Board of Directors

Dr. Friedrich Froeschl
Chairman

Mr. Francesco Serafini
Vice Chairman

Mr. Balu Ganesh Ayyar
Chief Executive Officer

Mr. Nawshir Mirza

Mr. Davinder Singh Brar

Mr. Prakash Jothee

Mr. Balu Doraisamy

Mr. Juergen Reiners

Mr. Gerard Brossard

COMPANY SECRETARY, GENERAL COUNSEL AND HEAD - GLOBAL ETHICS AND COMPLIANCE
Mr. A. Sivaram Nair

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Management Discussion of Risks and Concerns

Your Company has instituted a Continuous Global Risk Management framework to proactively identify, mitigate, monitor and report risks across various functions in the organization and to facilitate tracking and review continuously. Broadly risks are categorised into

i) Strategy (as it has potential to impact entity's mission which arise out of strategic decisions and has potential to impact long term operations on marketing /resource allocation / delivery models etc and are generally non-routine in nature);

ii) Operational (as it has potential to impact objectives to achieve efficiency and effectiveness in operations);

iii) Financial & Reporting (as it has potential to impact financial elements and objectives to facilitate timely and accurate information to stakeholders); and

iv) Compliance (as it has potential to impact objectives to adhere to laws and regulations)

The Risk Governance Committee comprising of the Chief Risk Officer, the Chief Financial Officer and the Company Secretary & General Counsel periodically evaluates various risks and mitigation efforts. Some of the risks/concerns and risk mitigation actions/plans are as follows:

Strategy Risks

- ***Global Economic conditions and Market opportunities***

The changing economic conditions and the competitive market environment are driving organizations to transform their operations and technological innovations. Companies have already begun to increase the use of outsourced technology service providers to attain faster delivery of technology solutions, to lower total cost of ownership of IT infrastructure or to lower labour costs or to improve quality and innovation and to have more flexibility in scheduling. It is expected that this momentum will continue to drive future growth for outsourced technology services. Besides this background, your Company faces competition from large technology service providers and competition from firms newly establishing /building their offshore presence and firms in countries with lower personnel costs than those prevailing in India, resulting in squeeze in rates and increased service level commitments. This has also created the need for differentiating us and to widen the service portfolio and sales network to integrate the service offerings according to the specific market needs. Your Company has identified the developments happening in the matured markets and the foreseeable reactions in the emerging markets and commenced augmentation / reallocation of existing sales resources to integrate service offerings with client needs. With nearness to market and swift flow of inputs, your Company would be well equipped to enhance customer satisfaction and win large deals. Continuous efforts are underway to identify deal opportunities and steps are also taken to implement process improvements across functions to cope with new solution needs.

- ***Geography / Client / Industry concentration risk***

Group Revenues are largely dependent on clients located in the USA and Europe and the economic or other factors that affect the economic health of USA and Europe may affect group's business. During the year, the Group derived 65% of its total revenues from USA and 19% from Europe and 16% from Asia pacific Regions. Further the Group derived 10% of its total revenue from a single client and about 71% of the total revenue through HP channels and such dependencies can impact group's operations in case of any adversity. From industry concentration perspective about 42% of the revenue is from Financial Services segment based clients. It is perceived by the Group that there would be gradual expansion in client base, with cost competitiveness, new geography spreads / service offerings / client segments in Telecom, Healthcare and Government sectors and there may not be any major threats in near term due to these dependencies.

- ***Adaptability to technological changes***

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 co-operative relationships with other companies, could adversely affect the market acceptance of the Group's services and operating results. The Group has successfully sailed through various phases during the past few years and with access to HP technology, it is perceived that there is better sustainability to the group's operations.

Operational Risks

- ***Service Delivery risks***

With growing volume of operations, new client / geography / service offerings, there could be service delivery related risks, transition phase risks, Intellectual Property Rights related risks, risks in data protection / disclosure of confidential information and change in proportion of offshore – onsite mix with risk of consequential skill mismatches. These risks are accentuated in cases where clients face budgetary constraints or have internal management issues or when we have employee attritions. Certain customer contracts are conditioned upon our performance which, if unsatisfactory, could result in less revenue than previously anticipated. The Group with its years of experience, HP's expertise and knowledge base is enhancing the management techniques and framework to fulfil contractual terms compliance and customer satisfactory levels beyond competition. We have proven ability to effectively integrate onsite and offshore execution capabilities to deliver seamless, scalable, cost effective services throughout the business transaction cycle. Various new initiatives have been taken to identify and mitigate the risks by enhancing the quality control measures. Rigorous monitoring of root causes and remedial measures are in place to minimize incident recurrence. Besides adequate insurance for Professional Indemnity, Errors and Omissions to cover such events are enabled.

- ***Attracting and retaining human resources talent***

With economy blossoming with new opportunities, there is spurt in demand for skilled technology professionals resulting in attrition and wage pressures in India. Attrition loss and delays in filling the right talents impacts revenue besides cascading costs in recruitment, training, work absorption. The hiring of employees outside India and changes in offshore-onsite mix may also hamper the competitive advantage and erode our profit margins. Besides, the Group's future success will depend in part on continued ability to hire, assimilate and retain qualified personnel. The loss of any key employee, the failure of any key employee to perform in his or her current position or the Group's inability to attract and retain skilled employees, particularly technical and management, as needed, could impact the Group's business.

The Group strives to provide training and excellent staff welfare measures to promote employee satisfaction and thereby attract and retain efficient manpower. The Group has undertaken various initiatives to ensure that succession planning for key employees is put in place.

- Telecommunication infrastructure risk

The use of strategically located delivery locations 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 maintenance of active voice and data communication links between the Group's service delivery locations 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 with built in redundancies and fall back options and is a source of significant competitive advantage.

Management Discussion of Risks and Concerns

- ***Overseas Operations risk***

There is a risk of uncertainties due to changes in legislations in certain countries in which we operate, including the USA and UK, which may restrict companies in those countries from outsourcing work. Further, effective scrutiny of prospect's / customers' contractual terms, liquidity position and credit monitoring/recovery mechanism are prerequisites to avoid risk of bad deals/debts. The Group has adequate contract management team to pre-empt risk in accepting onerous terms and also constantly reviews credibility of existing customers and follows rigorous credit checks on prospective clients before agreeing on credit limits and credit periods. With the increased size of operations, the credit checks will be further strengthened to mitigate the risks.

Financial Risks

- ***Foreign Exchange Fluctuation risk***

About 92% of the Group's billings for the year is in foreign currency and hence exposed to volatility against the Indian Rupee and cross currency movements. Steep appreciation of Indian Rupee would affect our earnings and carrying value of assets located worldwide. The expected increase in offshore work may heighten the risk due to rupee appreciation. Currently, the Group has a policy of hedging non functional current assets and current liabilities as well as the forecasted revenues. To protect itself against possible default by the counterparties viz., the banks, the group uses multiple banks with certain limits.

- Taxation law change & Uncertainties to tax position

Currently, the Group's Indian operations is entitled to few tax exemptions and tax credits as per the prevailing laws in India. These benefits include, a tax holiday from profits generated from the export of software, refund of service tax suffered on inputs used for export of taxable services and the exemption from import /excise duties on assets purchased that are to be used in export revenue generating activities. There are uncertainties in continuation of various existing benefits, interpretation of tax positions and further changes which could affect the industry in general would adversely affect our profitability too.

Delays in/ non-receipt of refund of service tax from the Government will impact the Company's Cash Flows/Profits. The Company is continuously following up for the refund and taking proactive steps to mitigate the tax incidence. As significant operations are out of India and USA, any major amendment to the Indian and US taxation statutes could affect the Group's financial results and competitive advantage vis-a-vis other competitors / countries across the world. With the Software Technology Park (STP) Scheme in a sunset phase, the Group is moving towards Special Economic Zone (SEZ) Scheme in India where it would continue to enjoy certain tax holidays / exemptions subject to certain conditions.

Compliance Risks

With clients and operations all across the world, there is greater need of awareness of regulatory needs, suitable structure of business models / business contracts besides market intelligence. The Group is required to comply with various federal / state level legislation / visa & immigration rules / tax statutes in US, Europe and other overseas locations. With increase in geographical spread there could be risk of timeliness in compliance to these legislative requirements. The group has substantially augmented the monitoring controls in regard to overseas regulatory compliance by availing services of professional consultants in respective locations. The transfer pricing norms and tax legislative requirements are constantly reviewed to enable compliance. Visa/work permit, immigration norms, off-shorable work etc. are reviewed during client / business acquisition stage itself.

Other Risks

- *Mergers & Acquisitions*

Traditionally the Group was able to supplement growth by an appropriate blend of organic and M&A route. The group was able to gain expertise in structuring the deal as to size, integration needs, contractual requirements, regulatory aspects, culture fitment and financing pattern to ensure Stakeholders Value.

- *Travel, Health related, Terrorism and Political risks*

While the software development business has the blend of offshore and onsite delivery models, the BPO operations are largely concentrated in India. This makes it all the more susceptible to location concentration risks associated with India and its external relations with neighbours and other countries to whom clients are served. Further Indian IT and ITES services industry also faces competition from other countries notably Philippines and Ireland. Should clients decide to shift off-shoring business out of India to other countries, this could adversely affect the Group's business. To mitigate this, the Group has a software development centre in China and has also opened development centres in Poland, Australia and Sri Lanka that will partly serve as a backup to the existing centres. The Group has facilities in Slough, UK and Phoenix, USA. To ensure continued uninterrupted service to the existing customer and to mitigate travel, health related, terrorism and political risks, certain basic infrastructure like video conferencing and communication facilities are enabled in all major locations.

- *Accidents, natural calamities and safety of employees and assets*

The risk of natural calamities like earthquake/flood, electricity & telecommunication failures, labour unrest, accidents with peril to employees, assets and other business interruptions beyond management control could adversely affect the Group's business. Besides a Disaster Recovery and Business Continuity Plan, the Group is reasonably protected with insurance cover on such risks and interruptions to operations and further the operative locations of the Group is scattered across the world to mitigate such risks.

Auditor's Report

The Board of Directors
MphasiS Limited

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

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

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

Without qualifying our opinion, we draw attention to Note 2(c) to the financial statements. In accordance with the order of the Hon'ble High Court of Karnataka and Hon'ble High Court of Judicature at Madras, the goodwill of Rs 173,468,380 accounted at the time of acquisition of MphasiS FinSolutions Private Limited and deficit of Rs 4,298,664 in net assets acquired by the Company as of appointed date of 1 November 2009 has been reduced from the securities premium account of the Company and expenses of Rs 622,311 incurred by the Company in connection with the amalgamation scheme have been adjusted against the general reserves of the Company which is different from the requirements of Accounting Standard 14 for "Accounting for Amalgamations" and generally accepted accounting principles as discussed in the said note.

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

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

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Place : Bangalore, India
Date : 22 November 2010

Consolidated Balance Sheet

(₹ 000's)

	Notes	31 October 2010	31 October 2009
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	3	2,099,318	2,095,779
Reserves and surplus	4	30,886,691	21,350,582
Employee stock options outstanding	5	5,400	6,994
		32,991,409	**23,453,355**
LOAN FUNDS			
Secured loans	6	453,722	33,207
DEFERRED TAX LIABILITY	7	2,558	1,432
		33,447,689	**23,487,994**
APPLICATION OF FUNDS			
FIXED ASSETS	8		
Cost		10,258,254	10,043,649
Accumulated depreciation and amortisation		(7,835,668)	(6,879,945)
Net book value		2,422,586	3,163,704
Capital work-in-progress including capital advances		88,950	127,346
		2,511,536	3,291,050
GOODWILL	9	3,886,491	2,945,512
INVESTMENTS	10	14,600,259	7,612,471
DEFERRED TAX ASSETS	11	753,645	695,378
CURRENT ASSETS, LOANS AND ADVANCES			
Debtors and unbilled revenues	12	12,054,406	9,063,810
Cash and bank balances	13	1,783,690	1,785,698
Interest receivable	14	1,997	1,295
Loans and advances	15	9,445,985	7,240,135
		23,286,078	**18,090,938**
CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	16	8,093,696	6,413,739
Provisions	17	3,496,624	2,733,616
		11,590,320	**9,147,355**
NET CURRENT ASSETS		**11,695,758**	**8,943,583**
		33,447,689	**23,487,994**

Significant Accounting Policies 1

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

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

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Bangalore
22 November 2010

For and on behalf of the Board of Directors

Balu Ganesh Ayyar
Chief Executive Officer

Nawshir H Mirza
Director

Ganesh Murthy
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
22 November 2010

Consolidated Profit and Loss Account

(₹ 000's)

	Notes	For the year ended 31 October 2010	For the year ended 31 October 2009
Revenues		**50,365,178**	**42,638,827**
Cost of revenues	**18**	35,006,911	28,793,179
Gross profit		**15,358,267**	**13,845,648**
Selling expenses	**19**	2,214,478	1,804,010
General and administrative expenses	**20**	2,129,642	2,781,219
Provision for doubtful debts	**21**	3,003	8,036
Operating profit		**11,011,144**	**9,252,383**
Foreign exchange gain, net		580,818	292,202
Other income, net	**22**	499,189	155,008
Interest income, net	**23**	8,004	27,927
Profit before taxation		**12,099,155**	**9,727,520**
Income taxes			
- Current		1,772,470	1,435,685
- Deferred		(61,243)	(338,590)
- Minimum alternative tax credit entitlement		(519,597)	(487,060)
- Fringe benefit tax		-	30,706
Profit after taxation		**10,907,525**	**9,086,779**
Profit brought forward		17,053,799	9,662,156
Profit available for appropriations		**27,961,324**	**18,748,935**
Appropriations			
Transfer to General Reserve		996,878	836,872
Transfer to Capital redemption reserve		4,755	-
Final dividend for earlier years		446	80
Proposed Dividend		839,699	733,498
Tax on dividend		139,550	124,672
Issue of bonus shares		32	14
Profit carried forward		**25,979,964**	17,053,799
Earnings per share (par value - ₹ 10)	**30**		
Basic (₹)		52.00	43.45
Diluted (₹)		51.76	43.17

Significant Accounting Policies **1**

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

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

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Bangalore
22 November 2010

For and on behalf of the Board of Directors

Balu Ganesh Ayyar
Chief Executive Officer

Nawshir H Mirza
Director

Ganesh Murthy
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
22 November 2010

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of MphasiS Limited ('the Company') and its subsidiaries, collectively referred to as 'the MphasiS Group' or 'the Group', have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the mandatory Accounting Standards ('AS') prescribed in the Companies (Accounting Standards) Rules, 2006 (as amended), other pronouncements of the Institute of the Chartered Accountants of India ('ICAI') and the related provisions of the Companies Act 1956. The accounting policies have been consistently applied by the Group except for the change as disclosed in note 25.

Basis of consolidation

The consolidated financial statements include the financial statements of MphasiS Limited and all its subsidiaries, which are more than 50% owned or controlled. Please refer to Note 2 for the description of the Group.

The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under AS 21, Consolidated Financial Statements prescribed by the Companies (Accounting Standards) Rules, 2006 (as amended).

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.

Consolidated financial statements are prepared using uniform accounting policies across the Group.

Use of estimates

The preparation of the consolidated financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities on the date of the consolidated financial statements and the reported amounts of revenues and expenses for the year reported. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in the current and future years.

Revenue recognition

The Group derives its revenues primarily from software services & projects, call centre & business process outsourcing operations, infrastructure outsourcing services and from licensing arrangements & application services.

Revenues from software services & projects comprise income from time-and-material and fixed-price contracts. Revenue from time-and-material contracts is recognised on the basis of software developed and billable in accordance with the terms of contracts with clients. Revenue from fixed-price contracts is recognised using the percentage of completion method, calculated as the proportion of the cost of effort incurred up to the reporting date to estimated cost of total effort.

Notes to the Consolidated Financial Statements

Revenues from call centre & business process outsourcing operations arise 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 clients.

Revenues from infrastructure outsourcing services arises from time-and-material contracts and accordingly, revenue is recognised on the basis of services rendered and billable in accordance with the specific terms of the contracts with clients.

Revenue from licensing arrangements is recognised on transfer of the title in user licenses, except those contracts which require significant implementation services, where revenue is recognized over the implementation period in accordance with the specific terms of the contracts with clients.

Maintenance revenue is recognised rateably over the period of underlying maintenance agreements.

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 the current assets represent revenues in excess of amounts billed to clients as at the balance sheet date. 'Unearned receivables' included in the current liabilities represent billings in excess of revenues recognised.

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

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

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

Fixed assets and capital work-in-progress

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

Acquired intangible assets are capitalised at the acquisition price. Internally generated intangible assets are stated at cost that can be measured reliably during the development phase and capitalised when it is probable that future economic benefits that are attributable to the assets will flow to the Group. Fixed assets held by foreign subsidiaries are translated into Indian rupees at the closing rate.

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 the acquisition of fixed assets and the cost of assets not ready for use as at the balance sheet date are disclosed under capital work-in-progress.

Goodwill arising on consolidation

The excess of cost to the Company of its investment in subsidiaries over its portion of equity in the subsidiaries at the respective dates on which those subsidiaries were acquired, is recognised in the financial statements as goodwill. The Company's portion of equity in the subsidiaries is determined on the basis of the value of assets and liabilities as per the financial statements of the subsidiaries as on the date of acquisition.

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 ₹ 5,000 or less are depreciated in full in the year of purchase. The estimated useful lives of assets are as follows:

For assets used in other services	
	Years
Buildings	10
Plant and machinery	4
Computer equipment	2
Office equipment	3
Furniture and fixtures	4
Vehicles	3 to 5

For assets used in call center services	
	Years
Buildings	10
Plant and machinery (including telecom equipments)	5
Computer equipment	5
Office equipment	5
Furniture and fixtures	5
Vehicles	3 to 5

Freehold land is not depreciated. Leasehold improvements are amortised over the remaining lease term or 3 years (5 years for Call center services), whichever is shorter. Significant purchased application software and internally generated software that is an integral part of the Group's computer systems and expected to provide lasting benefits, is capitalised at cost and amortised on a 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.

Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss account on a straight-line basis over the lease term.

Profit or loss on sale and lease back arrangements resulting in operating leases, are recognised immediately in case the transaction is established at fair value, else, the excess over the fair value is deferred and amortized over the period for which the asset is expected to be used.

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 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.

Investments

Investments that are readily realisable and intended to be held for not more than a year, are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost or fair value determined on an individual investment basis.

Long-term investments are carried at cost. Provision for diminution in the value of investments is made if the impairment is not temporary in nature.

Notes to the Consolidated Financial Statements

Employee benefits

Gratuity which is a defined benefit, is accrued based on an independent actuarial valuation, which is done based on project unit credit method as at the balance sheet date. Actuarial gains/losses are immediately taken to the profit and loss account and are not deferred.

The cost of short term compensated absences are provided for based on estimates. Long term compensated absences costs are provided for based on actuarial valuation which is done based on project unit credit method 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. The Group's liability is limited to the contribution made to the fund.

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 a year are recognised in the profit and loss account of that year.

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 an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself.

The financial statements of foreign subsidiaries being non-integral operations in terms of para 24 of AS 11, accounting for the Effects of Changes in Foreign Exchange Rates, are translated into Indian rupees as follows:

a) Income and expense items are translated at the average exchange rates.
b) Assets (including goodwill) and liabilities, both monetary and non-monetary are translated at the closing rate.
c) All resulting exchange differences are accumulated in a foreign currency translation reserve which is reflected under Reserves and Surplus until the disposal of the net investment.
d) Contingent liabilities are translated at the closing rate.

Forward contracts are entered into, to hedge the foreign currency risk of the underlying outstanding at the balance sheet date and also to hedge the foreign currency risk of firm commitment or highly probable forecast transactions. The premium or discount on forward contracts that are entered into, to hedge the foreign currency risk of the underlying outstanding at the balance sheet date arising at the inception of each contract, is amortised as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the year.

In relation to the forward contracts entered into, to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated and recorded in accordance with paragraphs 36 and 37 of AS 11. The exchange difference on such a forward exchange contract, is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date or the settlement date where the transaction is settled during the reporting year, 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 year in which the exchange rates change.

The Group has adopted the principles of AS 30 "Financial Instruments: Recognition and Measurement" in respect of its derivative financial instruments (excluding embedded derivatives) that are not covered by AS 11 "Accounting for the Effects of Changes in Foreign Exchange Rates" and that relate to a firm commitment or a highly probable forecast transaction. In accordance with AS 30, such derivative financial instruments, which qualify for cash flow hedge accounting and where the Group has met all the conditions of AS 30, are fair valued at the balance sheet date and the resultant gain / loss is credited / debited to the hedging reserve included in the Reserves and Surplus. This gain / loss would be recorded in the profit and loss account when the underlying transactions affect earnings. Other derivative instruments that relate to a firm commitment or a highly probable forecast transaction and that do not qualify for hedge accounting, have been recorded at fair value at the reporting date and the resultant gain / loss has been credited / debited to profit and loss account for the year. Also refer note 25.

Fringe Benefit Tax

The Group provides for and discloses the Fringe Benefit Tax ('FBT') as a part of taxes in accordance with the provisions of section 115WC of the Income tax Act, 1961 and the guidance note on FBT issued by the Institute of Chartered Accountants of India. The Finance Act, 2009 has withdrawn FBT with effect from 1 April 2009.

Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations. Minimum Alternative Tax ('MAT') paid in accordance with the tax laws which gives rise to future economic benefits in the form of adjustments of future income tax liability, is considered as an asset if there is convincing evidence that the Group will pay normal tax after the tax holiday period. MAT credit entitlement can be carried forward and utilised for a period as specified in the tax laws of the respective countries.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between taxable profits and accounting profits. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period, is recognised in the period in which the timing differences originate. For this purpose the timing difference which originates first is considered to reverse first. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates, is recognised in the period that includes the enactment date. Deferred tax assets on timing differences are recognised only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. However, deferred tax assets on the timing differences when unabsorbed depreciation and losses carried forward exist, are recognised only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are reassessed for the appropriateness of their respective carrying values at each balance sheet date. The legal entities within the Group offsets, on a year on year basis, the current and deferred tax assets and liabilities, where it has a legally enforceable right and where it intends to settle such assets and liabilities on a net basis.

Provisions and contingent liabilities

A provision is recognised when an enterprise has a present obligation as result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Notes to the Consolidated Financial Statements

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. Provisions are not discounted to their present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Earnings per share

The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the year by the weighted average number of equity shares outstanding during the year. 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 year, unless they have been issued at a later date. The diluted potential equity shares have been arrived at, assuming that the proceeds receivable were based on shares having been 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 reduce earnings per share or increase loss per share, are included.

Stock-based compensation (equity settled)

The Group accounts for stock-based compensation based on the intrinsic value method. ‘Option Discount’ is amortised on a straight-line basis over the vesting period of the shares issued under Employee Stock Option Plans (‘ESOP’).

‘Option Discount’ means the excess of the market price of the underlying shares as at the date of grant of the options over the exercise price of the options.

2. DESCRIPTION OF THE GROUP

The MphasiS Group, a global, multicultural organisation headquartered in Bangalore, India, specialises in providing a suite of application development and maintenance services, infrastructure outsourcing services and business process outsourcing solutions to clients around the world.

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

List of subsidiaries with percentage holding:

Subsidiaries	Country of incorporation and other particulars	% of holding
MphasiS Corporation [Refer Note 2(e)]	a company organised under the laws of Delaware, USA	100
MphasiS Deutschland GmbH	a company organised under the laws of Germany	91
BFL Software Asia Pacific Pte Limited [Refer Note 2(b)]	a company organised under the laws of Singapore	100
MphasiS Australia Pty Limited	a company organised under the laws of Australia	100
MphasiS (Shanghai) Software & Services Company Limited	a company organised under the laws of The People's Republic of China	100
MphasiS Consulting Limited	a company organised under the laws of the United Kingdom	100
MphasiS FinsourcE Limited	a company organised under the laws of India	100
MphasiS Ireland Limited	a company organised under the laws of Ireland	100
MphasiS Belgium BVBA	a company organised under the laws of Belgium	100
MphasiS Lanka (Private) Limited [Refer Note 2(d)]	a company organised under the laws of Sri Lanka	100
MphasiS Poland s.p.z.o.o. [Refer Note 2(g)]	a company organised under the laws of Poland	100
MphasiS Europe BV	a subsidiary of MphasiS Corporation, organised under the laws of The Netherlands	100
MphasiS Pte Limited	a subsidiary of MphasiS Europe BV, organised under the laws of Singapore	100
MphasiS UK Limited	a subsidiary of MphasiS Europe BV, organised under the laws of the United Kingdom	100
MphasiS Software and Services (India) Private Limited	a subsidiary of MphasiS Europe BV, organised under the laws of India	100
MsourcE Mauritius Inc. [Refer Note 2(i)]	a subsidiary of MphasiS Europe BV, organised under the laws of Mauritius	100
MsourcE (India) Private Limited [Refer Note 2(i)]	a subsidiary of MsourcE Mauritius Inc., organised under the laws of India	100
MphasiS Infrastructure Services Inc. [Refer Note 2(f)]	a subsidiary of MphasiS Corporation organised under the laws of Delaware, USA	100
Wide Area Management Services Inc. [Refer Note 2(f)]	a subsidiary of MphasiS Infrastructure Services Inc. organised under the laws of California, USA	100
MsourcE India BPO Private Limited [Refer Note 2(h)]	a subsidiary of MsourcE (India) Private Limited, organised under the laws of India	100

All the above subsidiaries are under the same management.

Notes to the Consolidated Financial Statements

2. (a) The Company acquired control of Kshema Technologies Limited ("Kshema") on 1 June 2004. Kshema has been amalgamated with MphasiS Limited with effect from 1 April 2005.

The balance consideration payable to the erstwhile shareholders amounting to ₹ 17,060,055 (31 October 2009: ₹ 17,060,055) is carried as a liability which will be paid after necessary regulatory approvals are obtained (refer note 16).

(b) During the year ended 31 October 2010, the Company has filed an application with Accounting and Corporate Regulatory Authority (ACRA), Singapore for closure of BFL Software Asia Pacific Pte Limited, a wholly owned subsidiary of the Company. The final approval from ACRA is pending as at 31 October 2010.

(c) The Company filed a scheme of merger of MphasiS FinSolutions Private Limited ('MphasiS Finsolutions'), a wholly owned subsidiary acquired by MphasiS Limited effective 1 October 2009, with itself, on 28 January 2010 and 15 February 2010 with the Hon'ble High Court of Karnataka and the Hon'ble High Court of Judicature at Madras respectively. MphasiS Finsolutions is engaged in providing software development and related services.

The Hon'ble High Court of Karnataka and the Hon'ble High Court of Judicature at Madras have passed orders approving the petition of merger on 5 July 2010 and 17 September 2010 respectively, approving the merger effective from 1 November 2009. Subsequently the Company has filed the Court orders with the RoC of Karnataka and Chennai on 11 August 2010 and 8 October 2010 respectively. Accordingly, the Company has given effect to the merger in these financial statements with effect from 1 November 2009.

Pursuant to the terms of the approved merger scheme, the amalgamation has been accounted for under the pooling of interest method as prescribed by Accounting Standard 14 for "Accounting for Amalgamations", accordingly, all the assets and liabilities recorded in the books of MphasiS Finsolutions Private Limited as at 31 October 2009 have been recorded by the Company at their respective book values as follows:

	(₹ 000's)
Fixed Assets (net)	34,828
Deferred Tax Assets	9,634
Current Assets	411,664
Current Liabilities	(234,045)
Hedge Reserve	4,102

Further, pursuant to the terms of the approved merger scheme:

(a) The amount of investments in MphasiS FinSolutions Private Limited, a wholly owned subsidiary, have been credited in full and Goodwill of ₹ 173,468,380 accounted at the time of acquisition of MphasiS FinSolutions Private Limited by the Company has been reduced from the securities premium account of the Company.

(b) Deficit of ₹ 4,298,663 in net assets acquired by the Company as of appointed date of 1 November 2009 has been adjusted against the securities premium account of the Company.

(c) Expenses of ₹ 622,311 incurred by the Company in connection with the amalgamation scheme have been adjusted against the General Reserves of the Company.

(d) Necessary adjustments have been made in the consolidated financial statements of the Group.

The above treatment is different from the requirement of Accounting Standard 14 for "Accounting for Amalgamations" ('AS-14')and generally accepted accounting principles (GAAP). In accordance with the requirements of AS-14 and GAAP, the carrying value of security premium should have been higher by ₹ 177,767,044, the profit and loss before tax would have been lower by ₹ 178,389,355 and general reserves should have been higher by ₹ 622,311.

(d) As part of its overall strategy, the Company decided to set up an offshore development centre in Sri Lanka. In pursuance of this objective, MphasiS Lanka (Private) Limited was incorporated as a wholly owned subsidiary of MphasiS Limited on 12 February 2010.

(e) Eldorado Computing Inc., a subsidiary of the Company was merged with its direct subsidiary MphasiS Corporation effective 1 March 2010. The merger has been accounted in the books of MphasiS Corporation, in terms of Articles of Merger approved by Arizona Corporation Commission, USA. The merger has no accounting impact on the consolidated financial statements of the Group.

(f) MphasiS Corporation, a subsidiary of the Company, acquired Fortify Infrastructure Services Inc. along with its subsidiaries Fortify North America Inc. and Wide Area Management Services Inc. effective 1 May 2010 for an aggregate consideration of US$ 27,737,309 (₹ 1,230,427,027) including US$ 12,500,000 (₹ 555,312,500) payable in tranches upto the financial year ended 31 October 2012 on the basis of the fulfillment of certain Revenue / Earnings obligations. Accordingly, the acquisition has been given effect to in these consolidated financial statements. The name of the acquired company stands changed to MphasiS Infrastructure Services Inc. with effect from 7 July 2010. Further, Fortify North America Inc. was merged with MphasiS Infrastructure Services Inc. effective 14 July 2010 in accordance with the approvals received from the State of New Jersey and State of Delaware, USA. The merger has no accounting impact on the consolidated financial statements of the Company.

(g) MphasiS Poland sp.z.o.o. was incorporated as a wholly owned subsidiary of the Company on 11 May 2010.

(h) MsourcE India BPO Private Limited was incorporated as a wholly owned subsidiary of MsourcE (India) Private Limited, a step down subsidiary of the Company on 2 July 2010.

(i) The Board of Directors of MsourcE (India) Private Limited in its meeting held on 6 August 2010 approved the proposal of buy back 475,452 equity shares of ₹ 10/- each at a price of ₹ 774/- per share, which was subsequently approved by the shareholders of MsourcE (India) Private Limited in their meeting held on 16 August 2010. MsourcE (India) Private Limited has bought back 475,452 equity shares for which it has created Capital Redemption Reserve amounting to ₹ 4,754,520 equivalent to the nominal share capital bought back, pursuant to the provisions of Section 77AA of the Companies Act, 1956.

Notes to the Consolidated Financial Statements

(₹ 000's)

		31 October 2010	31 October 2009
3.	**SHARE CAPITAL**		
	Authorised Capital		
	245,000,000 (31 October 2009 : 245,000,000) equity shares of ₹ 10 each	2,450,000	2,450,000
	Issued, subscribed and paid-up capital*		
	209,938,913 (31October 2009 : 209,585,021) equity shares of ₹ 10 each fully paid up [Of the above 53,590,838 (31 October 2009 : 53,590,838) equity shares are allotted for consideration other than cash and 134,189,474 (31 October 2009 : 134,186,274) equity shares are allotted as bonus shares]	2,099,389	2,095,850
	Less : 14,200 (31 October 2009 : 14,200) equity shares of ₹ 10 each forfeited	(142)	(142)
	Add : Amount originally paid-up on forfeited shares	71	71
		2,099,318	**2,095,779**

* 83,002,201 equity shares, 44,104,064 equity shares and 1 equity share are held by EDS Asia Pacific Holdings, Mauritius, EDS World Corporation (Far East) and EDS World Corporation (Netherlands) respectively.

