MindTree Limited
Explanatory notes to the condensed consolidated financial statements
For the quarter and six months ended September 30, 2010

1. Background

MindTree Limited ('MindTree' or 'the Company') together with its subsidiaries MindTree Wireless Private Limited, MindTree Software (Shenzhen) Co. Ltd and MindTree Wireless Pte. 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 three business units – Information Technology ('IT') Services, Product Engineering ('PE') Services and Next In Wireless ('NIW'). 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. Consequent to acquisition of MindTree Wireless Private Limited in the previous year, the Group has one more business segment in its operating structure and named it as NIW. NIW is primarily engaged in development of mobile handsets and ready-to-brand high-end 3G smart phones for the global market. NIW also focuses on development of solutions that address the next generation of growth in telecom network technologies. 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 six months ended September 30, 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 for 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 Wireless Private Limited	India	100%
MindTree Software (Shenzhen) Co Ltd.	Republic of China	100%
MindTree Wireless Pte. Ltd.	Singapore	100%

The financial statements of MindTree and its wholly owned 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 the 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
Intellectual property rights	5 years
Plant and machinery	4 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 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 percentage of 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, to the extent that the adoption did not conflict with existing accounting standards and other authoritative pronouncements of the Company Law and other regulatory requirements. 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 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.

2.15 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

In the earlier years, 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 2,920 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. Purchase of business

During the previous 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. 437 million.

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 had resulted in goodwill of Rs. 154 million.

During the quarter, the Company has impaired goodwill by Rs 24 million as the Management, based on the forecasts believes that the contingent consideration linked to annual revenue threshold would not be met by the seller of the shares.

5. Purchase of assets

During the previous quarter, MindTree acquired certain fixed assets, RAPID software platform, customer contracts and employment contracts for a cash consideration of Rs 72.16 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 63.41 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.

6. Dissolution of subsidiaries

During the previous quarter, the Group has dissolved its two subsidiaries viz., Aztecsoft Disha Inc and Aztec Software Inc.

7. The Company uses the intrinsic value method of accounting for its employee stock options. The Company 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 Company'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 Sep 30, 2010**	**Quarter ended Sep 30, 2009**	**Six months ended Sep 30, 2010**	**Six months ended Sep 30, 2009**
Net profit as reported	232	499	391	1,066
Add: Stock-based employee compensation expense (intrinsic value method)	-	2	1	4
Less: Stock-based employee compensation expense (fair value method)	22	27	41	48
Pro forma net profit	210	474	351	1,022
Basic earnings per share as reported	5.85	12.74	9.85	27.25
Pro forma basic earnings per share	5.30	12.11	8.82	26.12
Diluted earnings per share as reported	5.68	12.28	9.54	26.48
Pro forma diluted earnings per share	5.15	11.67	8.54	25.39

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	0.19%
Expected life	3-5 years
Risk free interest rate	7.23 – 7.72%
Volatility	91.66%

8. Capital commitments and contingent liabilities

a) Estimated amount of contracts remaining to be executed on capital account and not provided for as at September 30, 2010 is Rs 110 million (previous year: Rs 381 million).

b) Guarantees given by Group's bankers as at September 30, 2010 are Rs.163 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 2,550 million (previous year: Rs 2,062 million).

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 Income Tax Act, 1961 ('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 for the period ended September 30, 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 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 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 period ended September 30, 2010. The Company 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 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 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 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 period ended September 30, 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 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 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 period ended September 30, 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 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 for the period ended September 30, 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 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 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 previous 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 period ended September 30, 2010.

j) During the previous year, the Company has received an assessment order under Section 92CA of the Income Tax Act, 1961. The assessment order pertains to erstwhile Aztecsoft Limited wherein the Joint Director of Income tax has made a transfer pricing adjustment under Section 92CA for payment of Rs 112 million made for selling and marketing support services and excess deduction claimed under Section 10A. The Company has filed an application with the Deputy Commissioner of Income Tax against the order received. The Company is yet to receive an assessment order under Section 143(3) giving effect to the above adjustments and hence no adjustment has been made to the financial statements for the period ended September 30, 2010.

