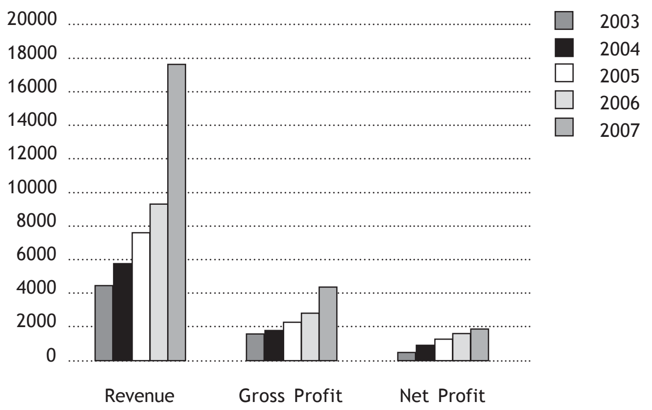
ANNUAL REPORT 2006-07

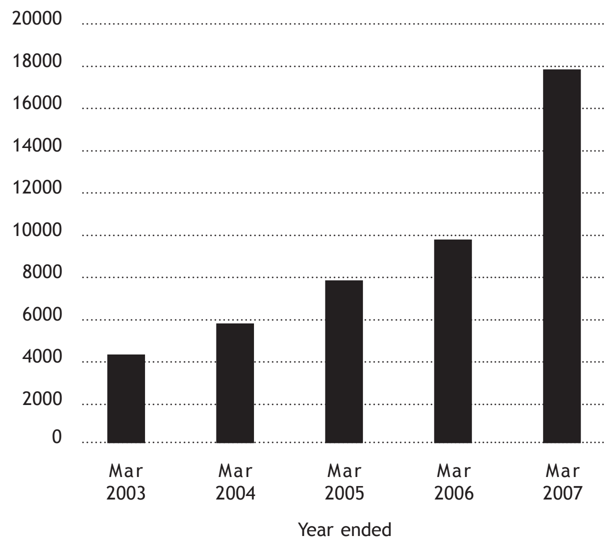
MPHASIS
an EDS company

Contents

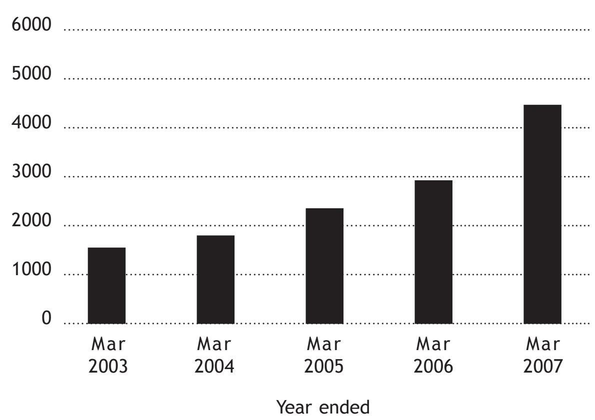
The Year at a Glance



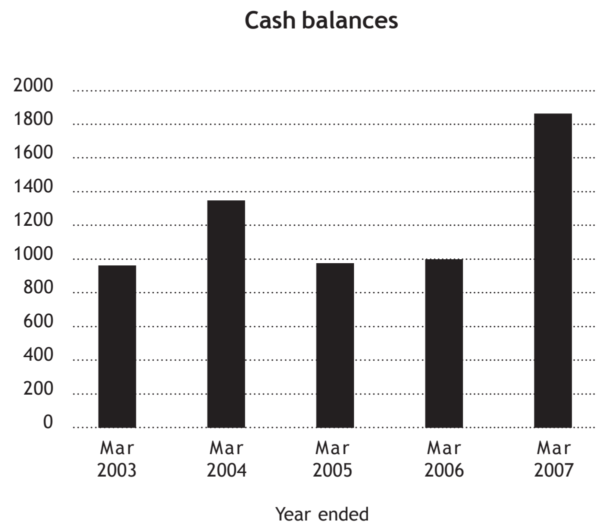
Revenues

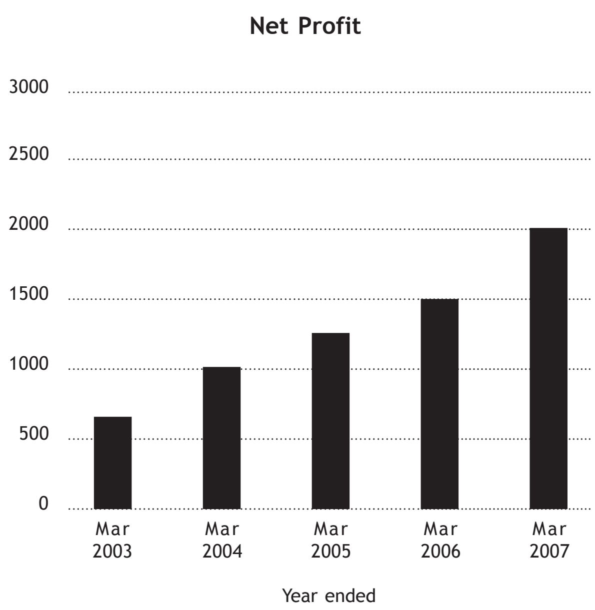


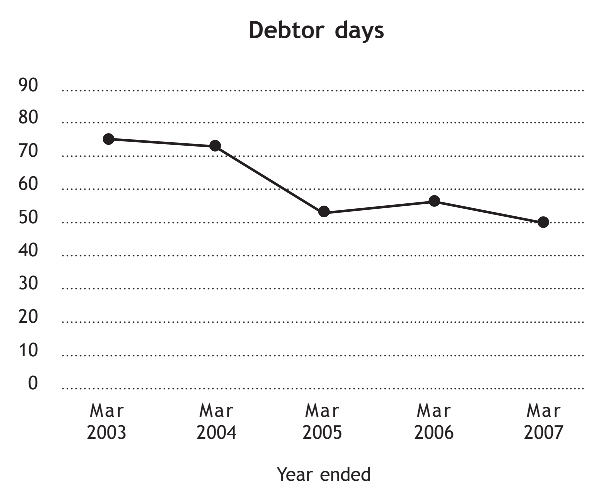
Gross profit



All figures in Rs Million







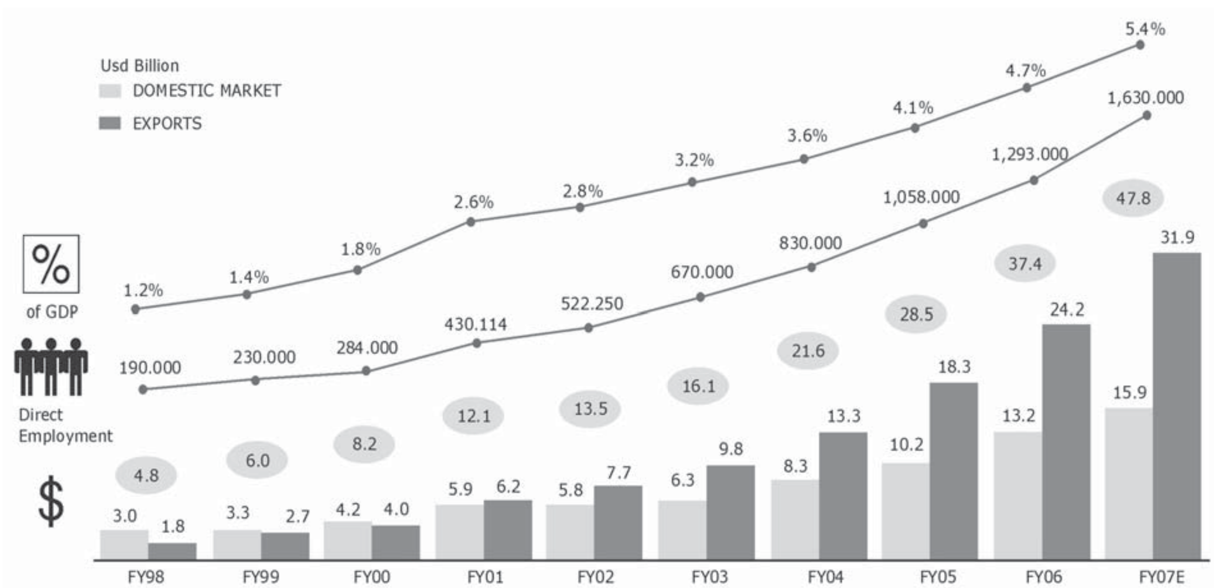
All figures in Rs Million
(Except Debtor Days)

Group Overview and Strategy

Global technology and related services spending crossed US $ 1.5 trillion in 2006, growing 7.7 % year on year*. The growth was fuelled by increased demand for technology services across key economies. Of this spend, outsourcing continued to be the primary growth engine with global delivery of services becoming integral to most sourcing strategies. After the early enthusiasm of scouting for alternative locations, most clients reaffirmed their preference for India, reflecting a maturing appreciation for its enhanced value proposition. Consequently, the share of India-based delivery continues to grow, on the back of growth of Indian players as well as MNCs with a large portion of services being delivered out of India.

Maturing socio-political attitudes and an appreciation of the proactive efforts by key stakeholders to further strengthen India's value proposition reinforced its position as the destination of choice. India's share in global sourcing is estimated to have grown to 65% and 45% of the IT and BPO services off-shored respectively.

Indian IT-BPO sector growing at 28%



Source: NASSCOM Strategic Review 2007

The Indian IT-BPO sector is expected to grow by 28% in the short term, with aggregate revenues forecast to reach US$48 billion and creating direct employment exceeding 1.6 million in FY 07.

Services and software exports continued to remain the mainstay of the sector accounting for nearly two-thirds of the revenue and growth rates of 32%.

While the US and the UK continued to dominate the sourcing market constituting 82% of the total, firms are exploring other destinations as well as to widen their global delivery footprint.

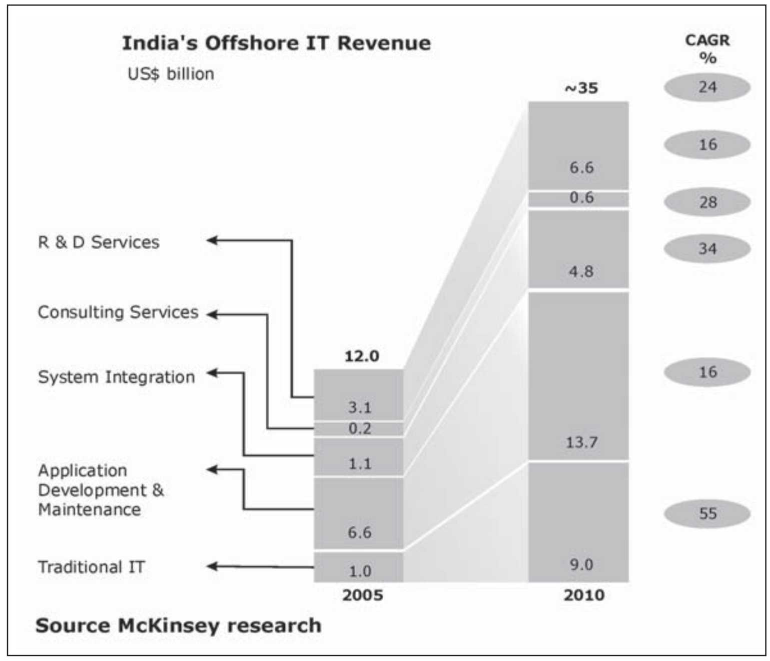
* *NASSCOM Strategic Review 2007*

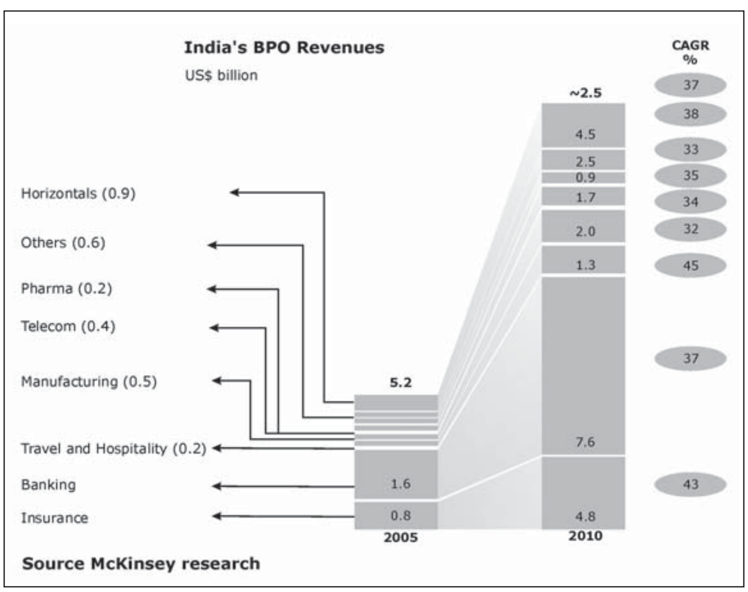
Indian off-shored IT revenues continue to grow across all sectors.

Applications Development & Maintenance showed the highest growth among all services.

ITO services such as remote infrastructure management are gaining traction.

MphasiS has world class capabilities in Applications Development & Maintenance, R & D services, Consulting services & ITO.





BPO continued to grow in scale and scope, with firms increasingly adopting a vertical-focused approach.

The BPO market is poised to cross the $25 billion mark by 2010.

While growth is consistent across all industry verticals; banking & financial services continue to dominate the growth story with growth rates at 32% CAGR.

Over a third of MphasiS' revenues come from the BFSI vertical.

Group Overview and Strategy

MphasiS

MphasiS consistently delivers global Infrastructure Technology Outsourcing, Applications Services Outsourcing and Business Process Outsourcing services through a combination of technology know-how, domain and process expertise.

Our results focus on real improvement in business performance for our clients.

MphasiS supports G1000 and Fortune 500 companies around the world in the improvement of their business processes. Our unique strength lies in our ability to provide integrated solutions involving Infrastructure Technology, Application & Business Process Outsourcing capabilities. The convergence of technologies such as web services, workflow software and business performance monitoring along with business intelligence and customer focus drive all our services delivery offerings. Our emphasis is on developing flexible platforms that allow our clients to rapidly implement business processes with minimal capital outlays.

MphasiS, an EDS Company

EDS is a leading global technology services company delivering business solutions to its clients. EDS founded the information technology outsourcing industry more than 45 years ago.

In June 2006 Electronic Data Systems (EDS) acquired a majority stake in MphasiS. The intent of the EDS acquisition was not only to bolster EDS' current off-shored delivery capabilities in Applications Services using contemporary technology, but also to allow EDS to deliver a stronger value proposition to better align with clients' changing needs. The acquisition has given EDS access to a world-class management team, global talent pool and marquee clients.

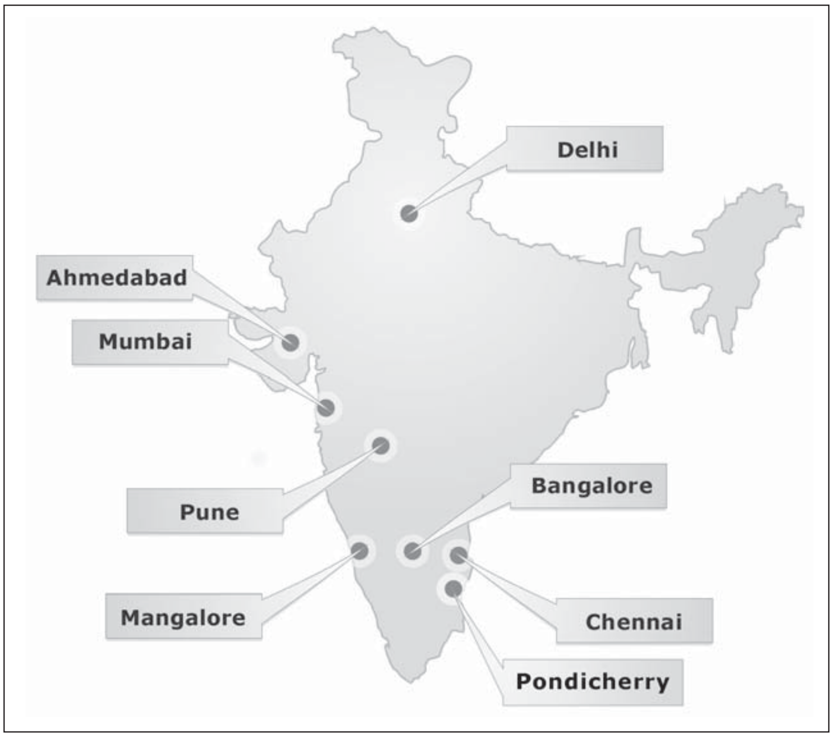
For MphasiS, the acquisition by EDS means expanded opportunities to MphasiS' employees and clients through access to EDS' global footprint. It also meant an ability to offer an end-to-end service in business process management by adding infrastructure technology outsourcing capabilities to MphasiS strengths in applications & BPO services.

Owing to substantial efforts by the leadership team, the integration exercise has yielded a single entity operating out of India and as part of EDS Best Shore℠. This means that oversight is provided by a common management team with blended expertise and representation from both EDS and MphasiS, common organization structure with integrated facilities, resource pools, network, single work allocation principles, common account and delivery teams and common processes, systems and tools.

EDS Best Shore℠ means that we are able to address our clients changing business requirements with more flexible, more comprehensive and cost-competitive services, delivered with the highest quality standards from the location that best suits their needs.

India is the primary hub of MphasiS for delivering services with 21,000+ employees located in India, Tijuana, Mexico and in Shanghai, China.

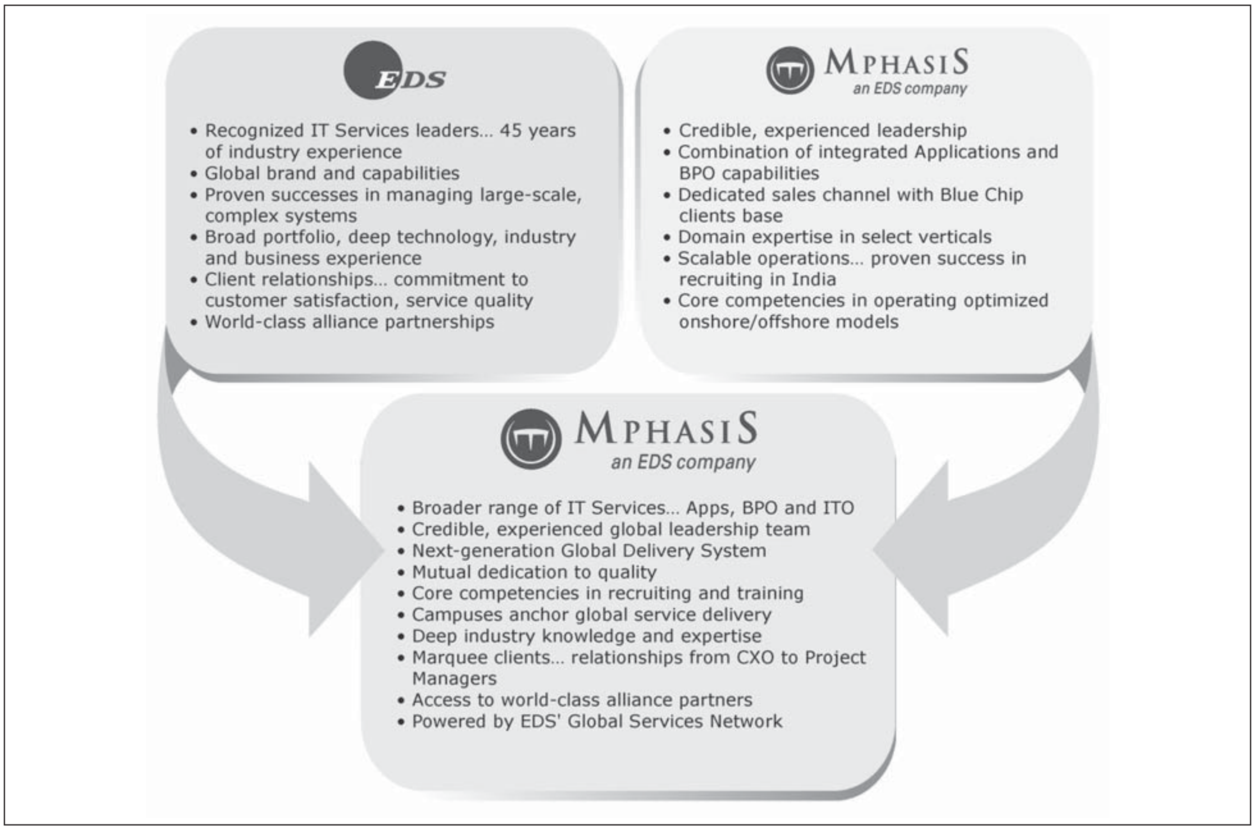
This wide delivery footprint in India helps access various talent pools, and provides a framework for business continuity management.



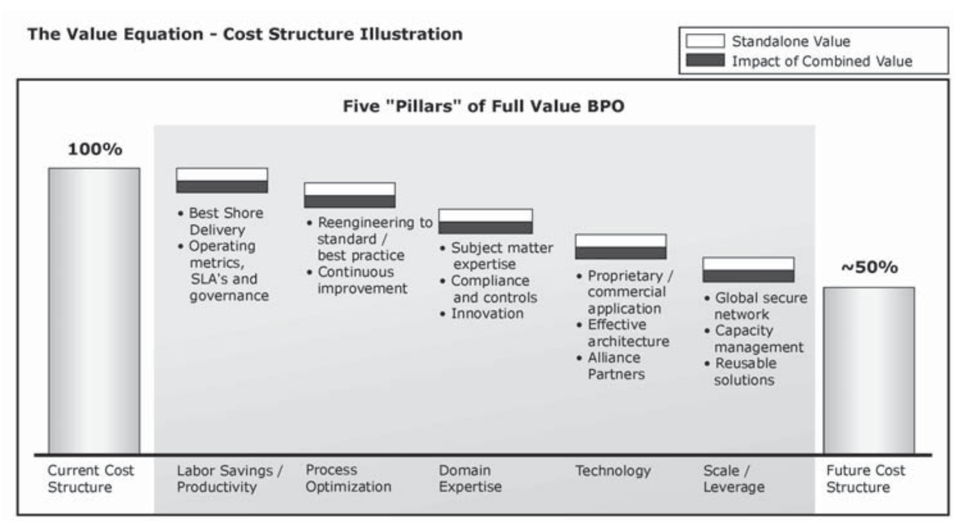
A global secure network enables reliable, secure Best Shore℠ delivery of all services

Group Overview and Strategy

MphasiS is now positioned to create greater customer value



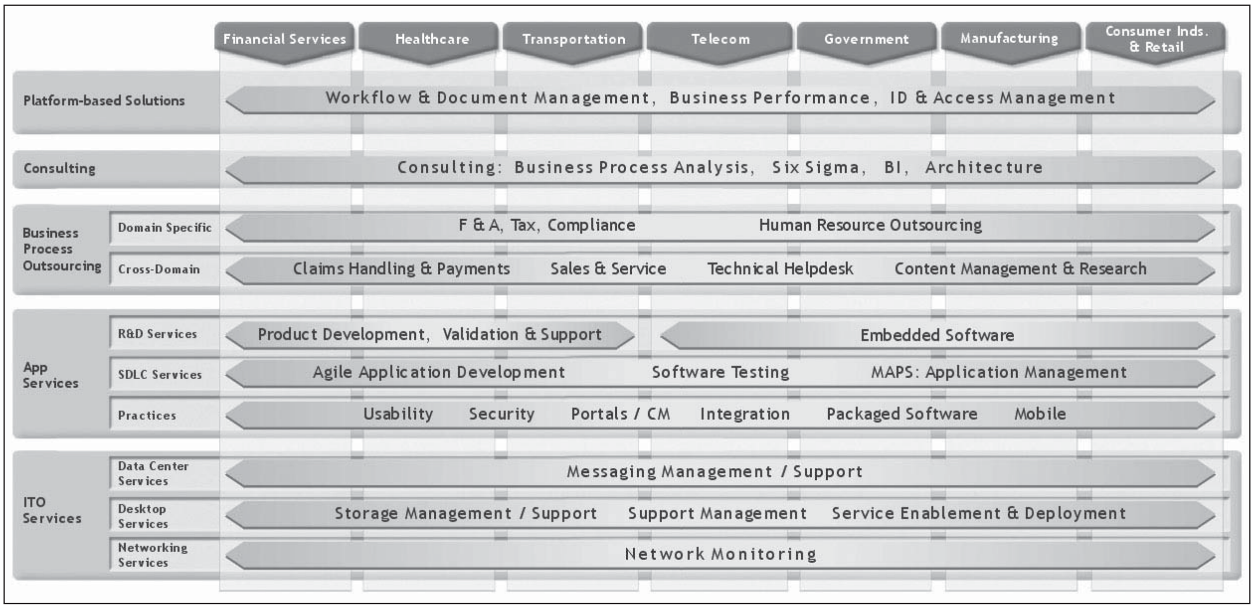
MphasiS has built its business by consistently delivering best-in-class improvements in business performance—reducing costs and increasing control of business processes through automation and outsourcing.



We begin by off-shoring processes of our clients, ensure that these run to performance metrics as contracted, and over time, start to implement game-changing improvements; some incremental and others radical. Clients, who are fully engaged with MphasiS; enjoy significant cost savings compared to their internal baseline costs of management of processes; through "full-value" outsourcing, through which cost savings can result in gains up to 50% of the base costs.

Our spectrum of services

MphasiS offers a range of horizontal services specialized in ITO, BPO and Application service offerings across a range of verticals.



Industry Verticals

Financial Services:

- Work in Retail Banking, Investment Banking & Brokerage, Credit Cards & Loans, Accounting & Taxation, Insurance.
- Improve customer interaction through channel integration and world class portals.
- Streamline operations through stronger workflow management and business intelligence.
- Modernize legacy applications to support real-time, flexible business processes.
- Provide customer care and back-office processing.

Government:

- Application Development/ Major Enhancements involving major social welfare pension schemes.
- Application Maintenance & Support.
- End-to-End Testing.
- Modernization of Legacy Applications.
- Service Level management under ITIL framework.
- Reduce overall costs of service through continuous improvement.

Group Overview and Strategy

Healthcare:

- Enable Benefits Management and Hospital Administration.
- Deliver self-service capabilities through user centric healthcare portals.
- Increase timeliness and accuracy by integrating business processes that span patients, providers and payers.
- Dramatically reduce the cost, timeliness and accuracy of healthcare claims handling through increase auto adjudication rates and outsourced services.
- Enable end-to-end claims processing.

Consumer Industries & Retail:

- Provide experience across the Retail Supply Chain - purchase, vendor management, inventory, warehouse management, sales force automation, shrinkage prevention, POS, payment processing, retail analytics, HR and finance.
- Strong Technology capabilities in RFID enablement, Embedded Systems, Wireless self check-out, Multi-channel integration.
- Provide excellent skill base in support, development and multi-country rollout of Retail enterprise applications.
- Provide Retail-specific package support, testing, interface development.

Transportation:

- Devise and implement cutting-edge software solutions for airline and airport operations simpler, smoother and more financially efficient.
- Enhance services on Reservation systems, Revenue Systems, Airport Operations, Customer services, Marketing, Cargo handling and logistics.
- Application Maintenance and Support for Legacy and Open source Applications.

Manufacturing:

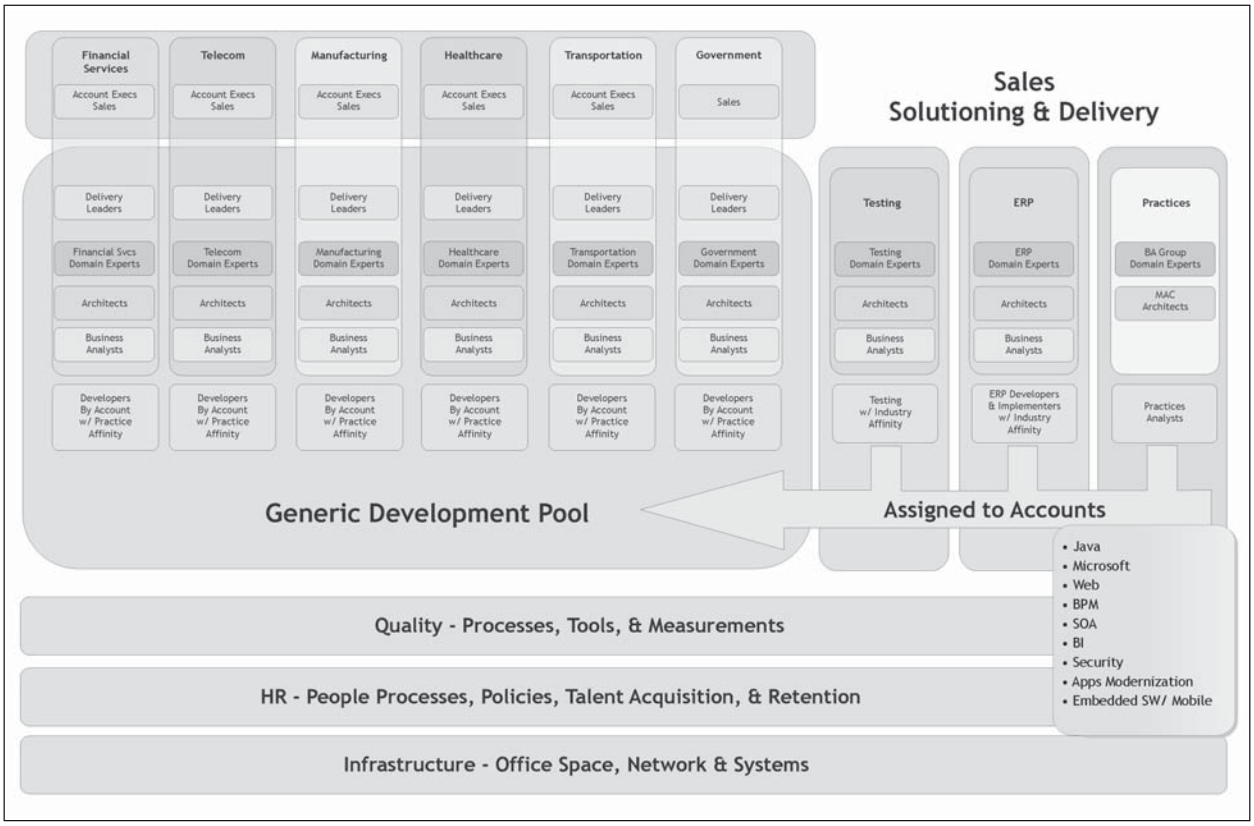
- Serve 21 of the top 25 Global 1000 automotive companies.
- Serve 75 of the top 100 manufacturing companies.
- More than 30 years of experience in the manufacturing industry.
- Provide Application/ Technical support helpdesk services.
- Provide product re-engineering & research & development services.

Telecom:

- Cable, Mobile, ISP and Networking.
- Improve customer service and increase cross-selling across voice, mobile, Internet and cable.
- Establish operational excellence by real-time performance tracking and business intelligence.
- Enhance services on mobile networks.
- Provide customer care and back-office processing for mobile operators.

Applications Expertise:

MphasiS' services for applications 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.



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 off-shored centers
- Optimized applications 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
- Services 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
- 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

Group Overview and Strategy

- SEI CMMI Level 5, ISO 27001:2005, Six Sigma and BS 7799-rated services assure quality standards are met or exceeded.
- Global delivery that leverages off-shored 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.

Applications Development & Maintenance

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 systems integration, cross-application workflows, information exchange and business intelligence are essential to information systems, which support the real-time, integrated business model. More than providing tactical solutions 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, to run their internal processes. The MphasiS Packaged Software Practice supports customization, implementation, integration, maintenance and support of these applications.

Channel Integration: MframE™

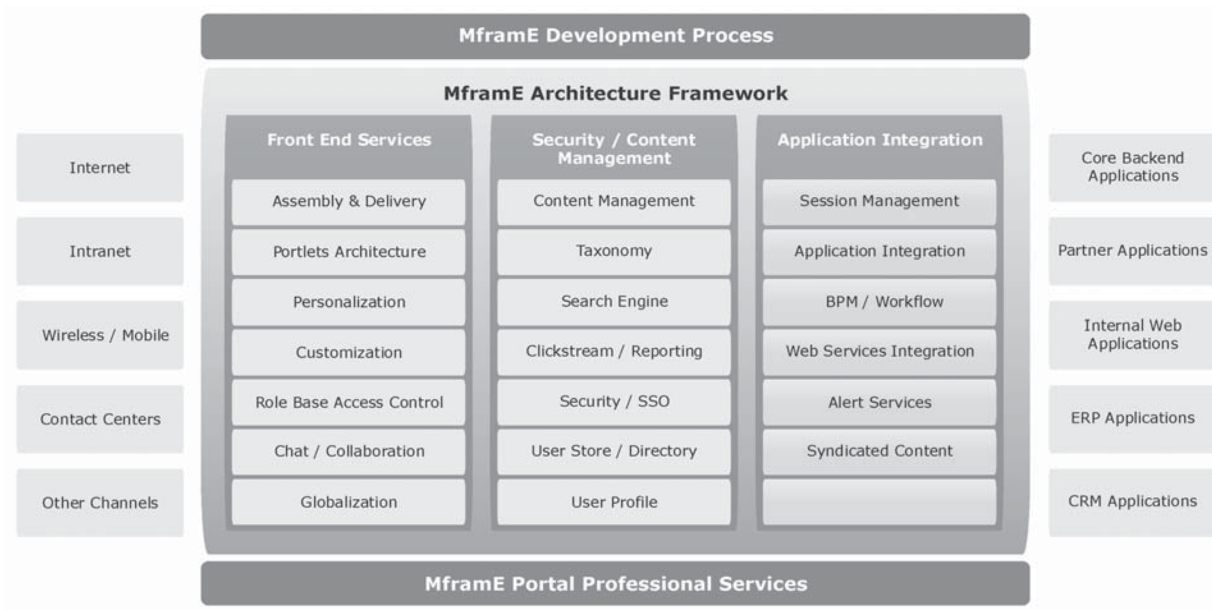
MframE™ is MphasiS' cross-channel application integration framework, which helps customers rapidly develop a new generation of world-class solutions for sales and service business processes in a measurably cost effective manner.

