1. Background

MindTree Limited ('MindTree' or 'the Company') together with its subsidiaries MindTree Wireless Private Limited and MindTree Software (Shenzhen) Co. Ltd 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 two business units that focus on software development – Information Technology ('IT') Services and Product Engineering ('PE') Services. 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. 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. 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 consolidated financial statements

The 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), the relevant provisions of the Companies Act, 1956, (the 'Act') to the extent applicable and the guidelines issued by Securities and Exchange Board of India ('SEBI').

2.2 Principles of consolidation

The consolidated financial statements include the financial statements of MindTree and its subsidiaries. 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 resulting unrealized gain/loss from the date the parent company acquired control of those subsidiaries. The names of the subsidiaries have been disclosed in Note 16(14).

The 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 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.

2.3 Fixed assets and depreciation

2.3.1 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.

2.3.2 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 Company.

2.3.3 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.

2.3.4 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.

2.3.5 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**
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

Buildings	25-30 years

2.3.6 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.

2.3.7 The cost of leasehold land is amortised over the period of the lease. Leasehold improvements are amortised over the lease term or useful life, whichever is lower.

2.4 Investments

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

2.4.2 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.

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

2.5 Cash and cash equivalents

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

2.6 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 Company are segregated.

2.7 Employee benefits

2.7.1 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.

2.7.2 Compensated absences is 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.

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

2.8 Revenue recognition

2.8.1 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.

2.8.2 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.

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

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

2.9 Foreign exchange transactions

2.9.1 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. Additionally, the Group enters into interest rate and currency derivatives to minimize its interest costs.

2.9.2 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 year are recognised in the profit and loss account for the year.

2.9.3 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.

2.9.4 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.

2.9.5 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.

2.9.6 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 year.

2.10 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 year of recognition of revenue.

2.11 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.

2.10 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 seven 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.

2.11 Fringe benefit tax

Consequent to the introduction of Fringe Benefit Tax (FBT) effective April 1, 2005, in accordance with the guidance note on accounting for fringe benefits tax issued by the ICAI, the Group has made provision for FBT under income taxes.

The Finance Act, 2007 has introduced Fringe Benefit Tax (FBT) on employee stock options. The Group recovers such FBT from the employees, upon the exercise of the stock options. The FBT liability and related recovery is recorded at the time of exercise of options in the profit and loss account.

The Finance Act, 2009 has withdrawn FBT effective April 1, 2009 and accordingly there is no charge of FBT in the current year financial statements.

2.12 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 year. 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.

2.13 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.

2.14 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.

2.15 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 TES PV Electronic Solutions Private Limited.

On December 17, 2007, MindTree had acquired 100% equity in TES PV Electronic Solutions Private Limited (‘TES PV’), a company that delivered a range of services that included hardware product design cycle, system design cycle (board design/development), embedded software services, turnkey silicon design, coverage, IP-ReD, EDA Solutions, embedded system solutions, system/ board design and intellectual properties. TES PV was subsequently renamed as MindTree Technologies Private Limited (‘MTPL’).

In the earlier year, assets, liabilities, income and expenses of MTPL were consolidated with MindTree on a line-by-line basis from the date MindTree acquired control of MTPL.

In the previous year, subsequent to the acquisition, the Company vide a scheme of amalgamation (‘the scheme’) approved by the shareholders of the Company in June 2008 proposed to merge MTPL with itself. Approval of Hon’ble High Court of Karnataka was received in January 2009 and the scheme was effective April 1, 2008.

In terms of the scheme, MTPL was amalgamated with the Company with effect from April 1, 2008. 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) 6,000 equity shares of Rs 100/- each held by the Company in MTPL were cancelled and extinguished, from the effective date of the scheme.
b) All the assets and liabilities of MTPL are recorded in the books of the Company at their carrying amounts as on April 1, 2008.
c) Pursuant to the scheme of amalgamation approved by the Hon'ble High Court of Karnataka, the goodwill of Rs 214,309,508 resulting from the amalgamation was adjusted against the securities premium account of the Company. If the treatment specified by AS-14 had been followed, the goodwill balance of Rs 214,309,508 would have been required to be amortized as per the Company's accounting policy.

