1. Background

MindTree Limited ('MindTree' or 'the Company') together with its subsidiaries Aztecsoft Limited ('Aztec'), Aztecsoft Disha Inc, and Aztec Software Inc collectively referred to as 'the Group' is an international Information Technology ("IT") consulting and implementation Group that delivers business solutions through global software development. The Group is structured into three business units that focus on software development – R&D Services, IT Services and Outsourced product development and testing. 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. 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. Outsourced product development and testing provides full life cycle product engineering, independent testing, professional services and sustained engineering services. The Group is head quartered in Bangalore and has offices in India, United States of America, United Kingdom, Japan, Singapore, Australia, Germany, Switzerland, Sweden, UAE, Netherlands, Canada and France.

The name of the Company was changed from 'MindTree Consulting Limited' to 'MindTree Limited' and an approval from shareholders was obtained through a postal ballot pursuant to section 192A of the Companies Act, 1956 on March 17, 2008. Consequent to the change of name, a fresh certificate of incorporation was granted to the Company on March 28, 2008 by the Registrar of Companies, Karnataka.

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(12).
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.

2.4 Fixed assets

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 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.

2.4.3 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.

2.4.4 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 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
Furniture and fixtures	5 years
Electrical installations	3-5 years
Office equipment	4-5 years
Motor vehicles	4-5 years
Buildings	25-30 years

2.4.5 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 proportionate basis.

2.4.6 The cost of leasehold land is amortised over the period of the lease except where all the risks and rewards of ownership are transferred to the Group at the end of the lease term. Leasehold improvements and assets acquired on lease are amortised over the lease term or useful life, whichever is lower.

2.5 Investments

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

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

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

2.6 Employee benefits

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

2.6.2 Leave encashment is a long-term employee benefit and is accrued based on an actuarial valuation 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.

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

2.7 Revenue recognition

2.7.1 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.

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

2.7.2 Provision for discounts is recognised on an accrual basis in accordance with contractual terms of agreements with customers.

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

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

2.8 Foreign exchange transactions

2.8.1 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.

2.8.2 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.

2.8.3 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.

2.8.4 Forward exchange contracts and other similar instruments that are not hedges 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 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.

2.8.5 For forward exchange contracts and other derivatives that are not covered by AS 11 and that relate to a firm commitment or highly probable forecast transactions, the Group has adopted the principles of Accounting Standard ('AS') 30, 'Financial Instruments: Recognition and Measurement' with effect from April 1, 2008. In accordance with the principles of 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. This loss/ (gain) would be recorded in profit and loss account when the underlying transactions affect earnings. Other derivative instruments that relate to a firm commitment or a highly probable forecast transaction and that do not qualify for hedge accounting have been recorded at fair value at the reporting date and the resultant exchange loss/ (gain) has been debited/ credited to profit and loss account for the year.

2.9 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.

2.10 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.

2.11 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 laws, which gives rise to future economic benefits in the form of tax credit against future income tax liability, is recognized 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 resultant assets can be measured reliably.

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.

2.10 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.

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.

2.11 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 previous 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 current 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. Purchase of business

During the year, the Company 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 has become a subsidiary of the Company. As at March 31, 2009, the Company holds 79.9% of equity shares based on outstanding issued equity of Aztec.

The Company has filed an application with the Hon'ble High Court of Karnataka for the merger of Aztec with the Company effective April 1, 2009.

The Company has accounted for its investment in Aztec using equity method from the date of acquiring significant influence i.e May 31, 2008 till the date of acquiring control i.e July 31, 2008. From the date of acquiring control, assets, liabilities, income and expenses are consolidated on a line-by-line basis. The consolidation has resulted in goodwill of Rs 1,460,494,507.

In the previous year, goodwill of Rs 214,102,422 resulted from the consolidation of MindTree Technologies Private Limited.

5. 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 five stock option programs.