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 transactions enabling of channel systems.

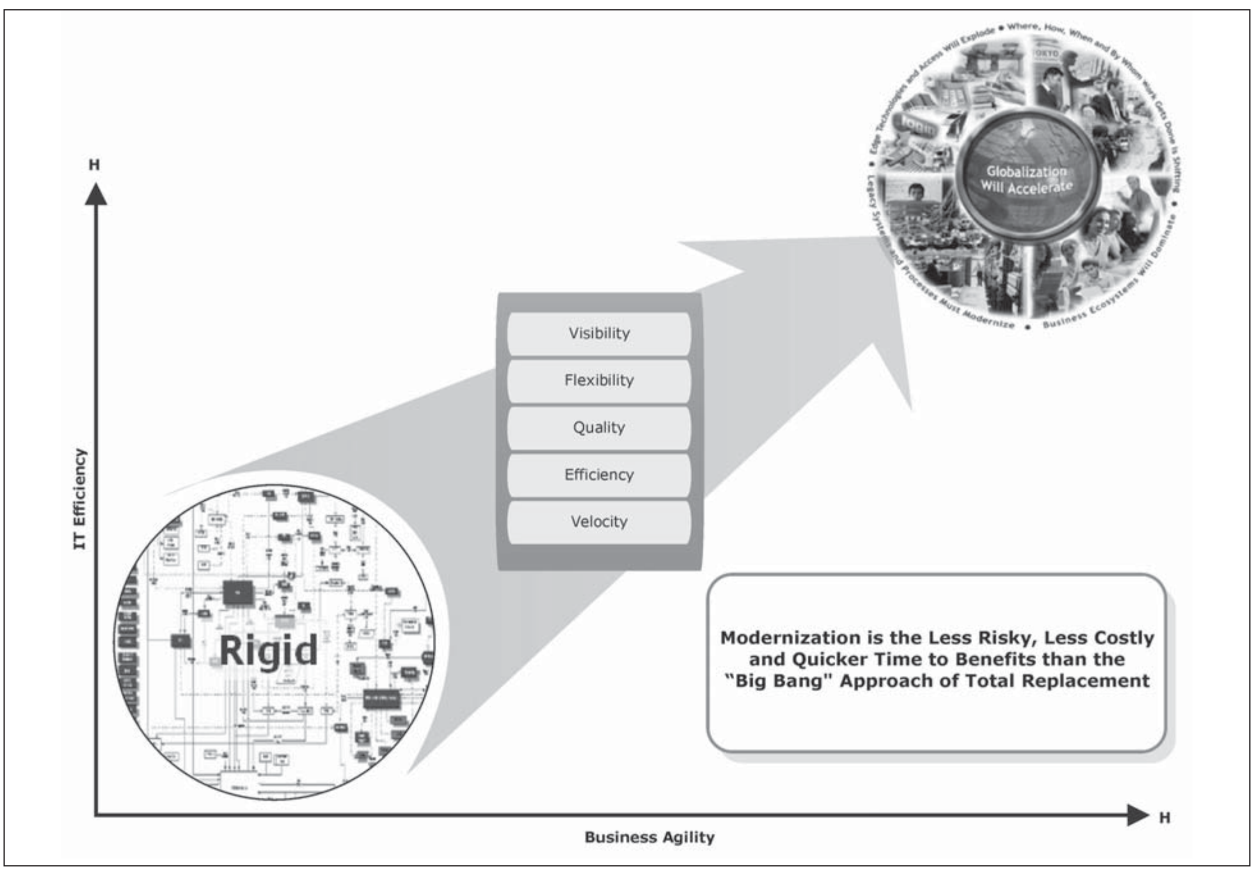
MframE™ comprises a proven methodology, and is a well-defined integration architecture framework, using Services Oriented Architecture (SOA), and leverages an experienced development team with off-shored economics. The framework covers key technology components such as cross-channel presentation tier & 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. 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 Modernization Services

Applications Modernization Services feature end-to-end capabilities to define the modernization path, manage the journey, mitigate the risk to the operation, and achieve enterprise agility at a reduced cost.

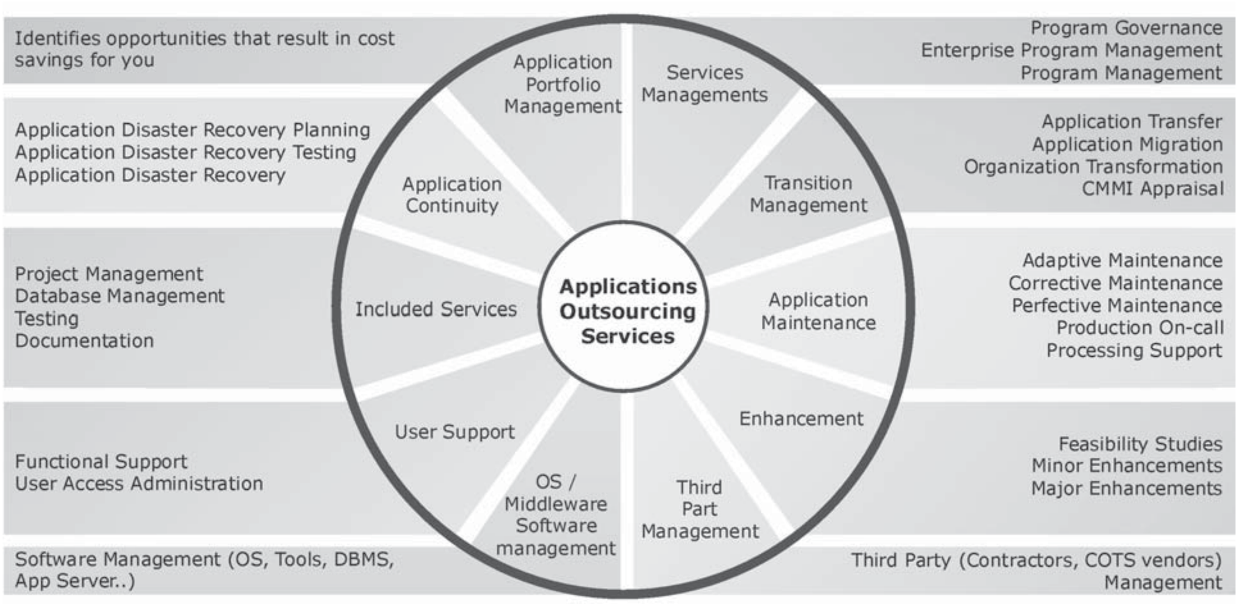


Group Overview and Strategy

Our approach helps our clients, define the modernization path, manage the journey, mitigate the risk to business continuity along the journey, and reduce the cost of the IT portfolio while achieving the agile state of the applications and infrastructure. The approach centers on the creation of an “operationally safe” path to achieving the agile state.

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 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.

Business Process Outsourcing:

MphasiS provides customers around the world with off-shored customer relationship management and back-office services, using multiple channels of communication.

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

Domain knowledge: We bring in 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.

Industry-focused BPO Services

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

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.

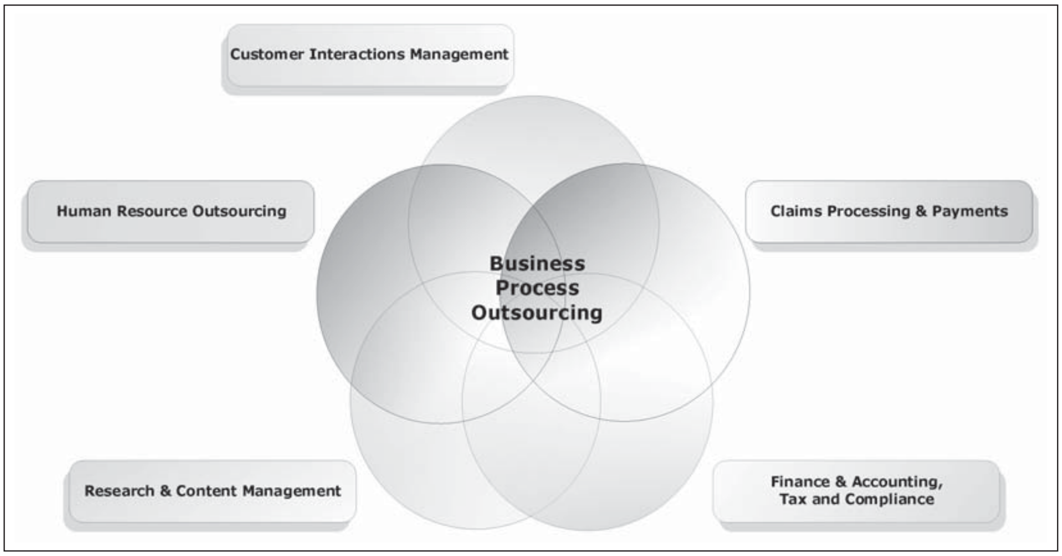
Quality: Significant process improvements are realized through the applications of tools and methodologies such as Six Sigma and Total Quality Management. Examples include the improvement of customer satisfaction in a technical support environment by applying DMAIC (Define-Measure-Analyze-Improve-Control) methodology from the Six Sigma toolbox. These techniques allow for pinpointing variations in processes that cause a deviation from their expected outcomes. Systematic application of these tools can provide continuous improvements. 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.

Group Overview and Strategy

Our Offerings

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



Customer Interaction Management

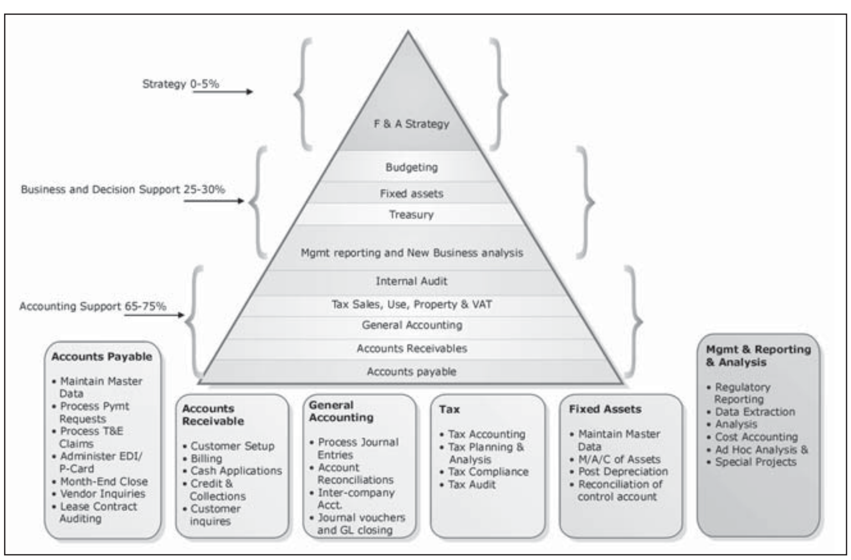
We help our clients build stronger relationships with their customers, leveraging multiple channels (phone, mobile, web, branches) in a seamless manner and dramatically improving customer service, productivity, accuracy and throughput for processes that involve handling of claims and payments.

Content Management & Research

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

Finance & Accounting, Tax & Compliance

Finance and Accounting services span both the operations and IT required for transaction management and financial support functions, including:



- Accounting Support: Accounts receivables, credit and collections, cash and payments processing, purchase card management, purchase order processing and accounts payable processing, travel and entertainment services and payroll services.

- Financial support functions: General accounting, account reconciliations, fixed asset and inventory accounting, general ledger, journal entry and trial balance processing, cost and project accounting, accounting period close activities, management reporting and financial analysis.

- Business and Decision Support: Pricing, costing, structuring, and negotiating new business. Assist with the internal approval process and customer negotiations. Identify, quantify, and mitigate risks of customer contracts in the development phase and help management understand the long-term impact associated with new business.

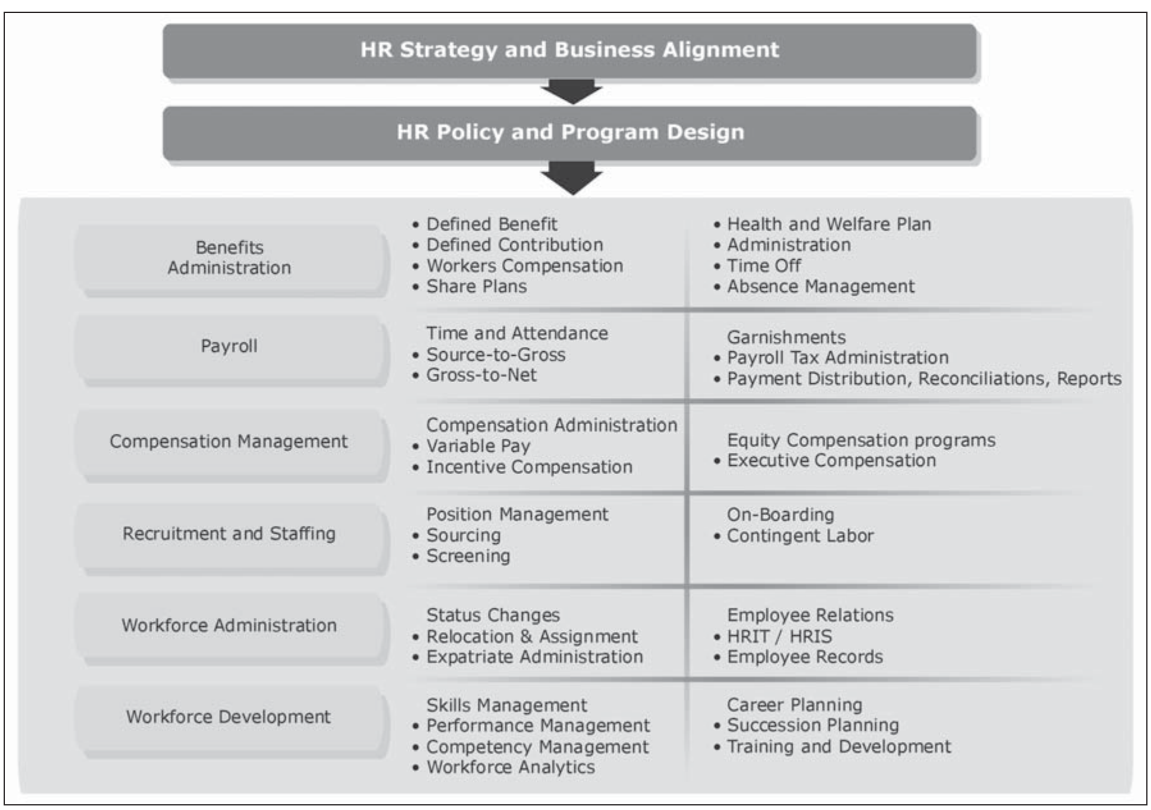
- Strategy: Assess financial exposure and risk by providing ratings, credit reports and/or conducting analysis on: Potential/new clients, Existing clients, Alliances/Teaming Partners, Competitors and Suppliers/Vendors.

Human Resource Outsourcing

Our HRO business brings the best in HR consulting and business process execution together. HRO helps clients to manage HR processes and programs efficiently and effectively, thus enabling clients to focus on running their core business.

We provide wing-to-wing HR Outsourcing solutions, Benefits Administration and HR services to global employees of EDS through the HR Shared Services. In India, we have associates with skill-sets varying from Contact Center agents to Delivery Managers with over 1000 man years of experience collectively, providing services for our global clients. Our unparalleled HR subject matter expertise which consists of Towers Perrin and EDS experts around the world ensures seamless delivery of services and enhances the value of the outsourcing solutions.

Our framework for managing HR Outsourcing and our offering therein are as under:



Group Overview and Strategy

Infrastructure Technology Outsourcing (ITO) Services

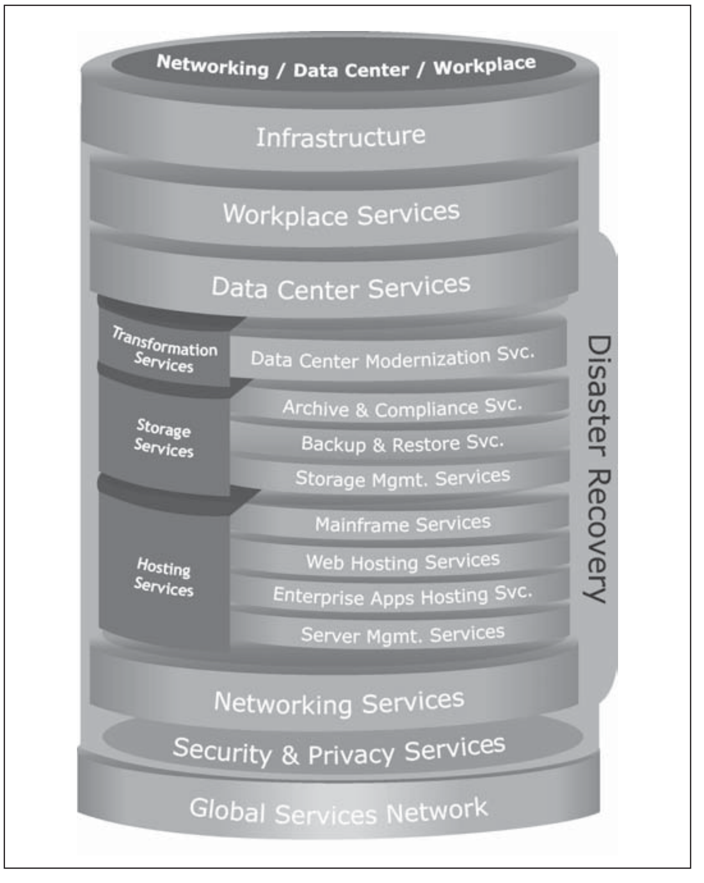
Infrastructure Technology Outsourcing (ITO) is being increasingly off-shored. Many companies are offshoring the monitoring and limited management of their infrastructure - desktop support, data center services, and various network monitoring and management functions - to other countries not only for cost advantages but also for the quality of process management.

Several offshoring challenges like culture, security and geopolitical risks have been surmounted by advanced network technologies, remote management tools and emergence of infrastructure standard like Information Technology Infrastructure Library (ITIL) process suite.

We deliver services in the most consistent, predictable and cost-effective manner, leveraging our Global Delivery Model.

Our ITO Offerings include:

- Desktop/Workplace Services:
  - Complete lifecycle management of desktop and mobile device environments.
  - Automated provisioning, deployment and support Multi-vendor asset management, break/fix, software and infrastructure management.
- Data Center Services:
  - Full spectrum of Hosting and Data management services.
  - Automated management and systems.
  - Data Center Modernization.
- Network Services:
  - Enhanced wireline, wireless and IP network management services and systems integration
  - Next generation service delivery platform.
  - Extensive network and systems monitoring and management.
- Security Services:
  - Fully embedded in all EDS services including Business Disaster Recovery.



We have over 1500 experienced analysts serving 30 global clients in ITO. Our delivery centers in Bangalore, Chennai, Pune and Mumbai provide service desk support, Level 3 support for clients, and process several hundred critical changes every month. We embrace the best practices and recommendations from ITIL and aim to deliver services in the ITIL framework.

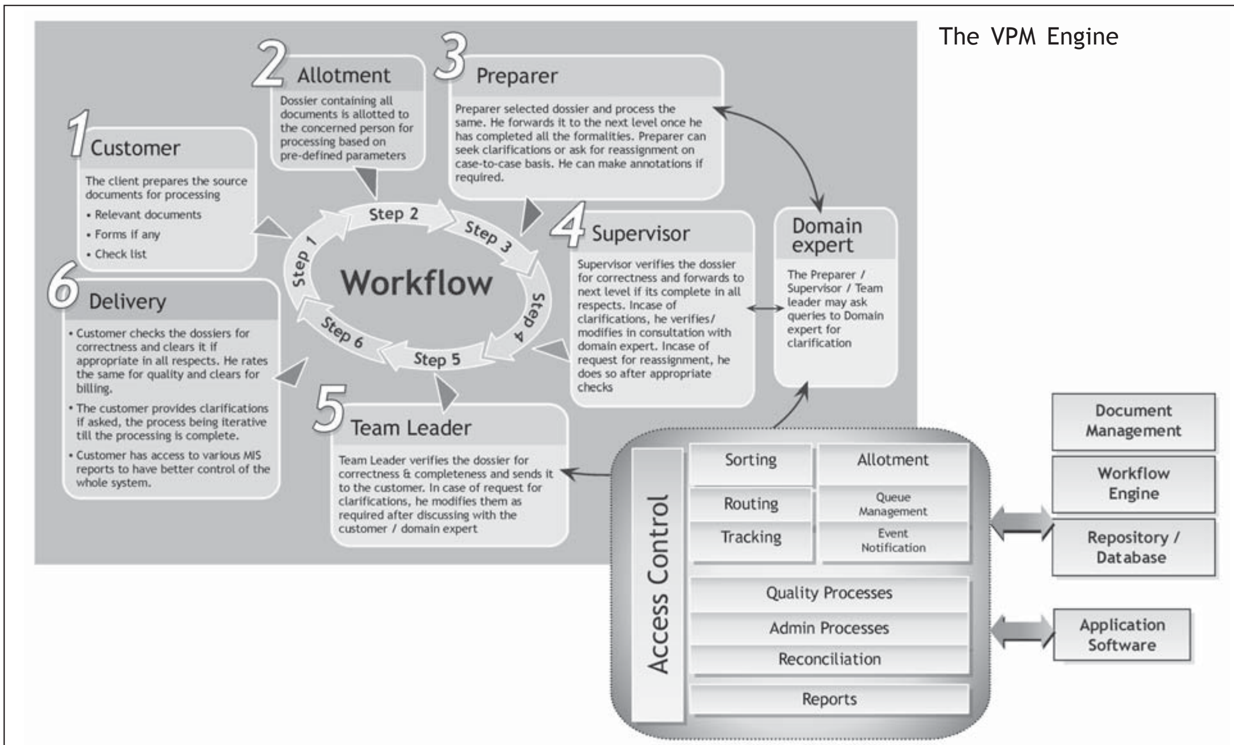
MphasiS Platforms: performance improvements in a secure environment

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)

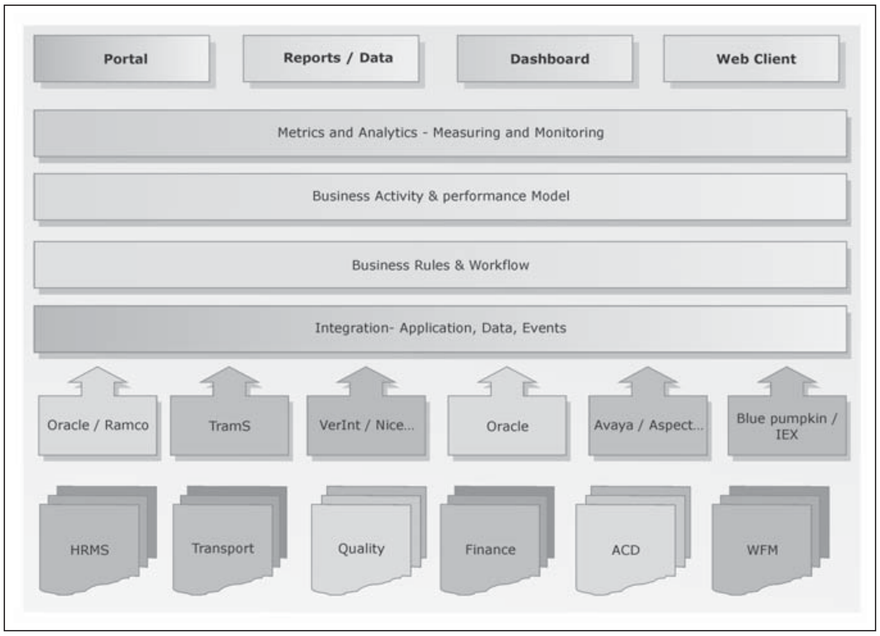


The Virtual Process Manager (VPM) is designed to have a universal applicability for any workflow-driven, document-centric process that requires process automation, workflow management, document handling, and team collaboration.

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.

Group Overview and Strategy

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 off-shored support services provided by MphasiS or use the platform as a stand alone.



MpacT™ (MphasiS Performance and Collaboration Toolset) offers a comprehensive, integrated, 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. 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 violation of a threshold through devices that could range from a mobile phone to a PDA.

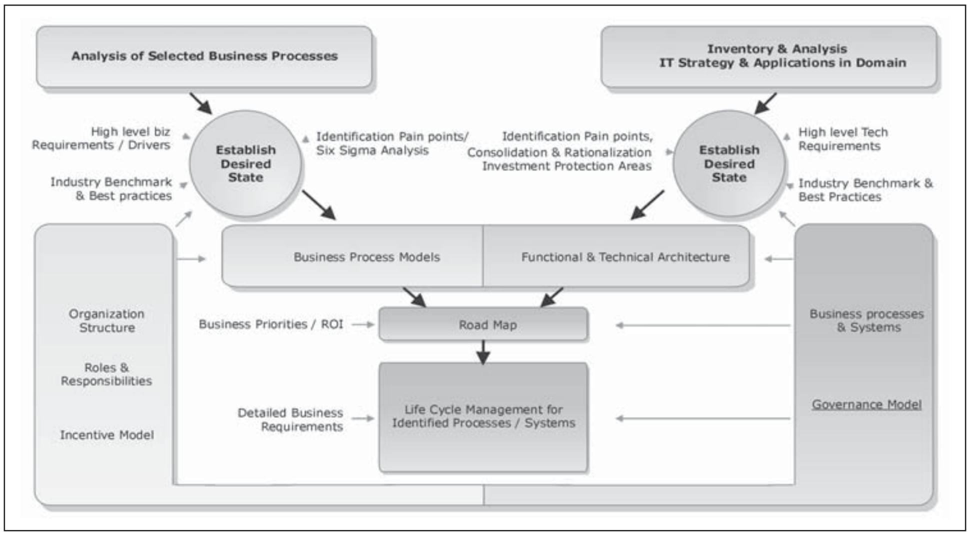
MphasiS Consulting Services

MphasiS Consulting offers Performance Management, Process Improvement Consulting and Customer Relationship Management solutions to its Financial Services, Insurance, Telecom, Healthcare and other clients. Our services provide in-depth insights to increase and improve process and performance across the organization, driving the move from reactive to pro-active management.

Our consultants aim to create breakthrough business process performance through our strong architecture and design which ensures business alignment and reduce downstream development and deployment risks. Our business analysts, architects, usability experts and six sigma consultants analyze and (re)design business processes and the underlying applications, apply six sigma methodologies, and implement instrumentation for business monitoring/business intelligence.

Because we manage a wide spectrum of work for our clients straddling across multiple geographies, verticals and processes, we have developed best practices for offshoring processes which include assessment frameworks which help short-list processes that are candidates for offshoring based on an evaluation of risk / rewards.

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



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

MphasiS deploys Frameworks for Optimizing Business Processes

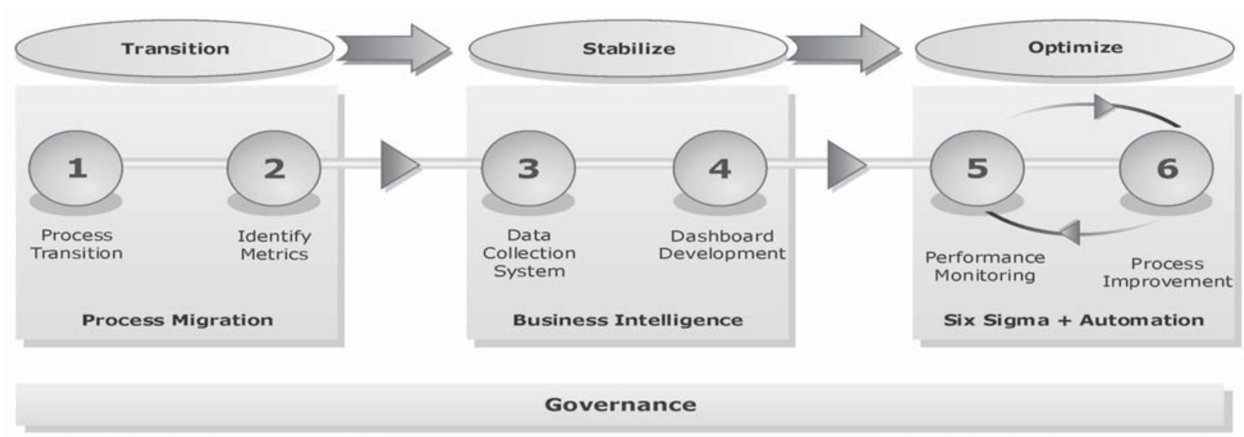
Mounting competitive and shareholder pressures in several industries has seen increasing focus on planning and managing for growth. Diverse customers are conducting business in multiple geographies, buying multiple products and services via multiple channels, while continuing to expect total transparency. As products and services become radically more complex, globalization, consolidation and increasing focus on competitiveness are driving the need to improve the efficiency and effectiveness of operations.

Process and software reengineering and improvement cannot be achieved by technology alone and requires the integration of people, process, and information. This can be accomplished by linking strategy, domain and process knowledge with technology and business intelligence expertise through Frameworks. The solution lies in "simplification", which does not imply simple, but refers to removal of complexity in a set Framework to Optimizing Business Processes. For example, we use the:

- Transition- Stabilize - Optimize process to execute processes,
- Platforms to bring innovation to client processes (VTM and MIKE).
- Quality and Six Sigma Framework for Process Improvements.

MphasiS uses the **"Transition - Stabilize - Optimize"** Framework for the processes that it executes on the client's behalf. In the **Transition** 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 Off-shored 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, business intelligence, process automation and integration.

Group Overview and Strategy



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 27001:2005 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.

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 27001:2005 certified. Online business activity monitoring tools help to track performance against Service Level Agreements and internal benchmarks.

Best-in-class Processes: SEI CMMi Level 5 / ISO 27001:2005

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 27001:2005.

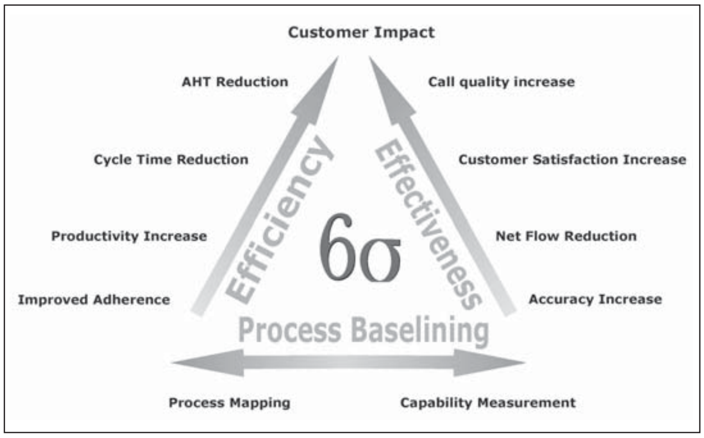
The group represents the rich, collective experience and skills of MphasiS' Quality Assurance Team, which is well- versed in these models and has successfully led the organization to the coveted CMMi Level 5 rating and ISO 27001:2005 certification.

MphasiS 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 certifications such as ISO 27001:2005 and SAS 70 Type I and II, MphasiS provides BPO services that can sustain – and often improve – quality and improve controls while dramatically reducing costs. ISO 27001 provides demonstrable assurance of Information Security best practices implemented within the organization. ISO 27001 has catalyzed the establishment of an Information Security Assurance Program to help in addressing the vulnerabilities and the internal and external threats to their electronic information and information assets. MphasiS Information Security Policy demonstrates MphasiS' commitment to protect its information assets and provide a secure environment for delivering services to its customers.

MphasiS has successfully completed SAS 70 Type I and Type II exercises. SAS 70 demonstrates assurance of security and reliability of information and information entrusted to us by customers, suppliers, and other partners. SAS 70 testing occurs over a period of six months so as to provide sufficient assurance of the information security controls being properly implemented over a period of time. This demonstrates the fact that MphasiS provides a secure environment for processing client services at an internationally accepted benchmark over an extended period of time thereby building trust and increasing the level of assurance it has established with customers, suppliers, and other partners.

Six Sigma

The six sigma methodology helps to increase the efficiency and effectiveness of delivery and makes the organization process-oriented. This data-driven approach helps to enhance quality, eliminate defects and improve customer satisfaction. MphasiS has over 100 Green Belts and 10 Black Belts.



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's 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.

Business Continuity Plan

MphasiS BPO Services believes 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, 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 and lasting client relationships.

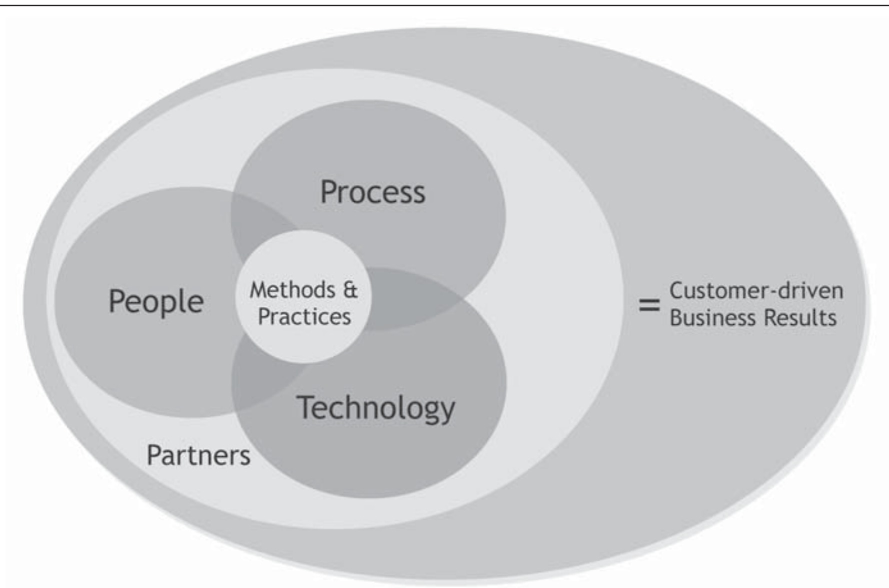
Customer centricity: We make it our business to understand our clients business, processes, systems and culture and ensure full alignment.

