MindTree Limited
Explanatory notes to the condensed consolidated financial statements
For the quarter and nine months ended December 31, 2010

1. Background

MindTree Limited ('MindTree' or 'the Company') together with its subsidiaries MindTree Software (Shenzhen) Co. Ltd and MindTree Wireless Pte. Ltd, Singapore, collectively referred to as 'the Group' is an international Information Technology ("IT") consulting and implementation Group that delivers business solutions through global software development. The Group is structured into three business units that focus on software development – Information Technology ('IT') Services, Product Engineering ('PE') Services and Wireless Services. IT Services offer consulting and implementation and post production support for customers in manufacturing, financial services, travel and leisure and other industries, in the areas of e-business, data warehousing and business intelligence, supply chain management, ERP and maintenance and re-engineering of legacy mainframe applications. PE Services comprises R&D services and Product engineering services. R&D Services enables faster product realization by leveraging the expertise in the areas of hardware design, embedded software, middleware and testing and through MindTree's own IP building blocks in the areas of Bluetooth, VOIP, IVP6, iSCSI and others in datacom, telecom, wireless, storage, industrial automation, avionics, consumer products and computing. Software Product Engineering provides full life cycle product engineering, professional services and sustained engineering services. Consequent to acquisition and subsequent merger of MindTree Wireless Private Limited, the Group has added a business segment in its operating structure which is referred to as Wireless Services.

The Group is head quartered in Bangalore and has offices in India, United States of America, United Kingdom, Japan, Singapore, Australia, Germany, Switzerland, Sweden, UAE, Netherlands, Canada, France and Republic of China.

2. Significant accounting policies

2.1 Basis of preparation of condensed consolidated financial statements

The condensed consolidated financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting except for certain financial instruments which are measured at fair values and comply with the Accounting Standards prescribed by Companies (Accounting Standards) Rules, 2006, as amended, other pronouncements of the Institute of Chartered Accountants of India (ICAI) and the guidelines issued by Securities and Exchange Board of India ('SEBI').

The condensed consolidated interim financial statements for the quarter and nine months ended December 31, 2010 have been prepared in accordance with the recognition, measurement and disclosure provisions of AS 25, Interim Financial Reporting, issued pursuant to the Companies (Accounting Standards) Rules, 2006.

The Group has followed the same accounting policies in preparation of the condensed consolidated financial statements as those followed in preparation of the annual financial statements for the year ended March 31, 2010. These interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and the related notes the year ended March 31, 2010.

2.2 Principles of consolidation

The condensed consolidated financial statements include the financial statements of MindTree and its subsidiaries as set out below.

Name of the subsidiaries	Country of incorporation	Proportion of interest
MindTree Software (Shenzhen) Co Ltd.	Republic of China	100%
MindTree Wireless Pte. Ltd.	Singapore	100%

The financial statements of MindTree and its majority owned/ controlled subsidiaries have been combined on a line-by-line basis by adding together the book values of all items of assets, liabilities, incomes and expenses after eliminating all inter-company balances/ transactions and the resultant unrealized gain/loss from the date the parent company acquired control of those subsidiaries.

The condensed consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

2.3 Use of estimates

The preparation of condensed consolidated financial statements in conformity with the generally accepted accounting principles ('GAAP') in India requires management to make estimates and assumptions that affect the reported amounts of income and expenses of the period, assets and liabilities and disclosures relating to contingent liabilities as of the date of the consolidated financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in future periods.

2.4 Fixed assets and depreciation

2.4.1 Fixed assets are carried at cost of acquisition (including directly attributable costs such as freight, installation, etc.) or construction less accumulated depreciation. 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.

2.4.2 Acquired intangible assets are capitalised at the acquisition price. Internally generated intangible assets are stated at cost that can be measured reliably during the development phase and when it is probable that future economic benefits that are attributable to the assets will flow to the Group.

