

i-flex Solutions Limited

BALANCE SHEET AS AT DECEMBER 31, 2006

(Amounts in thousands of Indian Rupees)

	December 31, 2006	March 31, 2006
<u>SOURCES OF FUNDS</u>		
Shareholders' funds		
Share capital	406,888	381,442
Reserves and surplus	21,387,933	13,245,866
	21,794,821	13,627,308
 <u>APPLICATION OF FUNDS</u>		
Fixed assets		
Cost	3,106,248	2,818,892
Less: Accumulated depreciation and amortisation	1,589,451	1,184,941
Net book value	1,516,797	1,633,951
Capital work-in-progress and advances	1,003,463	581,356
	2,520,260	2,215,307
Investments	6,092,641	413,536
Deferred tax asset	115,749	70,762
Current assets, loans and advances		
Sundry debtors	9,508,475	7,428,617
Cash and bank balances	4,037,491	5,579,881
Other current assets	836,707	257,437
Loans and advances	4,435,521	2,537,839
	18,818,194	15,803,774
Less: Current liabilities and provisions		
Current liabilities	5,554,870	4,386,993
Provisions	197,153	489,078
	5,752,023	4,876,071
Net current assets	13,066,171	10,927,703
	21,794,821	13,627,308

i-flex Solutions Limited

PROFIT AND LOSS ACCOUNT FOR THE THREE AND NINE MONTH PERIOD ENDED DECEMBER 31, 2006
(Amounts in thousands of Indian Rupees, except per share data)

	Three month period ended		Nine month period ended	
	December 31,		December 31,	
	2006	2005	2006	2005
Revenue	3,955,632	2,974,747	11,007,537	7,815,068
Cost of revenue	(2,293,555)	(1,655,426)	(6,531,560)	(4,712,799)
Gross profit	1,662,077	1,319,321	4,475,977	3,102,269
Operating expenses				
Selling and marketing expenses	(160,028)	(134,151)	(490,590)	(444,775)
General and administrative expenses	(464,376)	(411,141)	(1,381,090)	(1,074,477)
Depreciation and amortisation	(142,059)	(93,847)	(406,589)	(269,694)
Income from operations	895,614	680,182	2,197,708	1,313,323
Non-operating income (expense)				
Interest income	78,637	71,864	276,987	218,484
Other income (expense)	(36,337)	(8,477)	(3,432)	(24,437)
Income before provision for taxes and prior period item	937,914	743,569	2,471,263	1,507,370
Provision for taxes	(27,419)	(164,115)	(195,848)	(277,203)
Net income for the period before prior period item	910,495	579,454	2,275,415	1,230,167
Prior period item	-	-	-	(39,549)
Net income	910,495	579,454	2,275,415	1,190,618
Profit and loss account, beginning of the period	1,829,161	1,103,658	464,241	492,494
Amount available for appropriation	2,739,656	1,683,112	2,739,656	1,683,112
Dividend paid on stock options exercised	(1,237)	(1,140)	(1,237)	(1,140)
Corporate dividend tax on stock options exercised	(174)	(160)	(174)	(160)
Profit and loss account, end of the period	2,738,245	1,681,812	2,738,245	1,681,812
Earnings per share of Rs 5/- each (in Rs)				
Basic	11.22	7.62	29.06	15.80
Diluted	10.92	7.42	28.27	15.37

i-flex Solutions Limited

STATEMENT OF CASH FLOW FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2006

(Amounts in thousands of Indian Rupees)

	Nine month period ended December 31,	
	2006	2005
Cash flows from operating activities		
Income before provision for taxes and prior period item	2,471,263	1,507,370
Adjustments to reconcile income before provision for taxes to cash (used in) provided by operating activities :		
Depreciation and amortisation	406,589	269,694
Profit on sale of fixed assets, net	-	(203)
Loss on sale of investment	-	4,785
Reversal of provision for diminution in the value of investments, net	-	(5,528)
Marked to market of current investment	369	-
Interest income	(276,987)	(218,484)
Effect of exchange difference on cash and bank balances	320	(11)
Finance charge on leased assets	1,804	1,825
Advances written off	-	28,952
Provision for doubtful debts, net	46,133	45,811
	2,649,491	1,634,211
Changes in assets and liabilities, net of effect of acquisition		
Increase in sundry debtors and unbilled revenue	(2,529,811)	(901,340)
Increase in loans and advances	(1,660,283)	(503,005)
Increase in current liabilities and provisions	1,205,653	332,353
Cash from operating activities	(334,950)	562,219
Payment of domestic and foreign taxes	(582,088)	(525,843)
Net cash (used in) provided by operating activities	(917,038)	36,376
Cash flows from investing activities		
Additions to fixed assets including capital work-in-progress	(686,580)	(761,127)
Acquisition of customer contracts and IPRs	-	(38,555)
Investment in subsidiary company	(5,679,474)	-
Proceeds from sale of fixed assets	11,569	8,454
Bank fixed deposits having maturity of more than 90 days matured	6,560,514	5,353,064
Bank fixed deposits having maturity of more than 90 days booked	(5,245,816)	(5,147,966)
Proceeds from maturity of investments	20,000	2,621
Interest received	233,861	193,727
Net cash used in investing activities	(4,785,926)	(389,782)
Cash flows from financing activities		
Issue of shares against ESOP scheme and options to IBM	161,576	299,857
Issue of shares to Oracle Global Mauritius Limited	5,814,999	-
Advance against warrants granted to GE	-	40,441
Advance against equity shares to be issued under ESOP scheme	5,234	6,725
Repayment of loan by Employee Stock Purchase Scheme ('ESPS') Trust	4,925	85,000
Loan to subsidiaries	(64,963)	(214,235)
Payment of dividend and tax thereon	(436,350)	(428,207)
Payment of lease obligations	(9,931)	(7,495)
Net cash provided by (used in) financing activities	5,475,490	(217,914)
Effect of exchange difference on cash and bank balances	(320)	11
Net decrease in cash and cash equivalents	(227,794)	(571,309)
Cash and cash equivalents at beginning of the period	795,736	1,153,215
Cash and cash equivalents at end of the period (Note 1)	567,942	581,906

