

MINDTREE CONSULTING LIMITED
(formerly MindTree Consulting Private Limited)
Schedule 15 – Significant accounting policies and notes to the accounts
For the year ended March 31, 2007

1. Background

MindTree Consulting Limited ('MindTree Consulting' or 'the Company') [formerly 'MindTree Consulting Private Limited'] is an international Information Technology ("IT") consulting and implementation company that delivers business solutions through global software development. MindTree Consulting is structured into two business units that focus on software development – R&D Services and IT 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. 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 ebusiness, data warehousing and business intelligence, supply chain management, ERP and maintenance and re-engineering of legacy mainframe applications. MindTree is head quartered in Bangalore and has offices in India, United States of America, United Kingdom, Japan, Singapore, Australia, Germany, Switzerland and UAE.

The Company was converted into a public limited company by a special resolution of the members passed at the Annual General Meeting held on September 27, 2006. Consequent to the change of name, a fresh certificate of incorporation was granted to the Company on November 6, 2006 by the Registrar of Companies, Karnataka.

In February 2007, the Company completed an Initial Public Offering ('IPO') of its equity shares comprising fresh issue of 5,593,300 shares of Rs 10 each at a price of Rs 425 per share.

2. Significant accounting policies

2.1. Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956, (the 'Act') to the extent applicable.

2.2 Use of estimates

The preparation of financial statements in conformity with the generally accepted accounting principles 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 financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in future periods.

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2.3 Fixed assets

- 2.3.1 Fixed assets are carried at cost of acquisition (including directly attributable costs such as freight, installation, etc.) or construction less accumulated depreciation. Borrowing costs directly attributable to acquisition or construction of those fixed assets, which necessarily take a substantial period of time to get ready for their intended use, are capitalised. Where fixed assets have been acquired from a country outside India, the cost of fixed assets also includes the exchange differences (favourable and unfavourable) arising in respect of foreign currency loans or other liabilities incurred specifically for the purpose of their acquisition or construction.
- 2.3.2 Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Such assets acquired on or after 1 April 2001 are capitalised at fair value of the asset or present value of the minimum lease payments at the inception of the lease, whichever is lower. Lease payments under operating leases are recognized as an expense in the statement of profit and loss on a straight-line basis over the lease term.
- 2.3.3 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.
- 2.3.4 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)	2-3 years
Furniture and fixtures	5 years
Electrical installations	3 years
Office equipment	4 years
Motor vehicles	4 years

- 2.3.5 Fixed assets individually costing Rs 5,000 or less are fully depreciated in the period of purchase/ installation.
- 2.3.6 Leasehold improvements are amortised over the lease term or useful life, whichever is lower.

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2.4 Investments

- 2.4.1 Long-term investments are carried at cost less any other-than-temporary diminution in value, determined on the specific identification basis.
- 2.4.2 Current investments are carried at the lower of cost (determined on the specific identification basis) and fair value. The comparison of cost and fair value is done separately in respect of each investment.
- 2.4.3 Profit or loss on sale of investments is determined on the specific identification basis.

2.5 Retirement benefits

- 2.5.1 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 Company has an employees' gratuity fund managed by the Life Insurance Corporation of India ('LIC') and ICICI Prudential Life Insurance Company. Actuarial gains and losses are charged to the profit and loss account.
- 2.5.2 Leave encashment is an other long term employee benefit and is accrued based on actuarial valuations at the balance sheet date, carried out by an independent actuary. The Company accrues for the expected cost of short term compensated absences in the period in which the employee renders services.
- 2.5.3 Contributions payable to the recognised provident fund, which is a defined contribution scheme, are charged to the profit and loss account.

2.6 Revenue recognition

- 2.6.1 The Company 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 person hours of work performed to date to the estimated total person hours 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. Revenues are stated net of discounts and include expenses billed to the customers.

Maintenance revenue is accrued over the period of the contract.

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.

- 2.6.2 Dividend income is recognised when the right to receive payment is established.
- 2.6.3 Interest income is recognized using the time proportion method, based on the transactional interest rates.