2.4.3 Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Such assets acquired on or after April 1, 2001 are capitalised at fair value of the asset or present value of the minimum lease payments at the inception of the lease, whichever is lower. Lease payments under operating leases are recognized as an expense in the statement of profit and loss on a straight-line basis over the lease term.

2.4.4 Advances paid towards the acquisition of fixed assets, outstanding at each balance sheet date and the cost of the fixed asset not ready for its intended use on such date, are disclosed under capital work-in-progress.

2.4.5 Depreciation is provided on the straight-line method. The rates specified under schedule XIV of the Companies Act, 1956 are considered as the minimum rates. If the management's estimate of the useful life of a fixed asset at the time of the acquisition of the asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at a higher rate based on the management's estimate of the useful life/remaining useful life. Pursuant to this policy, the management has estimated the useful life as under:

Asset classification	**Useful life**
Buildings	25-30 years
Computer systems (including software)	1-3 years
Test equipment	3 years
Furniture and fixtures	5 years
Electrical installations	3-5 years
Office equipment	4-5 years
Motor vehicles	4-5 years
Plant and machinery	4 years
Intellectual property rights	5 years

2.4.6 Fixed assets individually costing Rs 5,000 or less are fully depreciated in the period of purchase/ installation. Depreciation on additions and disposals during the year is provided on a pro-rata basis.

2.4.7 The cost of leasehold land is amortised over the period of the lease. Leasehold improvements and assets acquired on finance lease are amortised over the lease term or useful life, whichever is lower.

2.5 Investments

2.5.1 Long-term investments are carried at cost less any other-than-temporary diminution in value, determined on the specific identification basis.

2.5.2 Current investments are carried at the lower of cost (determined on the specific identification basis) and fair value. The comparison of cost and fair value is carried out separately in respect of each investment.

2.5.3 Profit or loss on sale of investments is determined on the specific identification basis.

2.6 Cash and cash equivalents

Cash and cash equivalents in the condensed consolidated cash flow statement comprises cash in hand and balance in bank in current accounts, deposit accounts and in margin money deposits.

2.7 Cash flow statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, investing and financing activities of the Group are segregated.

2.8 Employee benefits

2.8.1 Gratuity is a defined benefit scheme and is accrued based on actuarial valuations at the balance sheet date, carried out by an independent actuary. The Group has an employees' gratuity fund managed by ICICI Prudential Life Insurance Company, SBI Life Insurance Company and Life Insurance Corporation of India. Actuarial gains and losses are charged to the profit and loss account.

2.8.2 Compensated absences are a long-term employee benefit and is accrued based on actuarial valuations at the balance sheet date, carried out by an independent actuary. The Group accrues for the expected cost of short-term compensated absences in the period in which the employee renders services.

2.8.3 Contributions payable to the recognised provident fund, which is a defined contribution scheme, are charged to the profit and loss account.

2.9 Revenue recognition

2.9.1 The Group derives its revenues primarily from software services. Revenue from software development on time-and-material basis is recognised as the related services are rendered. Revenue from fixed price contracts is recognised using the proportionate completion method, which is determined by relating the actual project cost of work performed to date to the estimated total project cost for each contract. Unbilled revenue represents cost and earnings in excess of billings while unearned revenue represents the billing in excess of cost and earnings. Provision for estimated losses, if any, on incomplete contracts are recorded in the period in which such losses become probable based on the current contract estimates. Revenues are stated net of discounts and include expenses billed to the customers at a mark-up.

Maintenance revenue is recognized ratably over the period of the maintenance contract.

2.9.2 Provision for discounts is recognised on an accrual basis in accordance with contractual terms of agreements with customers and is shown as reduction of revenues.

2.9.3 Dividend income is recognised when the right to receive payment is established.

2.9.4 Interest income is recognized using the time proportion method, based on the transactional interest rates.

2.10 Foreign exchange transactions

2.10.1 The Group is exposed to foreign currency transactions including foreign currency revenues and receivables. With a view to minimize the volatility arising from fluctuations in currency rates, the Group enters into foreign exchange forward contracts and other derivative instruments.