		31 October 2010	31 October 2009
4.	**RESERVES AND SURPLUS**		
	Securities premium account		
	Balance brought forward	1,669,358	1,564,203
	Add: Premium on allotment of shares	41,174	73,352
	Less: Adjustment on account of MphasiS Finsolutions merger [Refer Note 2(c)]	(177,767)	-
	Add: Transferred from employee stock options outstanding	1,594	31,803
	[Securities premium amounting to ₹ 1,149,406,666 (31 October 2009: ₹ 1,147,812,167) is for consideration other than cash]		
		1,534,359	1,669,358
	Foreign currency translation reserve		
	Balance brought forward	67,103	246,143
	Add / (Less): During the year	(242,605)	(179,040)
		(175,502)	67,103
	Capital reserve		
	Balance brought forward from previous year	96,234	96,234
		96,234	96,234
	Capital redemption reserve		
	Add: During the year [Refer Note 2(i)]	4,755	-
		4,755	-
	General reserve		
	Balance brought forward	1,793,847	956,975
	Less: Expenses on account of MphasiS Finsolutions merger [Refer Note 2(c)]	(622)	-
	Add: Transfer from Profit and loss account	996,878	836,872
		2,790,103	1,793,847
	Hedging reserve		
	Balance brought forward	670,241	(312,289)
	Add / (Less): During the year	1,161,606	788,204
	Add / (Less): Transfer to revenue	(1,175,069)	194,326
		656,778	670,241
	Profit and loss account balance	25,979,964	17,053,799
		25,979,964	17,053,799
		30,886,691	**21,350,582**

(₹ 000's)

	31 October 2010	31 October 2009
5. EMPLOYEE STOCK OPTIONS OUTSTANDING		
Balance brought forward	6,994	60,718
Less: Transferred to Securities premium account on exercise of options	1,594	31,803
Less: Reversal on forfeiture/ lapse of options granted	-	21,921
	5,400	**6,994**

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 years ended 31 October 2010 and 31 October 2009 for grants outstanding on and made on or after that date for each of the plans described below (Also refer note 31).

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

In accordance with the 1998 Plan, the Committee has formulated 1998 Plan (Version I) and 1998 Plan (Version II) during the years 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 ₹ 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 years ended 31 October 2010 and 31 October 2009 are set out below:

	For the Year ended 31 October 2010		For the Year ended 31 October 2009	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	74,224	34.38	77,196	34.38
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	4,944	34.38	2,972	34.38
Options outstanding at the end	69,280	34.38	74,224	34.38
Exercisable at the end	69,280	34.38	74,224	34.38

The weighted average share price of options exercised as at the date of exercise was ₹ 689.13 (31 October 2009: ₹ 412.69). The options outstanding as at 31 October 2010 had an exercise price of ₹ 34.38 (31 October 2009: ₹ 34.38).

1998 Plan - (Version II): Commencing January 2000, the Company decided to grant all future options at the market price immediately preceding the date of grant. The equity shares covered under these options vest at various dates over a period ranging from twelve to forty-eight months from the date of grant based on the grade of the employee. However, in the case of options granted to the then Managing Director or Chief Executive Officer, the vesting period of the options, subject to a 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 Consolidated Financial Statements

The movements in the options granted under the 1998 Plan - (Version II) for the years ended 31 October 2010 and 31 October 2009 are set out below:

	For the Year ended 31 October 2010		For the Year ended 31 October 2009	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	745,124	92.01	843,128	93.93
Granted	-	-	-	-
Forfeited	-	-	400	130.43
Lapsed	-	-	-	-
Exercised	44,786	96.67	97,604	108.40
Options outstanding at the end	700,338	91.71	745,124	92.01
Exercisable at the end	700,338	91.71	745,124	92.01

The weighted average share price of options exercised as at the date of exercise was ₹ 664.54 (31 October 2009: ₹ 482.95). The options outstanding as at 31 October 2010 had an exercise price ranging from ₹ 23.21 to ₹ 275.00 (31 October 2009: ₹ 23.21 to ₹ 275.00) and weighted average remaining contractual life of 2.68 years (31 October 2009: 3.71 years).

Employees Stock Option Plan - 2000 (the 2000 Plan): Effective 25 July 2000, the Company instituted the 2000 Plan. The shareholders and ESOP Committee approved the 2000 Plan in July 2000. The 2000 Plan provides for the issue of equity shares to employees and directors of the Company and its subsidiaries.

The 2000 Plan is administered by the 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 years ended 31 October 2010 and 31 October 2009 are set out below:

	For the Year ended 31 October 2010		For the Year ended 31 October 2009	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	377,254	143.02	749,151	138.41
Granted	-	-	-	-
Forfeited	1,050	173.40	23,203	124.76
Lapsed	74,266	144.78	113,486	147.34
Exercised	184,544	136.27	235,208	128.05
Options outstanding at the end	117,394	152.24	377,254	143.02
Exercisable at the end	117,394	152.24	334,972	139.50

The weighted average share price of options exercised as at the date of exercise was ₹ 649.45 (31 October 2009: ₹ 401.66). The options outstanding as at 31 October 2010 had an exercise price ranging from ₹ 119.03 to ₹ 208.45 (31 October 2009: ₹ 113.38 to ₹ 208.45) and weighted average remaining contractual life of 0.70 years (31 October 2009: 1.15 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 the ESOP Committee appointed by the Board. 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 years ended 31 October 2010 and 31 October 2009 are set out below:

	For the Year ended 31 October 2010		For the Year ended 31 October 2009	
	No of Options	**Weighted Average Exercise Price**	**No of Options**	**Weighted Average Exercise Price**
Options outstanding at the beginning	39,200	130.60	175,950	116.64
Granted	-	-	-	-
Forfeited	-	-	600	130.60
Lapsed	3,000	130.60	17,850	97.85
Exercised	23,750	130.60	118,300	114.78
Options outstanding at the end	12,450	130.60	39,200	130.60
Exercisable at the end	12,450	130.60	39,200	130.60

The weighted average share price of options exercised as at the date of exercise was ₹ 629.56 (31 October 2009: ₹ 450.22). The options outstanding as at 31 October 2010 had an exercise price of ₹ 130.60 (31 October 2009: ₹ 130.60) and weighted average remaining contractual life of 0.59 years (31 October 2009: 1.16 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 the ESOP Committee appointed by the Board and comprises two programs. Under Program A, outstanding options of MsourcE Corporation were exchanged for options in the Company on the agreed exchange ratio of 0.14028 stock options with underlying equity shares of the Company for each stock option in the MsourcE 2001 plan, the exercise price being the equivalent amount payable by the option holder under the MsourcE 2001 plan. The equity shares underlying these options vest over a period up to forty-eight months from the date of assumption by the Company and shall be exercisable within a period of ten years from the original date of grant under the MsourcE 2001 plan.

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

Notes to the Consolidated Financial Statements

The movements in the options under the 2004 Plan for the years ended 31 October 2010 and 31 October 2009 are set out below:

	For the Year ended 31 October 2010		For the Year ended 31 October 2009	
	No of Options	Weighted Average Exercise Price	No of Options	Weighted Average Exercise Price
Options outstanding at the beginning	167,901	129.44	460,727	125.75
Granted	-	-	-	-
Forfeited	350	184.50	15,664	133.50
Lapsed	18,109	136.84	84,989	102.09
Exercised	92,668	128.76	192,173	132.35
Options outstanding at the end	56,774	127.87	167,901	129.44
Exercisable at the end	56,774	127.87	159,809	126.66

The weighted average share price of options exercised as at the date of exercise was ₹ 647.19 (31 October 2009: ₹ 394.04). The options outstanding as at 31 October 2010 had an exercise price ranging from ₹ 50.34 to ₹ 184.50 (31 October 2009: ₹ 50.34 to ₹ 184.50) and weighted average remaining contractual life of 2.58 years (31 October 2009: 2.67 years).

Restricted Stock Units

EDS the holding company, had issued Restricted Stock Units ('RSU') to certain employees of the Group. These have been replaced by RSUs of HP, pursuant to the merger. Subsequent to the merger, HP had also issued RSUs to certain employees of the Group. The total cost incurred towards RSUs for the years ended 31 October 2010 and 31 October 2009 amounted to ₹ 47,907,993 and ₹ 100,370,084 respectively. However, the cost has been borne by HP and accordingly this has not been accounted as an expense by the Group.

Restricted Stock Unit Plan - 2010 ('RSU Plan - 2010')

Effective 1 August 2010, the Company instituted the Restricted Stock Unit Plan - 2010. The Board and the shareholders of the Company approved RSU Plan - 2010 on 29 June 2010 and 17 August 2010 respectively. The RSU Plan - 2010 provides for the issue of restricted options to employees and directors of the Company and its subsidiaries. This plan is administered by MphasiS Employees Benefit Trust which is created for this purpose.

As at 31 October 2010, there were no grants made under this plan. The Company has advanced an amount of ₹ 20,871,472 to the MphasiS Employees Benefit Trust during the year ended 31 October 2010.

(₹ 000's)

		31 October 2010	31 October 2009
6.	**SECURED LOANS**		
	Loan from Hewlett-Packard Company	444,250	-
	Vehicle loans*	9,472	33,207
	(Secured by the hypothecation of vehicles)		
		453,722	**33,207**
	* Due within one year ₹ 7,417,720 (31 October 2009: ₹ 23,734,326)		
7.	**DEFERRED TAX LIABILITY**		
	On depreciation	2,558	1,432
		2,558	**1,432**

Notes to the Consolidated Financial Statements

8. FIXED ASSETS

(₹ 000's)

Assets	Cost					Accumulated depreciation and amortisation					Net book value	
	1 November 2009	Additions	Adjustment on merger of MphasiS Finsolutions*	Deductions/ Adjustments**	31 October 2010	1 November 2009	Charge for the year	Adjustment on merger of MphasiS Finsolutions*	Deductions/ Adjustments**	31 October 2010	31 October 2010	31 October 2009
Tangible assets												
Freehold land	27,375	-	-	-	27,375	-	-	-	-	-	27,375	27,375
Buildings	1,230	-	-	-	1,230	1,056	123	-	-	1,179	51	174
Leasehold improvements	1,585,124	117,697	2,316	260,421	1,444,716	1,042,569	306,361	2,316	259,909	1,091,337	353,379	542,555
Plant and machinery	2,471,400	162,932	-	158,356	2,475,976	1,566,844	383,598	-	152,300	1,798,142	677,834	904,556
Computer equipment	2,380,872	276,433	59,138	138,371	2,578,072	1,873,007	382,206	59,138	136,751	2,177,600	400,472	507,865
Office equipment	958,969	124,583	24,246	41,738	1,066,060	741,760	162,608	24,246	41,450	887,164	178,896	217,209
Furniture and fixtures	1,186,475	61,481	1,647	82,337	1,167,266	811,869	193,677	1,647	80,913	926,280	240,986	374,606
Vehicles	98,675	47,340	815	44,716	102,114	55,258	25,687	815	39,326	42,434	59,680	43,417
Intangible assets												
Software	1,333,529	144,850	40,357	123,291	1,395,445	787,582	183,495	40,357	99,902	911,532	483,913	545,947
Total	**10,043,649**	**935,316**	**128,519**	**849,230**	**10,258,254**	**6,879,945**	**1,637,755**	**128,519**	**810,551**	**7,835,668**	**2,422,586**	**3,163,704**
Previous year	9,463,223	1,927,352	-	1,346,926	10,043,649	6,057,869	2,022,155	-	1,200,079	6,879,945	3,163,704	

* includes merger adjustment to gross up the cost and accumulated depreciation of fixed assets acquired on acquisition of MphasiS Finsolutions, which were earlier accounted on acquisition on net basis.

** includes the effect of translation of assets held by foreign subsidiaries, which are considered as non-integral in terms of AS 11.

Notes to the Consolidated Financial Statements

(₹ 000's)

		31 October 2010	31 October 2009
9.	**GOODWILL**		
	Goodwill arising on consolidation		
	Balance brought forward	2,945,512	2,959,287
	Add : On acquisition of AIG Systems Solutions Private Limited	-	173,468
	Less : On merger of MphasiS Finsolutions Private Limited	(173,468)	-
	Add : On acquisition of Fortify Infrastructure Services [Refer Note 2(f)]	1,297,275	-
	Less : Movement on account of exchange rate fluctuation	(182,828)	(165,322)
	Less : Adjustment on forfeiture/ lapse of options granted on earlier acquisitions	-	(21,921)
		3,886,491	**2,945,512**
10.	**INVESTMENTS**		
	Short Term - Quoted (non-trade)		
	Current Investments (At lower of cost or market value)		
	ICICI Prudential Flexible Income Plan	-	3,687,246
	Nil (31 October 2009: 348,725,344.16 units at ₹ 10.5735)		
	Birla Sun Life Savings Fund - Institutional	-	3,825,050
	Nil (31 October 2009: 382,245,085.51 units at ₹ 10.0068)		
	ICICI Prudential Institutional Liquid Plan	-	100,175
	Nil (31 October 2009: 8,453,484.13 units at ₹ 11.8502)		
	Birla Sun Life Cash Plus - Instl. Prem.	125,699	-
	12,545,479.36 units at ₹ 10.0195 (31 October 2009: Nil)		
	Birla Sunlife Short term opportunities fund	1,531,531	-
	153,049,215.18 units at ₹ 10.0068 (31 October 2009: Nil)		
	Reliance Monthly Interval Fund-Series II	1,426,965	-
	142,673,224.20 units at ₹ 10.0016 (31 October 2009: Nil)		
	Reliance Monthly Interval Fund-Series I	1,869,354	-
	186,860,020.49 units at ₹ 10.0040 (31 October 2009: Nil)		
	ICICI Prudential Blended Plan B	1,159,744	-
	111,866,499.77 units at ₹ 10.3672 (31 October 2009: Nil)		
	BSL Interval Income Fund Instl-Quarterly Series 1	300,000	-
	30,000,000 units at ₹ 10.00 (31 October 2009: Nil)		
	Birla Sun Life Cash Manager - IP	3,930,353	-
	392,917,391 units at ₹ 10.003 (31 October 2009: Nil)		
	KOTAK Quarterly Interval Plan Series 4	350,000	-
	35,000,000 units at ₹ 10.00 (31 October 2009: Nil)		
	KOTAK Quarterly Interval Plan Series 8	350,000	-
	34,999,300 units at ₹ 10.0002 (31 October 2009: Nil)		
	KOTAK Quarterly Interval Plan Series 1	400,000	-
	40,000,000 units at ₹ 10.00 (31 October 2009: Nil)		

(₹ 000's)

		31 October 2010	31 October 2009
10.	**INVESTMENTS (Contd....)**		
	KOTAK Quarterly Interval Plan Series 9 19,998,449.56 units at ₹ 10.0008 (31 October 2009: Nil)	200,000	-
	KOTAK Quarterly Interval Plan Series 10 29,999,999.99 units at ₹ 10.00 (31 October 2009: Nil)	300,000	-
	KOTAK Quarterly Interval Plan Series 5 40,000,000 units at ₹ 10.00 (31 October 2009: Nil)	400,000	-
	G68 IDFC Ultra Short Term Fund 50,424,376 units at ₹ 10.0470 (31 October 2009: Nil)	506,613	-
	G690 IDFC Fixed Maturity Quarterly Series-59 35,000,000 units at ₹10.00 (31 October 2009: Nil)	350,000	-
	G690 IDFC Fixed Maturity Quarterly Series-60 30,000,000 units at ₹ 10.00 (31 October 2009: Nil)	300,000	-
	DSP BlackRock FMP - 3M Series 19 35,000,000 units at ₹ 10.00 (31 October 2009: Nil)	350,000	-
	DSP BlackRock FMP - 3M Series 21 20,000,000 units at ₹ 10.00 (31 October 2009: Nil)	200,000	-
	B938D Birla Sunlife Short Term FMP Series 1 25,000,000 units at ₹ 10.00 (31 October 2009: Nil)	250,000	-
	DSP BlackRock FMP - 3M Series 22 30,000,000 units at ₹ 10.00 (31 October 2009: Nil)	300,000	-
		14,600,259	**7,612,471**
	The market value of the current investments as at 31 October 2010 is ₹ 14,640,248,229 (31 October 2009: ₹ 7,612,471,136)		
11.	**DEFERRED TAX ASSETS**		
	On depreciation	580,084	630,103
	On losses carried forward	44,203	-
	On provision for doubtful debts	31,022	29,001
	On provision for employee benefits	98,336	36,274
		753,645	**695,378**
12.	**DEBTORS AND UNBILLED REVENUES**		
	Debts outstanding for a period exceeding six months, unsecured		
	- considered good	93,916	69,507
	- considered doubtful	98,396	89,353
	Other debts, unsecured		
	- considered good	5,395,709	3,750,006
		5,588,021	3,908,866
	Less: Provision for doubtful debts (net of write-offs)	(98,396)	(89,353)
		5,489,625	3,819,513
	Unbilled revenues	6,564,781	5,244,297
		12,054,406	**9,063,810**

Notes to the Consolidated Financial Statements

(₹ 000's)

	31 October 2010	31 October 2009
13. CASH AND BANK BALANCES		
Cash in hand	300	290
Balances with scheduled banks		
- Current accounts *	59,244	296,172
- Deposit accounts **	727,460	950,665
- Margin money deposit account	908	913
Balances with non-scheduled banks		
- Current accounts	995,778	537,658
	1,783,690	**1,785,698**

* Includes ₹ 4,700,696 and ₹ 4,014,928 representing the balances in unclaimed dividends account as at 31 October 2010 and 31 October 2009 respectively.

** Includes restricted deposits of ₹ 70,732,170 as at 31 October 2010 (31 October 2009: ₹ 70,732,170)

	31 October 2010	31 October 2009
14. INTEREST RECEIVABLE		
Unsecured - considered good	1,997	1,295
	1,997	**1,295**
15. LOANS AND ADVANCES		
Unsecured - considered good		
Employee loans	2,793	1,594
Advances recoverable in cash or in kind or for value to be received*	4,293,109	3,151,835
Loan to an ESOP trust	-	8,575
Deposits		
- premises	894,296	988,520
- with government authorities	15,703	14,233
- others	33,541	24,172
Advance tax and tax deducted at source	2,772,585	2,121,685
MAT credit entitlement**	1,433,958	929,521
	9,445,985	**7,240,135**

* includes service tax input credit receivable (net) ₹ 2,533,428,878 (31 October 2009: ₹ 1,931,711,218)

** net of MAT credit utilisation of ₹ 15,160,000 (31 October 2009: ₹ Nil)

	31 October 2010	31 October 2009
16. CURRENT LIABILITIES		
Sundry creditors	368,931	631,904
Book overdraft	70,965	93,490
Advances from clients	86,436	61,228
Unearned receivables	236,125	331,492
Salary related costs	2,637,170	2,446,704
Other liabilities*	4,689,368	2,844,906
Unclaimed dividends**	4,701	4,015
	8,093,696	**6,413,739**

* The above amount includes ₹ 17,060,055 (31 October 2009: ₹ 17,060,055) which represents the remaining consideration payable for the acquisition of Kshema Technologies Limited [refer note 2(a)] and ₹ 555,312,500 (USD 12,500,000) [31 October 2009 : ₹ Nil (USD Nil)] which represents the earnout payable to the erstwhile share holders of Fortify Infrastructure Services Inc. [refer note 2(f)]

** Investor Protection and Education Fund shall be credited for unclaimed dividends amount when due.

(₹ 000's)

		31 October 2010	31 October 2009
17.	**PROVISIONS**		
	Compensated absences	303,642	307,510
	Gratuity [refer note 32(a)]	109,843	59,475
	Proposed dividend	839,699	733,498
	Tax on dividend	139,474	124,658
	Taxation	2,103,966	1,508,475
		3,496,624	**2,733,616**

		For the year ended 31 October 2010	For the year ended 31 October 2009
18.	**COST OF REVENUES**		
	Salary and allowances	20,659,868	17,222,619
	Contribution to provident and other funds	1,208,180	942,051
	Staff welfare	802,784	684,207
	Travel	1,276,427	970,109
	Recruitment charges	299,895	104,481
	Communication expenses	689,350	834,723
	Rent	1,588,664	1,508,238
	Professional charges	157,511	91,726
	Depreciation and amortisation	1,487,414	1,892,025
	Software development charges	3,572,630	1,648,736
	Staff training expenses	44,030	19,663
	Electricity	505,762	437,370
	Software support and annual maintenance charges	1,909,231	1,870,679
	Miscellaneous expenses	805,165	566,552
		35,006,911	**28,793,179**
19.	**SELLING EXPENSES**		
	Salary and allowances	1,530,217	1,352,172
	Contribution to provident and other funds	108,325	86,374
	Staff welfare	21,269	15,656
	Travel	165,893	114,870
	Communication expenses	111,424	61,806
	Rent	37,987	33,725
	Professional charges	97,413	40,524
	Depreciation and amortisation	13,880	12,717
	Recruitment expenses	39,686	17,007
	Business meeting expenses	23,106	19,168
	Miscellaneous expenses	65,278	49,991
		2,214,478	**1,804,010**

Notes to the Consolidated Financial Statements

(₹ 000's)

	For the year ended 31 October 2010	For the year ended 31 October 2009
20. GENERAL AND ADMINISTRATIVE EXPENSES		
Salary and allowances	1,045,444	1,250,407
Contribution to provident and other funds	38,116	41,759
Staff welfare	21,857	81,449
Travel	84,030	54,269
Communication expenses	105,558	110,041
Rent	115,669	267,291
Professional charges	252,730	235,536
Depreciation and amortisation	136,461	117,413
Bank charges	6,772	8,067
Insurance	8,815	13,726
Rates and taxes	52,400	150,855
Repairs and maintenance		
- Plant and machinery	15,075	48,473
- Building	6,510	11,979
- Others	33,689	148,084
Membership and subscriptions	6,855	8,931
Printing and stationery	11,209	42,389
Postage and courier charges	2,783	8,019
Miscellaneous expenses	185,669	182,531
	2,129,642	**2,781,219**
21. PROVISION FOR DOUBTFUL DEBTS		
Provision for doubtful debts	3,003	(81,169)
Bad Debts written off	-	89,205
	3,003	**8,036**
22. OTHER INCOME, NET		
Profit on sale of fixed assets	9,602	7,661
Mutual fund income - non trade	482,762	153,128
Miscellaneous income /(expense), net	6,825	(5,781)
	499,189	**155,008**
23. INTEREST INCOME , NET		
Interest on deposits and others	8,004	27,927
	8,004	**27,927**

24. The Group's software development centres and call centres in India are 100% Export Oriented Units ('EOU') / Special Economic Zone ('SEZ') under Special Economic Zone Ordinance / 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 ₹ 119,642,815 as at 31 October 2010 (31 October 2009: ₹ 123,042,815) have been furnished to the Customs authorities in this regard.

25. Until 31 October 2009, the Company used the spot discounted method wherein the changes in the spot rate of derivative financial instruments designated as cash flow hedges were recognized directly in Hedging Reserve and reclassified into the profit and loss account upon the occurrence of the hedged transaction. Changes in fair value relating to the premia/ discount on the derivative financial instruments were recognized in the profit and loss account.

For the new cash flow hedges taken from 01 November 2009, the Company adopted the forward discounted method in accordance with its revised hedge accounting methodology, wherein the forward rate is used to record changes in fair value of derivative financial instruments and such changes are recognised directly in Hedging Reserve and reclassified into the profit and loss account upon the occurrence of the hedged transaction. As a result of this change, net profit for the year ended 31 October 2010 is higher by ₹ 163,422,267.

26. Contingent liabilities and commitments

(a) Claims against the Group not acknowledged as debts amount to ₹ 906,725,078 (31 October 2009: ₹ 855,926,880);

(b) Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at 31 October 2010: ₹ 64,777,067 (31 October 2009: ₹ 330,389,414);

(c) Guarantees outstanding including those furnished to the Customs authorities as at 31 October 2010: ₹ 395,241,752 (31 October 2009: ₹ 412,787,640); and

(d) Forward contracts outstanding as at 31 October 2010 are as below:

Currency	Amount	Amount in INR
USD	536,075,000	23,815,131,875
GBP	37,100,000	2,623,712,000
SGD	17,039,555	582,284,193
CAD	2,492,269	108,164,475
AUD	42,994,167	1,854,983,335
EUR	4,100,807	251,861,314

Forward contracts outstanding as at 31 October 2009 are as below:

Currency	Amount	Amount in INR
USD	652,900,000	32,088,557,750
GBP	54,654,683	4,405,112,949
SGD	6,889,857	234,842,330
CAD	850,000	37,601,875

The foreign exchange exposure of the Group has been hedged by forward contracts disclosed above.

Unamortised premium as at 31 October 2010 on forward exchange contracts to hedge the foreign currency risk of the underlying outstanding at the balance sheet date is ₹ 68,288,482 (31 October 2009: ₹ 32,906,777). Net foreign currency exposure of the Group that is not hedged by a derivative instrument or otherwise as at 31 October 2010: ₹ 3,862,661,350 (31 October 2009: ₹ 1,771,303,487).

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

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27. Operating leases

The Group is obligated under non-cancellable leases for computer equipments, 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 ₹ 886,979,952 for the year ended 31 October 2010 (31 October 2009: ₹ 1,067,537,705).

Future minimum lease payments under non-cancellable operating leases as at 31 October 2010 are as follows:

(₹ 000's)

Period	31 October 2010	31 October 2009
Not later than 1 year	660,808	829,196
Later than 1 year and not later than 5 years	530,072	870,346
More than 5 years	36,178	72,814
	1,227,058	**1,772,356**

The Group 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 ₹ 855,340,892 for the year ended 31 October 2010 (31 October 2009: ₹ 741,716,650).

Office Premises are obtained on operating lease for terms ranging from 1 to 7 years and are renewable at the option of the Company/lessor. There are no sub-leases.

28. Related party transactions

(a) Entities where control exists:

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

* EDS Asia Pacific Holdings, Mauritius (formerly TH Holding, Mauritius), EDS World Corporation (Far East) and EDS World Corporation (Netherlands), the subsidiaries of Electronic Data Systems LLC, USA (formerly Electronic Data Systems Corporation, USA) hold 60.55% (31 October 2009: 60.65%) of the equity capital of the Company.

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

■ Balu Ganesh Ayyar	Chief Executive Officer - Appointed w.e.f. 29 January 2009
■ Jeya Kumar	Chief Executive Officer - Resigned w.e.f. 28 January 2009

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

■ Friedrich Froeschl	Director - Appointed as non executive Chairman of the Board w.e.f. 15 July 2010
■ Andreas W Mattes	Director - Appointed as non executive Chairman of the Board on 6 February 2009 and Resigned w.e.f 15 July 2010
■ Michael Coomer	Non-executive Chairman - Resigned w.e.f. 6 February 2009
■ Nawshir H Mirza	Director
■ Davinder Singh Brar	Director
■ Prakash Jothee	Director - Appointed w.e.f. 6 February 2009
■ Francesco Serafini	Additional Director – Appointed w.e.f. 15 July 2010
■ Balu Doraisamy	Additional Director – Appointed w.e.f. 15 July 2010
■ Gerard Brossard	Additional Director – Appointed w.e.f. 15 July 2010
■ Juergen Reiners	Additional Director – Appointed w.e.f. 15 July 2010
■ Joseph Eazor	Director - Resigned w.e.f. 6 February 2009
■ Anthony Glasby	Director - Resigned w.e.f 30 March 2009
■ K M Suresh	Director - Appointed on 24 November 2009 and Resigned w.e.f. 15 July 2010
■ Jose de la Torre	Director - Resigned w.e.f 15 July 2010
■ Vinita Bali	Director - Resigned w.e.f 15 July 2010
■ Jim Bridges	Director - Vacated office in terms of Section 283(1)(g) w.e.f 24 November 2009
■ Craig Wilson	Director - Resigned w.e.f 15 July 2010

(c) Direct or indirect subsidiaries of ultimate holding company with which transactions have taken place:

- EDS Poland Sp.z.o.o
- EDS (Operations) Pty Limited
- EDS Itellium GmbH
- Electronic Data Systems (EDS) International B.V.
- EDS Information Services LLC
- EDS Canada Inc.
- EDS (Australia) Pty Limited
- EDS Gulf States, WLL
- EDS Sweden AB
- EDS (Thailand) Co. Limited
- HP Enterprise Services UK Limited
- EDS International Limited
- EDS Austria GmbH
- RelQ Software Private Limited
- Electronic Data Systems Limited, UK
- Electronic Data Systems Italia SPA
- Hewlett Packard Ireland Limited
- UAB Hewlett Packard
- Hewlett Packard Financial Services (India) Pvt Ltd
- EDS MSC (M) Sdn Bhd
- EDS Japan LLC
- Hewlett-Packard Software, LLC
- Hewlett-Packard Asia Pacific Pte Limited
- HP Services (Singapore) Pte Limited
- Shanghai Hewlett Packard Co. Limited
- Hewlett Packard New Zealand
- Hewlett Packard GmbH
- EDS Omega S.L
- EDS (Queensland) Pty Ltd
- EDS World Services Corp
- EDS Operations Services GmbH
- Hewlett Packard Norge AS
- EDS (New Zealand) Limited
- Electronic Data System Belgium N.V
- EDS Information Business GmbH
- EDS Business Services Pty Limited
- EDS (China) Co. Limited
- EDS de Mexico S deRLdeCV
- BPO Hewlett Packard Finance Operations
- EDS (Schweiz) AG
- Electronic Data Systems (Hong Kong) Limited
- EDS Application Services GmbH
- EDS Malaysia (Shell EPO AP)
- Electronic Data Systems Hungary Limited
- Electronic Data Systems France SAS
- EDS Columbia
- Hewlett Packard (M) Sdn.Bhd.
- EDS Denmark A/S
- Hewlett Packard Development Company, L.P.
- Hewlett Packard India Sales Private Limited
- HP India Software Operation Private Limited
- EDS Africa(Pty) Ltd
- Hewlett Packard AP (Hong Kong) Limited
- Hewlett Packard Singapore (Sales) Pte Limited
- Saber Software, Inc.
- Hewlett Packard Europe Finance Limited, Israel Branch
- Hewlett Packard Limited (UK)
- EDS Holding GmbH

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- HP Asia Pacific (HK) Limited
- Hewlett Packard (Schweiz) GmbH
- Hewlett Packard (Canada) Co.
- EDS Brazil Elimination
- Hewlett Packard International Trade B.V. Saudi Arabia Branch
- Hewlett Packard Australia Pty. Ltd.
- Hewlett Packard Innovation Iberia S.L.
- EDS Finland Oy
- Hewlett-Packard Inter-Americas United States (California)
- Electronic Data Systems(Ireland) Limited
- Hewlett Packard Company
- Excellerate HRO JV.
- HP Enterprise Services BPA Pty Ltd.
- Hewlett Packard (Thailand) Limited
- Electronic Data Systems Espana S.A.
- Hewlett Packard Oy.
- Electronic Data Systems Taiwan Corp

(d) The following is a summary of significant transactions with related parties by the Group*: (₹ 000's)

	For the year ended 31 October 2010	For the year ended 31 October 2009
Rendering of services to entities where control exists	**412,252**	**83,800**
- Hewlett-Packard Company	412,252	83,800
Rendering of services to other related parties	**34,540,785**	**29,488,268**
- EDS Information Services, LLC	21,329,023	19,016,810
- Electronic Data Systems Limited, UK	4,048,496	3,689,604
- Others	9,163,266	6,781,854
Purchase of fixed assets from other related parties	**123,841**	**94,889**
- HP Services (Singapore) Pte Limited	1,549	44,045
- Hewlett Packard India Sales Private Limited	40,373	27,279
- Hewlett Packard Singapore (Sales) Pte. Limited	78,612	21,780
- Others	3,307	1,785
Sale of fixed assets to other related parties	**4,661**	**46,003**
- Hewlett Packard Financial Services (India) Private Limited	4,661	46,003
Lease Rentals paid to other related parties	**75,939**	**5,376**
- Hewlett Packard Financial Services (India) Private Limited	75,939	5,376
Communication charges paid to other related parties	**127,121**	**117,206**
- HP Services (Singapore) Pte Limited	127,121	117,206
Software development charges paid to entities where control exists	**59,249**	**22,610**
- Electronic Data Systems LLC, USA	59,249	22,610
Software development charges paid to other related parties	**84,536**	**59,912**
- RelQ Software Private Limited	40,111	44,848
- HP Services (Singapore) Pte Limited	44,425	15,064
Software support and annual maintenance charges paid to other related parties **	**1,619,895**	**1,744,118**
- HP Services (Singapore) Pte Limited	1,619,895	1,744,118
Other expenses paid to other related parties	**27,531**	**63,455**
- HP Services (Singapore) Pte Limited	27,531	63,455
Dividend paid (on cash basis)	**444,872**	**254,213**
- EDS Asia Pacific Holdings, Mauritius	290,508	166,004
- EDS World Corporation (Far East)	154,364	88,209
Remuneration to executive key management personnel	**64,385**	**66,583**
- Jeya Kumar	-	32,814
- Balu Ganesh Ayyar	64,385	33,769

	For the year ended 31 October 2010	For the year ended 31 October 2009
Commission to non-executive directors	**10,490**	**9,909**
- Davinder Singh Brar	2,400	2,400
- Jose de la Torre	1,638	2,433
- Vinita Bali	1,417	2,000
- Nawshir H Mirza	2,400	2,400
- Friedrich Froeschl	2,635	676
Loan given to BFL Employee Equity Reward Trust	**-**	**5,000**
Loan refunded by BFL Employee Equity Reward Trust	**8,575**	**-**
Loan received from entities where control exists	**443,600**	**-**
- Hewlett-Packard Company	443,600	-
Interest on Loan paid to entities where control exists	**8,899**	**-**
- Hewlett-Packard Company	8,899	-
Advance / Loan given to MphasiS Employees Benefit Trust	**20,871**	**-**

* This does not include remuneration paid to certain non-executive directors who are paid by the ultimate parent company and its affiliates as they are employees of the said companies.