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

Results-driven: We drive a strong performance management culture, based on real-time tracking of KPIs/ metrics, continuous risk management.

Pro-activeness: We believe in going beyond what we commit to deliver, drive to improve processes.

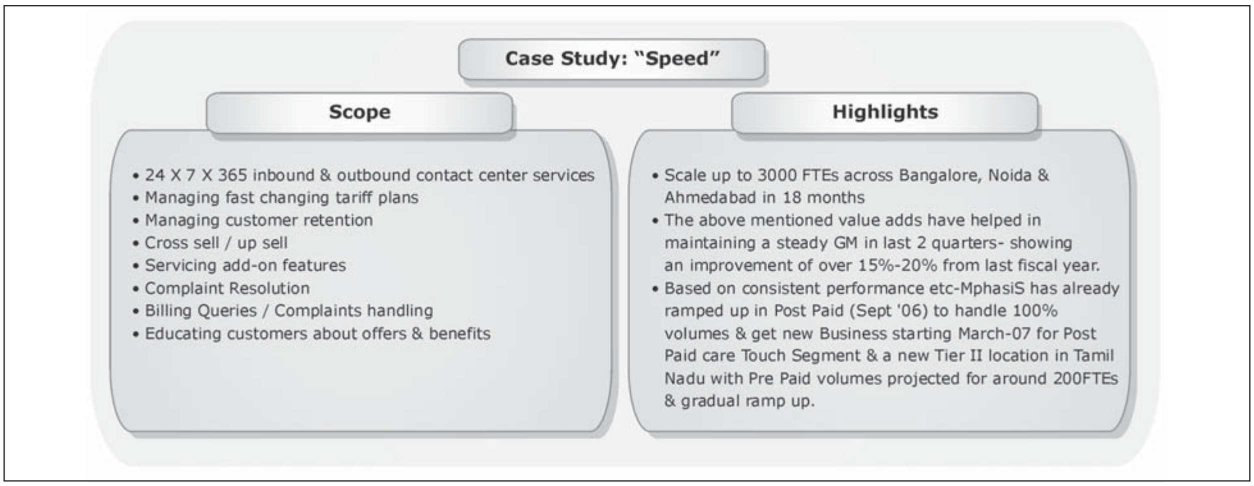
Process and software reengineering and improvement cannot be achieved by technology alone, and requires the integration of people, process, and information. This can be accomplished by linking strategy, domain and process knowledge with technology and business intelligence expertise.



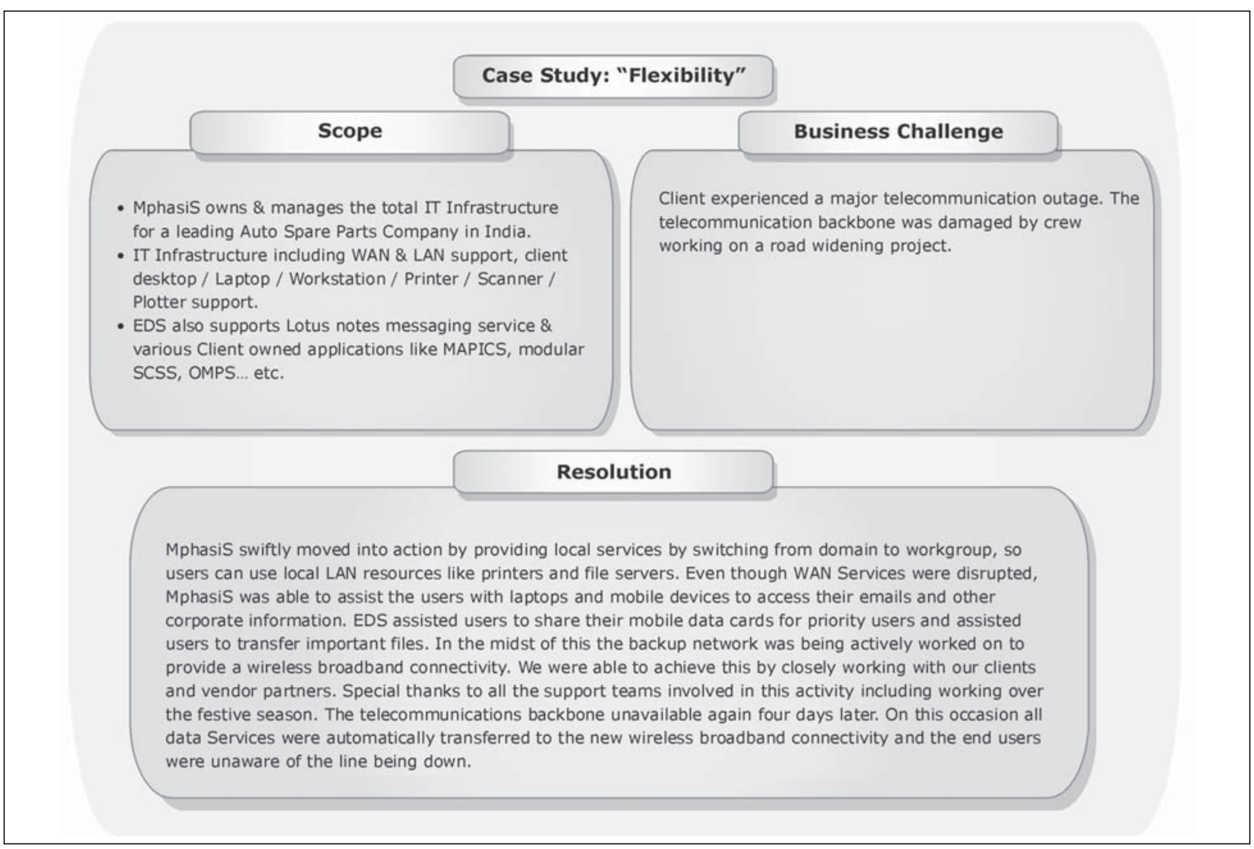
Our Key Differentiator - Speed, Flexibility and Innovation

Speed: Our time to market strategy helps us deliver scale and quality, flexibility and reliability.

The case study below demonstrates MphasiS' BPO's ability to scale up to 1800 FTE in record time for the Largest Telecom Client in India.



Flexibility: We understand that markets, regulatory and competitive environments are dynamic and organization's change. Hence, our engagements can change accordingly. The case study below displays MphasiS ITO's experience in working out flexible options for providing uninterrupted communication to an Indian Automobile Spare Parts Company.

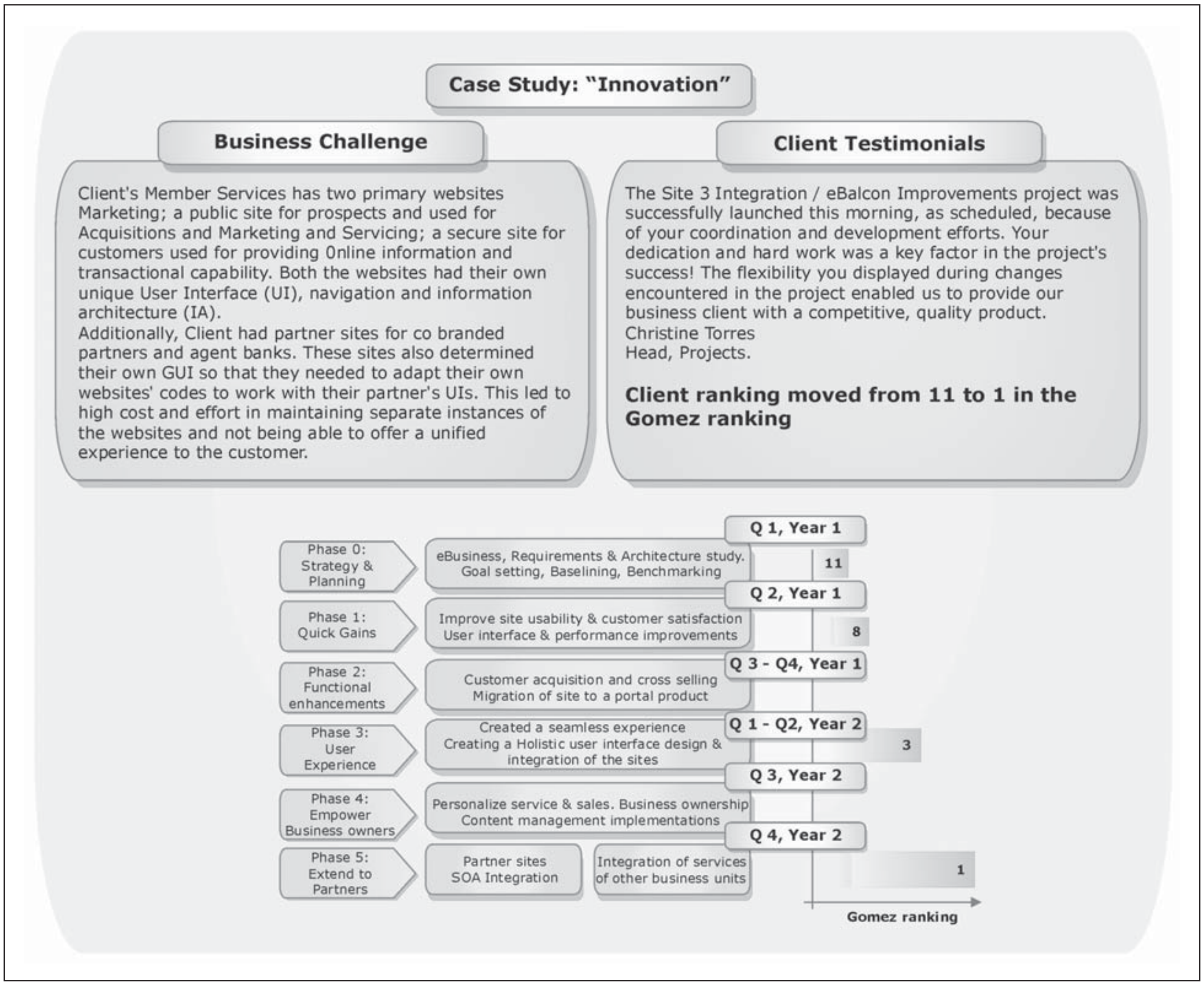


Group Overview and Strategy

Innovation: We recognize that innovation is the key to Service Excellence, Quality Improvement and Client loyalty. All services are delivered with predictable quality, precise performance management and ongoing performance tracking and improvement.

The case study displays MphasiS' innovation in improving the portal for a leading card provider in the US resulting in a movement to #1 on the Gomez rankings for US financial services companies.

The evolution of the portal was achieved in systematic and phased manner as shown below:



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.

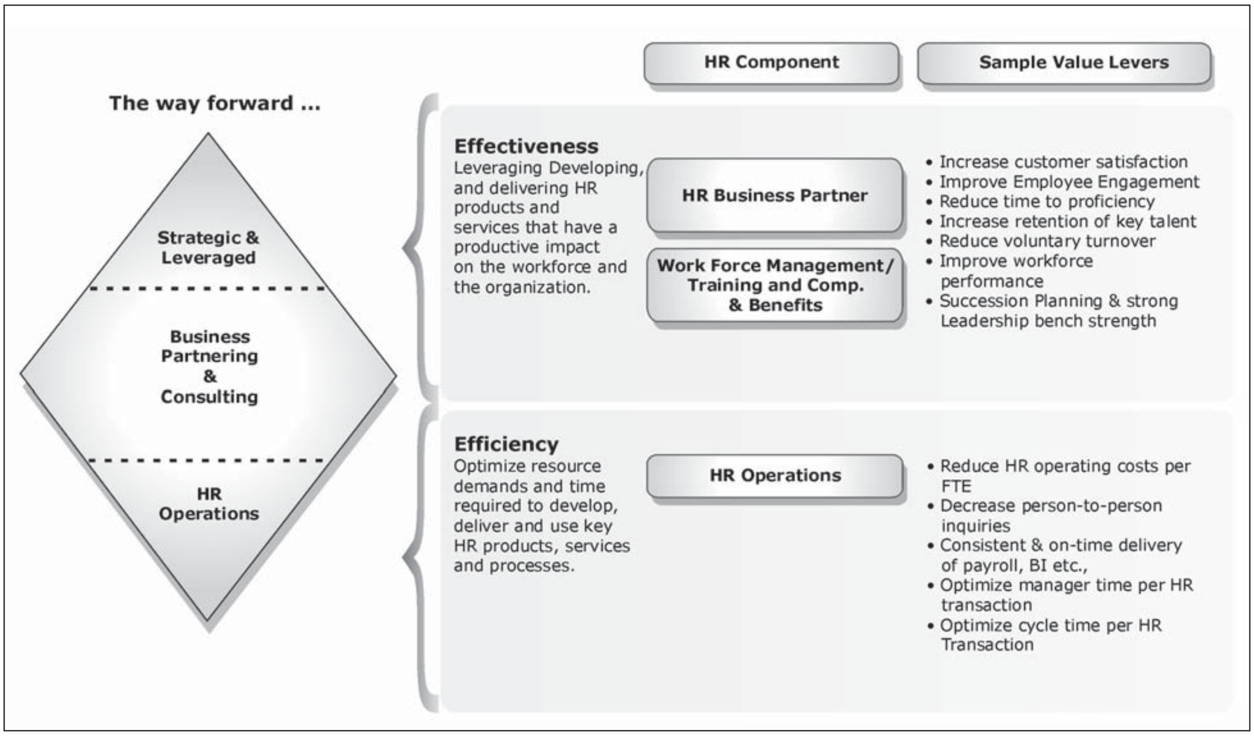
Hiring right in MphasiS is critical to our mission to deliver world-class services to our demanding global clients. Every new employee at MphasiS goes through a comprehensive session on our Mission, Vision and Values. The culture and focus on meritocracy has made us an employer of choice across multiple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

Voice of 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 analyzed in depth to improve employee motivation and thereby their performance.

HR Value Proposition:



Key HR Initiatives in the last year:

- Launch of EDS Learning and Leadership Academy (ELLA) in Mangalore – a learning centre with capacity to train 400 people, with focus on training fresh graduates.
- Integration of EDS and MphasiS operations.
- Alternate Work Arrangements (AWA) – Flexible work hours to equip employees to work away from office.
- Organize fun and health events throughout the year – Repetitive Stress Injury (RSI) week, Yoga week, etc.
- Provide counselors and mentors for employees to discuss personal and career issues.

Group Overview and Strategy

EDS Learning and Leadership Academy (ELLA):

The EDS Learning and Leadership Academy (ELLA) was formally inaugurated by your Chairman Jerry Rao on April 20, 2007. Its first batch of 175 trainees who graduated will now enter into various projects in Mumbai, Bangalore, Pune and Chennai.

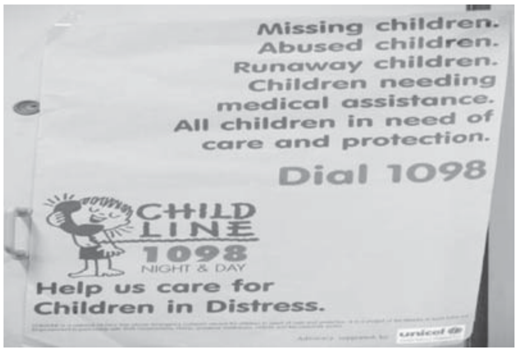
The Academy, set in a sprawling and beautiful campus in Mangalore, Karnataka, provides training in technology, business domain, processes, tools and interpersonal skills to new graduates joining the Applications Delivery Unit. The Academy offers on-going support and mentoring in areas of leadership and business skills in all levels of the organization. The trainees are also given technical training with case studies and projects thus enabling them to use these skills in the workplace.

ELLA - Fact Sheet

- 19,000 square feet of space with amphitheatre and town hall facilities
- More than 300 desktops connected within a secure LAN for learning
- Linux Application and Database servers
- Audio / Video systems
- Dedicated Training staff assisted by visiting faculty
- M-Talk, an initiative to bring in Leaders and Managers from Delivery teams to share their experiences and perspectives. Six such sessions have already been held.
- Training Sessions provided on EDS, SDLC and Business Skills
- Technical Training in Mainframe, AS 400, .NET, UNIX, C, PL/SQL, Java and Testing
- Plans to bring in Project Managers to manage short-term projects
- Plans to add a Recreation Center and Video Conferencing Facility

MphasiS'ing Community Involvement

MphasiS in the Community



MphasiS is committed to being a model in corporate citizenship. It is gradually moving in the direction of engaging directly with the community.

MphasiS has identified HIV/AIDS (Anticipatory Crisis Management) awareness, Education and Employee Engagement as core areas of its Corporate Social Responsibility.

HIV/AIDS Awareness:

As a company, we have educated our employees on HIV/AIDS and improved their awareness through various initiatives.

Children and Education:

- MphasiS sponsored Summer Camp in Bangalore for children from Children's Home, Gandhigram Trust, Dindigul.
- MphasiS supported Junior Achievement (JA), an international NGO working to bridge the divide between Industry and Education. JA will match MphasiS up with schools where they would conduct interactive sessions with school students and demystify the myths about industry.
- On Children's Day, 25 volunteers from MphasiS in association with ARC (Actions for the Right of the Child) spent the day at the National Film Archives institute where 900 children from the slums picked up, were shown a movie and served lunch.
- Sports day, in association with Sharing Care, was organized for 1000 children working in the brick kilns.
- Mphasis volunteers conducted non-formal education classes in ten slums in Bibvewadi.
- MphasiS has partnered Jagruti Seva Sanstha, where underprivileged children are identified and supported from an educational/material perspective.
- MphasiS joined hands with Parikrama Centers of Learning to raising funds for providing the under-served children all the care and support they need to help them hold on to their childhood, their hopes and dreams.
- MphasiS supports Yuva Unstoppable – a youth initiative that engages employees with the local community in the area of education of underprivileged children.

Employee contributions:

- MphasiS has set up a helpdesk as a part of "Right to Information" Helpline - 080 666 00 999 where citizens can call to seek information on government related quires such as passport issues, etc. The customer service agents work for the Government, however are paid for by MphasiS.
- Employee Volunteers collected 343 bottles of blood for children suffering from Thalessaemia and Cancer.
- A community network group called MphasiS Users Social Knowledge and Action Network (MUSKAN) was initiated in Mumbai to focus on Childline India Foundation and Each One Teach One program.
- MphasiS supported American India Foundation to set up 10 Digital Equaliser Centers in Karnataka to bridge the digital divide in urban and rural areas.
- Widows of defense personnel who died in action/ border skirmishes were hired to help them support their families.
- Over 500 kilos of wheat and utensils and clothes were collected for victims of Tsunami and other floods.

MphasiS Accolades

- Your Chairman, Jerry Rao was awarded 2OO6 Distinguished Entrepreneurial Alumni Award by Chicago Graduate School of Business.
- MphasiS received two honorary awards at the Karnataka State Best IT Exporter Awards function for the financial year 2005 - 2006. MphasiS won second position for the category of 'Top two Exporters from Sub-center Mangalore/ Manipal' and third position for the category of 'Certificate of Excellence for next two leading ITES/BPO Segment Indian Companies'.
- MphasiS BPO was ranked No. 5 by The Business World Most Respected Companies Survey 2006.

Management Discussion of Risks and Concerns

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

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

Since June 2006, the Group has become a subsidiary of Electronic Data Systems Corporation (EDS). EDS is an US$ 22 billion global IT and BPO company, headquartered in Plano, Texas. EDS founded the practice of information technology outsourcing 45 years ago. This aquisition by EDS has significantly altered the risk profile of the Group as also given it greater access to international markets combined with a strong governance process.

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

Business Risks

Client concentration risk

The Group derived 8% of its total revenues during the quarter ended 31 March 2007 from a single client. The Group's profitability and revenues would be affected in case of loss of this client or a significant downsizing of projects given to the Group by this client. The overall trend is a declining client concentration and the Group is confident that this will continue. Increasing quantities of the Group's business will be sourced through EDS and any significant changes in EDS or in its relationships with the clients it seconds to the Group could also affect revenues.

Business concentration risk by vertical

The Group derived 42% 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. Due to the association with EDS, the Group has successfully broadened its base into Government & Manufacturing verticals.

Geographic concentration risk

The group derived 70% 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. The management has been successful in sourcing clients from Europe, India & Asia Pacific region and going forward as well the focus would be on diversifying the business across other parts of the world which would reduce the dependence of the Group on US based customers.

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 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.

The alignment with EDS has significantly reduced this risk and the Group plans to leverage EDS' existing client relationships to broaden its client base. The competition for these clients is expected to be less.

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.

EDS has operations in 56 countries and MphasiS is expecting to partner with EDS in several of these geographies where it currently may not have a presence. This may increase the risk of international operations within the Group. However, the Group plans to leverage the EDS experience & expertise in operating in these geographies to mitigate these risks to a large extent.

Overseas tax obligation risk

The Group is also required to comply with various state level legislation / statutes in the US which is the largest market for the Group. Based on legal opinion the Group provides for the Income / Sales taxes in the various states in the US, where it has operations. In the event that there is a dispute with the state authorities, the actual tax liability may be higher than that recognised hitherto by the Group. The tax calculation and provision are suitably verified by the Group's tax consultants and legal advisors in the US so as to mitigate these risks.

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

Management Discussion of Risks and Concerns

Fixed price contract risk

The Group derived 5% of its total revenues from Fixed Price contracts during the quarter ended 31 March 2007. Such projects require continuous monitoring and as well as accurate estimation of overall efforts, which directly affects the profitability of the group. If constant and adequate control is not exercised, it will result in cost overruns and eventual losses for the Group besides loss in client goodwill on account of delayed delivery, quality and failure to meet contractual obligations. It also results in revenue variability as it depends on new project wins once an existing project is complete.

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

Termination of contracts by clients

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

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

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

Delivery Disputes

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

Onsite – Offshore proportion

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

Operational Results / Issues

The Group's ability to improve profit margins will depend on factors that include the degree to which and the speed with which the Group will be able to increase operational efficiencies and reduce operating costs. Delays or difficulties in implementing and consolidating process improvements, such as those designed to reduce travel, telecommunication and customer service costs, or installing new products and services and in consolidating various functions, including administrative functions, eliminating duplicate operations and consolidating facilities could adversely affect the timing or effectiveness of cost reduction and margin improvement efforts. The Group has an effective system of forecasting and budgeting for costs so as to ensure optimum utilisation of resources. It is continuously in the process of reviewing its systems and procedures to implement tighter controls.

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

- customer satisfaction;
- service offerings by competitors;
- customer service levels; and
- price.

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

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

Mergers & Acquisitions

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

Telecommunication infrastructure risk

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

Financial Risks

Foreign exchange fluctuation risk

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

Credit Risk

The Group's ability to recover dues from a client is dependent on the credit terms given to the client. With clients and operations all across the world, effective procedures and recovery mechanism have to be in place to avoid excessive bad debts. The Group constantly reviews credibility of existing customers and follows rigorous credit checks on prospective clients before fixing credit limits and credit periods. With the increased size of operations and the marquee clients that the Group has access to through EDS, the credit checks will become more stringent leading to a reduction in the credit risk.

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 dues, has a direct impact on the Groups liquidity position. Investment of surplus cash resources of the Group is also an area of risk in terms of safety and liquidity and balancing this with returns. The Group also has expansion plans for its delivery infrastructure which may strain its liquidity position to a certain extent. However, given the financial strength of the Group and its access to a much larger parent company, the access to funds is not expected to be a hindrance to the business or growth.

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 future wherein the Group could have to borrow from external financial agencies.

Investment in property

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

Indian Taxation risk

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

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

Legal & Other Contractual Risks

Regulatory risks

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

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

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 and also there are adequate controls in place to mitigate this.

Contractual risks

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

Changes in visa / work permit / immigration rules and terrorism

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

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

Insider Trading

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

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

Technological Risks

Technology risks

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

Obsolescence risks

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

Human Resources

Attracting and retaining professional talent

The Group's future success will depend in part on continued ability to hire, assimilate and retain qualified personnel. Competition for such personnel is intense, and management may not be successful in attracting or retaining such personnel. The loss of any key employee, the failure of any key employee to perform in his or her current position or the Group's inability to attract and retain skilled employees, particularly technical nd management, as needed, could harm the Group's business. The loss of the services of any executive officer or other key technical or management personnel could also harm the Group's business.

The Group strives to provide excellent staff welfare measures to promote employee satisfaction and thereby attract and retain efficient manpower. Further, to ensure that employees grow with technology the Group conducts regular training programmes. The Group has undertaken various initiatives to ensure that succession planning for key employees is put in place.

The aquisition of the Group by EDS significantly opens up new opportunities for our people and this should mitigate the risk of attrition to a significant degree.

Travel risks & Health Risk

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

Management Discussion of Risks and Concerns

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 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 expenditure by end-user customers, longer sales cycles, deferral or delay of purchase commitments for the Group's services, and increased price competition. Although these factors have not materially impacted the Group in recent years, this would be the case if the current economic slowdown continues or worsens thus adversely affecting the Group's business and operations.

Accidents, natural calamities and safety of employees and assets

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

AUDITORS' REPORT (REVISED) ON THE CONSOLIDATED FINANCIAL STATEMENTS (REVISED) TO THE BOARD OF DIRECTORS OF MPHASIS LIMITED (formerly MphasiS BFL Limited)

1 We have audited the attached consolidated balance sheet (revised) of MphasiS Limited ("the Company") and its subsidiaries [collectively referred to as the ["MphasiS Group"] as at 31 March 2007 and also the consolidated profit and loss account (revised) for the year ended on that date, annexed thereto and the consolidated cash flow statement (revised) for the year ended on that date ["consolidated financial statements (revised)"].

2 These consolidated financial statements (revised) contain significant revisions vis-a-vis the original consolidated financial statements for the year ended 31 March 2007 as adopted by the Board of Directors in their meeting held on 30 April 2007 and covered by our audit report dated 30 April 2007. As more fully explained in note 2(g) of the revised consolidated financial statements, the original consolidated financial statements have been revised to give effect to the Scheme of Amalgamation, approved by the High Court of Karnataka on 19 June 2007 and High Court of Bombay on 2 February 2007, under which EDS Electronic Data Systems (India) Private Limited has been amalgamated with the Company with effect from 1 April 2006. The consequent changes & their effect on the major heads of account have been explained in the aforesaid note. This audit report on the consolidated financial statements (revised) dated 6 August 2007 supersedes our earlier audit report dated 30 April 2007 on the original consolidated financial statements of the MphasiS Group for the year ended 31 March 2007.

3 These consolidated financial statements (revised) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements (revised) based on our audit.

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

5 We report that the consolidated financial statements (revised) 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.

6 In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements (revised) 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 (revised), of the consolidated state of affairs of the MphasiS Group as at 31 March 2007;

(ii) in the case of consolidated profit and loss account (revised), of the consolidated profit of the MphasiS Group for the year ended on that date; and

(iii) in the case of consolidated cash flow statement (revised), of the consolidated cash flows of the MphasiS Group for the year ended on that date.

for **BSR & Co.**
Chartered Accountants

Zubin Shekary
Partner
Membership No.48814

Bangalore
6 August 2007

Consolidated Balance Sheet (revised)

(Rs 000's)

	Notes	31 March 2007*	31 March 2006*
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	3	2,081,830	1,610,183
Reserves and surplus	4	7,935,890	4,921,889
Employee stock options outstanding	5	67,235	73,808
		10,084,955	6,605,880
LOAN FUNDS			
Secured loans	6	28,419	36,912
		10,113,374	6,642,792
APPLICATION OF FUNDS			
FIXED ASSETS	7		
Cost		5,768,065	3,143,202
Accumulated depreciation		(3,494,533)	(1,801,929)
Net book value		2,273,532	1,341,273
Capital work-in-progress		244,813	113,981
		2,518,345	1,455,254
GOODWILL	8	2,710,462	2,676,461
DEFERRED TAX ASSETS	9	177,421	166,538
CURRENT ASSETS, LOANS AND ADVANCES			
Cash and bank balances	10	1,892,557	988,505
Debtors and unbilled revenues	11	4,210,120	2,117,150
Interest receivable	12	11,449	2,111
Loans and advances	13	1,508,256	711,173
		7,622,382	3,818,939
CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	14	1,975,303	836,150
Provisions	15	939,933	638,250
		2,915,236	1,474,400
NET CURRENT ASSETS		4,707,146	2,344,539
		10,113,374	6,642,792

* refer note 34

Significant Accounting Policies 1

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

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

for **BSR & Co.**
Chartered Accountants

Zubin Shekary
Partner
Membership No. 48814

Bangalore
6 August 2007

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
6 August 2007

Consolidated Profit and Loss Account (revised)

(Rs 000's)

	Notes	Year ended 31 March 2007*	Year ended 31 March 2006*
Revenues		17,606,181	9,401,055
Cost of revenues	16	13,187,669	6,485,603
Gross profit		4,418,512	2,915,452
Selling expenses	17	918,428	584,603
General and administrative expenses	18	1,442,008	854,142
Provision for doubtful debts		14,652	13,917
Operating profit		2,043,424	1,462,790
Foreign exchange gain / (loss), net		(133,552)	85,245
Other income / (expense), net	19	(1,814)	(8,731)
Interest income / (expense), net	20	75,136	17,477
Profit before taxation		1,983,194	1,556,781
Income taxes (including Fringe Benefit Tax)	21	182,470	58,206
Net profit		1,800,724	1,498,575
Earnings per share (Par value - Rs 10)	27		
Basic (Rs)		8.74	9.42
Diluted (Rs)		8.61	9.26

* refer note 34

Significant Accounting Policies 1

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

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

For and on behalf of the Board of Directors

for **BSR & Co.**
Chartered Accountants

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Zubin Shekary
Partner
Membership No. 48814

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
6 August 2007

Bangalore
6 August 2007

Notes to the Consolidated Financial Statements (revised)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements (revised) [also referred as consolidated financial statements] of MphasiS Limited ('the Company') (formerly MphasiS BFL Limited) and its subsidiaries, collectively referred to as 'the MphasiS 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 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, infrastructure outsourcing services 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.

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

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

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

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

Fixed assets and capital work-in-progress

Fixed assets are stated at the cost of acquisition or construction less accumulated depreciation. Direct costs are capitalised until assets are ready to be put to use. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised. Fixed assets purchased in foreign currency are recorded at 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 and infrastructure outsourcing 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 equipment)	5
Computer equipment	5
Office equipment	5
Furniture and fixtures	5
Vehicles	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (REVISED)

Freehold land is not depreciated. Leasehold improvements are amortised over the 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. Internally generated software for sale expected to provide lasting benefits is amortised on the straight line method over its estimated life or 7 years whichever is shorter. Goodwill arising on 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 compensated absences, which are defined benefits, are accrued based on independent actuarial valuations as at the Balance sheet date.

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

Foreign currency

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

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

The financial statements of the foreign subsidiaries being non-integral operations in terms of para 24 of AS-11 (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.

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

Impairment of assets

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

Earnings per share

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

Stock-based compensation

The Group accounts for stock based compensation based on the intrinsic value method. 'Option Discount' 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 (REVISED)

2. DESCRIPTION OF THE GROUP

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

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

List of subsidiaries with percentage holding

Subsidiaries	Country of incorporation and other particulars	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 Limited ('BFL APAC')	a company organised under the laws of Singapore	100
MphasiS Australia Pty Limited ('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(c) below)	a company organised under the laws of the United Kingdom	100
Eldorado Computing Inc. ('Eldorado')(refer note 2(d) below)	a company organised under the laws of Arizona, USA	100
MphasiS FinsourcE Limited ('MphasiS FinsourcE)(refer note 2(e) below)	a company organised under the laws of India	100
MbrokeR (India) Private Limited ('MbrokeR India')	a subsidiary of MphasiS USA, a company 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 Limited ('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 Mauritius Inc., Mauritius ('MsourcE Mauritius')	a subsidiary of MsourcE Netherlands, organised under the laws of Mauritius	100
MsourcE (India) Private Limited ('MsourcE India')	a subsidiary of MsourcE Mauritius, organised under the laws of India	100

2. (a) The name of the Company stands changed to MphasiS Limited with effect from 24 November 2006 based on the approval by the shareholders in the meeting held on 13 November 2006.

2. (b) 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 2006: 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. (c) 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 paid in the month of March 2006 to the selling shareholders of Princeton. During the year ended 31 March 2007, the Company has incurred direct cost amounting to GBP 64,500 (Rs 5,336,006). The acquisition has resulted in a goodwill of Rs 393,142,172.

2. (d) 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. Further, an amount of USD 1,600,069 and USD 874,931 has been paid from escrow account during the year ended 31 March 2006 and 31 March 2007 respectively. The acquisition had resulted in goodwill of Rs 776,768,437.

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 outs have been accrued for the year ended 28 February 2006 and 28 February 2007.

2. (e) During the year ended 31 March 2007, MphasiS FinsourcE was incorporated in India as a wholly owned subsidiary of the Company for the purpose of providing BPO services in India. The subsidiary is yet to commence operations.