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

2.10.3 Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date; the resultant exchange differences are recognized in the profit and loss account. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

2.10.4 In respect of integral operations, monetary assets and liabilities are translated at the exchange rate prevailing at the date of the balance sheet. Non-monetary items are translated at the historical rate. The items in the profit and loss account are translated at the rates prevailing on the dates of the respective transactions. The differences arising out of the translation are recognised in the profit and loss account.

2.10.5 Forward exchange contracts and other similar instruments that are not in respect of forecasted transactions are accounted for using the guidance in Accounting Standard (‘AS’) 11, ‘The effects of changes in foreign exchange rates’. For such forward exchange contracts and other similar instruments covered by AS 11, based on the nature and purpose of the contract, either the contracts are recorded based on the forward rate/fair value at the reporting date, or based on the spot exchange rate on the reporting date. For contracts recorded at the spot exchange rates, the premium or discount at the inception is amortized as income or expense over the life of the contract.

2.10.6 For forward exchange contracts and other derivatives that are not covered by AS 11 and that relate to a firm commitment or highly probable forecasted transactions, the Group has adopted Accounting Standard ('AS') 30, ‘Financial Instruments: Recognition and Measurement’ which is recommendatory with effect from April 1, 2009. In accordance with AS 30, such derivative financial instruments, which qualify for cash flow hedge accounting and where Group has met all the conditions of cash flow hedge accounting, are fair valued at balance sheet date and the resultant exchange loss/(gain) is debited/credited to the hedge reserve until the transaction is completed. Other derivative instruments that relate to a firm commitment or a highly probable forecasted transaction and that do not qualify for hedge accounting have been recorded at fair value at the reporting date and the resultant exchange loss/ (gain) has been debited/ credited to profit and loss account for the period.

2.11 Warranties

Warranty costs (i.e. post contract support services) are estimated by the management on the basis of technical evaluation and past experience. Provision is made for estimated liability in respect of warranty costs in the period of recognition of revenue.

2.12 Provision and contingent liabilities

The Group creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

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

2.13 Taxation

The current income tax charge is determined in accordance with the relevant tax regulations applicable to respective entities within the Group. Deferred tax charge or credit are recognised for the future tax consequences attributable to timing difference that result between the profit offered for income taxes and the profit as per the financial statements. Deferred tax in respect of timing difference which originate during the tax holiday period but reverse after the tax holiday period is recognised in the year in which the timing difference originate. For this purpose the timing differences which originate first are considered to reverse first. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, when there is a brought forward loss or unabsorbed depreciation under taxation laws, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written down or written up to reflect the amount that is reasonably/ virtually certain to be realised.

Minimum alternate tax (‘MAT’) paid in accordance with the tax laws, which gives rise to future economic benefits in the form of tax credit against future income tax liability, is recognised as an asset in the balance sheet if there is convincing evidence that the Group will pay normal tax after the tax holiday period and the resultant assets can be measured reliably. MAT credit entitlement can be carried forward and utilized for a period of ten years from the period in which such credit is availed.

The entities within the Group offset, on a year on year basis, the current 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.

2.14 Earnings per share

In determining earnings per share, the Group considers the net profit after tax and includes the post-tax effect of any extra-ordinary item. The number of equity shares used in computing basic earnings per share is the weighted average number of equity shares outstanding during the period. The number of equity shares used in computing diluted earnings per share comprises weighted average number of equity shares considered for deriving basic earnings per share and also weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares.

2.15 Impairment of assets

The Group assesses at each balance sheet date whether there is any indication that an asset (including goodwill) may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. 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 recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of asset does not exceed the net book value that would have been determined; if no impairment loss had been recognized. In respect of goodwill, impairment loss will be reversed only when it is caused by specific external events and their effects have been reversed by subsequent external events.

2.16 Employee stock options

The Group measures the compensation cost relating to employee stock options using the intrinsic value method. The compensation cost is amortized over the vesting period of the option.

