Financial Performance

Income

Income from software development:

(Rs. in million)

	Quarter Ended				Growth %
Revenue	**31-Dec-07**	**%**	**30-Sep-07**	**%**	**Sequential**
Overseas	1,739	93.2%	1,694	93.1%	2.6%
Domestic	126	6.8%	125	6.9%	0.8%
Total	**1,865**	**100.0%**	**1,819**	**100.0%**	2.5%

(Rs. in million)

	Nine months ended				Growth %
Revenue	**31-Dec-07**	**%**	**31-Dec-06**	**%**	**YOY**
Overseas	4,947	93.4%	4,079	94.0%	21.3%
Domestic	352	6.6%	259	6.0%	35.9%
Total	**5,299**	**100%**	**4,338**	**100%**	22.2%

Our revenues for the quarter ending December 31, 2007 is Rs.1,865 million and have grown by 2.5% Sequential in rupee terms. The corresponding revenue for the previous quarter ended Sep 30, 07 is Rs.1,819 Million. The revenues for the nine months ending December 31, 2007 is Rs. 5,299 Million and the YOY growth is 22.2% in Rupee terms.

We have 190 active customers as at December 31, 2007 of which 41 are Fortune 500 accounts. Our one Million dollar client base has increased from 41 in the immediately preceding quarter to 42 in the current quarter.

Our million dollar client count is follows:

No of million dollar clients*		
	Dec 31, 2007	**Sep 30, 2007**
$1 million clients	42	41
$5 million clients	6	5
$10 million clients	2	2

*Based on last 12 months revenues

We provide our software development services on time-and-material basis or fixed-price basis. Revenue from software development on time-and-material basis is recognized as the related services are rendered. Revenue from fixed price contracts is recognized using the proportionate completion method, which is determined by relating the actual person hours of work performed to date to the estimated total person hours for each contract. Our revenues by project type are as follows:

Project Type	Quarter ended	
	Dec 31, 2007	**Sep 30, 2007**
Fixed price	20.0%	23.8%
Time and Material	80.0%	76.2%
Total	**100.00%**	**100.0%**

Our revenue, broken down by service offerings is given below:

Service offerings	**Quarter Ended**	
	Dec 31, 2007	**Sep 30, 2007**
Development	52.8%	55.1%
Maintenance	29.1%	28.9%
Consulting	3.5%	3.4%
Package Implementation	5.2%	5.2%
Independent Testing	6.3%	4.7%
Infrastructure Management and Tech Support	3.0%	2.5%
IP Licensing	0.1%	0.2%
Total	**100.00%**	**100.00%**

We derive revenues from services provided both offshore and onsite. Offshore revenues consist of revenues from software services work conducted in our offshore facilities in India. Onsite revenues consist of revenues from software services work conducted at clients' premises or from our premises outside India. Services performed at a client site or our premises located outside India typically generate higher revenues per-capita at a lower gross margin than the same services performed at our facilities in India.

The mix in this category is as follows:

	Quarter Ended	
Effort mix	**Dec 31, 2007**	**Sep 30, 2007**
Onsite	13.3%	13.4%
Offshore	86.7%	86.6%
Total	**100.0%**	**100.0%**
Revenue mix		
Onsite	28.0%	27.3%
Offshore	72.0%	72.7%
Total	**100.0%**	**100.0%**

We have classified our revenues into four geographic segments comprising the Americas, Europe, India and Rest of the World. The geographic break down of revenues contained in the following table is based on the location of the specific client entity for which the project has been executed, irrespective of the location where the invoice is rendered or whether the work for a specific client entity is performed onsite or from our offshore delivery centres in India.