Program 1 [ESOP 1999]

Options under this program have been granted to employees at an exercise price of Rs 2 per option. In conjunction with the consolidation and subsequent issue of bonus shares, the Company increased the exercise price of the options outstanding as at December 31, 2006 (to the revised par value of the underlying equity shares), to comply with the regulatory requirements. The modifications did not increase the value of the options for the employee, and accordingly did not result in an accounting consequence. 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, 2008	39,539
Granted during the year	-
Exercised during the year	7,250
Lapsed during the year	-
Forfeited during the year	-
Outstanding options as at March 31, 2009	32,289

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, 2008	362,626
Granted during the year	-
Exercised during the year	57,419
Lapsed during the year	5,720
Forfeited during the year	15,576
Outstanding options as at March 31, 2009	283,911

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, 2008	302,563
Granted during the year	-
Exercised during the year	5,030
Lapsed during the year	6,450
Forfeited during the year	21,280
Outstanding options as at March 31, 2009	269,803

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, 2008	2,810,770
Granted during the year	173,000
Exercised during the year	6,429
Lapsed during the year	21,154
Forfeited during the year	219,020
Outstanding options as at March 31, 2009	2,737,167

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

Options under this program have been granted to independent directors at an exercise price ranging from Rs 238 to Rs 355 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, 2008	66,670
Granted during the year	50,000
Exercised during the year	-
Lapsed during the year	-
Forfeited during the year	-
Outstanding options as at March 31, 2009	116,670

The weighted average exercise price is Rs 10 under program 1, Rs 50 under program 2, Rs 250 under program 3, Rs 329.20 under program 4 and Rs 293.49 under DSOP 2006.

The weighted average exercise price for stock options exercised during the year ended March 31, 2009 was Rs 80.60. The options outstanding at March 31, 2009 had a weighted average exercise price of Rs 295.74 and a weighted average remaining contractual life of 3.50 years.

Aztecsoft Limited has two stock option plans:

a. 1998 Stock Option Plan (India) – The plan provides for issue and transfer of equity shares to employees to whom stock options are granted from time to time. The issue of equity shares is either from equity shares held in the trust or through issue of equity shares directly by Aztec.

b. 1998 Stock Option Plan (US) – The plan provides for issue of equity shares to be held in the Trust and transferred to employees of the Aztec's subsidiaries in USA to whom the stock options are granted from time to time.

Options under these plans have been granted to employees at an exercise price ranging from Rs Nil to Rs 220 per option.

Outstanding options as at August 1, 2008	3,320,117
Granted during the period	-
Exercised during the period	27,011
Forfeited and lapsed during the period	782,380
Outstanding options as at March 31, 2009	2,510,726

The weighted average exercise price of stock options exercised during this period was Rs 25.22. The options outstanding at March 31, 2009 had a weighted average exercise price of Rs 70.86 and a weighted average remaining contractual life of 6.21 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", the Company's net profit and basic and diluted earnings per share would have reduced to the proforma amounts as indicated:

Amount in Rs

	Year ended March 31, 2009	**Year ended March 31, 2008**
Net profit as reported	523,011,713	1,032,865,201
Add: Stock-based employee compensation expense (intrinsic value method)	9,982,125	19,193,756
Less: Stock-based employee compensation expense (fair value method)	133,845,678	79,179,869
Pro forma net profit	399,148,160	972,879,088
Basic earnings per share as reported	13.84	27.45
Pro forma basic earnings per share	10.56	25.86
Diluted earnings per share as reported	13.70	26.52
Pro forma diluted earnings per share	10.47	25.13

The weighted average fair value of each option of MindTree, granted during the year ended March 31, 2009, estimated on the date of grant was Rs 154.87 using the Black-Scholes model with the following assumptions:

Grant date share price	Rs 238 – Rs 435
Exercise price	Rs 238 – Rs 435
Dividend yield%	0.23 - 0.42%
Expected life	3 – 5 years
Risk free interest rate	5.14 – 9.54%
Volatility	40.09 – 61.64%

MindTree has established a Trust ('MindTree Benefit Trust'), for the benefit of employees. As at March 31, 2009 outstanding equity shares of the Company held by the trust were 189,110.

