

i-flex Solutions Limited

Consolidated Balance Sheet

(Amounts in thousands, except share and per share data)

	March 31, 2006	December 31, 2006	
	Rs	Rs	\$
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	2,082,098	2,785,019	63,138
Bank deposits	4,780,235	3,472,839	78,731
Accounts receivables, net of allowance of Rs 99,439 and Rs 152,938 (\$3,467 )	5,223,217	6,545,316	148,386
Accounts receivables, -related parties	34,185	130,369	2,956
Unbilled accounts receivables	295,053	799,428	18,124
Marketable securities, available for sale	10,000	9,631	218
Prepaid taxes	-	759,234	17,212
Rental Deposit	-	779,963	17,682
Prepaid expenses	149,241	269,832	6,117
Other current assets	797,740	659,140	14,943
Total current assets	<b>13,371,769</b>	<b>16,210,771</b>	<b>367,507</b>
Goodwill	549,535	4,260,765	96,594
Intangible assets, net	343,265	1,635,755	37,084
Property and equipment, net	2,174,282	2,572,913	58,329
Investment in equity investees	15,616	22,630	513
Other investments	33,254	33,254	754
Rental deposits	1,206,553	1,716,233	38,908
Restricted cash and cash equivalents	1,883	8,047	182
Deferred tax assets	70,762	153,097	3,471
<b>TOTAL ASSETS</b>	<b>17,766,919</b>	<b>26,613,465</b>	<b>603,342</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	139,549	279,636	6,340
Accrued employee costs	1,052,549	1,360,518	30,844
Deferred revenue	1,731,980	2,541,556	57,619
Other current liabilities	1,056,821	1,357,567	30,777
Obligations under capital leases – current	10,371	10,836	246
Total current liabilities	<b>3,991,270</b>	<b>5,550,113</b>	<b>125,823</b>
Deferred rent	-	31,045	704
Deferred revenue	131,838	55,980	1,269
Obligations under capital leases – non current	19,653	15,335	348
Deferred tax liabilities	1,649	1,756	40
Total liabilities	<b>4,144,412</b>	<b>5,654,229</b>	<b>128,184</b>
Commitments			
Shareholders' equity			
Equity shares, Rs 5 par value, Authorized: 100,000,000 shares			
Issued and outstanding, 81,377,678 shares	381,442	406,888	9,224
Equity shares subscribed 19,750 shares	10,309	5,234	119
Additional paid-in-capital	3,070,283	9,219,626	209,014
Retained earnings	10,695,295	12,250,393	277,724
Accumulated other comprehensive loss	(74,920)	(365,185)	(8,279)
Deferred share based compensation - Employees Share Purchase Scheme (“ESPS”) Trust	(459,900)	(557,720)	(12,644)
Total shareholders' equity	<b>13,622,509</b>	<b>20,959,236</b>	<b>475,158</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>17,766,919</b>	<b>26,613,465</b>	<b>603,342</b>

i-flex Solutions Limited

Consolidated Statement of Income  
(Amounts in thousands, except per share data)

	<b>Nine month period ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2006</b>
	<b>Rs</b>	<b>Rs</b>	<b>\$</b>
Revenue	10,258,429	14,586,663	330,688
Cost of revenue (excluding depreciation and amortisation)	(5,868,686)	(8,431,825)	(191,155)
Gross profit	4,389,743	6,154,838	139,533
Operating expenses			
Selling and marketing expenses	(1,471,665)	(1,954,265)	(44,304)
General and administrative expenses	(1,281,504)	(1,707,555)	(38,711)
Depreciation and amortisation	(353,129)	(585,640)	(13,277)
Operating income	1,283,445	1,907,378	43,241
Non-operating income, net			
Interest income	215,820	279,560	6,338
Other income, net	(45,115)	42,571	965
Income before income taxes	1,454,150	2,229,509	50,544
Provision for income taxes	(436,784)	(245,075)	(5,556)
Equity in net income of equity investees	3,924	7,014	159
Net income	1,021,290	1,991,448	45,147
Earnings per share			
Basic	13.63	25.54	0.56
Diluted	13.23	24.85	0.54

i-flex Solutions Limited

Consolidated Statement of Cash Flows

(Amounts in thousands)