(Rs in million)

	Quarter ended				
	Dec 31, 2007	**%**	**Sep 30, 2007**	**%**	**Growth %**
America	1,188	63.7%	1,219	67.0%	-2.5%
Europe	357	19.1%	332	18.2%	7.5%
India	126	6.8%	96	5.3%	31.3%
Rest of World	194	10.4%	172	9.5%	12.8%
Total	**1,865**	100%	**1,819**	100%	**2.5%**

(Rs. in million)

	Nine months Ended				Growth %
Revenue	**Dec 31, 2007**	**%**	**Dec 31, 2006**	**%**	**YOY**
America	3,536	66.7%	2,722	62.7%	29.9%
Europe	956	18.1%	996	23.0%	-4.0%
India	292	5.5%	232	5.4%	25.9%
Rest of world	515	9.7%	388	8.9%	32.7%
Total	**5,299**	**100.0%**	**4,338**	**100.0%**	**22.2%**

Our operations predominantly relate to providing IT services in two primary business segments viz. IT Services and R&D Services. Revenues in these segments are as follows:

(Rs in million)

	Quarter Ended				
	Dec 31, 2007		**Sep 30, 2007**	**%**	**Sequential Growth %**
IT Services	1,446	77.5	1,410	77.5	2.5
R&D Services	419	22.5	409	22.5	2.5
Total	**1,865**	**100.0**	**1,819**	**100.0**	**2.5**

(Rs in million)

	Nine months Ended				
	Dec 31, 2007	**%**	**Dec 31, 2006**	**%**	**YOY Growth %**
IT Services	4,109	77.5%	3,289	75.8%	24.9%
R&D Services	1,190	22.5%	1,049	24.2%	13.4%
Total	**5,299**	**100.0%**	**4,338**	**100.0%**	**22.2%**

Under IT Services and R&D Services, our business is organized by Industry Groups (Verticals). The revenue mix of these verticals in 2007-08 is as follows:

Revenue by Industry - ITS	**Quarter Ended**	
	Dec 31, 2007	**Sep 30, 2007**
Manufacturing	27.2%	25.8%
Banking & Financial	23.7%	26.4%
Travel & Transportation	18.2%	16.7%
Hitech	15.6%	16.8%
Others	15.3%	14.3%
Total	**100.0%**	**100.0%**

Revenue by Industry - RDS	**Quarter Ended**	
	Dec 31, 2007	**Sep 30, 2007**
Storage and Servers	38.9%	39.2%
Consumer Appliances	29.4%	27.4%
Communication Systems	12.8%	11.0%
Automotive & Industrial Systems	14.9%	19.1%
Others	4.0%	3.3%
	100.0%	**100.0%**

Other income

Other income for the nine months ending Dec 31, 2007 is Rs.196 million and has increased by 270% YoY. Other income primarily comprises of the following:

- Interest income on account of deposits with banks Rs 46.27 million
- Profit on sale of investments Rs 21.60 million
- Profit from sale of assets Rs.0.32 million
- Dividend from investments Rs 89.81 million
- Forex Gain net Rs. 4.91 million. The gain is on account of Mark-to-Market (MTM) on Forward Contracts on the basis of Hedge accounting.
- Misc income Rs 33.35 million, which comprises sponsorships received for our annual technology festival, rental income from sub-lease of properties & miscellaneous interest income.

Expenditure

Software development expenses

(Rs in million)

	Nine months ended				Growth %
	Dec 31, 2007	**%**	**Dec 31, 2006**	**%**	**YoY**
Revenues	**5,299**	**100%**	**4,338**	**100%**	**22.2%**
Salary and allowances and contribution to provident and other funds	2,635	49.7%	2,006	46.2%	31.4%
Staff welfare	36	0.7%	29	0.7%	24.1%
Travel and conveyance	406	7.7%	331	7.6%	22.7%
Communication expenses	30	0.6%	34	0.8%	-11.8%
Sub-contractor charges	65	1.2%	80	1.8%	-18.8%
Computer consumables and software purchases	145	2.7%	95	2.2%	52.6%
Rent	93	1.8%	108	2.5%	-13.9%
Post Contract support services	(9)	(0.2)%	3	0.1%	-400.0%
Total	**3,401**	**64.2%**	**2,686**	**61.9%**	**26.6%**