4. Acquisition and amalgamation of Aztecsoft Limited

During the previous year, the Company had acquired 36,441,595 equity shares of Aztecsoft Limited ('Aztec'), a Company listed on recognized stock exchanges in India for a consideration of Rs 2,919,519,314. 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 current 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 7155306 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 274,568,663. Accordingly, the total consideration for the transaction amounted to Rs 3,194,087,977

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 1,745,890,512.

c) Pursuant to the scheme of amalgamation approved by the Hon'ble High Court of Karnataka, the goodwill of Rs 1,407,210,756 resulting from the aforesaid amalgamation was adjusted against the securities premium account of the Company.

5. Purchase of Business

During the year, the Company acquired 412,500 equity shares of Kyocera Wireless (India) Private Limited ('KWI') representing 100% of equity share capital of KWI at a cost of Rs.436,793,805.

Consequently, KWI has become a 100% subsidiary of the Company with effect from October 1, 2009. Subsequent to the acquisition, the name of KWI was changed to MindTree Wireless Private Limited ('MWPL').

The Company has filed an application with the Hon'ble High Court of Karnataka for the merger of MindTree Wireless Private Limited with the Company effective April 1, 2010.

From the date of acquiring control, assets, liabilities, income and expenses are consolidated on a line-by- line basis. The consolidation has resulted in a goodwill of Rs. 154,258,759.

6. Employee stock options

MindTree instituted the Employees Stock Option Plan ('ESOP') in fiscal 2000, which was approved by the Board of Directors (Board). Under the ESOP, the Company currently administers six stock option programs.

Program 1 [ESOP 1999]

Options under this program are exercisable at an exercise price of Rs 2 per option. All stock options have a four-year vesting term and vest at the rate of 15%, 20%, 30% and 35% at the end of 1, 2, 3 and 4 years respectively from the date of grant and become fully exercisable. Each option is entitled to 1 equity share of Rs 10 each. This program extends to employees who have joined on or before September 30, 2001 or have been issued employment offer letters on or before August 7, 2001. This plan was terminated on September 30, 2001. The contractual life of each option is 11 years after the date of grant.

Outstanding options as at April 1, 2009	32,289
Granted during the year	-
Exercised during the year	17,401
Lapsed during the year	-
Forfeited during the year	-
Outstanding options as at March 31, 2010	14,888

Program 2 [ESOP 2001]

Options under this program have been granted to employees at an exercise price of Rs 50 per option. All stock options have a four-year vesting term and vest at the rate of 15%, 20%, 30% and 35% at the end of 1, 2, 3 and 4 years respectively from the date of grant and become fully exercisable. Each option is entitled to 1 equity share of Rs 10 each. This program extends to employees who have joined on or after October 1, 2001 or have been issued employment offer letters on or after August 8, 2001 or options granted to existing employees with grant date on or after October 1, 2001. This plan was terminated on April 30, 2006. The contractual life of each option is 11 years after the date of grant.

Outstanding options as at April 1, 2009	283,911
Granted during the year	-
Exercised during the year	94,487
Lapsed during the year	5,547
Forfeited during the year	-
Outstanding options as at March 31, 2010	183,877

Program 3 [ESOP 2006 (a)]

Options under this program have been granted to employees at an exercise price of Rs 250 per option. All stock options have a four-year vesting term and vest at the rate of 15%, 20%, 30% and 35% at the end of 1, 2, 3 and 4 years respectively from the date of grant and become fully exercisable. Each option is entitled to 1 equity share of Rs 10 each. This program extends to employees to whom the options are granted on or after May 1, 2006. This plan was terminated on October 25, 2006. The contractual life of each option is 5 years after the date of grant.

Outstanding options as at April 1, 2009	269,803
Granted during the year	-
Exercised during the year	60,112
Lapsed during the year	5,135
Forfeited during the year	8,640
Outstanding options as at March 31, 2010	195,916

Program 4 [ESOP 2006 (b)]

Options under this program are granted to employees at an exercise price periodically determined by the Compensation Committee. All stock options have a four-year vesting term and vest at the rate of 15%, 20%, 30% and 35% at the end of 1, 2, 3 and 4 years respectively from the date of grant and become fully exercisable. Each option is entitled to 1 equity share of Rs 10 each. This program extends to employees to whom the options are granted on or after October 25, 2006. The contractual life of each option is 5 years after the date of grant.