2. (f) Electronic Data Systems Corporation (EDS) through its wholly owned subsidiary TH Holdings, Mauritius, made an open offer for purchase of 83 million equity shares of the Company in April 2006. The offer was closed successfully in June 2006. EDS thereafter made a Public Announcement (PA) on 19 October 2006 to the shareholders of the Company for a voluntary open offer to acquire an additional 20% of the total voting equity of the Company. The offer was closed in February 2007 and EDS acquired additional 2,201 shares through this offer. EDS, through TH Holdings, currently holds 83,002,201 equity shares forming more than 50% of the paid up share capital of the Company as at 31 March 2007. Since the merger of EDS Electronic Data Systems (India) Private Limited (EDS India), into MphasiS Limited has been approved, the Company will issue 44,104,065 shares to EDS World Corporation (Far East), the holding company of EDS India and a subsidiary of EDS. After the issuance of the shares, EDS, through TH Holdings, Mauritius and EDS World Corporation (Far East) will be holding 127,106,266 equity shares forming more than 60% of the paid up share capital of the Company.

Notes to the Consolidated Financial Statements (revised)

2. (g) In July 2006, the Board of the Company approved the amalgamation of EDS India, a wholly owned subsidiary of Electronic Data Systems Corporation USA, into MphasiS Limited. EDS India is primarily engaged in providing software development services which includes mainly application services and information technology enabled services containing business process outsourcing services and infrastructure services. The scheme of amalgamation was approved by the shareholders at their meeting on 13 November 2006, and by the Hon'ble High Courts of Maharashtra and Karnataka on 2 February 2007 and 19 June 2007 respectively. The necessary formalities to give effect to the amalgamation have been completed thereafter. Under the scheme, 44,104,065 shares are to be issued to the shareholders of EDS India based on a swap ratio of 5:4; issuance of these shares is under process. Since the amalgamation is with retrospective effect from 1 April 2006, the financial statements for the year ended 31 March 2007, approved by the Board of the company earlier on 30 April 2007, have been revised to include the assets and liabilities of EDS India as at 31 March 2007 and its income and expenses and cash flows for the year then ended. These financial statements supersede the financial statements approved by the Board of the Company on 30 April 2007.

Major changes to the financial statements due to the above revision are as follows:

(Rs 000's)

	Year ended 31 March 2007
Increase in Revenues	5,648,023
Increase in Gross profit	964,789
Increase in Operating profit	640,016
Increase in Profit before tax	648,586
Increase in Net profit	601,948
Increase in Shareholders funds	2,558,589
Increase in Fixed assets	954,251
Increase in Net current assets	1,546,298

There are no transactions between the company and EDS India prior to 1 April 2006 and accordingly there are no balances between the companies.

The accounting for the above amalgamation has been carried out as prescribed by the scheme of amalgamation. Accordingly, expenses incurred in connection with the amalgamation have been adjusted with the opening profit and loss account balance of EDS India. Further, accounting policies of the Company have been adopted for EDS India, and necessary changes to reflect the alignment of accounting policies have been carried out. On account of amalgamation of EDS India an adjustment of Rs 1,670,400 thousands has been made to the profit and loss account balance which represents opening profit and loss account of EDS India amounting to Rs 1,863,787 thousands after adjusting amalgamation expenses amounting to Rs 66,688 thousands, debit to opening profit and loss account due to difference in accounting policy on depreciation amounting to Rs 38,491 thousands and excess of share capital issued over the share capital of EDS India amounting to Rs 88,208 thousands.

2. (h) During the year ended 31 March 2007, MphasiS Ireland Limited, a subsidiary of the Company, was closed and necessary formalities have been completed.

2. (i) During the year ended 31 March 2007, Mbroker Inc., a subsidiary of the Company was merged with "MphasiS USA" and the necessary formalities have been completed.

(Rs 000's)

	31 March 2007*	31 March 2006*
3. SHARE CAPITAL		
Authorised capital*		
245,000,000 (31 March 2006: 200,000,000) equity shares of Rs 10 each	2,450,000	2,000,000
Issued, subscribed and paid-up capital		
164,085,953 (31 March 2006: 161,025,360) equity shares of Rs 10 each	1,640,860	1,610,254
[Of the above 9,486,773 (31 March 2006: 9,486,773) equity shares are allotted for consideration other than cash and 134,174,374 (31 March 2006: 134,167,074) 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 2006: 14,200) equity shares of Rs 10 each forfeited	(142)	(142)
Add : Amount originally paid-up on forfeited shares	71	71
Shares pending allotment		
Shares pending allotment pursuant the scheme of amalgamation [refer note 2(g)] 44,104,065 (31 March 2006: Nil) equity shares of Rs. 10 each	441,041	-
	2,081,830	1,610,183
4. RESERVES AND SURPLUS		
Securities Premium Account		
Balance brought forward	1,165,148	2,464,363
Add: Premium on allotment of shares	306,533	196,133
Add: Transferred from employee stock options outstanding	3,834	2,482
Less: Adjustment on account of merger of Kshema [refer note 2(b)]	-	816,223
Less: Bonus shares issued	-	681,607
[Securities premium amounting to Rs 1,126,705 (31 March 2006: Rs 1,122,871) is for consideration other than cash]		
	1,475,515	1,165,148
Foreign Currency Translation Reserve		
Balance brought forward	(49,623)	(28,499)
During the year	4,947	(21,124)
	(44,676)	(49,623)
Capital reserve		
Balance brought forward from previous year	2,234	2,234
Add: Transfer from Profit and loss account [refer note 4(a)]	94,000	-
	96,234	2,234
General reserve		
Balance brought forward from previous year	340,158	263,932
Add: Transfer from Profit and loss account	131,534	76,226
	471,692	340,158

* refer note 34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (REVISED)

(Rs 000's)

	31 March 2007*	31 March 2006*
Profit and loss account		
Balance brought forward from previous year	3,463,972	2,824,234
Less: Adjustment on account of Kshema merger [refer note 2(b)]	-	107,669
Less: Transitional adjustment in accordance with revised AS-15 [refer note 29]	38,572	-
Add: Adjustment on account of merger of EDS India [refer note 2(g)]	1,670,400	-
Add: Net profit for the year	1,800,724	1,498,575
Profit available for appropriation	6,896,524	4,215,140
Appropriations		
Transfer to General Reserve	131,534	76,226
Transfer to Capital Reserve on redemption of preference shares of Mphasis India [refer note 4 (a)]	94,000	-
Final dividend	2,626	3,804
Proposed dividend	624,640	483,168
Tax on dividend	106,526	68,299
Issue of bonus shares	73	119,671
Balance carried forward	5,937,125	3,463,972
	7,935,890	4,921,889

4. (a) During the year ended 31 March 2007, Mphasis Limited has redeemed 940,000, 8% non-cumulative redeemable preference shares of Rs 100 each held in Mphasis India at par for an amount of Rs 94,000,000 and the capital reserve has been created for the equivalent amount, as required by law.

5. EMPLOYEE STOCK OPTIONS OUTSTANDING

Balance brought forward	73,808	85,773
Less: Transferred to securities premium account on exercise of options	3,834	2,482
Less: Reversal on forfeiture / lapse of options granted	2,739	9,483
	67,235	73,808

* refer note 34

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 2007 and 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 (Also refer note 28).

Employees Stock Option Plan1998 (the 1998 Plan): The Company instituted the 1998 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 31 July 1998. The 1998 Plan provides for the issuance of 3,720,000 options to eligible employees as recommended by the ESOP Committee constituted for this purpose.

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

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

The movements in the options granted under the 1998 Plan (Version I) for the year ended 31 March 2007 and year ended 31 March 2006 are set out below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	129,114	34.38	157,752	34.38
Granted	-	-	-	
Forfeited	1,160	34.38	856	34.38
Exercised	49,630	34.38	27,782	34.38
Options outstanding at the end	78,324	34.38	129,114	34.38
Exercisable at the end of the period	78,324	34.38	129,114	34.38

The weighted average share price of options exercised as at the date of exercise was Rs 249.74 (31 March 2006: Rs 144.30). The weighted average fair value of the options granted during the year as at the respective grant dates was Rs Nil (31 March 2006: Rs Nil). The options outstanding as at 31 March 2007 had an exercise price of Rs 34.38 (31 March 2006: 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 then Managing Director or Chief Executive Officer, the vesting period of the options, subject to minimum period of one year from the date of grant, is determined by the ESOP Committee and approved by the Board. The options are to be exercised within a period of ten years from their date of vesting.

The movements in the options granted under the 1998 Plan-(Version II) for the year ended 31 March 2007 and year ended 31 March 2006 are set out below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	1,680,610	95.51	2,208,718	78.34
Granted	-	-	285,000	130.57
Forfeited	34,800	92.63	277,352	88.98
Exercised	605,166	92.96	535,756	46.74
Options outstanding at the end	1,040,644	97.09	1,680,610	95.51
Exercisable at the end of the period	887,412	93.83	1,221,266	88.01

The weighted average share price of options exercised as at the date of exercise was Rs 258.56 (31 March 2006: Rs 142.56). The weighted average fair value of the options granted during the year as at the respective grant dates was Rs Nil (31 March 2006: Rs 53.64). The options outstanding as at 31 March 2007 had an exercise price ranging from Rs 23.21 to Rs 275.00 (31 March 2006: Rs 23.21 to Rs 275.00) and weighted average remaining contractual life of 6.33 years (31 March 2006: 8.20 years).

Employees Stock Option Plan2000 (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (REVISED)

The movements in the options under the 2000 Plan for the year ended 31 March 2007 and year ended 31 March 2006 are set out below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	2,555,334	109.04	4,601,238	62.97
Granted	17,900	200.44	1,261,600	164.41
Forfeited	202,831	124.34	637,288	125.59
Lapsed	152,256	70.41	376,708	66.57
Exercised	1,012,233	83.81	2,293,508	49.46
Options outstanding at the end	1,205,914	133.88	2,555,334	109.04
Exercisable at the end of the period	224,839	130.09	795,018	92.64

The weighted average share price of options exercised as at the date of exercise was Rs 211.11 (31 March 2006: Rs 138.86). The weighted average fair value of the options granted during the year as at the respective grant dates was Rs 82.72 (31 March 2006: Rs 56.11). The options outstanding as at 31 March 2007 had an exercise price ranging from Rs 23.21 to Rs 208.45 (31 March 2006: Rs 23.21 to Rs 178.55) and weighted average remaining contractual life of 2.89 years (31 March 2006: 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. However, certain options were granted to executive directors having a target stock price condition and a one year service condition as vesting conditions. The exercise period is two years from the date of vesting.

The movements in the options under the 2003 Plan for the year ended 31 March 2007 and year ended 31 March 2006 are set out below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	1,481,800	147.56	1,918,000	129.80
Granted	-	-	268,800	130.60
Forfeited	20,750	119.76	99,000	102.43
Lapsed	13,000	85.63	-	-
Exercised	969,623	157.19	606,000	91.20
Options outstanding at the end	478,427	130.93	1,481,800	147.56
Exercisable at the end of the period	187,827	161.27	78,000	89.88

The weighted average share price of options exercised as at the date of exercise was Rs 269.32 (31 March 2006: Rs 136.36). The weighted average fair value of the options granted during the year as at the respective grant dates was Rs Nil (31 March 2006: Rs 53.33). The options outstanding as at 31 March 2007 had an exercise price ranging from Rs 85.63 to Rs 175 (31 March 2006:Rs 85.63 to Rs 175.00) and weighted average remaining contractual life of 2.22 years (31 March 2006: 2.70 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 2007 and year ended 31 March 2006 are summarised below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	1,557,444	115.71	1,288,378	91.82
Granted	49,850	184.50	1,003,600	130.47
Forfeited	143,640	125.66	340,836	118.72
Lapsed	34,764	100.85	45,600	93.62
Exercised	416,641	100.46	348,098	69.81
Options outstanding at the end	1,012,249	124.47	1,557,444	115.71
Exercisable at the end of the period	210,819	111.63	229,742	91.12

The weighted average share price of options exercised as at the date of exercise was Rs 230.54 (31 March 2006: Rs 137.45). The weighted average fair value of the options granted during the year as at the respective grant dates was Rs 76.16 (31 March 2006: Rs 53.27). The options outstanding as at 31 March 2007 had an exercise price ranging from Rs 50.34 to Rs 184.50 (31 March 2006: Rs 15.59 to Rs 149.18) and weighted average remaining contractual life of 5.97 years (31 March 2006: 6.14 years).

Restricted Stock Units

The ultimate holding company (EDS) has issued Restricted Stock Units (RSU) to certain employees of the Group. Cost incurred by EDS upon issuing such RSU's for the year amounted to Rs 8,495,081 (31 March 2006: Nil).

6. SECURED LOANS

(Rs 000's)

	31 March 2007*	31 March 2006*
Other loans (Secured by hypothecation of the vehicles)	28,419	36,912
	28,419	36,912

* refer note 34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. FIXED ASSETS

(Rs 000's)

Assets	Cost				Accumulated depreciation				Net book value	
	1 April ** 2006	Additions	Deductions/ Adjustments*	31 March 2007	1 April ** 2006	Charge for the year	Deductions/ Adjustments*	31 March 2007	31 March 2007	31 March 2006
Tangible assets										
Freehold land	27,375	-	-	27,375	-	-	-	-	27,375	27,375
Buildings	1,230	-	-	1,230	625	123	-	748	482	605
Leasehold Improvements	624,306	199,893	(16,797)	807,402	503,374	108,198	(17,171)	594,401	213,001	120,932
Plant and machinery	1,091,986	120,577	(4,723)	1,207,840	565,702	208,951	(6,836)	767,817	440,023	526,284
Computer equipment	1,175,471	494,615	(10,606)	1,659,480	799,276	305,092	(8,746)	1,095,622	563,858	376,195
Office equipment	350,437	233,642	(6,740)	577,339	197,680	105,243	(5,824)	297,099	280,240	152,757
Furniture and fixtures	472,832	292,100	(22,226)	742,706	250,467	128,047	(20,500)	358,014	384,692	222,365
Vehicles	74,285	14,363	(19,507)	69,141	37,214	21,405	(13,834)	44,785	24,356	37,071
Intangible assets Software	450,606	226,301	(1,355)	675,552	205,069	130,990	(12)	336,505	339,505	245,537
Total	4,268,528	1,581,491	(81,954)	5,768,065	2,559,407	1,008,049	(72,923)	3,494,533	2,273,532	1,709,121
Previous year ended 31 March 2006	2,556,945	768,259	(182,002)	3,143,202	1,454,596	507,922	(160,589)	1,801,929	1,341,273	-

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

** Includes assets taken over on merger of EDS India [(refer note 2(g)] amounting to Rs 1,125,326 thousand and accumulated depreciation amounting to Rs 757,478 thousand.

(Rs 000's)

	31 March 2007*	31 March 2006*
8. GOODWILL		
Goodwill arising on consolidation	2,710,462	2,667,919
Purchased goodwill		
Balance brought forward	30,010	30,010
	30,010	30,010
Amortisation		
Balance brought forward	(21,468)	(11,236)
During the year	(8,542)	(10,232)
	(30,010)	(21,468)
Purchased goodwill, net	-	8,542
	2,710,462	2,676,461
9. DEFERRED TAX ASSETS		
On depreciation	124,626	34,626
On losses carried forward [refer note 9(a) below]	52,795	131,912
	177,421	166,538

9. (a) Deferred tax assets have been recognized, as virtual certainty of obtaining tax credits in respect of the relevant carried forward losses in certain overseas subsidiaries has been established. The virtual certainty is supported by binding orders as at the reporting date ensuring availability of sufficient future taxable income against which such deferred tax asset will be utilised in future.

	31 March 2007*	31 March 2006*
10. CASH AND BANK BALANCES		
Cash in hand	596	503
Remittances in transit	217	1,434
Balances with scheduled banks		
- Current accounts *	399,159	346,204
- Deposit accounts	1,090,834	572,832
- Margin money deposit account	8,543	8,017
Balances with non-scheduled banks		
- Current accounts	393,208	59,515
	1,892,557	988,505

* Includes Rs 1,255,499 and Rs 1,231,797 representing the balances in unclaimed dividends accounts as at 31 March 2007 and 31 March 2006, respectively.

	31 March 2007*	31 March 2006*
11. DEBTORS AND UNBILLED REVENUES		
Debtors		
Debts outstanding for a period exceeding six months, unsecured		
- considered good	18,892	48,491
- considered doubtful	113,676	99,347
Other debts, unsecured		
- considered good	2,329,111	1,650,354
	2,461,679	1,798,192
Less: Provision for doubtful debts (net of write offs)	113,676	99,347
	2,348,003	1,698,845
Unbilled revenues	1,862,117	418,305
	4,210,120	2,117,150

* refer note 34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (REVISED)

(Rs 000's)

	31 March 2007*	31 March 2006*
12. INTEREST RECEIVABLE		
Unsecured, considered good	11,449	2,111
	11,449	2,111
13. LOANS AND ADVANCES		
Secured – considered good		
Employee loans	10,041	20,134
Advances recoverable in cash or in kind or for value to be received	442,209	311,916
Loans to ESOP Trusts	47,575	22,082
Deposits		
- premises	538,777	196,143
- with Government authorities	9,024	5,438
- others	10,726	8,251
Advance tax & tax deducted at source	449,904	102,307
Other current assets *	-	44,902
Unsecured – considered doubtful		
Advances recoverable in cash or in kind or for value to be received	41,084	40,293
	1,549,340	751,466
Less: Provisions (net of write offs)	41,084	40,293
	1,508,256	711,173

* The above amount includes USD Nil (31 March 2006: USD 885,175) relating to the acquisition of Eldorado Computing Inc. [refer note 2(d)], totalling to Rs Nil (31 March 2006: Rs. 39,492,083) held in escrow accounts and to be paid on the satisfactory completion of conditions laid down in the share purchase agreements. The amounts paid out of the escrow accounts have been reflected as goodwill on consolidation.

	31 March 2007*	31 March 2006*
14. CURRENT LIABILITIES		
Sundry creditors	559,774	128,037
Advances from clients	24,850	17,717
Unearned receivables	45,127	85,182
Salary related costs	426,878	149,110
Other liabilities***	917,419	454,872
Unclaimed dividends	1,255	1,232
	1,975,303	836,150

*** The above amount includes Rs 17,060,055 (31 March 2006 Rs 17,060,055) which represents the remaining consideration payable for the acquisition of Kshema Technologies Limited [refer note 2(b)].

	31 March 2007*	31 March 2006*
15. PROVISIONS		
Compensated absences	87,268	10,415
Gratuity (refer note 30)	77,502	23,230
Proposed dividend	624,640	483,168
Tax on dividend	106,158	67,764
Taxation	44,365	53,673
	939,933	638,250

* refer note 34

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
16. COST OF REVENUES		
Salary and allowances	6,955,643	3,923,978
Contribution to provident and other funds	746,378	374,484
Staff welfare	397,384	222,899
Travel	849,142	361,592
Recruitment charges	198,155	74,977
Communication expenses	504,682	212,050
Software / material purchases	36,799	21,415
Rent	577,247	280,768
Professional charges	332,350	10,058
Depreciation and amortisation	906,431	443,085
Software development charges	468,244	214,658
Staff training expenses	58,787	42,837
Electricity	216,849	104,589
Software support and annual maintenance charges	711,499	53,499
Miscellaneous expenses	228,079	144,714
	13,187,669	6,485,603

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.

17. SELLING EXPENSES		
Salary and allowances	649,999	347,254
Contribution to provident and other funds	56,030	36,868
Staff welfare	14,977	14,672
Travel	67,863	53,638
Communication expenses	35,548	35,386
Rent	26,367	25,903
Commission	2,034	4,026
Professional charges	6,572	12,014
Depreciation and amortisation	16,666	18,718
Advertisement and publicity charges	858	451
Market research cost	743	8,665
Recruitment expenses	10,446	3,870
Business meeting expenses	7,507	4,081
Miscellaneous expenses	22,818	19,057
	918,428	584,603

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.

* refer note 34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (REVISED)

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
18. GENERAL AND ADMINISTRATIVE EXPENSES		
Salary and allowances	594,422	310,690
Contribution to provident and other funds	54,007	28,284
Staff welfare	46,013	34,387
Travel	53,349	44,235
Communication expenses	39,608	34,608
Rent	56,500	36,995
Professional charges	156,560	58,986
Depreciation and amortisation	93,494	56,351
Auditors' remuneration	8,000	5,800
Bank charges	7,384	8,001
Insurance	29,015	19,555
Rates and taxes	19,075	39,056
Repairs and maintenance		
- Plant and machinery	27,504	24,277
- Buildings	23,090	7,847
- Others	80,805	19,506
Membership and subscription	11,161	14,075
Printing and stationery	22,281	18,302
Postage and courier charges	9,350	11,430
Miscellaneous expenses	110,390	81,757
	1,442,008	854,142

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 2007*	Year ended 31 March 2006*
19. OTHER INCOME / (EXPENSE), NET		
Profit / (loss) on sale of fixed assets	(1,681)	736
Miscellaneous (expense) / income	(133)	(9,467)
	(1,814)	(8,731)
20. INTEREST INCOME / (EXPENSE), NET		
Interest on deposits and loans	75,136	17,477
	75,136	17,477
21. INCOME TAXES		
Current taxes		
Domestic taxes	103,949	33,038
Foreign taxes	19,196	16,570
Deferred taxes		
Domestic taxes	(66,853)	(5,260)
Foreign taxes	76,009	(12,987)
Fringe Benefit Tax	50,169	26,845
	182,470	(58,206)

* refer note 34

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 137,698,415 as at 31 March 2007 (31 March 2006: Rs 14,719,810) 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 561,139,782 [31 March 2006: Rs 231,341,020];

(b) Income tax demand including interest in respect of the assessment year 2002-03 estimated at Rs 6,043,000 (31 March 2006: Rs 6,043,000), 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;

(c) 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 7.60 Million (31 March 2006: Rs 7.60 Million); The contributions from May 2005 onwards have been remitted on a monthly basis.

(d) Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at 31 March 2007: Rs 100,023,702 (31 March 2006: Rs 50,765,895);

(e) Guarantees outstanding including those furnished to the Customs authorities as at 31 March 2007: Rs 326,888,590 (31 March 2006: Rs 98,671,873);

(f) Forward contracts outstanding as at 31 March 2007: Nil [31 March 2006: Rs 3,066,296,374 (US$ 68,727,925)]. Unamortized premium on forward exchange contracts as at 31 March 2007: Nil (31 March 2006: Rs 12,650,753).

(g) Income tax demand including interest in respect of the assessment year 2002-03 estimated at Rs 6,043,000 (31 March 2006: Rs 6,043,000), 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 amounted to Rs 322,336,384 for the year ended 31 March 2007 and Rs 119,357,840 for the year ended 31 March 2006.

Future minimum lease payments under non-cancellable operating leases as at 31 March 2007 are as follows:

(Rs 000's)

Period	
Not later than 1 year	441,979
Later than 1 year and not later than 5 years	735,755
	1,177,734

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 337,777,328 for the year ended 31 March 2007 and Rs 224,308,048 for the year ended 31 March 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (REVISED)

25. RELATED PARTY TRANSACTIONS

(a) Entities where control exists:

■ TH Holdings Limited, Mauritius	Holding company
■ Electronic Data Systems Corporation, USA	Ultimate holding company

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

(b) Key management personnel:

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

Executive key management personnel represented on the Board of the Company

■ Jaithirth Rao	Non-executive Chairman w.e.f. 1 November 2006 and Chief Executive Officer and Managing Director through 31 October 2006
■ Deepak Patel	Managing Director w.e.f 1 November 2006
■ Jeroen Tas	Director and Vice Chairman; resigned w.e.f. 24 June 2006 and re-appointed w.e.f. 10 October 2006; Non-executive vice chairman w.e.f. 1 March 2007.

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

■ Rahul Bhasin	Director
■ Jose de la Torre	Director
■ Nawshir H Mirza	Director
■ D S Brar	Director
■ Stephen Heidt	Director - appointed w.e.f. 27 June 2006
■ Paul Currie	Director - appointed w.e.f. 27 June 2006
■ Joseph Eazor	Director - appointed w.e.f. 27 June 2006
■ Mark Bilger	Director - appointed w.e.f. 30 August 2006
■ Vinita Bali	Director - appointed w.e.f. 30 March 2007
■ Richard Braddock	Director - resigned w.e.f. 27 June 2006
■ N Subramaniam	Director - resigned w.e.f. 27 June 2006
■ Ashish Dhawan	Director - resigned w.e.f. 22 June 2006
■ BR Menon	Director - resigned w.e.f. 26 June 2006
■ Thomas Haubenstricker	Director - appointed w.e.f. 27 June 2006, resigned w.e.f. 28 March 2007
■ Ronald Vargo	Director - appointed w.e.f. 27 June 2006, resigned w.e.f 10 October 2006
■ Douglas Davis	Director - appointed w.e.f. 27 June 2006, resigned w.e.f 30 August 2006

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

- TH Consulting India Pvt Limited
- EDS World Corporation (Far East)
- EDS (Operations) Pty Limited
- EDS Operations Services Gmbh
- EDS Answare SA
- Electronic Data Systems Limited
- EDS International B.V.
- EDS (New Zealand) Limited
- EDS Information Services LLC
- EDS Belgium N.V
- EDS Canada Inc.
- EDS Information Business Gmbh
- EDS Australia Pty Limited
- EDS Business Services Pty Limited
- EDS Gulf States
- EDS (China) Co. Limited
- EDS Hong Kong Limited
- EDS Sweden AB
- EDS International (S) Pte Limited
- EDS (Thailand) Co. Limited
- EDS Electronic Data Systems Taiwan Corp

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

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Rendering of services to other related parties	5,943,327	-
Software development charges paid to entities where control exists	9,110	-
Software support and annual maintenance charges paid to other related parties	516,072	-
Reimbursement of expenses by entities where control exists	15,936	-
Remuneration to executive key management personnel *	43,943	21,474
Commission to non-executive directors	8,175	2,000
Exercise of stock options by non-executive director	11,978	29,569
Exercise of stock options by executive key management personnel	131,250	37,500
Loan given to ESOP Trusts	37,078	32,230
Loan refunded by ESOP Trusts	11,585	43,300

* Includes remuneration paid to the former Managing Director and Chief Executive officer for the period up to 31 October 2006, for the Director and Vice Chairman for the period upto 28 February 2007 and for the present Managing Director from 1 November 2006 onwards.

* This does not include remuneration paid to the Non-executive Chairman for the period 1 November 2006 onwards amounting Rs 19,403,834 and other benefits and incentives and the remuneration paid to Vice Chairman for the period 1 February 2007 onwards, as the same is borne by EDS. Further, remuneration of certain non-executive directors is paid by the ultimate parent company and its affiliates as they are employees of the said companies.

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

	31 March 2007	31 March 2006
Interest free loans to ESOP Trusts, included in Loans and advances	47,575	22,082
Sundry debtors and unbilled revenue - other related parties	2,255,811	-
Advances recoverable in cash or in kind or for value to be received – entities where control exists, included in Loans and advances	4,800	-
Sundry creditors - entities where control exists, included in Current liabilities	7,494	-
Sundry creditors – other related parties, included in Current liabilities	330,824	

(f) Others:

150,000 options as at 31 March 2007 (31 March 2006: 1,206,000) of the various ESOP plans of the Company are held by key management personnel where the exercise price is equivalent to the market price immediately preceding the date of grant.

Notes to the Consolidated Financial Statements (Revised)

26. SEGMENT REPORTING

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

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 2007	Year ended 31 March 2006
Segment revenue		
Application Services	12,001,508	6,426,622
BPO Services	4,214,679	2,974,433
ITO Services	1,389,994	-
	17,606,181	9,401,055
Segment profit		
Application Services	3,168,762	2,209,790
BPO Services	1,029,269	705,662
ITO Services	220,481	-
	4,418,512	2,915,452
Interest income / (expenses), net	75,136	17,477
Other unallocable expenditure, net of unallocable income	2,510,454	1,376,148
Profit before taxation	1,983,194	1,556,781
Income taxes	182,470	58,206
Profit after taxation	1,800,724	1,498,575

	31 March 2007	31 March 2006
Segment assets		
Application Services	6,806,527	3,604,382
BPO Services	4,292,695	4,236,416
ITO Services	341,155	-
Unallocated assets	1,588,233	276,394
	13,028,610	8,117,192
Segment liabilities		
Application Services	777,530	483,536
BPO Services	310,271	288,079
Unallocated liabilities	1,855,854	739,697
	2,943,655	1,511,312

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Capital expenditure		
Application Services	638,714	261,977
BPO Services	345,095	524,672
ITO Services	75,705	-
Unallocated	652,809	-
	1,712,323	786,649
Depreciation and amortisation		
Application Services	312,601	168,312
BPO Services	455,607	349,842
ITO Services	11,812	-
Unallocated	236,571	-
	1,016,591	518,154

Secondary segment information (revenues)

Region		
USA	12,320,772	6,035,042
Europe	2,882,340	2,532,053
Asia Pacific	948,801	324,473
Japan	144,792	117,903
The Middle East and India	1,309,476	391,584
Total	17,606,181	9,401,055

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

Secondary segment information (segment assets)

	31 March 2007	31 March 2006
Region		
USA	1,600,321	1,191,919
The Middle East and India	10,845,647	6,534,858
Others	582,642	390,415
Total	13,028,610	8,117,192

Secondary segment information (capital expenditure)

	Year ended 31 March 2007	Year ended 31 March 2006
Region		
USA	158,883	120,267
The Middle East and India	1,539,670	644,181
Others	13,770	22,201
Total	1,712,323	786,649

Notes to the Consolidated Financial Statements (revised)

27. EARNINGS PER SHARE ('EPS')

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

	Year ended 31 March 2007	Year ended 31 March 2006
Number of weighted average shares considered for calculation of basic earnings per share	205,947,725	159,019,018
Add: Dilutive effect of stock options	3,180,760	2,758,088
Number of weighted average shares considered for calculation of diluted earnings per share	209,128,485	161,777,106

During July 2007, merger of EDS India with MphasiS Limited has been approved by High courts of Karnataka and Maharashtra and the necessary formalities have been completed. Since the merger is with retrospective effect from 1 April 2006 and the financial statement of EDS India has been consolidated with effect from that date, 44,104,065 shares which are pending allotment on account of merger is treated as if they were issued at the beginning of the year, for the purpose of calculating both the basic and diluted EPS.

207,269 weighted average number of shares (31 March 2006: 237,701 weighted average number of shares) held by the BFL Employees Equity Reward Trust and Kshema Employee Welfare Trust have been reduced from the equity shares outstanding for computing basic and diluted earnings per share.

28. STOCK BASED COMPENSATION

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

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

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Net profit as reported	1,800,724	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	38,886	43,286
Pro-forma net profit	1,761,838	1,455,289
Earning per share: Basic		
As reported	8.74	9.42
Pro-forma	8.55	9.15
Earning per share: Diluted		
As reported	8.61	9.26
Pro-forma	8.42	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 2007	Year ended 31 March 2006
Dividend yield	1.44% to 1.98%	1.44%
Expected life	1 to 4 years	1 to 4 years
Risk free interest rates	5.78% to 8.00%	5.78% to 6.55%
Expected volatility (annualised) *	67.12% to 69.48%	67.12%

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

29. Effective 1 April 2006, the Group has adopted the revised AS 15 – "Employee benefits" issued by the ICAI. Pursuant to the adoption, the transitional obligations of the Group amounted to Rs 38,571,962. As required by the standard, the opening transitional obligation has been recorded as an adjustment to the opening balance of the profit and loss account (refer note 4).

30. GRATUITY PLAN

Effective 1 April 2006, the Group adopted the revised accounting standard on employee benefits. The following tables set out the status of the gratuity plan as required under revised AS 15.

Reconciliation of the projected benefit obligations

(Rs 000's)

	Year ended 31 March 2007
Change in projected benefit obligation	
Obligations at period beginning	83,189
Service cost	102,075
Interest cost	9,399
Benefits paid	(17,762)
Actuarial (gain)/loss	(3,867)
Obligations at period end	173,034
Change in plan assets	
Plans assets at period beginning, at fair value	58,653
Expected return on plan assets	5,926
Actuarial gain / (loss)	2,393
Contributions	46,322
Benefits paid	(17,762)
Plans assets at period end, at fair value	95,532
Reconciliation of present value of obligation and fair value of plan assets	
Fair value of plan assets at the end of the year	95,532
Present value of defined benefit obligation at the end of the year	173,034
Liability recognised in the balance sheet	(77,502)
Gratuity cost for the period	
Service cost	102,075
Interest cost	9,399
Expected return on plan assets	(5,926)
Actuarial (gain)/loss	(6,260)
Net gratuity cost	99,288

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (REVISED)

(Rs 000's)

	Year ended 31 March 2007
Assumptions	
Interest rate	8.00%
Expected rate of return on plan assets	8.00%
Expected contribution over next one year	40,000

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

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

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Revenue recognised on customised software development contracts	4,249,022	3,464,620
	4,249,022	3,464,620

Disclosure for contracts in progress at the reporting date

	31 March 2007	31 March 2006
Fixed Price projects:		
Revenue recognised until the reporting date	443,159	379,872
Unbilled revenue	63,039	108,954
Unearned receivable	3,422	3,564
Time and material projects:		
Revenue recognised during the quarter	824,616	580,461
Unbilled revenue	175,818	98,641
Unearned receivable	9,164	16,519

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

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

33. 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 2007.

34. Previous period figures have been regrouped/reclassified, wherever necessary, to conform to the current period presentation. However, the current period figures have been revised to give effect to the amalgamation of EDS India with Mphasis Limited and are not strictly comparable with those of previous year's as EDS India has been merged with the company w.e.f 1 April 2006 [refer note 2(g)].