	<b>Nine month period ended</b>	
	<b>December 31, 2006</b>	
	<b>Rs</b>	<b>\$</b>
Cash flows from operating activities		
Net income	1,991,448	45,147
Adjustments to reconcile net income to net cash used in operating activities		
Amortisation of shares based compensation	4,338	98
Depreciation and amortisation	585,640	13,277
Provision for doubtful accounts, net	63,910	1,449
Share based compensation cost	85,160	1,931
Deferred tax benefit	(82,567)	(1,872)
Deferred compensation cost	17,708	401
Equity in net income of equity investee	(7,014)	(159)
	<u>2,658,623</u>	<u>60,272</u>
Changes in operating assets and liabilities, net of effect of acquisition		
Accounts receivables and unbilled receivables	(1,985,825)	(45,020)
Other current assets and other assets	(2,052,344)	(46,528)
Current liabilities and other liabilities	1,471,654	33,364
Net cash used in operating activities	<u>92,108</u>	<u>2,088</u>
Cash flows from investing activities		
Acquisition of companies, net of cash acquired	(5,492,194)	(124,511)
Purchase of property and equipment including capital work-in-progress	(785,048)	(17,798)
Proceeds from sale of property and equipment	11,569	262
Proceeds from bank deposits	6,560,514	148,731
Investment in bank deposits	(5,254,646)	(119,126)
Proceeds from sale of investment	20,000	453
Net cash provided by investing activities	<u>(4,939,805)</u>	<u>(111,988)</u>
Cash flows from financing activities		
Shares subscribed but not issued	5,234	119
Issue of shares to Oracle Global (Mauritius) Limited	5,814,999	131,829
Issue of shares against ESOP scheme	161,576	3,663
Repayment of loan by the ESPS trust	4,925	112
Capital lease payments	(3,696)	(84)
Dividend and tax thereon	(436,350)	(9,892)
Net cash provided by financing activities	<u>5,546,688</u>	<u>125,747</u>
Net increase in cash and cash equivalents	698,991	15,847
Effect of exchange rate changes on cash and cash equivalents	3,930	89
Cash and cash equivalents at the beginning of the period	<u>2,082,098</u>	<u>47,202</u>
Cash and cash equivalents at the end of the period	<u>2,785,019</u>	<u>63,138</u>

i-flex Solutions Limited

Consolidated Statement of Shareholders' Equity  
 Nine month period ended December 31, 2006

(Amounts in thousands, except share data)

	Indian rupees							
	Equity shares		Shares subscribed but not issued	Additional paid- in-capital	Retained earnings	Accumulated other comprehensive loss	Deferred share based Compensation in respect of ESPS Trust	Total shareholders' equity
	Number	Par Value						
Balance at April 1, 2005	74,879,650	374,398	6,546	2,516,636	8,933,133	(54,700)	(478,208)	11,297,805
Options exercised	-	-	10,309	-	-	-	-	10,309
Shares issued for exercised options	1,408,717	7,044	(6,546)	396,630	-	-	-	397,128
Fair value of options granted to GE	-	-	-	57,825	-	-	-	57,825
Repayment of loan by the ESPS trust	-	-	-	-	-	-	117,500	117,500
Deferred stock based compensation - ESPS trust	-	-	-	99,192	-	-	(99,192)	-
Cash dividend	-	-	-	-	(428,207)	-	-	(428,207)
Comprehensive income	-	-	-	-	-	-	-	-
Net income	-	-	-	-	2,190,369	-	-	2,190,369
Foreign currency translation	-	-	-	-	-	(20,220)	-	(20,220)
Comprehensive income	-	-	-	-	-	-	-	2,170,149
Balance at April 1, 2006	76,288,367	381,442	10,309	3,070,283	10,695,295	(74,920)	(459,900)	13,622,509
Options exercised but not issued	-	-	5,234	-	-	-	-	5,234
Shares issued for the exercise of options	641,893	3,209	(10,309)	168,676	-	-	-	161,576
Shares issued to Oracle Global (Mauritus) Limited	4,447,418	22,237	-	5,792,762	-	-	-	5,814,999
Repayment of loan by the ESPS trust	-	-	-	-	-	-	4,925	4,925
Deferred share based compensation - ESPS trust	-	-	-	102,745	-	-	(102,745)	-
Deferred share based compensation	-	-	-	85,160	-	-	-	85,160
Cash dividend	-	-	-	-	(436,350)	-	-	(436,350)
Comprehensive income	-	-	-	-	-	-	-	-
Net income	-	-	-	-	1,991,448	-	-	1,991,448
Mark to market of available for sale securities	-	-	-	-	-	(369)	-	(369)
Foreign currency translation	-	-	-	-	-	(289,896)	-	(289,896)
Comprehensive income	-	-	-	-	-	-	-	1,701,183
<b>Balance at December 31, 2006</b>	<b>81,377,678</b>	<b>406,888</b>	<b>5,234</b>	<b>9,219,626</b>	<b>12,250,393</b>	<b>(365,185)</b>	<b>(557,720)</b>	<b>20,959,236</b>
								<b>US dollar</b>
<b>Balance at December 31, 2006</b>	<b>81,377,678</b>	<b>9,224</b>	<b>119</b>	<b>209,014</b>	<b>277,724</b>	<b>(8,279)</b>	<b>(12,644)</b>	<b>475,158</b>