Outstanding options as at April 1, 2009	2,737,167
Granted during the year	232,000
Exercised during the year	156,476
Lapsed during the year	19,983
Forfeited during the year	133,774
Outstanding options as at March 31, 2010	2,658,934

Program 5

Options under this program are granted to employees of erstwhile Aztecsoft Limited as per SWAP ratio of 2:11 as specified in the merger scheme. All stock options have a four-year vesting term and vest at the rate of 15%, 20%, 30% and 35% at the end of 1, 2, 3 and 4 years respectively from the date of grant and become fully exercisable. Each option is entitled to 1 equity share of Rs 10 each. The contractual life of each option is 5 years after the date of grant.

Outstanding options as at April 1, 2009	360,131
Granted during the year	-
Exercised during the year	58,828
Lapsed during the year	14,256
Forfeited during the year	53,575
Outstanding options as at March 31, 2010	233,472

Directors' Stock Option Plan, 2006 ('DSOP 2006')

Options under this program have been granted to independent directors at an exercise price of Rs 300 per option. All stock options vest equally over three year vesting term at the end of 1, 2 and 3 years respectively from the date of the grant and become fully exercisable. Each option is entitled to 1 equity share of Rs 10 each. The contractual life of each option is 4 years after the date of the grant.

Outstanding options as at April 1, 2009	116,670
Granted during the year	-
Exercised during the year	19149
Lapsed during the year	-
Forfeited during the year	-
Outstanding options as at March 31, 2010	97,521

The weighted average exercise price is Rs 10 under program 1, Rs 50 under program 2, Rs 250 under program 3, Rs 345.60 under program 4, Rs. 406.50 under program 5 and Rs 292.21 under DSOP 2006.
The weighted average exercise price for stock options exercised during the year ended March 31, 2010 was Rs 231.55 The options outstanding at March 31, 2010 had a weighted average exercise price of Rs 325.40 and a weighted average remaining contractual life of 3.87 years.

The Group has recorded compensation cost for all grants using the intrinsic value-based method of accounting, in line with prescribed SEBI guidelines

Had compensation been determined under the fair value approach described in the Guidance Note on, "Accounting for employee share based payments" issued by ICAI, the Group's net profit and basic and diluted earnings per share would have reduced to the proforma amounts as indicated:

Amount in Rs

Particulars	**Year ended March 31, 2010**	**Year ended March 31, 2009**
Net profit as reported	2,148,587,406	523,011,713
Add: Stock-based employee compensation expense (intrinsic value method)	5,140,592	9,982,125
Less: Stock-based employee compensation expense (fair value method)	95,935,045	132,320,257
Pro forma net profit	2,057,792,953	400,673,581
Basic earnings per share as reported	54.77	13.84
Pro forma basic earnings per share	52.50	10.60
Diluted earnings per share as reported	52.79	13.70
Pro forma diluted earnings per share	50.60	10.50

The weighted average fair value of each option of MindTree, granted during the year ended March 31, 2010, estimated on the date of grant was Rs 368.70 using the Black-Scholes model with the following assumptions:

Grant date share price	Rs.253 – Rs.580
Exercise price	Rs.253 – Rs.580

Dividend yield%	0.17% - 0.04%
Expected life	3 – 5 years
Risk free interest rate	5.46% - 8.06%
Volatility	61.64% - 89.72%

7. Provision for taxation

The Group has STPI units at Bangalore, Hyderabad and Pune which are registered as a 100 percent Export Oriented Unit, which is entitled to a tax holiday under Section 10B and Section 10A of the Income Tax Act, 1961. However, some of the units have completed the 10 year tax holiday period and are not eligible for deduction of profits under Section 10A/10B of the Income Tax Act, 1961. The Company also has units at Bangalore and Chennai registered as Special Economic Zone (SEZ) units which are entitled to a tax holiday under Section 10AA of the Income Tax Act, 1961.

Deferred tax assets included in the balance sheet comprises the following:

Amount in Rs

	As at March 31, 2010*	**As at March 31, 2009**
Excess of depreciation as per books over depreciation allowed under Income Tax Act, 1961	171,038,755	72,165,910
Provision for doubtful debts	12,646,632	83,942,263
Provision for compensated absence	26,416,581	31,090,350
Provision for warranty	1,668,378	2,549,250
Provision for gratuity	1,782,041	-
Total deferred tax assets	**213,552,388**	**189,747,773**

Deferred tax assets include Rs 52,277,526 acquired as a part of business purchase. Refer Note 5 of Schedule 16.