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
6 August 2007

CONSOLIDATED CASH FLOW STATEMENT (REVISED)

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
Cash flows from operating activities:		
Profit before taxation	1,983,194	1,556,781
Adjustments for:		
Interest income, net	(75,136)	(17,477)
Loss/(profit) on sale of fixed assets	1,681	(736)
Depreciation and amortisation	1,016,591	518,154
Effect of exchange rate changes	2,758	7,236
Operating profit before working capital changes	2,929,088	2,063,958
Increase in debtors and unbilled revenues	(1,430,170)	(293,477)
(Increase)/decrease in loans and advances	(227,909)	50,860
Increase/(decrease) in current liabilities and provisions	800,344	(58,952)
Cash generated from operations	2,071,353	1,762,389
Income taxes paid	(402,939)	(98,348)
Net cash provided by operating activities	1,668,414	1,664,041
Cash flows from investing activities:		
Interest received	66,329	17,382
Proceeds from sale of fixed assets	9,821	16,394
Purchase of fixed assets	(1,716,716)	(801,748)
Investment in subsidiaries including direct costs towards acquisition	(5,336)	(791,720)
Net cash used in investing activities	(1,645,902)	(1,559,692)
Cash flows from financing activities:		
Proceeds from issue of share capital	30,533	22,835
Proceeds of premium from issue of share capital	306,533	196,133
Repayments under finance lease obligation	-	(453)
Repayment of loans to vehicle finance company, net	(8,493)	(8,932)
Dividend paid including dividend tax	(553,903)	(272,862)
Net cash used in financing activities	(225,330)	(63,283)

* refer note 34

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
(Decrease)/increase in cash and cash equivalents	(202,818)	41,070
Effect of exchange rate changes	(1,997)	(7,276)
Cash and cash equivalents at beginning of the year	988,505	954,711
Cash and cash equivalent of EDS India [refer note 2(g)]	1,108,867	-
Cash and cash equivalents at end of the year (refer note 10)	1,892,557	988,505

* refer note 34

This is the consolidated cash flow statement (revised)
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
6 August 2007

Jaithirth Rao
Chairman

Alok C. Misra
Chief Financial Officer

Bangalore
6 August 2007

Deepak Patel
Managing Director

A. Sivaram Nair
Company Secretary

CONSOLIDATED CASH FLOW STATEMENT (REVISED)

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

	Year ended 31 March 2007*	Year ended 31 March 2006*
Purchase of fixed assets		
As per the Consolidated Balance Sheet	1,581,491	768,259
Add: Closing capital work-in-progress	244,813	113,981
Add: Opening creditors for capital goods	8,738	23,779
Less: Opening capital work-in-progress	(113,981)	(95,591)
Less: Opening capital work-in-progress of EDS India	(21,730)	-
Add: Opening creditors for capital goods of EDS India	40,255	-
Less: Closing creditors for capital goods	(22,870)	(8,738)
Add: Effect of exchange on subsidiary translation	-	58
Balance considered for preparing the consolidated cash flow statement	1,716,716	801,748
Loans and advances		
As per the Consolidated Balance Sheet	1,508,256	711,173
Less: Advance income tax and tax deducted at source considered separately	(449,904)	(102,307)
Less: Opening loans and advances of EDS India	(261,196)	-
Less: Amount deposited in to Escrow (Eldorado)	-	(39,492)
Add: Effect of foreign exchange translation	127	6,468
	797,283	575,842
Less: Opening balance considered	569,374	626,702
Balance considered for preparing the consolidated cash flow statement	227,909	(50,860)
Current Liabilities and Provisions		
As per the Consolidated Balance Sheet	2,915,236	1,474,400
Less: Creditors for capital goods, liability for unclaimed dividend, provision for taxation, proposed dividend and tax on dividend considered separately	(799,288)	(614,575)
Less: Transitional adjustment in accordance with revised AS-15	(38,572)	-
Less: Liability for Kshema acquisition considered separately	(18,060)	(17,060)
Less: Liability for EDS India merger expenses	(66,688)	-
Less: Opening current liabilities and provisions of EDS India	(399,521)	-
Add: Opening creditors for capital goods of EDS India considered separately	40,255	
Add: Effect of foreign exchange translation	8,747	1,069
	1,643,109	843,834
Less: Opening balance considered	842,765	902,786
Balance considered for preparing the consolidated cash flow statement	800,344	(58,952)

* refer note 34

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

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
Income taxes paid		
As per the Consolidated Profit and Loss Account	182,470	58,206
Add: Increase in deferred taxes	10,883	16,426
Add: Increase/(decrease) in provision for taxation	9,308	(9,205)
Add: Increase in balance in advance income tax and tax deducted at source	347,597	31,751
Less: Opening advance tax and tax deducted at source, net of provision for tax of EDS India	(127,620)	-
Less: Opening deferred tax of EDS India	(22,807)	-
(Less)/add: Effect of exchange rate changes	3,108	1,170
Balance considered for preparing the consolidated cash flow statement	402,939	98,348
Interest income, net		
Interest income, net	75,136	17,477
Add: Opening interest receivable	2,111	2,016
Add: Opening interest receivable of EDS India	531	-
Less: Closing interest receivable	(11,449)	(2,111)
Balance considered for preparing the consolidated cash flow statement	66,329	17,382
Sundry debtors and unbilled revenue		
As per the Consolidated Balance Sheet	4,210,120	2,117,150
Less: Opening debtors and unbilled revenues of EDS India	(667,049)	-
Add: Effect of foreign exchange translation	4,249	11,112
	3,547,320	2,128,262
Less: Opening Balance considered	2,117,150	1,834,785
Balance considered for preparing the consolidated cash flow statement	1,430,170	293,477

* refer note 34

for and on behalf of the Board of Directors

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
6 August 2007

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.

Provision for Doubtful Debts

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

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

Income taxes

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

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

B. Glossary of Terms used in the Financial Statements

Revenues

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

Cost of Revenues

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

Gross Profit

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

Selling Expenses

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

General & Administrative Expenses

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

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 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 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 Information Technology (IT) or Application Services (Apps) and Business Process Outsourcing (BPO) services group (‘the Group’) formed in the year 2000 after the merger of Bangalore, India, based BFL Software Limited (formed in 1992) and California, US, based MphasiS Corporation (formed in 1998). Effective 1 April 2006, EDS Electronic Data Systems (India) Pvt Ltd (EDS India), a subsidiary of Electronic Data Systems Corporation, USA has been merged with the flagship company of MphasiS group, MphasiS Ltd. MphasiS has added IT outsourcing or Remote Infrastructure Management (ITO) services to its services segments with w.e.f. 1 April 2006.

EDS Corporation, USA through its subsidiary acquired 51% of shares of MphasiS Ltd during the year. After this acquisition MphasiS group has become part of the $ 21 billion EDS group (EDS).

The Group offers solutions to the world’s leading companies in selected industries, such as banking & financial services, logistics and technology, based on a portfolio of world-class Apps, BPO & ITO 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 Apps services business. ITO business is in a nascent stage but expected to grow with the migration of the business from EDS.

Apps 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 Apps 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 upgraded and rolled out in FY07.

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 2007 (‘FY07’) consolidated revenues were Rs 17,606 million, a growth of Rs 8,205 million or 87.3% over the year ended 31 March 2006 (‘FY06’). The growth has been significantly contributed to by the merger of EDS India. Organically the group revenues have grown by 27% over FY06. Apps revenues increased by 86.7%, BPO revenue increased by 41.7% over FY06 and ITO contributed Rs 1,390 million revenue in FY07.

The consolidated net profit was Rs 1,801 million in FY07, an increase of Rs 302 million or 20.2% over FY06. As a percentage of total revenues, the net profit was 10.2% in FY07 compared to 15.9% in FY06.

During FY07, the Group generated cash flows from operations of Rs 1,668 million. The Group has also invested: Rs 1,716 million in fixed assets.

The Group has recorded a net increase in cash and cash equivalents of Rs 904 million for the year ended 31 March 2007.

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.

Management Discussion and Analysis of Financial Condition and Results of Operations

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.

B. 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 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.

C. Results of operations

The following table summarises the results of operations of the Group for FY07 with comparatives for FY06.

(Rs 000's)

	FY07				FY06		
	Apps	BPO	ITO*	TOTAL	Apps	BPO	TOTAL
Revenues	12,001,508	4,214,679	1,389,994	17,606,181	6,426,622	2,974,433	9,401,055
Cost of revenues	8,832,746	3,185,410	1,169,513	13,187,669	4,221,052	2,264,551	6,485,603
Gross profit	3,168,762	1,029,269	220,481	4,418,512	2,205,570	709,882	2,915,452
Selling expenses	711,352	207,076	-	918,428	458,384	126,219	584,603
General and administrative expenses	968,893	392,826	80,289	1,442,008	568,899	285,243	854,142
Provision for doubtful debts	7,756	6,896	-	14,652	7,449	6,468	13,917
Operating profit	1,480,761	422,471	140,192	2,043,424	1,170,838	291,952	1,462,790
Foreign exchange gain/(loss), net	(63,422)	(62,693)	(7,437)	(133,552)	64,786	20,459	85,245
Other income/(expense), net	(1,098)	(436)	(280)	(1,814)	(6,842)	(1,889)	(8,731)
Interest income/(expense), net	30,818	39,632	4,686	75,136	(18,123)	35,600	17,477
Profit before taxation	1,447,059	398,974	137,161	1,983,194	1,210,659	346,122	1,556,781
Income taxes (including Fringe Benefit Tax)	145,393	25,370	11,707	182,470	61,405	(3,199)	58,206
Net profit	**1,301,666**	**373,604**	**125,454**	**1,800,724**	**1,149,254**	**349,321**	**1,498,575**

* ITO business became a part of the Group from FY 07. FY07 financials include the result of operations of EDS India, which has merged into the Group from April1, 2006

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.

(Rs 000s)

	% of revenues		Increase/(decrease)
	FY07	**FY06**	**in FY07 over FY06**
Revenues	100.0%	100.0%	8,205,126
Cost of revenues	74.9%	69.0%	6,702,066
Gross profit	25.1%	31.0%	1,503,060
Selling expenses	5.2%	6.2%	333,825
General and administrative expenses	8.2%	9.1%	587,866
Provision for doubtful debts	0.1%	0.1%	735
Operating profit	11.6%	15.6%	580,634
Foreign exchange gain/(loss), net	-0.8%	0.9%	(218,797)
Other income/ (expense), net	-	-0.1%	6,917
Interest, income/(expense), net	0.4%	0.2%	57,659
Profit before tax	11.3%	16.6%	426,413
Income taxes including Fringe Benefit Tax)	1.0%	0.6%	124,264
Net profit	**10.2%**	**15.9%**	**302,149**

Revenues

During the year ended 31 March 2007, revenues grew by Rs 8,205 million or 87.3%. The growth was predominantly due to merger of EDS India. Apps added a total of 35 new clients in core MphasiS business and business with EDS clients. EDS India brought in 71 clients. Apps headcount rose by 4,913 & revenue grew by 86.7%. BPO services revenue grew by 41.7%, the growth primarily coming from domestic business. BPO services added a total of 6 new clients in core MphasiS business during the year and a further 15 clients were added from the EDS India merger. BPO headcount numbers rose by 1,540. ITO services contributed revenue of Rs 1,390 million during FY07 with 2,145 employees at the end of the year.

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

(Rs millions)

Segment	FY07	%	FY06	%
Application Services				
Financial Services	4,810	27%	3,504	37%
Manufacturing, Logistics and Transportation	2,766	16%	1,176	13%
Technology	4,425	25%	1,747	19%
BPO Services				
Financial Services	2,524	14%	2,146	23%
Technology & Telecom	1,076	6%	412	4%
Manufacturing, Logistics and Transportation	615	4%	416	4%
ITO Services				
Financial Services	7	1%		
Manufacturing, Logistics and Transportation	926	5%		
Technology	418	2%		
	17,606	**100%**	**9,401**	**100%**

In FY07, the financial services segment continued to be the largest segment, contributing over 41% of the Group's revenues. The Technology segment has grown substantially over FY06 and has been the second highest contributor 31% for FY07. Manufacturing, Logistics and Transportation sector has grown over FY06 owing to ITO business.

Client concentration

	FY 07
Revenues from Top Client	8%
Revenues from Top 5 Clients	31%
Revenues from Top 10 Clients	46%
Clients Contributing more than:	
$ 1 million Revenues	65
$ 5 million Revenues	19
$ 10 million Revenues	11
$ 20 million Revenues	4

The group expanded its client base with 41 new clients added in core MphasiS business and business with EDS clients. Further to that EDS India added 86 clients through EDS channel business. Revenue from top client accounted for 8%. The number of clients contributing revenues of more than USD 1 million increased by 26 in FY 07 with 4 clients contributing more than USD 20 million and 11 clients contributing more than USD 10 million. The substantial increase in client base along with expanded service offerings have mitigated top line risks arising out of dependency on a few large customers

A few key analyses of revenues by business (Apps, BPO and ITO Services) is summarised in the following sections.

Application Services

Revenues by Project type

(Rs millions)

	FY07	%	FY06	%
Application Development	5,648	47%	3,465	54%
Application Maintenance	5,775	48%	2,548	40%
Other Services	578	5%	414	6%
Total	**12,001**	**100%**	**6,427**	**100%**

Application development refers to customised software development services based on requirements and specifications given by customers documented in Statements of Work. Maintenance concerns maintenance of software, mostly on annuity terms. The share of Maintenance service in the total has grown in FY07 owing to a larger proportion of maintenance revenues in the EDS India business.

Revenues by Delivery location

(Rs millions)

Project Type	FY07	%	FY06	%
Time and Material ('T&M')	11,118	93%	5,275	82%
Fixed Price ('FP')	883	7%	1,152	18%
Total	**12,001**	**100%**	**6,427**	**100%**

Apps 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. Many fixed price projects came to an end in FY07 and share of business on T&M grew with the merger of EDS India.

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	FY07	%	FY06	%
Revenues				
Onsite	4,195	35%	3,778	59%
Offshore	7,806	65%	2,649	41%
	12,001	**100%**	**6,427**	**100%**

The Group charges higher billing rates and incurs higher compensation expenses for work performed by the onsite teams at customers' premises compared to work performed at its offshore centres. Many projects during FY07 have transitioned offshore and with merger of EDS India which was 100% offshore, the share of offshore revenues has increased substantially. The total number of employees grew by 139% in FY07 in the merged entity.

BPO Services

Revenues by Service type

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

(Rs millions)

Service Type	FY07	%	FY06	%
Customer Service	2,359	56%	2,166	64%
Knowledge Processes	1,241	29%	178	6
Transaction Service	476	11%	475	16%
Technical Help desk	139	3%	155	5%
Total	**4,215**	**100%**	**2,974**	**100%**

Customer service and transaction processing comprise revenues generated from both inbound and outbound call services. While customer services include collections, product support, enrolment etc., 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.

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	FY07	%	FY06	%
Voice	2,530	60%	2,379	80%
Non Voice	1,685	40%	595	20%
Total	**4,215**	**100%**	**2,974**	**100%**

The share of Non Voice has increased substantially due to F&A and HR recruitment services. Voice based services have been significant growth in new domestic customers.

ITO Services

Revenues by Service type (Rs millions)

Service Type	FY07	%
Service / Technical Help Desk	911	66%
Workplace Services	410	29%
Hosting Services	47	3%
Data Centre Services	22	2%
Total	**1,390**	**100%**

No comparable figures for FY06 are available, since the ITO is a business line started in FY07 post merger of EDS India.

Service / Technical help desk comprise of inbound and outbound customer interaction programs including technical product support, customer care and allied services. Work place services include end-to-end managed mobility solution covering workplace management & other support services. Hosting services comprise of mainframe or midrange, application and web hosting services. Data center services focus on migration, automation & other software services.

Consolidated operations

Revenues by Geography (Rs millions)

Regions	FY07	%	FY06	%
USA	12,321	70%	6,037	64%
Europe	2,882	16%	2,532	27%
Asia Pacific	949	6%	237	3%
Japan	145	1%	118	1%
The Middle East & India	1,309	7%	477	5%
Total	**17,606**	**100%**	**9,401**	**100%**

Price – volume analysis

In Apps, consequent to consolidation of EDS India , the overall volume increased by a significant 139.3% in FY07 over FY06 which has been offset by a mix variance of 22% due to higher offshore mix of revenues and a decrease by 19.6% in blended billing rates due to higher share of offshore. The depreciation of the Indian Rupee to the US Dollar contributed to a 1.5% favourable impact on revenues in FY07 over FY06. Increase in volumes led to increase in revenues in BPO. The billing rates were stable. ITO is a new business line and is likely to grow with higher off shoring by EDS.

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, and foreign travel expenses.

The consolidated cost of revenues of the Group in FY07 of Rs. 13,188 million increased by 103.3% over the cost of revenues of Rs 6,486 million in FY06 and represented 74.9% and 69.0% of the consolidated revenues of FY07 and FY06 respectively. The increase in costs is mainly due to the merger of EDS India, manpower addition and cost of additional facilities to cater to the volume growth, and salary increments.

Cost of revenues as a percentage of revenues in Apps increased from 65.7% to 73.6% in FY07 due to increase in salaries and incremental cost of new facilities partially offset by improvement in utilisation. The headcount in Apps increased by 4,913 to reach a total of 8,446 as on 31 March 2007. The Cost of revenues of BPO services has decreased from 76.0% in FY06 to 75.6% in FY07, largely as a result of change in the revenue mix. BPO services employees increased by 1,540 to reach a total of 9,421 as on 31 March 2007. Cost of revenues for ITO services is 84.1% of its revenues. ITO is a new segment which has emerged during the current year due to merger of EDS India.

Gross Profit

The consolidated growth in revenues in excess of direct costs resulted in an increase in the gross profit by Rs 1,503 million or 51.6%. As a percentage of total revenues, the consolidated gross profit decreased to 25.1% in FY07 from 31.0% for the preceding year due to the EDS India business that has a higher element of direct costs and low overheads as its only customer is EDS. Analysed below are the individual gross margins at the Apps, BPO and ITO operations of the Group.

Application Services

The gross profit increased by Rs 963 million or 43.7% over FY06. As a percentage to revenues, the margins decreased from 34.3% in FY06 to 26.4% in FY07. The decrease is primarily attributable to the merger of EDS India. Salary increases, increase in facility costs have also contributed to reduced margins in FY07. Improvement in utilisation in both onsite and offshore has partially offset the impact of increasing costs on margins

(Rs millions)

Number of employees	**FY07**	**%**	**FY06**	**%**
Onsite	849	10.1%	806	21.8%
Offshore	7,597	89.9%	2,727	77.2%
	8,446	**100%**	**3,533**	**100%**

Utilisation rates (including trainees)	**FY07**	**FY06**
Onsite	88%	87%
Offshore	76%	71%
Average	**78%**	75%

Billing rates continued to be stable during the year with marginal increase on onsite rates which is more due to change of mix. A comparison in the annual billing rates for the periods presented is given below.

(USD per hour)

Billing Rates	FY07	FY06
Onsite	66	64
Offshore	21	21

BPO Services

The gross profit from the BPO services increased by Rs 319 million or 44.9% over FY06, owing to change in the revenue mix and consolidation of EDS India. The gross profits marginally increased to 24.4% in FY07 from 23.9% in FY06 as a percentage of revenue. The billing rates remained at $10 per hour.

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

Number of employees	FY07	FY06
Onsite	84	10
Offshore	9,337	7,871
	9,421	**7,881**

Utilisation rates	FY07	FY06
Process utilisation (excluding trainees)	67%	70%
Process utilisation (including trainees)	55%	57%

ITO Services

The gross profit from the ITO services in FY07 is Rs 220 million arising out of 100% offshore work. The gross margin in FY07 was 15.9% of revenue with a billing rate of $19 per hour with the employee count of 2145 as on 31 March 2007 and the utilisation of 74% during the year.

Selling expenses

Selling expenses primarily comprise expenses relating to advertisement, 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 from Rs 585 million in FY06 to Rs. 918 million, an increase of Rs 334 million or 56.9%. The increase in cost has been due to increase in the sales force. Sale incentives also contributed to the overall increase in selling expenses. As a percentage of revenues, selling expenses decreased from 6.2% during the year ended 31 March 2006 to 5.2% for the year ended 31 March 2007 mainly because EDS India's business did not require any selling activity.

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, miscellaneous administrative costs, depreciation of assets used in administrative offices and other related miscellaneous expenses.

General and Administrative expenses increased from Rs 854 million in FY06 to Rs 1,442 million in FY07, an increase of Rs 588 million or 68.8% . The increase has been primarily on account of increase in manpower to support additional volumes of business, investment on senior managerial personnel and salary increments to existing people. As a percentage of total revenues, G&A expenses decreased to 8.2% for the year ended 31 March 2007 as against 9.1% for the year ended 31 March 2006, because of higher operating leverage.

Operating Profit

Operating profit for FY07 was Rs 2,043 million as against Rs 1,463 million in the preceding year, an increase of Rs 580 million or 39.7%. As a percentage of revenues, operating margin was 11.6% in FY07 as against 15.6% for FY06. Though there were operating leverages on selling & general and administrative expenses, the reduction in operating margin is due to reduction in gross margins owing to a different business model of EDS India.

Foreign exchange gain / (loss), net

The foreign exchange loss for FY07 was Rs 134 million compared to a gain of Rs 85 million during FY06. This is mainly due to losses booked against forward covers when rupee depreciated against the dollar.

Interest, net

Net interest income in FY07 increased to Rs 75 million from Rs 17 million during FY06 owing to additional investible surplus available in the system including that of EDS India.

Income taxes (including Fringe Benefit Tax)

Income taxes represent the provision for corporate & income taxes in the countries where the Group's revenues are earned. These taxes are based on the capital structure of the companies as also the profits earned as reduced by allocated 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 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 subject to tax.

Income taxes were Rs 182 million for FY07 compared to Rs 58 million for FY06. The increase is because of partial reversal of deferred tax assets created earlier as businesses became profitable and additional income tax provisions due to merger of EDS India.

Net Profit

The net profit after taxes was Rs 1,801 million for FY07, an increase of Rs 302 million or 20.2% over the net profit of Rs 1,499 million for the preceding year. As a percentage of total revenues, the net profit decreased to 10.2% from 15.9% in FY06 mainly because of decline in gross margins and increase in foreign exchange losses.

D. Liquidity and Capital Resources

(Rs 000s)

	FY07	FY06	Change
Working capital	4,707,146	2,344,539	2,362,607
Cash provided by operating activities	1,668,414	1,664,041	4,373
Cash (used in) investing activities	(1,645,902)	(1,559,692)	86,211
Cash (used in)/ provided by financing activities	(225,330)	(63,279)	(162,047)
Cash and cash equivalents	1,892,557	988,505	904,052

The Group has historically been financed mainly through cash generated from operations and partly by issue of shares through exercise of options. 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, Loans and advances, current liabilities and provisions and higher Income taxes had reduced the net cash inflows from operating activities in FY07. The Group recorded a cash profit of Rs 2,929 million in FY07 as against Rs 2,064 million in FY06, an increase of 41.9%.
The following table shows Days Sales Outstanding.

Number of days

	FY07	FY06
Apps	54	59
IT Services	51	56
BPO	45	-
Group	**52**	**58**

In FY07 the Group had higher cash outflow for Income taxes of Rs 403 million as against Rs 98 million in FY06.

Cash used in investing activities

In FY07, the Group incurred capital expenditure of Rs 1,716 million for the increased scale of operations.

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 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 FY07 the cash provided by financing activities included Rs 337 million received primarily on account of the exercising of stock options, as against Rs 219 million in FY06.

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 2007 and 31 March 2006 were Rs 550 million and Rs 350 million respectively. The credit lines were utilised only towards providing guarantees and letters of credit. As at 31 March 2006 the Group had unutilised short term working capital facility of USD 5 million or equivalent, the facility has been converted to non funded credit lines during the current year.

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 an average 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 2007 and 2006 is given below.

(Rs 000's)

	As at 31 March 2007	As at 31 March 2006
Margin money deposits	8,543	8,017
Unclaimed dividends	1,255	1,232
TOTAL	**9,798**	**9,249**
As a % of total cash balances	**0.52%**	**0.93%**

Contractual commitments

The following table summarises the Group's contractual commitments as at 31 March 2007 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.

(Rs 000's)

		By period		
Obligations/Commitments	**TOTAL**	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Capital commitments #	100,024	100,024	-	-
Finance lease obligations *	-	-	-	-
Operating leases	1,413,365	963,412	449,953	-
Total contractual cash obligations	**1,513,389**	**1,063,436**	**449,953**	**-**

 # 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 2007, 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 payments of the obligations discussed above is 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 2007 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). All option discounts were amortised by 31 March 2006. 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 note 5 of the consolidated financial statements.

E. 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 2007-08, the Group expects to continue to grow in consolidated revenues and profits.

With the group becoming a part of EDS, there are excellent opportunities for business with EDS clients involving multiyear contracts of large sizes.

In line with the increasing scale of operations, the Group expects capital expenditure of approximately Rs. 360 million in the year ending 31 March 2008.

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 was 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 standard did not have a material impact on the consolidated financial statements of the Group.

Accounting for Forward exchange contracts

ICAI made an announcement in March 2006 regarding accounting for exchange differences arising on forward exchange contracts relating to firm commitments or highly probable transactions. The announcement required that exchange differences arising on such contracts should be recognized in the statement of profit and loss in the reporting period in which the exchange rate changes. The 'premium' or 'discount' on these contracts should be amortized to income over the tenure of the contract. This does not change the accounting for debtors and creditors in foreign currency which would continue to be restated at the closing rate.

The announcement is applicable in respect of accounting period(s) commencing on or after 1 April 2006. This announcement did not have an impact on the Group financials as the Group had been following the prescribed treatment.

Directors' Profile

Mr. Jaithirth Rao, Chairman

Jaithirth (Jerry) Rao holds a Masters degree from the University of Chicago and a MBA from the Indian Institute of Management, Ahmedabad. Jerry joined the Board in January 2000 and was the CEO and Managing Director of the Company from November 2001 to October 2006.

Prior to founding MphasiS, Jerry was with Citigroup, where he built and developed Citibank's Consumer Business 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 Vice President and General Manager of Electronic Data Systems' (EDS) operations in India. He is also on the Boards of Puravankara Projects Limited, IDFC Private Equity Company Limited, Royal Orchid Hotels Limited, Rao Properties Private Limited, Sanvijay Tourist Services Private Limited, Bangalore Review and Magazines Company Private Limited, Lotus India Asset Management Company Private Limited, Juris Investments Private Limited, JuriMatrix Services India Private Limited, VA Tech Wabag Limited and Sankhyaa Limited (UK). He is 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.

Mr. Jeroen Tas, Vice Chairman

Jeroen Tas is the co-founder of MphasiS. Before starting MphasiS he was with Citibank, heading Transaction Technology Inc., the subsidiary responsible for the design and development of the bank's distribution systems, such as ATMs, internet and contact centers. He has worked for Digital Equipment and Philips Electronics in international marketing and project management positions in the USA, Europe and Asia.

Jeroen is a native of the Netherlands and holds an MBA degree from the Free University of Amsterdam. Jeroen was a director on the Board of MphasiS from September 2001 to June 2006 and rejoined the Board as an Additional Director and Vice-Chairman on 10 October 2006.

Currently, Jeroen is Vice President - Business Operations for Applications Services of EDS Corporation with responsibility for Applications Services' planning, sales, solutioning, supply management, demand fulfillment and work placement functions. He is also on the Boards of Eldorado Computing Inc. and Riddle Productions, USA.

Mr. Deepak Jayant Patel, Managing Director

Deepak Patel joined the Board of MphasiS effective 1 November 2006. Deepak has a B.S. in Mechanical Engineering from M.S. University of Baroda. Prior to his current role, he was Chief Operating Officer of MphasiS Group. At EDS, Deepak was Vice President, Best Shore^{SM} Strategic Investments and Business Development in addition to other positions. He was also Principal/Senior Manager, SAP Practice at Price Waterhouse, LLP and prior to that Senior SE & Chief-Technologies, Manufacturing Technology Group at EDS.

Deepak has twenty years of experience in the information technology sector and his professional services span roles as diverse as infrastructure outsourced operations, consulting services, alliance management, sales and marketing and manufacturing engineering. He is on the Boards of Shivani Corporation, USA and Gopi Krishna Ventures, USA.

Directors' Profile

Mr. Rahul Bhasin, Director

Rahul Bhasin is an MBA from the 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. Currently, he is also on the boards of Hindustan Oil Exploration Company Limited, Secova eServices Limited, Auro Mira Energy Company Private Limited, Maples ESM Technologies Private Limited, GI Terminal i-Tech India Private Limited, Pharmarc Analytic Solutions Private Limited, Integra Software Services Private Limited and Parsec Interact Inc.

Dr. Jose de la Torre, Director

Dr. Jose de la Torre is a Doctor in Business Administration from Harvard University and an 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. He is on the Boards of Proeza Group S.A. Monterrey, Mexico and Quantum Group Inc., USA.

Mr. 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 is deeply involved in the movement for improved corporate governance, having served on various committees dealing with the subject and has organised progammes for independent directors.

He is also a Director on the boards of Esab India Limited, Tata Power Company Limited, Tata Industries Limited, Health & Glow Retailing Private Limited, Foodworld Supermarkets Limited and Jardine Shipping Services (India) Private Limited. As a philanthropist, he is actively involved with Childline, an all-India NGO for abused & distressed children.

Mr. 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 Maruti Udyog Limited, Suraj Hotels Private Limited, Madhubani Investments Private Limited, Suraj Overseas Private Limited, Green Valley Land and Development Private Limited, Davix Management Services Private Limited, GVK Bio Sciences Private Limited, GVK Davix Technologies Private Limited, Inogent Laboratories Private Limited, GVK Davix Research Services Private Limited and Moksha8 (Cayman Islands). He is also a Member of the Board of Governors of Indian Institute of Management, Lucknow and Special Advisor to the Board of Directors of Codexis, a California based Company.

Mr. Stephen Heidt, Director

Stephen (Steve) Heidt is a representative of Electronic Data Systems Corporation (EDS), the majority shareholder holding 83 million shares (currently 50.50%) 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. Presently, Steve is also on the Board of Excellerate HRO, USA.

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 - 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.

Mr. Paul W Currie, Director

Paul W Currie, representative of EDS on the Board of MphasiS, 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. Presently, he is also on the Board of CEI, USA.

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.

Mr. Joseph Eazor, Director

Joseph (Joe) Eazor is also a representative of EDS on the Board of MphasiS since June 2006. He has an 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 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 & 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' Profile

Mr. Mark Bilger, Director

Mark Bilger is a representative of EDS on the Board of the Company. He joined the Board in August 2006. Mark holds a bachelor's degree in Mathematics from Wheaton College in Wheaton, Illinois.

At EDS, Mark is Vice President for Global Applications Delivery, in which role he has overall leadership responsibility for guiding and integrating the EDS' capabilities in Applications Services. Before his current role, Mark served as Vice President of Strategic Projects within Global Sales & Client Solutions where he focused on successful implementation of complex, mission-critical client applications projects. During this assignment, he successfully led EDS' UK Department of Work & Pensions (DWP) Child Support Agency account, resulting in the client awarding EDS additional business.

Mark joined EDS in 2003 from The Feld Group, where he was chief development officer and led the development of the Business Intelligence Strategy for the Coca-Cola company. In 1982, he began a 15-year career at IBM, during which he rose through the technical leadership ranks, from his start as a systems engineer. Before his last role as software director, he was practice leader, IBM Application Consulting for Greater China Group, with responsibility for creating an applications development professional services capability for IBM China.

Ms. Vinita Bali, Director

Vinita Bali joined the Board on 30 March 2007. Vinita holds a bachelor's degree in Economics and has an MBA degree from the Jamnalal Bajaj Institute of Management Studies of Bombay University. She has acquired additional qualifications in Business and Economics from Michigan State University and has interned at the United Nations headquarters in New York.

Vinita started her career with Voltas in India in 1977. In 1980, she joined Cadbury India as Brand Manager and went on to working in the UK, Nigeria and South Africa, where she also served on Cadbury boards. In 1994, she moved to the Coca-Cola Company in the USA as the worldwide Marketing Director of Coca-Cola. During her ten years at Coke she also served as President of the South Latin Division and Head of Strategy, with responsibility for the company's worldwide business strategy and new initiatives.

Currently, Vinita is the Managing Director of Britannia Industries Limited, India. She is also on the boards of Britannia New Zealand Foods Limited, Go Airlines (India) Private Limited, Titan Industries Limited, Gujarat Glass Ltd., Britannia New Zealand Holdings Private Limited, Mauritius, Britannia & Associates (Mauritius) Private Limited and Britannia & Associates (Dubai) Company Limited. Vinita has also served on the board of the Centre of Strategic & International Studies, Washington, a non-profit organization.

Directors' Report

Dear Shareholders,

We have pleasure in presenting to you the Fifteenth Annual Report of your Company for the financial year ended 31 March 2007.

CONSOLIDATED PERFORMANCE

Your Company and its subsidiaries' (Group's) total revenue grew by 87% from Rs 9,401 million in the previous year to Rs 17,606 million for the year 2006-07, including on account of the merger of EDS Electronic Data Systems (India) Private Limited with retrospective effect from 1 April 2006. The profit before taxes for the same period increased by 27% from Rs 1,557 million to Rs 1,983 million. Basic earnings per share for the year ended 31 March 2007 was Rs 8.74. 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)

Particulars	2006-07	2005-06
Provision for proposed dividend	624.64	483.16
Tax on Dividend	106.53	68.29
Transfer to General Reserve	131.53	76.22

A detailed analysis of performance is available in the section on Managment Discussion and Analysis of Financial Condition and Results of Operations.

OUTLOOK

The year has been one of great challenges and achievements. Your Company has grown from strength to strength to record its highest ever profits as a Company and is looking at building on this solid foundation in the times to come, with the backing of Electronic Data Systems Corporation (EDS). The acquisition of your Company by EDS has expanded opportunities for your Company. It has enabled your Company to broaden its offerings to customers by including infrastructure outsourcing in addition to the current applications services and BPO offerings. The acquisition has also given your Company access to EDS' vast client base and its array of technologies, tools, knowledge and experience.