** The Group has accrued expenses for certain services received from a related party where significant influence exists for which the Master Service Agreement ("MSA") has been signed and the statement of work is expected to be signed upon completion of the ongoing negotiation of terms. As at 31 October 2010, the provisioning for such services has been made on best estimate basis.

(e) The balances receivable from and payable to related parties are as follows: (₹ 000's)

	31 October 2010	31 October 2009
Interest free loans to BFL Employee Equity Reward Trust, included in Loans and advances	**-**	**8,575**
Advance / Loan to MphasiS Employees Benefit Trust included in Loans and advances	**20,871**	**-**
Sundry debtors and unbilled revenue – entities where control exists	**150,599**	**60,617**
- Hewlett-Packard Company	150,599	60,617
Sundry debtors and unbilled revenue - other related parties	**8,415,342**	**6,397,374**
- EDS Information Services, LLC	4,717,856	3,753,443
- Electronic Data Systems Limited, UK	736,407	792,393
- EDS Australia Pty Limited	871,131	792,469
- Others	2,089,948	1,059,069
Loan payable to entities where control exists including interest	**452,857**	**-**
- Hewlett-Packard Company	452,857	-
Current liabilities – other related parties	**1,053,397**	**1,100,265**
- HP Services (Singapore) Pte Limited	1,017,859	1,073,511
- Others	35,538	26,754

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29. Segment reporting

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

Application services cover consulting, application development, testing and application maintenance services. ITO covers a range of infrastructure management services and service/ technical help desks. BPO services provide voice, transaction based services and knowledge based processes.

The accounting policies consistently used in the preparation of the financial statements are also applied to record revenue and expenditure in individual segments.

Assets, liabilities, revenues and direct expenses in relation to segments are categorised based on items that are individually identifiable to that segment, while other items, wherever allocable, are apportioned to the segments on an appropriate basis. Certain items are not specifically allocable to individual segments as the underlying services are used interchangeably. The Group therefore believes that it is not practical to provide segment disclosures relating to such items, and accordingly such items are separately disclosed as 'unallocated'.

Client relationships are driven based on client domicile. The geographical segments include United States of America (USA), the India & Asia Pacific (APAC) and Europe, Middle East & Africa (EMEA). Secondary segment information for previous year has been regrouped based on geographical segments of current year.

Primary segment information

(₹ 000's)

	31 October 2010	31 October 2009
Segment revenue		
Application Services	33,496,544	27,325,778
ITO Services	10,162,096	7,887,313
BPO Services	6,706,538	7,425,736
	50,365,178	**42,638,827**
Segment profit		
Application Services	10,656,169	8,998,205
ITO Services	3,641,179	3,203,042
BPO Services	1,060,919	1,644,401
	15,358,267	**13,845,648**
Interest income, net	8,004	27,927
Other unallocable expenditure, net of unallocable income	3,267,116	4,146,055
Profit before taxation	**12,099,155**	**9,727,520**
Income taxes (including Fringe benefit tax)	1,191,630	640,741
Profit after taxation	**10,907,525**	**9,086,779**

(₹ 000's)

	31 October 2010	31 October 2009
Segment assets		
Application Services	11,246,327	8,453,031
ITO Services	4,468,102	2,920,603
BPO Services	5,297,238	6,131,431
Unallocated assets	24,026,342	15,130,284
	45,038,009	**32,635,349**
Segment liabilities		
Application Services	4,502,993	3,449,877
ITO Services	2,409,285	1,513,894
BPO Services	1,219,412	1,611,095
Unallocated liabilities	3,914,910	2,607,128
	12,046,600	**9,181,994**
Capital Employed		
Application Services	6,743,334	5,003,154
ITO Services	2,058,817	1,406,709
BPO Services	4,077,826	4,520,336
Unallocated	20,111,432	12,523,156
	32,991,409	**23,453,355**

	For the year ended 31 October 2010	For the year ended 31 October 2009
Capital expenditure		
Application Services	528,470	605,868
ITO Services	189,472	168,798
BPO Services	178,978	549,313
	896,920	**1,323,979**
Depreciation and amortisation		
Application Services	799,465	948,455
ITO Services	307,777	259,380
BPO Services	530,513	814,320
	1,637,755	**2,022,155**
Secondary segment information (revenues)		
Region		
USA	33,077,519	28,633,186
APAC	7,934,489	5,514,113
EMEA	9,353,170	8,491,528
	50,365,178	**42,638,827**

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

Notes to the Consolidated Financial Statements

Secondary segment information (segment assets)

(₹ 000's)

	31 October 2010	31 October 2009
Region		
USA	13,169,140	9,285,490
APAC	28,495,673	21,097,678
EMEA	3,373,196	2,252,181
	45,038,009	**32,635,349**

Secondary segment information (capital expenditure)

	For the year ended 31 October 2010	For the year ended 31 October 2009
Region		
USA	58,304	114,016
APAC	826,817	1,204,164
EMEA	11,799	5,799
	896,920	**1,323,979**

30. Earnings Per Share ('EPS')

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

	For the year ended 31 October 2010	For the year ended 31 October 2009
Number of weighted average shares considered for calculation of basic earnings per share	209,756,566	209,135,104
Add: Dilutive effect of stock options	984,375	1,336,310
Number of weighted average shares considered for calculation of diluted earnings per share	**210,740,941**	**210,471,414**

175,159 weighted average number of shares (31 October 2009: 206,053 weighted average number of shares) held by the BFL Employees Equity Reward Trust and Kshema Employee Welfare Trust have been considered for computing basic and diluted earnings per share. The above does not include 22,400 (31 October 2009: 25,600) bonus shares held in abeyance by the Company.

31. 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 proforma amounts indicated below:

(₹ 000's)

	For the year ended 31 October 2010	For the year ended 31 October 2009
Net profit as reported	10,907,525	9,086,779
Add: Stock based employee compensation expense determined under the intrinsic value method	-	-
Add/(Less): Stock based employee compensation expense determined under the fair value method	4,373	2,291
Proforma net profit	10,911,898	9,089,070
Earnings per share: Basic		
As reported	52.00	43.45
Proforma	52.02	43.46
Earnings per share: Diluted		
As reported	51.76	43.17
Proforma	51.78	43.18

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

Dividend yield %	1.44% to 1.98%
Expected life	1 to 4 years
Risk free interest rates	5.78% to 8.00%
Expected volatility (annualised) *	67.12% to 69.48%

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

32. Employee Benefits

a. Gratuity Plan

The following tables set out the status of the gratuity plan as required under revised AS 15.

Reconciliation of the projected benefit obligations (₹ 000's)

	31 October 2010	31 October 2009
Change in projected benefit obligation		
Obligations at year beginning	378,566	235,903
Obligations acquired on acquisition	-	12,767
Service cost	51,323	139,266
Interest cost	26,597	15,877
Benefits paid	(36,972)	(13,486)
Actuarial loss/ (gain)	(4,322)	(11,761)
Obligations at year end	**415,192**	**378,566**

Notes to the Consolidated Financial Statements

(₹ 000's)

	31 October 2010	31 October 2009
Change in plan assets		
Plan assets at year beginning, at fair value	319,091	100,633
Plan assets acquired on acquisition	-	7,712
Expected return on plan assets (estimated)	22,332	13,205
Actuarial gain/(loss)	898	590
Contributions	-	210,437
Benefits paid	(36,972)	(13,486)
Plan assets at year end, at fair value	**305,349**	**319,091**
Reconciliation of present value of obligation and fair value of plan assets		
Fair value of plan assets at the end of the year	305,349	319,091
Present value of defined benefit obligation at the end of the year	415,192	378,566
Liability recognised in the balance sheet	**(109,843)**	**(59,475)**
Assumptions		
Interest rate	8.00%	7.00%
Discount rate	8.00%	7.00%
Expected rate of return on plan assets	8.50%	7.00%
Attrition rate	5% - 30%	5% - 30%
Expected contribution over next one year	100,000	100,000

	For the year ended 31 October 2010	For the year ended 31 October 2009
Gratuity cost for the year		
Service cost	51,323	139,266
Interest cost	26,597	15,877
Expected return on plan assets	(22,332)	(13,205)
Actuarial loss/(gain)	(5,220)	(12,351)
Net gratuity cost	**50,368**	**129,587**

The gratuity expense is grouped under salary and allowances in the profit and loss account. 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. Expected return on plan assets is computed based on prevailing market rate.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	31 October 2010	31 October 2009
Investments with insurer	100%	100%

Experience Adjustment

	For the year ended 31 October 2010	For the year ended 31 October 2009	Seven months ended 31 October 2008	For the year ended 31 March 2008
On obligations, gain/ (loss)	4,322	11,761	6,782	32,962
On plan assets, gain/ (loss)	898	590	(2,655)	1,722

b. Provident Fund

The Company contributed ₹ 513,478,046 during the year ended 31 October 2010 (31 October 2009: ₹ 429,921,822)

33. Revenue disclosure

(₹ 000's)

	For the year ended 31 October 2010	For the year ended 31 October 2009
Revenue recognised on customised software development contracts	14,688,678	11,903,488
	14,688,678	**11,903,488**

Disclosure for contracts in progress at the reporting date

	31 October 2010	31 October 2009
Fixed Price projects:		
Revenue recognised till the reporting date	1,365,817	746,435
Unbilled revenue	253,326	298,588
Unearned receivable	3,625	-
Time and material projects:		
Revenue recognised till the reporting date	9,865,443	8,203,021
Unbilled revenue	1,646,407	1,195,203
Unearned receivable	18,219	152

34. The Group paid an amount of US$ 397,217 (₹ 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 (₹ 10,055,790) of the alleged offenders have been frozen by the authorities and legal action has been instituted against them. Under a separate deed of assignment, the client has assigned any amount recoverable from the aforesaid frozen assets of the alleged offenders to the Group. During the quarter ended 31 December 2005, the Group reached settlements for US$ 175,000 (₹ 7,650,875) with the insurance companies. The amount has since been received in cash.

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

35. The Company has amounts due to Micro and Small Enterprises under The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) as at 31 October 2010.

Particulars	2010	2009
The principal amount and the interest due thereon remaining unpaid to any supplier as at 31 October	747	2,509
The amount of interest paid by the Company along with the amount of the payments made to the supplier beyond the appointed day	Nil	Nil
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year)	Nil	Nil
The amount of interest accrued and remaining unpaid at the end of the year	Nil	321
The amount of further interest remaining due and payable for the earlier years	Nil	Nil

Notes to the Consolidated Financial Statements

36. The movement in provisions (figures in bracket represent previous year numbers) during the year is as below:

(₹ 000's)

	1 November 2009	Additions	Amounts used	31 October 2010
Claims	169,101 (45,870)	15,000 (123,231)	92,575 (-)	91,526 (169,101)
Contingent consideration payable to erstwhile shareholders of a subsidiary (Refer note 2(f))	- (-)	555,313 (-)	- (-)	555,313 (-)
	169,101 **(45,870)**	**570,313** **(123,231)**	**92,575** **(-)**	**646,839** **(169,101)**

37. The effect of acquisition in subsidiary companies on the consolidated financial statements is as follows:

Name of Subsidiary	Year ended 31 October 2010		Year ended 31 October 2009	
	Effect on Consolidated Profit/(Loss)	Effect on Net Assets	Effect on Consolidated Profit/(Loss)	Effect on Net Assets
MphasiS Infrastructure Services Inc.	(38,102)	54,371	-	-
MphasiS Finsolutions Private Limited	-	-	(4,298)	222,081

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

For and on behalf of the Board of Directors

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Bangalore
22 November 2010

Balu Ganesh Ayyar
Chief Executive Officer

Ganesh Murthy
Chief Financial Officer

Bangalore
22 November 2010

Nawshir H Mirza
Director

A. Sivaram Nair
Company Secretary

Consolidated Cash Flow Statement

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Cash flows from operating activities:		
Profit before taxation	12,099,155	9,727,520
Adjustments for:		
Interest income	(16,903)	(27,927)
Mutual fund income	(482,762)	(153,128)
Interest expenses	8,899	-
Profit on sale of fixed assets	(9,602)	(7,661)
Depreciation and amortisation	1,637,755	2,022,155
Effect of exchange rate changes	49,931	(18,239)
Operating profit before working capital changes	13,286,473	11,542,720
Debtors and unbilled revenues	(2,964,519)	(52,452)
Loans and advances	(144,103)	(2,300,098)
Current liabilities and provisions	40,730	2,973,415
Cash generated from operations	10,218,581	12,163,585
Income taxes (paid)/ refund	(1,812,719)	(1,646,270)
Net cash provided by operating activities	**8,405,862**	**10,517,315**
Cash flows from investing activities:		
Interest received	16,201	28,969
Proceeds from sale of fixed assets	28,502	124,502
Purchase of fixed assets	(918,961)	(1,499,751)
Mutual fund income	482,762	153,128
Purchase of units of Mutual Funds	(97,556,300)	(51,666,305)
Payment for subsidiary acquisition, net of cash acquired [refer note 2(f)]	(543,251)	(253,462)
Sale of units of Mutual Funds	90,568,512	44,053,834
Net cash used in investing activities	**(7,922,535)**	**(9,059,085)**

Consolidated Cash Flow Statement (Contd...)

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Cash flows from financing activities:		
Proceeds from issue of share capital	3,507	6,462
Proceeds of premium from issue of share capital	41,174	73,352
Interest expense	(8,899)	-
Availment of secured loans	443,600	14,618
Repayment of secured loans	(23,735)	(35,203)
Dividend paid including dividend tax	(857,992)	(486,189)
Net cash used in financing activities	**(402,345)**	**(426,960)**
Changes in cash and cash equivalents	80,982	1,031,270
Effect of exchange rate changes	(82,990)	23,229
Cash and cash equivalents at beginning of the year*	**1,785,698**	**731,198**
Cash and cash equivalents at end of the year*	**1,783,690**	**1,785,697**

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

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

For and on behalf of the Board of Directors

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Bangalore
22 November 2010

Balu Ganesh Ayyar
Chief Executive Officer

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Director

Ganesh Murthy
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
22 November 2010

Management discussion and analysis of critical accounting policies and glossary of terms used in the financial statements

A. Management discussion of critical accounting policies

Critical Accounting Policies

The fundamental objective of financial reporting, is to provide useful information that allows a reader to comprehend the business activities of an organisation. To aid in the understanding of the MphasiS Group's financial statements, the management has identified certain "critical accounting policies". These policies have the potential to have a 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 the 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 a higher degree 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 the 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 a 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 a 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 either 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 an inherent risk. The management reduces the inherent risks relating to revenue and cost estimates in percentage-of-completion models through corporate policy, as well as the 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 in which 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. The management attempts to provide for expected credit losses based on it's past experience with similar receivables and believes such provisions to be adequate. It is possible, however, that the accuracy of the management estimation process could be materially impacted, as the composition of this pool of receivables changes over time. The 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 collectability of receivables. The 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. The management evaluates the collectability 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, the management is required to estimate the Group's income taxes in each of the jurisdictions in which the Group operates. This process involves the 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. The management must then assess the likelihood that the Group's deferred tax assets will be recovered from future taxable income and to the extent the 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 the 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 the management adjusts these estimates in future periods, the management may need to make an additional provision for taxation which could impact the Group's financial position and results of operations.

B. Glossary of Terms used in the Financial Statements

Revenues

The Group derives its revenues primarily from software services & projects, call centre & business process outsourcing operations, infrastructure outsourcing services and from licensing arrangements & application services. Revenues from software services & projects comprise income from time-and-material and fixed price contracts. Revenues from call centre & business process outsourcing operations arise from both time-based and unit-priced client contracts.

Revenues from infrastructure outsourcing services arises from time-and-material contracts. Revenue from licensing arrangements is recognised on transfer of the title in user licenses, except those contracts which-require significant implementation services, where revenue is recognized over the implementation period in accordance with the specific terms of the contracts with clients. Maintenance revenue is recognised rateably over the period of underlying maintenance agreements.

Cost of Revenues

Cost of revenues primarily consists of salary and other employee compensation expenses, staff welfare expenses, rent, depreciation, data communication expenses and link charges, computer maintenance 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 over four years, office equipment and vehicles over three to five 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 amortised 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 the senior management and the personnel in finance & administration, legal and human resources. Also included are travelling & conveyance expenses and expenses relating to communications, finance and administration, legal and professional charges, insurance, miscellaneous administrative costs, depreciation of assets used in administrative offices and other related miscellaneous expenses.

Employee Benefits

Gratuity which is a defined benefit is accrued based on an independent actuarial valuation as at the balance sheet date. Actuarial gains/losses are taken immediately to profit and loss account and are not deferred.

Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation.

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

Management discussion and analysis of critical accounting policies and glossary of terms used in the financial statements

Amortisation of ESOP Costs

The Group accounts for stock-based compensation based on the intrinsic value method. 'Option Discount' is amortised on a straight-line basis over the vesting period of the shares issued under Employee Stock Option Plans ('ESOP'). 'Option Discount' means the excess of the market price of the underlying shares as at the date of grant of the options over the exercise price of the options.

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 companies into their functional currency. 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.

The Company has adopted the principles of AS 30 relating to cash flow hedge accounting wherein the resultant gain/loss is credited/debited to the hedging reserve included in the Reserves and Surplus. This gain/loss is recorded in profit and loss account when the underlying transactions affect earnings.

Other Income/ (expense), net

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

Interest, net

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

Income Taxes

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

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

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

Except for the historical information and discussions contained herein, statements included in this analysis include "forward-looking statements". These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those that may be projected by these forward looking statements. These risks and uncertainties include, but are not limited to, competition, acquisitions, attracting, recruiting and retaining highly skilled employees and managing risks associated with customer projects as well as other risks. MphasiS 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. All comparisons for the purpose of this discussion and analysis is with reference to the audited financials for the year ended 31 October 2010 and 31 October 2009.

A. Overview

MphasiS is a premier global Apps (Application services) and BPO (Business Process Outsourcing) Services Company ('the Group') headquartered at Bangalore, India formed in the year 2000 after the merger of Bangalore, India, based BFL Software Limited (formed in 1993) and California, US, based MphasiS Corporation (formed in 1998). MphasiS has added ITO (IT outsourcing or Remote Infrastructure Management) services w.e.f 1 April 2006 with the acquisition of EDS Electronic Data Systems (India) Private Ltd, a subsidiary of Electronic Data Systems Corporation, USA (EDS). With the addition of ITO, the Group offers services in primarily three business lines of Apps, BPO and ITO. Since June 2006, the Group has become a subsidiary of Electronic Data Systems Corporation (EDS). In terms of a merger agreement executed between Electronic Data Systems Corporation, Hewlett-Packard Company ('HP') and Hawk Merger Corporation, the last named company merged into Electronic Data Systems Corporation on 26 August 2008. As a result of this merger, Electronic Data Systems Corporation became a 100% subsidiary of Hewlett-Packard (HP) and was renamed as Electronic Data Systems LLC. Further, HP became the ultimate holding company of MphasiS.

The Group offers solutions to the world's leading companies in various industries, such as banking & financial services, insurance, telecom, manufacturing, airline & transportation, technology and healthcare, based on a portfolio of world-class Apps, BPO & ITO capabilities. The Group significantly grew its ITO capabilities during the financial year with support from HP. A deep understanding of the clients' business processes allows MphasiS to provide focused solutions in the enterprise applications development and management services for the Applications business. The Group strengthened its offering in BPO business in transaction and knowledge process outsourcing apart from customer and service helpdesk services.

All three business lines 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.

During the year ended 31 October 2010 ('FY10') consolidated revenues were ₹ 50,365 million, a growth of ₹ 7,726 million or 18.1% over the year ended 31 October 2009 ('FY09'). Significant growth came through HP and its subsidiaries.

The consolidated net profit was ₹ 10,908 million in FY10, an increase of ₹ 1,821 million or 20.0% over FY09. As a percentage of total revenues, the net profit was 21.7% in FY10 compared to 21.3% in FY09.

Further during FY10, the Group generated cash flows from operations amounting to ₹ 8,406 million. The Group has also invested ₹ 919 million in fixed assets.

Cash and bank balances and mutual fund investments as at 31 October 2010 stood at ₹ 16,384 million compared to ₹ 9,398 million as at 31 October 2009.

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

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.

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 audited financials of the Group for FY10 with the corresponding results of FY09.

(₹ millions)

	FY10	FY09
Revenues (net of adjustment from hedging reserve)		
- APPS	33,496	27,326
- ITO	10,162	7,887
- BPO	6,707	7,426
Total Revenue	**50,365**	**42,639**
Cost of Revenues		
- APPS	22,840	18,328
- ITO	6,521	4,684
- BPO	5,646	5,781
Total Cost of Revenues	**35,007**	**28,793**
Gross Profit		
- APPS	10,656	8,998
- ITO	3,641	3,203
- BPO	1,061	1,645
Total Gross Profit	**15,358**	**13,846**
Selling expenses	2,215	1,804
General & administrative expenses	2,129	2,782
Provision for doubtful debts	3	8
Operating Profit	**11,011**	**9,252**
Foreign exchange gain, net	581	293
Other income, net	499	155
Interest, net	8	28
Profit before Taxation	**12,099**	**9,728**
Income Taxes (including Fringe Benefit Tax)	1,191	641
Net Profit	**10,908**	**9,087**

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.

(₹ millions)

	% of revenues		Increase/ (decrease)
	FY10	FY09	FY10 over FY09
Revenues (net of adjustment from hedging reserve)	100.0%	100.0%	7,726
Cost of revenues	69.5%	67.5%	6,214
Gross profit	30.5%	32.5%	1,512
Selling expenses	4.4%	4.3%	411
General and administrative expenses	4.2%	6.5%	(653)
Provision for doubtful debts	0.0%	0.0%	(5)
Operating profit	21.9%	21.7%	1759
Foreign exchange gain, net	1.1%	0.7%	288
Other income, net	1.0%	0.4%	344
Interest income, net	0.0%	0.0%	(20)
Profit before tax	24.0%	22.8%	2,371
Income taxes (including Fringe Benefit Tax)	2.3%	1.5%	550
Net profit	**21.7%**	**21.3%**	**1,821**

Revenues

During the year ended 31 October 2010 revenues net of hedging impact, grew by ₹ 7,726 million or 18.1%. Apps services revenue grew by 22.6%, ITO services revenue grew by 28.8% and BPO services revenue decreased by 9.7% during the year. Apps services contribute 67% of the revenues, while ITO and BPO services account for 20% and 13% of the revenues respectively.

A detailed analysis of the revenues (gross of hedging impact) of the Group is presented below:

(₹ millions)

Vertical/Industry	FY10	%	FY09	%
Banking & Financial Services	20,594	*42%*	17,642	*41%*
Technology & OEMs	9,094	*18%*	9,924	*23%*
Telecom	5,970	*12%*	4,704	*11%*
Manufacturing & Retail	6,817	*14%*	5,442	*13%*
Logistics, Airlines & Transportation	2,998	*6%*	2,294	*5%*
Healthcare & Pharma	3,717	*8%*	2,827	*7%*
Total	**49,190**	**100%**	**42,833**	**100%**

All verticals except Technology & OEM grew compared to last year with significant growth in Telecom, Healthcare & Pharma and Banking & Financial Services. Banking & Financial Services vertical continued to be the largest segment, contributing 42% of the Group's revenues.

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

Client concentration

	FY10	FY09
Revenues from Top Client	10%	13%
Revenues from Top 5 Clients	28%	32%
Revenues from Top 10 Clients	45%	45%
Clients Contributing more than:		
$ 1 million Revenues	115	109
$ 5 million Revenues	38	32
$ 10 million Revenues	23	21
$ 20 million Revenues	14	8

During FY10 the group expanded its client base with 85 new clients added including relationships through HP.

The Group continued to increase its client base with expanded service offerings to mitigate top line risks.

Revenues by Service Type (₹ millions)

Service Type	FY10	%	FY09	%
Application Maintenance & Other Services	18,672	*37%*	14,892	*35%*
Application Development	13,864	*28%*	12,536	*29%*
Infrastructure Management Services	7,451	*15%*	5,561	*13%*
Customer Service	2,727	*6%*	3,422	*8%*
Service / Technical Help Desk	2,788	*6%*	2,671	*6%*
Transaction Processing Service	2,775	*6%*	2,258	*5%*
Knowledge Processes	873	*2%*	1,400	*4%*
License Income	40	*0%*	93	*0%*
Total	**49,190**	**100%**	**42,833**	**100%**

Application Development refers to customised software development services based on the requirements and specifications given by the customers and documented in Statement of Works while Application Maintenance involves maintenance of existing customer software and they are mostly undertaken on annuity terms. Infrastructure Management Services include end-to-end managed mobility solutions covering workplace management & other support services, hosting services which comprise of mainframe or midrange, application & web hosting services and data center services focus on migration, automation & other software services. Customer services include receivables collection support, product support, enrolment etc. provided to clients through BPO operations. Transaction Processing includes claims and mortgage processing, account opening and maintenance, data processing and management etc. Service/Technical Help Desk comprise of inbound and outbound customer interaction programs including technical product support, customer care and allied services. License Income pertains to the income from license sale in the health care space of the Group's product Javelina developed by its foreign subsidiary that was acquired in 2005. Revenues from all the services types grew in FY10 compared to FY09 with the exception of Customer services and Knowledge process with revenues from Infrastructure Management Services increasing by 34% and Application Maintenance and Other Services increasing by 25%.

Revenues by Project Type (₹ millions)

Project Type	FY10	%	FY09	%
Time and Material	43,344	88%	38,937	91%
Fixed Price	5,846	12%	3,896	9%
Total	**49,190**	**100%**	**42,833**	**100%**

Significant revenues are generated principally from services provided on time-and-material (T&M). Revenues from service provided on a T&M 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. Share of revenues from fixed price contracts have significantly increased during the financial year.

The following tables give the composition of revenues based on the location where services are performed.

Revenues by Delivery Location (₹ millions)

Delivery Location	FY10	%	FY09	%
Onsite	15,531	*32%*	11,373	*27%*
Offshore	33,659	*68%*	31,460	*73%*
Total	**49,190**	**100%**	**42,833**	**100%**

The Group charges higher billing rates and incurs higher compensation expenses for work performed by the onsite teams at a customer's premises as compared to work performed at its offshore centres. Services performed onsite typically generate higher revenues per capita than the same amount of services performed at its offshore centres in India. Share of onsite revenues have increased substantially in FY10 compared to FY09 due to new transformation and transition engagements involving higher onsite efforts in their execution.

Revenues by Geography (₹ millions)

Regions	FY10	%	FY09	%
USA	31,954	*65%*	28,566	*67%*
EMEA	9,353	*19%*	*8,724*	*20%*
APAC	7,883	*16%*	5,543	*13%*
Total	**49,190**	**100%**	**42,833**	**100%**

Asia Pacific revenues grew by 42% and share was up by 3%. Revenues from EMEA grew by 7% over FY09.

Cost of Revenues

Cost of revenues primarily comprise of direct costs to revenues and includes direct manpower, travel, facility expenses, network and technology costs.

The consolidated cost of revenues of the Group is ₹ 35,007 million in FY 10 representing an increase of 21.6% over FY09. Cost of revenues were 69.5% of revenues compared to 67.5% during the previous financial year. Cost of revenues

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

was higher due to increase in manpower costs. Cost of revenues in Apps increased from 67.1% to 68.2%, ITO services from 59.4% to 64.2% and BPO services from 77.9% to 84.2% in FY10 from FY09 respectively.

Headcount* by business :

Number of employees	FY10	FY09
Onsite		
- Applications	2,751	2,195
- ITO	459	36
- BPO	210	155
Offshore		
- Applications	13,189	10,692
- ITO	8,170	5,339
- BPO	15,183	16,215
Total	**39,962**	**34,632**

* Note : Including billable contractors

Gross Profit

The consolidated gross profit in FY10 is ₹ 15,358 as compared to ₹ 13,846 in FY 09. As a percentage of revenue, gross profit is 30.5% in FY10 as against 32.5% in FY09. Manpower costs increase attributed to gross profit drop in FY10.

Following tables summarise the Utilisation and Billing rates by business unit

Average Utilisation Rates	FY10	FY09
Applications		
Excluding trainees		
- Onsite	88%	85%
- Offshore	75%	78%
- Blended	77%	79%
Including trainees		
- Onsite	88%	85%
- Offshore	73%	75%
- Blended	75%	77%
ITO		
Excluding trainees		
- Onsite	84%	91%
- Offshore	78%	82%
- Blended	78%	82%
Including trainees		
- Onsite	84%	91%
- Offshore	73%	76%
- Blended	73%	76%
BPO		
Process Utilisation (excluding trainees)	78%	65%
Process Utilisation (including trainees)	71%	58%

Average Billing Rates	FY10	FY09
		$/hr
Onsite		
- Applications	72	71
- ITO	68	70
Offshore		
- Applications	21	22
- ITO	19	22
- BPO	7	9

Selling Expenses

Selling expenses of ₹ 2,215 million for the year ended 31 October 2010, representing an increase of ₹ 411 million or 22.8% over ₹ 1,804 million for the year ended 31 October 2009. As a percentage of revenues, selling expenses increased from 4.2% for the year ended 31 October 2009 to 4.4% for the year ended 31 October 2010. Increase in selling expenses is on account of increase in manpower cost, travel and communication, recruitment, professional charges in FY10.

General and Administrative Expenses

General and Administrative expenses of ₹ 2,129 million for year ended 31 October 2010, representing decrease of ₹ 653 million or 23.5% over ₹ 2,782 million during the year ended 31 October 2009. Decrease in General and Administrative expenses in FY10 is mainly on account of drop in manpower cost.

Provision for Doubtful Debts

Provision for doubtful debts was ₹ 3 million for the year ended 31 October 2010 as against ₹ 8 million for the year ended 31 October 2009.

Operating Profit

The operating profit during the year ended 31 October 2010 increased to ₹ 11,011 million from ₹ 9,252 million for the year ended 31 October 2009. As a percentage of revenues, operating margins increased from 21.7% for the year ended 31 October 2009 to 21.9% for the year ended 31 October 2010. Increase in Revenue volumes and better leverage of general & administrative expenses led to marginal increase in operating profit.