2.17 Goodwill

Goodwill arising on consolidation/ acquisition of assets is not amortised. It is tested for impairment on a periodic basis and written off, if found impaired.

3. Acquisition and amalgamation of Aztecsoft Limited

The Company had acquired 36,441,595 equity shares of Aztecsoft Limited (‘Aztec’), a Company listed on recognized stock exchanges in India in the fiscal year 2008-09 for a consideration of Rs 2,920 million. Consequent to the acquisition of these shares, Aztec became a subsidiary of the Company. As at March 31, 2009, the Company held 79.9% of outstanding equity shares of Aztec.

The Company had filed an application with the Hon’ble High Court of Karnataka for the merger of Aztec with the Company effective April 1, 2009. During the previous year approval of the merger was received from the Hon’ble High Court of Karnataka on June 3, 2009.

In terms of the scheme, Aztec was amalgamated with the Company with effect from April 1, 2009. The Company has accounted for the amalgamation as amalgamation in the nature of purchase under AS 14, Accounting for Amalgamations.

Following are the salient features of the scheme:

a) 36,441,595 equity shares held by the Company in Aztec and 2,010,751 equity shares held by Aztec Software and Technology Services Limited Employees Welfare Trust were cancelled and extinguished, from the effective date of the scheme. Further 1,300,965 equity shares of the Company were issued to the erstwhile minority shareholders of Aztec holding 7,155,306 equity shares in Aztec based on the swap ratio of 2 equity shares in the Company for every 11 equity shares held in Aztec considering the market value of Rs. 211.05 per share of the Company as at April 1, 2009. The additional consideration thus paid to the minority shareholders of erstwhile Aztec amounted to Rs 275 million. Accordingly, the total consideration for the transaction amounted to Rs 3,195 million.

b) All the assets and liabilities of Aztec are recorded in the books of the Company at their carrying amounts as on April 1, 2009. The net worth of the Aztec as at the date of acquisition on initial control amounted to Rs 1,746 million.

c) Pursuant to the scheme of amalgamation approved by the Hon'ble High Court of Karnataka, the goodwill of Rs 1,407 million resulting from the aforesaid amalgamation was adjusted against the securities premium account of the Company.

4. Acquisition and amalgamation of MindTree Wireless Private Limited

a) During the previous year, the Company acquired 412,500 equity shares of MindTree Wireless Private Limited (MWPL) [formerly Kyocera Wireless (India) Private Limited] representing 100% of equity share capital of MWPL at a consideration of Rs. 437 million (including a contingent consideration of Rs 144 million). Consequently, MWPL became a 100% subsidiary of the Company with effect from October 1, 2009. The Company has subsequently reassessed contingent consideration payable based on forecast of estimated future revenue and during the quarter, reduced it by Rs 68 million (Rs 100 million during nine months period ended December 31, 2010). Consequently the cost of investment stands reduced to Rs 337 million as at 31 December 2010.

b) The Company filed a scheme of Amalgamation ("the Scheme") with the Hon'ble High Court of Karnataka for the merger of MWPL with the Company effective April 1, 2010 (the Appointed Date). In January 2011, the Hon'ble High Court of Karnataka approved the aforesaid Scheme vide its Order dated December 10, 2010.

As per the terms of the Scheme, MWPL was amalgamated with the Company with effect from April 1, 2010. The Company has accounted for the amalgamation as amalgamation in the nature of purchase under AS 14, Accounting for Amalgamations.

Following are the salient features of the Scheme:

a) 412,500 equity shares held by the Company in MWPL were cancelled and extinguished, from the effective date of the Scheme.

b) All the assets and liabilities of MWPL are recorded in the books of the Company at their respective book value as on April 1, 2010.

c) All the profits, income ,expenditure ,losses accruing to MWPL with effect from the Appointed Date shall be treated as the profits or income or expenditure or losses, as the case may be, of the Company.

Consequent to the Order, the Company has effected the Scheme in its financial statements for the quarter ended 31 December 2010. The cost of investment in excess of net book value of MWPL as on April 1, 2010 amounted to Rs 20 million and was recorded as goodwill in the financial statements.