Note 1 :**Component of cash and cash equivalent**

	December 31,	
	2006	2005
Cash in hand	998	413
Funds in transit	-	2,575
Cheques on hand	199	71,185
Balances with scheduled banks:		
Current accounts in foreign currency	296,080	363,551
Other current accounts	34,393	27,943
Deposit accounts	3,169,102	3,388,306
Deposit amount of unutilised IPO funds/preferential issue	522,505	758,728
Margin money deposit	3,410	1,883
Unclaimed dividend accounts	2,129	2,106
Balances with non-scheduled banks:		
Current accounts in foreign currency	8,290	371
Deposit account in foreign currency	385	393
Total Cash and bank balances	4,037,491	4,617,454
Less:		
Bank deposits having maturity of more than 90 days	(3,464,010)	(4,031,559)
Margin money deposit	(3,410)	(1,883)
Unclaimed dividend accounts	(2,129)	(2,106)
Cash and cash equivalents at the end of the period	567,942	581,906

Schedules annexed to and forming part of the accounts for the period ended December 31, 2006
(All amounts in thousands of Indian Rupees)

Segment information

Business segments are defined as a distinguishable component of an enterprise that is engaged in providing a group of related products or services and that is subject to differing risks and returns and about which separate financial information is available. This information is reviewed and evaluated regularly by the management in deciding how to allocate resources and in assessing the performance.

The Company is organised geographically and by business segment. For management purposes the Company is primarily organised on a worldwide basis into two business segments:

- a) Product licenses and related activities ('Products') and
- b) IT solutions and consulting services ('Services').

The business segments are the basis on which the Company reports its primary segment information to management. Product licenses and related activities segment deals with banking software products like the FLEXCUBE suite of products, Reveleus and Microbanker which cater to needs of corporate, retail and investment banking as well as treasury operations and data warehousing requirements. The related activities include enhancements, implementation and maintenance activities.

IT solutions and consulting services comprise of bespoke software development, provision of computer software solutions and related consulting services arising from such activities. This segment is further sub-divided in the following sub-segments i.e. Business intelligence, Customer relationship management, Brokerage, e-commerce, Internet services and IT and Business consulting.

The Company does not track assets and liabilities geographically.

Three month period ended December 31, 2006

Particulars	Products	Services	Corporate	Total
Revenue	2,359,911	1,595,721	-	3,955,632
Cost of revenue	(996,702)	(1,296,853)	-	(2,293,555)
Gross profit	1,363,209	298,868	-	1,662,077
Selling and marketing expenses	(136,023)	(24,005)	-	(160,028)
General and administrative expenses	(105,009)	(101,279)	(258,088)	(464,376)
Depreciation and amortisation	(62,977)	(60,357)	(18,725)	(142,059)
Income from operations	1,059,200	113,228	(276,813)	895,614
Interest income				78,637
Other income, net				(36,337)
Income before provision for taxes				937,914
Provision for taxes				(27,419)
Net income				910,495

Other information

Capital expenditure by segment	162,673	104,152	24,385	291,210
Segment assets	7,329,637	7,566,679	12,650,528	27,546,844
Segment liabilities	3,006,907	2,434,369	310,747	5,752,023
Share capital and reserves and surplus	-	-	21,794,821	21,794,821

Three month period ended December 31, 2005

Particulars	Products	Services	Corporate	Total
Revenue	1,661,997	1,312,750	-	2,974,747
Cost of revenue	(641,173)	(1,014,253)	-	(1,655,426)
Gross profit	1,020,824	298,497	-	1,319,321
Selling and marketing expenses	(132,687)	(1,463)	-	(134,151)
General and administrative expenses	(98,024)	(107,392)	(205,725)	(411,141)
Depreciation and amortisation	(36,952)	(48,550)	(8,345)	(93,847)
Income from operations	753,161	141,092	(214,070)	680,182
Interest income				71,864
Other expense, net				(8,477)
Income before provision for taxes				743,569
Provision for taxes				(164,115)
Net income				579,454