8. Capital commitments and contingent liabilities

a) Estimated amount of contracts remaining to be executed on capital account and not provided for as at March 31, 2009 is Rs. 381,840,535 (previous year: Rs 102,192,299).

b) Guarantees given by Group's bankers as at March 31, 2010 are Rs. 123,299,404 (previous year- Rs 35,971,678).

c) Claims against the Group not acknowledged as debts amounts to Rs Nil (Previous year- Rs 691,000).

d) On September 19, 2007, the Company 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 616,530. 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 for year end March 31, 2010.

e) On January 2, 2008, the Company has received an assessment order for A.Y 2005-06 from the AO with a demand amounting to Rs 6,479,880 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 Company. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements for the year ended March 31, 2010. The Company has filed an appeal against the demand 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 Company has received an assessment order for A.Y 2006-07 from the Assistant Commissioner of Income-tax (‘ACIT’) with a demand amounting to Rs 51,446,560 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 Company. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements for the year ended March 31, 2010. The Company has filed an appeal against the demand received.

g) On January 2, 2010, the Company has received an assessment order for A.Y 2007-08 from the Assistant Commissioner of Income-tax (‘ACIT’) with a demand amounting to Rs. 32,236,229 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 Company. Management believes that the position taken by it on the matter is tenable and hence, no adjustment has been made to the financial statements for the year ended March 31, 2010. The Company has filed an appeal against the demand received. The Company has not deposited the amount of demand with the department.

h) On January 2, 2010, the Company has received an assessment order for A.Y 2007-08 for the erstwhile subsidiary MindTree Technologies Private Limited from the Assistant Commissioner of Income-tax (‘ACIT’) with a demand amounting to Rs. 11,162,792 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 for the year ended March 31, 2010. The Company has filed an appeal against the demand received. The Company has not deposited the amount of demand with the department.

i) The Company has received orders under Section 143(3) of the Income-tax Act 1961 which pertain to erstwhile Aztecsoft Limited for the financial year 2001-02, 2002-03,

2003-04 and 2004-05 wherein demand of Rs 91,481,000, Rs 49,264,000, Rs 60,837,000 and Rs 28,484,000 respectively has been raised against the Company. These demands have arisen mainly on account of transfer pricing adjustments made in the order. The Company 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 Company 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 Company's contentions and quashed the demand raised. The Income tax department had appealed against the above mentioned order with ITAT. ITAT, during the current 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 Company has preferred an appeal with the High Court of Karnataka against the order of the ITAT. Further, during the year the High Court of Karnataka has stayed the operation and all further proceedings pursuant to the order passed by the ITAT.

The Company 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 Company 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 for the year ended March 31, 2010.

j) MWPL has received as assessment order for the assessment year 2005-06 for an amount of Rs. 17,064,562 under Section 156 of the Income Tax Act, 1961. MWPL has filed an appeal against the same. However, MWPL has issued a bank guarantee in favour of the tax authorities for an amount of Rs 16,660,610. The Group does not expect any additional cash flow in respect of the balance amount of Rs. 403,952

9. Segmental reporting

The Group's operations predominantly relate to providing IT Services, PE 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

Amount in Rs

Consolidated profit and loss statement for the year ended March 31, 2010	**IT Services**	**PE Services**	**Total**
Revenues	6,980,280,117	5,979,525,937	12,959,806,054
Operating expenses, net	5,843,470,291	4,774,341,509	10,617,811,800
Segmental operating income	**1,136,809,826**	**1,205,184,429**	**2,341,994,254**
Unallocable expenses			538,077,084
Profit for the period before interest			**1,803,917,170**
Interest expense			26,664,861
Other income			769,595,356
Net profit before taxes			**2,546,847,665**
Income taxes			398,260,259
Net profit after taxes			**2,148,587,406**

Amount in Rs

Consolidated profit and loss statement for the year ended March 31, 2009	**IT Services**	**PE Services**	**Total**
Revenues	7,924,678,720	4,449,993,899	12,374,672,619
Operating expenses, net	5,734,698,847	3,721,517,272	9,456,216,119
Segmental operating income	**2,189,979,873**	**8,171,511,171**	**2,918,456,500**
Unallocable expenses			2,267,800,043
Profit for the period before interest			**650,656,457**
Interest expense			161,991,560
Other income			115,189,498
Net profit before taxes			**603,854,395**
Income taxes			67,244,599
Net profit after taxes			**536,609,796**
Share of profits of associates			27,388,626
Net profit before minority interest			**563,998,422**
Minority interest			40,986,709
Net profit for the year after minority interest			**523,011,713**