Foreign Exchange Gain, net

The gain on foreign exchange for the year ended 31 October 2010 was ₹ 581 million as against a gain of ₹ 293 million for the year ended 31 October 2009. The higher gain on foreign exchange is on account of gain on forward premia and exchange fluctuation arising out of restatement of assets and liabilities.

Other Income, net

The net other income for the year ended 31 October 2010 was ₹ 499 million as compared to ₹ 155 million for the year ended 31 October 2009. Increase in other income primarily comprise of dividend from higher investments in short-term liquid mutual funds and surplus received from fixed asset disposal.

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

Interest Income, net

Net interest income for the year ended 31 October 2010 was ₹ 8 million as against ₹ 28 million for the year ended 31 October 2009. The decline is primarily on account of reduction in bank fixed deposits, in line with change in the investment mix strategy of the company to invest in short-term liquid mutual funds.

Income Taxes (including Fringe Benefit Tax)

Income taxes was ₹ 1,191 million for the year ended 31 October 2010 as compared to ₹ 641 million for the year ended 31 October 2009. Effective tax rate has increased to 9.8% in FY10 from 6.6% in FY09 primarily due to some of the units coming out of the tax holiday and higher profitability of the company.

Net Profit

The net profit after taxes was ₹ 10,908 million for the year ended 31 October 2010, an increase of ₹ 1,821 million or 20.0% over the net profit of ₹ 9,087 million for the year ended 31 October 2009. As a percentage of total revenues the net margin increased to 21.7% for the year ended 31 October 2010 as against 21.3% for the year ended 31 October 2009.

D. Liquidity and Capital Resources

(₹ millions)

	FY10	FY09	Change
Working capital	11,696	8,944	2,752
Cash provided by operating activities	8,406	10,517	(2,111)
Cash (used in) investing activities	(7,923)	(9,059)	1,136
Cash used in financing activities	(402)	(427)	25
Cash and cash equivalents	16,384	9,398	6,986

The Group does not have significant borrowings (both long and short term) other than those reflected in the financial statement.

Working capital

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

Cash flows from operating activities

Growth in volumes increased the net cash inflows from operating activities in FY10. The Group recorded a cash profit of ₹ 13,286 million in FY10 as against ₹ 11,543 million in FY09 an increase of 15.1%. Days Sales Outstanding increased to 89 for the year ended 31 October 2010 from 78 days for the year ended 31 October 2009.

The following table shows Days Sales Outstanding.

Number of days

	FY10	FY09
Apps	95	75
ITO	82	95
BPO	74	68
Group	**89**	**78**

Cash used in investing activities

In FY10, the Group incurred capital expenditure of ₹ 919 million for the increased scale of operations.

The Group's treasury policy calls for investing in highly rated banks and debt instruments through liquid mutual funds for short to medium term maturities. Stringent guidelines have been set for de-risking counter party exposures. 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 overseas subsidiaries are subject to exchange control regulations of the Government of India.

Cash used in financing activities

In FY10 the cash used by financing activities included ₹ 858 million paid on account of dividend and dividend tax as against ₹ 486 million in FY09.

Cash and cash equivalents

The Group's cash balances are held in various 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/commitments made. An analysis of restricted cash balances as at 31 October 2010 and 2009 is given below.

(₹ millions)

	As at 31 October 2010	As at 31 October 2009
Margin money deposits	1	1
Fixed Deposit – Escrow Account	71	71
Unclaimed dividends	5	4
TOTAL	**77**	**76**
Deposits as a % of total cash balances	**4%**	**4%**

Contractual commitments

The following table summarises the Group's contractual commitments as at 31 October 2010 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.

(₹ millions)

Obligations/Commitments	TOTAL	By period Less than 1 year	1 to 5 years	Over 5 years
Capital commitments #	65	65	-	-
Operating leases	1,227	661	530	36
Total contractual cash obligations	**1,292**	**726**	**530**	**36**

 # The obligations towards capital commitments primarily represent amounts to be expended towards assets and equipment for the Group. These amounts have not been recorded as liabilities in the balance sheet as at 31 October 2010 as the related assets have not been received on the reporting date.

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

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

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

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 October 2010 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.

Directors' Profile

Dr. Friedrich Froeschl, Chairman

Dr. Friedrich Froeschl, Chairman of Board of Directors, joined the Board of MphasiS in March 2009. Dr. Froeschl is a Physicist with PhD and an executive MBA. He currently heads "Hi Tec Invest GmBH & Co.", which is a private equity management and consulting company with focus on information and communication technology Industries. Prior to founding Hi Tec Invest in October 2004, Dr. Froeschl was associated with Siemens AG as Corporate Vice President for Corporate Information and Operations (CIO) and as a member of the managing board. In 1995, he joined Siemens Business Services as the worldwide President & CEO, representing the company in over 40 countries. In 2002, he was appointed as Member of the Managing Board and Corporate Vice President for Corporate Information and Operations of the entire Siemens organization with almost half a million employees globally. During his career at Siemens, he has been in charge of multi-billion dollar budgets and covered all ICT related aspects including procurement, cost optimization, e-business and process management.

Prior to Siemens, Dr. Froeschl was CEO of Computer Sciences Corporation, a major global player in IT, Outsourcing and Consulting based in Germany. Before that, he held positions as Vice President and Business Head at Digital Equipment Corporation and Messerschmitt-Bölkow-Blohm (today EADS) respectively. Throughout his career, Dr. Froeschl has been actively involved in both larger multi-billion dollar deals as well as mid-size M&A projects.

Mr. Francesco Serafini, Vice-Chairman

Francesco Serafini, Vice Chairman of the Board of Directors, joined the Board of MphasiS in July 2010. Mr. Serafini holds an Engineering Degree in Electronics from Politecnico of Turin, Italy. He is an executive Vice President of Emerging Markets at Hewlett Packard (HP). In this role, he heads strategy, planning, coordination and growth initiatives across Emerging Markets globally.

From 2005 until April 2010, Serafini served as Managing Director for HP Europe, the Middle East and Africa (EMEA) and as Senior Vice President for the Enterprise Business in EMEA. He chaired the regional leadership team and was responsible for the company's strategy in EMEA, developing partnerships and key stakeholder relations for HP.

Prior to this, he was Senior Vice President of HP Services. In this position, he focused on developing the business as a leader in the provision of enterprise IT services, products and software in EMEA. Serafini has more than 25 years of experience in the IT services market.

Serafini joined HP in 1981 and held several senior management positions.

Mr. Balu Ganesh Ayyar, Chief Executive Officer

Balu Ganesh Ayyar, joined MphasiS as the CEO in January 2009. Ganesh is responsible for the overall management of the company. He is a member of the MphasiS Board of Directors.

Ganesh joins MphasiS from HP where his last assignment was that of Vice President, Managed Services, Asia Pacific & Japan leading selective sourcing and small and medium outsourcing deals. He joined Hewlett Packard Singapore in 1989, where he focused on the manufacturing industry. In 1991, Ganesh was at the center of the HP initiative concentrating on the telecommunications industry. His efforts led him to hold a managing role in the Manufacturing and Telecom team in 1992.

In 1999, he became the President of HP India. There he led the way in delivering the best total customer experience and strengthened HP's position in India. His outstanding efforts saw his move to the position of Asia-Pacific Director of Marketing for the Business Customer Organization in 2001.

Directors' Profile

Ganesh was the co-lead for pre-merger Integration Planning for HP-Compaq Merger for Asia Pacific & Japan. Immediately after the merger, he took on the role of Vice President of HP Services for South East Asia and led customer support consulting & integration and Managed Services business.

With more than 23 years of experience, Ganesh's career spans across South East Asia (Singapore, Malaysia, Thailand, Philippines, Indonesia, Vietnam and Asian Emerging Countries) and India. Ganesh is a proven global visionary leader with relentless business focus. His extensive experience across a portfolio of functions and geographies brings a global perspective to MphasiS.

Born in India, Ganesh is a Chartered Accountant from the Institute of Chartered Accountants of India.

Mr. Nawshir H Mirza, Director

Nawshir Mirza, Director, joined the Board of MphasiS in January 2004. He is a fellow member of 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, being a Partner from 1974 to 2003.

He serves as President of the Institute of Internal Auditors, Calcutta and the Indo-American Chamber of Commerce, Western India. He has contributed to the accounting profession, being a Speaker or the Chairperson at a large number of professional conferences in India and abroad and has authored many professional publications of the Institute of Chartered Accountants of India.

He is also a Director on the Boards of Tata Power Company Limited, ESAB India Limited, Foodworld Supermarkets Limited and Health & Glow Retailing 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, Director, joined the Board of MphasiS in April 2004. 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 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, Davix Pharmaceuticals Private Limited and Moksha8 (Cayman Islands). He is also a Member of the Board of Governors in Indian Institute of Management, Lucknow and Special Advisor to the Board of Directors of Codexis, a California based Corporate.

Mr. Prakash Jothee, Director

Prakash Jothee, Director, joined the Board of MphasiS in February 2009. Prakash Jothee has a Bachelor's Degree in Physics and Chemistry and a Graduate Degree in Management from Stanford University.

At HP, Prakash Jothee is VP in the Office of Strategy and Technology. Jothee is responsible for leading all major high value strategic HP initiatives. Additionally, Jothee is the Chief Operating Officer for the HP Networking business unit. In this capacity he leads all 3Com related integration activities and business operations to drive sales growth, operational efficiencies and business development.

Before joining HP in 2005, Jothee was a principal in A.T. Kearney's Communications and High Tech practice, focusing on client projects in the corporate strategy and M&A, marketing and sales strategy arenas.

Mr. Balu Doraisamy, Director

Balu Doraisamy, Director, joined the Board of MphasiS in July, 2010. Balu holds a post graduate degree in Computer Science and a master's in Mathematics. He has more than 25 years of experience with HP (including acquisitions). Balu was the Managing Director of HP Asia Pacific and Japan region (APJ) and Senior Vice President of HP Enterprise Business in APJ, when he retired from the services of HP.

Prior to his regional roles, Balu served as the Managing Director of HP India, having joined HP from Compaq. As Managing Director of HP India, he led the company to become the number one technology vendor in the Indian domestic market. Prior to this assignment, he was based in Singapore for nine years where he managed the Asia Pacific and Japan Global Accounts business in Digital and Compaq. Prior to this, Balu joined Digital Equipment Corporation, USA, in 1984 as a Senior Technology Consultant in the Software Engineering Group.

Mr. Juergen Reiners, Director

Juergen Reiners, Director, joined the Board of MphasiS in July 2010. Juergen is Vice President of HP's Global Business Services and is responsible for developing the company's shared services strategy and global operating model. His current scope of functions includes Finance and Accounting, Human Resources, Supply Chain, Service Administration and Marketing Support.

In his current role, Juergen leads a team of more than 18,000 people spread across 12 major hubs and co-located in 56 major countries including the US, India, China, Mexico, Costa Rica, Argentina, Poland, Romania and Singapore, among others.

With over two decades of experience, Juergen has held a variety of international senior management positions both for HP and other companies. From 2004 - 2008, he was instrumental in setting up HP's commercial BPO outfit.

Mr. Gerard Brossard, Director

Gerard Brossard, Director, joined the Board of MphasiS on July 15 2010. Brossard holds a Master of Science degree in Computer Science from MIAGE LYON 1 University in Lyon, France. He is Vice President and Chief of Staff of Business Planning at HP. In this role, he is chartered with the success of the overall business plan and enabling key strategic opportunities for the long term approach to selling and servicing including the integration of acquired technology.

Prior to this role, he was Vice President of Strategy and Corporate Development, reporting directly to the CEO, where he successfully initiated HP's global labor model and location footprint for improved sales coverage, more effective service delivery and lower costs.

As the Vice president of the Mergers & Acquisitions Integration organization, Brossard lead all aspects of HP's $13.9B acquisition and integration of EDS, delivering financial and operational targets on plan and budget.

Brossard's 20-years HP career has included a variety of positions in the IT and HR organizations in both Europe and US. As the Vice President of the Workforce Planning and Staffing organization, he led the implementation of world-class workforce plans and programs. As the Director of HR Global Processes and Operations, he led the development and implementation of the new global HR self-service delivery model for HP; the largest most complex PeopleSoft Human Resource Management System installation in the world.

Directors' Report

Dear Shareholders,

We have pleasure in presenting to you the Nineteenth Annual Report of your Company for the financial year ended 31 October 2010.

CONSOLIDATED FINANCIAL PERFORMANCE

(₹ million)

Particulars	Year Ended 31 October 2010	Year Ended 31 October 2009
Revenues	50,365	42,639
Cost of Revenues	35,007	28,793
Gross Profit	15,358	13,846
Operating Profit	11,011	9,252
Profit Before Taxation	12,099	9,728
Net Profit	10,908	9,087
Provision for Proposed Dividend	840	733
Tax on Dividend	140	125
Transfer to General Reserve	997	837
Transfer to Capital Redemption Reserve	5	-

A detailed analysis of performance is available in the section headed Management Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report.

DIVIDEND

Your Directors are pleased to recommend a final dividend of Rs.4.00 per equity share of Rs.10 each for the year ended 31 October 2010, subject to your approval at the ensuing Annual General Meeting.

OUTLOOK

The year 2009 - 2010 reflected a comeback for the global economy in general and Indian economy in particular. The western economies stowed-off a serious collapse but there continues to be an uncertainity about the future. This uncertainity results in business deferring investment decisions.

While emerging from the challenging environment, your Company has through relentless execution and sustained performance, delivered strong financial results with record EPS and EPS growth - the highest in the history of your Company. Your Company's EPS on a consolidated basis, for the year ended 31 October 2010 stood at Rs.52.00 as against Rs.43.45 in FY 2009. Your Company reported a stellar performance by crossing the "USD One Billion Revenue Mark". These results are a reflection of your Company's focus on execution.

Looking ahead at the next stage of growth, your Company has challenged the current model of operation. The new structure allows effectively growing the direct business as well as to further the partnered business with Hewlett Packard; decentralize and move closer to the Customer; increase overall organizational effectiveness; and incubate new business ideas and innovate.

Building long term and deep relationship with our customers and employees remains an on-going focus. Your Company's partnership with Hewlett Packard has played an important role in creating larger opportunities for growth and in success.

Your Company's efforts to maintain operational efficiencies and grow business through strategic and geographic expansion will continue. With proactive action to transform for the next phase of growth, your Company will strive to build an organization that is deeply aligned with customers and empowers employees.

SHARE CAPITAL

The Issued Share Capital of the Company as on 31 October 2010 stood at Rs.2,099 million (including Rs.1.48 million held by the BFL Employees Equity Reward Trust) and Reserves and Surplus of the Group stood at Rs.30,887 million. There has been an increase in the capital on account of allotments during the year consequent to exercise of stock options under stock option plans of the Company and release of a few bonus shares, earlier kept under abeyance.

CORPORATE GOVERNANCE

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

OTHER DEVELOPMENTS

Mergers

Eldorado Computing Inc, USA

The Company had in March 2005, acquired Eldorado Computing Inc., a US based healthcare benefits management solutions company to strengthen footprint in US and enter in the healthcare insurance and payment market. Considering the operational synergy and administrative convenience, the Board had during the year approved merger of Eldorado Computing Inc. with MphasiS Corporation, USA. Accordingly, the said entity is merged with MphasiS Corporation, USA effective 1 March 2010.

MphasiS FinSolutions Private Limited

Your Company had during 2008–2009, to further establish its presence in insurance solutions, acquired AIG Systems Solutions Private Limited (since name changed to MphasiS FinSolutions Private Limited), a subsidiary of American International Group Inc, USA. Further to this, considering the operational synergies, the Board approved amalgamation of MphasiS FinSolutions Private Limited with the Company. Pursuant to a Scheme of Merger approved by the High Courts of Karnataka and Madras, dated 5 July 2010 and 17 September 2010, respectively, the merger of MphasiS FinSolutions Private Limited was consummated effective 1 November 2009 and the accounting to this effect has been carried out as per the Court Orders.

Acquisitions

Fortify Infrastructure Inc, USA

Remote Infrastructure Management (RIM) is one of the fastest growing segments in the Infrastructure Services Market. In order to give impetus to the direct ITO business with a focus on the SME segments, the Company acquired Fortify Infrastructure along with Inc. its wholly owned subsidiaries, Fortify North America Inc. and Wide Area Management Services Inc. Fortify is a USD 20 million company headquartered in Santa Clara, California, USA with over 20 customers for Remote Infrastructure Management (RIM) based services in the mid market segment. The acquisition is expected to augment the capabilities of your Company in Infrastructure Services and enable the Company to move towards an offshore development model and further provide synergetic operational integration. Further to the acquisition, Fortify Infrastructure Services Inc. has been renamed as "MphasiS Infrastructure Inc."

Directors' Report

Setting up of off-shore delivery centres

Considering the need to move to low cost delivery centres and counter the margin pressures, your Company evaluates its locational strategy and enhances its off shore delivery centres. Accordingly, the Company has set up an off shore global delivery centre in Colombo, Sri Lanka and a Near Shore Delivery Center in Poland.

Your Company also opened its 'near shore' integrated development and delivery center in Australia at the University of Wollongong. The strategic location of the center has enabled your Company to work closely with the University of Wollongong on a range of initiatives including training, recruitment and research and development in the Information and Communications Technology (ICT) space.

The setting up of these new global delivery centers spells opportunity and is an important milestone in your Company's future journey.

EMPLOYEES

Your company holds its employees to the highest standards of ethics and compliance. To this effect, we have instituted our Winning Culture–the MphasiS Values System that governs our actions and decisions in all aspects of work. We are dedicated to driving a value based approach to work and building an organization that values learning and a talent hierarchy.

Your Company, to nurture and retain its top talent and high potential employees has set in place programs such as the Executive Talent Pool and the Leadership Talent Pool at different levels of the organization. These programs aim to train, coach, and groom the next line of leadership to take on the challenges that come from our expanding and ambitious business plans. We also strongly believe that empowerment of those closest to the customer will deliver good results. Hence, we have introduced the Front Line Manager (FLM) program, giving more authority, responsibility and visibility to our front line managers in all units. Learning is a key component to ensuring that our talent is ready to take advantage of the opportunities that will come our way. Your Company has invested extensively in "Reflections" the 360 degree feedback and self development program in addition to expanding the courses offered on our Learning Portal, your Company works diligently with all business units to identify specific programs that will make them more effective in their operations.

Your Company believes that good work should be rewarded and celebrated. Rewards and recognition are one of the key drivers to achieve a motivated and dedicated work force. We have institutionalized the rewards and recognition programs at MphasiS to cater to the various roles and responsibilities our employees perform. This is capped with an Annual Awards function, where we celebrate the Heroes of MphasiS.

Your Company also believes in giving to the communities it operates in and to this effect, we have setup the Employee Contribution Portal where employees can donate funds to authorized NGOs directly from their salaries, making donations transparent and easy.

The total employee strength grew from 33,524 employees on 31 October 2009 to 37,268 employees on 31 October 2010.

EMPLOYEES STOCK OPTION PLAN AND RESTRICTED STOCK UNITS PLANS

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

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

Your Company currently has four stock option 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 its employees. The Company has a Restricted Stock Units 2010 plan, in respect of which no RSUs have been granted to the employees. The said plan is administered through MphasiS Employees Benefit Trust.

The Board of Directors of the Company, in its meeting held on 22 November 2010, as a recognition of successfully crossing the "One Billion Dollar Revenue Mark" (subject to the approval of the shareholders and applicable laws) approved a Restricted Stock Units 2011 Plan. The proposed plan, approving each of the permanent employees of the Company and its subsidiaries, as at 1 November 2010, being granted 10 Restricted Stock Units entitling them to 10 equity shares of Rs.10 each of the Company at the end of the vesting period, which is one year from the date of grant. The shares are offered at a nil exercise price at the end of the vesting period. The shares are proposed to be acquired from the market through an employee welfare trust. The necessary resolution for the approval will be considered at the ensuing Annual General Meeting.

SUBSIDIARIES

As on 31 October 2010, your Company had subsidiaries in Australia, Belgium, Germany, India, Ireland, Mauritius, The Netherlands, The Peoples Republic of China, Poland, Singapore, Sri Lanka, the United Kingdom and the United States of America.

Your Company has received the approval from the Ministry of Corporate Affairs, New Delhi vide its letter No. 47/711/2010-CL-III dated 19 November 2010 granting an exemption under Section 212(8) of the Companies Act, 1956 from attaching the audited accounts of the subsidiaries to the Annual Accounts of your Company, for the financial year ended 31 October 2010. Your Company, however, continues to publish the consolidated financial statements of the Group. Further, 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.

The Annual Accounts of subsidiary companies are available for inspection at the registered office of the Company and the details of the Annual Accounts would be hosted on the website of the Company.

DIRECTORS

The following Directors were appointed on the Board of your Company as additional directors effective 15 July 2010:

(i) Mr. Francesco Serafini
(ii) Mr. Balu Doraisamy
(iii) Mr. Juergen Reiners
(iv) Mr. Gerard Brossard

Directors' Report

Pursuant to the provisions of Section 260 of the Companies Act, 1956, the additional directors hold office until the date of the ensuing Annual General Meeting. However, the Company has received a notice under Section 257 of the Companies Act, 1956, from a member along with the requisite deposit, proposing the candidatures of the additional directors to the office of directorship. Accordingly, necessary resolutions in relation to the appointment of directors are placed before the members at the ensuing Annual General Meeting. The Board of Directors recommends the appointment of the directors.

Dr. Friedrich Froeschl was elected as the Chairman of the Board of Directors and Mr. Francesco Serafini was elected as the Vice Chairman of the Board of Directors, vide resolution passed by the Board of Directors dated 15 July 2010.

The following Directors resigned during the financial year effective 15 July 2010:

(i) Mr. Andreas W Mattes
(ii) Dr. Jose De La Torre
(iii) Ms. Vinita Bali
(iv) Mr. Craig Wilson
(v) Mr. K M Suresh

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

Further, in accordance with the Articles of Association of the Company, Mr. Nawshir Mirza and Mr. Davinder Singh Brar will retire by rotation and are eligible for re-election. The Board of Directors recommends the re-appointment of the directors.

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

DIRECTORS' INTEREST

The interest of the Directors in the share capital of the Company as at 31 October 2010 is provided herein. 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. Other than Mr. Davinder Singh Brar, who held 918 shares, no other director held any shares or stock option in the Company as on 31 October 2010.

SIGNIFICANT SHAREHOLDINGS

The following shareholders held more than 5% of the Company's issued share capital as at 31 October 2010:

Name of the Shareholder	***Percentage Owned***
Hewlett Packard Corporation through its wholly owned subsidiaries, *(EDS Asia Pacific Holdings, EDS World Corporation (Far East) and EDS World Corporation (Netherlands))*	60.55%
Aberdeen Asset Managers Limited A/c Aberdeen International India Opportunities Fund	5.26%

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. S.R. Batliboi & Co., Chartered Accountants (Registration No. 301003E), have expressed their willingness to continue in office and a resolution proposing their re-appointment at a remuneration to be fixed by the Board of Directors and billed progressively, is submitted for approval of the shareholders at the ensuing Annual General Meeting.

As regards the observation made by the Auditors, your Directors would like to clarify that the delays in remittance of service tax and value added tax dues were due to refinement in the Company's interpretation of applicable tax laws. Your Company has taken adequate steps to strengthen relevant processes.

PARTICULARS OF EMPLOYEES' REMUNERATION

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 forms part of this Report. However, in terms of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary and General Counsel and Head Global Ethics and Compliance at the Registered Office of the Company.

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. 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.

DEPOSITS

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

ACKNOWLEDGMENTS

Your Directors would like to place on record their appreciation 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 Hewlett Packard Corporation for their continued support. They also wish to place on record their appreciation for the support from the Software Technology Parks of India, the Department of Electronics, the Government of India, Governments of Karnataka, Maharashtra, Gujarat, Uttar Pradesh, Madhya Pradesh, Chattisgarh, Tamil Nadu, Pondicherry, Andhra Pradesh, Reserve Bank of India, other governmental agencies and NASSCOM.

For and on behalf of the Board of Directors

Bangalore
5 January 2011

FRIEDRICH FROESCHL
Chairman

Annexure to the Directors' Report

DETAILS OF EMPLOYEES STOCK OPTIONS AS ON 31 OCTOBER 2010

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	611,180	2,858,876	13,383,184	2,461,750	1,533,199
Options exercised	541,900	2,158,538	10,564,794	2,388,123	1,255,747
No. of shares arising out of exercise of options	541,900	2,158,538	10,564,794	2,388,123	1,255,747
Options lapsed and forfeited (options reverted to trust due to resignations and non exercise)	713,372	1,921,124	9,549,656	308,227	1,248,631
Money realized by exercise of options (₹) (for the financial year 2009-2010)	169,974.72	4,329,462.62	25,147,810.88	3,101,750.00	11,931,931.68
Total No. of Options in force	69,280	700,338	117,394	12,450	56,774
Pricing formula	No options have been granted under this Scheme during the financial year 2009-2010. 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 the financial year 2009-2010. 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.	No options have been granted under this Scheme during the financial year 2009-2010. Earlier, for employees in the service of the Company as on 25 July 2000, the market price prevalent on 25 July 2000 i.e. Rs.494.20 per share was taken as the grant price and for employees joining thereafter, the market price prevalent on the last working day of the month in which they join.	No options have been granted under this Scheme during the financial year 2009-2010. Earlier, for options granted from September 2003, the grant price was calculated as per sub clause 10 of clause 2.1 of the amendment to SEBI (Employees Stock Option Scheme and 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.	No options have been granted under this Scheme during the financial year 2009-2010. Program A The original exercise price per the original grant made by MsourcE Corporation while granting its options, converted at the exchange rate between USD and INR as on 12 May 2004, and as adjusted for the swap ratio of the MsourcE acquisition and the bonus shares issued by Mphasis Limited after 12 May 2004.

Particulars	ESOP 1998		ESOP 2000	ESOP 2003	ESOP 2004
	Version I	Version II			
		For options granted from September 2003, the grant price was calculated as per sub clause 10 of clause 2.1 of the amendment to SEBI (Employees Stock Option Scheme and 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.	For options granted from September 2003, the grant price was calculated as per sub clause 10 of clause 2.1 of the amendment to SEBI (Employees Stock Option Scheme and 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.		Program B The Market Price as per the applicable guidelines prescribed by Securities Exchange Board of India (SEBI) from time to time.*

* *The present 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	:	20,848,189
3.	Options exercised	:	16,909,102
4.	Options lapsed and forfeited	:	13,741,010
5.	Total no. of options in force	:	956,236
6.	Money realized by exercise of options for the financial year 2009 - 2010	:	Rs.44,680,930

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

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.

Details of stock based compensation are given in the Note 31 to the consolidated financial statements.

Diluted Earning Per Share (EPS) of the Group for the year, pursuant to issue of shares on exercise of options is Rs.51.76 (Refer Note 30 of the consolidated financial statements).

Annexure to the Directors' Report

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 for the financial year ended 31 October 2010 using the fair value method for the grants made after the notification is given below:

1) a) Impact on Profit: (₹ 000's)

	MphasiS Limited	MphasiS Group
Audited	9,968,782	10,907,525
Adjusted	9,973,155	10,911,898

b) Impact on EPS: (₹ 000's)

	MphasiS Limited		MphasiS Group	
	Basic	Diluted	Basic	Diluted
Audited	47.53	47.30	52.00	51.76
Adjusted	47.55	47.32	52.02	51.78

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 (₹)	Weighted Average Fair Value (₹)
ESOP 1998 Version I	34.38	26.62
ESOP 1998 Version II	96.67	66.32
ESOP 2000	136.27	102.59
ESOP 2003	130.60	99.04
ESOP 2004	128.76	95.23

3) Method and significant assumptions:

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

The significant assumptions are:

1	Risk free interest rate	5.78% to 8.00%	
2	Expected life	1 to 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 Version I	34.38
		ESOP 1998 Version II	96.67
		ESOP 2000	136.27
		ESOP 2003	130.60
		ESOP 2004	128.76

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 of the Company for the period under review.
3. That your Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. That your Directors have prepared the annual accounts on a going concern basis.

DECLARATION 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 financial year ended 31 October 2010, 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 also affirmed compliance with the Employee Code of Conduct as applicable to them.

Bangalore
5 January 2011

BALU GANESH AYYAR
Chief Executive Officer

Annexure to the Directors' Report

Particulars of subsidiaries forming part of the Directors' Report for the period ended 31 October 2010.

Information as per the approval under Section 212(8) of the Companies Act, 1956 and forming part of the Directors' Report for the period ended 31 October 2010

Amount (₹ 000's)

Subsidiary	Additional information											
	Capital			Reserves	Total assets	Total liabilities	Details of investment (Other than in subsidiaries)	Turnover	Profit before taxation	Provision for taxation	Profit after taxation	Proposed Dividend
	Equity	Preference	Total						Profit / (Loss)	Expense / (Credit)		
MphasiS Corporation	1	-	1	2,082,422	6,880,589	4,798,166	-	11,171,628	558,386	(7,416)	565,802	-
Eldorado Computing Inc.*	-	-	-	-	-	-	-	241,809	(59,239)	-	(59,239)	-
MphasiS Deutscheland GmbH	2,100	-	2,100	8,691	73,238	62,447	-	150,814	19,285	-	19,285	-
BFL Software Asia Pacific Pte Limited	5,960	-	5,960	(5,960)	-	-	-	-	1,924	-	1,924	-
MphasiS Australia Pty Limited	46	-	46	(34,890)	1,367,339	1,402,183	-	3,008,287	(161,983)	48,045	(210,028)	-
MphasiS (Shanghai) Software & Services Co. Limited	238,756	-	238,756	(200,912)	193,634	155,790	-	259,312	17,882	-	17,882	-
MphasiS Consulting Limited	1,337	-	1,337	400,855	517,197	115,005	-	465,519	55,848	6,368	49,480	
MphasiS Belgium BVBA	426	-	426	15,152	131,552	115,974	-	284,993	4,874	-	4,874	-
MphasiS FinsourcE Limited	500	-	500	(37,832)	141,250	178,582	-	131,886	(39,384)	(5,831)	(33,553)	-
MphasiS Europe BV	1,309,962	-	1,309,962	95,876	1,500,159	94,321	-	534,899	179,722	24,813	154,909	-
MphasiS Pte Limited	7,772	-	7,772	(36,592)	72,452	101,272	-	130,378	(7,757)	-	(7,757)	-
MphasiS UK Limited	67	-	67	380,062	1,051,548	671,419	-	2,458,425	359,233	88,473	270,760	-
MphasiS Software & Services (India) Private Limited	100,000	-	100,000	691,873	774,183	(17,690)	-	202,617	(34,736)	1,045	(35,781)	-
MsourcE Mauritius Inc.	628,193	-	628,193	(4,372)	624,973	1,152	-	-	(593)	-	(593)	-
MsourcE (India) Private Limited	66,853	-	66,853	2,874,895	3,578,862	637,114	-	3,209,510	342,552	83,962	258,590	-
MphasiS Ireland Limited	555	-	555	7,026	9,061	1,480	-	10,414	2,633	(60)	2,693	-
MphasiS Lanka (Private) Limited	6,545	-	6,545	(3,609)	66,986	64,050	-	16,619	(4,058)	-	(4,058)	-
MphasiS Infrastructure Services Inc.	44	-	44	(59,503)	232,920	292,379	-	523,134	(38,116)	(14)	(38,102)	-
Total	**2,369,117**	**-**	**2,369,117**	**6,173,182**	**17,215,943**	**8,673,643**	**-**	**22,800,244**	**1,196,473**	**239,385**	**957,088**	**-**

* Referred Note 2(e) in the consolidated financial statements.

The exchange rate applied on the respective overseas entity balances as at 31 October 2010 was INR 44.425/USD, 34.1725/SGD, 70.72/GBP, 43.1450/AUD, 61.4175/EUR, 0.5497/JPY, 6.6594/CNY, 43.40/CAD and 33.5150/NZD.