The stock option plan of Aztec has been administered by Aztec Software and Technology Services Limited Employees' Welfare Trust. As at March 31, 2009 outstanding equity shares of Aztec held by the trust were 2,010,751.

6. Provision for taxation

The Group's profits from export of software and related activities are fully deductible from taxable income. The units of the Group at Bangalore are registered as a 100 percent Export Oriented Units and are entitled to a tax holiday under section 10B of the Income Tax Act, 1961 ('the Act'). The Group 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, 2009	**As at March 31, 2008**
Excess of depreciation as per books over depreciation allowed under Income Tax Act	72,165,910	42,638,472
Provision for doubtful debts	83,942,263	44,746,709
Provision for leave encashment	31,090,350	-
Provision for warranty	2,549,250	-
Unabsorbed depreciation	-	2,463,970
Total deferred tax assets	**189,747,773**	**89,849,151**

7. Contingent liabilities and commitments

a) Guarantees given by Group's bankers as at March 31, 2009 are Rs 35,971,678 (previous year- Rs 44,117,454).

b) Estimated amount of contracts remaining to be executed on capital account and not provided for as at March 31, 2009 is Rs 102,192,299 (previous year-Rs 160,583,022).

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

d) On September 19, 2007, MindTree received a notice from the Honorable High court of Karnataka to appear before the Honorable court in respect of assessment of income for 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, 2009.

e) On January 2, 2008, MindTree 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 arises from manner of adjustment of brought forward losses in arriving at the taxable profits of MindTree. 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, 2009. MindTree 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, MindTree 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 MindTree. 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, 2009. MindTree has filed an appeal against the demand received.

g) Aztec has received orders under Section 143(3) of the Income-tax Act 1961 for the financial year 2001-02, 2002-03 and 2003-04 wherein demand of Rs 91,481,000, Rs 49,264,000 and Rs 60,837,000 respectively has been raised against Aztec. These demands have arisen mainly on account of transfer pricing adjustments made in the order. Aztec has not accepted these orders and had been advised by its legal counsel/ advisors to prefer appeals before the Commissioner of Income Tax (Appeals).

Aztec 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 Aztec's contentions and quashed the demand raised. The Income tax department had appealed against the above mentioned order with Income Tax Appellate Tribunal. Income Tax Appellate Tribunal, 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. Aztec has preferred an appeal with the High Court of Karnataka against the order of the Income Tax Appellate Tribunal. 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.

Aztec has appealed against the demands received for 2002-03 and 2003-04 to the Commissioner of Income-tax (Appeals) where the matter is pending conclusion. Based on favourable order received by Aztec 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, 2009.

During the current year, Aztec has received orders under Section 143(3) of the Income-tax Act 1961 for the financial year 2004-05 wherein demand of Rs 28,484,000 has been raised. These demands have arisen mainly on account of transfer pricing adjustments made in the order. Aztec has not accepted these orders and has preferred an appeal before the Commissioner of Income Tax (Appeals).

h) Aztec has received show cause notices from the office of the Additional Director General of Central Excise, Intelligence, Bangalore Zonal Unit regarding a potential service tax levy on import of services and software development services for domestic customers aggregating to Rs. 35,552,000. Aztec has not accepted the show cause notice allegations and is in the process of finalising its response to the notices after consulting its legal counsel/advisors. Based on the advice of the legal counsel, the management believes that Aztec has a good case. Accordingly, no provision has been recorded in the financial statements for the year ended March 31, 2009.

8. Segmental reporting

The Group's operations predominantly relate to providing IT Services, R&D Services and outsourced product development and testing (i.e.Aztecsoft Business). 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, 2009	R&D Services	IT Services	Aztecsoft business	Total
Revenues	2,193,420,204	7,924,678,720	2,256,573,695	12,374,672,619
Operating expenses, net	1,708,571,830	5,734,698,847	2,012,945,442	9,456,216,119
Segmental operating income	**484,848,374**	**2,189,979,873**	**243,628,253**	**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**