Geographical segments

Amount in Rs

Revenues	Year ended March 31, 2010	Year ended March 31, 2009
America	8,420,895,246	8,079,437,519
Europe	2,555,182,101	2,438,721,233
India	773,653,112	780,314,577
Rest of World	1,210,075,594	1,076,199,290
Total	**12,959,806,054**	**12,374,672,619**

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 effective April 1, 2009
Subroto Bagchi	Gardener and Vice-Chairman
N Krishnakumar	CEO & Managing Director effective April 1, 2009
S Janakiraman	President & Group-CEO effective April 1, 2009
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 amounts to Rs. 31,270,399. (previous year: Rs 30,861,603). Amounts payable to directors in the nature of travel and business expenses as at March 31, 2010 amounted to Rs.784,353 (previous year: Rs 582,711). Dividends paid to Directors amounted to Rs 9,560,261 (previous year: Rs 9,560,261).

**Stock compensation cost amounting to Rs 5,140,592 has not been considered in the managerial remuneration computation.

The above excludes gratuity and leave encashment payable which cannot be separately identified from the composite amount advised by the actuary.

11. Lease transactions

All assets leased on a 'finance lease' basis on or after April 1, 2001 are capitalized in the books of the Group with a corresponding liability recognising future liability on these leases. The Group has acquired certain vehicles on finance lease. The legal title to these vehicles under finance lease vests in the lessors.

The total minimum lease payments at the balance sheet date, element of interest included in such payments, and present value of minimum lease payments are as follows:

Amount in Rs

Particulars	**As at March 31, 2010**	**As at March 31, 2009**
(a) Total minimum lease payments	-	-
(b) Future interest included in (a) above	-	-
(c) Present value of minimum lease payments [(a)- (b)]	-	-

Finance charges during the year on such finance leases as mentioned above are Rs Nil (previous year-Rs 1,111,954) which is included under 'Interest on short term credit / finance charges'.

Lease rental expense under non-cancelable operating lease during the year amounted to Rs. 92,459,089 (previous year-Rs 73,477,226). Future minimum lease payments under non-cancelable operating lease as at March 31, 2010 is as below:

Minimum lease payments	**Amount in Rs**
Payable -- Not later than one year	24,702,532
Payable -- Later than one year and not later than five years	17,726,285

Additionally, the Group leases office facilities and residential facilities under cancelable operating leases. The rental expense under cancelable operating lease during the period was Rs. 234,055,144 (previous year-Rs 217,304,938).

12. Earnings per share

Reconciliation of shares used in the computation of earnings per share is set out below:

Amount in Rs

	For the year ended March 31, 2010		For the year ended March 31, 2009	
Particulars	**Basic EPS**	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Profit after tax	**2,148,587,406**		**523,011,713**	
Shares				
Weighted average number of equity shares outstanding during the year	39,232,474	39,232,474	37,784,844	37,784,844
Weighted average number of equity shares resulting from assumed exercise of employee stock options	-	1,465,181	-	390,054
Weighted average number of equity shares for calculation of earnings per share	39,232,474	40,697,655	37,784,844	38,174,898

As per the Guidance note (issued in January 2005) on Accounting for Employee Share Based Payments by the ICAI, Nil (previous year- 189,110), weighted average number of shares held by MindTree Benefit Trust have been reduced from the equity shares outstanding for computing basic and diluted earnings per share for the year ended March 31, 2010.

13. The details of the subsidiaries as at March 31, 2010 are as follows:

Name of the subsidiaries	Country of incorporation	Proportion of interest
MindTree Wireless Private Limited	India	100%
MindTree Software (Shenzhen) Co Ltd ,	Republic of China	100%
Aztec Software Inc	USA	100%
Aztecsoft Disha Inc	USA	100%

Also refer Note 3 and 4 of Schedule 16.