Corporate Governance

I. COMPANY'S POLICY ON CORPORATE GOVERNANCE

MphasiS Limited is committed to the highest standards of Corporate Governance in all its activities and processes and is directed towards enhancement of long-term shareholder value, keeping in view the interests of other stakeholders, viz, Clients, Employees, Suppliers, Regulatory Bodies etc. The Company has always believed and practiced the highest standards of Corporate Governance. The Board recognizes that governance expectations are constantly evolving and is committed to keep its standards of transparency and dissemination of information under review to ensure compliances and meet its own demanding levels of business ethics.

The Company believes that sound corporate governance practices are crucial to the smooth and efficient operation of a company to enhance the long term stakeholder value. All the functions of the Company are defined and conditioned by highest standards of governance, which sets its values and ethics.

The following is a report on the status and progress on major aspects of Corporate Governance for the year ended 31 October 2010.

II. BOARD OF DIRECTORS

The basic responsibility of the Board is to provide effective governance over the Company's affairs. The Company's business is conducted by its employees under the overall supervision of the Chief Executive Officer, who is assisted by a council of Senior Managerial Personnel heading different functions.

(a) Composition of the Board:

As at 31 October 2010, the Board comprises of 9 Directors of which, one is an Executive Director, five are nominated by Hewlett Packard Corporation, USA and three are Independent Directors. The composition of the Board is in conformity with the requirements of the Corporate Governance norms under the Listing Agreement.

Dr. Friedrich Froeschl, Non Executive Independent Director, is the Chairman of the Board and Mr. Francesco Serafini, Non Executive Director, is the Vice Chairman of the Board.

(b) Board Procedure:

The Board meets at regular intervals with an annual calendar and formal schedule of matters specifically reserved for its consideration to ensure that the matters in relation to Strategy, Operations, Finance and Compliances are reviewed and monitored regularly. The calendar of meetings is communicated to the directors annually to enable maximum participation. The Board is regularly appraised of the performance of the Company in meetings and is provided with necessary information on the business, compliance and quarterly financials to ensure effective discharge of responsibilities. The Directors of the Company, through their participation in Board Meetings either in person or through technology enabled conferences, 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 important decisions taken at the meetings are promptly communicated to the respective functionaries for their action. Further, the action items arising out of the decisions of the Board are followed up with the management and reviewed by the directors at the succeeding meeting.

Corporate Governance

Primarily, the Board of Directors oversees and provides policy guidance on the business and affairs of MphasiS, while balancing the interests of different stakeholders. Among other things, the Board undertakes the following functions:

1. reviews and assesses the business strategy developed by management;
2. reviews and assesses the operational strategy and plans developed by management;
3. is responsible for CEO succession, evaluation & compensation;
4. satisfies itself that the Company is governed effectively in accordance with good corporate governance practices;
5. monitors management performance and directs corrections;
6. balances the interests of different stakeholders;
7. reviews and assesses risks facing MphasiS and management approach to addressing such risks;
8. discharges statutory or contractual responsibilities;
9. oversees the reliability of external communications, especially to shareholders; and
10. oversees the process for compliance with laws and regulations.

(c) Board Meetings held during the year, attendance of directors and particulars of the directorships, committee memberships/chairmanship:

During the financial year 2009 - 2010, five meetings of the Board were held on 24 November 2009, 24 February 2010, 26 May 2010, 25 August 2010 and 16 & 17 September 2010. The details of the attendance at the meetings of the Board and at the last AGM together with the particulars of the other directorships, committee memberships/chairmanships, of the directors are given below:

Name	Category	Attendance During 2009-2010				Particulars of other Directorships, Committee Memberships / Chairmanships		
		Board Meetings						
		Number of meetings held during tenure	In person	Via tele/Video conference	Last AGM	Other Directorships[1]	Committee Memberships[2]	Committee Chairmanship[2]
Executive Director								
Mr. Balu Ganesh Ayyar	Chief Executive Officer, Executive Director	5	5	-	Yes	-	1	-
Non-Executive Directors								
Dr. Friedrich Froeschl	Chairman, Independent Director	5	5	-	Yes	-	-	-
Mr. Nawshir Mirza	Independent Director	5	5	-	Yes	3	1	3
Mr. Davinder Singh Brar	Independent Director	5	4	-	Yes	1	2	1
Mr. Prakash Jothee	Non-Independent Director	5	5	-	Yes	-	-	-
Mr. Francesco Serafini[4]	Vice Chairman, Non Independent Director	2	1	-	NA	-	-	-
Mr. Balu Doraisamy[4]	Non-Independent Director	2	2	-	NA	-	-	-
Mr. Juergen Reiners[4]	Non-Independent Director	2	2	-	NA	-	-	-
Mr. Gerard Brossard[4]	Non-Independent Director	2	1	-	NA	-	-	-

Name	Category	Attendance During 2009-2010				Particulars of other Directorships, Committee Memberships / Chairmanships		
		Board Meetings			Last AGM	Other Directorships[1]	Committee Memberships[2]	Committee Chairmanship[2]
		Number of meetings held during tenure	In person	Via tele/Video conference				
Resigned Directors								
Mr. Andreas W Mattes[5]	Chairman	3	1	-	No	NA	NA	NA
Dr. Jose de la Torre[5]	Independent Director	3	3	-	Yes	NA	NA	NA
Ms. Vinita Bali[5]	Independent Director	3	2	-	Yes	NA	NA	NA
Mr. Craig Wilson[5]	Non-Independent Director	3	2	-	No	NA	NA	NA
Mr. K M Suresh[5]	Non-Independent Director	2	2	-	Yes	NA	NA	NA

NA - Not Applicable.

Notes:

1. *Does not include directorships in foreign companies, alternate directorships, directorships in private companies and membership in governing councils, chambers and other bodies.*
2. *Includes membership/Chairmanship in Audit Committee and Shareholder Grievance Committee of companies, including MphasiS Limited.*
3. *There are no relationships inter-se directors as on 31 October 2010.*
4. *Appointed as additional director during the year, with effect from 15 July 2010.*
5. *Ceased to be a director during the year, with effect from 15 July 2010.*

III. COMMITTEES

(a) Audit Committee

The primary function of the Audit Committee, as per its Charter, is to provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders and others relating to:

- overseeing the processes ensuring the integrity of the Company's financial statements;
- overseeing the processes for compliance with laws and regulations;
- overseeing the process by which anonymous complaints pertaining to financial or commercial matters are received and acted upon;
- enquiring into reasons for default in honoring 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.

During the financial year 2009 - 2010, five meetings of the Audit Committee were held on 18 November 2009, 23 February 2010, 12 April 2010, 26 May 2010 and 25 August 2010.

Corporate Governance

The composition of the Committee and the attendance of the members at each of the meetings held during the financial year 2009 - 2010 are given below:

Member	No. of Meetings held during tenure	No. of Meetings attended
Present Members		
Mr. Nawshir Mirza, Chairman	5	5
Mr. Davinder Singh Brar	5	5
Mr. Juergen Reiners (from 25 August, 2010)	-	-
Past Members		
Ms. Vinita Bali (up to 15 July 2010)	4	3
Mr. K M Suresh (up to 15 July 2010)	3	3

The Committee comprised of two members from 15 July 2010 to 25 August 2010. However, the Committee had a valid quorum for the meeting.

(b) Share Transfer Committee

In order to expedite the requests of the shareholders, in connection with the transfers, demats and other related process, the Board has constituted a Share Transfer Committee. The Share Transfer Committee of the Board is authorized inter-alia to approve transfers/transmissions/ transpositions/ dematerialization/re-materialization requests issue of duplicate share certificates, issue of fresh share certificates, release of stop transfer cases etc.

The composition of this Committee is as follows :

Mr. Balu Ganesh Ayyar	-	Chairman
Mr. Nawshir Mirza	-	Member
Mr. Davinder Singh Brar	-	Member

During the financial year 2009 - 2010, the Share Transfer Committee passed resolutions approving transfers and other related matters, on 1 December 2009, 11 January 2010, 13 April 2010, 25 May 2010, 8 June 2010 and 18 October 2010.

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

The Company has appointed Integrated Enterprises (India) Limited (consequent to merger of Alpha Systems Private Limited), a SEBI registered Registrar and Transfer Agent, as its Share Transfer Agent.

(c) Compensation Committee

i. Brief description of terms of reference of the Committee composition and attendance:

In order to provide an oversight of the functioning of the compensation and benefits plans for the employees and directors of the Company, the Board has constituted a Compensation Committee. The Compensation Committee is authorized to review the compensation policies and programs of the Company, approve the compensation matters for the Chief Executive Officer and Senior Management of the Company. The Committee comprises the following members:

Present Members

Dr. Friedrich Froeschl (from 25 August 2010)	-	Chairman
Mr. Davinder Singh Brar	-	Member
Mr. Gerard Brossard (from 25 August 2010)	-	Member

Past Members

Mr. Andreas W Mattes (up to 15 July 2010)	-	Chairman
Dr. Jose de la Torre (up to 15 July 2010)	-	Member

The Committee meets based on the business to be transacted.

ii. Remuneration Policy

The remuneration policy of the Company is aligned towards rewarding performance and is in consonance with Industry benchmarks. The objective of the Policy is to attract and retain excellent talent while delivering optimal value to the business.

The Company pays commission to its Independent Non-Executive Directors as approved by the Board within the limits approved by the shareholders of the Company. The amount of such commission, taken together for all Independent Non-Executive Directors, does not exceed 1% of the net profits of the Company in any financial year. In addition to this, the approval of the members is obtained for the amount of remuneration, by way of commission, paid to the Independent Non Executive Directors.

In order to reflect best practice principles of Corporate Governance and to align towards a transparent remuneration policy, the Board had in its meeting held on 22 November 2010, approved a remuneration policy for the directors including the following structure of remuneration to the Independent Non Executive Directors of the Company with a fixed and variable component together with the determinants thereof effective 1 November 2010. The said structure is subject to the approval of the shareholders at the ensuing Annual General Meeting.

Particulars		Proposed Max Remuneration (₹ Lacs)
Fixed Remuneration	Flat Fee p.a.	28.00
Variable Remuneration determined based on the following:		
– Board Chairmanship	Flat Fee p.a.	7.00
– Board Meeting Attendance	Per Meeting	0.75
– AGM Attendance	Per Meeting	0.50
– Audit Chairmanship	Flat Fee p.a.	2.50
– Audit Membership	Per Meeting	0.25
– Compensation Committee Chairmanship	Flat Fee p.a.	0.75
– Compensation Committee Membership Attendance	Per Meeting	0.15
– Strategy Committee Chairmanship	Flat Fee p.a.	0.75
– Strategy Committee Membership Attendance	Per Meeting	0.15

Note : The portions of the remuneration denominated as "Per Meeting" are applicable in respect of the meetings actually held and participated in person by the Independent Directors.

None of the directors are paid any sitting fees for attending the meetings of the Board and Committees on which they are members. The Non Executive Directors other than the Independent Directors do not receive any remuneration from the Company. There was no pecuniary relationship or transaction with any director other than that reported above.

Corporate Governance

iii. Details of Remuneration to the Directors for the financial year 2009 - 2010

(₹ 000's)

Name of Director	Salary	Bonus	Benefits / Perquisite	Commission	PF & other Funds	Total
Mr. Balu Ganesh Ayyar[1]	26,979	30,891	5,536	-	979	64,385
Dr. Friedrich Froeschl[2]	-	-		2,635		2,635
Mr. Nawshir H Mirza[2]	-	-	-	2,400	-	2,400
Mr. Davinder Singh Brar[2]	-	-	-	2,400	-	2,400
Dr. Jose de la Torre[2] (upto 15 July 2010)	-	-	-	1,638	-	1,638
Ms. Vinita Bali[2] (upto 15 July 2010)	-	-	-	1,417	-	1,417
	26,979	**30,891**	**5,536**	**10,490**	**979**	**74,875**

[1] *Mr. Balu Ganesh Ayyar's contract as CEO is valid for 3 years commencing from 29 January 2009.*

[2] *Commission paid/payable to Non-Executive Directors is in terms of the approval of the shareholders accorded at the general meeting held on 14 September 2007.*

Mr. Balu Ganesh Ayyar, Chief Executive Officer, has been granted Restricted Stock Units of the parent company, Hewlett Packard. None of the other directors were granted any stock options of MphasiS Limited during the financial year 2009 - 2010.

iv. Details of shares held by the directors

As on 31 October 2010, Mr. Davinder Singh Brar held 918 shares of the Company. None of the other Directors holds shares of the Company.

(d) ESOP Committee

As required under the provisions of the SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, the Board of Directors of the Company has constituted an ESOP Committee. The primary function of the committee is to administer Stock Options plans of the Company including the grants made thereunder. The Committee comprises the following members:

Mr. Balu Ganesh Ayyar	-	Chairman
Mr. Davinder Singh Brar	-	Member
Mr. Nawshir Mirza	-	Member

There has been no grant of stock options to employees during the year.

During the financial year 2009 - 2010, the ESOP Committee has, on a weekly basis, vide resolutions passed, approved an exercise of 350,692 equity shares of Rs.10 each. The said shares have been duly credited to the employees and listed with the Stock Exchanges.

(e) Investor Grievance Committee

The Company attaches highest importance to the Investor relations and redressal of grievances on a timely manner. The Board of Directors of the Company have constituted an Investor Grievance Committee to focus on the prompt and effective redressal of the shareholders grievances and strengthening of the investor relations. The details of the correspondence with the shareholders including the details of the Investor Grievances, if any, are placed before the committee members on a monthly basis and are noted. During the year the Company has not received any complaints. The Committee comprises the following members:

Mr. Davinder Singh Brar	-	Chairman
Mr. Balu Ganesh Ayyar	-	Member

Mr. A Sivaram Nair, Company Secretary, General Counsel and Head - Global Ethics and Compliance, is the Compliance Officer of the Company.

(f) Treasury and Operations Committee

Considering the desired focus on the treasury and business operations, the Board has constituted a "Treasury and Operations Committee". The powers and functions of the Committee include, Liquidity Management and Banking Operations, Forex Risk Management, Investment Portfolio/Interest Rate Risk Management, approval for capital expenditure/hardware resale beyond certain limits and settlement of legal cases beyond certain limits. The present composition of this Committee is as follows:

Mr. Davinder Singh Brar	-	Chairman
Mr. Gerard Brossard	-	Member

During the financial year 2009 - 2010, the Committee passed resolutions on 18 November 2009, 13 January 2010, 26 February 2010, 17 May 2010, 21 May 2010, 3 September 2010 and 16 September 2010.

(g) Strategy Committee

Considering the need to focus on the strategic fronts, the Board has constituted a Strategy Committee. The primary function of the Committee is to provide an oversight of the Company's strategic planning process, review and advise on strategic proposals, evaluate the potentials for the growth opportunities of the Company etc. and make appropriate recommendations to the Board. The present composition of this Committee is as follows:

Dr. Friedrich Froeschl	-	Chairman
Mr. Prakash Jothee	-	Member
Mr. Balu Doraisamy	-	Member
Mr. Francesco Serafini	-	Member

Dr. Jose de la Torre was a member of the Committee till the date of his resignation from the Board.

During the year, the Strategy Committee met twice i.e. on 23 February 2010 and 25 May 2010 at which meeting Dr. Friedrich Froeschl, Dr. Jose de la Torre and Mr. Prakash Jothee were present.

Corporate Governance

IV. MEETINGS OF THE SHAREHOLDERS

(a) Location and time of last three AGM

The following is the summary of the Annual General Meetings (AGM) of the Company held during the last three years:

AGM	Date & Time	Venue
Sixteenth Annual General Meeting	25 July 2008 10.00 A M	Taj Residency, 41/3, M G Road, Bangalore – 560 001
Seventeenth Annual General Meeting	28 January 2009 10.00 A M	Taj Gateway Hotel, No. 66, Residency Road, Bangalore – 560 025
Eighteenth Annual General Meeting	24 February 2010 10.00 A M	Taj Residency, 41/3, M G Road, Bangalore – 560 001

(b) Special Resolutions transacted at the Annual General Meetings held in the last three years with Voting Pattern

There were no special resolutions at the last three Annual General Meetings, except the following:

(i) Special resolution, in relation to payment of remuneration by way of commission to Ms. Vinita Bali, passed unanimously at the Seventeenth Annual General Meeting, held on 28 January 2009.

(ii) Special resolution, in relation to payment of remuneration by way of commission to Dr.Friedrich Froeschl, passed unanimously at the Eighteenth Annual General Meeting, held on 24 February 2010.

(c) Resolutions passed through Postal Ballot:

The following Special Resolutions were passed through Postal Ballot on 18 August 2010:

i. Amendments to the Articles of Association of the Company by insertion of Article 54A relating to Buy-Back of Shares. The resolution was declared as passed with a majority of 99.99% of shares voted under the postal ballot being in favour.

ii. Grant of Restricted Stock Units under the new Restricted Stock Unit Plan – “RSU-2010” to the eligible employees of the Company. The resolution was declared as passed with a majority of 98.63% of shares voted under the postal ballot being in favour.

iii. Grant of Restricted Stock Units under the new Restricted Stock Unit Plan – “RSU-2010” to eligible employees of the subsidiary companies. The resolution was declared as passed with a majority of 98.63% of shares voted under the postal ballot being in favour.

The above postal ballot was scrutinized by Ms. Aarthi G Krishna (CP No.5645), a practising Company Secretary at Bangalore, as required under the provisions of Section 192A of the Companies Act, 1956.

There are no further special resolutions proposed to be passed through postal ballot.

V. DISCLOSURES

There are no materially significant related party transactions which have potential conflict with the interests of the Company at large. Related party transactions i.e. material transactions between the Company and its promoters, directors, the management, their relatives, etc. are reported in Note 28 to the financial statements of the Company.

No penalty has been imposed on the Company on any matter relating to Capital Markets by the Stock Exchanges or Securities & Exchange Board of India or any other statutory authority from the date of inception of the Company.

At MphasiS we have a free and fair channel of communication for concerns about integrity. The objective of the Whistleblower Policy is to provide anyone observing an illegal or unethical practice within the organization, secure means to raise that concern, without fear of retaliation. All employees of the MphasiS Group and people associated with the Company viz., customers, vendors etc. can raise such concerns through written complaints deposited in drop-boxes at any of our offices, through emails or through the whistleblower hotline numbers.

The Company has complied with all mandatory requirements of the revised Clause 49 of the Listing Agreement. As regards the non-mandatory requirements, the Company has constituted a Remuneration (Compensation) Committee and established the Whistleblower Policy.

The Company focuses on reflecting the spirit of Corporate Governance in its activities and to that extent recognizes the substance of the Voluntary Corporate Governance Guidelines recommended by the Ministry of Corporate Affairs. As at the date of the report the Company has complied with recommendations of the Ministry of Corporate Affairs, in the areas of Remuneration to the Directors, Whistle Blowers, Internal Controls etc. The basic principles of the guidelines are espoused with the practices of the Company.

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 and also to various news agencies pan India. Further, the quarterly and annual 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 Business Standard and Vijaya Karnataka-Kannada. The quarterly and annual results are hosted on the Company's website www.mphasis.com. The website also contains a copy of presentations on the financial results of the Company. The Company's website has in it a separate page for investors relations, wherein the quarterly financial results, shareholding patterns, share price information, are hosted for the knowledge of the Investors.

In addition to the above, the Company participates in the earnings call with various Investors, Analysts and Broking Houses. The transcripts of the earnings call are hosted on the website of the Company for information of the other Investors, as required under the provisions of the Listing Agreement.

Press briefings are held after important occasions viz., announcement of quarterly results, acquisition of new entity etc. The press releases issued from time to time are informed to the respective Stock Exchanges where the equity shares of the Company are listed and the same is also hosted on the Company's website for the information of the investors.

SEBI vide its Circular No. CIR/CFD/DCR/3/2010 dated April 16, 2010, has discontinued the Electronic Data Information Filing and Retrieval (EDIFAR) System effective 1 April 2010. Hence, the mandated disclosures under Clause 51 of the Listing Agreement are no longer made under the EDIFAR System. The Annual Reports of the Company, effective the Annual Report 2010 of the Company would be available for the information of the Investors, at the website of the Stock Exchanges, in accordance with the provisions of Circular No. CIR\CFD\DCR\5\2010 dated May 7, 2010.

Corporate Governance

SEBI had vide Circular No. SEBI/CFD/DIL/LA/4/2007/27/12 dated December 27, 2007, has amended the listing agreement by introducing Clause 52, which provides for filing of documents through Corporate Filing and Dissemination System (CFDS) which has been put in place jointly by the Bombay Stock Exchange Limited and the National Stock Exchange of India limited. CFDS is expected to offer a XBRL enabled common platform for listed companies to file their returns with stock exchanges and also a common place for investors to view information related to listed companies. In terms of the circular, initially the Clause 52 of the Listing Agreement is applicable to the Companies whose names are specified by the participating Stock Exchanges. The Company would file the information through the CFDS once specified by the Stock Exchanges. Accordingly, the investors are also requested to view the information at www.corpfiling.co.in.

VIII. GENERAL SHAREHOLDERS INFORMATION

(a) Details of the AGM

i. Date and Time: Thursday, 24 February 2011 at 10.00 a.m.
ii. Venue: Taj Gateway Hotel, No.66, Residency Road, Bangalore - 560 025.
iii. Procedure at the AGM

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 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 Re. 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 authorized officer or attorney and the appropriate power of attorney or other authority must be lodged along with the proxy form.

The proxy 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 Tuesday, 22 February 2011.

Attendance Slips

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

PROCEEDINGS AT 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, i.e. one vote for each share held by the member.
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 representatives named in such resolution is present at the general meeting at which the vote by proxy is tendered.

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

(b) Financial year

The financial year of the Company is from November to October of every year.

Corporate Governance

(c) Financial Calendar

Results Announced	:	22 November 2010
Book Closure Dates	:	14 February 2011 to 24 February 2011 (both days inclusive)
Posting of Annual Reports	:	1 February 2011
Annual General Meeting	:	24 February 2011
Dividend Payment Date	:	Within 30 days from the date of the AGM

(d) Listing

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

Exchange	Address	Scrip Code
Bombay Stock Exchange Limited	Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001. Telephone: 022-22721233/34, Fax No.: 022-22721062	526299
National Stock Exchange of India Limited	Exchange Plaza, Plot No. C/1, G Block, Bandra- Kurla Complex, Bandra (E) Mumbai - 400 051 Telephone: 022-26598100 - 8114 Fax Nos. 022-26598237 - 38	MPHASIS

The Company has paid the listing fee for the year ending 31 March 2011.

(e) Dematerialization of Equity Shares

The Equity Shares of the company are admitted in the following depositories of the country under the International Securities Identification Number (ISIN) INE356A01018. This number is required to be quoted in each transaction relating to the dematerialized equity shares of the Company.

Name of the Depository	Address
National Securities Depository Limited	Trade World, A Wing, 4th & 5th Floors, Kamala Mills Compound, Senapathi Bapat Marg Lower Parel, Mumbai - 400 013
Central Depository Services (India) Limited	Phiroze Jeejeebhoy Towers, 16th Floor, Dalal Street, Mumbai - 400 001

The Company has paid the custodial charges to the respective depository participant for the year ending 31 March 2011.

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. Considering the benefits embedded in holding the shares in electronic form, it is recommended that the shares be held in the dematerialized form. As on 31 October 2010, 99.13% shareholders held 99.89% of shares in demat form.

(f) Corporate Identity Number

The Corporate identity Number (CIN), allotted by the Ministry of Corporate Affairs, Government of India, is L30007KA1992PLC025294 and the Company's Registration Number is 25294.

The Company's Master Data information and details of the compliance filings by the Company with the Ministry of Corporate Affairs, Government of India, may be viewed by the members and other stakeholders at www.mca.gov.in (MCA21eServices) using the above mentioned CIN.

(g) Permanent Account Number

The Securities Exchange Board of India (SEBI) vide its earlier circulars have made the Permanent Account Number (PAN) as the sole identification number for all participants transacting in the securities market, irrespective of the amount of the transaction. Further to this, SEBI had vide its circular No.MRD\Dop\Cir-05\2009 dated May 20, 2009, directed that for securities market transactions and off market transactions involving transfer of shares in physical form of listed companies, it shall be mandatory for the transferee(s) to furnish a copy of the PAN card to the Company/RTA, as the case may be, for registration of transfer of shares. In continuation to this circular, SEBI had Vide its Circular No.SEBI/MRD/Dop/SE/RTA/Cir-03/2010 dated January 7, 2010, had clarified that it shall be mandatory to furnish a copy of PAN in the following cases –

1. Deletion of name of the deceased shareholder(s), where the shares are held in the name of two or more shareholders.
2. Transmission of shares to the legal heir(s), where deceased shareholder was the sole holder of shares.
3. Transposition of shares – when there is a change in the order of names in which physical shares are held jointly in the names of two or more shareholders.

In case of mismatch in PAN card details as well as difference in maiden name and current name (in case of married women) of the investors, the PAN card as submitted by the transferee(s) can be provided by furnishing sufficient evidence in support of the identity of the transferees like passport, Voter Card ID, Driving License, Photo Identity cards issued by Statutory Bodies, Banks, Public Sector Undertakings etc.

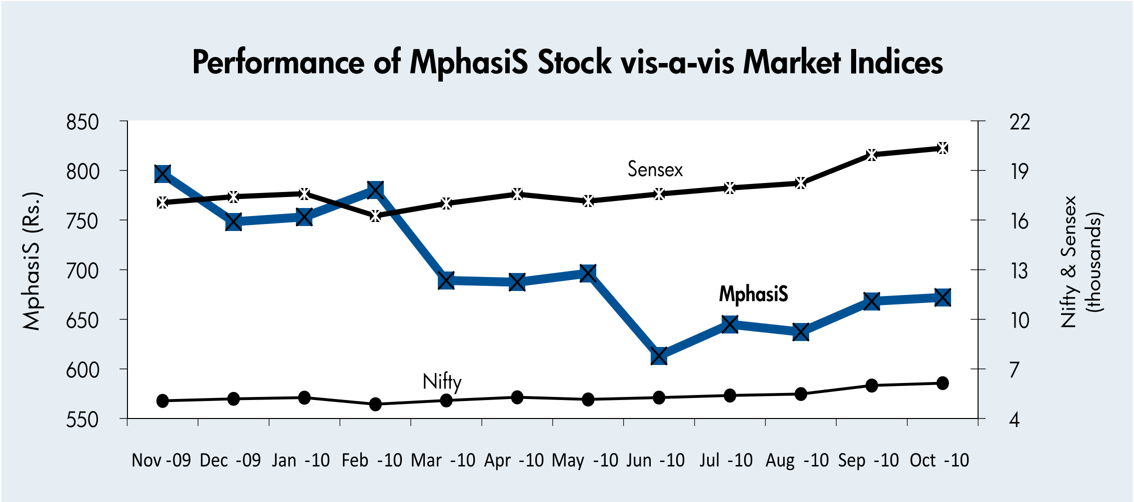
(h) Market Quotation

The month wise high and low prices and the volume of shares of the Company traded for the period 01 November 2009 to 31 October 2010 on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are given below:

Month	NSE			BSE		
	High (₹)	Low (₹)	Volume for the month	High (₹)	Low (₹)	Volume for the month
November - 09	796.50	644.50	21,137,100	796.00	644.15	4,594,472
December - 09	748.20	662.05	16,325,972	741.80	662.05	3,858,194
January - 10	753.00	634.00	13,212,479	749.00	633.35	2,459,018
February - 10	780.00	655.50	14,356,050	752.40	655.00	3,536,920
March - 10	689.00	610.00	14,590,403	688.90	610.00	3,399,302
April - 10	687.20	615.00	12,153,769	687.80	611.00	2,251,336
May - 10	696.30	560.00	12,794,610	696.40	560.25	1,792,436
June - 10	613.00	543.20	11,652,541	613.35	545.00	2,724,523
July - 10	644.80	554.20	8,653,653	643.00	555.05	1,378,906
August - 10	637.20	567.25	12,236,547	636.65	569.00	3,493,315
September - 10	667.95	615.60	8,582,596	669.00	615.10	1,175,547
October - 10	672.00	601.15	6,349,739	678.70	605.00	1,086,642

Corporate Governance

Based on the closing quotation of Rs.610.40 per shares as at 29 October 2010 at the National Stock Exchange, the market capitalization of the Company is Rs.12,814 crores.



(i) Members' Profile

The shareholding pattern of the members of the Company as on 31 October 2010 is as follows:

Category	No. of Shareholders	No. of shares in demat	Total No. of Shares	% to total capital
Promoter	3	127,106,266	127,106,266	60.55
Foreign Institutional Investors	101	38,133,621	38,137,521	18.17
Bodies Corporate	1,272	17,587,555	17,592,656	8.39
Resident Indians	33,243	8,527,152	8,737,884	4.16
Mutual Funds	53	8,657,562	8,659,162	4.12
Financial Institutions & Banks	15	7,477,628	7,477,628	3.56
Non Resident Indians	877	2,211,878	2,212,678	1.05
Director	1	918	918	0.00
TOTAL	**35,565**	**209,702,580**	**209,924,713**	**100.00**

Distribution of Shareholding as on 31 October 2010

Range	Shareholders		Shares	
No. of Shares	Number	% to total	Number	% to total
1 - 100	26,879	75.58	951,995	0.45
101 - 500	5,852	16.45	1,440,175	0.69
501 - 1000	1,314	3.69	1,022,125	0.49
1001 - 5000	1,051	2.97	2,384,970	1.14
5001 - 10000	179	0.50	1,309,614	0.62
10001 - 100000	203	0.57	6,468,590	3.08
100001 & above	87	0.24	196,347,244	93.53
TOTAL	**35,565**	**100.00**	**209,924,713**	**100.00**

(j) Address for Communication

Company Contact

Mr. A. Sivaram Nair
Company Secretary,
General Counsel and Head - Global Ethics and Compliance,
MphasiS Limited,
Bagmane Technology Park,
Byrasandra, C V Raman Nagar,
Bangalore – 560093
Phone: +91 (080) 4004 1045
Fax: +91 (080) 4004 4003

RTA Contact

Integrated Enterprises (India) Limited
(Consequent to merger of
Alpha Systems Private Limited)
Unit: MphasiS Limited,
30, Ramana Residency,
4th Cross, Sampige Road,
Malleswaram, Bangalore - 560 003
Phone: +91 (080) 2346 0815-818
Fax: +91 (080) 2346 0819

Auditor's Certificate on Corporate Governance

To
The Members of MphasiS Limited

We have examined the compliance of conditions of corporate governance by MphasiS Limited ("the Company"), for the year ended on 31 October 2010, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

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

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has 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 **S. R. BATLIBOI & Co.**
Firm registration number : 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Place : Bangalore
Date : 20 January 2011

Auditor's Report

To the Members of MphasiS Limited

1. We have audited the attached balance sheet of MphasiS Limited ('the Company') as at 31 October 2010 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. As required by the Companies (Auditor's Report) Order, 2003 (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.

4. Without qualifying our opinion, we draw attention to Note 2(c) to the financial statements. In accordance with the order of the Hon'ble High Court of Karnataka and Hon'ble High Court of Judicature at Madras, the goodwill of Rs 173,468,380 accounted at the time of acquisition of MphasiS FinSolusitions Private Limited and deficit of Rs 4,298,664 in net assets acquired by the Company as of appointed date of 1 November 2009 has been reduced from the securities premium account of the Company and expenses of Rs 622,311 incurred by the Company in connection with the amalgamation scheme have been adjusted against the general reserves of the Company which is different from the requirements of Accounting Standard 14 for "Accounting for Amalgamations" and Generally Accepted Accounting Principles as discussed in the said note.