SHARE CAPITAL

The issued share capital of the Company as on 31 March 2007 stood at Rs 1,640 million (which is inclusive of 179,862 shares of Rs 10/- each amounting to Rs 1,798,620/- held by the BFL Employees Equity Reward Trust) and Reserves and Surplus of the Group stood at Rs 7,935 million. There has been an increase in the capital on account of 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 2007, subject to your approval at the ensuing Annual General Meeting.

CORPORATE GOVERNANCE

A note on corporate governance and the auditor's certificate on corporate governance are annexed to this report.

OTHER DEVELOPMENTS

(A) OPEN OFFER FOR SHARES BY EDS CORPORATION

Pursuant to the open offer for acquisition of shares made in April 2006, TH Holdings, an unlisted company incorporated under the laws of Mauritius, as the acquirer, acquired 83 million shares of your Company. Electronic

Data Systems Corporation ("EDS"), a company incorporated in Delaware, USA which is the ultimate parent company and the beneficial owner of TH Holdings, was a person acting in concert with TH Holdings in terms of the SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, for the purposes of the open offer.

In October 2006, TH Holdings made a second open offer for acquisition of up to 20% of the share capital on that date. The offer closed in February 2007 and EDS, through TH Holdings, acquired further 2,201 shares.

EDS is the listed flagship entity of the EDS group of companies (the "**EDS Group**"). EDS, TH Holdings, EDS World Corporation (Far East), EDS World Corporation (Netherlands), EDS Finance Partnership (Cayman), L.P., EDS Finance (Cayman) Ltd., and other direct and indirect subsidiaries of EDS form the EDS Group. This information is given pursuant to the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997, as amended up to date.

As on 31 March 2007, the EDS Group through TH Holdings held 83,002,201 shares forming 50.59% of the share capital of your Company on that date.

(B) MERGER OF ELECTRONIC DATA SYSTEMS (INDIA) PRIVATE LIMITED WITH MPHASIS LIMITED

In terms of the approval of the Board of Directors of your Company vide resolution passed on 26 July 2006 and your approval accorded at the court convened meeting held on 13 November 2006, your Company had filed an application before the Hon'ble High Courts at Bombay and Karnataka seeking sanction for the Scheme of Merger between EDS Electronic Data Systems (India) Private Limited ("EDS India") and MphasiS Limited. The Hon'ble High Courts at Bombay and Karnataka, vide orders dated 2 February 2007 and 19 June 2007, respectively, sanctioned the Scheme of Amalgamation as prayed for and EDS India stands merged with your Company with effect from 23 July 2007 on filing of the order with the Registrar of Companies, Karnataka.

The merger is applicable with retrospective effect from 1 April 2006, from which date the financials of both EDS India as well as MphasiS Limited have been consolidated and are attached to this report for adoption at the Fifteenth Annual General Meeting.

(C) CHANGE IN NAME AND REGISTERED OFFICE OF THE COMPANY

In terms of the approval of shareholders accorded at the extraordinary general meeting held on 13 November 2006, your Company changed its name from "MphasiS BFL Limited" to "MphasiS Limited" with effect from 24 November 2006. Further, with effect from 30 April 2007, your Company has shifted its registered office from 139/1, Hosur Road, Koramangala, Bangalore 560 095 to Bagmane Technology Park, Byrasandra, C V Raman Nagar, Bangalore 560 093.

EMPLOYEES

Your Company trains, guides and empowers professionals to adapt to and make the best use of the opportunities that changing business environment offers. Your Company has a strong company culture that is built on the key values of customer centricity, transparency, flexibility, pro-activeness and commitment. Offices and projects located in different parts of the globe give employees immense opportunities to grow within the Company.

Your Company understands the need to hire and retain quality human capital so that it can maintain its leadership position in the industry. The work environment is open, non-hierarchical and achievement oriented; the organization flat and entrepreneurial.

EMPLOYEES STOCK OPTION PLAN

Your Company's Employee Stock Option Plan is administered through the BFL Employees Equity Reward Trust.

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

Your Company currently has four Plans in operation, namely, ESOP 1998 Plan (Version I and II), ESOP 2000 Plan, ESOP 2003 Plan and ESOP 2004 Plan. Since July 2006, the Company has not granted any options to the employees.

SUBSIDIARIES

As on 31 March 2007, your Company had subsidiaries in Australia, Germany, India, Mauritius, Netherlands, Peoples Republic of China, Singapore, the United Kingdom and the United States of America.

Your Company has received the approval from the Ministry of Company Affairs, New Delhi vide their letter No. 47/214/207-CL-III dated 17 May 2007 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 2007. Your Company, however, continues to publish the consolidated financial statements of the Group. Further, as required by the said exemption letter, the information regarding each subsidiary with regards to capital, reserves, total assets, total liabilities, details of investment, turnover, profit before taxation, provision for taxation, profit after taxation and proposed dividend is given as an annexure to the Directors' Report.

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

The following Directors were appointed on the Board of your Company after the last Annual General Meeting:

(i) Mr. Mark Bilger as Additional Director with effect from 30 August 2006;

(ii) Mr. Jeroen Tas as Additional Director with effect from 10 October 2006;

(iii) Mr. Deepak Patel as Additional Director and Managing Director with effect from 1 November 2006; and

(iv) Ms. Vinita Bali as Additional Director with effect from 30 March 2007.

Mr. Jaithirth Rao's term as Managing Director came to an end on 31 October 2006 and he was unanimously elected as the Non-Executive Chairman of the Board with effect from 1 November 2006, on which date, Mr. Deepak Patel took over as the Managing Director of your Company. Mr. Deepak Patel's appointment as Managing Director and the terms of his appointment were also approved by the shareholders at the Extraordinary General Meeting held on 13 November 2006.

As Additional Directors, the tenure of Mr. Mark Bilger, Mr. Jeroen Tas and Ms. Vinita Bali comes to an end at the forthcoming Annual General Meeting and they have been proposed for appointment as Directors liable to retire by rotation at the same meeting. Mr. Deepak Patel, whose tenure as Additional Director also comes to an end at the forthcoming Annual General Meeting has also been proposed for appointment as Director at this meeting.

Further, in accordance with the Articles of Association of the Company, Mr. Rahul Bhasin, Mr. Nawshir Mirza and Mr. D S Brar will retire by rotation and are eligible for re-election.

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

The following Directors resigned due to other preoccupations:

(i) Mr. Douglas Davis (resigned on 30 August 2006)

(ii) Mr. Ronald Vargo (resigned on 10 October 2006)

(iii) Mr. Thomas Haubenstricker (resigned on 28 March 2007)

Your 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 31 March 2007 is provided herein. The Directors interest includes, 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 number of shares held by Directors as on 31 March 2007 was as follows:

Name of Director	*No. of shares*
Mr. Jaithirth Rao	3,824,751
Dr. Jose de la Torre	215,000
Mr. Jeroen Tas	94,500
Mr. Rahul Bhasin	1,600

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

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 2007:

Name of the Shareholder	Percentage Owned
TH Holdings, Mauritius	50.59%
Baring India Investments Limited, PCC	9.60%

DIRECTORS RESPONSIBILITY STATEMENT

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

ACKNOWLEDGEMENTS

Your Directors would like to place on record their appreciation of 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 wish to thank Electronic Data Systems Corporation, majority shareholder and parent company for its support. Your Directors also wish to place on record their appreciation for the Software Technology Parks of India, the Department of Electronics, the Government of India, Governments of Karnataka, Maharashtra, Gujarat, Uttar Pradesh and Tamilnadu, Reserve Bank of India, Registrar of Companies 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
6 August 2007

JAITHIRTH RAO
Chairman

Annexure to the Directors' Report

DETAILS OF EMPLOYEES STOCK OPTIONS AS ON 31 MARCH 2007

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

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

(All figures adjusted for 1:1 Bonus Issues made in the years 2003, 2004 and 2005)

Particulars	ESOP 1998		ESOP 2000	ESOP 2003	ESOP 2004
	Version I	Version II			
Options Granted	1,324,552	4,780,000	20,231,844	2,708,800	2,561,152
Options Vested	610,476	2,758,280	10,194,764	2,225,450	975,558
Options exercised	532,152	1,870,868	9,969,925	2,037,623	764,739
No.of shares arising out of exercise of options	532,152	1,870,868	9,969,925	2,037,623	764,739
Options lapsed [options reverted to Trust due to resignations]	714,076	1,868,488	9,056,005	192,750	784,164
Money realized by exercise of options (Rs) (for the year 2006-07)	1,706,279	56,197,447	92,891,051	152,411,084	42,002,538
Total No. of Options in force.	78,324	1,040,644	1,205,914	478,427	1,012,249
Pricing formula	No options have been granted under this Scheme during 2006-07. 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 Guidelines on Pricing of Preferential Allotment.	No options have been granted under this Scheme during 2006-07. Earlier, for employees in service as on 10 January 2000, the market price prevalent on the 15th 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 granted from	During the year 2006-07, 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 joined. For options granted from September 2003, the grant was	No options have been granted under this Scheme during 2006-07. 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 (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 dated 30 June 2003, which is 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.	During the year 2006-07, options have been granted under program B of this Scheme at Market Price as defined under SEBI ESOP Guidelines.* **Program A** Price was calculated as 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

Particulars	ESOP 1998		ESOP 2000	ESOP 2003	ESOP 2004
	Version I	Version II			
		September 2003, the grant price was calculated as per sub clause 10 of clause 2.1 of the amendment to SEBI (Employee 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.	calculated as per sub clause 10 of clause 2.1 of the amendment to SEBI (Employee 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.		the bonus shares issued by Mphasis Limited after 12 May 2004. **<u>Program B</u>** Market Price as per the applicable guidelines prescribed by Securities Exchange Board of India (SEBI) from time to time was taken as the grant price.*

** The amended Securities & Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, 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. 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	:	31,606,348
2.	Options vested	:	16,764,528
3.	Options exercised	:	15,175,307
4.	Options lapsed	:	12,615,483
5.	Total no. of options in force	:	659,828,669
6.	Money realized by exercise of options	:	Rs 345,208,399

During the period under review, there has not been any variation to the ESOP Plans. During the period under review, no options were granted to senior managerial personnel.

During the year, Mr. Ramesh Kothari, employee, was granted 5,000 options which amounts to more than 5% of the total 67,750 options granted during the year.

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 8.61. (Refer note 27 of the consolidated financial statements).

ADDITIONAL DISCLOSURE AS PER AMENDMENT TO SEBI (EMPLOYEE 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 Limited	**MphasiS Group**
Audited	1,315,337	1,800,724
Adjusted	1,228,909	1,714,296

1b) Impact on EPS: (Rs)

	MphasiS Limited		**MphasiS Group**	
	Basic	Diluted	Basic	Diluted
Audited	6.39	6.29	8.74	8.61
Adjusted	5.97	5.88	8.32	8.20

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 (Employee 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	249.74	249.74
ESOP 1998 Version II	258.56	258.56
ESOP 2000	211.11	293.83
ESOP 2003	269.32	269.32
ESOP 2004	230.54	306.70

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% - 8.0%
2	Expected life	1 - 4 years
3	Expected volatility	67.12% to 69.48%
4	Expected dividend yield	1.44% to 1.98%
5	Market price on date of grant (weighted average) (Rs)	
	ESOP 1998 Ver I	249.74
	ESOP 1998 Ver II	258.56
	ESOP 2000	211.11
	ESOP 2003	269.32
	ESOP 2004	230.54

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.

Bangalore
6 August 2007

JAITHIRTH RAO
Chairman

DECLARATION 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 2007, the Directors of MphasiS 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
6 August 2007

DEEPAK PATEL
Managing Director

Annexure to the Directors' Report

Information as per Section 217(2A) of Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, and forming part of Directors' Report for the year ended 31 March 2007

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 2007

Sl No	Employee Name	Designation	Qualification	Date of Joining	Experience (No of years)	Gross Remune-ration (Rs)	Previous Employment
1	Amur, Anand K	Vice President	BSc	11-Feb-98	10	2,783,863	Kshema Technologies Limited
2	Arunkumar , A N	Program Manager	BE, MCA	10-Sep-03	30	2,784,340	Ramco Systems Limited
3	Arvind, V	Technical Delivery Organisation Manager	BSc (Maths)	12-Oct-01	20	3,310,201	RiteChoice Technologies
4	Balaji, C R	Senior Vice President	BE (Electrical)	8-Mar-95	23	3,358,020	ELKO Computers
5	Balasubramaniam, V	Program Manager	BSc (Maths), MCA	18-Sep-00	16	2,665,322	Complete Business Solutions India Limited
6	Bijur, Pradeep D	Associate Vice President	BE	18-Oct-93	14	2,860,260	Kirloskar Electric
7	Chandramouleeswaran, T S	Finance Manager	BCom, ACA, ICWA	23-Jun-99	23	4,236,330	Qualcomm India Inc.
8	Easwaramoorthy, R	Program Manager	BSc	9-Feb-00	28	3,076,565	Vetri Software (India) Limited
9	Gupte, Abhay	President	MS	9-Feb-98	24	8,544,282	GE Capital India
10	Hegde, Narayan	Technical Delivery Team Manager	MSc (Maths)	11-Nov-02	19	2,645,610	Mascon Global Limited
11	Iyer, Ramkrishna Jairam	Program Manager	BE	14-Jul-00	24	3,509,043	Polaris Software Lab
12	Iyer, Ramnarayan	Senior Program Manager	BE	21-Oct-98	20	3,986,143	Comsys Technical Services, USA
13	Joseph, Louis B	Senior Vice President	MA	1-Aug-97	21	3,779,387	Kshema Technologies Limited
14	Krishnan, Mohan	President	MBA	1-Apr-05	22	8,674,655	MphasiS Corporation
15	Kulkarni, Vijay Madhukar	Program Manager	BE (Electrical), ME	13-Jun-05	29	2,817,291	vMoksha Technologies Pvt. Ltd.
16	Maheshwari, Y K	Senior Vice President	MTech	31-Mar-00	23	2,526,189	Wipro Technologies Limited
17	Misra, Alok Chandra	Group Chief Financial Officer	BCom, ACA	1-Dec-00	21	10,738,729	ITC Limited
18	Mokhasi, Sudhindra	Vice President	BE	31-Aug-98	15	2,545,428	Mind Ware
19	Neelkantan, Pushpa	Program Manager	BSc (Maths), MCA	1-May-98	9	2,412,958	Ramco Systems Limited
20	Padhye, Ashok Narayan	Vice President	BTech	9-Nov-95	23	3,119,276	Cosystems Inc.
21	Padmanabhan, Ramesh	Senior Vice President	BSc & PGDM (Software Technology)	1-Apr-05	22	6,553,553	MphasiS Software & Services India Pvt. Ltd.

Annexure to the Directors' Report

Information as per Section 217(2A) of Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, and forming part of Directors' Report for the year ended 31 March 2007

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 2007

Sl No	Employee Name	Designation	Qualification	Date of Joining	Experience (No of years)	Gross Remune-ration (Rs)	Previous Employment
22	Patil, Pralhad N	Senior Vice President	MCA	3-Sep-97	11	2,963,222	Kshema Technologies Limited
23	Prakash, A	Program Manager	Diploma in Computer Science	3-Sep-98	14	2,430,346	Complete Business Solutions India Limited
24	Prakash, P V	Program Manager	Diploma in Information Systems, BSc (Maths)	19-Jan-98	15	2,509,067	Deutsche Software (India) Ltd.
25	Prakash, Rajat	Business Planning Manager	BTech (Textile), MBA	1-Nov-96	22	3,372,573	Zensar Technologies
26	Raghuraman, M G	Technical Delivery Team Manager	AMIE	5-Mar-01	28	3,214,014	Indian Railway Service
27	Raguraman, P C	Technical Delivery Team Manager	BSc (Phy), PGDCSA	9-Nov-00	21	3,570,149	IIS Infotech
28	Rajadhyaksha, Vinay	Senior Vice President	MBA	1-Apr-05	20	8,397,603	MphasiS Software & Services India Pvt. Ltd.
29	Ramani, Pankaj	Vice President	BE	1-Jun-05	19	3,065,951	Montronix Inc.
30	Rao, Niranjan	Senior Vice President	BE, MBA	1-Aug-03	17	4,793,272	IBM
31	Rao, Srinivasa B S	Associate Vice President	ME	11-Jan-99	10	2,606,187	Srisoft Technology Pvt. Ltd.
32	Rudhran, Uma	Program Manager	BA, MA (Psychology)	22-Feb-01	18	2,523,879	Capital One Inc.
33	Sengupta, Shome	Senior Vice President	BE (CS)	13-Sep-04	19	4,201,415	TCG Software Services Pvt. Ltd.
34	Shastri, Srikanth	Quality Assurance Manager	BCom Hon., BSc (Maths)	8-Sep-03	23	3,277,116	Polaris Software Lab
35	Shenoy, Preeti	Regional Manager - India & Asia Pacific	PGDM (Marketing)	1-Apr-05	19	4,314,411	MphasiS Software & Services India Pvt. Ltd.
36	Singh, Abnash	Group Chief Information Officer	BTech, MBA	16-Aug-05	15	4,717,489	vMoksha Technologies Pvt. Ltd.
37	Sundar, Shyam M S	Technical Delivery Team Manager	BE Hon., MTech	25-Jan-02	25	2,425,357	Kale Consultants Limited
38	Sundaresan, Meenakshi	Senior Program Manager	MSc (Stat)	18-Aug-99	23	4,566,469	TCS India
39	Venkataraman, Ravi	Program Manager	BTech (Civil), MBA Systems	10-Apr-01	34	3,216,254	Bank of Baroda

Annexure to the Directors' Report

Information as per Section 217(2A) of Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, and forming part of Directors' Report for the year ended 31 March 2007

Part B :

Persons employed less than 12 months during the period under report and were in receipt of remuneration which in aggregate is more than 2 lakhs per month during the period

Sl No	Employee Name	Designation	Qualification	Date of Joining	Experience (No of years)	Gross Remuneration (Rs)	Previous Employment
1	Bindra, Harbinder S	Technical Delivery Strategic Manager	BE, MBA	3-Jul-06	17	4,116,752	ACS
2	Bose, Manab	Senior Vice President & Chief Human Resource Officer	MA	1-Sep-04	27	2,543,348	Tata Sons Limited
3	Elango, R	Chief Human Resource Officer	Diploma In Hotel Management	15-Nov-06	13	4,556,622	Bank of America
4	Gaur, Anshoo	President	ME	1-Jul-06	17	5,942,092	EDS Corporation
5	Goel, Sudhir	Senior Vice President	BSc, PGDM	30-Nov-01	23	1,932,203	Amsoft Information Services (I) Limited
6	Koppar, Anant R	President	MTech (IIT)	1-Aug-97	24	14,499,784	Kshema Technologies Limited
7	Krishnamurthy, Uma	Senior Program Manager	BSc (Maths), MSc (App Maths), MS (Information Systems)	1-Apr-98	18	2,582,636	EDS Dedicated Facility
8	Mukherjee, Sudipto	Site Director	BA, DMM, MBA	3-Mar-03	38	7,809,190	Sitel India (P) Limited
9	Patel, Deepak Jayant	Managing Director (COO for Sept.& Oct. 2006)	MS (Mechanical Engineering)	15-Sep-06	20	16,348,948	EDS Corporation
10	Rao, Jaithirth	Chairman & Managing Director	MA (Chicago), MBA (IIM Ahmedabad)	1-Nov-01	34	9,487,969	MphasiS Corporation
11	Ray, Chandan	Vice President	BSc, MCA	2-Jan-06	17	1,914,485	Fidelity Investments
12	Singhal, Govind	Senior Vice President	BSc Hon., MSc (Phy)	31-Jul-06	21	5,875,146	Polaris Software Lab
13	Somasajeevan, T K	Head - Human Resources	BSc (Zoo), MSW, LLB, MBA (Admin)	14-Apr-00	26	3,975,124	McDonalds

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.

Annexure to the Directors' Report

Particulars of subsidiaries forming part of the Directors' Report for the year ended 31 March 2007.

Information as per the approval under Section 212(8) of the Companies Act,1956, and forming part of the Directors' Report for the year ended 31 March 2007

Subsidiary	Additional information											
	Capital			Reserves	Total assets	Total liabilities	Details of investment	Turnover	Profit before taxation	Provision for taxation	Profit after taxation	Proposed Dividend
Subsidiary	Equity	Preference	Total				(Other than in subsidiaries)		Profit / (Loss)	Expense / (Credit)		
MphasiS Corporation	1		1	1,461,374	4,356,213	2,894,838	-	5,962,533	153,762	93,291	60,471	-
Mbroker Inc								1,630	(3,119)	1	(3,120)	
MphasiS Deutschland GmbH	2,100	-	2,100	(8,616)	63,420	69,936	-	47,456	2,221	-	2,221	-
BFL Software APAC Pte Ltd	5,960	-	5,960	(7,453)	1,655	3,148	-	-	34	-	34	-
MphasiS Australia Pty Ltd	46	-	46	992	1,038	-	-	1,536	271	-	271	-
MphasiS (Shanghai) Software & Services Co. Ltd	238,756	-	238,756	(200,884)	124,395	86,523	-	128,745	11,159	-	11,159	-
Princeton Consulting Ltd	1,337	-	1,337	319,335	409,068	88,396	-	511,165	(94)	(5,094)	5,000	-
MphasiS FinsourcE Ltd	500		500	(21)	500	21			(21)		(21)	
Eldorado Computing Inc.	148,455	46,394	194,849	(102,123)	296,134	203,408	-	411,177	46,913	1,304	45,609	-
MbrokeR India Pvt . Ltd	500	-	500	(497)	3	-	-	-	(584)	-	(584)	-
MphasiS Europe BV	1,309,962	-	1,309,962	(155,493)	1,441,282	286,813	-	48,536	(6,653)	2,253	(8,906)	-
MphasiS Pte Ltd	7,772	-	7,772	(39,818)	43,230	75,276	-	158,767	16,080	(2,568)	18,648	-
MphasiS UK Ltd	67	-	67	(62,301)	377,914	440,148	-	430,236	(6,086)	-	(6,086)	-
MphasiS Software & Services (India) Pvt. Ltd	100,000		100,000	411,204	913,864	402,660	-	813,304	161,709	12,786	148,923	-
MsourcE Mauritius Inc.	1,001,561	-	1,001,561	1,940	1,005,243	1,742	-	-	(544)	-	(544)	-
MsourcE India Pvt . Ltd	71,607	-	71,607	2,088,017	2,889,613	729,989	-	3,244,533	190,558	(10,142)	200,700	-
MphasiS Ireland Ltd									(2)		(2)	
Total	**2,888,624**	**46,394**	**2,935,018**	**3,705,656**	**11,923,572**	**5,282,898**	**-**	**11,759,618**	**565,604**	**91,831**	**473,773**	**-**

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 Limited has a Board comprising 12 Directors as of 31 March 2007 of whom one is Managing Director, six are representatives of the holding company, Electronic Data Systems Corporation (EDS) and five Directors are independent.

Mr. Jaithirth Rao is the 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. The Directors of the Company, through their participation in Board Meetings and outside of them, provide inputs to management from their relevant fields of knowledge and expertise, viz. information technology, business process outsourcing, finance, accounting, marketing and management sciences. The Board, directly and through Committees, undertakes the following functions:

1. assesses the business strategy developed by management;
2. assesses the operational strategy and plans developed by management;
3. is responsible for CEO succession, evaluation & compensation;
4. sets the tone for organisation culture and governance;
5. watches management performance and directs corrections;
6. balances the interests of different stakeholders;
7. allocates major assets;
8. discharges statutory or contractual responsibilites;
9. oversees the reliability of external communications, especially to shareholders; and
10. oversees the process of compliance with laws and regulations.

The above includes the oversight of internal control and the management of risk through the audit committee.

During the Financial Year 2006-07, ten (10) meetings of the Board were held on 4 April 2006, 11 April 2006, 1 May 2006, 22 May 2006, 27 June 2006, 14 July 2006, 30 August 2006, 30 & 31 October 2006, 31 January and 1 February 2007.

In accordance with the Articles of Association of the Company, Mr. Rahul Bhasin, Mr. Nawshir Mirza and Mr. D S Brar will retire by rotation in the ensuing annual general meeting and being eligible offer themselves for re-appointment.

Corporate Governance

Category and other details of Directors

Name	Category	Attendance during 2006-07			Particulars of other Directorships, Committee Memberships/ Chairmanships		
		Board Meetings		Last AGM			
		In person	Via tele/ video conference		Other Directorships*	Committee Memberships#	Committee Chairmanships#
Mr. Jaithirth Rao	Non-Executive Chairman & Promoter Director	6	2	Yes	5	3	1
Mr. Rahul Bhasin	Independent, Non-Executive Director	10	-	Yes	2	-	-
Dr. Jose de la Torre	Independent, Non-Executive Director	2	4	No	-	-	-
Mr. Nawshir H Mirza	Independent, Non-Executive Director	8	1	Yes	4	4	2
Mr. D S Brar	Independent, Non-Executive Director	9	-	Yes	1	3	-
Mr. Stephen Heidt (appointed on 27 June 2006)	Non-Executive & Promoter Director	3	-	Yes	-	-	-
Mr. Paul Currie (appointed on 27 June 2006)	Non-Executive & Promoter Director	2	2	Yes	-	-	-
Mr. Joseph Eazor (appointed on 27 June 2006)	Non-Executive & Promoter Director	3	-	Yes	-	-	-
Mr. Mark Bilger (appointed on 30 August 2006)	Non-Executive & Promoter Director	1	1	NA	-	-	-
Mr. Jeroen Tas (resigned on 26 June 2006 and re-appointed on 10 October 2006)	Non-Executive & Promoter Director	5	1	NA	-	-	-
Mr. Deepak Patel (appointed on 1 November 2006)	Managing Director	2	-	NA	-	-	-
Ms. Vinita Bali (appointed on 30 March 2007)	Independent, Non-Executive Director	-	-	NA	2	2	-
Mr. Thomas Haubenstricker (from 27 June 2006 to 28 March 2007)	Non-Executive & Promoter Director	3	1	Yes	-	-	-
Mr. Ronald Vargo (from 27 June 2006 to 10 October 2006)	Non-Executive & Promoter Director	-	2	No	-	-	-
Mr. Douglas Davis (from 27 June 2006 to 30 August 2006)	Non-Executive & Promoter Director	-	-	No	-	-	-
Mr. N Subramaniam (resigned on 27 June 2006)	Independent, Non-Executive Director	3	-	NA	-	-	-
Mr. B R Menon (resigned on 26 June 2006)	Independent, Non-Executive Director	4	-	NA	-	-	-
Mr. Ashish Dhawan (resigned on 22 June 2006)	Independent, Non-Executive Director	1	2	NA	-	-	-
Mr. Richard S Braddock (resigned on 27 June 2006)	Independent, Non-Executive Director	-	2	NA	-	-	-

Note: Promoter Director, as defined under SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, is one who is nominated by the holding company, EDS Corporation.

* Directorships in foreign companies, alternate directorships, directorships in private companies and memberships in governing councils, chambers and other bodies not included.

Memberships/Chairmanships in Audit Committee and Shareholder Grievance Committee of companies, including MphasiS Limited.

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:

- overseeing processes ensuring the integrity of the Company's financial statements;
- overseeing processes for the management of enterprise risks;
- overseeing processes for compliance with laws and regulations:
- overseeing process by which anonymous complaints pertaining to financial or commercial matters are received and acted upon (whistleblower mechanism);
- enquiring into reasons for default in honouring obligations to creditors and members;
- reviewing the process for entering into related party transactions and related disclosures; and
- satisfying itself regarding the conformance of CEO's remuneration, expense reimbursements and use of Company assets with terms of his employment and Company's rules and policies.

Mr. A Sivaram Nair, Company Secretary & General Counsel, is the Secretary of the Audit Committee.

Six (6) meetings of the Audit Committee were held during 2006-07 on 11 April 2006, 14 July 2006, 31 July 2006, 30 October 2006, 31 January 2007 and 26 February 2007.

The Composition of the Committee as on 31 March 2007 and the attendance of the members at each of the meetings held during 2006-07 is given below:

Member	*No. of Meetings held during tenure*	*No. of Meetings attended*
Mr. Nawshir Mirza, Chairman	6	6
Mr. D S Brar	6	6
Mr. Thomas Haubenstricker (from 27 June 2006 to 28 March 2007)	5	4*
Ms. Vinita Bali (from 30 March 2007)	Nil	N.A.

*(*including two meetings attended via teleconference)*

The details of attendance of the following directors who were members of the Committee up to 27 June 2006 is given below:

Mr. N Subramaniam	1	1
Mr. B R Menon	1	1

Share Transfer Committee:

The Share Transfer Committee of the Board is authorised to approve transfers/transmissions of equity shares. The Company has appointed Alpha Systems (P) Limited, a SEBI registered transfer agent, as its Share Transfer Agent.

The Composition of the Share Transfer Committee from 30 August 2006 is as follows:

1. Mr. Jaithirth Rao, Chairman of the Committee
2. Mr. Nawshir Mirza, Member
3. Mr. D S Brar, Member

The Composition of the Committee from 27 June 2006 to 30 August 2006 was as follows:

1. Mr. Stephen Heidt, Chairman of the Committee
2. Mr. Paul Currie, Member
3. Mr. Jaithirth Rao, Member

The Composition of the Committee up to 27 June 2006 was as follows:

1. Mr. N Subramaniam, Chairman of the Committee
2. Mr. Jaithirth Rao, Member
3. Mr. B R Menon, Member

During 2006-07, the Share Transfer Committee passed resolutions approving transfers on 26 April 2006, 8 June 2006, 19 June 2006, 17 July 2006, 3 August 2006, 21 August 2006, 22 September 2006, 27 October 2006, 16 January 2007, 30 January 2007, 20 February 2007 and 16 March 2007.

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 of senior management. Since 27 June 2006, the Compensation Committee comprises the following members:

- Dr. Jose de la Torre, Chairman of the Committee
- Mr. Joseph Eazor, Member
- Mr. Stephen Heidt, Member

The Committee met twice during 2006-07 on 26 July 2006, at which meeting, Dr. Jose de la Torre and Mr. Stephen Heidt were present, and on 23 January 2007, when all members were present.

Prior to 27 June 2006, the composition of this Committee was as follows:

- Mr. Richard Braddock, Chairman of the Committee
- Mr. Rahul Bhasin, Member
- Mr. D S Brar, Member

Details of remuneration to Directors for the year 2006-07

(Rs thousands)

Name of Director	Salary	Benefits / Perquisite	Commission	PF & other Funds	Bonus	Total
Mr. Jaithirth Rao[1]	8,723	-	-	764	-	9,487
Mr. Deepak Patel[2]	7,007	935	-	274	6,500	14,716
Dr. Jose de la Torre[3]	-	-	2,163	-	-	2,163
Mr. Nawshir H Mirza[3]	-	-	2,400	-	-	2,400
Mr. D S Brar[3]	-	-	2,400	-	-	2,400

[1] Remuneration indicated is for the period 1 April 2006 to 31 October 2006 paid to Mr. Jaithirth Rao in his capacity as Managing Director and includes gratuity settlement of Rs 23 lakhs.

[2] Remuneration indicated is for the period 1 November 2006 to 31 March 2007 paid to Mr. Deepak Patel, Managing Director of the Company, whose contract is valid for the period 1 November 2006 to 31 October 2011. Remuneration includes Corporate Bonus of Rs 65 lakhs, of which Rs 46 lakhs has been cross-charged to EDS Corporation, USA as the same pertains to his period of employment with the said entity.

[3] Commission paid to Non-Executive Directors is in terms of recommendation of the Board of Directors vide resolution dated 4 October 2006 and the approval of the shareholders accorded at the extraordinary general meeting held on 13 November 2006.

None of the Directors were granted any stock options during the year. Except for the amounts disclosed above, none of the other directors were paid any salary, benefits, commission, bonus, pension / other funds or performance linked incentives.

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.

The details of shares held by directors as on 31 March 2007 are given below:

Name of Director	Number of Shares held as on 31 March 2007
Mr. Jaithirth Rao	3,824,751
Mr. Rahul Bhasin	1,600
Mr. Jeroen Tas	94,500
Dr. Jose de la Torre	215,000

Mr. Jeroen Tas, Director, had 150,000 options outstanding at the end of the year. None of the other Directors had any outstanding stock options as on 31 March 2007. Except as disclosed above, no other director, as on 31 March 2007, holds any shares or stock options in the Company.

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. There has been no grant of options to employees since July 2006.

Since 27 June 2006, the ESOP Committee comprises the following members:

- Mr. Jaithirth Rao, Chairman of the Committee
- Mr. D S Brar, Member
- Mr. Nawshir Mirza, Member

Prior to 27 June 2006, the composition of the Committee was as follows:

- Mr. Jaithirth Rao, Chairman of the Committee
- Mr. N Subramaniam, Member
- Mr. B R Menon, Member

During the year 2006-07, requests for conversion of stock options into shares were processed on a weekly basis and the ESOP Committee approved exercise of stock options every week.

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 99.83% 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 & General Counsel is also the Compliance Officer of the Company for the purpose of compliance with the Listing Agreement.

Presently, the Committee comprises the following members:

- Mr. D S Brar, Chairman of the Committee
- Mr. Jaithirth Rao, Member since 30 October 2006

The Composition of this Committee from 27 June 2006 to 30 October 2006 was as follows:

- Mr. D S Brar, Chairman of the Committee
- Mr. Stephen Heidt, Member

The Composition of this Committee up to 27 June 2006 was as follows:

- Mr. B R Menon, Chairman of the Committee
- Mr. N Subramaniam, Member

Analysis of shareholders' letters received during the year 2006-07

Sl. No.	*Nature of Letter*	*Received*	*Replied*
1.	Change of Address	3	3
2.	Revalidation of Dividend Warrants	44	44
3.	Non-receipt of Dividend Warrants*	13	13
4.	Power of Attorney Registrations	2	2
5.	Issue of Duplicate Share Certificates	9	9
6.	Deletion/Transmission of Shares	3	3
7.	Non-receipt of Share Certificates etc.*	5	5
8.	Non-receipt of Annual Report*	5	5
9.	General enquiry on annual report/dividend and bonus/others	122	122
	TOTAL	**206**	**206**

** Complaints*

There are no requests for share transfers pending as on 31 March 2007. During the year 2006-07, the Company received 23 complaints, all of which were promptly redressed, and no complaints were pending for redressal at the end of the year.