5. Impairment of goodwill

The management has assessed whether there is an indication that the goodwill may be impaired. Considering the restructuring of business model i.e. conversion of wireless products business into a design service business and expected decline in the future revenues of MWPL, the entire goodwill arising on amalgamation was considered to be impaired and an impairment loss to that extent was recognized and disclosed under depreciation and amortisation.

6. Purchase of assets

During the year, the Group acquired certain fixed assets, RAPID software platform, customer contracts and employment contracts for a cash consideration of Rs 72 million from Sevenstrata IT Services Private Limited. The acquisition was carried out by entering into an Agreement to Sell Assets ('Agreement') with Sevenstrata IT Services Private Limited. The RAPID software acquired pursuant to the Agreement has been accounted for as an intangible as per AS-26 'Intangible Assets' ('AS 26') and valued at Rs 63 million as determined by an independent external expert. The customer contracts and employment contracts have not been assigned any value as they do not meet the criteria of an intangible asset as per AS 26. The remaining consideration represents the net book value of the assets taken over.

The Management believes the useful life of the aforesaid intangible to be 5 years as it represents the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the Group.

7. The Group uses the intrinsic value method of accounting for its employee stock options. The Group has therefore adopted the pro-forma disclosure provisions of 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 according to the fair value approach described in the aforesaid Guidance Note, the Group’s net profit and EPS as reported would have been adjusted to the pro-forma amounts indicated below:

Rs in million except EPS data

Particulars	**Quarter ended Dec 31, 2010**	**Quarter ended Dec 31, 2009**	**Nine months ended Dec 31, 2010**	**Nine months ended Dec31, 2009**
Net profit as reported	304	537	696	1,604
Add: Stock-based employee compensation expense (intrinsic value method)	-	1	1	5
Less: Stock-based employee compensation expense (fair value method)	30	25	71	75
Pro forma net profit	274	513	626	1,534
Basic earnings per share as reported	7.66	13.70	17.52	40.95
Pro forma basic earnings per share	6.92	13.08	15.75	39.15
Diluted earnings per share as reported	7.46	13.09	17.00	39.52
Pro forma diluted earnings per share	6.74	12.50	15.28	37.79

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

Dividend yield	0.20%
Expected life	3-5 years
Risk free interest rate	7.23 – 7.81%
Volatility	91.76%

8. Capital commitments and contingent liabilities

a) Estimated amount of contracts remaining to be executed on capital account and not provided for as at December 31, 2010 is Rs 75 million (previous year: Rs 381million).

b) Guarantees given by Group’s bankers as at December 31, 2010 are Rs.166 million (previous year: Rs 123 million).

c) As of the balance sheet date, the Group’s net foreign currency exposure that are not hedged by a derivative instrument or otherwise is Rs 2,391 million (previous year: Rs 2,062 million).

d) On September 19, 2007, the Group received a notice from the Honorable High court of Karnataka to appear before the Honorable court in respect of assessment of income for Assessment Year (‘A.Y’) 2001-02. The Assessing Officer (‘AO’) has held that interest receipts are not eligible for deduction under Section 10B of the Act even though they are business income and disallowed the same and raised a demand of Rs 1 million. Further AO also mentioned that losses from export earnings cannot be set off against other income. The AO also rejected the claim of carry forward of business loss and unabsorbed depreciation. The order of the AO was not upheld by Income Tax Appellate Tribunal (ITAT) and the AO preferred an appeal with the Honorable High Court of Karnataka against the order of the ITAT. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements.

e) On January 2, 2008, the Group has received an assessment order for A.Y 2005-06 from the AO with a demand amounting to Rs 6 million on account of certain disallowances / adjustments made by income tax department. A significant portion of this amount arose from manner of adjustment of brought forward losses in arriving at the taxable profits of the Group. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements. The Group has filed an appeal against the order received. The Income–tax department has adjusted the amount of demand against the refund due for A.Y 2006-07.