5. Further to our comments in the annexure referred to above, we report that:
   i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
   ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
   iii. The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
   iv. In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
   v. On the basis of the written representations received from the directors, as on 31 October 2010, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 October 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
   vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
      a) in the case of the balance sheet, of the state of affairs of the Company as at 31 October 2010;
      b) in the case of the profit and loss account, of the profit for the year ended on that date; and
      c) in the case of cash flow statement, of the cash flows for the year ended on that date.

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No.: 56102

Place : Bangalore
Date : 22 November 2010

Annexure referred to in paragraph 3 of our report of even date
Re: MphasiS Limited ('the Company')

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) The Company has a regular programme of physical verification of fixed assets which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, certain fixed assets were physically verified by the management during the year and we are informed that no material discrepancies were noticed on such verification.

(c) There was no substantial disposal of fixed assets during the year.

(ii) The Company is a service company, primarily rendering information technology solutions and related services. Accordingly, it does not hold any physical inventories. Thus, paragraph 4(ii) of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the Company.

(iii) As informed, 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.

(iv) In our opinion and according to the information and explanations given to us the activities of the Company do not involve purchase of inventories and the sale of goods. 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, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal control system of the company.

(v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 have been so entered.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the prevailing market prices at the relevant time.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for services rendered by the Company.

(ix) (a) Undisputed statutory dues including investor education and protection fund, employees' state insurance, income-tax, sales-tax, labour welfare fund, provident fund, wealth-tax, customs duty, excise duty, professional tax, central sales tax, cess have generally been regularly deposited with the appropriate authorities *though there have been delays in remittance of service tax and Value Added Tax in few cases.*

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 of India.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

(c) According to the records of the Company, there are no dues of income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute except the following:

Name of the statute	Nature of dues	Disputed Amount (Rs)	Amount Paid under protest (Rs)	Period to which the amount relates (financial year)	Forum where dispute is pending
Income Tax Act, 1961	Adjustment for transfer pricing and other disallowances	245,934,507	Nil	2005-06	In the process of filing appeal before Income Tax Appellate Tribunal
		452,240,663	53,500,000	2004-05	Commissioner of Income Tax (Appeals)
		120,900,000	Nil	2003-04	Income Tax Appellate Tribunal
Income Tax Act, 1961	Disallowances under section 10A	18,194,392	10,000,000	2001-02	Commissioner of Income Tax (Appeals)
		6,843,257	Nil	2002-03	
		13,377,287	6,500,000	2005-06	
Customs Act, 1962	Debonding charges	5,990,000	Nil	2002-03	Commissioner of Customs (Appeals)
Karnataka Sales Tax Act, 1957	Sales tax	3,934,982	3,934,982	2004-05	Sales Tax Appellate Tribunal, Karnataka
		1,196,559	1,196,559	2003-04	
Finance Act, 1994	Service tax	21,926,611	Nil	2005 -2007	CESTAT, Karnataka

(x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

(xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders. As at the year end, the Company did not have any outstanding dues to any financial institutions and debenture holders.

(xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

(xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money through a public issue during the year.

(xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No.: 56102

Place : Bangalore
Date : 22 November 2010

Balance Sheet

(₹ 000's)

	Notes	31 October 2010	31 October 2009
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	3	2,099,318	2,095,779
Reserves and surplus	4	26,980,898	18,145,031
Employee stock options outstanding	5	5,400	6,994
		29,085,616	**20,247,804**
LOAN FUNDS			
Secured loans	6	8,642	29,751
Unsecured loans	7	-	1,235,300
		29,094,258	**21,512,855**
APPLICATION OF FUNDS			
FIXED ASSETS	8		
Cost		6,162,081	5,824,165
Accumulated depreciation and amortisation		(4,728,684)	(3,980,976)
Net book value		1,433,397	1,843,189
Capital work-in-progress including capital advances		67,456	82,485
		1,500,853	**1,925,674**
INVESTMENTS	9	16,897,632	12,533,516
DEFERRED TAX ASSETS	10	622,134	562,258
CURRENT ASSETS, LOANS AND ADVANCES			
Debtors and unbilled revenues	11	9,236,365	7,525,988
Cash and bank balances	12	546,146	970,118
Inter corporate deposits	13	178,904	142,800
Interest receivable	14	1,515	4,780
Loans and advances	15	8,668,985	8,662,202
		18,631,915	**17,305,888**
CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	16	5,688,644	8,687,545
Provisions	17	2,869,632	2,126,936
		8,558,276	**10,814,481**
NET CURRENT ASSETS		**10,073,639**	**6,491,407**
		29,094,258	**21,512,855**

Significant Accounting Policies 1

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

This is the balance sheet
referred to in our report attached

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Bangalore
22 November 2010

For and on behalf of the Board of Directors

Balu Ganesh Ayyar
Chief Executive Officer

Nawshir H Mirza
Director

Ganesh Murthy
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
22 November 2010

Profit and Loss Account

(₹ 000's)

	Notes	Year ended 31 October 2010	Year ended 31 October 2009
Revenue		37,700,850	34,050,217
Cost of revenues	**18**	25,194,942	22,694,252
Gross profit		**12,505,908**	**11,355,965**
Selling expenses	**19**	1,435,699	1,202,502
General and administrative expenses	**20**	1,249,599	1,925,674
Provision for doubtful debts		-	22,699
Operating profit		**9,820,610**	**8,205,090**
Foreign exchange gain, net		683,604	364,018
Other income	**21**	413,675	161,337
Interest income / (expense), net	**22**	3,139	(22,373)
Profit before taxation		**10,921,028**	**8,708,072**
Income taxes			
- Current		1,522,296	1,131,640
- Deferred		(50,242)	(316,846)
- Minimum alternative tax credit entitlement		(519,808)	(496,700)
- Fringe benefit tax		-	21,257
Profit after taxation		**9,968,782**	**8,368,721**
Profit brought forward		14,026,672	7,353,087
Profit available for appropriations		**23,995,454**	**15,721,808**
Appropriations			
Transfer to general reserve		996,878	836,872
Proposed dividend		839,699	733,498
Final dividend for earlier years		446	80
Tax on dividend		139,550	124,672
Issue of bonus shares		32	14
Profit carried forward		**22,018,849**	**14,026,672**
Earnings per share (par value ₹ 10)	**37**		
Basic (₹)		47.53	40.02
Diluted (₹)		47.30	39.76

Significant Accounting Policies **1**

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

This is the profit and loss account referred to in our report attached

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Bangalore
22 November 2010

For and on behalf of the Board of Directors

Balu Ganesh Ayyar
Chief Executive Officer

Nawshir H Mirza
Director

Ganesh Murthy
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
22 November 2010

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the mandatory Accounting Standards ('AS') prescribed in the Companies (Accounting Standards) Rules, 2006 (as amended) and other pronouncements of the Institute of the Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act 1956. The accounting policies have been consistently applied by the Company except for the change as disclosed in note 25.

Use of estimates

The preparation of financial statements requires the 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 years.

Revenue recognition

The Company derives its revenues primarily from software services & projects, call centre & business process outsourcing operations, infrastructure outsourcing services and from licensing arrangements & application services.

Revenues from software services 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 contracts with clients. Revenue from fixed price contract is recognised using the percentage of completion method, calculated as the proportion of the cost of effort incurred up to the reporting date to estimated cost of total efforts.

Revenues from call centre & business process outsourcing operations arise 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 clients.

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

Revenue from licensing arrangements is recognised on transfer of the title in user licenses, except those contracts which require significant implementation services, where revenue is recognized over the implementation period in accordance with the specific terms of the contracts with clients.

Maintenance revenue is recognised rateably over the period of underlying maintenance agreements.

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 the current assets represents revenues in excess of amounts billed to clients as at the balance sheet date. 'Unearned receivables' included in the current liabilities represents billings in excess of revenues recognised.

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

Interest on the deployment of 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, impairment if any. Direct costs are capitalised until the assets are ready to be put to use. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised. Fixed assets purchased in foreign currency are recorded at cost, based on the exchange rate on the date of purchase.

Acquired intangible assets are capitalised at the acquisition price. Internally generated intangible assets are stated at cost that can be measured reliably during the development phase and capitalised 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 the 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 amortisation

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 ₹ 5,000 are depreciated in full in the year of purchase. The estimated useful lives of assets are as follows:

For assets used in other services	
	Years
Buildings	10
Plant and machinery	4
Computer equipment	2
Office equipment	3
Furniture and fixtures	4
Vehicles	3 to 5

For assets used in call center services	
	Years
Buildings	10
Plant and machinery (including telecom equipments)	5
Computer equipment	5
Office equipment	5
Furniture and fixtures	5
Vehicles	3 to 5

Freehold land is not depreciated. Leasehold improvements are amortised over the remaining lease term or 3 years (5 years for call centre services), whichever is shorter. Significant purchased application software and internally generated software that is an integral part of the Company's computer systems and 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.

Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss account on a straight-line basis over the lease term.

Notes to the Financial Statements

Profit or loss on sale and lease back arrangements resulting in operating leases are recognised immediately in case the transaction is established at fair value, else, the excess over the fair value is deferred and amortized over the period for which the asset is expected to be used.

Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that a fixed asset 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 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.

Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost or fair value determined on an individual investment basis.

Long-term investments are carried at cost. Provision for diminution in the value of investments is made if the impairment is not temporary in nature.

Employee benefits

Gratuity which is a defined benefit, is accrued based on an independent actuarial valuation, which is done based on project unit credit method as at the balance sheet date. Actuarial gains/losses are immediately taken to the profit and loss account and are not deferred.

The cost of short term compensated absences are provided for based on estimates. Long term compensated absences costs are provided for based on actuarial valuation which is done based on project unit credit method 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. The Company's liability is limited to the contribution made to the fund.

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 a year are recognised in the profit and loss account of that year.

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 an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself.

Forward contracts are entered into, to hedge the foreign currency risk of the underlying outstanding at the balance sheet date and also to hedge the foreign currency risk of firm commitment or highly probable forecast transactions.

The premium or discount on forward contracts that are entered into, to hedge the foreign currency risk of the underlying outstanding at the balance sheet date arising at the inception of each contract, is amortised as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the year.

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

The Company has adopted the principles of AS 30 "Financial Instruments: Recognition and Measurement" in respect of its derivative financial instruments (excluding embedded derivative) that are not covered by AS 11 "The Effects of Changes in Foreign Exchange Rates" and that relate to a firm commitment or a highly probable forecast transaction. In accordance with AS 30, such derivative financial instruments, which qualify for cash flow hedge accounting and where the Company has met all the conditions of AS 30, are fair valued at the balance sheet date and the resultant gain / loss is credited / debited to the hedging reserve included in the Reserves and Surplus. This gain / loss would be recorded in the profit and loss account when the underlying transactions affect earnings. Other derivative instruments that relate to a firm commitment or a highly probable forecast transaction and that do not qualify for hedge accounting, have been recorded at fair value at the reporting date and the resultant gain / loss has been credited / debited to profit and loss account for the year. Also refer note 25.

Fringe Benefit Tax

The Company provides for and discloses the Fringe Benefit Tax ('FBT') as a part of taxes in accordance with the provisions of section 115WC of the Income tax Act, 1961 and the guidance note on FBT issued by the Institute of Chartered Accountants of India. The Finance Act, 2009 has withdrawn FBT w.e.f. 1 April 2009.

Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations. Minimum Alternative Tax ('MAT') paid in accordance with the tax laws which gives rise to future economic benefits in the form of adjustments of future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal tax after the tax holiday period. MAT credit entitlement can be carried forward and utilised for a period as specified in the tax laws of the respective countries.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between taxable profits and accounting profits. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period, is recognised in the period in which the timing differences originate. For this purpose the timing difference which originates first is considered to reverse first. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates, is recognised in the period that includes the enactment date. Deferred tax assets on timing differences are recognised only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. However, deferred tax assets on the timing differences when unabsorbed depreciation and losses carried forward exist,

Notes to the Financial Statements

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.

Provisions and contingent liabilities

A provision is recognised when an enterprise has a present obligation as result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

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. Provisions are not discounted to their present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Earnings per share

The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the year by the weighted average number of equity shares outstanding during the year. 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 year, unless they have been issued at a later date. The diluted potential equity shares have been arrived at, assuming that the proceeds receivable were based on shares having been 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 reduce earnings per share or increase loss per share, are included.

Stock-based Compensation (Equity settled)

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').

'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

MphasiS Limited ('The Company' or 'MphasiS') is a global, multicultural organisation headquartered in Bangalore, India, specialising in providing a suite of application development and maintenance services, infrastructure outsourcing services and business process outsourcing solutions to clients around the world.

The Company is registered under the Indian Companies Act, 1956 with it's Registered Office in Bangalore. The Company is listed on the principal stock exchanges of India.

List of subsidiaries with percentage holding:

Subsidiary	Country of incorporation and other particulars	Percentage of holding (%)
MphasiS Corporation ('MphasiS USA') (refer note 2(e))	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') (refer note 2(b))	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
MphasiS Consulting Limited ('MphasiS Consulting')	a company organised under the laws of The United Kingdom	100
MphasiS FinsourcE Limited (MphasiS FinsourcE)	a company organised under the laws of India	100
MphasiS Ireland Limited ('MphasiS Ireland')	a company organised under the laws of Ireland	100
MphasiS Belgium BVBA ('MphasiS Belgium')	a company organised under the laws of Belgium	100
MphasiS Lanka Private Limited (refer note 2(d))	a company organized under the laws of Sri Lanka	100
MphasiS Poland s.p.z.o.o (refer note 2(f))	a company organized under the laws of Poland	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 The United Kingdom	100
MphasiS Software and Services (India) Private Limited ('MphasiS India')	a subsidiary of MphasiS Europe, organised under the laws of India	100
MsourcE Mauritius Inc., ('MsourcE Mauritius')	a subsidiary of MphasiS Europe, organised under the laws of Mauritius	100
MsourcE (India) Private Limited ('MsourcE India')	a subsidiary of MsourcE Mauritius, organised under the laws of India	100
MphasiS Infrastructure Services Inc.	A subsidiary of MphasiS Corporation organised under the laws of Delaware, USA	100
Wide Area Management Services Inc.	a subsidiary of MphasiS Infrastructure Services Inc. organised under the laws of California, USA	100
MsourcE India BPO Private Limited	a subsidiary of MsourcE (India) Private Limited, organised under the laws of India	100

All the above subsidiaries are under the same management.

Notes to the Financial Statements

a) The Company acquired control of Kshema Technologies Limited ("Kshema") on 1 June 2004. Kshema has been amalgamated with MphasiS Limited with effect from 1 April 2005.

The balance consideration payable to the erstwhile shareholders amounting to ₹ 17,060,055 (31 October 2009: ₹ 17,060,055) is carried as a liability which will be paid after necessary regulatory approvals are obtained (refer note 16).

b) During the year ended 31 October 2010, the Company has filed an application with Accounting and Corporate Regulatory Authority (ACRA), Singapore for closure of BFL Software Asia Pacific Pte Ltd, a wholly owned subsidiary of the Company. The final approval from ACRA is pending as at 31 October 2010.

c) The Company filed a scheme of merger of MphasiS FinSolutions Private Limited ('MphasiS FinSolutions'), a wholly owned subsidiary acquired by MphasiS Limited effective 1 October 2009, with itself, on 28 January 2010 and 15 February 2010 with the Hon'ble High Court of Karnataka and the Hon'ble High Court of Judicature at Madras respectively. MphasiS FinSolutions is engaged in providing software development and related services.

The Hon'ble High Court of Karnataka and the Hon'ble High Court of Judicature at Madras have passed orders approving the petition of merger on 5 July 2010 and 17 September 2010 respectively, approving the merger effective from 1 November 2009. Subsequently the Company has filed the Court orders with the RoC of Karnataka and Chennai on 11 August 2010 and 8 October 2010 respectively. Accordingly, the Company has given effect to the merger in these financial statements with effect from 1 November 2009.

Pursuant to the terms of the approved merger scheme, the amalgamation has been accounted for under the pooling of interest method as prescribed by Accounting Standard 14 for "Accounting for Amalgamations", accordingly, all the assets and liabilities recorded in the books of MphasiS FinSolutions as at 31 October 2009 have been recorded by the Company at their respective book values as follows:

	(₹ 000's)
Fixed Assets (net)	34,828
Deferred Tax Assets	9,634
Current Assets	411,664
Current Liabilities	(234,045)
Hedge Reserve	4,102

Further, pursuant to the terms of the approved merger scheme:

(a) The amount of investments in MphasiS FinSolutions have been credited in full and Goodwill of ₹ 173,468,380 accounted at the time of acquisition of MphasiS FinSolutions by the Company has been reduced from the securities premium account of the Company.
(b) Deficit of ₹ 4,298,663 in net assets acquired by the Company as of appointed date of 1 November 2009 has been adjusted against the securities premium account of the Company.
(c) Expenses of ₹ 622,311 incurred by the Company in connection with the amalgamation scheme have been adjusted against the General Reserves of the Company.

The above treatment is different from the requirements of Accounting Standard 14 for "Accounting for Amalgamations" ('AS-14') and Generally Accepted Accounting Principles ('GAAP'). In accordance with the requirements of AS-14 and GAAP, the carrying value of securities premium should have been higher by ₹ 177,767,044, profit and loss before tax would have been lower by ₹ 178,389,355 and general reserves should have been higher by ₹ 622,311.

d) As part of its overall strategy, the Company decided to set up an offshore development centre in Sri Lanka. In pursuance of this objective, MphasiS Lanka (Private) Limited was incorporated as a wholly owned subsidiary of MphasiS Limited on 12 February 2010.

e) Eldorado Computing Inc., a subsidiary of the Company was merged with its direct subsidiary MphasiS Corporation effective 1 March 2010. The merger has been accounted in the books of MphasiS Corporation, in terms of Articles of Merger approved by Arizona Corporation Commission, USA.

f) MphasiS Poland sp.z.o.o. was incorporated as a wholly owned subsidiary of the Company on 11 May 2010.

(₹ 000's)

		31 October 2010	31 October 2009
3.	**SHARE CAPITAL**		
	Authorised capital		
	245,000,000 (31 October 2009: 245,000,000) equity shares of ₹ 10 each	2,450,000	2,450,000
	Issued, subscribed and paid-up capital*		
	209,938,913 (31 October 2009: 209,585,021) equity shares of ₹ 10 each fully paid up	2,099,389	2,095,850
	[Of the above 53,590,838 (31 October 2009: 53,590,838) equity shares are allotted for consideration other than cash and 134,189,474 (31 October 2009: 134,186,274) equity shares are allotted as bonus shares from securities premium account / profit and loss account)]		
	Less: 14,200 (31 October 2009: 14,200) equity shares of ₹ 10 each forfeited	(142)	(142)
	Add: Amount originally paid up on forfeited shares	71	71
		2,099,318	**2,095,779**

* 83,002,201, 44,104,064 and 1 equity shares are held by EDS Asia Pacific Holdings, Mauritius, EDS World Corporation (Far East) and EDS World Corporation (Netherlands) respectively.

4.	**RESERVES AND SURPLUS**		
	Securities Premium Account		
	Balance brought forward	1,669,358	1,564,203
	Add : Premium on allotment of shares	41,174	73,352
	Less : Adjustment on account of merger of MphasiS Finsolutions [refer note 2(c)]	(177,767)	-
	Add : Transferred from employee stock options outstanding	1,594	31,803
	[Securities premium amounting to ₹ 1,149,406,666 (31 October 2009: ₹ 1,147,812,167) is for consideration other than cash]		
		1,534,359	1,669,358
	General Reserve		
	Balance brought forward from previous year	1,774,656	937,784
	Less : Expenses on account of merger of MphasiS Finsolutions [refer note 2(c)]	(622)	-
	Add : Transfer from profit and loss account	996,878	836,872
		2,770,912	1,774,656
	Hedge reserve		
	Balance brought forward	674,345	(312,289)
	Add/ (Less): Transaction during the year	1,157,502	792,689
	Add/ (Less): Transfer to Revenue	(1,175,069)	193,945
		656,778	674,345
	Profit and loss account balance	22,018,849	14,026,672
		26,980,898	**18,145,031**

Notes to the Financial Statements

(₹ 000's)

		31 October 2010	31 October 2009
5.	**EMPLOYEE STOCK OPTIONS OUTSTANDING**		
	Balance brought forward	6,994	60,718
	Less: Transferred to securities premium account on exercise of options	1,594	31,803
	Less: Reversal on forfeiture/ lapse of options granted	-	21,921
		5,400	**6,994**

Employee Stock Option Plans ('ESOP')

All the ESOPs are in respect of the Company's shares where each stock option is equivalent to one equity 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 years ended 31 October 2010 and 31 October 2009 for grants outstanding on and made on or after that date for each of the plans described below (Also refer note 37).

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

In accordance with the 1998 Plan, the Committee has formulated 1998 Plan – (Version I) and 1998 Plan – (Version II) during the years 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 ₹ 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 years ended 31 October 2010 and 31 October 2009 are set out below:

	For the year ended 31 October 2010		For the year ended 31 October 2009	
	No. of Options	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price
Options outstanding at the beginning	74,224	34.38	77,196	34.38
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	4,944	34.38	2,972	34.38
Options outstanding at the end	69,280	34.38	74,224	34.38
Exercisable at the end	69,280	34.38	74,224	34.38

The weighted average share price of options exercised as at the date of exercise was ₹ 689.13 (31 October 2009: ₹ 412.69). The options outstanding as at 31 October 2010 had an exercise price of ₹ 34.38 (31 October 2009: ₹ 34.38).

1998 Plan – (Version II): Commencing January 2000, the Company decided to grant all future options at the market price immediately preceding the date of grant. The equity shares covered under these options vest at various dates over a period ranging from twelve to forty-eight months from the date of grant based on the grade of the employee. However, in the 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 years ended 31 October 2010 and 31 October 2009 are set out below:

	For the year ended 31 October 2010		For the year ended 31 October 2009	
	No. of Options	**Weighted Average Exercise Price**	**No. of Options**	**Weighted Average Exercise Price**
Options outstanding at the beginning	745,124	92.01	843,128	93.93
Granted	-	-	-	-
Forfeited	-	-	400	130.43
Lapsed	-	-	-	-
Exercised	44,786	96.67	97,604	108.40
Options outstanding at the end	700,338	91.71	745,124	92.01
Exercisable at the end	700,338	91.71	745,124	92.01

The weighted average share price of options exercised as at the date of exercise was ₹ 664.54 (31 October 2009: ₹ 482.95). The options outstanding as at 31 October 2010 had an exercise price ranging from ₹ 23.21 to ₹ 275 (31 October 2009: ₹ 23.21 to ₹ 275) and weighted average remaining contractual life of 2.68 years (31 October 2009: 3.71 years).

Employees Stock Option Plan – 2000 (the 2000 Plan): Effective 25 July 2000, the Company instituted the 2000 Plan. The shareholders and ESOP Committee approved the 2000 Plan in July 2000. The 2000 Plan provides for the issue of equity shares to employees and directors of the Company and its subsidiaries.

The 2000 Plan is administered by the ESOP Committee appointed by the Board. Under the 2000 Plan, options shall 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 years ended 31 October 2010 and 31 October 2009 are set out below:

	For the year ended 31 October 2010		For the year ended 31 October 2009	
	No. of Options	**Weighted Average Exercise Price**	**No. of Options**	**Weighted Average Exercise Price**
Options outstanding at the beginning	377,254	143.02	749,151	138.41
Granted	-	-	-	-
Forfeited	1,050	173.40	23,203	124.76
Lapsed	74,266	144.78	113,486	147.34
Exercised	184,544	136.27	235,208	128.05
Options outstanding at the end	117,394	152.24	377,254	143.02
Exercisable at the end	117,394	152.24	334,972	139.50

Notes to the Financial Statements

The weighted average share price of options exercised as at the date of exercise was ₹ 649.45 (31 October 2009: ₹ 401.66). The options outstanding as at 31 October 2010 had an exercise price ranging from ₹ 119.03 to ₹ 208.45 (31 October 2009: ₹ 113.38 to ₹ 208.45) and weighted average remaining contractual life of 0.70 years (31 October 2009: 1.15 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 the ESOP Committee appointed by the Board. Options shall 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 years ended 31 October 2010 and 31 October 2009 are set out below:

	For the year ended 31 October 2010		For the year ended 31 October 2009	
	No. of Options	**Weighted Average Exercise Price**	**No. of Options**	**Weighted Average Exercise Price**
Options outstanding at the beginning	39,200	130.60	175,950	116.64
Granted	-	-	-	-
Forfeited	-	-	600	130.60
Lapsed	3,000	130.60	17,850	97.85
Exercised	23,750	130.60	118,300	114.78
Options outstanding at the end	12,450	130.60	39,200	130.60
Exercisable at the end	12,450	130.60	39,200	130.60

The weighted average share price of options exercised as at the date of exercise was ₹ 629.56 (31 October 2009: ₹ 450.22). The options outstanding as at 31 October 2010 had an exercise price of ₹ 130.60 (31 October 2009: ₹ 130.60) and weighted average remaining contractual life of 0.59 years (31 October 2009: 1.16 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 the ESOP Committee appointed by the Board 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 shall 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 years ended 31 October 2010 and 31 October 2009 are set out below:

	For the year ended 31 October 2010		For the year ended 31 October 2009	
	No. of Options	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price
Options outstanding at the beginning	167,901	129.44	460,727	125.75
Granted	-	-	-	-
Forfeited	350	184.50	15,664	133.50
Lapsed	18,109	136.84	84,989	102.09
Exercised	92,668	128.76	192,173	132.35
Options outstanding at the end	56,774	127.87	167,901	129.44
Exercisable at the end	56,774	127.87	159,809	126.66

The weighted average share price of options exercised as at the date of exercise was ₹ 647.19 (31 October 2009: ₹ 394.04). The options outstanding as at 31 October 2010 had an exercise price ranging from ₹ 50.34 to ₹ 184.50 (31 October 2009: ₹ 50.34 to ₹ 184.50) and weighted average remaining contractual life of 2.58 years (31 October 2009: 2.67 years).

Restricted Stock Units

EDS the holding company, had issued Restricted Stock Units ('RSU') to certain employees of the Company. These have been replaced by RSUs of HP, pursuant to the merger. Subsequent to the merger, HP had also issued RSUs to certain employees of the Company. The total cost incurred towards RSUs for the year ended 31 October 2010 and 31 October 2009 amounted to ₹ 41,904,396 and ₹ 87,116,118 respectively. However, the cost has been borne by HP and accordingly this has not been accounted as an expense by the Company.

Restricted Stock Unit Plan-2010 ("RSU Plan-2010")

Effective 1 August 2010, the Company instituted the Restricted Stock Unit Plan-2010. The Board and the shareholders of the Company approved RSU Plan-2010 on 29 June 2010 and 17 August 2010 respectively. The RSU Plan-2010 provides for the issue of restricted options to employees and directors of the Company and its subsidiaries. This plan is administered by MphasiS Employees Benefit Trust which is created for this purpose.

As at 31 October 2010, there were no grants made under this plan. The Company has advanced an amount of ₹ 20,871,472 to the MphasiS Employees Benefit Trust during the year ended 31 October 2010.

(₹ 000's)

		31 October 2010	31 October 2009
6.	**SECURED LOANS**		
	Vehicle loans	8,642	29,751
	(Secured by the hypothecation of vehicles)		
		8,642	**29,751**

Due within one year ₹ 6,754,016 (31 October 2009: ₹ 18,381,116)

7.	**UNSECURED LOANS ***		
	MphasiS India	-	253,300
	MsourcE India	-	982,000
		-	**1,235,300**

Due within one year ₹ Nil (31 October 2009: ₹ 1,235,300,000)

* refer note 28

8. FIXED ASSETS

(₹ 000's)

Assets	Cost					Accumulated depreciation and amortisation					Net book value	
	1 November 2009	Adjustments on merger of MphasiS Finsolutions*	Additions	Deductions	31 October 2010	1 November 2009	Adjustments on merger of MphasiS Finsolutions*	Charge for the year	Deductions	31 October 2010	31 October 2010	31 October 2009
Tangible assets												
Freehold land	27,375	-	-	-	27,375	-	-	-	-	-	27,375	27,375
Buildings	1,230	-	-	-	1,230	1,056	-	123	-	1,179	51	174
Leasehold improvements	1,381,548	2,324	113,293	236,138	1,261,027	941,952	2,319	273,440	234,968	982,743	278,284	439,596
Plant and machinery	884,668	-	108,882	68,846	924,704	393,107	-	205,158	65,692	532,573	392,131	491,561
Computer equipment	1,442,189	71,607	207,405	53,029	1,668,172	1,156,284	60,100	271,081	50,742	1,436,723	231,449	285,905
Office equipment	752,178	35,292	114,750	27,813	874,407	584,092	25,154	140,584	27,599	722,231	152,176	168,086
Furniture and fixtures	891,580	2,235	48,558	52,660	889,713	569,897	1,678	169,271	52,565	688,281	201,432	321,683
Vehicles	83,803	816	40,008	35,720	88,907	43,971	816	23,060	30,918	36,929	51,978	39,832
Intangible assets												
Software	329,584	52,949	92,667	78,664	396,536	260,607	40,328	75,156	78,076	298,015	98,521	68,977
	5,794,155	165,223	725,563	552,870	6,132,071	3,950,966	130,395	1,157,873	540,560	4,698,674	1,433,397	1,843,189
Purchased Goodwill	**30,010**	**-**	**-**	**-**	**30,010**	**30,010**	**-**	**-**	**-**	**30,010**	**-**	**-**
Total	**5,824,165**	**165,223**	**725,563**	**552,870**	**6,162,081**	**3,980,976**	**130,395**	**1,157,873**	**540,560**	**4,728,684**	**1,433,397**	**1,843,189**
Year ended 31 October 2009	5,392,358	-	1,325,738	893,931	5,824,165	3,432,640	-	1,370,329	821,993	3,980,976	1,843,189	

* Refer note[2(c)]

(₹ 000's)

		31 October 2010	31 October 2009
9.	**INVESTMENTS**		
	Long Term - Unquoted (trade), at cost		
	In subsidiaries		
	MphasiS USA*	3,724,563	2,992,526
	3,187 (31 October 2009: 3,000) shares of common stock of US $ 0.01 each fully paid-up		
	MphasiS Australia	50	49
	2,000 (31 October 2009: 2,000) shares of common stock of Australian $ 1 each fully paid-up		
	BFL APAC [Refer Note 2(b)]	5,927	5,927
	218,482 (31 October 2009: 218,482) shares of common stock of Singapore $ 1 each fully paid-up		
	MphasiS GmbH	2,524	2,524
	Nominal capital 91,000 Deutsche Mark (31 October 2009: 91,000 Deutsche Mark)		
	MphasiS China	105,345	105,345
	100% (31 October 2009: 100%) equity interest		
	MphasiS FinsourcE	500	500
	50,000 (31 October 2009: 50,000) equity shares of ₹ 10 each fully paid-up		
	MphasiS Consulting	685,652	685,652
	7,953,393 (31 October 2009: 7,953,393) ordinary shares of £ 0.002 each fully paid-up		
	Eldorado [Refer Note 2(e)]	-	732,038
	Nil (31 October 2009: 5,400,000) shares of Class B non-voting common stock and Nil (31 October 2009:600,000) shares of Class A voting common stock		
	MphasiS Ireland	591	591
	10,000 (31 October 2009: 10,000) shares of common stock of € 1 each fully paid-up		
	Mphasis Belgium	393	393
	62 (31 October 2009: 62) shares of common stock of € 100 each fully paid up		
	Mphasis Lanka (Refer note 2(d))	6,646	-
	150,000 (31 October 2009: Nil) shares of common stock of LKR 112.10 each fully paid up		
	MphasiS FinSolutions [Refer note 2 (c)]	-	403,951
	Nil (31 October 2009: 2,310,498) shares of common stock of ₹ 10 each fully paid up		
		4,532,191	4,929,496
	Less: Provisions (net write offs / adjustments)	8,451	8,451
		4,523,740	4,921,045
	Short Term - Quoted (non-trade) **		
	Current Investments (At lower of cost or market value)		
	ICICI Prudential Flexible Income Plan	-	3,687,246
	Nil (31 October 2009: 348,725,344.16 units at ₹ 10.5735)		
	ICICI Prudential Institutional Liquid Plan	-	100,175
	Nil (31 October 2009: 8,453,484.13 units at ₹ 11.8502)		

Notes to the Financial Statements

(₹ 000's)

		31 October 2010	31 October 2009
9.	**INVESTMENTS (Contd...)**		
	Birla Sunlife Cash Plus 9,044,761.62 units at ₹ 10.0195 (31 October 2009: Nil)	90,624	-
	Reliance Monthly Interval Fund-Series II Institutional 102,498,660.99 units at ₹ 10.0016 (31 October 2009: Nil)	1,025,150	-
	Reliance Monthly Interval Fund-Series I Institutional 186,860,020.49 units at ₹ 10.004 (31 October 2009: Nil)	1,869,355	-
	ICICI Prudential Blended Plan B 111,866,499.77 units at ₹ 10.3672 (31 October 2009: Nil)	1,159,744	-
	Birla Sunlife Short term opportunities fund 153,049,215.18 units at ₹ 10.0068 (31 October 2009: Nil)	1,531,530	-
	G68 Idfc Ultra Short Term Fund 50,424,376 units at ₹ 10.047 (31 October 2009: Nil)	506,613	-
	G690 Idfc Fixed Maturity Quarterly Series-59 35,000,000 units at ₹ 10.00 (31 October 2009: Nil)	350,000	-
	BSL Interval Income Fund Instl-Quarterly Series 1 30,000,000 units at ₹ 10.00 (31 October 2009: Nil)	300,000	-
	DSP BlackRock FMP - 3M Series 19 35,000,000 units at ₹ 10.00 (31 October 2009: Nil)	350,000	-
	KOTAK Quarterly Interval Plan Series 1 40,000,000 units at ₹ 10.00 (31 October 2009: Nil)	400,000	-
	G690 Idfc Fixed Maturity Quarterly Series-60 30,000,000 units at ₹ 10.00 (31 October 2009: Nil)	300,000	-
	KOTAK Quarterly Interval Plan Series 9 19,998,449.56 units at ₹ 10.0008 (31 October 2009: Nil)	200,000	-
	KOTAK Quarterly Interval Plan Series 10 30,000,000 units at ₹ 10.00 (31 October 2009: Nil)	300,000	-
	KOTAK Quarterly Interval Plan Series 5 40,000,000 units at ₹ 10.00 (31 October 2009: Nil)	400,000	-
	B938D Birla Sunlife Short Term FMP Series 1 25,000,000 units at ₹ 10.00 (31 October 2009: Nil)	250,000	-
	DSP BlackRock FMP - 3M Series 21 20,000,000 units at ₹ 10.00 (31 October 2009: Nil)	200,000	-
	Birla Sun Life Cash Manager- IP 313,993,247.02 units at ₹ 10.003 (31 October 2009: Nil)	3,140,876	-
	Birla Sunlife Saving Fund Nil (31 October 2009: 382,245,085.51 units at ₹ 10.0068)	-	3,825,050
		12,373,892	7,612,471
		16,897,632	**12,533,516**

* The movement is on account of merger of Eldoardo with MphasiS USA [refer note 2(e)]

** The market value of the current investments as at 31 October 2010 is ₹ 12,406,682,700 (31 October 2009: ₹ 7,612,471,136)

(₹ 000's)

		31 October 2010	31 October 2009
10.	**DEFERRED TAX ASSETS**		
	On depreciation	563,225	509,281
	On provision for employee benefits	33,218	26,689
	On provision for doubtful debts	25,691	26,288
		622,134	**562,258**
11.	**DEBTORS AND UNBILLED REVENUES****		
	Debts outstanding for a period exceeding six months, unsecured		
	- considered good	268,374	445,161
	- considered doubtful	77,341	77,341
	Other debts, unsecured		
	- considered good	5,119,576	3,187,019
		5,465,291	3,709,521
	Less: Provision for doubtful debts (net of write-offs)	(77,341)	(77,341)
		5,387,950	3,632,180
	Unbilled revenues	3,848,415	3,893,808
		9,236,365	**7,525,988**
	**refer note 33		
12.	**CASH AND BANK BALANCES**		
	Cash in hand	179	112
	Balances with scheduled banks		
	- Current accounts *	39,208	182,830
	- Deposit accounts **	366,155	723,050
	Balances with non-scheduled banks		
	- Current accounts (refer note 32)	140,604	64,126
		546,146	**970,118**

* Includes ₹ 4,700,696 and ₹ 4,014,928 representing the balances in unclaimed dividends accounts as at 31 October 2010 and 31 October 2009 respectively.