Consolidated profit and loss statement for the year ended March 31, 2008	R&D Services	IT Services	Total
Revenues	1,668,200,490	5,729,657,397	7,397,857,887
Operating expenses, net	1,495,140,910	4,651,292,533	6,146,433,443
Segmental operating income	**173,059,580**	**1,078,364,864**	**1,251,424,444**
Unallocable expenses			353,567,060
Profit for the year before interest			**897,857,384**
Interest expense			59,032,861
Other income			279,441,888
Net profit before taxes			**1,118,266,411**
Income taxes			85,401,210
Net profit after taxes			**1,032,865,201**

Geographical segments

Amount in Rs

Revenues	Year ended March 31, 2009	Year ended March 31, 2008
America	8,079,437,519	4,864,814,909
Europe	2,438,721,233	1,365,856,006
India	780,314,577	420,941,397
Rest of World	1,076,199,290	746,245,575
Total	**12,374,672,619**	**7,397,857,887**

9. Related party transactions

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

Key managerial personnel:

Ashok Soota	Chairman and Managing Director of MindTree (Executive Chairman effective April 1, 2009)
Subroto Bagchi	Gardener of MindTree
N Krishnakumar	Chief Executive Officer (CEO & Managing Director effective April 1, 2009) of MindTree and Managing Director of Aztec
S Janakiraman	President and CEO, R&D services (President & Group-CEO effective April 1, 2009) of MindTree
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
Samir Bodas	Executive Director of Aztec
Satish Menon	Non executive Director of Aztec
Sunil Gulati	Non executive Director of Aztec
A V Sridhar	Non executive Director of Aztec

Remuneration paid to key managerial personnel amounts to Rs 46,513,603 (Rs 30,484,619 for previous year). Amounts payable to directors in the nature of travel and business expenses as at March 31, 2009 amounted to Rs 582,711 (amounts due from directors Rs 782,221 as at March 31, 2008).

**Stock compensation cost amounting to Rs 525,000 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.

10. 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, 2009**	**As at March 31, 2008**
(a) Total minimum lease payments	-	37,240,501
(b) Future interest included in (a) above	-	4,840,046
(c) Present value of minimum lease payments [(a)- (b)]	-	32,400,455

Finance charges during the year on such finance leases as mentioned above are Rs 1,111,954 (previous year-Rs 4,033,871) 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 73,477,226 (previous year-Rs 29,428,480). Future minimum lease payments under non-cancelable operating lease as at March 31, 2009 is as below:

Minimum lease payments	**Amount in Rs**
Payable -- Not later than one year	133,858,027
Payable -- Later than one year and not later than five years	13,782,338

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 217,304,938 (previous year-Rs 138,690,878).

Rental income from sub-lease of office facilities during the year was Rs Nil (previous year- Rs 573,865) which is included in miscellaneous income.

11. Earnings per share

The computation of earnings per share is set out below:

Amount in Rs

	For the year ended March 31, 2009		For the year ended March 31, 2008	
Particulars	**Basic EPS**	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Profit after tax	**523,011,713**		**1,032,865,201**	
Shares				
Weighted average number of equity shares outstanding during the year	37,784,844	37,784,844	37,625,112	37,625,112
Weighted average number of equity shares resulting from assumed exercise of employee stock options	-	390,054	-	1,323,603
Weighted average number of equity shares for calculation of earnings per share	37,784,844	38,174,898	37,625,112	38,948,715

As per the Guidance note (issued in January 2005) on Accounting for Employee Share Based Payments by the ICAI, 189,110 (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, 2009.

12. The details of the subsidiaries as at March 31, 2009 are as follows:

Name of the subsidiaries	**Country of incorporation**	**Proportion of interest**
Aztecsoft Limited	India	79.9%
Aztec Software Inc,	United States of America	100% of Aztecsoft Limited
Aztecsoft Disha Inc,	United States of America	100% of Aztecsoft Limited

Also refer Note 3 and 4 of Schedule 16.