14. The disclosure of provisions movement as required under the provisions of Accounting Standard – 29 'Provisions, Contingent Liabilities and Contingent Assets' is as follows:-

Provision for post contract support services

Amount in Rs

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Balance as at beginning of the year	10,000,000	10,480,060
Provisions made during the year	-	-
Utilisations during the year	-	-
Released during the year	5,091,562	480,060

Provision as at the end of the year	4,908,438	10,000,000

Provision for discount

Amount in Rs

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Balance as at beginning of the year	51,354,403	44,983,541
Provisions made during the year	43,105,129	17,060,691
Utilisations during the year	(29,747,942)	(10,689,829)
Released during the year	(14,276,295)	-
Provision as at the end of the year	50,435,295	51,354,403

Provision for foreseeable losses

Amount in Rs

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Balance as at beginning of the year	-	-
Provisions made during the year	36,787,599	-
Utilisations during the year	-	-
Released during the year	12,849,230	-
Provision as at the end of the year	23,938,369	-

Management expects to utilize these provisions over a period of six months to one year.

15. Statement of utilisation of IPO funds as of March 31, 2010

Particulars	Amount in Rs
Amount raised through IPO	2,377,152,500
Share issue expenses paid	188,717,404
Net proceeds	**2,188,435,096**
Deployment	
Repayment of debts	113,750,000
Development centre at Chennai	812,542,615
Investment in fixed deposits with banks	-
Short term investments in mutual funds pending utilization (excluding income received from mutual fund amounting to Rs 1,420,385 re-invested)	-
General corporate purposes	1,262,142,481
Total	**2,188,435,096**

16. Gratuity plan

The following table set out the status of the gratuity plan as required under AS 15

Employee Benefits.

Amount in Rs

Particulars	**For the year ended March 31, 2010**	**For the year ended March 31, 2009**
Obligations at the beginning of the year	**175,098,521**	109,698,263
Obligations acquired as part of the business purchase*	21,514,301	34,277,000
Service cost	29,966,236	25,123,432
Interest cost	14,040,818	8,527,196
Benefits settled	(11,249,873)	(5,846,616)
Actuarial (gain)/loss	(109,640)	3,319,246
Obligations at end of the year	**229,260,363**	**175,098,521**
Change in plan assets		
Plans assets at the beginning of the year, at fair value	**167,728,949**	90,587,986
Plans assets acquired as part of the business purchase*	17,204,105	31,455,428
Expected return on plan assets	13,565,249	7,574,699
Actuarial gain/(loss)	39,442,986	(4,970,022)
Contributions	-	48,927,474
Benefits settled	(11,249,873)	(5,846,616)
Plans assets at the end of the year, at fair value	**226,691,416**	**167,728,949**
Reconciliation of present value of the obligation and the fair value of the plan assets		
Fair value of plan assets at the end of the year	226,691,416	167,728,949
Present value of defined obligations as at the end of the year	229,260,363	175,098,521
Asset/(liability)recognized in the balance sheet	**(2,568,947)**	**(7,369,572)**
Gratuity cost for the year		
Service cost	29,966,236	25,123,432
Interest cost	14,040,818	8,527,196
Expected return on plan assets	(13,300,971)	(7,574,699)
Actuarial (gain)/loss	(39,552,626)	8,289,268
Net gratuity cost	**(8,846,543)**	**34,365,197**
Assumptions		
Interest rate	7.82%	7.01%
Expected rate of return on plan assets	7.82%	7.01%
Expected rate of salary increase	6-10%	5-10%
Attrition rate	12.5-15.0%	6-12.30%
Retirement age	58-60	58-60

* Refer Note 5 of Schedule 16

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

17. Derivatives

As at March 31, 2010, the Group has outstanding forward contracts amounting to USD 80.8 million (previous year USD 38 million), and CHF NIL (previous year CHF 0.05 million), option contracts amounting to USD 7 million (previous year USD 5 million), forward strips and leverage option contracts amounting to USD 100 million (previous year USD 142 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/ (loss) of Rs 216,759,399 [previous year: (Rs 98,442,323)] 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/ (loss) of Rs 1,113,095,555 [previous year: (Rs. 1,522,924,878)] has been recognized in the profit and loss account for the year

18. Prior period comparatives

Previous year's figures have been regrouped /reclassified wherever necessary, to conform to the current year's classification. As explained in Note 5, MindTree has consolidated the results of MWPL on a line-by-line basis from the date of acquiring control. i.e. October 1, 2009. Accordingly, figures of current year are to that extent not comparable with those of previous year.

For **MindTree Limited**

Ashok Soota
Executive Chairman

N Krishnakumar
CEO & Managing Director

Rostow Ravanan
Chief Financial Officer

Rajesh Srichand Narang
Company Secretary