Software development expenses for the nine months ending Dec 31, 2007 is Rs.3,401 million and has increased by 26.6% YoY. Software development expenses mainly comprises of salary costs paid to people in India and overseas amounting to Rs. 2,635 million and has increased by 31.4% YoY. The increase in salary costs is mainly on account of two factors, one being the increase in headcount and second being the revision in increment policy from 2007-08. Increments from the current year onwards have been staggered over the period and this is one of the factors for increase in salary cost. Travel and conveyance amounting to Rs 406 million, for the nine months ending Dec 31, 2007, mainly comprises overseas travel for software development and has increased by 22.7% YoY. Communication expenses mainly comprise connectivity charges to stay linked with clients. Subcontractor charges are services purchased from third party and used on our projects. Computer consumables and software purchases form an integral part of project requirements and includes packages and tools to enhance the quality of our services and for the nine months ending Dec 31, 2007 is Rs.145 million and has increased by 52.6% YoY. Rent expenses for the current year have come down mainly on account of purchase of Phase1 and Phase 2 buildings at West Campus Facility (Mysore Road). Post contract support services are provisions made for post completion warranty support. Earlier the warranty provisioning was based on a percentage on the last 2 months trailing revenues. Based on a recent exercise carried out on our actual warranty trends we have revised this number and therefore the reduction in warranty provision.

Administrative and other expenses

(Rs in million)

	Nine months ended				Growth %
	Dec 31, 2007	**%**	**Dec 31, 2006**	**%**	**YoY**
Revenues	**5,299**	**100%**	**4,338**	**100%**	**22.2%**
Salary and allowances and contribution to Provident and other funds	486	9.2%	383	8.8%	26.9%
Travel and conveyance	77	1.5%	61	1.4%	26.2%
Power and Fuel	77	1.4%	60	1.4%	28.3%
Rent	20	0.4%	54	1.2%	-63.0%
Telephone	45	0.8%	30	0.7%	50.0%
Staff training	34	0.6%	23	0.5%	47.8%
Recruitment	40	0.8%	31	0.7%	29.0%
Marketing	33	0.6%	39	0.9%	-15.4%
Legal and professional	81	1.5%	55	1.3%	47.3%
Others	130	2.5%	120	2.8%	8.3%
Total	**1,023**	**19.3%**	**856**	**19.7%**	**19.5%**

Administrative and other expense for the nine months ending Dec 31, 2007 is Rs.1,023 million and has increased by 19.5% YoY. We had 365 sales and support people as at Dec 31, 2007. We had savings in rental expenses because we purchased 2 of the buildings from which we operate in, in our Mysore Road campus. Training expenses includes all staff related training including seminar and conference expenses. The increase in professional fees is mainly on account of IPO expenses paid to various professional agencies. The other increase in general administration expenses like Power and Fuel, Telephone have gone up mainly on account of additional facilities in Chennai and increased business.

Operating profits for the nine months ending Dec 31, 2007 is Rs.1,071 million, representing 20% of revenues as compared to 20% for the nine months ending Dec 31, 2006.

Interest

Interest cost for the nine months ending Dec 31, 2007 is Rs.43 million and represents interest on term loans (Rs 33 million) and Interest on short term credit / finance charges (Rs 10 million). Total interest increased by Rs 20 million YoY. A part of this increase was due to loans taken to finance the purchase of the 2 buildings, as explained above.

Depreciation

Depreciation is Rs.249 million for the nine months ending Dec 31, 2007 and has increased by Rs 71 million YoY. The increase in depreciation was due to our ownership of the 2 buildings as explained above, investment in SEZ building in Chennai, as well as routine capex investment.

Provision for tax and Deferred Tax

We pay income tax in countries where we provide software services. Our profits from export of software and related activities are fully deductible from taxable income. Our unit at Bangalore is registered as a 100% Export Oriented Unit, which is entitled to a tax holiday period of 10 years from the date of commencement of commercial operations under Section 10B of the Income Tax Act, 1961. Deferred tax assets of Rs 54 million recognized are on account of timing differences in respect of fixed assets, which reverse after the tax holiday period. We have made a provision for Fringe Benefit Tax (FBT) under income taxes.

Net Profit

Net profit for the nine months ending December 31, 2007 is Rs.686 million and has increased by 4.7% YoY and represented 12.5% of total income as compared to 14.9% for the nine months ending December 31, 2006.

Share Capital

The outstanding equity shares as at December 31, 2007 is 37,852,706 of Rs.10 (Previous year 37,752,577 shares of Rs.10 each at March 31, 2007). The total paid up share capital is Rs.378 million.

Reserves & Surplus

A. Securities Premium Account

The amount in Securities premium account is Rs.2,757 million as at December 31, 2007, an addition of Rs.7 Million during the year on exercise of employee stock options/customer warrants.