f) On January 5, 2009, the Group has received an assessment order for A.Y 2006-07 from the Assistant Commissioner of Income-tax (‘ACIT’) with a demand amounting to Rs 51 million on account of certain disallowances / adjustments made by income tax department. A significant portion of this amount arises from manner of adjustment of brought forward losses in arriving at the taxable profits of the Group. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements. The Group has filed an appeal against the demand received.

g) On January 2, 2010, the Group has received an assessment order for A.Y 2007-08 from the Assistant Commissioner of Income-tax (‘ACIT’) with a demand amounting to Rs. 32 million on account of certain disallowances / adjustments made by income tax department. A significant portion of this amount arises from manner of adjustment of brought forward losses in arriving at the taxable profits of the Group. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements. The Group has filed an appeal against the demand received. The Group has not deposited the amount of demand with the department.

h) On January 2, 2010, the Group has received an assessment order for A.Y 2007-08 for the erstwhile subsidiary i.e. MindTree Technologies Private Limited from the Assistant Commissioner of Income-tax (‘ACIT’) with a demand amounting to Rs. 11 million on account of certain disallowances/ adjustments made by income tax department. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements. The Group has filed an appeal against the demand received. The Group has not deposited the amount of demand with the department.

i) The Group has received orders under Section 143(3) of the Income-tax Act 1961 which pertain to erstwhile Aztecsoft Limited for the financial years 2001-02, 2002-03, 2003-04 and 2004-05 wherein demand of Rs 91 million, Rs 49 million, Rs 61 million and Rs 28 million respectively has been raised against the Group.

These demands have arisen mainly on account of transfer pricing adjustments made in the order. The Group has not accepted these orders and had been advised by its legal counsel/ advisors to prefer appeals before the Commissioner of Income Tax (Appeals).

The Group had received a favourable order from the Commissioner of Income Tax (Appeals) for the year 2001-02 where in the Commissioner of Income Tax (Appeals) has accepted the Group's contentions and quashed the demand raised. The Income tax department had appealed against the above mentioned order with ITAT. ITAT, during the previous year have passed an order setting aside both the Order of the Commissioner of Income Tax (Appeals) as well as the Assessing Officer and has remanded the matter back to the assessment officer for re-assessment. The Group has preferred an appeal with the High Court of Karnataka against the order of the ITAT. Further, during the previous year the High Court of Karnataka has stayed the operation and all further proceedings pursuant to the order passed by the ITAT.

The Group has appealed against the demands received for financial year 2002-03, 2003-04 and 2004-05 to the Commissioner of Income-tax (Appeals) where the matter is pending conclusion. Based on favourable order received by the Group for the financial year 2001-02 and an evaluation of the facts and circumstances, no provision has been made against the above orders in the financial statements.

j) During the current period, the Group has received a draft assessment order for Financial Year 2006-07 under Section 143(3) of the Income Tax Act, 1961. The assessment order pertains to erstwhile Aztecsoft Limited wherein the demand of Rs. 112 million has been raised against the Group. The demand have arisen mainly on account of transfer pricing adjustment and certain other disallowances/adjustments. The Group is the process of filing its objections with Dispute Resolution Authorities. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements. As the Group is in the process of filing its objections, it has not deposited the amount of demand with the department.

k) During the current period, the Group has received order under Section 143(3) of the Income-tax Act 1961 which pertain to erstwhile Aztecsoft Limited for the financial year 2005-06, wherein demand of Rs 58 million, has been raised against the Group. The demand have arisen mainly on account of transfer pricing adjustment made in the order. The Group has not accepted these orders and has filed the appeal before the ITAT.

l) During the current period, the Group has received an assessment order for A.Y 2008-09 for the erstwhile subsidiary i.e. MindTree Technologies Private Limited from the Deputy Commissioner of Income-tax ('DCIT') with a demand amounting to Rs. 10 million on account of certain disallowances / adjustments made by income tax department. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements. The Group has not accepted these orders and had been advised by its legal counsel/ advisors to prefer appeals before the Commissioner of Income Tax (Appeals). The Group has not deposited the amount of demand with the department.

m) During the current period, the Group has received an assessment order for A.Y 2008-09 from the DCIT with a demand amounting to Rs 42 million on account of certain disallowances / adjustments made by income tax department. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements. The Group has not accepted these orders and had been advised by its legal counsel/ advisors to prefer appeals before the Commissioner of Income Tax (Appeals). The Group has not deposited the amount of demand with the department.