** Includes restricted deposits of ₹ 60,000,000 as at 31 October 2010 (31 October 2009: ₹ 60,000,000).

		31 October 2010	31 October 2009
13.	**INTER CORPORATE DEPOSITS**		
	Unsecured, considered good		
	MphasiS FinsourcE	119,500	142,800
	MphasiS Lanka	59,404	-
		178,904	**142,800**

Details of maximum balances of inter corporate deposits receivable from companies under the same management as defined under section 370 (1B) of the Companies Act, 1956.

	31 October 2010	31 October 2009
MphasiS FinsourcE	222,500	142,800
MphasiS Lanka	59,404	-
MphasiS India	-	147,000
MsourcE India	250,000	345,000

Notes to the Financial Statements

(₹ 000's)

		31 October 2010	31 October 2009
14.	**INTEREST RECEIVABLE**		
	Unsecured - considered good	1,515	4,780
		1,515	**4,780**
15.	**LOANS AND ADVANCES**		
	Unsecured - considered good		
	Advances recoverable in cash or in kind or for value to be received*	3,960,360	2,827,541
	Advances recoverable from subsidiaries [refer note 34(i) and (iii)]	591,152	2,810,018
	Deposits		
	- premises	675,390	684,717
	- with government authorities	15,539	10,096
	- others	19,157	16,119
	Loan to an ESOP trust [refer note 34(ii) and (iv)]	-	8,575
	Advance tax and tax deducted at source	1,973,429	1,423,686
	MAT credit entitlement	1,433,958	881,450
		8,668,985	**8,662,202**

* includes service tax input credit receivable, (net) ₹ 2,510,057,550 (31 October 2009: ₹ 1,789,240,099)

		31 October 2010	31 October 2009
16.	**CURRENT LIABILITIES**		
	Sundry creditors		
	- dues to Micro and Small enterprises (refer note 41)	747	2,509
	- dues to subsidiaries	687,152	4,387,168
	- others	274,539	528,764
	Book overdraft	32,868	26,206
	Advances from clients	8,734	8,769
	Unearned receivables	54,124	182,646
	Salary related costs	2,049,264	1,849,186
	Other liabilities *	2,576,515	1,698,282
	Unclaimed dividends**	4,701	4,015
		5,688,644	**8,687,545**

* Included in Other liabilities is an amount of ₹ 17,060,055 (31 October 2009: ₹ 17,060,055) which represents the remaining consideration payable for the acquisition of Kshema Technologies Limited [refer note 2(a)].

** Investor Protection and Education Fund shall be credited for unclaimed dividends amount when due.

		31 October 2010	31 October 2009
17.	**PROVISIONS**		
	Compensated absences	100,839	85,656
	Gratuity [refer note 38(a)]	118,291	58,640
	Taxation	1,671,329	1,124,484
	Proposed dividend	839,699	733,498
	Tax on dividend	139,474	124,658
		2,869,632	**2,126,936**

(₹ 000's)

		Year ended 31 October 2010	Year ended 31 October 2009
18.	**COST OF REVENUES**		
	Salary and allowances	11,162,789	8,743,123
	Contribution to provident and other funds	454,735	304,140
	Staff welfare	624,940	489,053
	Travel	898,576	645,257
	Recruitment expenses	150,680	49,576
	Communication expenses	484,649	614,565
	Rent	1,024,350	1,052,096
	Professional charges	29,613	16,204
	Depreciation and amortisation	1,059,828	1,286,885
	Software development charges	6,796,638	7,100,545
	Staff training expenses	21,365	8,151
	Electricity	303,291	284,963
	Software support and annual maintenance charges	1,754,208	1,809,092
	Miscellaneous expenses	429,280	290,602
		25,194,942	**22,694,252**
19.	**SELLING EXPENSES**		
	Salary and allowances	597,468	240,403
	Contribution to provident and other funds	19,929	2,325
	Staff welfare	4,668	2,431
	Travel	56,322	22,027
	Communication expenses	5,045	945
	Rent	2,973	2,468
	Commission	690,267	912,155
	Professional charges	21,314	5,517
	Depreciation and amortisation	3,984	4,132
	Market Research cost	6,925	4,500
	Recruitment expenses	11,476	222
	Business meeting expenses	4,459	1,510
	Miscellaneous expenses	10,869	3,867
		1,435,699	**1,202,502**
20.	**GENERAL AND ADMINISTRATIVE EXPENSES**		
	Salary and allowances	626,594	899,160
	Contribution to provident and other funds	22,889	21,350
	Staff welfare	6,871	67,120
	Travel	53,250	32,002
	Communication expenses	60,629	67,771
	Rent	92,956	225,287
	Professional charges	86,792	122,069
	Depreciation and amortisation	94,061	79,312
	Auditor's remuneration*		
	- Statutory audit fees	8,676	7,876
	- Tax audit fees	1,425	1,075
	- Other services	2,380	-

Notes to the Financial Statements

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
20. GENERAL AND ADMINISTRATIVE EXPENSES *(Contd...)*		
Bank charges	2,319	2,284
Insurance	5,384	8,063
Rates and taxes	21,484	99,892
Repairs and maintenance		
- Plant and machinery	9,962	32,290
- Building	221	8,497
- Others	14,680	92,015
Membership and subscriptions	3,922	5,885
Printing and stationery	6,415	29,677
Postage and courier charges	1,223	4,998
Miscellaneous expenses	127,466	119,051
	1,249,599	**1,925,674**

* includes remuneration paid to auditors of MphasiS FinSolutions Private Limited

	Year ended 31 October 2010	Year ended 31 October 2009
21. OTHER INCOME		
Profit on sale of fixed assets, net	7,681	8,080
Mutual fund income-non trade	405,895	153,128
Miscellaneous income	99	129
	413,675	**161,337**
22. INTEREST INCOME/ (EXPENSE), NET		
Interest expense on loans	(14,098)	(56,773)
Interest income on deposits*	17,237	34,400
	3,139	**(22,373)**

*tax deducted at source ₹ 2,310,007 (31 October 2009 : ₹ 3,555,712)

23. Aggregate expenses

The aggregate amount incurred on various expenses reported under Cost of Revenues, Selling Expenses and General and Administrative expenses are as follows:

	Year ended 31 October 2010	Year ended 31 October 2009
Salary and allowances	12,386,851	9,882,686
Contribution to provident and other funds	497,553	327,815
Staff welfare	636,479	558,604
Travel	1,008,148	699,286
Recruitment expenses	162,156	49,798
Communication expenses	550,323	683,281
Rent	1,120,279	1,279,851
Commission	690,267	912,155
Professional charges	137,719	143,790
Depreciation and amortisation	1,157,873	1,370,329

(₹ 000's)

		Year ended 31 October 2010	Year ended 31 October 2009
23.	**Aggregate expenses** *(Contd..)*		
	Software development charges	6,796,638	7,100,545
	Staff training expenses	21,365	8,151
	Electricity	303,291	284,963
	Software support and annual maintenance charges	1,754,208	1,809,092
	Miscellaneous expenses	567,615	413,520
	Market Research cost	6,925	4,500
	Business meeting expenses	4,459	1,510
	Auditor's remuneration*		
	- Statutory audit fees	8,676	7,876
	- Tax audit fees	1,425	1,075
	- Other services	2,380	-
	Bank charges	2,319	2,284
	Insurance	5,384	8,063
	Rates and taxes	21,484	99,892
	Repairs and maintenance		
	- Plant and machinery	9,962	32,290
	- Building	221	8,497
	- Others	14,680	92,015
	Membership and subscriptions	3,922	5,885
	Printing and stationery	6,415	29,677
	Postage and courier charges	1,223	4,998
		27,880,240	**25,822,428**

* includes remuneration paid to auditors of MphasiS FinSolutions Private Limited.

24. The Company's software development centres in India are 100% Export Oriented ('EOU') / Special Economic Zone ('SEZ') under Special Economic Zone Ordinance and 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 ₹ 108,855,940 as at 31 October 2010 (31 October 2009: ₹ 111,582,340) have been furnished to the Customs authorities in this regard.

25. Until 31 October 2009, the Company used the spot discounted method wherein the changes in the spot rate of derivative financial instruments designated as cash flow hedges were recognized directly in Hedging Reserve and reclassified into the profit and loss account upon the occurrence of the hedged transaction. Changes in fair value relating to the premia/ discount on the derivative financial instruments were recognized in the profit and loss account.

For the new cash flow hedges taken from 01 November 2009, the Company adopted the forward discounted method in accordance with its revised hedge accounting methodology, wherein the forward rate is used to record changes in fair value of derivative financial instruments and such changes are recognised directly in Hedging Reserve and reclassified into the profit and loss account upon the occurrence of the hedged transaction. As a result of this change, net profit for the year ended 31 October 2010 is higher by ₹ 163,422,267.

Notes to the Financial Statements

26. Contingent liabilities and commitments

(a) Claims against the Company not acknowledged as debts amount to ₹ 830,200,152 (31 October 2009: ₹ 822,338,829);

(b) Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at 31 October 2010: ₹ 31,902,663 (31 October 2009: ₹ 240,249,348);

(c) Guarantees outstanding including those furnished to Customs Authorities as at 31 October 2010: ₹ 306,335,852 (31 October 2009: ₹ 222,022,340);

(d) Forward contracts outstanding as at 31 October 2010 are as below:

Currency	Amount	Amount in INR
USD	536,075,000	23,815,131,875
GBP	37,100,000	2,623,712,000
AUD	42,994,167	1,854,983,343
EUR	4,100,807	251,861,317
SGD	17,039,555	582,284,193

Forward contracts outstanding as at 31 October 2009 are as below:

Currency	Amount	Amount in INR
USD	637,900,000	31,377,326,500
GBP	54,654,683	4,405,112,949
SGD	6,889,857	234,842,330

The foreign exchange exposure of the Company has been hedged by forward contracts disclosed above.

Unamortised premium as at 31 October 2010 on forward exchange contracts to hedge the foreign currency risk of the underlying outstanding at the balance sheet date is ₹ 67,916,086 (31 October 2009: ₹ 32,347,958). Net foreign currency exposure of the Company that is not hedged by a derivative instrument or otherwise as at 31 October 2010: ₹ 3,745,390,029 (31 October 2009: ₹ 3,678,793,348).

(e) The Company has issued performance guarantees on behalf of its subsidiaries for any future liabilities which may arise out of contracts.

27. Operating Leases

The Company is obligated under non-cancellable leases for computer equipments, 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 ₹ 790,768,173 for the year ended 31 October 2010. (31 October 2009: ₹ 887,569,700).

Future minimum lease payments under non-cancellable operating lease as at 31 October 2010 are as follows:

(₹ 000's)

Period	31 October 2010	31 October 2009
Not later than 1 year	608,446	741,183
Later than 1 year and not later than 5 years	364,529	718,600
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 ₹ 329,510,696 for the year ended 31 October 2010. (31 October 2009: ₹ 392,281,266).

Office premises are obtained on operating lease for terms ranging from 1-7 years and are renewable at the option of the Company/lessor. There are no sub leases.

28. Related Party Transactions

(a) Entities where control exists:

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

  * EDS Asia Pacific Holdings, Mauritius (formerly TH Holding, Mauritius), EDS World Corporation (Far East) and EDS World Corporation (Netherlands), the subsidiaries of Electronic Data Systems LLC, USA (formerly Electronic Data Systems Corporation, USA) hold 60.55% (31 October 2009: 60.65%) of the equity capital of the Company.

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

(b) Key management personnel:

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

Executive key management personnel represented on the Board of the Company

Balu Ganesh Ayyar	Chief Executive Officer - Appointed w.e.f. 29 January 2009
Jeya Kumar	Chief Executive Officer - Resigned w.e.f. 28 January 2009

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

Friedrich Froeschl	Director – Appointed as non executive Chairman of the Board w.e.f. 15 July 2010
Andreas W Mattes	Director – Appointed as non executive Chairman of the Board w.e.f. 06 February 2009 and Resigned w.e.f 15 July 2010
Michael Coomer	Non-executive Chairman – Resigned w.e.f. 6 February 2009
Francesco Serafini	Additional Director – Appointed w.e.f. 15 July 2010
Balu Doraisamy	Additional Director – Appointed w.e.f. 15 July 2010
Nawshir H Mirza	Director
Davinder Singh Brar	Director
Gerard Brossard	Additional Director – Appointed w.e.f. 15 July 2010
Juergen Reiners	Additional Director – Appointed w.e.f. 15 July 2010
Prakash Jothee	Director – Appointed w.e.f. 6 February 2009
Jim Bridges	Director – Vacated office in terms of Section 283(1)(g) w.e.f. 24 November 2009
Joseph Eazor	Director – Resigned w.e.f. 6 February 2009
Anthony Glasby	Director – Resigned w.e.f. 30 March 2009
K M Suresh	Director – Appointed on 24 November 2009 and Resigned w.e.f 15 July 2010
Vinita Bali	Director – Resigned w.e.f 15 July 2010
Jose de la Torre	Director – Resigned w.e.f 15 July 2010
Craig Wilson	Director – Resigned w.e.f 15 July 2010

Notes to the Financial Statements

(c) Direct or indirect subsidiaries of ultimate holding company with which transactions have taken place:

- EDS Poland Sp.Z.O.O
- EDS (Operations) Pty Limited
- EDS Itellium GmbH
- Electronic Data Systems (EDS) International B.V.
- EDS Information Services LLC
- EDS Canada Inc.
- EDS (Australia) Pty Limited
- EDS Gulf States, WLL
- EDS Sweden AB
- EDS (Thailand) Co. Limited
- Hewlett-Packard Inter-Americas United States (California)
- EDS International Limited
- Hewlett Packard Ireland Limited
- RelQ Software Private Limited
- Electronic Data Systems Limited, UK
- Electronic Data Systems Italia SPA
- Hewlett Packard Europe Finance Limited, Israel Branch
- UAB Hewlett Packard
- Hewlett Packard Financial Services (India) Private Limited
- EDS MSC (M) Sdn Bhd
- EDS Japan LLC
- Hewlett-Packard Software, LLC
- Hewlett-Packard Asia Pacific Pte Limited
- BPO Hewlett Packard Finance Operations
- Hewlett Packard (M) Sdn.Bhd.
- Hewlett Packard New Zealand
- Hewlett Packard GmbH
- EDS Omega S.L
- EDS (Queensland) Pty Limited
- HP Asia Pacific (HK) Limited
- Hewlett Packard (Schweiz) GmbH
- Hewlett Packard (Canada) Co.
- EDS Brazil Elimination
- Hewlett Packard Australia Pty Limited
- Hewlett Packard International Trade B.V. Saudi Arabia Branch
- EDS World Services Corp
- EDS Operations Services GmbH
- Hewlett Packard Norge AS
- EDS (New Zealand) Limited
- Electronic Data System Belgium N.V
- EDS Information Business GmbH
- EDS Business Services Pty Limited
- EDS (China) Co. Limited
- HP Services (Singapore) Pte Limited
- Electronic Data Systems Espana S.A.
- EDS (Schweiz) AG
- Electronic Data Systems (Hong Kong) Limited
- EDS Application Services GmbH
- EDS Malaysia (Shell EPO AP)
- Electronic Data Systems Hungary Limited
- Electronic Data Systems France SAS
- EDS Columbia
- EDS de Mexico S deRLdeCV
- EDS Denmark A/S
- Hewlett Packard Development Company, L.P.
- Hewlett Packard India Sales Private Limited
- HP India Software Operation Private Limited
- EDS Africa (Pty) Limited
- EDS Austria GmbH
- Hewlett Packard Singapore (Sales) Pte Limited
- Saber Software, Inc.
- EDS Finland Oy
- Hewlett Packard Limited (UK)
- EDS Holding GmbH
- Electronic Data Systems(Ireland) Limited
- Hewlett Packard (Thailand) Limited
- Excellerate HRO JV
- HP Enterprise Services BPA Pty Limited
- Hewlett Packard Company
- Electronic Data Systems Taiwan Corp

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

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Rendering of services to entities where control exists	**3,091,403**	**986,745**
- MphasiS USA	949,988	442,835
- MphasiS UK	315,970	229,758
- MphasiS Australia	1,256,469	162,167
- Hewlett-Packard Company	358,036	83,741
- Others	210,940	68,244
Rendering of services to other related parties	**26,570,118**	**28,154,182**
- EDS Information Services LLC	17,876,132	18,545,609
- Electronic Data Systems Limited, UK	3,182,983	3,537,292
- Others	5,511,003	6,071,281
Purchase of fixed assets from other related parties	**120,486**	**94,889**
- HP Services (Singapore) Pte Limited	1,549	44,045
- Hewlett Packard Singapore (Sales) Pte. Limited	78,564	27,279
- Hewlett Packard India Sales Private Limited	40,373	21,780
- Others	-	1,785
Lease Rental paid to other related parties	**75,939**	**5,376**
- Hewlett Packard Financials Services (India) Private Ltd.	75,939	5,376
Sale of Assets to other related parties	**4,661**	**46,003**
- Hewlett Packard Financials Services (India) Private Ltd.	4,661	46,003
Software development charges paid to entities where control exist	**4,968,559**	**6,656,468**
- MphasiS USA	3,289,007	4,584,629
- MphasiS UK	827,373	980,594
- Others	852,179	1,091,245
Software development charges paid to other related parties	**82,281**	**5,742**
- RelQ Software Private Limited	40,111	5,742
- HP Services (Singapore) Pte Limited	42,170	-
Software support and annual maintenance charges paid to other related parties*	**1,507,706**	**1,759,650**
- HP Services (Singapore) Pte Limited	1,505,702	1,759,650
- Others	**2,004**	**-**
Other expenses paid to related parties	**27,710**	**48,814**
- HP Services (Singapore) Pte Limited	27,710	48,814
Communication charges paid to related parties	**127,121**	**117,206**
- HP Services (Singapore) Pte Limited	127,121	117,206
Commission paid to entities where control exists	**690,267**	**912,155**
- MphasiS USA	268,671	508,811
- MphasiS UK	214,590	161,295
- MphasiS Consulting	102,732	93,002
- Others	104,274	149,047
Dividend paid (on cash basis)	**444,872**	**254,212**
- EDS Asia Pacific Holdings, Mauritius	290,508	166,004
- EDS World Corporation (Far East)	154,364	88,208

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(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Remuneration to executive key management personnel	**64,385**	**66,583**
- Jeyakumar	-	32,814
- Balu Ganesh Ayyar	64,385	33,769
Commission to non-executive directors	**10,490**	**9,909**
- Davinder Singh Brar	2,400	2,400
- Jose de la Torre	1,638	2,433
- Nawshir Mirza	2,400	2,400
- Vinita Bali	1,417	2,000
- Friedrich Froeschl	2,635	676
Interest income from deposits made to entities where control exists	**12,320**	**10,942**
- MphasiS FinsourcE	12,068	5,425
- MsourcE India	158	2,934
- MphasiS Lanka	94	-
- MphasiS India	-	2,583
Interest expenses on unsecured loans received from entities where control exists	**13,701**	**56,530**
- MphasiS India	3,280	7,501
- MsourcE India	10,421	49,029
Investment in entities where control exists	**6,646**	**403,951**
- MphasiS FinSolutions	-	403,951
- MphasiS Lanka	6,646	-
Loan Given to BFL Employee Equity Reward Trust	**-**	**5,000**
Loan refunded by BFL Employee Equity Reward Trust	**8,575**	**-**
Advance/Loan given to MphasiS Employee Benefit Trust	**20,871**	**-**
Deposits placed with entities where control exists	**525,904**	**978,800**
- MphasiS India	-	298,800
- MsourcE India	261,000	503,200
- MphasiS Lanka	59,404	-
- MphasiS FinsourcE	205,500	176,800
Deposits refunded by entities where control exists	**489,800**	**1,021,000**
- MphasiS India	-	298,800
- MsourcE India	261,000	663,200
- MphasiS FinsourcE	228,800	59,000
Unsecured loans received from entities where control exists	**170,000**	**3,412,600**
- MphasiS India	-	768,300
- MsourcE India	170,000	2,640,200
- MphasiS FinsourcE	**-**	4,100
Unsecured loans refunded to entities where control exists	**1,405,300**	**2,282,300**
- MphasiS India	253,300	620,000
- MsourcE India	1,152,000	1,658,200
- MphasiS FinsourcE	-	4,100

* The Company has accrued expenses for certain services received from a related party where significant influence exists for which the Master Service Agreement ("MSA") has been signed and the statement of work is expected to be signed upon completion of the ongoing negotiation of terms. As at 31 October 2010, the provisioning for such services has been made based on the MSA and best estimate basis.

In addition to the above, the Company has issued performance guarantees 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.

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Payments made on behalf of related parties	**718,730**	**487,879**
- MphasiS USA	601,341	162,529
- Eldorado Computing Inc. (refer note 2(e))	10,021	36,385
- MsourcE India	-	103,105
- MphasiS India	3,123	92,838
- Others	104,245	93,022
Payments made by related parties on Company's behalf	**215,432**	**591,598**
- MphasiS USA	25,362	49,029
- MphasiS India	49,945	186,256
- MsourcE India	136,976	356,313
- Others	3,149	-

(e) Managerial remuneration*

Expenses include the following remuneration to the key management personnel:

	Year ended 31 October 2010	Year ended 31 October 2009
Salaries and allowances	57,870	62,542
Provident and other funds **	979	1,059
Monetary value of perquisites	5,536	2,982
	64,385	**66,583**

* This does not include remuneration to certain non-executive directors, as the same is paid by the ultimate parent company and its affiliates as they are employees of the said companies.

** As the liability for gratuity and leave encashment is provided on an actuarial basis for the Company as whole, the amount pertaining to the directors is not ascertainable and, therefore not included.

Notes to the Financial Statements

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:

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Profit after taxation	9,968,782	8,368,721
Add:	64,385	66,583
Director's remuneration		
Commission to non-executive directors	10,490	9,909
Depreciation as per the accounts *	1,157,873	1,370,329
Provision for doubtful debts	-	22,699
Provision for taxation	952,246	339,351
	12,153,776	10,177,592
Less:	1,157,873	1,370,329
Depreciation as per Section 350 of the Companies Act, 1956*		
Profit on sale of fixed assets	7,681	8,080
Net Profit on which commission is payable	10,988,222	8,799,183

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

Maximum commission under Section 309 of the Companies Act, 1956 at 1% of net profit	109,882	87,992
Commission payable to non-executive directors	10,490	9,909

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

	31 October 2010	31 October 2009
Sundry debtors and unbilled revenue - entities where control exists	**2,632,076**	**1,035,420**
- MphasiS USA	1,544,696	442,882
- MphasiS UK	108,842	169,386
- MphasiS Australia	685,686	162,197
- Hewlett-Packard Company	99,134	64,825
- Others	193,718	196,130
Sundry debtors and unbilled revenue - other related parties	**5,132,677**	**5,650,715**
- EDS Information Services LLC	3,385,244	3,700,307
- Electronic Data Systems UK	302,469	764,158
- Electronic Australia Pty Limited	54,796	132,448
- Others	1,390,168	1,053,802
Sundry creditors - entities where control exists	**687,152**	**4,387,168**
- MphasiS USA	320,468	2,175,011
- MphasiS UK	109,636	677,246
- MsourcE India	91,676	75,926
- Others	165,372	1,458,985
Sundry creditors- other related parties	**1,048,742**	**1,042,455**
- HP Services (Singapore) Pte Limited	989,337	1,019,255
- RelQ Software Private Limited	3,692	23,200
- Others	55,713	-

(₹ 000's)

	31 October 2010	31 October 2009
Advances recoverable in cash or in kind or for value to be received, included in Loans and Advances from entities where control exists	**591,152**	**2,810,018**
- Eldorado Computing Inc.*	-	193,322
- MphasiS USA	364,443	1,817,122
- MphasiS India	1,680	106,646
- MsourcE India	5,365	22,217
- MphasiS UK	10,075	302,298
- MphasiS Shanghai	108,641	88,340
- Others	100,948	280,073
Advances /Loan from MphasiS Employee Benefit Trust	**20,871**	**-**
Interest receivable on deposit made to entities, where control exists	**850**	**4,768**
- MphasiS FinsourcE	756	2,995
- MphasiS Lanka	94	-
- MsourcE India	-	74
- MphasiS India	-	1,699
Loans (interest free) to a ESOP Trust, included in Loans and Advances	**-**	**8,575**
- BFL Employees Equity Reward Trust	-	8,575
Inter-corporate deposits placed with – entities where control exists	**178,904**	**142,800**
- MphasiS FinsourcE	119,500	142,800
- MsourcE India	-	-
- MphasiS Lanka	59,404	-
Other liabilities, included in current liability to entities where control exists	**-**	**18,742**
- MsourcE India	-	16,722
- MphasiS India	-	2,020
Unsecured loans payable to entities where control exists	**-**	**1,235,300**
- MphasiS India	-	253,300
- MsourcE India	-	982,000

29. C.I.F. value of imports

	Year ended 31 October 2010	Year ended 31 October 2009
Capital goods	190,226	512,307

30. Earnings in foreign currency

Revenues	36,525,781	32,981,113

31. Expenditure in foreign currency

Software development charges	5,862,720	6,656,468
Travel	859,862	280,872
Professional charges	38,389	6,298
Software support and annual maintenance charges	1,516,085	1,761,404
Commission	690,267	912,155
Salary [US Branches]	679,889	-
Others	463,152	229,742
	10,110,364	**9,846,939**

Additionally, during the year, the Company has remitted dividend in foreign currency of ₹ 521,543,838 (31 October 2009: ₹ 292,702,878) to non-residents holding 149,012,525 (31 October 2009: 146,351,439) equity shares of the Company.