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2.7. Foreign exchange transactions

- 2.7.1 The Company 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 Company enters into foreign exchange forward contracts and other derivative instruments. Additionally, the Company enters into interest rate and currency derivatives to minimize its interest costs.
- 2.7.2 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, except for exchange differences arising on restatement of foreign currency loans or liability for acquiring fixed assets from a country outside India, which are adjusted in the carrying amount of such fixed assets.
- 2.7.3 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 except those related to acquisition of fixed assets from a country outside India, which are adjusted in the carrying amount of the related fixed assets. 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.
- 2.7.4 In respect of forward contracts and other derivatives that are designated as hedges of highly probable forecasted transactions, the ICAI has clarified that AS 11, the Effect of changes on foreign exchange rates, amended with effect from April 1, 2004, is not currently applicable to exchange differences arising from such instruments. Accordingly, such exchange differences are recorded in the period of settlement. The premium or discount on such contracts is amortized over the life of the contract in accordance with AS 11 (revised).
- 2.7.5 In respect of forward contracts and other derivatives that relate to foreign currency assets at the balance sheet date, the proportionate premium/ discount is recognized in the profit and loss account. The exchange difference measured by the change in exchange rate between the inception dates of the contract and the balance sheet date is recognized in the profit and loss account.
- 2.7.6 Net cash flows under interest rate derivative contracts are accounted for on an accrual basis.

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2.8. Warranties

Warranty costs 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.

2.9 Provision and contingent liabilities

The Company 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.

2.10 Taxation

The current income tax charge is determined in accordance with the relevant tax regulations applicable to the Company. 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.

The Company offsets, on a year on year basis, the current tax assets and liabilities, where it has a legally enforceable right and where it intends to settle such assets and liabilities on a net basis.

2.11 Fringe benefit tax

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

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2.12 Earnings per share

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

2.13 Goodwill

Goodwill has been recorded to the extent the cost of acquisition of the business, comprising purchase consideration and transaction costs, exceeds the value of net assets acquired. Goodwill is amortized over its useful life, as assessed at each period end.

2.14 Impairment of assets

The Company 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 Company 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.

2.15 Employee stock options

The Company 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.

3. Fully convertible preference shares and warrants

In July 2001, the Company issued 0.1% 2,820,000 non-cumulative fully convertible preference shares of Rs 236 each to its investors. These preference shares were converted to 6,722,424 equity shares of Rs.2 each through a resolution passed by the Board of Directors of the Company on July 28, 2005. No dividend was declared on these preference shares.

In December 2003, the Company entered into an agreement with an overseas customer whereby warrants have been issued to the customer. The warrants can be converted into equity share at an exercise price of Rs 2 per share, subject to regulatory provisions relating to pricing of shares issued to overseas persons. The customer could convert

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these warrants into equity shares based on revenues provided by the customer during the defined period and on fulfilling the conditions specified in the agreement.

On November 16, 2006, the customer converted these warrants into 1,240,017 equity shares of Rs 2 each at a premium of Rs 4.71 per share pursuant to a settlement agreement entered into with the Company.

4. On November 16, 2006, 31,695,237 equity shares outstanding of Rs 2 each have been consolidated into 6,339,047 equity shares of Rs 10 each and subsequently 25,356,190 bonus shares of Rs 10 each have been issued in the ratio of 4 bonus shares for every 1 share held by capitalization of securities premium, as approved by shareholders in the Extra Ordinary General Meeting on November 16, 2006.

5. Purchase of business

On October 1, 2004, the Company purchased the business of ASAP Solutions Private Limited and its subsidiaries. The total consideration of Rs 31,997,000 and direct transaction costs of Rs 4,037,455 were allocated to net assets of Rs 3,305,650 and goodwill of Rs 32,728,805. The consideration was payable on a deferred basis.

Amortization/impairment of goodwill for the year ended March 31, 2006, includes impairment loss of Rs 13,911,903 in respect of goodwill that had arisen on purchase of business from ASAP Solutions Private Limited.

6. Employee stock options

The Company 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

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, 2006	972,185
Granted during the year	-
Exercised during the year	856,609
Lapsed during the year	18,849
Forfeited during the year	88
Outstanding options as at March 31, 2007	96,639

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Program 2

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, 2006	1,303,988
Granted during the year	-
Exercised during the year	693,616
Lapsed during the year	59,771
Forfeited during the year	63,701
Outstanding options as at March, 31 2007	486,900

Program 3

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, 2006	-
Granted during the year	406,650
Exercised during the year	-
Lapsed during the year	-
Forfeited during the year	40,150
Outstanding options as at March, 31 2007	366,500