9. Segmental reporting

The Group's operations predominantly relate to providing IT Services, PE Services and Wireless Services. The Group considers the business segment as the primary segment and geographical segment based on the location of customers as the secondary segment.

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

Income and direct expenses in relation to segments are categorised based on items that are individually identifiable to that segment, while the remainder of costs are apportioned on an appropriate basis. Certain expenses 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 expenses and accordingly such expenses are separately disclosed as unallocable and directly charged against total income.

The assets of the Group are used interchangeably between segments, and the management believes that it is currently not practical to provide segment disclosures relating to total assets and liabilities since a meaningful segregation is not possible.

Business segments

Rs in million

Consolidated Profit and loss statement for the quarter ended December 31, 2010	**PE Services**	**IT Services**	**Wireless Services**	**Total**
Revenues	1,383	2,284	181	3,848
Operating expenses, net	1,223	1,956	249	3,428
Segmental operating income	**160**	**328**	**(68)**	**420**
Unallocable expenses				177
Profit for the quarter before interest, other income and tax				**243**
Interest expense				1
Other income				95
Net profit before taxes				**337**
Income taxes				33
Net profit after taxes				**304**

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Rs in million

Consolidated Profit and loss statement for the quarter ended December 31, 2009	**PE Services**	**IT Services**	**Wireless Services**	**Total**
Revenues	1,398	1,697	223	3,318
Operating expenses, net	1,075	1,452	162	2,689
Segmental operating income	**323**	**245**	**61**	**629**
Unallocable expenses				140
Profit for the quarter before interest, other income and tax				**489**
Interest expense				1
Other income				202
Net profit before taxes				**690**
Income taxes				153
Net profit after taxes				**537**

Rs in million

Consolidated Profit and loss statement for the nine months ended December 31, 2010	**PE Services**	**IT Services**	**Wireless Services**	**Total**
Revenues	4,241	6,363	575	11,179
Operating expenses, net	3,691	5,509	778	9,978
Segmental operating income	**550**	**854**	**(203)**	**1,201**
Unallocable expenses				391
Profit for the period before interest, other income and tax				**810**
Interest expense				2
Other income				141
Net profit before taxes				**949**
Income taxes				253
Net profit after taxes				**696**

Rs in million

Consolidated Profit and loss statement for the nine months ended December 31, 2009	**PE Services**	**IT Services**	**Wireless Services**	**Total**
Revenues	4,148	5,145	223	9,516
Operating expenses, net	3,286	4,321	162	7,769
Segmental operating income	**862**	**824**	**61**	**1,747**
Unallocable expenses				412
Profit for the period before interest, other income and tax				**1,335**
Interest expense				25
Other income				573
Net profit before taxes				**1,883**
Income taxes				279
Net profit after taxes				**1,604**

Geographical segments

Rs in million

Revenues	**Quarter ended December 31, 2010**	**Quarter ended December 31 , 2009**	**Nine months ended December 31, 2010**	**Nine months ended December 31, 2009**
America	2,323	2,139	7,000	6,260
Europe	747	610	2,026	1,911
India	323	212	932	556
Rest of World	455	357	1,221	789
Total	**3,848**	**3,318**	**11,179**	**9,516**

10. Related party transactions

Name of related party	**Nature of relationship**
Aztec Software and Technology Services Limited Employees' Welfare Trust	Trust formed by Aztec to implement and administer the Employees' Stock Option Plans.
MindTree Benefit Trust	Trust is effectively controlled by MindTree

