

i-flex Solutions Limited

Consolidated Balance Sheets

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

	March 31,		
	2006	2007	2007
	Rs	Rs	\$
ASSETS			
Current assets:			
Cash and cash equivalents	2,082,098	3,338,320	77,455
Bank deposits	4,780,235	3,824,624	88,738
Accounts receivable, net of allowance of Rs 99,439 and Rs 182,208 (\$4,228), respectively	5,223,217	7,279,653	168,901
Accounts receivable — related parties	34,185	223,032	5,175
Unbilled revenue	398,023	1,141,738	26,491
Marketable securities	10,000	9,190	213
Prepaid income taxes	400,952	926,921	21,506
Rental deposits	38,045	819,306	19,010
Prepaid expenses	149,241	362,678	8,415
Deferred tax assets	—	10,132	235
Other current assets	358,743	749,748	17,396
Total current assets	13,474,739	18,685,342	433,535
Goodwill	549,535	4,394,279	101,955
Intangible assets, net	343,265	1,407,435	32,655
Property and equipment, net	2,174,282	2,894,452	67,157
Investment in equity investees	15,616	24,777	575
Other investments	33,254	33,254	772
Rental deposits	1,206,553	1,675,221	38,868
Restricted bank deposits	1,883	19,292	448
Deferred tax assets	70,762	131,351	3,047
TOTAL ASSETS	17,869,889	29,265,403	679,012
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	132,396	308,256	7,152
Accounts payable — related parties	7,394	2,917	68
Accrued employee costs	997,055	1,309,876	30,392
Deferred revenue — current	1,834,950	3,343,266	77,570
Obligation under capital leases — current	10,371	10,842	252
Other current liabilities	1,056,821	1,501,921	34,847
Total current liabilities	4,038,987	6,477,078	150,281
Deferred rent	—	30,263	702
Deferred revenue — non current	131,838	43,021	998
Obligation under capital leases – non current	19,653	15,537	360
Deferred tax liabilities	1,649	1,745	40
Accrued pension liability	55,253	118,184	2,742
Commitments			
Shareholders' equity:			
Equity shares, Rs 5 par value, Authorized: 100,000,000 shares			
Issued and outstanding: 76,288,367 and 83,288,580 shares, respectively	381,442	416,443	9,662
Equity shares subscribed: 38,900 and 395,529 shares, respectively	10,309	401,679	9,320
Additional paid-in-capital	3,070,283	9,780,388	226,923
Deferred share based compensation – Employees Share Purchase Scheme (“ESPS”) Trust	(459,900)	(580,663)	(13,472)
Accumulated other comprehensive loss	(74,920)	(465,273)	(10,795)
Retained earnings	10,695,295	13,027,001	302,251
Total shareholders' equity	13,622,509	22,579,575	523,889
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	17,869,889	29,265,403	679,012

i-flex Solutions Limited

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

	Year ended March 31,		
	2006	2007	2007
	Rs	Rs	\$
Revenue			
Third parties	12,116,411	20,154,888	467,632
Related parties	2,718,835	226,182	5,247
	14,835,246	20,381,070	472,879
Cost of revenue (excluding depreciation and amortisation) (a)	(8,146,671)	(11,639,948)	(270,069)
Gross profit	6,688,575	8,741,122	202,810
Operating expenses			
Selling and marketing expenses (a)	(2,066,853)	(2,700,960)	(62,667)
General and administrative expenses (a)	(1,669,277)	(2,454,566)	(56,951)
Depreciation and amortisation	(501,947)	(832,782)	(19,322)
Impairment of goodwill	(57,958)	—	—
Operating income	2,392,540	2,752,814	63,870
Non-operating income (expense), net			
Interest income (a)	294,381	371,603	8,622
Other income (expense), net	11,323	(23,051)	(535)
Income before income taxes	2,698,244	3,101,366	71,957
Provision for income taxes	(515,152)	(342,471)	(7,946)
Equity in net income of equity investees	4,713	9,161	213
Minority interest	2,564	—	—
Net income	2,190,369	2,768,056	64,224
Earnings per share			
Basic	<u>29.13</u>	<u>35.13</u>	<u>0.82</u>
Diluted	<u>28.24</u>	<u>34.22</u>	<u>0.79</u>
(a) Includes the following related party amounts:			
Cost of revenue (excluding depreciation and amortisation)	124,197	239,758	5,563
Selling and marketing expenses (a)	7,353	—	—
General and administrative expenses (a)	3,521	6,095	141
Interest income	6,860	—	—

i-flex Solutions Limited

Consolidated Statements of Cash Flows

(Amounts in thousands)