Notes to the Financial Statements

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Number of shareholders	17	19
Number of shares held	149,012,525	146,351,439
Amount remitted (₹)	521,543,838	292,702,878
Year to which the dividend relates	Year ended 31 October 2009	Seven months ended 31 October 2008

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

(₹ 000's)

	31 October 2010	31 October 2009
Bank of America Checking account, USA	10,915	64,126
Citibank Checking account, USA	67,224	-
Citibank Collection account, USA	44,323	-
Citibank Operating account, USA	18,142	-
	140,604	**64,126**

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

	Year ended 31 October 2010	Year ended 31 October 2009
Bank of America Checking account, USA	252,139	183,626
Citibank Checking account, USA	813,442	-
Citibank Collection account, USA	134,711	-
Citibank Operating account, USA	94,495	-

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

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

	31 October 2010	31 October 2009
MphasiS GMBH	3,476	7,776
BFL APAC	-	5,125
MphasiS China	7,877	1,765
MphasiS Consulting	-	30,746
Eldorado Computing Inc. (refer note 2(e))	-	59,274
MphasiS Ireland	113	149
MphasiS USA	1,544,696	442,882
MphasiS Europe	3,742	31,250
MphasiS UK	108,842	169,386
MphasiS India	-	1,023
MphasiS Singapore	30,602	5,599
MphasiS Australia	687,306	162,197
MsourcE India	31,458	188
MphasiS Belgium	42,781	53,232
Hewlett Packard Company	359,854	208,886
Hewlett-Packard India Sales Private Limited	59,098	17,011

(₹ 000's)

	31 October 2010	31 October 2009
HP India Software Operation Private Limited	55,909	22,756
EDS Information Services LLC	3,385,244	3,700,307
EDS Australia Pty Limited	54,796	174,075
EDS Business Services Pty Limited	586	51,080
Electronic Data System Belgium N.V	16,776	55,484
EDS Gulf States WLL	5,238	20
EDS Canada Inc.	110,337	147,040
EDS (Schweiz) AG	-	1,797
EDS Information Business GmbH	14,995	43,771
EDS Columbia	32,039	14,332
EDS (China) Co. Limited.	131	11,168
EDS Operations Services GmbH	18,031	21,644
MphasiS FinsourcE	2,699	-
MphasiS Infrastructure	69,349	-
Hewlett-Packard GmbH	-	502
EDS Omega S.L.	-	15,711
EDS (Electronic Data Systems) France SAS	2,760	9,901
Hewlett-Packard Limited (UK)	3,253	1,234
Hewlett-Packard Australia Pty Limited	10,612	-
Electronic Data Systems Limited, UK	302,469	764,158
Electronic Data Systems Hungary Limited	2,281	4,918
Electronic Data System (Ireland) Limited	-	314
Electronic Data Systems ITALIA SPA	30,121	13,242
Electronic Data System (EDS) International B.V.	411,466	281,009
Hewlett-Packard New Zealand	620	136
EDS (New Zealand) Limited	20,737	68,065
HP Asia Pacific (HK) Limited	2,215	687
EDS Sweden AB	29,972	33,316
HP Services (Singapore) Pte Limited	37,095	28,279
Hewlett-Packard Asia Pacific Pte. Limited	20,830	712
Saber Software, Inc	-	2,483
Hewlett-Packard Inter-Americas United States (California)	1,511	714
EDS Japan LLC	21	144
EDS Malaysia (Shell EPO AP)	-	7,165
HP Enterprise Services BPA Pty Limited	47,607	-
EDS MSC (M) Sdn Bhd	327	920
EDS Poland SP.Z.O.O	726	-
EDS (Thailand) Co., Limited	751	719
EDS Brazil Elimination	7,212	-
Hewlett-Packard (Canada) Co.	16,656	-
EDS Denmark A/S	13,895	-
EDS Finland Oy	4,726	-
Hewlett-Packard UK Enterprises Limited	1,372	-
Electronic Data Systems (Hong Kong) Limited	17,457	8,307
EDS de Mexico S deRLdeCV	896	-

Notes to the Financial Statements

(₹ 000's)

	31 October 2010	31 October 2009
Hewlett-Packard (Thailand) Limited	330	-
Hewlett-Packard Software, LLC	76,823	-
EDS(Queensland) Pty Limited	191	-
Hewlett-Packard GmbH	12,265	-
Electronic Data Systems Espana S.A.	1,077	-
EDS International Limited	1,288	-
Hewlett-Packard Ireland Limited	512	-
Hewlett-Packard Europe Finance Limited, Israel Branch	72	-
RelQ Software Private Limited	288	-
UAB Hewlett-Packard	34	-
Hewlett-Packard International Trade B.V., Saudi Arabia Branch	10,635	-
EDS World Services Corp	1,810	-
EDS Africa (Pty) Limited	4,369	-
EDS MSC (M) Sdn Bhd	21,496	-
Electronic Data Systems Taiwan Corp	-	3,536
	7,764,753	**6,686,135**

34. (i) 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*

(₹ 000's)

	31 October 2010	31 October 2009
MphasiS India	1,680	108,345
MsourcE India	5,365	22,291
MphasiS GmbH	1,880	61,150
MphasiS USA	364,450	1,817,122
MphasiS Singapore	34,110	39,762
MphasiS China	108,642	88,340
MphasiS UK	10,075	302,298
MphasiS Consulting	897	16,059
Eldorado Computing Inc. (refer note 2 (e))	-	193,322
MphasiS Europe	5,353	42,153
BFL APAC	-	112
MphasiS Australia	27,464	93,453
MphasiS FinsourcE	15,082	5,468
MphasiS Ireland	590	10,806
MphasiS Belgium	15,372	14,105
MphasiS Lanka	1,042	-
	592,002	**2,814,786**

*Includes interest receivable from subsidiaries amounting to ₹ 849,825 (31 October 2009: ₹ 4,768,628).

(ii) Details of Loans and advances to controlled trust

ESOP Employees Equity Reward Trust	-	8,575
MphasiS Employee Benefit Trust	20,871	-
	20,871	**8,575**

(iii) 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

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
MphasiS India	108,345	319,415
MsourcE India	24,091	353,240
MphasiS GmbH	66,523	61,180
MphasiS USA	2,066,053	1,817,122
MphasiS Singapore	54,776	39,762
MphasiS China	108,642	88,534
MphasiS UK	329,551	302,298
MphasiS Consulting	39,710	16,059
Eldorado Computing Inc (refer note 2 (e))	-	193,325
MphasiS Europe	42,153	42,153
BFL APAC	114	112
MphasiS Australia	93,453	93,453
MphasiS FinsourcE	121,568	15,826
MphasiS Lanka	1,042	-
MphasiS Ireland	10,806	10,954
MphasiS Belgium	19,509	14,423

(iv) Details of maximum balances for loans and advances to controlled trust

ESOP Employees Equity Reward Trust	8,575	8,575
MphasiS Employee Benefit Trust	20,871	-

35. Segment reporting

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

Application services cover consulting, application development, testing and application maintenance services. ITO covers a range of infrastructure management services and service/ technical help desks. BPO services provide voice, transaction based services and knowledge based processes.

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 practical to provide segment disclosures relating to such items, and accordingly such items are separately disclosed as 'unallocated'.

Client relationships are driven based on client domicile. The geographical segments include United States of America (USA), The India & Asia Pacific (APAC) and Europe, Middle East & Africa (EMEA). Secondary segment information for previous year has been re grouped based on geographical segments of current year.

Notes to the Financial Statements

Primary segment information (₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Segment revenue		
Application Services	25,711,067	23,233,964
ITO Services	9,250,766	7,839,201
BPO Services	2,739,017	2,977,052
	37,700,850	**34,050,217**
Segment profit		
Application Services	8,216,868	7,222,957
ITO Services	3,539,229	3,243,567
BPO Services	749,811	889,441
	12,505,908	**11,355,965**
Interest income/ (expense), net	3,139	(22,373)
Other unallocable expenditure, net of unallocable income	1,588,019	2,625,520
Profit before taxation	**10,921,028**	**8,708,072**
Income taxes (including Fringe benefit tax)	952,246	339,351
Profit after taxation	**9,968,782**	**8,368,721**

	31 October 2010	31 October 2009
Segment assets		
Application Services	10,286,319	9,384,719
ITO Services	2,236,535	2,657,083
BPO Services	948,856	1,959,218
Unallocated assets	24,180,824	18,326,316
	37,652,534	**32,327,336**
Segment liabilities		
Application Services	3,587,336	5,894,299
ITO Services	1,617,350	1,207,637
BPO Services	656,841	1,680,126
Unallocated liabilities	2,705,391	3,297,470
	8,566,918	**12,079,532**
Capital Employed		
Application Services	6,698,983	3,490,420
ITO Services	619,185	1,449,446
BPO Services	292,015	279,092
Unallocated liabilities	21,475,433	15,028,846
	29,085,616	**20,247,804**

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Capital expenditure		
Application Services	464,923	568,587
ITO Services	189,472	168,799
BPO Services	56,139	151,031
	710,534	**888,417**
Depreciation and amortisation		
Application Services	761,747	878,873
ITO Services	305,584	259,380
BPO Services	90,542	232,076
	1,157,873	**1,370,329**
Secondary segment information (revenues)		
USA	25,715,579	23,190,778
EMEA	7,509,027	7,717,457
APAC	4,476,244	3,141,982
	37,700,850	**34,050,217**

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

Secondary segment information (segment assets)

	31 October 2010	31 October 2009
Region		
USA	6,446,323	5,482,551
EMEA	2,054,994	1,771,659
APAC	29,151,217	25,073,126
Total	**37,652,534**	**32,327,336**

Secondary segment information (capital expenditure)

	Year ended 31 October 2010	Year ended 31 October 2009
Region		
APAC	710,534	888,417
	710,534	**888,417**

36. Earnings Per Share ('EPS')

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

	Year ended 31 October 2010	Year ended 31 October 2009
Number of weighted average shares considered for calculation of basic earnings per share	209,756,566	209,135,104
Add: Dilutive effect of stock options	984,375	1,336,310
Number of weighted average shares considered for calculation of diluted earnings per share	210,740,941	210,471,414

175,159 weighted average number of shares (31 October 2009: 206,053 weighted average number of shares) held by the BFL Employees Equity Reward Trust and Kshema Employee Welfare Trust have been considered for computing basic and diluted earnings per share. The above does not include 22,400 (31 October 2009: 25,600) bonus shares held in abeyance by the Company.

Notes to the Financial Statements

37. 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:

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Net profit as reported	9,968,782	8,368,721
Add: Stock based employee compensation expense determined under the intrinsic value method	-	-
Add/(Less): Stock based employee compensation expense determined under the fair value method	4,373	2,291
Pro-forma net profit	9,973,155	8,371,012
Earning per share: Basic		
As reported	47.53	40.02
Pro-forma	47.55	40.03
Earning per share: Diluted		
As reported	47.30	39.76
Pro-forma	47.32	39.77

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

Dividend yield %	1.44% to 1.98%
Expected life	1 to 4 years
Risk free interest rates	5.78% to 8.00%
Expected volatility (annualised) *	67.12% to 69.48%

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

38. Employee Benefits

a. Gratuity Plan

The following table sets out the status of the gratuity plan as required under revised AS 15.

Reconciliation of the projected benefit obligations (₹ 000's)

	31 October 2010	31 October 2009
Change in projected benefit obligation		
Obligations at year beginning	309,003	179,915
Adjustment on account of merger of MphasiS FinSolutions	15,996	-
Service cost	53,296	128,143
Transfer	9,277	-
Interest cost	23,936	11,978
Benefits paid	(28,769)	(10,194)
Actuarial (gain)/loss	(3,872)	(839)
Obligations at year end	**378,867**	**309,003**

(₹ 000's)

	31 October 2010	31 October 2009
Change in plan assets		
Plan assets at year beginning, at fair value	250,363	67,377
Adjustment on account of merger of MphasiS FinSolutions	13,782	-
Expected return on plan assets (estimated)	23,412	8,635
Actuarial gain / (loss)	761	476
Contributions	-	184,069
Transfer	1,027	-
Benefits paid	(28,769)	(10,194)
Plan assets at year end, at fair value	**260,576**	**250,363**

Reconciliation of present value of obligation and fair value of plan assets		
Fair value of plan assets as at the year end	260,576	250,363
Present value of defined benefit obligation as at the year end	378,867	309,003
Liability recognised in the balance sheet	**(118,291)**	**(58,640)**

Assumptions		
Interest rate	8.00%	7.00%
Discount rate	8.00%	7.00%
Expected rate of return on plan assets	8.50%	7.00%
Attrition rate	5.00%	5.00%
Expected contribution over next one year	90,000	90,000

Gratuity cost	Year ended 31 October 2010	Year ended 31 October 2009
Service cost	53,296	128,143
Interest cost	23,936	11,978
Expected return on plan assets	(23,412)	(8,635)
Actuarial (gain)/ loss	(4,633)	(1,315)
Net gratuity cost	**49,187**	**130,171**

The gratuity expense is grouped under salary and allowances in the profit and loss account. 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. Expected return on plan assets is computed based on prevailing market rate.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	31 October 2010	31 October 2009
Investments with insurer	100%	100%

Experience Adjustment

	Year ended 31 October 2010	Year ended 31 October 2009	Seven months ended 31 October 2008	Year ended 31 March 2008
On obligations, gain/ (loss)	3,872	839	430	32,450
On plan assets, gain/ (loss)	761	476	156	1,218

Notes to the Financial Statements

b. Provident Fund

The Company contributed ₹ 433,183,822 during the year ended 31 October 2010 (31 October 2009: ₹ 325,844,881).

39. Revenue disclosure

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Revenue recognised on customised software development contracts	9,582,715	7,287,411

Disclosure for contracts in progress at the reporting date

	31 October 2010	31 October 2009
Fixed Price projects:		
Revenue recognised till the reporting date	844,581	484,805
Unbilled revenues	182,848	212,241
Unearned revenues	2,292	-
Time and material projects:		
Revenue recognised till the reporting date	5,955,068	6,883,232
Unbilled revenues	930,881	884,344
Unearned revenues	6,032	140

40. Details of movement in investments for the year ended 31 October 2010*:

(₹ 000's)

Name of mutual fund scheme	Balance as at 1 November 2009		Purchases for the year ended 31 October 2010		Sales for the year ended 31 October 2010		Balance as at 31 October 2010	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Liquid funds								
Birla Sun Life Savings Fund	382,245	3,825,050	1,278,888	12,797,580	1,661,133	16,622,630	-	-
Birla Sun Life Cash Plus	-	-	1,829,734	18,333,023	1,820,690	18,242,399	9,044	90,624
ICICI Prudential Flexible Income	348,725	3,687,246	102,551	10,843,196	451,276	14,530,442	-	-
ICICI Prudential Institutional Liquid	8,453	100,175	111,337	13,193,655	119,790	13,293,830	-	-
BSL Intervel Income Fund - INSTL - Quarterly - Series 1	-	-	101,175	1,011,746	101,175	1,011,746	-	-
BSL Intervel Income Fund - INSTL - Quarterly - Series 2	-	-	70,859	708,594	70,859	708,594	-	-
Birla Sunlife Savings Fund INSTL - Growth	-	-	3,494	60,008	3,494	60,008	-	-
Birla Ultra Short Term Fund INSTL.	-	-	468,750	4,690,081	468,750	4,690,081	-	-
Reliance Monthly Interval Fund-Series II Institutional	-	-	162,160	1,621,863	59,661	596,713	102,499	1,025,150
Reliance Monthly Interval Fund-Series I Institutional	-	-	186,860	1,869,355	-	-	186,860	1,869,355
ICICI Prudential Long Term Floating Rate Plan C	-	-	60,208	602,561	60,208	602,561	-	-
ICICI Prudential Blended Plan B	-	-	111,866	1,159,744	-	-	111,866	1,159,744

(₹ 000's)

Name of mutual fund scheme	Balance as at 1 November 2009		Purchases for the year ended 31 October 2010		Sales for the year ended 31 October 2010		Balance as at 31 October 2010	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Birla Sunlife Short term opportunities fund	-	-	228,007	2,281,583	74,958	750,053	153,049	1,531,530
BSL Floating rate fund- Long term-Instl	-	-	201,307	2,013,608	201,307	2,013,608	-	-
G68 Idfc Ultra Short Term Fund	-	-	50,424	506,613	-	-	50,424	506,613
G690 Idfc Fixed Maturity Quarterly Series-59	-	-	35,000	350,000	-	-	35,000	350,000
BSL Interval Income Fund Instl-QuarterlyY Series 1	-	-	30,000	300,000	-	-	30,000	300,000
DSP BlackRock FMP - 3M Series 19	-	-	35,000	350,000	-	-	35,000	350,000
KOTAK Quarterly Interval Plan Series 1	-	-	40,000	400,000	-	-	40,000	400,000
G690 Idfc Fixed Maturity Quarterly Series-60	-	-	30,000	300,000	-	-	30,000	300,000
KOTAK Quarterly Interval Plan Series 9	-	-	19,998	200,000	-	-	19,998	200,000
KOTAK Quarterly Interval Plan Series 10	-	-	30,000	300,000	-	-	30,000	300,000
KOTAK Quarterly Interval Plan Series 5	-	-	40,000	400,000	-	-	40,000	400,000
B938D Birla Sunlife Short Term FMP Series 1	-	-	25,000	250,000	-	-	25,000	250,000
DSP BlackRock FMP - 3M Series 21	-	-	20,000	200,000	-	-	20,000	200,000
Birla Sun Life Cash Manager- IP	-	-	859,829	8,600,876	545,836	5,460,000	313,993	3,140,876
Total	**739,423**	**7,612,471**	**6,132,447**	**83,344,086**	**5,639,137**	**78,582,665**	**1,232,733**	**12,373,892**

Details of movement in investments for the period from 1 November 2008 to 31 October 2009*:

(₹ 000's)

Name of mutual fund scheme	Balance as at 01 November 2008		Purchases for the year ended 31 October 2009		Sales for the year ended 31 October 2009		Balance as at 31 October 2009	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Liquid funds								
Templeton Treasury	-	-	3,182	3,184,010	3,182	3,184,010	-	-
ICICI Prudential Institutional Liquid	-	-	1,331,339	15,776,638	1,322,886	15,676,463	8,453	100,175
ICICI Prudential Flexible Income	-	-	838,629	8,867,246	489,904	5,180,000	348,725	3,687,246
Birla Sun Life Savings Fund	-	-	801,960	8,025,050	419,715	4,200,000	382,245	3,825,050
Birla Sun Life Short Term Fund	-	-	259,749	2,598,918	259,749	2,598,918	-	-
Birla Sun Life Cash Plus	-	-	978,197	9,801,043	978,197	9,801,043	-	-
B331DD Birla Sun Life Savings Fund	-	-	10,995	110,023	10,995	110,023	-	-
B503G Birla Sun Life Cash Plus	-	-	43,381	610,141	43,381	610,141	-	-
Birla Sun Life Sweep Fund	-	-	266,656	2,693,236	266,656	2,693,236	-	-
Total	**-**	**-**	**4,534,088**	**51,666,305**	**3,794,665**	**44,053,834**	**739,423**	**7,612,471**

* The units are in thousands.

Notes to the Financial Statements

41. The Company has amounts due to Micro and Small Enterprises under The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) as at 31 October 2010.

(₹ 000's)

Particulars	2010	2009
The principal amount and the interest due thereon remaining unpaid to any supplier as at 31 October	747	2,509
The amount of interest paid by the Company along with the amount of the payments made to the supplier beyond the appointed day	Nil	Nil
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year)	Nil	Nil
The amount of interest accrued and remaining unpaid at the end of the year	Nil	321
The amount of further interest remaining due and payable for the earlier years	Nil	Nil

42. 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.

43. The movement in provisions (figures in bracket represent previous year numbers) during the year is as below:

(₹ 000's)

	1 November 2009	Additions	Amounts used	31 October 2010
Claims	169,101 (45,870)	15,000 (123,231)	92,575 (-)	91,526 (169,101)

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

For and on behalf of the Board of Directors

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Bangalore
22 November 2010

Balu Ganesh Ayyar
Chief Executive Officer

Nawshir H Mirza
Director

Ganesh Murthy
Chief Financial Officer

A. Sivaram Nair
Company Secretary

Bangalore
22 November 2010

Cash Flow Statement

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Cash flows from operating activities:		
Profit before taxation	10,921,028	8,708,072
Adjustments for:		
Interest income	(17,237)	(34,400)
Mutual Fund income - non trade	(405,895)	(153,128)
Profit on sale of fixed assets	(7,681)	(8,080)
Depreciation and amortisation	1,157,873	1,370,329
Interest expenses	14,098	56,773
Operating profit before working capital changes	11,662,186	9,939,566
Debtors and unbilled revenues	(1,550,486)	275,747
Loans and advances	553,393	(4,300,580)
Current liabilities and provisions	(3,944,713)	4,060,273
Cash generated from operations	6,720,380	9,975,006
Income taxes (paid)/ refund	(123,936)	(1,231,700)
Net cash provided by operating activities	**6,596,444**	**8,743,306**
Cash flows from investing activities:		
Interest received	20,502	32,154
Proceeds from sale of fixed assets	19,991	80,018
Purchase of fixed assets	(724,753)	(1,065,214)
Mutual Fund income - non trade	405,895	153,128
Inter corporate deposits placed	(525,904)	(978,800)
Inter corporate deposits refunded	489,800	1,021,000
Investment in Subsidiaries	(6,646)	(403,951)
Purchase of units of Mutual Funds	(83,344,086)	(51,666,305)
Sale of units of Mutual Funds	78,582,665	44,053,834
Net cash used in investing activities	**(5,082,536)**	**(8,774,136)**

Cash Flow Statement (Contd...)

(₹ 000's)

	Year ended 31 October 2010	Year ended 31 October 2009
Cash flows from financing activities:		
Proceeds from issue of share capital	3,507	73,352
Proceeds of premium from issue of share capital	41,174	6,462
Availment of secured loans	-	13,930
Repayment of secured loans	(21,109)	(30,311)
Unsecured loans repaid	(1,405,300)	(2,282,300)
Unsecured loans received	170,000	3,412,600
Interest paid on loan	(14,098)	(56,773)
Dividend paid including dividend tax	(857,992)	(486,190)
Net cash provided by/ (used in) financing activities	**(2,083,818)**	**650,770**
Changes in cash and cash equivalents	(569,910)	619,940
Cash acquired on merger of MphasiS Finsolutions	145,938	-
Cash and cash equivalents at beginning of the year	**970,118**	**350,178**
Cash and cash equivalents at end of the year*	**546,146**	**970,118**

* Cash and cash equivalents consists of cash and bank balances and short-term funds that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. It also includes restricted deposits amounting to ₹ 60,000,000 (31 October 2009: ₹ 60,000,000)

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

For and on behalf of the Board of Directors

For **S.R. BATLIBOI & Co.**
Firm registration number: 301003E
Chartered Accountants

per **Navin Agrawal**
Partner
Membership No. 56102

Bangalore
22 November 2010

Balu Ganesh Ayyar
Chief Executive Officer

Ganesh Murthy
Chief Financial Officer

Bangalore
22 November 2010

Nawshir H Mirza
Director

A. Sivaram Nair
Company Secretary

Balance Sheet Abstract And Company's General Business Profile

I. Registration Details

Registration No. L 3 0 0 0 7 K A 1 9 9 2 P L C 0 2 5 2 9 4

State Code (Refer Code List) 0 8

Balance-sheet 3 1 | 1 0 | 1 0
Date Month Year

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue	Rights Issue
- - N I L - -	- - N I L - -
Bonus Issue	**Private Placement**
- - N I L - -	- - N I L - -

III. Position of Mobilisation and Deployment of Funds (Amount is Rs. Thousands)

Total Liabilities	Total Assets
2 9 0 9 4 2 5 8	2 9 0 9 4 2 5 8

Sources of Funds

Paid-up-Capital	Reserves & Surplus (Including Employee stock option outstanding)
2 0 9 9 3 1 8	2 6 9 8 6 2 9 8
Secured Loan	Unsecured Loans
8 6 4 2	- - N I L - -

Application of Funds

Net Fixed Assets (Including Net Deferred Tax Assets and Capital Work in Progress)	Investments
2 1 2 2 9 8 7	1 6 8 9 7 6 3 2
Net Current Assets	Miscellaneous Expenditure
1 0 0 7 3 6 3 9	- - N I L - -
Accumulated Losses	
- - N I L - -	

IV. Performance of company (Amount in Rs. Thousands)

Turnover	Total Expenditure
3 7 7 0 0 8 5 0	2 6 7 7 9 8 2 2
+ ✓ - Profit / Loss Before Tax	+ ✓ - Profit / Loss After Tax
1 0 9 2 1 0 2 8	9 9 6 8 7 8 2

(Please tick Appropriate box + for Profit, - for Loss)

Basic earnings per share in Rs.	Dividend Rate (%)
4 7 . 5 3	4 0 . 0 0

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code) 8 5 2 4 9 0 0 9 . 1 0

Product Description S O F T W A R E S E R V I C E S

Group Office Locations

INDIA

Bangalore

Bagmane Laurel
Block - A, Bagmane Technology Park,
Byrasandra Village, C V Raman Nagar,
Bangalore - 560 093
Tel: 080-4004 4444
Fax: 080-4004 9998

Bagmane Parin
Bagmane Technology Park,
Byrasandra Village, C V Raman Nagar,
Bangalore - 560 093
Tel: 080-4004 0404
Fax: 080-4004 9999

Global Technology Village SEZ
Survey Nos. 12/1, 12/2, 29 & 30
Mylasandra & Patanegere Villages
RVCE post, Kengeri Hobli
Bangalore - 560 059
Tel : 080-4355 6677
Fax : 080-2860 3372

Gopalakrishna Complex
45/3, Residency Road Cross,
Bangalore - 560 025
Tel : 080-2558 8722 &
080-2532 0671/2
Fax : 080-2532 0675

Ivega Building
Global Village, Mylasandra,
Mysore Road,
Bangalore -560 059
Tel : 080-4007 0100
Fax : 080-2860 3372

Kshema Dhama
#1, Global Village, Mylasandra,
Mysore Road,
Bangalore -560 059
Tel : 080-4003 0303
Fax : 080-2860 3372

Texas Instruments Building
Survey No. 12/1, Mylasandra,
Global Village, Mysore Road,
Bangalore - 560 059
Tel : 080-4003 8000
Fax : 080-2860 3372

The Millennia,
Tower A & B, No.1 & 2,
Murphy Road, Ulsoor,
Bangalore -560 008
Tel : 080-2556 7500 &
080-4188 2200
Fax : 080-2556 7515

Mereside Heights, No.1,
Old Madras Road,
Bangalore-560 016
Tel : 080-4176 5500
Fax : 080-4176 5506

Balaji Mansion
8/1, Bannerghatta Main Road,
J P Nagar Industrial Estate,
Bangalore-560 076
Tel: 080-4153 7505
Fax: 080-2658 1142

Ahmedabad

Iscon Centre, 2nd & 3rd Floor,
Shivaranjini Cross Road,
Ahmedabad - 380 015
Tel: 079-6652 9900
Fax: 079-6652 9905

Chennai

DLF SEZ IT Park,Tower 1B, Level 1-5,
1/124, Shivaji Garden,Manapakkam,
Mount Poonamalle Road,
Chennai -600 089
Tel : 044-6637 0000
Fax : 044-6637 4000

RMZ Millenia Business Park
Campus 1C, 143, Dr. MGR Road,
Perungadi, Chennai -600 096
Tel : 044-6612 0000
Fax : 044-6612 2390 & 044-6612 3001

The Lords II, Northern Extension Area,
Ekkatuthangal, Thiru-Vi-Ka Industrial Estate
Guindy, Chennai – 600032
Tel : 044-4200 2300
Fax : 044-4209 2117

Indore

Westside Building, No.17
3rd to 5th Floor, Race Course Road,
Indore - 452 001
Tel : 0731-4019 000
Fax : 0731-4019 034

Mangalore

Techbay, PL Compound, Morgan's Gate,
22-5-750, Jeppu Ferry Road,
Mangalore -575 001
Tel : 0824-241 3000
Fax : 0824-241 9800

Mumbai

Infinity IT Park, Unit No. 101 & 201,
Building No.4, 239,
General A K Vaidya Marg
Dindoshi, Malad (East)
Mumbai - 400 097
Tel : 022-6788 4000
Fax : 022-6788 4888

Noida

A-14, Sector-64, Noida-201 301
Tel : 0120-434 1400
Fax : 0120-434 1417

Pune

Cybercity, Tower II & Tower IV
Cybercity, Magarpatta, Hadapsar,
Pune-411 013
Tel : 020-4014 1000
Fax : 020-6606 9010 & 020-4014 1432

Wing 'A' & 'B', Level 2,
Tower VII, Cybercity,
Magarpatta,Hadapsar,
Pune - 411 013
Tel : 020-4014 1000

Kharadi Knowledge Park
EON Kharadi Infrastructure Pvt. Ltd,
SEZ Plot No.1, Survey No.77,
MIDC, Kharadi, Pune - 411 014
Tel : 020-6606 9010

Marisoft, 1st Floor to 5th Floor,
Marigold Premises,
Survey No.15/1 to 15/6,
Vadgon Sheri, Kalyan Nagar,
Pune - 411 014
Tel : 020-6609 5555
Fax : 020-6609 5556

Puducherry

Om Shakthi Complex, No.173/3,
1st Floor, Karuvadikuppam,
East Coast Main Road,
Pudicherry -605 008
Tel: 0413-2263 621
Fax: 0413-2263 623

Raipur

Gursukh Towers, 1st to 3rd Floor,
Katora Talab Main Road
Raipur - 492 001, Chhattisgarh
Tel: 0771-3060200
Fax: 0771-3060240

Vododara

Survey # 81/1, Opp. Sarabhai
Chemicals, Ghenda Circle, Wadivadi,
Off. Alkapuri,Vadodara - 390 002
Tel : 0265-6633 269

Japan

Prime Square, No. 205,
1-1-7 Hiroo, Shibuya-Ku,
Tokyo 150-0012, Japan

Bureau Ginza
4-1-12, T. Sukiji
Chuou-Ku, Tokyo

Mauritius

Rogers House,
5, President John Kennedy Street
Port Louis, Mauritius

Singapore

30 Cecil Street
Level 14 Prudential Tower
Singapore - 049712

Sri Lanka

Office 2, Rigel Building, 752/1
Dr. Danister De Silva M
Colombo - 09.

The Peoples' Republic of China

Room No.912, No 1011, Lujiabang Road,
Huangpu District, Shanghai
Tel : 86 21 5080 7366
Fax : 86 21 5080 7362

Room No. 23206, No.498,
Ghoushoujing Road,
Pudong New Area,
Shanghai PO 201203, PRC
Tel : 86 21 5080 7366
Fax : 86 21 5080 7362

Australia

Shop 5, 17-19 East Parade Sutherland
NSW 2232.

Building No. 39,
University of Wollongong,
North Fields Avenue,
Wollongong

9, Norberry Terrace,
177-199 Pacific Highway,
North Sydney 2060

New Zealand Branch

99-105 Custom House Quay,
Wellington - 6001

Belgium

Pegasuslaan 5,
1831 Diegem, Belgium

France

1 Place Paul Verlaine
92100 Boulogne – Billancourt

Germany

Koblenzer Str. 17, EG rechts,
56130 Bad Ems, Germany

Koblenzer Str. 34, Postfach 1221,
D 56130 Bad Ems, Germany
Tel : 49-2603 504 151
Fax : 49 (0) 2603 506 301

Mainzer Landstr. 27-31
Room no. 421, 422, 4th floor
60329 Frankfurt/Main, Germany
Tel : 49(0) 69- 2740 15-0
Fax : 49(0) 69- 2740 15-111

Ireland

Century House,
Harold's Cross Road,
Dublin 6 w

Poland

50-102 Wroclaw,
Rynek 39/40,
Warsaw

Sweden

Hellstrom Advokatbyra KB,
Box 7305
103 90 Stockholm Sweden

Switzerland

Swiss Branch, Zurich
BB Treuhand AG,
Rathausstrasse 7
6341 Baar (Switzerland)

The Netherlands

Strawinskylaan 337,
1077 XX Amsterdam,
The Netherlands

UK

12th floor, 88 Wood Street,
London EC2V 7RS, UK
Tel : 44 208 5281 066
Fax : 44 208 528 1001

Edinburgh House,
43 - 51 Windsor Road
Slough SL1 2EE, UK
Tel : 44 1753217700
Fax : 44 1753217701

USA

1220N Market Street,
Suite 806,
Wilmington, DE 19801

5353, North 16th Street,
Suite 400 Phoenix,
Arizona 850162.
Tel : 602-604-3100
Fax : 602-604-3115

460 Park Avenue South,
NY 10016
Tel : 212-686-6655
Fax : 212-686-2422

1670 South Amphlett Blvd,
Suite 214, San Mateo
CA 94402
Tel : 650-349 3952
Fax : 650-378 8531

3242 Players Club Circle
Memphis, TN. 38125
Tel : 901-748-3604
Fax : 901-748-3241

3350 Players Club Parkway
Suite 120, Memphis,
TN 38120
Tel : 901-767-7550
Fax : 901-767-9350

11600 Jones Road
Cypress Center,
Suite # 108/14
Houston, TX 77070
Tel : 832-229-4677

299, Cherry Hill Road,
302 Parisippany,
NJ 07054

Suite 225, 655 Craig Road
Creve Coeur
Missouri, 63141

3226, Scott Blvd,
Santa Clara, CA

2711 Centerville Road,
Suite 400 Wilmington,
Country of New Castle,
Delaware 19808

Canada

Mississauga Executive Centre,
1 Robert Speck Parkway,
Suite 1100, Mississauga ON
Canada L4Z3M3

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