

i-flex Solutions Limited

Consolidated Balance Sheets

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

	As at		
	March 31,	June 30,	
	2007	2007	2007
	Rs	Rs	\$
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	3,338,320	4,623,724	113,941
Bank deposits	3,824,624	3,569,412	87,960
Accounts receivable, net of allowance	7,279,653	6,009,327	148,086
Accounts receivable — related parties	223,032	179,841	4,432
Unbilled revenue	1,141,738	1,192,643	29,390
Marketable securities	9,190	9,163	226
Prepaid income taxes	926,921	997,972	24,593
Rental deposit	819,306	835,409	20,587
Prepaid expenses	351,434	304,782	7,511
Deferred tax assets	10,132	13,464	332
Other current assets	760,992	991,255	24,426
Total current assets	<b>18,685,342</b>	<b>18,726,992</b>	<b>461,484</b>
Goodwill	4,394,279	4,131,146	101,803
Intangible assets, net	1,407,435	1,240,091	30,559
Property and equipment, net	2,894,452	3,204,079	78,957
Investment in equity investees	24,777	22,094	544
Other investments	33,254	34,404	848
Rental deposits	1,675,221	1,645,384	40,547
Restricted bank deposits	19,292	18,770	463
Deferred tax assets	131,351	145,183	3,578
<b>TOTAL ASSETS</b>	<b>29,265,403</b>	<b>29,168,143</b>	<b>718,783</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	311,173	393,959	9,708
Accrued employee costs	1,428,060	1,702,500	41,954
Deferred revenue — current	3,343,266	2,370,359	58,412
Obligation under capital leases — current	10,842	10,295	254
Other current liabilities	1,501,921	1,432,046	35,290
Total current liabilities	<b>6,595,262</b>	<b>5,909,159</b>	<b>145,618</b>
Deferred rent	30,263	67,121	1,654
Deferred revenue — non current	43,021	492,500	12,137
Obligation under capital leases – non current	15,537	14,524	358
Deferred tax liabilities	1,745	1,536	38
	<b>6,685,828</b>	<b>6,484,840</b>	<b>159,805</b>
Commitments			
Shareholders' equity:			
Equity shares, Rs 5 par value, Authorized: 100,000,000 shares			
Issued and outstanding: 83,288,580 and 83,684,109 shares, respectively	416,443	418,421	10,311
Equity shares subscribed	401,679	13,542	334
Additional paid-in-capital	9,780,388	10,284,416	253,436
Deferred share based compensation – Employees Share Purchase Scheme (“ESPS”) Trust	(580,663)	(667,984)	(16,461)
Accumulated other comprehensive loss	(465,273)	(807,354)	(19,895)
Retained earnings	13,027,001	13,442,262	331,253
Total shareholders' equity	<b>22,579,575</b>	<b>22,683,303</b>	<b>558,978</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>29,265,403</b>	<b>29,168,143</b>	<b>718,783</b>

i-flex Solutions Limited

Consolidated Statements of Income

(Amounts in thousands, except per share data)

	<b>Three months period ended June 30,</b>		
	<b>2006</b>	<b>2007</b>	<b>2007</b>
	<b>Rs</b>	<b>Rs</b>	<b>\$</b>
Revenue	4,075,445	5,320,584	131,113
Cost of revenue (excluding depreciation and amortisation)	(2,598,071)	(3,287,061)	(81,002)
Gross profit	1,477,374	2,033,523	50,111
Operating expenses			
Selling and marketing expenses	(518,543)	(559,441)	(13,786)
General and administrative expenses	(500,642)	(745,151)	(18,362)
Depreciation and amortisation	(160,238)	(242,245)	(5,970)
Operating income	297,951	486,686	11,993
Non-operating income (expense), net			
Interest income	104,748	116,529	2,872
Other income (expense), net	95,620	(126,842)	(3,126)
Income before income taxes	498,319	476,373	11,739
Provision for income taxes	(85,423)	(58,429)	(1,440)
Equity in net income (loss) of equity investees	1,723	(2,683)	(66)
Net income	414,619	415,261	10,233
Earnings per share			
Basic	5.45	4.80	0.12
Diluted	5.31	4.78	0.12

i-flex Solutions Limited

Consolidated Statements of Cash Flows

(Amounts in thousands)