	March 31,		
	2006	2007	2007
	Rs	Rs	\$
Cash flows from operating activities			
Net income	2,190,369	2,768,056	64,224
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	501,947	832,782	19,322
Impairment of goodwill	57,958	—	—
Provision for doubtful accounts, net	52,535	87,611	2,033
Advances written off	22,800	8,351	194
Share based compensation cost	8,199	121,380	4,678
Deferred tax benefit	(69,554)	(70,625)	(1,639)
(Profit) loss from sale of property and equipment, net	(314)	4,554	106
Profit on sale of investment	(743)	—	—
Deferred compensation cost	—	33,451	776
Equity in net income of equity investee	(4,713)	(9,161)	(213)
Minority interest	(2,564)	—	—
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable and unbilled revenue	(1,856,985)	(2,683,200)	(62,255)
Other current assets and other assets	(896,308)	(2,323,124)	(53,901)
Current liabilities and other liabilities	1,412,681	2,050,014	45,703
Net cash provided by operating activities	1,415,308	820,089	19,028
Cash flows from investing activities			
Acquisition of companies, net of cash acquired	(34,962)	(5,523,827)	(128,163)
Purchase of property and equipment including capital work-in-progress	(1,214,086)	(1,244,243)	(28,869)
Acquisition of customer contracts and product intellectual property rights ('IPR')	(43,009)	—	—
Proceeds from sale of property and equipment	8,948	13,157	305
Proceeds from bank deposits	7,600,014	7,679,391	178,176
Investment in bank deposits	(8,122,931)	(6,741,189)	(156,408)
Net investment in lease	—	(20,610)	(478)
Investment in Dhanalakshmi Bond	(10,000)	—	—
Proceeds from sale of investment	2,621	20,000	464
Net cash used in investing activities	(1,813,405)	(5,817,321)	(134,973)
Cash flows from financing activities			
Shares subscribed but not issued	10,309	—	—
Issue of shares to Oracle Global (Mauritius) Limited	—	5,814,999	134,919
Exercise of warrants	40,441	361,238	8,381
Issue of shares against Employee Stock Option Plan ('ESOP') scheme and options to IBM	391,761	678,514	15,743
Repayment of loan by Employee Stock Purchase Scheme ('ESPS') Trust	117,500	4,925	114
Capital lease payments	(12,169)	(3,441)	(80)
Dividend and tax thereon	(428,207)	(436,350)	(10,124)
Net cash provided by financing activities	119,635	6,419,885	148,953
Net (decrease) increase in cash and cash equivalents	(278,462)	1,422,653	33,008
Effect of exchange rate changes on cash and cash equivalents	(11,486)	(166,431)	(3,862)
Cash and cash equivalents at the beginning of the year	2,372,046	2,082,098	48,309
Cash and cash equivalents at the end of the year	2,082,098	3,338,320	77,455
<u>Supplemental disclosure of cash flow information:</u>			
Taxes paid	952,397	1,007,808	23,383
Accounts payable related to the purchase of property and equipment	54,832	45,937	1,066
Assets acquired under capital leases	13,431	9,133	212

i-flex Solutions Limited
(Amounts in thousands)

1. 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 engage 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. 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 after the 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.

General and administrative costs are costs, which primarily comprise of rent, power; communication, repairs and maintenance are initially allocated among Products, Services and others segment based on headcount. The other costs are allocated to Products and Services based on the revenue. 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. 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.

i-flex Solutions Limited
(Amounts in thousands)

	Year ended March 31, 2006				
	Products	Services	KPO	Corporate	Total
	<i>(Amount in Rs)</i>				
Revenue	7,570,888	7,029,689	234,669	–	14,835,246
Cost of revenue (excluding depreciation and amortisation)	(2,978,708)	(5,014,128)	(153,835)	–	(8,146,671)
Gross profit	4,592,180	2,015,561	80,834	–	6,688,575
Operating expenses					
Selling and marketing expenses	(1,672,032)	(327,564)	(67,257)	–	(2,066,853)
General and administrative expenses	(427,495)	(349,431)	(159,870)	(732,481)	(1,669,277)
Depreciation and amortisation	(209,742)	(173,707)	(38,148)	(80,350)	(501,947)
Impairment of goodwill	–	–	–	(57,958)	(57,958)
Operating profit	2,282,911	1,164,859	(184,441)	(870,789)	2,392,540
Interest income					294,381
Other income, net					11,323
Income before income taxes					2,698,244
Provision for income taxes					(515,152)
Equity in net income of equity investees					4,713
Minority interest					2,564
Net income					<u>2,190,369</u>

	Year ended March 31, 2007				
	Products	Services	KPO	Corporate	Total
	<i>(Amount in Rs)</i>				
Revenue	10,966,178	8,970,117	444,775	–	20,381,070
Cost of revenue (excluding depreciation and amortisation)	(4,855,586)	(6,485,929)	(298,433)	–	(11,639,948)
Gross profit	6,110,592	2,484,188	146,342	–	8,741,122
Operating expenses					
Selling and marketing expenses	(2,210,278)	(379,343)	(111,339)	–	(2,700,960)
General and administrative expenses	(822,972)	(428,591)	(126,315)	(1,076,688)	(2,454,566)
Depreciation and amortization	(483,443)	(247,417)	(31,004)	(70,918)	(832,782)
Operating profit	2,593,899	1,428,837	(122,316)	(1,147,606)	2,752,814
Interest income					371,603
Other income, net					(23,051)
Income before provision for income taxes					3,101,366
Provision for income taxes					(342,471)
Equity in net income of equity investees					9,161
Net income					<u>2,768,056</u>