Other information

Capital expenditure by segment	40,624	97,229	74,437	212,290
Segment assets	4,140,999	5,811,188	6,785,438	16,737,625
Segment liabilities	1,134,021	419,813	2,436,183	3,990,017
Share capital and reserves and surplus	-	-	12,747,608	12,747,608

i-flex Solutions Limited

Schedules annexed to and forming part of the accounts for the period ended December 31, 2006
(All amounts in thousands of Indian Rupees)

Nine month period ended December 31, 2006

Particulars	Products	Services	Corporate	Total
Revenue	6,235,722	4,771,815	-	11,007,537
Cost of revenue	(2,792,962)	(3,738,598)	-	(6,531,560)
Gross profit	3,442,760	1,033,217	-	4,475,977
Selling and marketing expenses	(417,011)	(73,579)	-	(490,590)
General and administrative expenses	(381,160)	(300,986)	(698,944)	(1,381,090)
Depreciation and amortisation	(185,643)	(165,348)	(55,598)	(406,589)
Income from operations	2,458,946	493,304	(754,542)	2,197,708
Interest income				276,987
Other income, net				(3,432)
Income before provision for taxes				2,471,263
Provision for taxes				(195,848)
Net income				2,275,415
Other information				
Capital expenditure by segment	162,673	104,152	24,385	291,210
Segment assets	7,329,637	7,566,679	12,650,528	27,546,844
Segment liabilities	3,006,907	2,434,369	310,747	5,752,023
Share capital and reserves and surplus	-	-	21,794,821	21,794,821

Nine month period ended December 31, 2005

Particulars	Products	Services	Corporate	Total
Revenue	4,185,974	3,629,094	-	7,815,068
Cost of revenue	(1,820,749)	(2,892,050)	-	(4,712,799)
Gross profit	2,365,225	737,044	-	3,102,269
Selling and marketing expenses	(437,459)	(7,316)	-	(444,775)
General and administrative expenses	(200,850)	(251,662)	(621,965)	(1,074,477)
Depreciation and amortisation	(90,563)	(111,736)	(67,395)	(269,694)
Income from operations	1,636,353	366,330	(689,360)	1,313,323
Interest income				218,484
Other expense, net				(24,437)
Income before provision for taxes and prior period item				1,507,370
Provision for taxes				(277,203)
Net income before prior period item				1,230,167
Prior period item				(39,549)
Net income				1,190,618
Other information				
Capital expenditure by segment	104,100	247,922	94,517	446,539
Segment assets	4,140,999	5,811,188	6,785,438	16,737,625
Segment liabilities	1,134,021	419,813	2,436,183	3,990,017
Share capital and reserves and surplus	-	-	12,747,608	12,747,608

**Schedules annexed to and forming part of the accounts for the period ended December 31, 2006
(All amounts in thousands of Indian Rupees)**

Segment revenue and expense:

Revenue is generated through licensing of software products as well as by providing software solutions to the customers including consulting services. The expenses which are not directly attributable to a business segment are shown as corporate expenses.

Segment assets and liabilities:

Segment assets include all operating assets used by a segment and consist principally of debtors, deposits for premises and fixed assets, net of allowances. Segment liabilities primarily includes deferred revenues, finance lease obligation, advance from customer, accrued employee cost and other current liabilities. While most such assets and liabilities can be directly attributed to individual segments, the carrying amount of certain assets and liabilities used jointly by two or more segments is allocated to the segment on a reasonable basis. Assets and liabilities that cannot be allocated between the segments are shown as part of corporate assets.

Geographical segments

The following table shows the distribution of the Company's sales by geographical market :

Regions	Three month period ended		Three month period ended	
	December 31, 2006		December 31, 2005	
	Amount	%	Amount	%
United States of America	1,308,188	33%	1,269,640	43%
Europe	1,155,046	29%	863,078	29%
Asia Pacific	943,683	24%	435,573	15%
Middle East, India and Africa	530,721	13%	366,027	12%
Latin America and Caribbean	17,994	1%	40,429	1%
	3,955,632	100%	2,974,747	100%

Regions	Nine month period ended		Nine month period ended	
	December 31, 2006		December 31, 2005	
	Amount	%	Amount	%
United States of America	4,013,276	36%	3,402,882	43%
Europe	3,102,579	28%	1,895,813	24%
Asia Pacific	2,154,717	20%	1,232,241	16%
Middle East, India and Africa	1,673,227	15%	1,143,105	15%
Latin America and Caribbean	63,738	1%	141,027	2%
	11,007,537	100%	7,815,068	100%