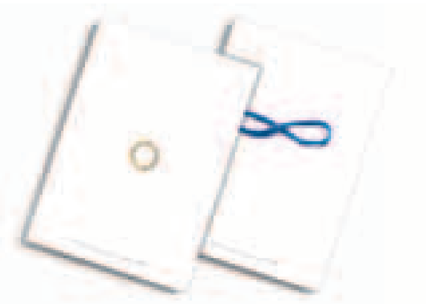
i-flex annual report 2005-2006



The 2003-2004 Annual Report used the metaphor of a thread to weave a fabric of growth, value and success.
The 2004-2005 Annual Report had a circle as its theme to depict our 360-degree coverage of the financial domain.
For excellence in design, production and communication, we won:

- Silver at the League of American Communications Professionals Awards (2003-2004)
- Silver at the Society for Technical Communication – Annual Competition, India Chapter (2003-2004)
- Distinguished Award at the 2004 STC Competition (Australian Chapter)
- Bronze at the League of American Communications Professionals Awards (2004-2005)

i-flex solutions

empowering financial institutions globally

i-flex annual report 2005-2006

CONTENTS

WE ARE THE FLAME, FANNED STRONG BY OUR PASSION FOR EXCELLENCE.

Fire is an element with the power of transformation. Symbolizing energy, passion and light, it is a compelling metaphor for our company's achievements over the past year.

To us, fire represents our passion to excel and our unyielding will to succeed. These are the qualities that underpin our mission and which underwrite our performance over the past year.

In review, financial year 2005-2006 is especially heart-warming for us. It brought us even closer to our goal of becoming the leading specialized IT solutions provider to financial institutions globally.

In the past year, we paid particular attention to the key focus points of our strategy: our customers, our solutions suite, our network of partnerships and our people. We grew our customer base, enriched our portfolio of offerings, expanded our network of alliances and partnerships, and greatly increased our employee strength.

The flame of innovation continued to burn strongly at i-flex as our portfolio of solutions – influenced by the latest trends in technology, and rapidly evolving market requirements – continued to grow in scope, functional richness and scalability.

The partnerships and alliances we've forged have extended our marketing reach and implementation capability across the globe. The success of our partnership strategy radiates through our account of the past year.

The flame that was lit over a decade ago continued to illuminate the rapidly growing family of i-flex employees. By fostering an atmosphere of dynamism and camaraderie, we have created an extraordinary team of highly motivated people, with unmatched expertise in financial services.

Inspired by the captivating radiance of our mission and energized by our performance last year, we continue to make progress towards our goal of becoming the leading specialized IT solutions provider to the global financial services industry worldwide.

AWARDS & ACHIEVEMENTS

CELEBRATING SUCCESS

We actively pursued our vision of creating value for our customers during the past financial year. Along the way, we benchmarked our work and ourselves at leading industry forums and had the satisfaction of winning several coveted awards and accolades. Here are a few:

- For the fourth consecutive year, FLEXCUBE® was ranked the world's No.1 selling core banking solution by International Banking Systems (IBS)*, UK, in its annual Sales League Table for 2005

- The Economic Times of India, India's leading financial daily, honored the company with the Avaya GlobalConnect Customer Responsiveness award for 2005 in the IT-Software industry category

N R K Raman – COO, India Operations, receiving the Avaya award from The Economic Times of India.

- The inaugural India's Most Admired Knowledge Enterprises (MAKE) award was presented to i-flex by Teleos, an independent knowledge management and intellectual capital research company, in association with KNOW, a knowledge-sharing network. The MAKE panel recognized i-flex solutions for creating a knowledge-driven organization

- i-flex was presented the 'Best Software Product Company in Intellectual Driven Business' award at the IT-People Awards of Excellence in Information Technology. The IT-People Awards are decided by an independent jury consisting of representatives from the IT industry in India

Deepak Ghaisas – CEO, India Operations, and CFO, received the award for 'Best Software Product Company in Intellectual Driven Business' from F C Kohli – Chairman Emeritus, Tata Consultancy Services, who was chief guest at the IT-People Awards for Excellence in Information Technology, in Mumbai.

- Equinox, i-flex solutions' knowledge process outsourcing division, was selected in the Leadership Category of The Global Outsourcing 100 by the International Association of Outsourcing Professionals (IAOP). The list set a precedent by providing the first industry-wise benchmark for outsourcing excellence
- The Government of Karnataka, India, announced that i-flex will be commended with the Certificate of Excellence in IT Exports for Karnataka for 2004-2005

*IBS SALES LEAGUE TABLE

IBS MARCH 2006

ANNUAL SALES LEAGUE TABLE

1st January 2005 – 31st December 2005

Products	Suppliers	New customers signed in 2005 (previous years in brackets, with the most recent first)	Total bank customers (Number of live sites in brackets)
FLEXCUBE®	i-flex solutions	38 [36,36,36,29,37,8,0,2,–]	170 [200+]

IBS – International Banking Systems

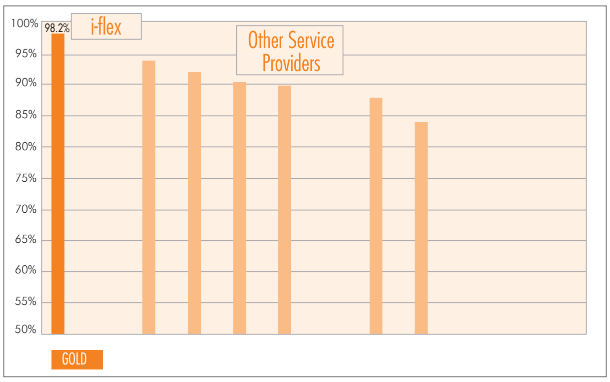
Highlights of the past . . .

We maintained a dominant position in existing markets and actively grew business and partnerships in new markets. Our strategy of fostering our substantial base of existing customers while growing new relationships, especially amongst tier-one institutions in advanced markets, paid off handsomely. This was a financial year in which:

- Gartner Inc., a leading industry analyst, positioned Reveleus™ in the 'Leaders Quadrant' in its Basel II Risk Management Application Software Magic Quadrant report. The report had evaluated 27 global players in this area. Leading research and analyst groups, Tower Group and Celent Communications, also ranked Reveleus' Basel II solution among the best in the domain

PrimeSourcing was awarded the Gold Rating for 2005* for its compliance to policies and standards of a leading Investment Bank in the SmartSourcing IT services provider category. i-flex was the only service provider to be rated at this level (98.2%) among the service providers participating in the program.

- With all lines of business registering robust growth, the company posted annual revenues of Rs. 15,113.54 million (Indian Consolidated GAAP) for 2005-2006. This represents a 29.78 percent increase over the previous year
- Our revenues from Europe and the USA have grown from 58% (FY 2003) to 70% (FY 2006), representing a CAGR of 43% (Indian Consolidated GAAP)
- We recorded the highest ever increase in customer acquisition. 98 new customer relationships saw the overall customer portfolio increasing to 642 across 123 countries, representing more than 50 tier-one institutions
- The number of countries in which i-flex has serviced customers increased from 84 (end of FY 2002) to 123 (end of FY 2006)



Company	Country/ City	Service	Certification		
			Type	Date	Level
i-flex	India	IT	Review	20.10.05	98.2%

*PrimeSourcing's Gold Rating for 2005 in the SmartSourcing IT services provider category

HIGHLIGHTS

N R K Raman – COO, India Operations, and V Shankar, Executive Vice-President, PrimeSourcing, receiving the Gold Rating for 2005.

The Equinox office at Gurgaon, near New Delhi.

Oracle Corporation announced that it would buy Citigroup's 41 percent equity interest in i-flex in August 2005. Oracle owns 47.74 percent stake in the company as of March 31, 2006.

- The total product license fees signed increased by 34 percent last financial year. The product tank size increased from USD 27 million (end of FY 2002) to USD 65 million (end of FY 2006)
- FLEXCUBE has a global presence in over 100 countries; 273 customers have chosen the product suite to date
- 2,710 employees joined team i-flex, making it the highest ever addition in staff since inception

The company expanded its customer engagement capabilities:

- Enhanced its marketing operations across Moscow, Shanghai and Sydney
- Created new office space, spanning 40,000 sq. ft., for Equinox, our knowledge process outsourcing (KPO) division in Gurgaon, near New Delhi
- Significantly expanded and invested in new infrastructure across Bangalore, Mumbai and Pune, and other international centers, with the objective of generating 2 million sq. ft. of space over the next few years

Forged a new partnership:

We aligned with EDB Business Partners ASA in the Nordic region to jointly offer comprehensive solutions in the retail banking space.

Attained international quality benchmarks:

- SAS 70 standards (Type II certification) for internal controls, a standard developed and maintained by the American Institute of Certified Public Accounts, for the fourth consecutive year
- BS7799, one of the most widely recognized British information security governance standards for our development center at SEEPZ, Mumbai, for the past financial year

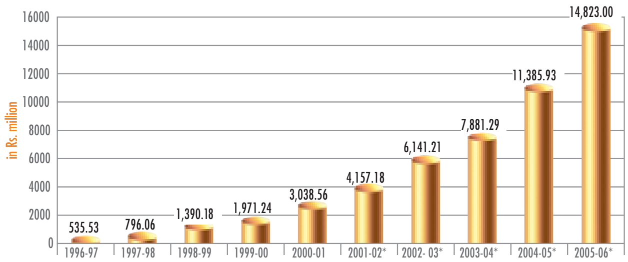
i-flex solutions financials at a glance
Our 10 years in the industry

All figures in Rs. million except EPS & Book Value
*As per Indian Consolidated GAAP Results except from FY 1996-97 to FY 2000-01

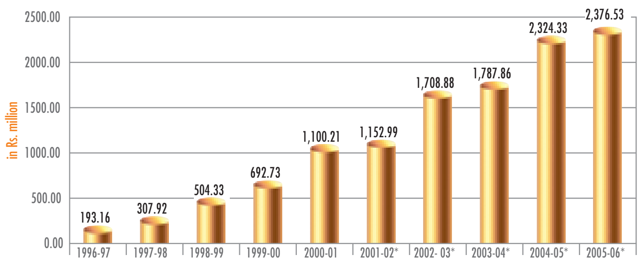
	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02*	2002-03*	2003-04*	2004-05*	2005-06*
Total Revenue	545.26	825.86	1,444.31	2,062.69	3,211.21	4,295.27	6,239.14	8,017.87	11,645.21	15,113.54
Total Expenses	343.95	509.24	909.53	1,312.30	2,016.85	2,991.95	4,277.53	5,703.26	8,693.82	12,176.59
EBT	201.31	316.62	534.78	750.39	1,194.36	1,303.32	1,961.61	2,314.61	2,951.39	2,936.95
Tax	8.15	8.70	30.44	57.66	94.15	150.33	252.73	526.75	627.06	560.42
EAT	193.16	307.92	504.34	692.73	1,100.21	1,152.99	1,708.88	1,787.86	2,324.33	2,376.53
EPS	2.53	4.04	6.61	9.08	14.42	15.11	22.40	23.44	30.47	31.15
Book Value	5.17	10.61	17.01	27.80	41.62	61.77	101.30	122.29	150.13	180.85
Note: All EPS and Book Values are computed based on the current equity capital base of 76,288,367 shares										
EVA	122.47	173.87	264.03	328.33	548.39	472.33	669.33	720.91	903.50	1,149.83

Key performance indicators – 2005-2006

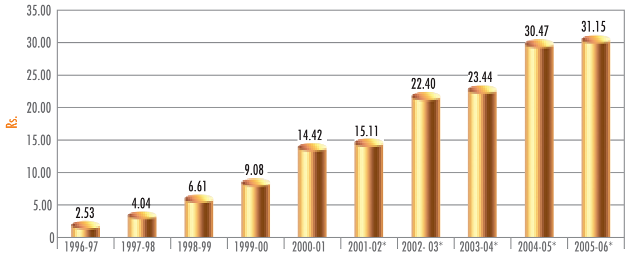
Operating Revenues



Net Income

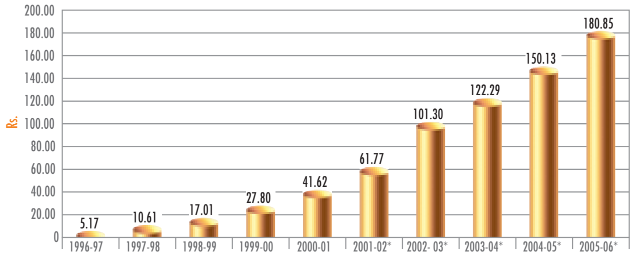


Earnings per share



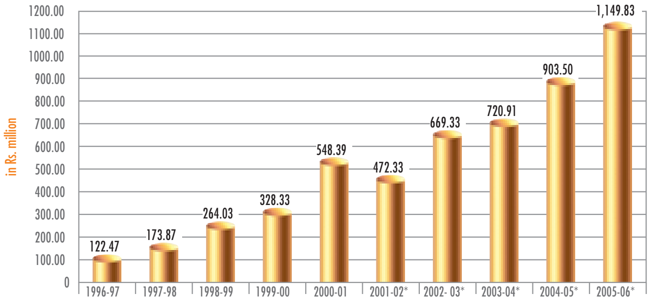
Earnings per share is computed on the equity capital base of 76,288,367 shares as on March 31, 2006

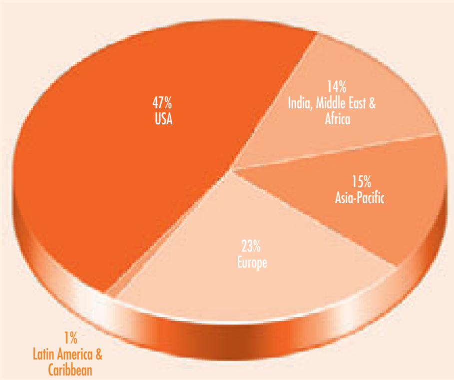
Book Value



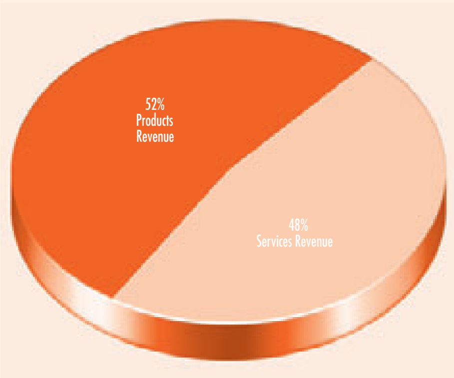
Book Value is computed on the equity capital base of 76,288,367 shares as on March 31, 2006

Economic Value Added



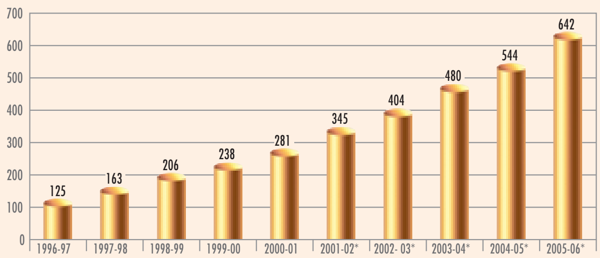


Region-wise Revenues

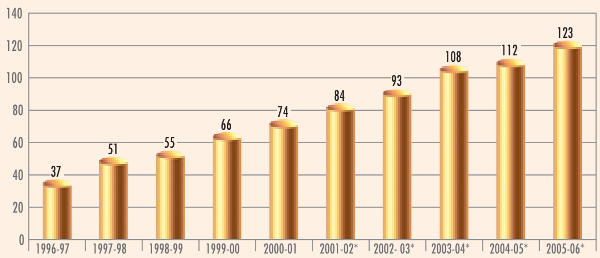


Operating Revenues

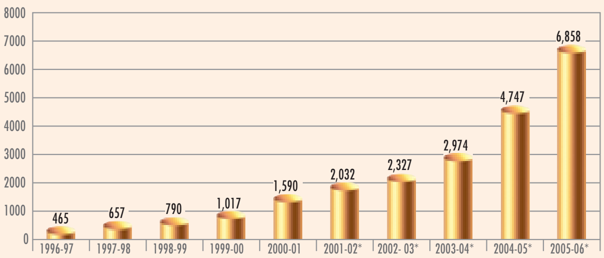
Customers serviced . . .



. . . across countries

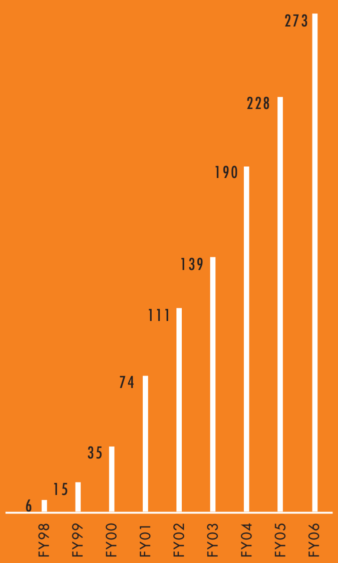


Number of employees including subsidiaries



SOLUTIONS

PROPELLING CUSTOMERS TO GREATER HEIGHTS



AGGRESSIVE CUSTOMER GROWTH

Rajesh Hukku – Chairman and Managing Director, with the three CEOs of a consortia of banks in Chile (Banco Del Desarrollo, Banco Security, Banco Internacional) and the CEO of Entel (Empresa Nacional Telecom) at a luncheon hosted by Entel.

The design of our portfolio of solutions is driven by our mission – to enable financial institutions worldwide to excel through the effective use of information technology. We continued to invest in our growing range of products and services to arm our customers with a competitive advantage and enable them to keep pace with rapidly changing market requirements.

FLEXCUBE®

Independent validation of FLEXCUBE's leadership position came from International Banking Systems (IBS)*, UK, which ranked it the #1 selling core banking solution in the world for the fourth year in succession. FLEXCUBE – our flagship banking solution suite – celebrated a momentous year, with increasing market acceptance and accelerating momentum, especially with top-tier financial institutions. The number of countries in which FLEXCUBE has been successfully deployed grew from 88 two years ago to 102 in the past financial year.

The product suite increased its footprint in advanced markets such as the USA, Western Europe and Japan, winning several marquee customers. Its success also extended across key emerging markets such as Brazil, Russia and the greater China region. Last year, FLEXCUBE established noteworthy engagements with:

- Multinational banks in Europe, North America and Japan, increasing its penetration in tier-one financial institutions
- Banks in Europe (Ireland, the UK, Germany, France, Spain, Norway, Russia and Bulgaria) and South America (Chile, Brazil, Mexico, Honduras and the Caribbean), deepening its presence in the two regions
- Two global fund houses that selected FLEXCUBE Investor Services, the mutual funds and transfer agency solution
- India's renowned financial institution, Canara Bank. Other tie-ups in the sub-continent include those with Lakshmi Vilas Bank and Kollam District Co-Operative Bank

By winning larger accounts and increasing its share in advanced markets, the product suite's average license fee per deal has more than doubled in the last five years.

The FLEXCUBE value proposition was further strengthened over the year through enhancements to its functionality and technology.

An augmented solutions stack

FLEXCUBE now has a consumer lending module targeting high-volume, retail loan portfolios. To support foreign exchange and money market modules, the product suite was also integrated with i-flex's partner LoginSA's treasury application, Acumen.

An enhanced technology platform

FLEXCUBE qualified on the Oracle 10g Database and 10g AS Application Server platforms. The integration gateway of FLEXCUBE also qualified with the latest releases of IBM's WebSphere Application Server, IBM's WebSphere MQ 6.0 and Microsoft's MQ 3.0. This, together with the advanced integration capability available in FLEXCUBE, makes it one of the most flexible systems available with respect to interface capabilities.

An incisive functional edge

FLEXCUBE's retail banking capabilities are now enhanced with next-generation customer relationship management features. It offers functionality such as 'relationship pricing'. This facility allows a bank to categorize its customers based on their perceived value, and suitably price its services, interest, charges, commission, fees and brokerage.

FLEXCUBE was awarded the SWIFT Silver 2005 Label for payments solutions, re-affirming its SWIFT compliance and straight-through processing capabilities.

'FLEXCUBE will be our single operating platform: link multiple entities we have acquired to a common hub, enable faster growth, and deliver better customer service across regions.' Dr. Josef Schwarzecker – Member of Board and CIO, BAWAG PSK Group

**Source: International Banking Systems Annual Sales League Table*

Reveleus™

Risk management ecosystems were in the spotlight last year as the adoption of advanced risk management systems moved beyond a mere compliance objective. Reveleus had a watershed year, establishing itself as a leader in the risk management space. Its Basel II solution was chosen by some of the largest North American and European banks, including Citigroup N.A., Wells Fargo, Lloyds TSB and Wachovia.

Reveleus was positioned in the Leaders Quadrant* by Gartner Inc. in the Basel II Risk Management Application Software Magic Quadrant report. The evaluation was based on completeness of vision and ability to execute.

Celent Communications, a leading research and consulting firm, noted, 'The vendor leading this space (Basel II) is Reveleus, which has both the highest number of North-American clients, and the largest share of the US client assets by a very large margin.'

Tower Group, another prominent research group, has also ranked Reveleus' Basel II solution amongst the best in the domain.

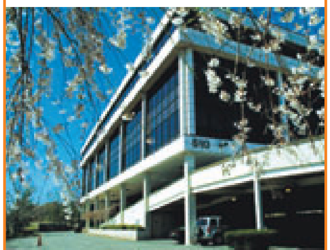
In August 2005, i-flex acquired an operational risk product from an IT consulting firm based in Europe to extend Reveleus' risk management and compliance capability. Operational risk solutions are required for improving risk management, compliance and BASEL II adherence. With this enrichment to Reveleus' capability, the product suite will now provide end-to-end integrated enterprise risk management solutions to financial institutions worldwide.

Oracle and i-flex announced an agreement by which Oracle will re-sell the Reveleus Basel II solution, thereby bringing together the comprehensive scope and functionality of the Reveleus solution and the global reach and relationships that Oracle has in the financial services industry. Wells Fargo was the first engagement following the re-seller agreement.

Speaking about the new relationship, Nick Deshpande – Head of Wells Fargo's Corporate Project Office, said, 'We sought a partner with a proven track record of execution in the Basel II space, and an application that would work well with the structure of our business. This solution from Reveleus and Oracle is one that fits the bill.'

The Reveleus Risk suite of analytics was enhanced to support local/national regulatory updates even as they are published. It was further extended to meet emerging industry needs for convergence across operational risk and compliance. Recently, Reveleus released Version 4.0 of the Reveleus Operational Risk Solution, a common operational risk and compliance platform.

Reveleus:
An enterprise
risk management
suite



The Reveleus office at New Jersey, USA.

**According to Gartner Inc. 'leaders' are vendors who have a proven track record in Basel II vision and business investment, which indicates that they are well-positioned for the future. Leaders do not necessarily offer the best products for every customer project, but they do provide solutions that offer relatively lower failure risk. Leaders in this market have paired advanced technology with broad offerings or have specific, rich functionality.*

Daybreak™

The Daybreak Lending Suite, i-flex's comprehensive lending system for the consumer lending industry, notched up many new customers, including CAR Financial, Barclays Bank plc, Orange Lake Resort & Country Club, and a large consumer finance operation in Japan.

Enhancements to Version 10.0 of the product, released in January 2006, included security features related to the protection of consumers' 'non-public personal information', employee access restrictions to customer data, advanced account audit-tracking capabilities, improved reporting through the Daybreak Reporting Data Hub, and credit card payment processing.

United States Small Business Administration, the United States government agency involved in disaster recovery efforts in the aftermath of Hurricane Katrina, deployed the Daybreak product suite for its consumer lending needs.

PrimeSourcing™

PrimeSourcing, i-flex's IT services division, continued to be an outstanding growth driver for the company. With dedicated practice lines and deep domain expertise in specific segments of financial services, and a proactive relationship management framework, it helped customers manage challenges associated with complex, mission-critical systems development and maintenance.

115 financial institutions around the globe have engaged with the division till date. While the last year saw the addition of 15 new relationships, the division's uncompromising focus on customer satisfaction was illustrated in more than 75 percent of new business coming from existing customers.

Among its numerous accomplishments, the division also:

- Teamed up with IFBS, a leading player in the investment banking space, to deliver global implementation services
- Increased i-flex's stake in Castek, a Toronto-based provider of insurance systems, to 76.77 percent. The insurance team formed a consortium with strategic partners to create a comprehensive yet flexible component-based solution for the P&C insurance industry, centered on Castek's Insure3 processing platform
- Launched the Insurance Center of Excellence and signed up with Tokio Marine Management Inc., a leader in the commercial insurance space in the USA
- Established the PrimeSourcing™ – Oracle Competency Center (POCC), offering high-value solutions based on Oracle technologies and applications
- Launched i-flex SwiftNet Services Integrator (iSSi), the newest suite of payments solutions from the company, targeted at optimally leveraging SWIFTNet infrastructure
- Instituted PrimeUniversity, focusing on providing structured training programs within the company

'When CAR visualized the possibility of replacing its core system with a new system of record that would enable our ambitious growth plans, we knew we faced formidable challenges. Compared to other major software vendors, the enterprise-wide solution provided by Daybreak Lending Suite not only expedited our replacement but delivered us benefits of efficiency and ease of operations.'

Rick Potter – President, CAR Financial Services

Executives from Tokio Marine Management Inc. and i-flex's Insurance Center of Excellence at the Castek office in Canada.

i-flex Consulting

i-flex's consulting division continued its high pace of growth, winning prestigious projects in tier-one banks in risk, compliance and business transformation areas against competition from top consulting firms.

The division further strengthened its positioning as a high-end consulting unit by creating the i-flex Process Framework for Banking (iPFB) – a methodology to transform banking processes.

Business Process Transformation (BPT)

The BPT practice line made considerable in-roads into top banks in Europe last year. It launched the 'i-flex Process Framework for Banking', a component-based approach to transforming business processes, using a repository of best practices developed on i-flex's domain expertise.

Risk Management

With 2005 seeing almost all regions focusing on Basel II adoption, the risk management practice executed projects in the USA, Europe and the Middle East, covering a wide scope of governance, policies, processes, risk quantification, data management and IT. Sizeable investments were made in developing specialist capabilities in the area of operational risk.

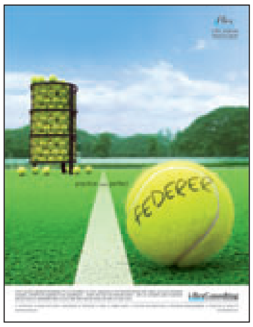
Process and Compliance Management

Apart from nearly doubling revenues last year, the process and compliance practice line acquired new customers in India, Japan, Turkey, Saudi Arabia, Panama and the USA. Consultancy services provided by the practice span the gamut of IT process definition and implementation, CMMI appraisals, IT services management and technology risk management.

IT Strategy and Architecture

Last year, the IT strategy and architecture practice line focused on initiatives related to service-oriented architecture (SOA), in addition to providing consulting services in IT strategy and architecture.

i-flex Consulting: The Specialists



Charles Phillips – President, Oracle Corporation, inaugurating the i-RIMS center, i-flex Park, Bangalore.

i-flex Technology Deployment and Management Services

The i-flex Technology Deployment and Management Services (TDMS) group has witnessed exponential growth rates since its launch. Last year was no different, with the group recording 36 percent growth, adding 20 new customers, and increasing its customer base to 76 across 45 countries.

The group's basic IT infrastructure services were diversified into special offerings around FLEXCUBE, Oracle, Mainframes IT, and i-RIMS (i-flex Remote Infrastructure Management Services).

The state-of-the-art i-RIMS Center launched last year provides customers with 24×7 IT infrastructure monitoring and management services.

'Thanks to TDMS' rapid implemenatation strategy, we are now able to bring more than 95 percent of our customer base under the core banking solution, and are able to offer multiple delivery channels to our customers. The methodology adopted by TDMS helped our internal team in a big way, and brought professionalism to every sphere of activity. It is a win-win situation for the bank to have i-flex as its partner.'

Arumugam – Chief Manager, IT, Dhanalakshmi Bank

Some of the landmark projects executed during the year were a FLEXCUBE roll-out across 70 branches of a leading bank in South India; remote IT infrastructure support for the database of an investment firm in South Africa; and support services for 50 applications, across multiple countries, for a leading investment firm.

Significant among the group's internal infrastructure and quality initiatives was the BS7799 certification, assuring users that i-flex's security practices comply with global standards.

Equinox™

i-flex's knowledge process outsourcing division, Equinox, was selected in the Leadership Category of The Global Outsourcing 100 by the International Association of Outsourcing Professionals (IAOP).

In the year under review, Equinox:

- Launched an end-to-end processing solution, Electronic Mortgage Processing, addressing the needs of brokers as well as lenders
- Expanded infrastructure to a new facility spread over 40,000 sq. ft., in Gurgaon, near New Delhi
- Established a strategic tie-up with Clayton Holdings Inc., a leading provider of integrated loan and portfolio analysis, operations support, and consulting services to primary, capital and investor markets in the USA
- Completed the first Six Sigma process improvement consulting project on 'first payment default' reduction for a customer
- Filed for a patent on its Process Cost Reduction Analysis (PCRA) methodology, a tool for determining the outsourcing feasibility of customers' processes
- Set up a Business Process Management System (BPMS) for 100 percent of operations and enabling processes

'Option One Mortgage Corporation has worked with i-flex over the past three years to deliver better products and solutions to our customers. We have successfully leveraged their Six Sigma-based methodologies to identify opportunities for process and cost efficiencies while enhancing the quality of our customer service.'

Fabiola Camperi – Senior Vice-President, Option One Mortgage Corporation

Process and Quality Management

The Process and Quality Management Group (PQMG) has been a key enabler in i-flex's success over the years through its balanced approach to institutionalizing world-class quality, process frameworks and methods across the organization. PQMG plays a vital, enabling role by:

- adopting best practices in software engineering and process control
- incorporating emerging standards such as SEI CMMI
- developing innovative systems and tools for effective monitoring and control of processes across the development lifecycle
- creating unique mechanisms to promote and implement continuous improvement in all spheres of organizational activity

PQMG presented white papers on 'i-flex Process Improvement Framework' and 'i-flex Metrics at a Glance' at many international conferences last year.

The group also initiated an organization-wide program to institutionalize systems and processes for the effective management of intellectual assets. The aim of the IPR (Intellectual Property Rights) initiative is to adequately harness the innovation that has been responsible for the success of our products and services.

FLEXCEL International

FLEXCEL deploys, hosts and manages FLEXCUBE and related applications for banks both inside and outside India. The ASP concept pioneered by FLEXCEL International provides high-end technology expertise to banks at significantly lower costs.

Last year, the group's revenues increased by 40 percent, with renowned banks such as the State Bank of Mauritius, the First India Credit Corporation, the First Gulf Bank, and Lord Krishna Bank, amongst others, signing up for its services.

'For an ambitious startup like ours, we needed a technology partner to take the initial load off our backs so that we could plan for the long term without mundane worries that are typically prevalent in such situations; i-flex and FLEXCEL exceeded our expectations in this regard so much so that we have invited them to be our long-term partners as well.'

Pramod Krishnamurthy – Head of Information Technology, First India Credit Corp (FICC), a Temasek Group Company

'In a very short period we could stabilize our core banking solution with the help of the ASP model, and we have computerized 53 branches covering 90 percent of our total business. We had a good experience of the ASP model with a committed team in FLEXCEL. We are using their infrastructure and skills for the benefit of our organization and our customers.'

V K Gupta – Deputy Managing Director, Lord Krishna Bank

PARTNERS AND EVENTS

SPREADING THE LIGHT OF COLLABORATION

We forged and strengthened partnerships with leading organizations across the globe to endow the i-flex brand with unparalleled reach.

More than 35 percent of our new customer engagements were acquired through the influence of our business partners last year.

We collaborate with our partners through multiple alliance models. Many of our partners who began their relationship with i-flex as Corporate Business Partners to re-sell our solutions – Athens Technology Center and IQSYS for Europe; EverSystems for Latin America; and, Finance Application Systems Limited for Africa, amongst others – have progressed to being Implementation Partners for the FLEXCUBE product suite today. Similarly, ComputerLand SA and DMR Consulting have moved on to offer implementation and support services for FLEXCUBE.

As i-flex focuses on outsourcing its implementation activities to its partners, the emphasis is on partner enablement activities. Last year, we conducted several training programs involving our partners, helping them hone the expertise, skills and domain knowledge required in the implementation and support of i-flex's suite of solutions. These training programs saw results in the form of i-flex making inroads into EMEA (Europe, the Middle East & Africa) with the help of our partners.

Strengthening strategic alliances

IBM

Our strategic alliance with IBM expanded in scope to encompass the risk management space, as IBM worked to develop an implementation practice around the Reveleus Basel II solution, and primed the implementation of Reveleus at Wells Fargo and Wachovia Bank. IBM also led the FLEXCUBE deployment project at Canara Bank, India.

Strategic relationship with Oracle

The decade-old relationship between Oracle and i-flex was further strengthened in 2005 at a strategic level. In August 2005, Oracle Corporation announced that it would buy Citigroup's 41 percent equity interest in i-flex and floated an open offer to purchase up to an additional 20 percent ownership from existing shareholders. As of March 31, 2006, Oracle holds 47.74 percent of the equity of the company.

This strategic relationship will provide financial institutions around the world with an unmatched, comprehensive and integrated suite of solutions from Oracle, i-flex, and the partner community. The combined product and services footprint now addresses approximately USD 145 billion in annual IT spending in banks.

'i-flex is the hottest software company in the banking industry, signing more customers in each of the last three years. Banking is a strategic industry for Oracle, with nine out of the top-ten banks already running Oracle ERP applications. Oracle's overall application strategy is to go beyond ERP and offer customers richer, industry-specific functionality. i-flex gets us there in banking.'

Larry Ellison – CEO,
Oracle Corporation

Joseph John – EVP, Universal Banking Products, i-flex solutions, handing over a participation certificate at a customer training program conducted for Nexim Bank, Nigeria, at the FLEXCUBE Center of Learning, Bangalore.

i-flexers at the FELABAN event at Florida, USA.

DMR Consulting, our alliance partners from Chile, at a partner training in i-flex Park.

The Master Operating Agreement between Oracle and i-flex facilitates a structured engagement model involving strategy and operations. Oracle and i-flex are working together to develop a product roadmap for a next-generation core banking system, optimized for Oracle Fusion Architecture. The Oracle Fusion Architecture project is a unifying model of emerging trends in IT infrastructure, enterprise information management and service-oriented architecture. The next-generation banking solution will ensure that both organizations are in a prime competitive position to ride the coming wave of core systems transformation.

Oracle will also re-sell and jointly market Reveleus' Basel II Solution. With Reveleus, Oracle can extend its enterprise risk and compliance platforms, and align Oracle's financial services strategy with i-flex's expertise.

Other alliances

We established an alliance with EDB Business Partners ASA in the Nordic region to jointly offer comprehensive retail banking solutions.

Events

From conferences to thought-leadership forums, we are active in events that are of value to our customers, partners and the communities we interact with. We showcase our research and insights on the financial services industry at these events.

Here are snapshots of some of the events we organized along with our partners.

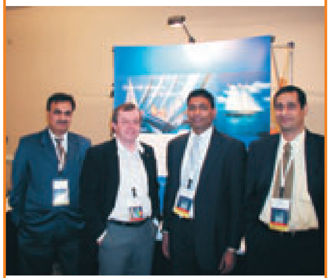
Reveleus Briefing Session on Basel II and Risk – Athens, Greece, April 19, 2005

Reveleus hosted a briefing session on 'Compliance with Basel II' along with i-flex's partner, Athens Technology Center. Arun Pingaley – Head, Functional Solutions Group, and architect of Reveleus' Basel II solution, and Frank Marshall – Business Development, Reveleus, were speakers at this event.

IBM Global Financial Services Forum – Monaco, Europe, April 19-22, 2005

The IBM Global Financial Services Forum focused on enabling growth through bold leadership strategies. George H W Bush – Former President, United States of America, presented the keynote address. i-flex solutions was a 'gold' sponsor of the event. We demonstrated the capabilities of our flagship product, FLEXCUBE, at the 'Solutions Center' at this event.

EVENTS



i-flexers at the FSUG (Financial Services Users Group) Conference, New York.

i-flex sponsored CNBC Roundtable Discussions in Mumbai, New Delhi, and a Nasscom forum on Emerging Companies at New Delhi.

Building Information Systems for China's Commercial Banks – ChangSha City, China, July 21, 2005

International speakers and technology experts, including senior business specialists from Citibank and other renowned international banks, met at ChangSha City for a spirited interaction on IT and banks in China. Among the illustrious panelists were Venky Krishnakumar – Former COO and CFO, Citibank (Asia-Pacific operations) and C N Ram – Head, Information Technology, HDFC Bank. The event was co-sponsored by i-flex and Easycon, i-flex's corporate business partner in China.

Oracle Open World – San Francisco, USA, September 18-22, 2005

This event focused on Oracle technologies across various verticals. With top-tier banks embarking on transforming their core technology platform, the banking industry is at an inflection point for growth in core systems replacement initiatives. V Senthil Kumar – CEO, i-flex solutions b.v., explored this topic in greater detail in his session, 'Moving Legacy Core Banking to Open Systems'.

Core Banking: Strategies and Best Practices – Ho Chi Minh, Vietnam, December 7, 2005

This event was organized by i-flex solutions in association with FPT Software Solutions, i-flex's business partner in Vietnam. Participants shared experiences and best practices in core banking implementation.

CIO Outlook Panel Discussion Luncheon – Sydney, Australia, March 2, 2006

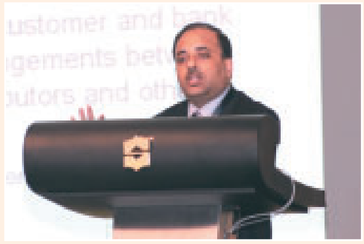
Jointly sponsored by i-flex solutions and Oracle, the CIO discussion addressed factors that influence change and drive system replacement strategy. Distinguished Australian banking professionals, Nigel Smyth – CIO, Macquarie Bank; John Loebenstein – CIO, St. George Bank; and Michelle Tredenick – CIO, National Australia Bank, were panel members at this event.

Oracle Open World – Tokyo International Forum, Tokyo, Japan, March 1-3, 2006

Kishore Kapoor, CEO, i-flex solutions pte ltd, discussed new, business-enabling IT and systems architecture for the financial services industry at this event. Larry Ellison – CEO, Oracle Corporation; John Wookey – Senior Vice-President – Applications Development, Oracle Corporation; Carlos Ghosn – CEO and Co-Chairman, Nissan; Louis V. Gerstner, Jr. – Chairman, The Carlyle Group, amongst other distinguished members of the Japanese industry, were keynote speakers at the event.

Industry events

During the year, we sponsored and participated in more than 50 events held in the USA, the Netherlands, the UK, China, Dubai, Spain, the Philippines, Australia, Canada, Japan, Vietnam, Colombia and Luxembourg.



Arvind Kathpalia – Group Head, Operations, Technology and Finance, Kotak Mahindra Bank, at Retail Finance Asia-Pacific 2006 at Singapore.

Kishore Kapoor – CEO, i-flex solutions pte ltd, at The Asian Banker event

V Shankar – Executive Vice-President, PrimeSourcing, with the insurance and Castek teams at the Accord Loma event at Orlando, USA.

PEOPLE

FOSTERING AN ATMOSPHERE OF DYNAMISM, WARMTH AND CAMARADERIE

Community initiatives

Our corporate social responsibility is communicated through our tangible commitment to children's issues like education and health.

As part of the 'i-flex for the child' initiative, we have been mentoring and supporting a few differently-abled children at the Freedom Trust in Chennai, India. Vidharthi, a hearing-impaired girl, recently won the highest national award in the category, 'Most Creative Individual', for her artistic ability.

Vatsalya Trust, a charitable organization dedicated to the service of abandoned children, received funding from i-flex for infrastructural facilities at their orphanage in Mumbai.

i-flex also sponsored a documentary film on child trafficking produced by Kalsoothri, the theater wing of Sahitya Kala Mandal, Mumbai.

Other charitable efforts that have received our support are:

- 'Society Care of Indigent' (SOCARE IND), a welfare organization running a home for indigent male children of life convicts
- 'Sandeepan School' for rural children near coastal Karnataka, India
- Agastya International Foundation's mobile science lab that travels through the states of Andhra Pradesh and Karnataka, allowing children to experiment with science projects with locally available material
- 'Special Olympics Bharat', a global sports movement for differently-abled children
- Rehabilitation of tsunami-affected families of fishermen in Tamil Nadu, India

Earthquake relief

Employees were given the option of contributing a part of their salary towards relief efforts in the aftermath of the massive earthquake that hit the Kashmir Valley in India in October 2005, with the understanding that the company would contribute an equal amount from their side. A great number of employees contributed to this cause and i-flex solutions was able to donate a generous amount to the Times of India Earthquake Relief Fund.

Vidharthi presenting Dr A P J Abdul Kalam – President of India, with his portrait.

Vidharthi's painting of i-flex Park, Bangalore.

Stills from the documentary film on child trafficking produced by Kalsoothri, a theater and puppetry unit in Mumbai. Puppets were used in place of child actors to prevent children from experiencing the trauma associated with child abuse.

i-flex solutions, along with Sri Chaitanya Seva Trust, donated 25 houses to tsunami-hit families of fishermen at Madavamedu coastal village in Nagapattinam district, Tamil Nadu, India.

Internal communication – A binding tool for the organization

Our internal communications strategy seeks to enhance employee morale, extend ownership and shared engagement, and promote a transparent environment within the organization.

Open House Annual 2005

The Open House Annual (OHA) is a forum that encourages interaction between the senior management and i-flexers. Celebrated across offices annually, it also serves as an occasion to recognize outstanding performances and efforts.

Building an 'engaged' workforce

In an effort to make employees feel engaged and involved with the company, the Human Resources Group launched the following initiatives:

- People-to-People Extend Program (PEPP), encouraging employees to express appreciation for their colleagues in the form of colorful 'PEPP cards'
- Strength-to-Stride, an employee assistance and counseling program
- FeedForward sessions, where people share feedback about their supervisors, and plan for the future

Oneflex and process automation

Oneflex is a project that has unified the company's core operations with the objective of increasing profitability. The focal point last year was on implementing a single platform for financial data across multiple offices, and standardizing work practices for the human resources and finance teams.

Knowledge management

The knowledge management group has helped cultivate the spirit of inquiry and innovation within the company. Aided by information technology and a knowledge-sharing culture, the group successfully created a central repository of intellectual assets last year.

OHA-2005
Renaissance

Charles Phillips – President, Oracle Corporation, Chief Guest at OHA, with Rajesh Hukku – Chairman and Managing Director, i-flex solutions.

The focal point of every OHA is the question and answer session between i-flexers and senior management.

V Shankar – Executive Vice-President, PrimeSourcing, at OHA, USA.

Focused training

We believe in nurturing the skills and abilities of our employees through sustained training initiatives. Last year, the Training Group conducted 2,412 instructor-led training sessions and expended 4,500 person-hours on learning across locations and businesses.

Recognizing the need for continuously developing talent, the PrimeSourcing Division and the Training Group unveiled PrimeUniversity last year. Targeted at creating expertise across verticals in the financial services industry, this learning initiative offers a wide range of training courses coupled with assessments and certifications.

The Global Sales Meet, 2005, held at Mumbai, provided a platform for i-flex's 200-strong global sales and marketing team to share information and conceptualize future plans.

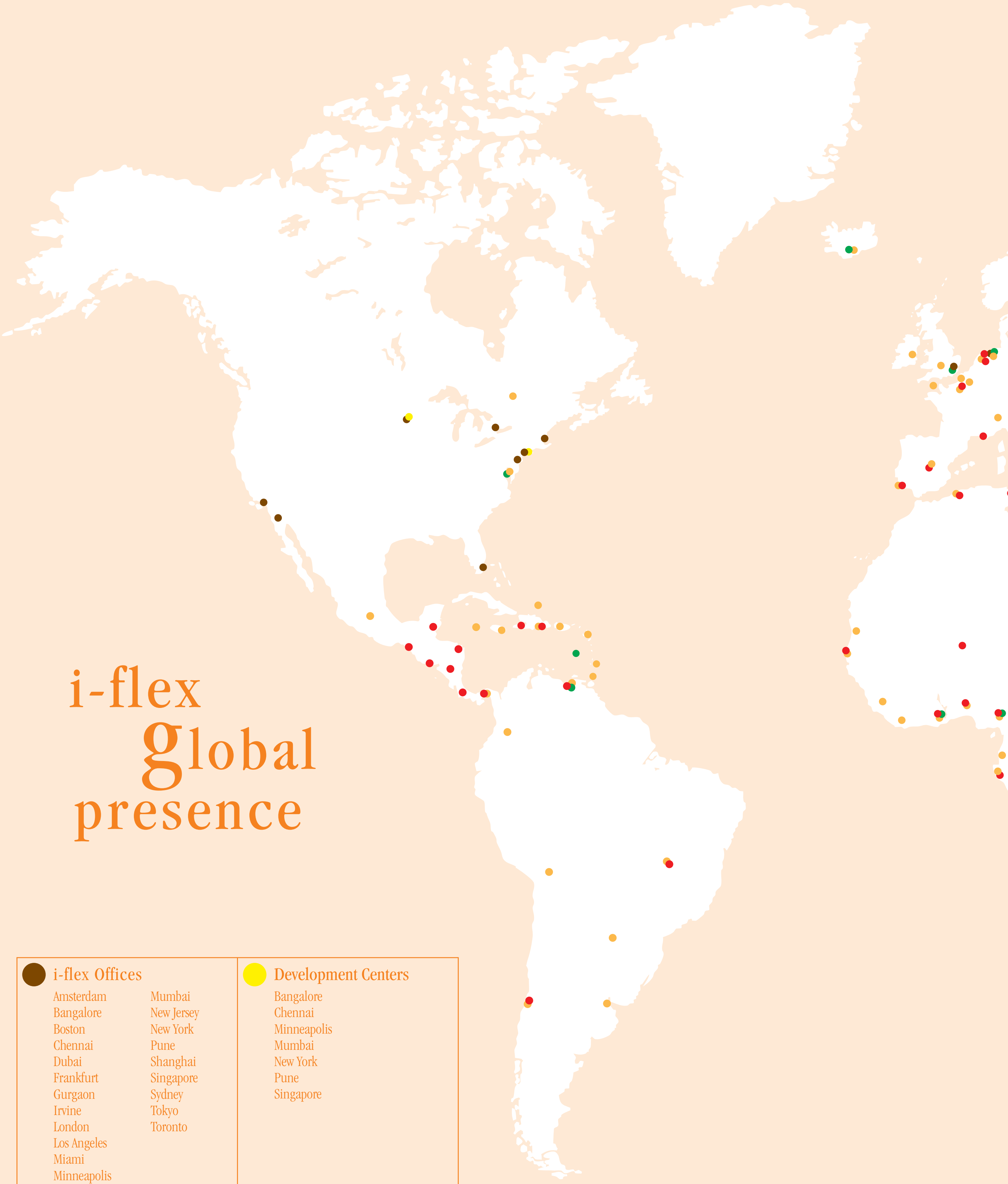
A Srinivasan – VP, Global Sales Operations, interacting with children from Parikrma Humanity Foundation during their visit to i-flex Park, Bangalore.

Participants at the Global Sales Meet, 2005, Mumbai, India.

i-flex funded the development of infrastructure for Kutumba, a home for differently-abled and abandoned children.

Sandeepan School, a pioneer in providing quality education to children in coastal Karnataka, continues to receive support from i-flex solutions.

i-flex global presence



i-flex Offices

Amsterdam
Bangalore
Boston
Chennai
Dubai
Frankfurt
Gurgaon
Irvine
London
Los Angeles
Miami
Minneapolis
Moscow
Mumbai
New Jersey
New York
Pune
Shanghai
Singapore
Sydney
Tokyo
Toronto

Development Centers

Bangalore
Chennai
Minneapolis
Mumbai
New York
Pune
Singapore

Support Presence

Bulgaria
Brunei
Cyprus
Egypt
Germany
Ghana
Hungary
Iceland
India
Jamaica
Japan
Kenya
Kuwait
Malaysia
Mauritius
Netherlands
Nigeria
Poland
Romania
Singapore
South Africa
Sri Lanka
UAE
Uganda
UK
USA
Venezuela
Zambia
Zimbabwe

Distributor Coverage

Africa

Algeria
Angola
Benin
Botswana
Egypt
Eritrea
Ethiopia
Ghana
Kenya
Libya
Malawi
Mali
Mauritius
Mozambique
Namibia
Nigeria
Rwanda
Senegal
Seychelles
South Africa
Swaziland
Tanzania
Tunisia
Uganda
Zambia
Zimbabwe

Europe

Armenia
Azerbaijan
Belarus
Belgium
Czech Republic
Denmark
Estonia
Finland
France
Georgia
Greece
Hungary
Kazakhstan
Kyrgyzstan
Latvia
Lithuania
Luxembourg
Moldova
Monaco
Norway
Poland
Portugal
Russia
Slovakia
Spain
Sweden
Tajikistan
Turkey
Turkmenistan
Ukraine
Uzbekistan

Latin America

Belize
Brazil
Chile
Costa Rica
Dominican Republic
El Salvador
Guatemala
Haiti
Honduras
Nicaragua
Panama
Venezuela

Middle East

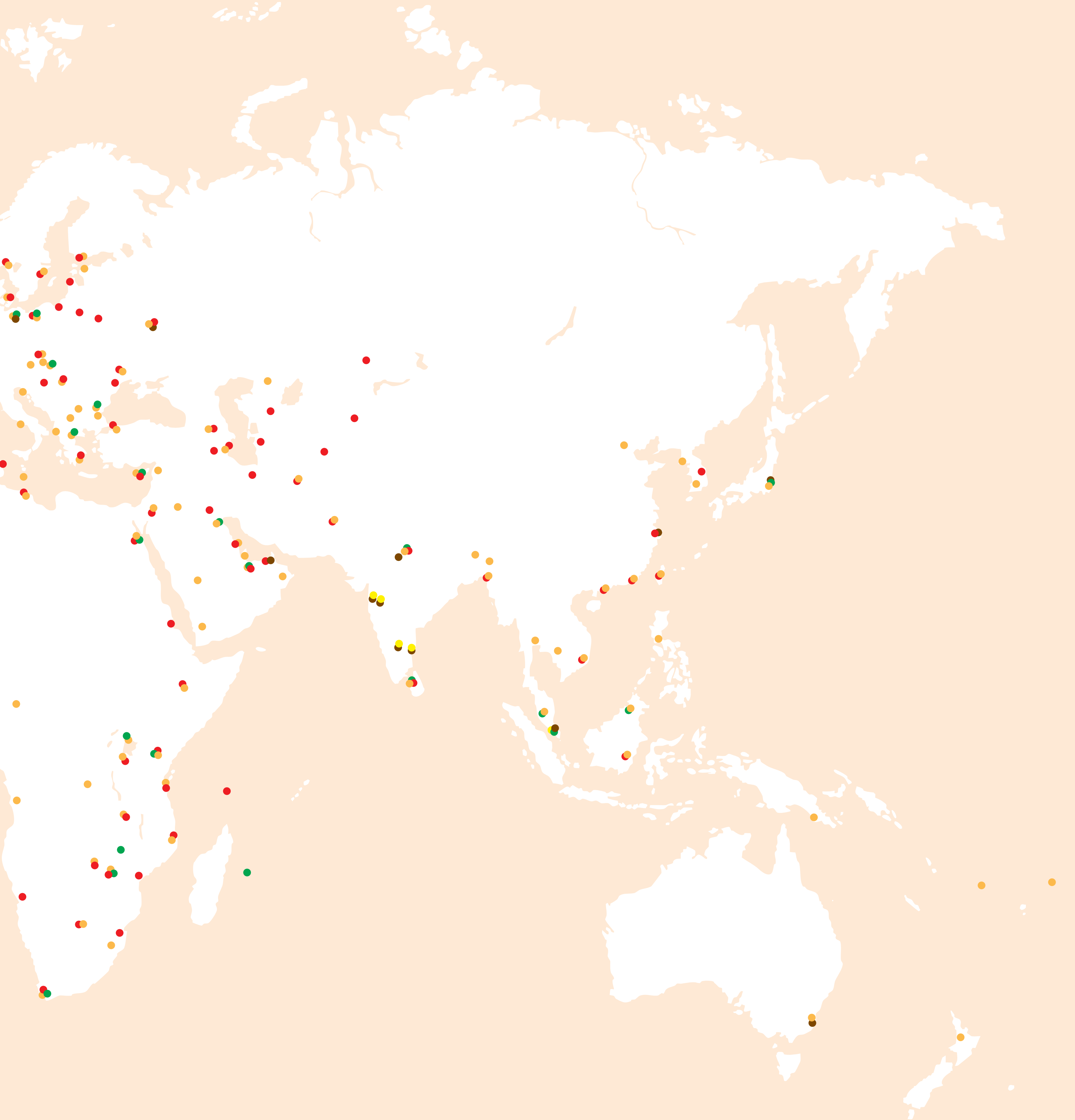
Afghanistan
Bahrain
Cyprus
Iran
Iraq
Israel
UAE

South Asia

Bangladesh
India
Pakistan
Sri Lanka

Asia-Pacific

China
Hong Kong
Indonesia
Korea
Macau
Taiwan
Vietnam



Customer Presence

Afghanistan
Albania
Algeria
Angola
Antigua
Argentina
Australia
Austria
Azerbaijan
Bahrain
Bangladesh
Barbados
Belgium
Benin
Bhutan
Bolivia
Botswana
Brazil
Brunei
Bulgaria
Cambodia
Cameroon
Canada
Cayman Islands
Chile
China
Colombia
Congo
Cyprus
Czech Republic
Denmark
Dominican Republic
Egypt
Estonia
Ethiopia
Finland
France
Gabon
Georgia
Germany
Ghana
Greece
Hong Kong
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Ivory Coast
Jamaica
Japan
Jersey
Jordan
Kazakhstan
Kenya
Kosovo
Kuwait
Lebanon
Lesotho
Libya
Luxembourg
Macau
Madagascar
Malawi
Malaysia
Malta
Mauritania
Mauritius
Mexico
Mozambique
Nepal
Netherlands
New Zealand
Nigeria
North Korea
Norway
Oman
Pakistan
Panama
Papua New Guinea
Paraguay
Philippines
Poland
Portugal
Puerto Rico
Qatar
Romania
Russia
Rwanda
Samoa
Saudi Arabia
Senegal
Serbia
Seychelles
Sierra Leone
Singapore
Slovakia
Slovenia
South Africa
South Korea
Spain
Sri Lanka
Sweden
Switzerland
Taiwan
Tanzania
Thailand
Trinidad
Turkey
Turks & Caicos Islands
UAE
Uganda
UK
Ukraine
USA
Vanuatu
Venezuela
Vietnam
Yemen
Zambia
Zimbabwe

EXECUTIVE MANAGEMENT TEAM

(L – R) N R K Raman – COO, India Operations, Rajesh Hukku – Chairman and Managing Director, Deepak Ghaisas – CEO, India Operations, and CFO, R Ravisankar – CEO, International Operations and Business Development

(L – R) Executive Vice-Presidents: Olivier Trancart – Global Sales, V Shankar – PrimeSourcing and Joseph John – Universal Banking Products

SENIOR MANAGEMENT TEAM

A Srinivasan
Vice-President,
Global Sales Operations

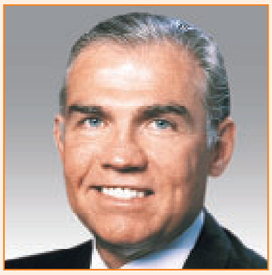
Anand Phanse
Vice-President,
Citigroup Relationship and
Chief of Staff, USA

Atul Gupta
Sr Vice-President,
Process and Quality
Management Group

Avadhut (Vinay) Ketkar
Chief Accounting Officer

Cafó Boga
Chief Operating Officer,
i-flex solutions Inc.

Darshan Karki
President and COO,
SuperSolutions Inc.



Dennis Roman
Chief Communications Officer

Dilip Kulkarni
Chief Compliance Officer

Dinesh Shetty
Vice-President,
Administration

Don Ganguly
CEO,
Equinox Corporation

G Narasimhan
Vice-President,
Software Quality Assurance,
Products and Global Operations

George Thomas
Vice-President,
Customer Fulfilment and
Solutions Architecture,
North America

Gopinath Govindan
Vice-President,
HR Systems and
Corporate Initiatives

Gratian Perez
Vice-President,
Corporate Accounts

Jambu Natarajan
Vice-President,
Software Quality Assurance,
PrimeSourcing

Kapil Gupta
Vice-President,
FLEXCUBE Development

K Laxminarayan
Vice-President,
Operations – Europe & North America,
PrimeSourcing

Kishore Kapoor
CEO,
i-flex solutions pte

Makarand Padalkar
Chief of Staff and
Investor Relations

Manmath Kulkarni
Vice-President,
Retail Banking Products

Meenakshy Iyer
Vice-President,
Reveleus Development

Mohan Bhatia
Sr Principal Consultant,
i-flex Consulting

Milind Soman
Vice-President,
Payments Solutions,
PrimeSourcing

M Ravikumar
Vice-President,
Facilities Management

Nandu Kulkarni
Sr Vice-President,
Retail Banking Products

P Prasannavadanan
Vice-President,
Customer Fulfilment
South Asia, Africa and Middle East

Prabhakar Ravoori
Vice-President,
Software Engineering and
Process Group

R Mahesh
Vice-President,
Business Intelligence Group,
PrimeSourcing

R Narasimhan
Vice-President,
Customer Fulfilment,
Asia-Pacific, India and Middle East

R Ramamurthi
Vice-President,
Middle East Sales and
Pre-Sales Consulting

Sridhar Ramachandran
Vice-President,
Corporate Banking Solutions,
PrimeSourcing

Sridhar Padmanabhan
Vice-President,
Enterprise Automation

S Hariharan
Sr Vice-President,
Infrastructure Services

S Ramakrishnan
CEO,
Reveleus

S Sundararajan
Vice-President,
Universal Banking Products

Sajal Mukherjee
CEO, SuperSolutions Inc
and Vice-President,
North America Sales

Sunder Annamraju
Vice-President,
Customer Fulfilment,
Western Europe

Swati Srinivasan
Vice-President,
Process and Quality Management
& Consulting,
i-flex Consulting

Thomas Mathew
Vice-President,
Product Management &
Knowledge Management

V Senthil Kumar
CEO,
i-flex solutions b. v.

V Srinivasan
Vice-President,
Corporate Development

Venkata Subramanian
CEO,
FLEXCEL

Vijay Sharma
Sr Vice-President,
i-flex Consulting and
Systems Integration

Vikram Gupta
Vice-President,
Investment and Private Banking,
Strategy and Mergers & Acquisitions,
PrimeSourcing

Vivek Govilkar
Sr Vice-President,
Human Resources and Training

BOARD OF DIRECTORS

(L – R) Charles Phillips, Y M Kale, Tarjani Vakil, Rajesh Hukku (Chairman and Managing Director, i-flex solutions), Sam Bharucha & William T. Comfort, Jr.

CORPORATE INFORMATION
i-flex solutions ltd.

Company Secretary
Deepak Ghaisas

Chief Accounting Officer
Avadhut (Vinay) Ketkar

Solicitors
Ramesh P. Makhija & Co.

Auditors
S. R. Batliboi & Associates

Internal Auditors
Mukund M. Chitale & Co.

Bankers
Bank of India
Citibank N.A.
HDFC Bank Ltd.
Kotak Mahindra Bank Ltd.
State Bank of Mauritius Ltd.
YES BANK Ltd.

Registrars & Transfer Agents
Intime Spectrum Registry Ltd.
C 13, Pannalal Silk Mills Compound
L.B.S. Marg, Bhandup (W)
Mumbai 400 078

Registered Office

i-flex solutions ltd.
Unit 10-11, SDF-1
SEEPZ, Andheri (E)
Mumbai 400 096, India

Offices

i-flex Center
399, Subhash Road
Vile Parle (E)
Mumbai 400 057, India

i-flex Park
Nirlon Compound
Western Express Highway, Goregaon (E)
Mumbai 400 063, India

i-flex annexe
Nirlon Compound
Western Express Highway, Goregaon (E)
Mumbai 400 063, India

Corporate Center A
3rd to 6th Floor
Andheri Kurla Road, Andheri (E)
Mumbai 400 059, India

Marchon House
2nd Floor, J.B. Nagar
Andheri Kurla Road, Andheri (E)
Mumbai 400 059, India

i-flex Park
C/o Embassy Business Park
C.V Raman Nagar
Bangalore 560 075, India

i-flex Center
333, Kundalahalli, Brookefields
Bangalore 560 037, India

i-flex Center of Learning
Plot No. 13, Doddanekundi
Industrial Area, Phase II
Whitefield Road, Mahadevapura Post
Bangalore 560 048, India

Pride Silicon Plaza
2nd Floor
Next to Chatushringi Senapati Bapat Road
Pune 411 053, India

i-flex Center
Block 9, Ambrosia-I
Bhavdhan Khurd, Tal. Mulshi
Pune 411 021, India

i-flex Center
Block 9A, Ambrosia-II
Bhavdhan Khurd, Tal. Mulshi
Pune 411 021, India

143/1, Uttamar Gandhi Salai
Nugambakkam
Chennai 600 034, India

Millennium House
12, Trubnaya Street
Moscow 103045, Russia

i-flex solutions ltd.
Office G-15, Building 9
P. O. Box: 500053
Dubai Internet City
Dubai, United Arab Emirates (UAE)

Subsidiary Office – India

i-flex processing services ltd.
i-flex Center
399, Subhash Road
Vile Parle (E)
Mumbai 400 057, India

Subsidiary Office – Asia-Pacific

i-flex solutions pte ltd
27 International Business Park
04-05 Primefield Landmark Building
Singapore 609 924

Offices

Room 806, Central Plaza
No. 227 HuangPi Road
North Shanghai, China

No. 6, 17th Floor
Fukoku Seimei Building
2-2-2 Uchisaiwaicho
Chiyoda-ku
Tokyo 100-0011, Japan

Level 10, Margaret Street
Sydney, NSW 2000, Australia

Subsidiary Office – Europe

i-flex solutions b. v.
World Trade Center, B-Tower, 12th Floor
Strawinskylaan 1245
1077 XX Amsterdam, The Netherlands

Offices

Niederlassung Deutschland
Mainzer LandstraBe 49a
60329 Frankfurt am Main, Germany

121, Meridian Place
Off Marsh Wall, South Quay,
London E14 9FE, United Kingdom

Subsidiary Offices – North America

i-flex America inc. & i-flex solutions inc.
99 Park Avenue, Suite 1530
New York 10016, USA

SuperSolutions Corporation
10050 Crosstown Circle
Suite 600, Eden Prairie
MN 55344, USA

Offices

i-flex solutions inc.
60, State Street, Suite 700
Boston, MA 02109, USA

i-flex solutions inc.
355 Lexington Avenue, FL 4
New York, NY 10017, USA

i-flex solutions inc.
9 E. 37th Street, FL 12
New York, NY 10016, USA

i-flex solutions inc.
Reveleus
510 Thornall Street, Suite 380
Edison, NJ 08837, USA

i-flex solutions inc.
5805 Blue Lagoon Drive, Suite 295
Miami, FL 33126, USA

Castek Software Inc.
1 Yonge St, Suite 2300
Toronto, Ontario, Canada

Subsidiary Office – Mauritius

ISP Internet Mauritius Company
10, Frere Felix de Valois Street
Port Louis, Mauritius

Offices

Equinox Corporation
10, Corporate Park, Suite 130
Irvine, CA, 92606, USA

Equinox Global Services Pvt. Ltd.
DLF Infinity Tower A, 3rd Floor
DLF Cyber City, Phase II
Gurgaon 122 002
Haryana, India

Directors' report
Financial year 2005-06

Dear Members,

The Directors take great pleasure in presenting their report on the business and operations of your Company along with the Annual Report and the audited financial statements for the Financial Year 2005-06.

Financial highlights

As per Indian GAAP Unconsolidated financial statements:

(All amounts in millions of Indian Rupees)

	Year ended March 31, 2006	Year ended March 31, 2005
Revenue	11,538.22	9,028.60
Income from operations before depreciation	2,983.71	2559.29
Depreciation	387.81	265.94
Interest/other income (expenses)	299.21	177.76
Income before taxes	2,895.11	2,471.11
Provision for tax	447.57	494.71
Net income after tax	2,447.54	1,976.40
Prior period item	39.55	–
Net income	2,407.99	1,976.40
Balance brought forward	492.49	443.04
Profit available for appropriation	2,900.48	2,419.44
Transfer to general reserve	2,000.00	1,500.00
Proposed dividend	381.44	374.40
Corporate dividend tax	53.66	52.51
Dividend paid on ESOP allotments	1.14	0.04
Balance carried forward	464.24	492.49

As per Indian GAAP consolidated financial statements:

(All amounts in millions of Indian Rupees)

	Year ended March 31, 2006	Year ended March 31, 2005
Revenue	14,823.00	11,385.93
Income from operations before depreciation	3,204.18	3,001.46
Depreciation	(460.37)	(309.35)
Interest/other income (expenses)	284.65	260.11
Income before taxes	3,028.46	2,952.22
Provision for tax	(560.42)	(627.06)
Net income for the year before minority interest, share of profit (loss) of associate and prior period items	2,468.04	2,325.16
Minority interest	2.57	–
Share of profit (loss) of associate company	3.33	(0.82)
Prior period items	(97.41)	–
Net income	2,376.53	2,324.34

Performance

On an unconsolidated basis, your Company's revenue grew to Rs. 11,538.22 million during the financial year 2005-06 from Rs. 9,028.60 million last year, a growth of 28%. The net income before taxes and prior period item stood at Rs. 2,895.11 million during the year against Rs. 2,471.11 million last year, translating into a growth of 17%. The Company's net income after taxes and before prior period item increased to Rs. 2,447.54 million this year from Rs. 1,976.40 million last year, a growth of 24 %.

Revenue as per Indian GAAP Consolidated financials were Rs. 14,823 million this year, an increase of 30% as compared to Rs. 11,385.93 million last year. The Earnings before taxes on a consolidated basis were Rs. 3,028.46 million this year as compared to Rs. 2,952.22 million last year, an increase of 2.6%. The Company's net income before prior period items increased to Rs. 2,473.93 million this year as compared to Rs. 2,324.33 million last year, an increase of 6.4%.

A detailed analysis of the financials is given in the Management Discussion and Analysis report that forms part of this Annual Report.

Dividend

Your Directors are pleased to recommend a dividend of Rs. 5/- per share (100% on par value of Rs. 5/-). The dividend, if approved at the forthcoming Annual General Meeting, will be paid out of the profits of the Company to those shareholders whose names appear on the Register of Members as on the Record Date.

The total amount of dividend payable is Rs. 381.44 million this year against Rs. 374.40 million for the previous year. Under the current provisions of the Indian Income Tax Act, 1961, receipt of dividend is tax-free in the hands of the shareholders.

Transfer to reserves

The Company proposes to transfer Rs. 2,000 million to the General Reserve out of the amount available for appropriation. An amount of Rs. 464.24 million is proposed to be retained in the Profit and Loss Account.

Oracle's acquisition of i-flex's shares

In August 2005, Oracle announced that it would buy Citigroup's equity interest in i-flex held through OrbiTech Limited, and make an open offer to purchase up to an additional 20 percent ownership from existing i-flex shareholders. In November 2005, OrbiTech Limited sold 32,236,000 shares representing 42.41% paid up capital of the Company to Oracle Global (Mauritius) Limited ("Oracle"). Oracle also acquired 517,375 shares (0.68%) from the shareholders in the open offer. Accordingly, in November 2005, Oracle's holding in the Company was 32,753,375 shares (43.08% of paid up capital of the Company).

By March, 2006, Oracle further acquired 3,450,141 shares of the Company. Accordingly, its shareholding increased to 36,422,788 shares (47.74% paid up capital of the Company).

By April 13, 2006, Oracle acquired 2,424,632 additional shares of the Company taking its total to 38,628,148 shares (50.6% paid up capital of the Company). By virtue of Oracle's acquisition of 50.6% of paid up capital of the Company, i-flex has become a subsidiary of Oracle Global (Mauritius) Limited.

As of date, Oracle holds 40,148,312 equity shares of the Company (52.47% of paid up capital of the Company) and i-flex is a majority owned subsidiary of Oracle.

Your Company's relationship with Oracle gives i-flex better access to leading financial institutions around the world and gives those financial institutions access to an unequalled set of IT solutions and capabilities. In addition, Oracle will re-sell and jointly market the Reveleus Basel II Solution which enables financial institutions to address key emerging regulatory requirements.

Share capital

In September 2004, your Company had issued and allotted 91,347 warrants/ options to IBM Global Services India Pvt. Ltd. ("IBM") with an option to convert them into equal number of equity shares of face value of Rs. 5/- each within a period of 18 months. On February 9, 2006, IBM exercised its option to convert these warrants/options into equity shares. After completing the necessary formalities, the Company in turn allotted 91,347 equity shares to IBM on February 28, 2006.

During the year your Company also allotted 1,317,370 equity shares to its employees who exercised their options under the Employee Stock Options Plan of the Company.

As a result, the paid-up equity share capital of the Company increased to 76,288,367 equity shares of face value of Rs. 5/- each as on March 31, 2006.

Use of IPO proceeds

In June 2002, your Company completed its Initial Public Offer (IPO) in India and listed its shares on the National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Ltd (BSE). Out of the IPO proceeds of Rs. 1,780.80 million, the Company has utilized Rs. 1,252.1 million up to March 31, 2006 for its infrastructure projects in Mumbai and Bangalore, and expanding its marketing reach.

Infrastructure

During the year, your Company made significant additions to its infrastructure to meet growing business requirements. Your Company opened a new office in Mumbai with a capacity to house 850 professionals; a new office in Bangalore with 1,000 seats; and expanded the Pune office to house 300 additional employees. In addition, your Company began construction of a landmark building in Goregoan, Mumbai with a capacity to house 3,000 professionals.

During the year, your Company expanded its operations and marketing network in Moscow, Shanghai and Sydney.

Acquisitions, alliances and joint ventures

i-flex America Inc., a Wholly Owned Subsidiary of your Company, acquired a 76.77% stake in Castek Software Inc. ("Castek") during the year. Castek specializes in core-business processing systems for large and mid-size property and casualty insurance carriers which include insurance product and process configuration, policy administration, customer management, billing and claims management.

Your Company strengthened its solutions offering by buying the intellectual property rights for the Operational Risk Tool Suite (ORTOS) from Capco, a consulting firm in Europe. i-flex also established an alliance with EDB Business Partners ASA in the Nordic region to jointly offer retail banking solutions. These alliances help i-flex broaden its portfolio and fortify its positioning as the leading, specialized IT solutions provider to the financial institutions worldwide.

Subsidiaries

As you are aware, your Company has subsidiaries in the USA, Singapore and the Netherlands which are strengthening marketing and sales efforts in their respective regions. The Company also has operating subsidiaries – SuperSolutions and Equinox – which are in the advanced investment stage.

i-flex Processing Services Limited ("IPSL") became a subsidiary of your Company in April 2006. IPSL will have KPO businesses under its fold in future.

Pursuant to Section 212 of the Companies Act, 1956, the Company is required to attach to its Annual Report, the Directors' Report and financial statements of its subsidiaries. Since the Company presents audited consolidated financial statements under Indian GAAP and US GAAP in its Annual Report, the Company had applied to the Central Government of India for an exemption from attaching the Directors' Report, Balance Sheet and Profit and Loss Account of its subsidiaries to the Annual Report. The Central Government has vide its letter no. 47/162/2006-CL-III dated June 28, 2006 granted the exemption for the year ended March 31, 2006. Accordingly, the financial statements of the subsidiaries of the Company are not attached to the Annual Report of the Company. The Company undertakes that the financial statements of the subsidiary companies for the year ended March 31, 2006 will be made available to the members on request at the Registered Office/Corporate office of the Company and same will be kept open for inspection by any member during the office hours of the Company.

Fixed deposits

The Company has not accepted any fixed deposit within the meaning of Section 58A of the Companies Act, 1956, and as such, no amount of principal or interest was outstanding as of the date of the Balance Sheet.

Awards, honors and recognition

Your Company picked up coveted accolades acknowledging its contribution to the financial services industry last year. Some of them are listed below:

– i-flex was presented the "Best Software Product Company in Intellectual Driven Business" by IT people at the IT-People Awards of Excellence in Information Technology. The IT-People Awards are decided by an independent jury consisting of representatives from the IT industry in India.

– The Economic Times of India, India's leading financial daily, honored the Company with the Avaya Global Connect Customer Responsiveness award for 2005 in the IT-Software industry category. This award recognizes organizations for the effective use of customer responsiveness as a tool.

– The inaugural 'India's Most Admired Knowledge Enterprises' (MAKE) award was presented by Teleos, an independent knowledge management and intellectual capital research company, in association with KNOW, a knowledge-sharing network. The MAKE panel recognized i-flex solutions for creating a knowledge-driven organization.

– For the fourth consecutive year, FLEXCUBE® was ranked the world's No.1 selling core banking solution by International Banking Systems (IBS), UK, in its annual Sales League Table for 2005.

– Equinox, i-flex solutions' knowledge process outsourcing division, was selected in the Leadership Category of The Global Outsourcing 100 by the International Association of Outsourcing Professionals (IAOP). This ranking report set a precedent as it provided the first industry-wise benchmark for outsourcing excellence.

– The Government of Karnataka, India, announced that i-flex will be presented with the Certificate of Excellence in IT Exports for Karnataka for 2004-2005.

Litigation

As of date there is no pending legal suit against the Company in any court of law except for the following:

PortfolioScope, a company based in the United States of America, has filed a lawsuit in a US District Court for the District of Massachusetts alleging misappropriation of confidential and proprietary information by the Company. The Company has filed a motion to dismiss PortfolioScope's complaint in its entirety and has instructed the legal advisers to take all appropriate actions to protect the interests of the Company and its customers. The Company firmly believes that the allegations are false, unwarranted and without merit and will vigorously oppose the claims made by PortfolioScope.

Corporate governance

The revised Clause 49 of the Listing Agreement on Corporate Governance has become applicable with effect from December 31, 2005. The Company has taken appropriate steps and measures to comply with all the applicable provisions of the revised Clause 49 and Section 292A of the Companies Act, 1956.

Your Company has constituted three separate committees for Audit, Compensation and shareholders' Grievances Committee. A separate report on Corporate Governance along with a certificate of Statutory Auditors of the Company is annexed herewith.

A certificate from the Managing Director and CFO of the Company confirming internal controls and checks pertaining to financial statements for the year ended March 31, 2006 was placed before the Board of Directors of the Company.

A list of the committees of the Board and names of their members are given below. The scope of each of these Committees and other related information is detailed in the enclosed Corporate Governance Report.

Audit Committee

Mr. Y. M. Kale (Chairman)
Mr. S. P. Bharucha (from January 9, 2006)
Mr. William T. