91)-22-5696-9207

Pune

1st Floor, Marisoft,
Marigold Premises,
Survey No 15/1 to 15/6,
Vadgon Sheri, Kalyani Nagar
Pune 411014
Tel: (91)-20-5609 5555
Fax: (91)-20-5609 5556

Ahmedabad

201-ISCON Centre,
Shivranjani Cross Road,
Ahmedabad-380015.
Tel: 91-79-5552 9900
Fax: 91-79-5552 9905

Noida

A-13, Sec – 64,
Noida
U.P. – 201301
Tel : 91-120-4341400
Fax: 91-120-4341417

Mangalore

Techbay, PL Compound,
Morgan's Gate,
22-5-750, Jeppu Ferry Road,
Mangalore-575001
Tel: 91-824-2413000

United Kingdom

London

Southbank House
Black Prince Road
London SE1 7JS
United Kingdom
Tel: (44) 1753-217700
Fax: (44) 207-569-3001

Edinburg House
43-51, Windsor Road
Slough SL1 2EE
London, United Kingdom
Tel: (44) 1753-217700
Fax: (44) 1753-217701

China

Room No.23201/3/5/6,
No.498,
Ghoushoujing Road,
Pudong New Area,
Shanghai P.O. 201203, PRC
Tel: 86-21-5080-7366
Fax: 86–21–5080-7363

Germany

Koblenzer, Str 34
Postfach 1221, D-56130
Bad Ems, Germany
Tel: (49)-26-03-50-4151
Fax: (49)-26-03-50-6301

Japan

Prime Square #205
1-1-7 Hiroo, Shibuya-Ku
Tokyo 150-0012
Tel: (81)-3-3499-2388
Fax: (81)-3-5778-4884

Mauritius

10 Frere Felix De Valois
St Port Louis
Tel: (230)-202-3015
Fax: (230)-212-5265

Principal Bankers

Citibank NA
ICICI Bank Limited
HDFC Bank Limited
HSBC Limited

COMPANY SECRETARY & HEAD LEGAL

A. Sivaram Nair

AUDITORS

BSR & Co.,
Chartered Accountants

MPHASIS
Architecting Value

IT SERVICES | BPO | SOLUTIONS

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