9. Segmental reporting

The Group's operations predominantly relate to providing IT Services, PE Services and NIW. 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 September 30, 2010	**PE Services**	**IT Services**	**NIW**	**Total**
Revenues	1,455	2,192	197	3,844
Operating expenses, net	1,266	1,867	310	3,443
Segmental operating income	**189**	**325**	**(113)**	**401**
Unallocable expenses				110
Profit for the quarter before interest, other income and tax				**291**
Interest expense				**-**
Other income				21
Net profit before taxes				**312**
Income taxes				80
Net profit after taxes				**232**

Rs in million

Consolidated Profit and loss statement for the quarter ended September 30, 2009	**PE Services**	**IT Services**	**Total**
Revenues	1,426	1,724	3,150
Operating expenses, net	1,098	1,418	2,516
Segmental operating income	**328**	**306**	**634**
Unallocable expenses			134
Profit for the quarter before interest, other income and tax			**500**
Interest expense			1
Other income			38
Net profit before taxes			**537**
Income taxes			38
Net profit after taxes			**499**

Rs in million

Consolidated Profit and loss statement for the six months ended September 30, 2010	**PE Services**	**IT Services**	**NIW**	**Total**
Revenues	2,858	4,079	394	7,331
Operating expenses, net	2,468	3,554	529	6,551
Segmental operating income	**390**	**525**	**(135)**	**780**
Unallocable expenses				211
Profit for the period before interest, other income and tax				**569**
Interest expense				**-**
Other income				43
Net profit before taxes				**612**
Income taxes				221
Net profit after taxes				**391**

Rs in million

Consolidated Profit and loss statement for the six months ended September 30, 2009	**PE Services**	**IT Services**	**Total**
Revenues	2,750	3,447	6,197
Operating expenses, net	2,211	2,868	5,079
Segmental operating income	**539**	**579**	**1,118**
Unallocable expenses			273
Profit for the period before interest, other income and tax			**845**
Interest expense			25
Other income			371
Net profit before taxes			**1,191**
Income taxes			125
Net profit after taxes			**1,066**

Geographical segments

Rs in million

Revenues	**Quarter ended September 30, 2010**	**Quarter ended September 30, 2009**	**six months ended September 30, 2010**	**Six months ended September 30, 2009**
America	2,426	2,070	4,677	4,121
Europe	690	697	1,279	1,301
India	327	146	608	344
Rest of World	401	237	767	431
Total	**3,844**	**3,150**	**7,331**	**6,197**

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 September 30, 2010 amounts to Rs.12 million and for the six months ended September 30, 2010 amounts to Rs.23 million (quarter ended September 30, 2009 Rs.7 million and six months ended September 30, 2009 Rs.14 million). Amounts payable to directors in the nature of travel and business expenses as at September 30, 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 September 30, 2010		For the quarter ended September 30, 2009	
Particulars	**Basic EPS**	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Number of shares				
Weighted average number of equity shares outstanding during the year	39,719,670	39,719,670	39,149,761	39,149,761
Weighted average number of equity shares resulting from assumed exercise of employee stock options	-	1,184,043	-	1,455,041
Weighted average number of equity shares for calculation of earnings per share	39,719,670	40,903,713	39,149,761	40,604,802

	For the six months ended September 30, 2010		For the six months ended September 30, 2009	
Particulars	**Basic EPS**	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Number of shares				
Weighted average number of equity shares outstanding during the year	39,651,308	39,651,308	39,130,777	39,130,777
Weighted average number of equity shares resulting from assumed exercise of employee stock options	-	1,296,348	-	1,126,553
Weighted average number of equity shares for calculation of earnings per share	39,651,308	40,947,656	39,130,777	40,257,330

12. Derivatives

As at September 30, 2010, the Group has outstanding forward contracts amounting to USD 86.5 million and Euro 1.8 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 84 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 134 million for the quarter ended September 30, 2010 and exchange loss of Rs 20 million for the six months ended September 30, 2010 (quarter ended September 30, 2009: gain of Rs 5 million, six months ended September 30, 2009: gain of Rs 117 million) has been debited /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 122 million for the quarter ended September 30, 2010 and exchange gain of Rs 16 million for the six months ended September 30, 2010 (quarter ended September 30, 2009: gain of Rs 45 million, six months ended September 30, 2009: gain of Rs 650 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	**Ashok Soota**	**N. Krishnakumar**
Partner	Executive Chairman	CEO & Managing Director
Membership No. 205385		
	Rostow Ravanan	**Rajesh Srichand Narang**
	Chief Financial Officer	Company Secretary
Place: Bangalore	Place: Bangalore	
Date: October 19, 2010	Date: October 19, 2010	