B. Stock Option outstanding Account

The total stock option outstanding as at December 31, 2007 is Rs.29 million as compared to Rs.13 million as at March 31, 2007 after deducting the deferred employees compensation expenses amounting to Rs.28 million as at December 31, 2007 (Rs 49 million as at March 31, 2007).

Secured Loans

The balance in this account as at December 31, 2007 is Rs.850 million as compared to Rs.264 million at March 31, 2007. The composition and movements are explained below:

- Term loan with HSBC having pari passu charge on fixed assets has increased to Rs.773 million as at December 31, 2007 from Rs.57 million as at March 31, 2007.
- Other loans comprising of Loan from HSBC and Standard Chartered Bank is secured by a pari passu charge on the book debts and other current assets. The balance is Rs.40 million as at December 31, 2007 as compared to Rs.165 million as at March 31, 2007.
- Outstanding financial lease obligation secured by hypothecation of assets taken on lease is Rs.37 million as at December 31, 2007 as compared to Rs.42 million at March 31, 2007.

Fixed Assets

The Gross Block of Fixed Assets as at December 31, 2007 has increased to Rs.2,710 million as compared to Rs.1,368 million as at March 31, 2007. The additions during the year to the Gross block are Rs.1,371 million & deletions during the period to the Gross Block are Rs.29 million. The net addition during the period is Rs. 1,342 million.

Additions comprises of:

- Addition to building is the buildings at West Campus Phase 1 and Phase 2, Chennai Buildings, amounting to Rs.732 million.
- Addition to leasehold land at Mysore road campus and Chennai SEZ unit, amounting to Rs.340 million.
- Other additions are Leasehold improvements (Rs.50 million), Computer systems and software (Rs 178 million), Furniture and Fixtures (Rs.12 million), Electrical installations (Rs.2 million), office equipment (Rs 42 million) and motor vehicles on lease (Rs.12 million)

The deletion represents sale of Computer systems (Rs.7 million), Furniture and Fixtures (Rs 4 million) and foreclosure of Leased Motor Vehicles (Rs 18 million).

Capital work in progress has increased to Rs.819 million as at December 31, 2007 from Rs.132 million as at March 31, 2007. This is mainly because of the work in progress of the SEZ Phase 3 unit at Mysore road campus.

The estimated amount of contracts remaining to be executed on capital account and not provided for as at December 31, 2007 is Rs.211 million as compared to Rs.695 million as at March 31, 2007.

Investments

Our investments have decreased to Rs.1,373 million as at December 31, 2007 from Rs.2,140 million as at March 31, 2007.

The investments comprises of:

- Investments in mutual funds (Non trade - quoted), is Rs.210 million as at December 31, 2007 as compared to Rs.397 million as at March 31, 2007. These are valued at lower of cost or market value
- Investments in mutual funds (Non trade – quoted), out of IPO issue proceeds, is Rs.904 million as at December 31, 2007 as compared to Rs.1,743 million as at March 31, 2007. These are valued at lower of cost or market value.
- Long Term investment in unquoted equity shares is Rs.259 million. The main component is investment in TES PV Electronic Solutions Private Limited (TES PV). In December 2007, the company acquired 100% of the outstanding equity shares of TES PV, a software consulting services company, for a consideration of Rs. 259 million. Subsequent to the acquisition TES PV is a fully owned subsidiary of MindTree.

The funds realized from the redemption of investments were used to pay off some of the older debts, capex expansion of the Chennai building and related interiors (out of IPO proceeds) and acquisition of TES PV.

Deferred Tax Asset

We recognize the Deferred Tax assets in compliance with the Accounting Standard 22 issued by the Institute of Chartered Accountants of India. Deferred Tax assets are on account of timing differences in respect of depreciation on fixed assets. The same has been recognized amounting to Rs.54 million as at December 31, 2007.

Sundry Debtors

Gross Sundry Debtors is Rs.1,766 million as at December 31, 2007 as compared to Rs.1,288 million as at March 31, 2007.

The Days Sales Outstanding (DSO) as at December 31, 2007 is 83 days as compared to 79 days as at March 31, 2007. The increase in DSO is mainly on account of reduced collections in the last week of December.