Program 4

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, 2006	-
Granted during the year	1,386,250
Exercised during the year	-
Lapsed during the year	-
Forfeited during the year	46,900
Outstanding options as at March, 31 2007	1,339,350

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Directors’ Stock Option Plan, 2006 (‘DSOP 2006’)

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

Outstanding options as at April 1, 2006	-
Granted during the year	70,000
Exercised during the year	-
Lapsed during the year	-
Forfeited during the year	-
Outstanding options as at March 31, 2007	70,000

The weighted average exercise price is Rs 10 under program 1, Rs 50 under program 2, Rs 250 under program 3, Rs 315.63 under program 4 and Rs.300 under DSOP 2006.

The weighted average share price for stock options exercised during the year was Rs 23.98. The options outstanding at March 31, 2007 had a weighted average exercise price of Rs 237.66 and a weighted average remaining contractual life of 5.24 years.

The guidance note on “Accounting for employee share based payments” issued by ICAI establishes financial accounting and reporting principles for employee share based payment plans. The guidance note applies to employee share based payment plans, the grant date in respect of which falls on or after April 1, 2005. Accordingly, the Company has recorded compensation cost for all grants made during the year ended March 31, 2007 by the intrinsic value-based method of accounting.

Had compensation been determined under the fair value approach described in the guidance note, the Company’s net income and basic and diluted earnings per share would have reduced to the proforma amounts as indicated:

	Year ended March 31, 2007	Year ended March 31, 2006
Net income as reported	900,522,971	542,087,261
Add: Stock-based employee compensation expense (intrinsic value method)	12,211,803	880,606
Less: Stock-based employee compensation expense (fair value method)	38,090,174	974,544
Proforma net income	874,644,600	541,993,323
Basic earnings per share as reported	28.98	20.13
Proforma basic earnings per share	28.15	20.12
Diluted earnings per share as reported	27.70	17.35
Proforma diluted earnings per share	26.94	17.34

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The weighted average fair value of each option granted during the year ended March 31, 2007, estimated on the date of grant was Rs 114.20 using the Black-Scholes model with the following assumptions:

Grant date share price	Rs 250 - 425
Exercise price	Rs 250-419
Dividend yield%	0-0.33%
Expected life	3-5 years
Risk free interest rate	6.88-7.96%
Volatility (since unlisted when the grants were made)	0%

The Company has established a Trust ('MindTree Benefit Trust'), which may at its discretion, repurchase shares from the employees, when an employee leaves the Company. This is facilitated through a loan to the Trust from the Company. Under certain circumstances, the shares repurchased by Trust, are issued to the employees of the Company.

Outstanding shares as at April 1, 2006	481,759
Sale during the year	375,600
Repurchased during the year	74,106
Outstanding shares as at March 31, 2007	180,265

During the year ended March 31, 2007, the Trust issued / sold 375,600 shares to certain employees at a price of Rs 300, which management believes was the fair value of the shares on the date of the sale.

7. Acquisition and amalgamation of Linc Software Services Private Limited.

On June 4, 2005, the Company acquired 100% equity in Linc Software Services Private Limited, which was subsequently renamed as MindTree Software Services Private Limited. The total consideration of Rs 306,372,000 and direct transaction costs of Rs 6,307,806 were allocated to net assets of Rs 60,951,532 resulting in goodwill of Rs 251,728,274. The consideration was payable on a deferred basis till March 15, 2007.

In terms of the scheme of amalgamation approved by the Hon'ble High Court of Karnataka on 28 July 2006, MindTree Software Services Private Limited was amalgamated with the Company with effect from April 1, 2005. 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) 207,671 equity shares of Rs 10/- each held by the Company in MindTree Software Services Private Limited were cancelled and extinguished, from the effective date of the scheme.
- b) All the assets and liabilities of MindTree Software Services Private Limited are recorded in the books of the Company at their carrying amounts as on 1 April 2005.

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- c) Pursuant to the scheme of amalgamation approved by the Hon'ble High Court of Karnataka, the goodwill of Rs 251,728,274 resulting from the amalgamation was set-off against the securities premium account of the Company. If the treatment specified by AS-14 had been followed, the goodwill balance of Rs 251,728,274 would have been amortized as per the Company's accounting policy.
- d) MindTree Software Services Private Limited had a fully owned subsidiary, LSI Inc, which was dissolved during the year and the resultant profit on dissolution of Rs. 8,330,951 is included under profit on sale of investments.
- e) Subsequent to the amalgamation, MindTree Software Services Private Limited has aligned the estimates of useful lives in respect of fixed assets to those of the Company and incremental depreciation charge of Rs 16,930,258 has been recorded.