13. 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 warranty

Amount in Rs

Particulars	**For the year ended March 31, 2009**	**For the year ended March 31, 2008**
Balance as at beginning of the year	10,480,060	20,909,554
Provisions made during the year	-	-
Utilisations during the year	-	-
Released during the year	480,060	(10,429,494)
Provision as at the end of the year	10,000,000	10,480,060

Provision for discount

Amount in Rs

Particulars	For the year ended March 31, 2009	For the year ended March 31, 2008
Balance as at beginning of the year	44,983,541	53,992,168
Provisions made during the year	17,060,691	8,166,890
Utilisations during the year	(10,689,829)	(17,175,517)
Released during the year	-	-
Provision as at the end of the year	51,354,403	44,983,541

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

14. Statement of utilisation of IPO funds as of March 31, 2009

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	108,500,000
Short term investments in mutual funds pending utilization (excluding income received from mutual fund amounting to Rs 1,420,385 re-invested)	90,491,990
General corporate purposes	1,063,150,491
Total	**2,188,435,096**

15. Gratuity plan

Effective April 1, 2006 the Group adopted the revised accounting standard on employee benefits.

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

Amount in Rs

Particulars	For the year ended March 31, 2009	For the year ended March 31, 2008
Obligations at the beginning of the year	109,698,263	69,954,568
Obligations acquired as part of the business purchase	34,277,000	1,946,113
Service cost	25,123,432	35,395,132
Interest cost	8,527,196	5,596,365
Benefits settled	(5,846,616)	(2,872,232)
Actuarial (gain)/loss	3,319,246	(321,683)
Obligations at end of the year	**175,098,521**	**109,698,263**
Change in plan assets		
Plans assets at the beginning of the year, at fair value	90,587,986	65,908,422
Plans assets acquired as part of the business purchase	31,455,428	-
Expected return on plan assets	7,574,699	5,321,237
Actuarial gain/(loss)	(4,970,022)	2,623,518
Contributions	48,927,474	19,607,041
Benefits settled	(5,846,616)	(2,872,232)
Plans assets at the end of the year, at fair value	**167,728,949**	**90,587,986**
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	167,728,949	90,587,986
Present value of defined obligations as at the end of the year	175,098,521	109,698,263
Asset/(liability)recognized in the balance sheet	**(7,369,572)**	**(19,110,277)**
Gratuity cost for the year		
Service cost	25,123,432	35,395,132
Interest cost	8,527,196	5,596,365
Expected return on plan assets	(7,574,699)	(5,321,237)
Actuarial (gain)/loss	8,289,268	(2,945,201)
Net gratuity cost	**34,365,197**	**32,725,059**
Assumptions		
Interest rate	7.01%	8.00%
Expected rate of return on plan assets	7.01%	8.00%
Expected rate of salary increase	5-10%	8.50%
Attrition rate	6-12.30%	12.50%
Retirement age	58-60	60

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.

16. Derivatives

As at March 31, 2009, the Group has outstanding forward contracts amounting to USD 38.0 million (previous year USD 44.4 million) and CHF 0.05 million (previous year CHF 22 million), option contracts amounting to USD 5 million (previous year USD 1.5 million), forward strips and leverage option contracts amounting to USD 142 million (previous year USD 139 million). These derivative instruments have been entered to hedge highly probable forecast sales.

In accordance with the principles 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 loss of Rs 98,442,323 (previous year Rs Nil) has been debited to hedge reserve. Other derivative instruments that do not qualify for hedge accounting have been fair valued at balance sheet date and resultant exchange loss of Rs 1,522,924,878 (previous year Rs Nil) has been recognized in the profit and loss account for the year.

17. Change in accounting policy

Effective April 1, 2008, the Group has adopted the principles of AS 30 for forward exchange contracts and other derivatives that are not covered by AS 11 and that relate to a firm commitment or a highly probable forecast transaction. In the previous year, the Group has accounted for such contracts in accordance with the guidance in the Announcement of ICAI dated March 29, 2008. Had the Group accounted for these contracts in accordance with the aforesaid ICAI Announcement, exchange loss would have increased by Rs 98,442,323 and profit for the year would have been lower by the same amount.

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 4, MindTree has consolidated the results of Aztec on a line-by-line basis from the date of acquiring control i.e. July 31, 2008. 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	**Usha T N** Company Secretary