## Segmental information

The Group has adopted SFAS No. 131, “*Disclosures about Segments of an Enterprise and Related Information*”, which requires reporting information about operating segments in annual financial statements. Operating segments are identified as components of an enterprise that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the enterprises Chief Operating Decision Maker to make decisions about resources to be allocated and for which separate discrete financial information is available. For management purposes the Group is primarily organized on a worldwide basis into three business segments:

- a) Product licenses and related activities (“Products”);
- b) IT solutions and consulting services (“Services”) and
- c) Knowledge processing services (“KPO”)

The Group reports operating performance of its business segments to management. The Product license segment comprises of banking products like the FLEXCUBE suite of products, Microbanker and Daybreak 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. Product segment further comprises of casualty insurance carriers which include insurance product and process configuration, policy administration, customer management, billing and claims management. Anti-money laundering and compliance solutions are the new additions to product segment on acquisition of Mantas Substantially all of the product revenue relate to the FLEXCUBE product. IT solutions and consulting services comprise of bespoke software development, computer software solutions and related consulting services arising from such activities. The services provided under this segment include Business intelligence, Customer relationship management, Brokerage, e-commerce, Internet services and IT and business consulting. KPO comprises of business process outsourcing services for the mortgage industry.

Expenses, which are not attributable to a business segment, are shown as Corporate expenses. Cost of revenues comprise of all direct employee costs, travel cost of software professionals, professional fees to software vendors and application software cost used for internal use.

The Group allocates expenditure incurred on selling and marketing expenses in the ratio of the revenues between Products and Services, or in the ratio of the efforts spent in marketing products and services. General and administrative costs are costs, which primarily comprise of rent, power, communication, repairs and maintenance for a particular segment. Additionally employee costs, rent, power and communication costs for support groups are allocated in the ratio of revenues between the segments. All other segment revenue and expense are directly attributable to the segments.

Segment assets include all operating assets used by a segment and consist principally of receivables, deposits for premises and property and equipment, net of allowances and provisions. Segment liabilities primarily include deferred revenues, capital lease obligation, advances from customers, accrued employee cost and other current liabilities. While most such assets and liabilities can be directly attributed to individual business segments, the carrying amount of certain assets and liabilities used jointly by both 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.

## Segmental information (continued)

	Nine month period ended December 31, 2006				
	Products	Services	KPO	Corporate	Total
	<i>(Amount in Rs)</i>				
Revenue	7,760,320	6,524,797	301,546	-	14,586,663
Cost of revenue (excluding depreciation and amortisation)	(3,399,680)	(4,859,859)	(172,286)	-	(8,431,825)
Gross profit	4,360,640	1,664,938	129,260	-	6,154,838
Operating expenses					
Selling and marketing expenses	(1,614,431)	(266,489)	(73,345)	-	(1,954,265)
General and administrative expenses	(561,739)	(303,750)	(96,162)	(745,904)	(1,707,555)
Depreciation and amortisation	(339,974)	(169,755)	(23,551)	(52,360)	(585,640)
Operating profit	1,844,496	924,944	(63,798)	(798,264)	1,907,378
Interest income					279,560
Other income, net					42,571
Income before provision for income taxes					2,229,509
Provision for income taxes					(245,075)
Equity in net income of equity investees					7,014
Net income					1,991,448

	Nine month period ended December 31, 2005				
	Products	Services	KPO	Corporate	Total
	<i>(Amount in Rs)</i>				
Revenue	4,952,148	5,138,925	167,356	-	10,258,429
Cost of revenue (excluding depreciation and amortisation)	(2,138,342)	(3,613,190)	(117,154)	-	(5,868,686)
Gross profit	2,813,806	1,525,735	50,202	-	4,389,743
Operating expenses					
Selling and marketing expenses	(1,161,547)	(257,787)	(52,331)	-	(1,471,665)
General and administrative expenses	(288,668)	(250,451)	(117,775)	(624,610)	(1,281,504)
Depreciation and amortisation	(133,538)	(118,002)	(34,196)	(67,393)	(353,129)
Operating profit	1,230,053	899,495	(154,100)	(692,003)	1,283,445
Interest income					215,820
Other income, net					(45,115)
Income before income taxes					1,454,150
Provision for income taxes					(436,784)
Equity in net income of equity investees					3,924
Net income					1,021,290