Operations Committee

The Operations Committee of the Board was formed on 27 June 2007. The powers and functions of the Committee include review of customer contracts, corporate financing activity, acquisitions, divestitures and internal transactions and matters relating to the subsidiaries of the Company. The Committee also proposes detailed guidelines and policies for treasury operations.

The Operations Committee presently comprises the following members:

- Mr. Jaithirth Rao, Chairman
- Mr. Stephen Heidt, Member
- Mr. Mark Bilger, Member since 30 August 2006
- Mr. Joseph Eazor, Member since 30 March 2007
- Mr. Jeroen Tas, Permanent Invitee
- Mr. Deepak Patel, Permanent Invitee

Mr. Ronald Vargo was a member of the Committee up to the time of his resignation on 10 October 2006. Mr. Thomas Haubenstricker was a member from 10 October 2006 up to the time of his resignation on 30 March 2007.

IV. MEETINGS OF SHAREHOLDERS

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

Nature of the Meeting	*Date & Time*	*Venue*
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.
Fourteenth Annual General Meeting	30 August 2006 10.30 A M	Taj Residency, 41/3, M G Road, Bangalore – 560 001.
Extraordinary General Meeting	12 May 2004 10.00 A M	No.139/1, Hosur Road, Koramangala, Bangalore – 560 095.
Extraordinary General Meeting	13 November 2006 10.30 A M	Taj Residency, 41/3, M G Road, Bangalore – 560 001.

Special Business Transacted at the General Meetings held in the last three years with Voting Pattern:

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

- Appointment of Mr. Nawshir Mirza and Mr. D S Brar as Directors 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 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 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 Fourteenth Annual General Meeting held on 30 August 2006:

- Appointment of Mr. Stephen Heidt, Mr. Thomas Haubenstricker, Mr. Douglas Davis, Mr. Paul Currie, Mr. Joseph Eazor and Mr. Ronald Vargo as Directors of the Company.
- Payment of remuneration by way of commission to Mr. Nawshir Mirza and Mr. D S Brar.

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.

Special Business Transacted at the Extraordinary General Meeting held on 13 November 2006:

- Change of name of the Company from 'MphasiS BFL Limited' to 'MphasiS Limited'.
- Amendment to Articles of Association.
- Payment of remuneration by way of commission to Mr. Nawshir Mirza, Mr. D S Brar and Dr. Jose de la Torre.
- Appointment of Mr. Deepak Patel as Managing Director of the Company for a period of 5 years from 1 November 2006 to 31 October 2011.

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

Related party transactions i.e. transactions of the Company of material nature with its promoters, directors or the management or their relatives etc. that has potentially conflicted with the interests of the Company at large, are reported in Note 26 to the financial statements of the Company.

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 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.

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 (Compensation) 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 whether 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 the 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 meetings 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 : 10.00 a.m., Friday, 14 September 2007.

Venue : Taj Gateway Hotel, No. 66, Residency Road, Bangalore - 560 025

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 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 10.00 a.m. on Wednesday, 12 September 2007.

Attendance Slips

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 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 and 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.

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 Act is in force and the representative 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 11 September 2007 to 14 September 2007 (both dates inclusive).

LISTING OF SHARES

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

- Bombay Stock Exchange Limited (BSE), Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001, Telephone: 022-22721233/34, Fax No.: 022-22721062.
- National Stock Exchange of India Ltd. (NSE), Exchange Plaza, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (E) Mumbai - 400 051. Telephone: 022-2659 8100-8114. Fax No.: 022-2659 8237-38

Scrip Code

Scrip code of the Company on Bombay Stock Exchange Limited is 526299 and on National Stock Exchange of India Limited is MPHASIS.

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 2007, 98.81% shareholders held 99.83% of shares in demat form.

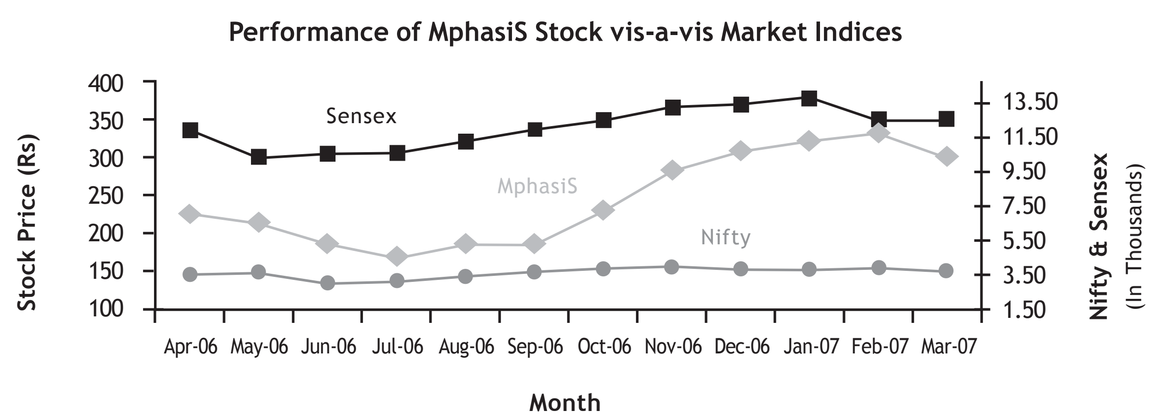
Market Quotation

The month wise high and low prices and the volume of shares of the Company traded for the period 1 April 2006 to 31 March 2007 is given below:

Month	NSE			BSE		
	High (Rs)	**Low (Rs)**	**Volume for the month**	**High (Rs)**	**Low (Rs)**	**Volume for the month**
Apr-06	224.40	185.10	9,668,994	228.75	188.00	4,827,757
May-06	208.00	175.00	5,603,344	208.00	175.00	1,891,634
Jun-06	194.00	138.10	5,373,787	196.00	126.85	3,065,593
Jul-06	167.90	123.10	19,763,411	167.90	121.00	7,992,791
Aug-06	195.00	146.35	23,328,261	188.20	147.10	8,765,126
Sep-06	194.95	172.50	11,080,725	194.90	172.50	4,853,641
Oct-06	238.25	183.10	18,430,124	238.30	185.00	4,503,236
Nov-06	291.45	209.50	25,925,903	291.00	209.90	8,391,708
Dec-06	306.10	220.00	34,110,616	305.40	221.05	1,130,718
Jan-07	320.00	279.00	16,157,408	319.40	275.50	4,270,914
Feb-07	339.90	255.00	24,127,032	329.45	255.00	7,402,028
Mar-07	298.45	236.55	15,772,404	298.70	237.00	4,662,774

Market Capitalization

Based on the closing quotation of Rs 282.75 as at 30 March 2007 (last trading day of the year) at NSE the market capitalization of the Company was Rs 4,614 crores.



Members' Profile

The shareholding pattern of the members of the Company as on 31 March 2007 was:

Category	*Total No. of Shares*	*% to Total Capital*
Promoter	83,002,201	50.59
Bodies Corporate	24,359,357	14.84
Foreign Institutional Investors	18,826,571	11.47
Financial Institutions	569,060	0.35
Resident Indians	13,688,322	8.34
Mutual Funds & Banks	15,645,476	9.54
Non Resident Indians	3,804,915	2.32
Directors and Relatives	4,175,851	2.55
TOTAL	**164,071,753**	**100.00**

Distribution as on 31 March 2007

Range	*Shareholders*		*Shares*	
No. of Shares	Number	% to total	Number	% to total
1-100	20,438	64.69	1,017,462	0.62
101-500	7,248	22.94	1,899,769	1.16
501-1000	1,869	5.92	1,484,125	0.91
1001-5000	1,460	4.62	3,387,254	2.06
5001-10000	261	0.83	1,925,848	1.17
10001-100000	226	0.72	7,288,206	4.44
100001 & above	90	0.28	147,069,089	89.64
TOTAL	**31,592**	**100.00**	**164,071,753**	**100.00**

Financial Calendar for 2006-07

Results Announced	:	30 April 2007 (Revised results after consolidation of EDS Electronic Data Systems (India) Private Limited announced on 6 August 2007)
Book Closure Dates	:	11 September 2007 to 14 September 2007 (Both dates inclusive)
Posting of Annual Reports	:	23 August 2007
Annual General Meeting	:	14 September 2007
Dividend Payment Date	:	Within 30 days from the date of the AGM

Address For Communication

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

Mr. A Sivaram Nair
Company Secretary & General Counsel,
MphasiS Limited,
Registered Office:
Bagmane Technology Park, Byrasandra,
C V Raman Nagar, Bangalore – 560 093
Phone : +91 (80) 4004 0404
Fax : +91 (80) 4004 9999

Alpha Systems Private Limited
Unit: MphasiS Limited,
30, Ramana Residency,
4th Cross, Sampige Road,
Malleswaram, Bangalore-560 003
Phone : +91 (80) 2346 0815-818
Fax : +91 (80) 2346 0819

Auditors' Certificate

To the Members of MphasiS Limited (formerly MphasiS BFL Limited)

We have examined the compliance of conditions of Corporate Governance by MphasiS Limited (with EDS Electronic Data Systems (India) Private Limited merged effective 1 April 2006) (formerly MphasiS BFL Limited) ("the Company"), for the year ended on 31 March 2007, as stipulated in Clause 49 of the Listing Agreement of the said 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 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 complied 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
6 August 2007

AUDITORS' REPORT (REVISED) ON THE FINANCIAL STATEMENTS (REVISED) TO THE MEMBERS OF MPHASIS LIMITED (formerly MphasiS BFL Limited)

We have audited the attached balance sheet (revised) of MphasiS Limited ('the Company'), as at 31 March 2007 and also the profit and loss account and the cash flow statement (revised) for the year ended on that date, annexed thereto ["financial statements (revised)"].

These revised financial statements (revised) contain significant revisions, vis-a-vis the original financial statements for the year ended 31 March 2007 as adopted by the Board of Directors in their meeting held on 30 April 2007 and covered by our audit report dated 30 April 2007. As more fully explained in note 2(g) of the financial statements (revised), the financial statements have been revised to give effect to the Scheme of Amalgamation, approved by the High Court of Karnataka on 19 June 2007 and High Court of Bombay on 2 February 2007, under which EDS Electronic Data Systems (India) Private Limited has been amalgamated with the Company with effect from 1 April 2006. The consequent changes and their effect on the major heads of account have been explained in the aforesaid note. This audit report on the financial statements (revised) dated 6 August 2007 supersedes our earlier audit report dated 30 April 2007 on the original financial statements of the Company for the year ended 31 March 2007.

These financial statements (revised) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements (revised) 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 (revised) are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements (revised). An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement (revised) 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 (revised), profit and loss account (revised) and cash flow statement (revised) dealt with by this report are in agreement with the books of account;

(iv) in our opinion, the balance sheet (revised), profit and loss account (revised) and cash flow statement (revised) 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 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as at 31 March 2007 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; and

(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 (revised), of the state of affairs of the Company as at 31 March 2007;

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

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

for **BSR & Co.**
Chartered Accountants

Zubin Shekary
Partner
Membership Number: 48814

Bangalore
6 August 2007

ANNEXURE TO THE AUDITORS' REPORT (REVISED) ON THE FINANCIAL STATEMENTS (REVISED)

Annexure referred to in our (revised) report to the members of the Company for the year ended 31 March 2007. 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 has substantial reconciled physically verified fixed assets with the fixed assets register and no material discrepancy have been observed.

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 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, Service tax and any other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities, though there has been a slight delay in few cases. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund, Excise duty, Customs duty, Sales tax and Wealth tax.

    Further, there were no dues on account of cess under section 441A of the Companies Act, 1956 since the date from which the aforesaid section comes in to force has not yet been notified by the Central Government.

    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 2007 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	51,141,640	2002 - 03	CIT Appeals
Income-tax Act, 1961	Tax/penalty/interest demanded	125,215,324	2003 - 04	CIT Appeals
Income-tax Act, 1961	Tax/penalty/interest demanded	47,882,000	2001 - 02	Income tax appellate tribunal
Income-tax Act, 1961	Tax/penalty/interest demanded	145,543,000	2002 - 03	CIT Appeals
Income-tax Act, 1961	Tax/penalty/interest demanded	159,538,880	2003 - 04	CIT Appeals
Customs Act, 1962	Customs duty/penalty	9,535,374	2002 - 03	Customs authority
Customs Act, 1962	Customs duty/penalty	5,190,000	2002 - 03	Customs authority
Internal Revenue Services (IRS), USA	Tax/interest demanded	82,186,686	2002 - 03	IRS Supervisor

* The amounts paid under protest have been reduced from the amounts demanded in arriving at the aforesaid disclosure.

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 debenture holders 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
6 August 2007

BALANCE SHEET (REVISED)

(Rs 000's)

	Notes	31 March 2007*	31 March 2006*
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	3	2,081,830	1,610,183
Reserves and surplus	4	6,210,476	3,643,054
Employee stock options outstanding	5	67,235	73,808
		8,359,541	5,327,045
LOAN FUNDS			
Secured loans	6	13,098	15,535
		8,372,639	5,342,580
APPLICATION OF FUNDS			
FIXED ASSETS	7		
Cost		3,149,303	877,184
Accumulated depreciation		(1,925,241)	(699,836)
Net book value		1,224,062	177,348
Capital work-in-progress		27,014	4,156
		1,251,076	181,504
INVESTMENTS	8	4,530,873	4,597,378
DEFERRED TAX ASSET	9	81,455	23,599
CURRENT ASSETS, LOANS AND ADVANCES			
Cash and bank balances	10	1,193,062	199,297
Inter corporate cash deposits	11	-	104,279
Sundry debtors and unbilled revenues	12	3,158,072	1,414,831
Interest receivable	13	8,879	3,406
Loans and advances	14	1,210,855	939,837
		5,570,868	2,661,650
CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	15	2,209,451	1,522,249
Provisions	16	852,182	599,302
		3,061,633	2,121,551
NET CURRENT ASSETS		2,509,235	540,099
		8,372,639	5,342,580

* refer note 41

Significant Accounting Policies and Notes to the Financial Statements (revised) 1

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

This is the balance sheet (revised) 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
6 August 2007

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Alok C. Misra
Chief Financial Officer

A Sivaram Nair
Company Secretary

Bangalore
6 August 2007

Profit and Loss Account (revised)

(Rs 000's)

	Notes	Year ended 31 March 2007*	Year ended 31 March 2006*
Revenues		11,028,549	3,806,739
Cost of revenues	17	8,354,400	2,601,422
Gross profit		2,674,149	1,205,317
Selling expenses	18	468,365	178,441
General and administrative expenses	19	714,526	253,338
Provision for doubtful debts, net		3,881	8,661
Operating profit		1,487,377	764,877
Foreign exchange gain / (loss)		(87,722)	53,091
Loss on sale of investment		(11,625)	-
Other income / (expense), net	29	(2,128)	(6,857)
Interest income (expense), net	21	20,074	(22,201)
Profit before taxation		1,405,976	788,910
Income taxes (including Fringe Benefit Tax)	22	90,639	26,653
Profit after taxation		1,315,337	762,257
Profit brought forward		2,162,122	2,151,033
Profit available for appropriations		3,477,459	2,913,290
Appropriations			
Transfer to General Reserve		131,534	76,226
Proposed Dividend		624,640	483,168
Final Dividend		2,626	3,804
Tax on Dividend		106,526	68,299
Issue of Bonus shares		73	119,671
Profit carried forward		2,612,060	2,162,122
Earnings Per Share (Par Value - Rs 10)	34		
Basic (Rs)		6.39	4.79
Diluted (Rs)		6.29	4.71

* refer note 41

Significant Accounting Policies and Notes to the Financial Statements (revised) 1

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

This is the profit and loss account (revised) 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
6 August 2007

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Alok C. Misra
Chief Financial Officer

A Sivaram Nair
Company Secretary

Bangalore
6 August 2007

NOTES TO THE FINANCIAL STATEMENT (REVISED)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements (revised) [also referred as financial statements] of MphasiS 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 call centre & business process outsourcing operations, infrastructure outsourcing services 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 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.

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

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

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

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

Fixed assets and capital work-in-progress

Fixed assets are stated at the cost of acquisition or construction less accumulated depreciation. Direct costs are capitalised until assets are ready to be put to use. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised. Fixed assets purchased in foreign currency are recorded at 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:

For software development business and infrastructure outsourcing 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 equipment)	5
Computer equipment	5
Office equipment	5
Furniture and fixtures	5
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 Group's computer systems, expected to provide lasting benefits, is capitalised at cost and amortised on the straight-line method over its estimated useful life or 3 years, whichever is shorter. Internally generated software for sale expected to provide lasting benefits is amortised on the straight line method over its estimated life or 7 years whichever is shorter. 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 compensated absences, which are defined benefits, are accrued based on actuarial valuations at the balance sheet date, carried out by an independent actuary.

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

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 recognized in the profit and loss account of the period.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the exchange rates on that date. The resultant exchange differences are recognized 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 (revised)

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.

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

Impairment of assets

The 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 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 ('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 c) below)	a company organised under the laws of the United Kingdom	100
Eldorado Computing Inc., ('Eldorado') (refer (note d) below)	a company organised under the laws of Arizona, USA	100
MphasiS Finsource Limited (MphasiS Finsource) (refer (note e) below)	a company organised under the laws of India	100
MbrokeR (India) Private Ltd. ('MbrokeR India')	a subsidiary of MphasiS USA, 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 Mauritius Inc., Mauritius ('MsourcE Mauritius')	a subsidiary of MphasiS Europe, 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 (REVISED)

a) The name of the Company stands changed to MphasiS Limited with effect from 24 November 2006 based on the approval by the shareholders in the meeting held on 13 November 2006.

b) 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 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 2006: Rs 17,060,055) is carried as a liability which will be paid after necessary regulatory approvals are obtained (refer note 15).

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.

c) 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. During the year, the Company had incurred direct cost amounting to GBP 64,500 (Rs 5,336,006).

d) 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. Further, an amount of USD 1,600,069 and USD 874,931 has been paid from escrow account during the year ended 31 March 2006 and 31 March 2007 respectively.

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 and 28 February 2007.

e) During the year, MphasiS FinsourcE was incorporated in India as a wholly owned subsidiary of the Company for the purpose of providing BPO services in India. The subsidiary is yet to commence operation.

f) Electronic Data Systems Corporation (EDS) through its wholly owned subsidiary TH Holdings, Mauritius, made an open offer for purchase of 83 million equity shares of the Company in April 2006. The offer was closed successfully in June 2006. EDS has thereafter made a Public Announcement (PA) on 19 October 2006 to the shareholders of the Company for a voluntary open offer to acquire an additional 20% of the total voting equity of the Company. The offer was closed in February 2007 and EDS acquired additional 2,201 shares through this offer. EDS, through TH Holdings, currently holds 83,002,201 equity shares forming more than 50% of the paid up share capital of the Company as at 31 March 2007. Since the merger of EDS Electronic Data Systems (India) Private Limited (EDS India), into MphasiS Limited has been approved, the Company will issue 44,104,065 shares to EDS World Corporation (Far East), the holding company of EDS India and a subsidiary of EDS. After the issuance of the shares, EDS, through TH Holdings, Mauritius and EDS World Corporation (Far East) will be holding 127,106,266 equity shares forming more than 60% of the paid up share capital of the Company.

g) In July 2006, the Board of the Company approved the merger of EDS India, a wholly owned subsidiary of Electronic Data Systems Corporation USA, into MphasiS Limited. EDS India is primarily engaged in providing software development services which includes mainly application services and information technology enabled services containing business process outsourcing services and infrastructure services. The scheme of merger was approved by the shareholders at their meeting on 13 November 2006, and by the Hon'ble High Courts of Maharashtra and Karnataka on 2 February 2007 and 19 June 2007 respectively. The necessary formalities to give effect to the amalgamation have been completed thereafter. Under the scheme, 44,104,065 shares are to be issued to the shareholders of EDS India based on a swap ratio of 5:4; issuance of these shares is under process. Since the merger is with retrospective effect from 1 April 2006, the financial statements for the year ended 31 March 2007, approved by the Board of the company earlier on 30 April 2007, have been revised to include the assets and liabilities of EDS India as at 31 March 2007 and its income and expenses and cash flows for the year then ended. These financial statements supersede the financial statements approved by the Board of the Company on 30 April 2007.

Major changes to the financial statements due to the above revision are as follows:

(Rs 000's)

	Year ended 31 March 2007
Increase in Revenues	5,648,023
Increase in Gross profit	964,789
Increase in Operating profit	640,016
Increase in Profit before tax	648,586
Increase in Net profit	601,948
Increase in Shareholders funds	2,558,589
Increase in Fixed assets	954,251
Increase in Net current assets	1,546,298

There are no transactions between the Company and EDS India prior to 1 April 2006 and accordingly there are no balances between the Companies.

The accounting for the above amalgamation has been carried out as prescribed by the scheme of amalgamation. Accordingly, expenses incurred in connection with the amalgamation have been adjusted with the opening profit and loss account balance of EDS India. Further, accounting policies of the Company have been adopted for EDS India, and necessary changes to reflect the alignment of accounting policies have been carried out. On account of amalgamation of EDS India an adjustment of Rs 1,670,400 thousands has been made to the profit and loss account balance which represents opening profit and loss account of EDS India amounting to Rs 1,863,787 thousands after adjusting amalgamation expenses amounting to Rs 66,688 thousands, debit to opening profit and loss account due to difference in accounting policy on depreciation amounting to Rs 38,491 thousands and excess of share capital issued over the share capital of EDS India amounting to Rs 88,208 thousands.

h) During the year, MphasiS Ireland Limited, a subsidiary of the Company, was closed and necessary formalities have been completed.

i) During the year, Mbroker Inc. a subsidiary of the company was merged with "MphasiS USA" and the necessary formalities have been completed.

NOTES TO THE FINANCIAL STATEMENT (REVISED)

(Rs 000's)

	31 March 2007*	31 March 2006*
3. SHARE CAPITAL		
Authorised capital *		
245,000,000 (31 March 2006: 200,000,000) equity shares of Rs 10 each	2,450,000	2,000,000
Issued, subscribed and paid-up capital		
164,085,953 (31 March 2006: 161,025,360) equity shares of Rs 10 each	1,640,860	1,610,254
[Of the above, 9,486,773 (31 March 2006: 9,486,773) equity shares are allotted for consideration other than cash]		
[Of the above shares 134,174,374 (31 March 2006: 134,167,074) shares are allotted as fully paid-up by way of bonus shares]		
Less: Face value of 14,200 (31 March 2006: 14,200) equity shares of Rs 10 each forfeited	(142)	(142)
Add: Amount originally paid-up on forfeited shares	71	71
Shares pending allotment		
Shares pending allotment pursuant the scheme of amalgamation [refer note 2(g)] 44,104,065 (31 March 2006: Nil) equity shares of Rs. 10 each	441,041	-
	2,081,830	1,610,183
4. RESERVES AND SURPLUS		
Securities premium account		
Balance brought forward	1,165,148	2,464,363
Add: Premium on allotment of shares	306,533	196,133
Add: Transferred from Employee Stock Options Outstanding	3,834	2,482
Less: Bonus shares issued	-	681,607
Less: Adjustment on account of merger of Kshema (refer note 2 (b))	-	816,223
[Of the securities premium account Rs 1,126,705 (31 March 2006: Rs 1,122,871) is received for consideration other than cash]		
	1,475,515	1,165,148
Foreign currency translation reserve	-	(5,183)
	-	(5,183)
General Reserve		
Balance brought forward from previous year	320,967	244,741
Add: Transfer from Profit and Loss Account	131,534	76,226
	452,501	320,967
Profit and loss account balance	2,612,060	2,162,122
Add: Adjustment on account of merger of EDS India (refer note 2 (g)]	1,670,400	-
	4,282,460	2,162,122
	6,210,476	3,643,054

* refer note 41

(Rs 000's)

		31 March 2007*	31 March 2006*
5.	EMPLOYEE STOCK OPTIONS OUTSTANDING		
	Balance brought forward	73,808	85,773
	Less : Transferred to securities premium account on exercise of Options	3,834	2,482
	Less : Reversal on forfeiture of options granted	2,739	9,483
		67,235	73,808

* refer note 41

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 2007 and 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 (Also refer note 35).

Employees Stock Option Plan1998 (the 1998 Plan): The Company instituted the 1998 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 31 July 1998. The 1998 Plan provides for the issuance of 3,720,000 options to eligible employees as recommended by the ESOP Committee constituted for this purpose.

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

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

The movements in the options granted under the 1998 Plan – (Version I) for the year ended 31 March 2007 and year ended 31 March 2006 are set out below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	129,114	34.38	157,752	34.38
Granted	-	-	-	-
Forfeited	1,160	34.38	856	34.38
Exercised	49,630	34.38	27,782	34.38
Options outstanding at the end	78,324	34.38	129,114	34.38
Exercisable at the end of the period	78,324	34.38	129,114	34.38

The weighted average share price of options exercised as at the date of exercise was Rs 249.74 (31 March 2006: Rs 144.30). The weighted average fair value of the options granted during the period as at the respective grant dates was Rs Nil (31 March 2006: Rs Nil). The options outstanding as at 31 March 2007 had an exercise price of Rs 34.38 (31 March 2006: 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 then Managing Director or Chief Executive Officer, the vesting period of the options, subject to minimum period of one year from the date of grant, is determined by the ESOP Committee and approved by the Board. The options are to be exercised within a period of ten years from their date of vesting.

NOTES TO THE FINANCIAL STATEMENT (REVISED)

The movements in the options granted under the 1998 Plan-(Version II) for the year ended 31 March 2007 and year ended 31 March 2006 are set out below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	1,680,610	95.51	2,208,718	78.34
Granted	-	-	285,000	130.57
Forfeited	34,800	92.63	277,352	88.98
Exercised	605,166	92.96	535,756	46.74
Options outstanding at the end	1,040,644	97.09	1,680,610	95.51
Exercisable at the end of the period	887,412	93.83	1,221,266	88.01

The weighted average share price of options exercised as at the date of exercise was Rs 258.56 (31 March 2006: Rs 142.56). The weighted average fair value of the options granted during the period as at the respective grant dates was Rs Nil (31 March 2006: Rs 53.64). The options outstanding as at 31 March 2007 had an exercise price ranging from Rs 23.21 to Rs 275.00 (31 March 2006: Rs 23.21 to Rs 275.00) and weighted average remaining contractual life of 6.33 years (31 March 2006: 8.20 years).

Employees Stock Option Plan2000 (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 2007 and year ended 31 March 2006 are set out below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	2,555,334	109.04	4,601,238	62.97
Granted	17,900	200.44	1,261,600	164.41
Forfeited	202,831	124.34	637,288	125.59
Lapsed	152,256	70.41	376,708	66.57
Exercised	1,012,233	83.81	2,293,508	49.46
Options outstanding at the end	1,205,914	133.88	2,555,334	109.04
Exercisable at the end of the period	224,839	130.09	795,018	92.64

The weighted average share price of options exercised as at the date of exercise was Rs 211.11 (31 March 2006: Rs 138.86). The weighted average fair value of the options granted during the period as at the respective grant dates was Rs 82.72 (31 March 2006: Rs 56.11). The options outstanding as at 31 March 2007 had an exercise price ranging from Rs 23.21 to Rs 208.45 (31 March 2006: Rs 23.21 to Rs 178.55) and weighted average remaining contractual life of 2.89 years (31 March 2006: 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. However, certain options were granted to executive directors having a target stock price condition and a one year service condition as vesting conditions. The exercise period is two years from the date of vesting.

The movements in the options under the 2003 Plan for the year ended 31 March 2007 and year ended 31 March 2006 are set out below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	1,481,800	147.56	1,918,000	129.80
Granted	-	-	268,800	130.60
Forfeited	20,750	119.76	99,000	102.43
Lapsed	13,000	85.63	-	-
Exercised	969,623	157.19	606,000	91.20
Options outstanding at the end	478,427	130.93	1,481,800	147.56
Exercisable at the end of the period	187,827	161.27	78,000	89.88

The weighted average share price of options exercised as at the date of exercise was Rs 269.32 (31 March 2006: Rs 136.36). The weighted average fair value of the options granted during the period as at the respective grant dates was Rs Nil (31 March 2006: Rs 53.33). The options outstanding as at 31 March 2007 had an exercise price ranging from Rs 85.63 to Rs 175.00 (31 March 2006: Rs 85.63 to Rs 175.00) and weighted average remaining contractual life of 2.22 years (31 March 2006: 2.70 years).

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

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

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

NOTES TO THE FINANCIAL STATEMENT (REVISED)

The movements in the options under the 2004 Plan for the year ended 31 March 2007 and year ended 31 March 2006 are summarised below:

	Year ended 31 March 2007		Year ended 31 March 2006	
	No of Options	Weighted Average Exercise Price (Rs)	No of Options	Weighted Average Exercise Price (Rs)
Options outstanding at the beginning	1,557,444	115.71	1,288,378	91.82
Granted	49,850	184.50	1,003,600	130.47
Forfeited	143,640	125.66	340,836	118.72
Lapsed	34,764	100.85	45,600	93.62
Exercised	416,641	100.46	348,098	69.81
Options outstanding at the end	1,012,249	124.47	1,557,444	115.71
Exercisable at the end of the period	210,819	111.63	229,742	91.12

The weighted average share price of options exercised as at the date of exercise was Rs 230.54 (31 March 2006: Rs 137.45). The weighted average fair value of the options granted during the period as at the respective grant dates was Rs 76.16 (31 March 2006: Rs 53.27). The options outstanding as at 31 March 2007 had an exercise price ranging from Rs 50.34 to Rs 184.50 (31 March 2006: Rs 15.59 to Rs 149.18) and weighted average remaining contractual life of 5.97 years (31 March 2006: 6.14 years).

Restricted Stock Units

The holding Company (EDS) have issued Restricted Stock Units (RSU) to certain employees of the Company. Cost incurred by EDS upon issuing such RSU's for the year amounted to Rs 8,495,081 (31 March 2006: Nil).

(Rs 000's)

	31 March 2007*	31 March 2006*
6. SECURED LOANS		
Other loans		
(Secured by hypothecation of the vehicles)	13,098	15,535
	13,098	15,535

* refer note 41

NOTES TO THE FINANCIAL STATEMENT (REVISED)

7. FIXED ASSETS

(Rs 000's)

Assets	Cost				Accumulated depreciation				Net book value	
	*1 April 2006	Additions	Deductions	31 March 2007	*1 April 2006	Charge for the year	Deductions	31 March 2007	31 March 2007	31 March 2006
Tangible assets										
Freehold land	27,375	-	-	27,375	-	-	-	-	27,375	27,375
Buildings	1,230	-	-	1,230	625	123	-	748	482	605
Leasehold Improvements	599,261	172,216	23,484	747,993	510,211	92,420	22,642	579,989	168,004	5,198
Plant and machinery	106,939	9,864	-	116,803	93,214	6,320	-	99,534	17,269	13,725
Computer equipment	680,771	397,180	9,191	1,068,760	536,816	196,850	8,129	725,537	343,223	44,004
Office equipment	211,409	221,300	6,090	426,619	119,009	80,465	5,604	193,870	232,749	4,657
Furniture and fixtures	196,405	268,816	-	465,221	101,387	76,757	-	178,144	287,077	7,776
Vehicles	35,505	8,719	10,828	33,396	18,206	10,040	7,884	20,362	13,034	17,299
Books	352	-	352	-	352	-	352	-	-	-
Intangible assets Software	113,253	118,643	-	231,896	56,027	41,020	-	97,047	134,849	48,166
	1,972,500	1,196,738	49,945	3,119,293	1,435,847	503,995	44,611	1,895,231	1,224,062	168,805
Purchased Goodwill	30,010	-	-	30,010	21,467	8,543	-	30,010	-	8,543
Total	2,002,510	1,196,738	49,945	3,149,303	1,457,314	512,538	44,611	1,925,241	1,224,062	177,348
Previous year ended 31 March 2006**	908,350	135,120	166,286	877,184	757,202	83,777	141,143	699,836	177,348	-

* Includes assets taken over on merger of EDS India [(refer note 2(g)] amounting to Rs 1,125,326 thousand and accumulated depreciation amounting to Rs 757,478 thousand.

NOTES TO THE FINANCIAL STATEMENT (REVISED)

(Rs 000's)

	31 March 2007*	31 March 2006*
8. INVESTMENTS		
Long term – Unquoted (non-trade)		
In subsidiaries		
MphasiS USA (refer note (b))	3,020,801	2,035,578
3,000 (31 March 2006: 100) shares of common stock of US $ 0.01 each fully paid up		
MphasiS USA (refer note (a) and (b)) Nil (31 March 2006: 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 Nil (31 March 2006: 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
MphasiS Australia 2,000 (31 March 2006: 2,000) shares of common stock of Australian $ 1 each fully paid up	49	49
MphasiS India (refer note (c)) 940,000 (31 March 2006: 940,000) 8% non-cumulative redeemable preference shares of Rs 100 each fully paid up	-	94,000
MphasiS Finsource (refer note 2(e)) 50,000 (31 March 2006: Nil) equity shares Rs 10 each fully paid up	500	-
BFL APAC 218,482 (31 March 2006: 218,482) shares of common stock of Singapore $ 1 each fully paid up	5,927	5,927
MphasiS GmbH Nominal capital 91,000 Deutsche Mark (31 March 2006: 91,000 Deutsche Mark)	2,524	2,524
MphasiS China 100% (31 March 2006: 100%) equity interest	105,345	105,345
MbrokeR Inc. (refer note 2(i)) Nil (31 March 2006: 40,000) shares of common stock of US $ 0.01 each fully paid up	-	34,439
Princeton (refer note 2(c)) 7,953,393 (31 March 2006: 7,953,393) ordinary shares of £ 0.002 each fully paid up	669,152	663,816
Eldorado (refer note 2(d)) 5,400,000 (31 March 2006: 5,400,000) shares of Class B non-voting common stock and 600,000 (31 March 2006:600,000) shares of Class A voting common stock	735,026	695,082
MphasiS Ireland (refer note 2(h)) Nil (31 March 2006:10,000) shares of common stock of ¤ 1 each fully paid up	-	542
	4,539,324	4,625,264
Less : Provision for dimunition, other than temporary, in the value of investment	8,451	27,886
	4,530,873	4,597,378

* refer note 41

Long-term investments include:

a) Rs Nil (31 March 2006: 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 Nil (31 March 2006: Rs 24,487,500) in Series B Preferred Stock redeemable in four equal quarterly instalments beginning on 30 November 2010, Rs Nil (31 March 2006: Rs 77,952,000) in Series C Preferred Stock redeemable in four equal quarterly instalments beginning on 31 March 2012, Rs Nil (31 March 2006: Rs 214,792,844) in Series D Preferred Stock redeemable in four quarterly instalments beginning on 30 September 2012, Rs Nil (31 March 2006: Rs 142,737,362) in Series E Preferred Stock redeemable in four quarterly instalments beginning on 30 November 2012, Rs Nil (31 March 2006: Rs 265,388,321) in Series F Preferred Stock redeemable in four quarterly instalments beginning on 31 January 2013 and Rs Nil (31 March 2006: Rs 142,641,473) in Series G Preferred Stock redeemable in four quarterly instalments beginning on 31 May 2013.

b) During the year, the Company has converted the 7,131,010 Series A to G preference shares in MphasiS USA (mentioned in note above) and 100 common stock into 3,000 common stock of MphasiS USA.

c) Investment in MphasiS India representing 940,000, 8% non-cumulative redeemable preference share of Rs 100 each fully paid up were redeemed during the year.

(Rs 000's)

	31 March 2007*	31 March 2006*
9. DEFERRED TAX ASSET		
On depreciation	81,455	23,599
	81,455	23,599
10. CASH AND BANK BALANCES		
Cash in hand	11	84
Remittances in transit	-	11
Balances with scheduled banks		
- Current accounts **	112,040	45,704
- Deposit accounts	1,068,284	89,837
Balances with non-scheduled banks		
- Current accounts (Refer note 30)	12,727	63,661
	1,193,062	199,297

** Includes Rs 1,255,499 and Rs 1,231,797 representing the balances in unclaimed dividends accounts as at 31 March 2007 and 31 March 2006 respectively.

11. INTER CORPORATE CASH DEPOSITS		
MphasiS India	-	104,279
	-	104,279
12. SUNDRY DEBTORS AND UNBILLED REVENUES**		
Sundry debtors		
Debts outstanding for a period exceeding six months, unsecured		
- considered good	320,195	596,174
- considered doubtful	43,233	39,595
Other debts, unsecured		
- considered good	1,414,599	701,169
	1,778,027	1,336,938
Less: Provision for doubtful debts	43,233	39,595
	1,734,794	1,297,343
Unbilled revenues	1,423,278	117,488
	3,158,072	1,414,831

*Refer note 41

**Refer note 31

NOTES TO THE FINANCIAL STATEMENT (REVISED)

(Rs 000's)

	31 March 2007*	31 March 2006*
13. INTEREST RECEIVABLE		
Unsecured		
- considered good	8,879	3,406
	8,879	3,406
14. LOANS AND ADVANCES		
Unsecured - considered good		
Employee loans	319	1,291
Advances recoverable in cash or in kind or for value to be received (refer note 32)	499,749	789,365
Deposits		
- premises	321,333	48,715
- with Government authorities	7,447	4,112
- others	5,542	2,669
Loans to BFL Employees Equity Reward Trust (refer note 32)	47,575	18,497
Advance tax and tax deducted at source	328,890	35,172
Other current assets**	-	40,016
Unsecured - considered doubtful		
Advances recoverable in cash or in kind or for value to be received	35,656	35,932
	1,246,511	975,769
Less: Provision for doubtful loans and advances	35,656	35,932
	1,210,855	939,837

** The above amount includes USD Nil (31 March 2006 : USD 884,931) pertaining to the acquisition of Eldorado Computing Inc., totalling to Rs Nil (31 March 2006 : Rs 39,492,083) held in escrow accounts and to be paid on the satisfactory completion of conditions laid down in the share purchase agreement (refer note 2 (d)).

	31 March 2007*	31 March 2006*
15. CURRENT LIABILITIES		
Sundry creditors**	1,138,188	761,086
Advances from clients	11,364	3,480
Unearned receivables	13,800	20,486
Employee related liabilities	168,246	82,068
Other liabilities***	876,598	434,247
Unclaimed dividends	1,255	1,232
Intercorporate cash deposits	-	219,650
	2,209,451	1,522,249
16. PROVISIONS		
Compensated absences	39,470	5,024
Gratuity (refer note 36)	75,955	18,488
Taxation	5,959	24,858
Proposed dividend	624,640	483,168
Tax on dividend	106,158	67,764
	852,182	599,302

* Refer note 41

** There are no dues to small scale industrial undertakings.

*** Included in Other liabilities is an amount of Rs 17,060,055 (31 March 2006: Rs 17,060,055) which represents the balance consideration payable for the acquisition of Kshema Technologies Limited (refer note 2(b)).

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
17. COST OF REVENUE		
Salary and allowances	3,022,384	596,533
Contribution to provident & other funds	277,516	32,189
Staff welfare	163,619	25,363
Travel	545,179	106,460
Recruitment charges	139,598	21,487
Communication expenses	309,647	22,972
Software / material purchases	35,591	20,017
Rent	303,215	34,944
Professional Charges	280,180	1,114
Depreciation and amortisation	452,816	54,334
Software development charges	1,962,421	1,619,788
Electricity charges	120,677	25,762
Software support and annual maitenance charge	542,608	11,969
Miscellaneous expenses	198,949	28,490
	8,354,400	2,601,422

The above expense for the year ended 31 March 2007 are net of Rs Nil (31 March 2006: Rs 4,018,463) being the write back of provisions no longer required on account of miscellaneous expenses.

	Year ended 31 March 2007*	Year ended 31 March 2006*
18. SELLING EXPENSES		
Salary and allowances	66,745	36,946
Contribution to provident & other funds	1,703	1,506
Staff welfare	603	1,281
Travel	6,781	5,055
Communication expenses	551	1,171
Rent	402	1,092
Commission	385,914	124,845
Professional charges	598	497
Depreciation and amortisation	1,683	1,255
Miscellaneous expenses	3,385	4,793
	468,365	178,441
19. GENERAL AND ADMINISTRATIVE EXPENSES		
Salary and allowances	281,081	93,952
Contribution to provident & other funds	31,311	8,126
Staff welfare	27,408	15,820
Travel	21,901	5,298
Communication expenses	15,489	9,844
Rent	22,508	2,983
Professional charges	60,146	14,490
Depreciation and amortisation	58,039	28,188
Auditors' remuneration		
- Statutory audit fees	3,576	2,300
- Tax audit fees	300	350
- Other services	2,800	2,000
Bank charges	2,424	2,189
Insurance	13,452	3,264
Rates and taxes	7,345	17,978
Repairs and maintenance		
- Plant and machinery	128	199
- Buildings	13,637	16
- Others	63,856	19,400
Membership & Subscriptions	5,238	4,134
Miscellaneous expenses	83,887	22,807
	714,526	253,338

* refer note 41

The above expense for the year ended 31 March 2007 are net of Rs Nil (31 March 2006: Rs 7,000,102) being the write back of the provisions no longer required on account of miscellaneous expenses.

NOTES TO THE FINANCIAL STATEMENT (REVISED)

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
20. OTHER INCOME / (EXPENSE), NET		
Profit / (loss) on sale of assets, net	(1,566)	1,843
Miscellaneous	(562)	(8,700)
	(2,128)	(6,857)
21. INTEREST INCOME / (EXPENSE), NET		
Interest income on deposits and loans*	32,105	26,525
Interest expense on deposits and loans	(12,031)	(48,726)
	20,074	(22,201)

* tax deducted at source Rs 1,929,989 (31 March 2006 : Rs 3,506,848)

22. INCOME TAXES		
Current taxes		
Domestic taxes	83,149	24,652
Foreign taxes	5,668	2,079
Deferred taxes		
Domestic taxes	(34,709)	(7,347)
Foreign taxes	-	-
Fringe benefit taxes	36,531	7,269
	90,639	26,653

* refer note 41

23. 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 123,626,540 as at 31 March 2007 (31 March 2006: Rs 5,807,240) have been furnished to the Customs authorities in this regard.

24. CONTINGENT LIABILITIES AND COMMITMENTS

a. Claims against the Company not acknowledged as debts amounting to Rs 541,190,253 (31 March 2006: Rs 210,648,853);

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 6.2 Million (31 March 2006: Rs 6.20 Million). The contributions from May 2005 onwards have been remitted on a monthly basis.

c. Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at 31 March 2007: Rs 46,834,599 (31 March 2006: Rs 20,567,567);

d. Guarantees outstanding including those furnished to Customs Authorities as at 31 March 2007: Rs 143,776,540 (31 March 2006: Rs 11,150,453);

e. Forward covers contracts outstanding as at 31 March 2007: Nil (31 March 2006: USD 31,108,573 or Rs 1,387,908,984). Unamortised premium on forward exchange contracts as at 31 March 2007 Rs Nil (31 March 2006: Rs 6,183,328); and

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

25. 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 201,858,028 for the year ended 31 March 2007 and Rs 4,827,240 for the year ended 31 March 2006.

Future minimum lease payments under non-cancellable operating lease as at 31 March 2007 are as follows:

Period	Rs 000's
Not later than 1 year	310,034
Later than 1 year and not later than 5 years	619,859
More than 5 years	-

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 124,267,262 and Rs 34,191,760 for the year ended 31 March 2007 and 31 March 2006 respectively.

26. RELATED PARTY TRANSACTIONS

(a) Entities where control exists:

■ TH Holdings Limited, Mauritius	Holding company
■ Electronic Data Systems Corporation, USA	Ultimate holding company

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

(b) Key management personnel:

Key executive management personnel of the Company are as mentioned below:

Key executive management personnel represented on the board of the Company

■ Jaithirth Rao	Non-executive Chairman w.e.f 1 November 2006 and Chief Executive Officer and Managing Director through 31 October 2006
■ Deepak Patel	Managing Director w.e.f 1 November 2006
■ Jeroen Tas	Director and Vice-Chairman resigned w.e.f. 24 June 2006, re- appointed w.e.f 10 October 2006; Non-executive vice chairman w.e.f. 1 March 2007 effective 1 March 2007.

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

■ Rahul Bhasin	Director
■ Jose de la Torre	Director
■ Nawshir H Mirza	Director
■ D S Brar	Director
■ Stephen Heidt	Director – appointed w.e.f. 27 June 2006
■ Paul Currie	Director – appointed w.e.f. 27 June 2006
■ Joseph Eazor	Director – appointed w.e.f. 27 June 2006
■ Mark Bilger	Director – appointed w.e.f. 30 August 2006
■ Vinita Bali	Director – appointed w.e.f. 30 March 2007
■ Richard Braddock	Director – resigned w.e.f. 27 June 2006

NOTES TO THE FINANCIAL STATEMENT (REVISED)

- N Subramaniam — Director – resigned w.e.f. 27 June 2006
- Ashish Dhawan — Director – resigned w.e.f. 22 June 2006
- BR Menon — Director – resigned w.e.f. 26 June 2006
- Thomas Haubenstricker — Director – appointed w.e.f 27 June 2006, resigned w.e.f. 28 March 2007
- Ronald Vargo — Director – appointed w.e.f 27 June 2006, resigned w.e.f 10 October 2006
- Douglas Davis — Director – appointed w.e.f 27 June 2006, resigned w.e.f 30 August 2006

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

- TH Consulting India Pvt Limited
- EDS (Operations) Pty Limited
- EDS Operations Services Gmbh
- EDS Answare SA
- Electronic Data Systems Limited
- EDS International B.V.
- EDS (New Zealand) Limited
- EDS Information Services LLC
- EDS Belgium N.V
- EDS Canada Inc.
- EDS Information Business Gmbh
- EDS Australia Pty Limited
- EDS Business Services Pty Limited
- EDS Gulf States
- EDS (China) Co. Limited
- EDS Hong Kong Limited
- EDS Sweden AB
- EDS International (S) Pte Limited
- EDS (Thailand) Co. Limited
- EDS Electronic Data Systems Taiwan Corp

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

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Rendering of services to entities where control exists	517,490	320,484
Rendering of services to other related parties	5,632,994	-
Software development charges paid to entities where control exist	1,818,120	1,584,299
Software support and annual maintenance charges paid to other related parties	516,072	-
Commission paid to other related parties	385,914	124,845
Reimbursement of expenses by entities where control exists	12,808	-
Commission to non-executive directors	8,175	2,000
Exercise of stock options by non executive director	38,228	44,569
Exercise of stock options by executive key management personnel	105,000	22,500
Interest income from deposits made to entities where control exists	2,744	9,875
Interest payable on deposits received from entities where control exists	11,521	34,511
Redemption of preference shares of MphasiS India	94,000	-
Proceeds from sale/ liquidation of subsidiaries	3,921	-
Investment in entities where control exists	45,780	113,257
Loan given to BFL trust	37,078	32,230
Loan refunded by BFL trust	8,000	43,300
Deposits placed with entities where control exists	229,800	392,202
Deposits refunded by entities where control exists	334,079	511,623
Deposits received from entities where control exists	2,267,312	1,457,000
Deposits refunded to entities where control exists	2,486,962	1,459,350

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*

Expenses include the following remuneration to the managing director:

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Salaries and allowances	19,236	9,824
Provident and other funds	4,032	1,176
Monetary value of perquisites	935	472
	24,203	11,472

The above includes, remuneration paid to the former Managing Director and Chief Executive officer for the period up to 31 October 2006, and for the present Managing Director from 1 November 2006 onwards.

This does not include remuneration paid to the Non-executive Chairman for the period 1 November 2006 onwards amounting Rs 19,403,834 and other benefits and incentives, as the same is borne by EDS. Further, remuneration of certain other non-executive directors is paid by the ultimate parent company and its affiliates.

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 2007	Year ended 31 March 2006
Profit after taxation	1,315,337	762,257
Add:		
Director's remuneration	24,203	11,472
Depreciation as per the accounts	512,538	83,777
Provision for taxation	90,639	26,653
Loss on sale of fixed assets	1,566	-
Loss on sale of investment	11,625	-
	1,955,908	884,159
Less:		
Depreciation as per Section 350 of the Companies Act, 1956*	512,538	83,777
Profit on sale of fixed assets	-	1,843
Net Profit on which commission is payable	1,443,370	798,539

* 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 former managing director. The current managing director is not eligible for commission.

NOTES TO THE FINANCIAL STATEMENT (REVISED)

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

(Rs 000's)

	31 March 2007	31 March 2006
Sundry debtors and unbilled revenue- entities where control exists	517,740	682,460
Sundry debtors and unbilled revenue- other related parties	2,255,811	-
Sundry creditors- entities where control exists	717,868	758,328
Sundry creditors- other related parties	330,824	-
Advances recoverable in cash or in kind or for value to be received- entities where control exists, included in Loans and Advances	375,431	684,600
Inter-corporate cash deposits received from entities where control exists	-	219,650
Loans (interest free) to BFL Trust, included in Loans and Advances	47,575	18,497
Inter-corporate cash deposits placed with – entities where control exists	-	104,279
Other liabilities- entities where control exists, included in Current liability	295,904	358,148

(g) **Others**

150,000 options as at 31 March 2007 (31 March 2006: 1,206,000) of the various ESOP plans of the Company are held by key management personnel where the exercise price is equivalent to the market price immediately preceding the date of grant.

27. C.I.F. VALUE OF IMPORTS

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Capital goods	617,383	37,782

28. EARNINGS IN FOREIGN CURRENCY

Revenues	10,318,183	3,657,005

29. EXPENDITURE IN FOREIGN CURRENCY

Software development charges	1,665,173	1,576,740
Travel expenses	38,055	12,893
Professional charges	5,615	5,191
Software support and annual maintenance charges	480,738	-
Selling commission	385,914	124,845
Others	63,310	2,417
	2,638,805	1,722,086

Additionally, during the year, the Company has remitted dividend of Rs 325,814,898 (31 March 2006: Rs 179,720,193) to non-residents holding 108,604,966 (31 March 2006: 59,906,731) equity shares of the Company.

	Year ended 31 March 2007	Year ended 31 March 2006
Number of shareholders	723	469
Number of shares held	108,604,966	59,906,731
Amount remitted	325,814,898	179,720,193
Year to which the dividend relates	2005-06	2004-05

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

(Rs 000's)

	31 March 2007	31 March 2006
Bank of America, USA – Operations	-	22
Bank of America, USA – US collections	8,789	57,267
Bank of America, USA – Payroll	-	22
Barclays Bank, UK	52	52
SBI – Canada	42	42
Suntrust checking account	3	67
Suntrust money market account	3,841	6,189
	12,727	**63,661**

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

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Bank of America, USA – Operations	22	357
Bank of America, USA – US collections	82,358	74,499
Bank of America, USA – Payroll	22	346
Barclays Bank, UK	52	55
SBI – Canada	42	42
Suntrust checking account	67	143
Suntrust money market account	9,238	31,742

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

NOTES TO THE FINANCIAL STATEMENT (REVISED)

31. Details of debt dues from companies under the same management included in sundry debtors and unbilled revenue are as follows:

(Rs 000's)

	31 March 2007	31 March 2006
MphasiS GmbH	1,085	9,555
BFL APAC	5,879	4,556
MphasiS China	309	-
Princeton Consulting Limited	26,350	4,558
Eldorado Computing Inc.	28,688	-
MphasiS Corporation, USA	202,357	390,148
MphasiS Europe BV	62,848	60,907
MphasiS UK Limited	189,021	139,965
MphasiS India	1,023	-
MphasiS Pte Limited	-	72,771
EDS (Operations) Pty Ltd	154	-
EDS Information Business GmbH	2,014	-
Electronic Data Systems Limited	79,879	-
EDS International BV	4,570	-
EDS Information Services LLC	1,510,872	-
EDS Australia Pty Ltd	43,533	-
EDS Business Services Pty Ltd	16,004	-
EDS Gulf States	1,678	-
EDS Canada Inc.	13,632	-
EDS (China) Co. Ltd	15,700	-
EDS Operations Services GmbH	10,606	-
EDS Answare SA	27,863	-
EDS Hong Kong Ltd	6	-
EDS New Zealand Limited	730	-
EDS Sweden AB	2,818	-
EDS International (S) Pte Ltd	8,070	-
Electronic Data Systems (Thailand) Co. Ltd	23	-
Electronic Data Systems Taiwan Corp	99	-
	2,255,811	682,460

32. Details of reimbursable expenses receivable from companies under the same management as defined under section 370(1B) of the Companies Act, 1956, included in advances recoverable in cash or in kind or for value to be received

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
MphasiS India	108,735	131,045
MsourcE India	72,715	100,014
MphasiS GmbH	7,019	6,826
MphasiS USA	115,557	366,569
MphasiS Singapore	24,587	6,368

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Mphasis China	4,161	3,699
Mphasis UK	6,214	20,663
Mbroker India	439	275
Mbroker Inc.	1,420	24,565
Princeton Consulting Ltd	2,157	11,565
Eldorado Computing Inc.	22,138	12,136
MphasiS Europe BV	4,742	875
BFL APAC	190	-
Electronic Data Systems Corp.	4,800	-
MphasiS Australia	472	-
MphasiS Finsource	85	-
	375,431	684,600

Details of Loans and advances to controlled trust

BFL Employees Equity Reward Trust	47,575	18,497

Details of maximum balances of reimbursable expenses receivable from companies under the same management as defined under section 370(1B) of the Companies Act, 1956, included in advances recoverable in cash or in kind or for value to be received

MphasiS India	185,303	131,045
MsourcE India	190,764	100,114
MphasiS GmbH	7,023	9,745
MphasiS USA	380,182	458,000
MphasiS Singapore	24,816	6,593
MphasiS China	10,175	3,797
MphasiS UK	20,685	20,664
MbrokeR India	460	275
Mbroker Inc.	25,392	24,565
Princeton Consulting Ltd	12,447	11,603
Eldorado Computing Inc	47,867	12,137
MphasiS Europe BV	7,989	647
BFL APAC	286	-
Electronic Data Systems Corp.	4,800	-
MphasiS Australia	472	-
MphasiS Finsource	85	-

Details of maximum balances for Loans and advances to controlled trust

BFL Employees Equity Reward Trust	47,575	29,567

NOTES TO THE FINANCIAL STATEMENT (REVISED)

33. SEGMENT REPORTING

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

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 2007	Year ended 31 March 2006
Segment revenue		
Application Services	9,155,853	3,761,250
BPO Services	482,702	45,489
ITO Services	1,389,994	-
	11,028,549	3,806,739
Segment profit		
Application Services	2,284,417	1,171,231
BPO Services	160,381	34,086
ITO Services	229,351	-
	2,674,149	1,205,317
Interest, net	20,074	(22,201)
Other unallocable expenditure, net of unallocable income	1,288,247	394,206
Profit before taxation	1,405,976	788,910
Income taxes	90,639	26,653
Profit after taxation	1,315,337	762,257

(Rs 000's)

	31 March 2007	31 March 2006
Segment assets		
Application Services	4,486,674	2,800,428
BPO Services	720,312	7,554
ITO Services	341,155	-
Unallocated assets	5,886,131	4,656,149
	11,434,272	7,464,131
Segment liabilities		
Application Services	1,267,290	1,522,249
BPO Services	38,482	-
ITO Services	-	-
Unallocated liabilities	1,768,959	614,837
	3,074,731	2,137,086

Secondary segment information (revenues)

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
USA	8,889,168	2,962,043
Europe	989,655	657,893
Asia Pacific	483,399	18,150
Japan	29,048	5,358
Middle East and India	637,279	163,295
	11,028,549	3,806,739

34. EARNINGS PER SHARE ('EPS')

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

	Year ended 31 March 2007	Year ended 31 March 2006
Number of weighted average shares considered for calculation of basic earnings per share	205,947,725	159,019,018
Add: Dilutive effect of stock options	3,180,760	2,758,088
Number of weighted average shares considered for calculation of diluted earnings per share	209,128,485	161,777,106

During July 2007, merger of EDS India with MphasiS Limited has been approved by High courts of Karnataka and Maharashtra and the necessary formalities have been completed. Since the merger is with retrospective effect from 1 April 2006 and the financial statements of EDS India has been consolidated with effect from that date, the 44,104,065 shares which are pending for allotment on account of merger is treated as if it was issued at the beginning of the year, for the purpose of calculating both the basic and diluted EPS.

207,269 weighted average number of shares (31 March 2006: 237,701 shares) held by the ESOP Trust have been reduced from the equity shares outstanding for computing basic and diluted earnings per share.

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.

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 2007	Year ended 31 March 2006
Net profit as reported	1,315,337	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	38,886	43,286
Pro-forma net profit	1,276,451	718,971
Earning per share: Basic		
As reported	6.39	4.79
Pro-forma	6.20	4.52
Earning per share: Diluted		
As reported	6.29	4.71
Pro-forma	6.10	4.44

Notes to the Financial Statement

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 2007	Year ended 31 March 2006
Dividend yield %	1.44% to 1.98%	1.44%
Expected life	1 to 4 years	1 to 4 years
Risk free interest rates	5.78% to 8.00%	5.78% to 6.55%
Expected volatility (annualised) *	67.12% to 69.48%	67.12%

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

36. GRATUITY PLAN

Effective 1 April 2006, the Company adopted revised accounting standard on employee benefits. The following table set out the status of the gratuity plan as required under revised AS – 15.

Reconciliation of the projected benefit obligations

(Rs 000's)

	Year ended 31 March 2007
Change in projected benefit obligation	
Obligations at period beginning	72,753
Service cost	90,808
Interest cost	8,548
Benefits paid	(15,702)
Actuarial (gain)/loss	(4,149)
Obligations at period end	152,258
Change in plan assets	
Plans assets at period beginning, at fair value	52,959
Expected return on plan assets	5,278
Actuarial gain / (loss)	2,315
Contributions	31,453
Benefits paid	(15,702)
Plans assets at period end, at fair value	76,303
Reconciliation of present value of obligation and fair value of plan assets	
Fair value of plan assets at the end of the year	76,303
Present value of defined benefit obligation at the end of the year	152,258
Liability recognised in the balance sheet	(75,955)
Gratuity cost for the period	
Service cost	90,808
Interest cost	8,548
Expected return on plan assets	(5,278)
Actuarial (gain)/loss	(6,464)
Net gratuity cost	87,614
Assumptions	
Interest rate	8.0%
Expected rate of return on plan assets	8.0%
Expected contribution over next one year	30,000

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

37. Effective 1 April 2006, the Company has adopted the revised AS 15 – "Employee benefits" issued by the ICAI. Accordingly, gratuity and compensated absences have been accrued and presented as per the requirement of AS 15. No transitional adjustment arose as on 1 April 2006, since there was no difference in liability computed earlier and based on revised AS 15.

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

(Rs 000's)

	Year ended 31 March 2007	Year ended 31 March 2006
Revenue recognised on customised software development contracts	2,265,064	1,555,241

Disclosure for contracts in progress at the reporting date

(Rs 000's)

	31 March 2007	31 March 2006
Fixed Price projects:		
Revenue recognised till the reporting date	167,888	158,033
Due from customers	26,875	13,680
Due to customers	2,450	3,408
Time and material projects:		
Revenue recognised till the reporting date	440,688	281,202
Due from customers	110,234	35,334
Due to customers	5,039	14,878

39. 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.

40. The Company has 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 2007.

41. Previous period figures have been regrouped/ reclassified, wherever necessary, to conform to the current period presentation. However, the current year figures have been revised to give effect to the amalgamation of EDS India with MphasiS Limited and are not strictly comparable with those previous year's, as EDS India has been merged with the Company w.e.f. 1 April 2006 [refer note 2(g)].

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
6 August 2007

CASH FLOW STATEMENT (REVISED)

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
Cash flow from operating activities:		
Profit before taxation	1,405,976	788,910
Adjustments for:		
Depreciation	512,538	83,777
Loss/(profit) on sale of fixed assets	1,566	(1,843)
Loss on sale of investment	11,625	-
Interest on deposits and loans	(20,074)	22,201
Operating profit before working capital changes	1,911,631	893,045
Increase in sundry debtors and unbilled revenues	(1,076,192)	(139,206)
Decrease/ (increase) in loans and advances	244,404	(83,196)
Increase in current liabilities and provisions	557,414	162,985
Cash generated from operations	1,637,257	833,628
Income tax paid	(310,685)	(38,685)
Net cash provided by operating activities	1,326,572	794,943
Cash flow from investing activities:		
Proceeds from sale of fixed assets	3,769	26,986
Purchase of fixed assets	(1,222,747)	(143,045)
Interest received on deposits	15,132	-
Deposits placed with MphasiS India	(229,800)	(392,202)
Deposits refunded by MphasiS India	334,079	511,623
Investment in subsidiaries	(5,836)	(785,607)
Proceeds from sale/ liquidation of subsidiaries	3,921	(542)
Redemption of preference shares of MphasiS India	94,000	-
Net cash used in investing activities	(1,007,482)	(782,787)
Cash flow from financing activities:		
Proceeds from issue of share capital (including premium)	337,066	218,968
Loan from/ (repayment to) vehicle finance company, net	(2,437)	412
Dividends paid (including tax on dividend)	(553,903)	(272,861)
Deposits accepted from MsourcE India	2,267,312	1,402,000
Deposits refunded to Msource India	(2,486,962)	(1,402,350)
Interest paid	-	(18,697)
Net cash used in financing activities	(438,924)	(72,528)

* refer note 41

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
Net increase/ (decrease) in cash and cash equivalents during the year	(119,834)	(60,372)
Effect of exchange rate changes	4,732	(7,620)
Cash and cash equivalents at the beginning of the year	199,297	100,290
Cash acquired from Kshema (refer note 2(b))	-	166,999
Cash acquired from EDS India (refer note 2(g))	1,108,867	-
Cash and cash equivalents at the end of the year (refer note 10)	1,193,062	199,297

* refer note 41

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
6 August 2007

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
6 August 2007

Cash Flow Statement (Revised)

Reconciliation of financial Statement items with cash flow items.

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
Addition to fixed assets		
As per the Balance Sheet	1,196,738	135,120
Add: Closing capital work-in progress	27,014	4,156
Add: Opening creditors for capital goods	1,902	9,550
Less: Opening capital work-in-progress	(4,156)	(3,879)
Less: Opening capital work in progress of EDS India	(21,730)	-
Add: Opening creditors for capital goods acquired from EDS India	40,255	-
Less: Closing creditors for capital goods	(17,276)	(1,902)
Balance considered for preparing the Cash Flow Statement	1,222,747	143,045
Sundry debtors and unbilled revenue		
As per the Balance Sheet	3,158,072	1,414,831
Less: Opening debtors and unbilled revenues of EDS India	(667,049)	-
	2,491,023	1,414,831
Less: Opening balance considered	1,414,831	1,275,625
Balance considered for preparing the Cash Flow Statement	1,076,192	139,206
Loans and advances		
As per the Balance Sheet	1,210,855	939,837
Less: Other current assets related to Eldorado Computing Inc. investment considered separately	-	(39,492)
Less: Tax deducted at source and Advance income tax considered separately	(328,890)	(35,172)
Less: Opening loans and advances acquired from EDS India	(261,196)	-
	620,769	865,173
Less: Opening balance considered	865,173	(781,977)
Balance considered for preparing the Cash Flow Statement	(244,404)	83,196
Current Liabilities and Provisions		
As per the Balance Sheet	3,061,633	2,121,551
Less: Creditors for capital goods considered separately	(17,276)	(1,902)
Add: Opening creditors for capital goods considered separately-acquired from EDS India	40,255	-
Less: Liability for unclaimed dividend considered separately	(1,255)	(1,232)
Less: Provision for taxation considered separately	(5,959)	(24,858)
Less: Liability to erstwhile shareholders of subsidiaries considered separately	(17,060)	(17,060)
Less: Deposit accepted from MsourcE India Private Ltd. considered separately	-	(219,650)
Less: Provision for proposed dividend and tax on dividend considered separately	(730,798)	(550,932)
Less: Liability for EDS India merger expenses	(66,688)	-
Less: Opening current liability and provision of EDS India	(399,521)	-
	1,863,331	1,305,917
Less: Opening balance considered	1,305,917	(1,142,932)
Balance considered for preparing the Cash Flow Statement	557,414	162,985

* refer note 41

Reconciliation of financial Statement items with cash flow items.

(Rs 000's)

	Year ended 31 March 2007*	Year ended 31 March 2006*
Income tax paid		
As per the Profit and Loss Account	90,639	26,653
Increase in deferred taxes	57,856	7,347
Decrease/(Increase) in provision for taxation	18,899	(14,932)
(Decrease)/Increase in advance tax and tax deducted at source	293,718	19,617
Less: Opening advance tax and tax deducted at source, net of provision for tax of EDS India	(127,620)	-
Less: Opening deferred tax of EDS India	(22,807)	-
Balance considered for preparing the Cash Flow Statement	310,685	38,685
Interest / Dividend from Deposit/Investments		
Interest on deposits and loans, net	20,074	(22,201)
Add: Opening interest and dividend receivable	3,406	6,072
Add: Opening interest receivable of EDS India	531	-
Less: Closing interest and dividends receivable	(8,879)	(3,406)
Add: Acquired from Kshema	-	838
Balance considered for preparing the Cash Flow Statement	15,132	(18,697)

* refer note 41

For and on behalf of the Board of Directors

Jaithirth Rao
Chairman

Deepak Patel
Managing Director

Alok C. Misra
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
6 August 2007

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

Corporate Identity No. L30007KA1992PLC025294

Balance Sheet Date 31 03 07

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

Public Issue	Rights Issue
NIL	NIL
Bonus Issue	Private Placement
NIL	30606

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

Total Liabilities	Total Assets
8372639	8372639

Sources of Funds

Paid-up-Capital	Reserves & Surplus (includes share premium account)
2081830	6210476
Secured Loans	Unsecured Loans
13098	NIL

Application of Funds

Net Fixed Assets	Investments
1251076	4530873
Net current Assets	Miscellaneous Expenditure
2509235	NIL
Accumulated Losses	
NIL	

4 Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
11028549	9622573
Profit / (Loss) Before Tax	Profit / (Loss) After Tax
+ ✓ - 1405976	+ ✓ - 1315337
Basic earnngs per share in Rs.	Dividend Rate (%)
6.39	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

MphasiS Limited

BOARD OF DIRECTORS

Mr. Jaithirth Rao
Chairman

Mr. Jeroen Tas
Vice Chairman

Mr. Deepak Jayant Patel
Managing Director

Mr. Rahul Bhasin
Director

Dr. Jose de la Torre
Director

Mr. Nawshir Mirza
Director

Mr. Davinder Singh Brar
Director

Mr. Stephen Heidt
Director

Mr. Joseph Eazor
Director

Mr. Paul Currie
Director

Mr. Mark Bilger
Director

Ms. Vinita Bali
Director

AUDITORS

BSR & Co.,
Chartered Accountants,
Maruthi Info-Tech Centre,
11-12/2, Inner Ring Road,
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REGISTERED OFFICE

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Ph: +91 80 4004 0404
www.mphasis.com

REGISTRAR & SHARE TRANSFER AGENT

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COMPANY SECRETARY & GENERAL COUNSEL

Mr. A. Sivaram Nair

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