The age profile of debtors is given below:

Rs million

Period in Days	**Mar 31, 2007**	**%**	**Dec 31, 2007**	**%**
0-30 Days	625	49	739	42
31-60 Days	438	34	491	28
61-90 Days	45	3	200	11
more than 90 Days	180	14	336	19
Total	**1,288**	**100**	**1,766**	**100**

Cash and Bank Balances

Cash and Bank balances have decreased to Rs.678 million at December 31, 2007 as compared to Rs.768 million at March 31, 2007. The composition and movements are explained below:

- Balance with scheduled banks in India is Rs.598 million (Rs.406 million is out of IPO proceeds) as at December 31, 2007 as compared to Rs.704 million at March 31, 2007.
- Balance with non-scheduled banks has increased to Rs.80 million at December 31, 2007 as compared to Rs.64 million at March 31, 2007. These balances represent balances held in overseas bank current accounts for meeting the operational expenses in these branches.

Loans & Advances

Loans and advances have increased to Rs.916 million at December 31, 2007 as compared to Rs.830 million at March 31, 2007. The composition and movements are explained below:

- Advances are mainly toward amounts paid in advance for value and services to be received in future and amounting to Rs.646 million as at December 31, 2007 as compared to Rs.564 million as at March 31, 2007.

- Unbilled Revenue amounting to Rs.124 million as at December 31, 2007 as compared to Rs.199 million as at March 31, 2007. Unbilled revenue represents cost and earnings in excess of billings in fixed price projects.
- Advance tax and tax deducted at source, net of provision of taxes amounting to Rs. 146 million at December 31, 2007 as compared to 67 million at March 31, 2007.

Current Liabilities

The Current liabilities as at December 31, 2007 is Rs.1,103 million as compared to Rs.862 million as at March 31, 2007. The composition and movements are explained below:

- Advance from Customers (representing amounts received from customers for services which are yet be provided) has increased to Rs.12 million at December 31, 2007 as compared to Rs.6.5 million at March 31, 2007.
- Interest accrued but not due has increased to Rs.0.3 million at December 31, 2007 as compared to Rs.0.4 million at March 31, 2007. This represents interest on Term Loans and packing credit.
- Unearned revenue represents customer billing done in excess of cost and earnings on fixed price projects. The amount of unearned revenue as at December 31, 2007 is Rs.35 million as compared to Rs.27 million as at March 31, 2007.
- Sundry Creditors Expenses comprises of amounts payable to suppliers of Materials, Services, Employees (travel and other expenses), retention money and others. The amount outstanding as at December 31, 2007 is Rs.71 million as compared to Rs.237 million as at March 31, 2007.
- Sundry Creditors for Capital Goods representing amounts payable to Supplier of Capital Goods is Rs.39 million at December 31, 2007 as compared to Rs.7 million at March 31, 2007.
- Other liabilities mainly comprises of represents amounts payable towards Salary, bonus, sales incentive and other employee compensations, statutory payments and others. The amount outstanding at December 31, 2007 is Rs.871 million as compared to Rs.579 million as at March 31, 2007.
- Book overdraft amounting to Rs.75 million as at December 31, 2007, as compared to Rs.5 million at March 31, 2007.

Provisions

The Provisions at December 31, 2007 is Rs.195 million as compared to Rs.176 million as at March 31, 2007. The composition and movements are explained below:

- Dividend at Re.1 per share which was proposed on 37,788,359 equity shares amounting to Rs.38 million as of Sept 07 was paid in the quarter ended December 31, 2007.
- Provision for Gratuity made in compliance with the Accounting Standard 15 (revised) issued by the Institute of Chartered Accountants of India amounting to Rs.17 million as compared to Rs.4 million as at March 31, 2007.
- Provision for leave encashment is Rs.51 million at December 31, 2007 as compared to Rs.32 million at March 31, 2007.

- Post Contract support services provision at December 31, 2007 is Rs.12 million as compared to Rs.21 million as at March 31, 2007.
- Provision for volume discount is Rs 44 million at December 31, 2007 as compared to Rs. 54 million at March 31, 2007.
- Other Provisions at December 31, 2007 mainly represents foreign taxes Rs.69 Million (Rs.21 million as at March 31, 2007) and Rs. 2 million Fringe Benefit Tax net of taxes.