Key managerial personnel:

Ashok Soota	Executive Chairman
Subroto Bagchi	Gardener and Vice-Chairman
N Krishnakumar	CEO & Managing Director
S Janakiraman	President & Group-CEO
Dr. Albert Hieranimous	Non executive Director of MindTree
George M. Scalise	Non executive Director of MindTree
Mark A. Runacres	Non executive Director of MindTree
N. Vittal	Non executive Director of MindTree
R. Srinivasan	Non executive Director of MindTree
V.G.Siddhartha	Non executive Director of MindTree
David B. Yoffie	Non executive Director of MindTree
Rajesh Subramaniam	Non executive Director of MindTree

Remuneration paid to key managerial personnel for the quarter ended December 31, 2010 amounts to Rs. 13 million and for the nine months ended December 31, 2010 amounts to Rs.36 million (quarter ended December 31, 2009 Rs.10 million and nine months ended December 31, 2009 Rs.24 million). Amounts payable to directors in the nature of travel and business expenses as at December 31, 2010 amounted to Rs.1 million (previous period: Rs 0.8 million).

**Stock compensation cost has not been considered in the managerial remuneration computation.

The above excludes gratuity and compensated absences which cannot be separately identified from the composite amount advised by the actuary.

11. Earnings per share

Reconciliation of number of shares used in the computation of basic and diluted earnings per share is set out below:

	For the quarter ended December 31, 2010		For the quarter ended December 31, 2009	
Particulars	**Basic EPS**	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Number of shares				
Weighted average number of equity shares outstanding during the period	39,822,097	39,822,097	39,247,099	39,247,099
Weighted average number of equity shares resulting from assumed exercise of employee stock options	-	1,061,766	-	1,828,273
Weighted average number of equity shares for calculation of earnings per share	39,822,097	40,883,863	39,247,099	41,075,372

	For the nine months ended December 31, 2010		For the nine months ended December 31, 2009	
Particulars	**Basic EPS**	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Number of shares				
Weighted average number of equity shares outstanding during the period	39,708,444	39,708,444	39,169,692	39,169,692
Weighted average number of equity shares resulting from assumed exercise of employee stock options	-	1,218,400	-	1,413,708
Weighted average number of equity shares for calculation of earnings per share	39,708,444	40,926,845	39,169,692	40,583,400

12. Derivatives

As at December 31, 2010, the Group has outstanding forward contracts amounting to USD 77.25 million and Euro 2.4 million (previous year: USD 80.8 million), option contracts amounting to Euro 0.6 million (previous year: USD 7 million), forward strips and leverage option contracts amounting to USD 75.75 million (previous year: USD 100 million). These derivative instruments have been entered to hedge highly probable forecast sales.

In accordance with the provisions of AS 30, those derivative instruments which qualify for cash flow hedge accounting have been fair valued at balance sheet date and the resultant exchange gain of Rs 107 million as at December 31, 2010 (previous year: Rs 118 Million) has been credited to hedge reserve. Other derivative instruments that do not qualify for hedge accounting have been fair valued at balance sheet date and resultant exchange gain of Rs 72 million for the quarter ended December 31, 2010 and exchange gain of Rs 88 million for the nine months ended December 31, 2010 (quarter ended December 31, 2009: gain of Rs 262 million, nine months ended December 31, 2009: gain of Rs 912 million) has been recorded in the profit and loss account.

13. Corresponding figures for previous periods presented have been regrouped, where necessary, to conform to the current period's classification

As per our report attached
For **B S R & Co.**
Chartered Accountants
Firm registration No. 101248W

For **MindTree Limited**

Supreet Sachdev
Partner
Membership No. 205385

Ashok Soota
Executive Chairman

N. Krishnakumar
CEO & Managing Director

Rostow Ravanan
Chief Financial Officer

Rajesh Srichand Narang
Company Secretary

Place: Bangalore
Date: January 18, 2011

Place: Bangalore
Date: January 18, 2011