	June 30,		
	2006	2007	2007
	Rs	Rs	\$
Cash flows from operating activities			
Net income	414,619	415,261	10,233
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortisation of shares based compensation	1,446	1,446	36
Depreciation and amortisation	160,238	242,245	5,970
Provision for doubtful accounts, net	249	(19,632)	(484)
Share based compensation cost	22,549	35,357	871
Deferred tax benefit	(5,157)	(17,711)	(436)
Deferred compensation cost	—	15,126	373
Equity in net (income) loss of equity investee	(1,723)	2,683	66
Diminution in value of investments	693	—	—
	592,914	674,775	16,629
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable and unbilled revenue	(325,960)	1,438,888	35,458
Other current assets and other assets	(479,649)	(219,477)	(5,409)
Current liabilities and other liabilities	124,125	(240,335)	(5,923)
Net cash (used in) provided by operating activities	(88,570)	1,653,851	40,755
Cash flows from investing activities			
Purchase of property and equipment including capital work-in-progress	(174,900)	(502,623)	(12,386)
Proceeds from sale of property and equipment	11,569	2,536	62
Proceeds from bank deposits	2,100,206	2,328,979	57,392
Investment in bank deposits	(1,947,799)	(2,074,028)	(51,110)
Proceeds from sale of investment	20,000	—	—
Net cash provided by (used in) investing activities	9,076	(245,136)	(6,042)
Cash flows from financing activities			
Shares subscribed but not issued	39,903	13,542	334
Issue of shares against ESOP scheme	9,103	—	—
Repayment of loan by Employee Stock Purchase Scheme ('ESPS') Trust	4,925	—	—
Capital lease payments	(1,921)	(1,560)	(38)
Net cash provided by financing activities	52,010	11,982	296
Net (decrease) increase in cash and cash equivalents	(27,484)	1,420,697	35,009
Effect of exchange rate changes on cash and cash equivalents	(41,569)	(135,293)	(3,332)
Cash and cash equivalents at the beginning of the period	2,082,098	3,338,320	82,264
Cash and cash equivalents at the end of the period	2,013,045	4,623,724	113,941
<u>Supplemental disclosure of cash flow information:</u>			
Taxes paid	154,736	144,473	3,560
Accounts payable related to the purchase of property and equipment	68,512	12,248	302
Assets acquired under capital leases	1,403	2,480	61

i-flex Solutions Limited

Consolidated Statements of Shareholders' Equity  
Three month period ended June 30, 2007

(Amounts in thousands, except share data)

(Indian rupees, except number of share)

	Equity shares		Shares subscribed but not issued	Additional paid- in-capital	Deferred share based compensation in respect of ESPS Trust	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Number	Par Value						
Balance at April 1, 2006	76,288,367	381,442	10,309	3,070,283	(459,900)	(74,920)	10,695,295	13,622,509
Warrants exercised but not issued	—	—	401,679	—	—	—	—	401,679
Shares issued for exercised options	2,552,795	12,764	(10,309)	676,059	—	—	—	678,514
Shares issued to Oracle Global (Mauritius) 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	—	—	—	125,688	(125,688)	—	—	—
Share based compensation	—	—	—	115,596	—	—	—	115,596
Cash dividend	—	—	—	—	—	—	(436,350)	(436,350)
Cumulative effect of adoption of SFAS No. 158	—	—	—	—	—	(47,942)	—	(47,942)
Comprehensive income (loss) :								
Net income	—	—	—	—	—	—	2,768,056	2,768,056
Changes in fair value of available for sale securities	—	—	—	—	—	(810)	—	(810)
Foreign currency translation	—	—	—	—	—	(341,601)	—	(341,601)
Total Comprehensive income	—	—	—	—	—	—	—	2,425,645
<b>Balance at March 31, 2007</b>	<b>83,288,580</b>	<b>416,443</b>	<b>401,679</b>	<b>9,780,388</b>	<b>(580,663)</b>	<b>(465,273)</b>	<b>13,027,001</b>	<b>22,579,575</b>
Warrants exercised but not issued	—	—	13,542	—	—	—	—	13,542
Shares issued for exercised options	395,529	1,978	(401,679)	399,701	—	—	—	—
Deferred share based compensation – ESPS trust	—	—	—	87,321	(87,321)	—	—	—
Share based compensation	—	—	—	17,006	—	—	—	17,006
Current period effect of SFAS No. 158	—	—	—	—	—	11,096	—	11,096
Comprehensive income (loss) :								
Net income	—	—	—	—	—	—	415,261	415,261
Changes in fair value of available for sale securities	—	—	—	—	—	(27)	—	(27)
Foreign currency translation	—	—	—	—	—	(353,150)	—	(353,150)
Total Comprehensive income	—	—	—	—	—	—	—	62,084
<b>Balance at June 30, 2007</b>	<b>83,684,109</b>	<b>418,421</b>	<b>13,542</b>	<b>10,284,416</b>	<b>(667,984)</b>	<b>(807,354)</b>	<b>13,442,262</b>	<b>22,683,303</b>
<b>Balance at June 30, 2007</b>	<b>83,684,109</b>	<b>10,311</b>	<b>334</b>	<b>253,436</b>	<b>(16,461)</b>	<b>(19,895)</b>	<b>331,253</b>	<b>558,798</b>

## i-flex Solutions Limited

### Consolidated Statements of Income

(Amounts in thousands, except per share data)

#### 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.

i-flex Solutions Limited

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

	<b>Three months period ended June 30, 2007</b>				
	<b>Products</b>	<b>Services</b>	<b>KPO</b>	<b>Corporate</b>	<b>Total</b>
	<i>(Amount in Rs)</i>				
Revenue	2,912,107	2,277,005	131,472	–	5,320,584
Cost of revenue (excluding depreciation and amortisation)	(1,512,777)	(1,661,580)	(112,704)	–	(3,287,061)
Gross profit	1,399,330	615,425	18,768	–	2,033,523
Operating expenses					
Selling and marketing expenses	(457,644)	(69,120)	(32,677)	–	(559,441)
General and administrative expenses	(213,565)	(126,912)	(32,315)	(372,359)	(745,151)
Depreciation and amortisation	(152,518)	(63,025)	(8,035)	(18,667)	(242,245)
Operating profit	575,603	356,368	(54,259)	(391,026)	486,686
Interest income					116,529
Other expense, net					(126,842)
Income before income taxes					476,373
Provision for income taxes					(58,429)
Equity in net loss of equity investees					(2,683)
Net income					415,261

	<b>Three months period ended June 30, 2006</b>				
	<b>Products</b>	<b>Services</b>	<b>KPO</b>	<b>Corporate</b>	<b>Total</b>
	<i>(Amount in Rs)</i>				
Revenue	1,999,763	1,983,735	91,947	–	4,075,445
Cost of revenue (excluding depreciation and amortisation)	(1,039,611)	(1,519,215)	(39,245)	–	(2,598,071)
Gross profit	960,152	461,176	52,702	–	1,477,374
Operating expenses					
Selling and marketing expenses	(429,057)	(73,202)	(16,284)	–	(518,543)
General and administrative expenses	(130,147)	(96,456)	(41,795)	(232,244)	(500,642)
Depreciation and amortisation	(75,572)	(57,600)	(8,693)	(18,373)	(160,238)
Operating profit	325,376	237,262	(14,070)	(250,617)	297,951
Interest income					104,748
Other income, net					95,620
Income before provision for income taxes					498,319
Provision for income taxes					(85,423)
Equity in net income of equity investees					1,723
Net income					414,619