8. Provision for taxation

The Company's profits from export of software and related activities are fully deductible from taxable income. Further, the unit of the Company at Bangalore is registered as a 100 percent Export Oriented Unit, which is entitled to a tax holiday period of ten years from the date of commencement of commercial operations under Section 10B of the Income Tax Act, 1961.

Deferred tax assets recognized are on account of timing differences in respect of fixed assets, which reverse after the tax holiday period amounting to Rs 46,355,361 (previous year-Rs Nil).

9. Contingent liabilities and commitments

- a) Guarantees given by Company's bankers as at March 31, 2007 is Rs 24,267,492 (previous year- Rs 500,000).
- b) Amount paid for income tax matters, under protest as at March 31, 2007 is Rs Nil (previous year - Rs 1,430,621).
- c) Estimated amount of contracts remaining to be executed on capital account and not provided for as at March 31, 2007 is Rs 695,007,234 (previous year -Rs 44,298,166).

10. Quantitative details

The Company is engaged in the software development services. Such services are not capable of being expressed in any generic unit and hence, it is not possible to give the quantitative details required under paragraphs 3 and 4C of Part II of the Schedule VI to the Companies Act, 1956.

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11. Value of imports on CIF basis

	Amount in Rs	
	For the year ended March 31, 2007	For the year ended March 31, 2006
Capital goods	157,090,354	82,581,818
Others	8,406,183	435,633
Total	165,496,537	83,017,451

12. Expenditure in foreign currency (accrual basis)

	Amounts in Rs	
	For the year ended March 31, 2007	For the year ended March 31, 2006
Travel expenses	213,707,629	161,059,841
Professional charges	19,553,901	8,185,473
Branch office expenses	1,623,155,864	1,299,701,067
Others	51,145,906	19,890,084
Total	1,907,563,300	1,488,836,465

13. Purchase of traded goods

	March 31, 2007		March 31, 2006	
	Quantity (Nos)	Value (Rs)	Quantity (Nos)	Value (Rs)
Software etc	-	-	1	1,043,520

14. Earnings in foreign currency (accrual basis)

	Amounts in Rs	
	For the year ended March 31, 2007	For the year ended March 31, 2006
Income from software development	5,534,426,308	3,969,644,361
Interest income	304,325	283,943
Other income	479,787	1,641
	5,535,210,420	3,969,929,945

15. Dues to small scale industries

There were no amounts due from the Company to Small Scale Industries as at March 31, 2007. (previous year – Rs Nil)

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Particulars	For the year ended March 31, 2007	For the year ended March 31, 2006
Audit fees*	8,421,960	1,346,880
Tax audit fee	168,540	168,360
Other services	224,720	561,200
Reimbursement of expenses *	121,687	61,019

* Audit fees and reimbursement of expenses include Rs.4,714,080 and Rs.85,669 towards share issue expenses for audit in connection with issue of equity shares of the Company which has been offset against the balance available in the securities premium account.

17. Segmental reporting

The Company's operations predominantly relate to providing IT services in two primary business segments viz. IT Services and R&D Services. The Company 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 is 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 Company 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 Company 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

Profit and Loss statement for the year ended March 31, 2007	R&D Services	IT Services	Total
Revenues	1,444,629,293	4,458,894,575	5,903,523,868
Operating expenses, net	1,190,620,187	3,588,521,661	4,779,141,848
Segmental operating income	254,009,106	870,372,914	1,124,382,020
Unallocable expenses			272,381,076
Profit for the period before interest			852,000,944
Interest expense			29,987,696
Other income			73,647,603
Net profit before taxes			895,660,851
Income taxes			(4,862,120)
Net profit after taxes			900,522,971

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Profit and Loss statement for the year ended March 31, 2006	R&D Services	IT Services	Total
Revenues	1,054,484,803	3,433,498,355	4,487,983,158
Operating expenses, net	870,058,764	2,822,438,050	3,692,496,814
Amortization/impairment of goodwill		22,369,004	22,369,004
Segmental operating income	184,426,039	588,691,301	773,117,340
Unallocable expenses			228,667,635
Profit for the year before interest			544,449,705
Interest expense			52,636,859
Other income			65,735,586
Net profit before taxes			557,548,432
Income taxes			15,461,171
Net profit after taxes			542,087,261

Geographical segments

Revenues	Year ended March 31, 2007 Rs	Year ended March 31, 2006 Rs
America	3,734,733,310	2,828,488,887
Europe	1,306,393,578	1,012,653,612
India	304,729,375	270,524,138
Rest of World	557,667,605	376,316,521
Total	5,903,523,868	4,487,983,158

18. Related party transactions

Name of Related Party	Relationship
MindTree Benefit Trust	The Trust is effectively controlled by the Company
Linc Software Inc., USA (Dissolved as of September 30, 2005)	100% subsidiary of MindTree Software Services Private Limited.

Transactions with the above related parties during the period were:

Name of Related Party	Nature of Transaction	March 31, 2007	March 31, 2006
MindTree Benefit Trust	Loans Given/ (Repaid)	(5,356,600)	1,450,000
Linc Software Inc	Advances received (net)	Nil	3,767,894
Linc Software Inc	Software services billed	Nil	2,209,460

Balances receivable from related parties are as follows:

Name of Related Party	March 31, 2007	March 31, 2006
MindTree Benefit Trust	Nil	5,356,600

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Key managerial personnel:

Ashok Soota	Chairman and Managing Director
Subroto Bagchi	Chief Operating Officer
N Krishnakumar	President and CEO, IT services
S Janakiraman	President and CEO, R&D services
Dr. Albert Hieronimus	Non executive Director
George M. Scalise	Non executive Director
Mark A. Runacres	Non executive Director
N. Vittal	Non executive Director
R. Srinivasan	Non executive Director

Managerial remuneration paid to key managerial personnel amounts to Rs 18,820,257 (previous year - Rs 11,645,710). Advances due from directors in the nature of travel and business expense advances as at March 31, 2007 amounted to Rs 1,410,650 (previous year - Rs 707,141).

19. Computation of net profit in accordance with section 198 and with section 349 of the Companies Act, 1956

Particulars	For the year ended March 31, 2007
Profit before taxation	895,660,851
Add: Depreciation as per accounts	244,356,074
Managerial remuneration	18,820,257
Provision for doubtful debts/advances	9,558,327
Less: Depreciation as per Section 350*	244,356,074
Bad debts written off	-
Profit on sale of investments	12,262,281
Net profit for section 198 of the Companies Act, 1956	911,777,154
Managerial remuneration** comprises of:	
Salaries and allowances	13,033,154
Contribution to provident fund	510,647
Perquisites	1,939,456
Directors' sitting fees	235,000
Commission to non-executive Directors	3,102,000
Total	18,820,257

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* The Company depreciates the fixed assets based on the estimated useful lives that are lower than those implicit in Schedule XIV of the Companies Act 1956. Accordingly the rates of the depreciation used by the Company are higher than the minimum prescribed by the Schedule XIV

**Stock compensation cost amounting to Rs 641,667 has not been considered in the managerial remuneration computation.

20. Lease transactions

All assets leased on a 'finance lease' basis on or after April 1, 2001 are capitalized in the books of the Company with a corresponding liability recognising future liability on these leases. The Company 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	
	As at March 31, 2007	As at March 31, 2006
(a) Total minimum lease payments	47,607,360	55,052,020
(b) Future interest included in (a) above	5,976,041	7,272,427
(c) Present value of minimum lease payments	41,631,319	47,779,593

[(a)- (b)]

The maturity profile of finance lease obligations is as follows:

Period	Minimum lease payments	Present value
Payable not later than one year	15,035,324	16,811,754
Payable later than one year and not later than five years	32,572,036	28,510,683

Finance charges during the year on such finance leases as mentioned above are Rs 3,367,292 (previous year-Rs 5,299,618) 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 60,722,766 (previous year-Rs 149,134,244). Future minimum lease payments under non-cancelable operating lease as at March 31, 2007 is as below:

Minimum lease payments	Amounts in Rs
Payable -- Not later than one year	78,411,550
Payable -- Later than one year and not later than five years	176,473,474

Additionally, the Company leases office facilities and residential facilities under cancelable operating leases. The rental expense under cancelable operating lease during the period was Rs 156,566,315 (previous year-Rs 35,922,732).

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Rental income from sub-lease of office facilities during the period was Rs 19,459,656 (previous year- Rs 30,917,318) which is included in miscellaneous income.

21. Earnings per share

The computation of earnings per share is set out below:

Particulars	For the year ended March 31, 2007		For the year ended March 31, 2006	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Profit after tax	900,522,971		542,087,261	
Shares				
Weighted average number of equity shares outstanding during the period	31,069,696	31,069,696	26,933,716	26,933,716
Weighted average number of equity shares resulting from assumed exercise of employee stock options	-	1,442,510	-	2,143,649
Weighted average number of equity shares resulting from conversion of convertible preference shares	-	-	-	2,173,277
Weighted average number of equity shares for calculation of earnings per share	31,069,696	32,512,206	26,933,716	31,250,642

As per the Guidance note (issued in January 2005) on Accounting for Employee Share Based Payments by the ICAI, 357,707 (previous year-473,136), 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, 2007. Equity shares issuable pursuant to the warrant agreement with the customer are considered outstanding and included in the computation of basic and diluted earnings per share to the extent that conditions specified in the agreement are met.

Consequent to consolidation of shares and subsequent issue of bonus shares as explained in Note 4, the number of equity shares outstanding before the said event is adjusted for the proportionate change in the number of equity shares outstanding, as if the event had occurred at the beginning of the earliest period reported.

22. Statement of utilisation of IPO funds as of March 31, 2007

Particulars	Amount in Rs.
Amount raised through IPO	2,377,152,500
Share issue expenses paid	56,795,947
Net proceeds	2,320,356,553
Deployment	
Repayment of debts	113,750,000
Investment in fixed deposits with banks	400,000,000
Short term investments in mutual funds pending utilization	1,742,991,606
Balance in bank account (unutilized)	63,614,947

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23. Gratuity plan

Effective April 1, 2006 the Company adopted the revised accounting standard on employee benefits. Pursuant to the adoption, there are no transitional obligations of the Company.

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

Particulars	As at March 31, 2007 (Rs)
Obligations at beginning of the year	45,996,519
Service cost	23,762,574
Interest cost	3,679,722
Benefits settled	(1,462,535)
Actuarial (gain)/loss	(2,021,712)
Obligations at end of the year	69,954,568
Change in plan assets	
Plans assets at beginning of the year , at fair value	45,996,519
Expected return on plan assets	3,679,722
Actuarial gain/(loss)	(180,030)
Contributions	17,874,746
Benefits settled (estimated)	(1,462,535)
Plans assets at end of the year , at fair value	65,908,422
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	65,908,422
Present value of the defined benefit obligations at the end of the year	69,954,568
Asset/(liability) recognized in the balance sheet	(4,046,146)
Gratuity cost for the year	
Service cost	23,762,574
Interest cost	3,679,722
Expected return on plan assets	(3,679,722)
Actuarial (gain)/loss	(1,841,682)
Net gratuity cost	21,920,892
Assumptions	
Interest rate	8.00%
Expected rate of return on plan assets	8.00%
Expected rate of salary increase	8.00%
Attrition rate	10.00%
Retirement age	60 years

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

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24. Derivatives

Forward contracts

As at March, 31 2007, the Company had outstanding forward contracts amounting to USD 14 million. Of the above amount, forward contracts to the extent of USD 8 million have underlying foreign currency debtors and remaining forward contracts of USD 6 million are in respect of highly probable forecasted transactions (previous year USD 6.85 million). The unamortized premium on these contracts as at March 31, 2007 is Rs 2.67 million (previous year- Rs 0.78 million).

Options

As at March 31, 2007, the Company had outstanding options amounting to USD 9.5 million. Of the above amount, options to the extent of USD 5 million have underlying foreign currency debtors, USD 0.5 million have underlying foreign currency creditors and remaining options of USD 4 million are in respect of highly probable forecasted transactions.

Currency and interest rate swaps

As at March, 31, 2007, the Company had entered into currency and interest rate swap arrangements to the extent of Rs 57.44 million (previous year- Rs 213.33 million). Exchange gain of Rs 1,634,795 (previous year- exchange loss Rs 1,735,137) has been recognized in the profit and loss account in accordance with the accounting policy of the Company.

25. Prior period comparatives

Previous year's figures have been regrouped /reclassified wherever necessary, to conform to current period's classification.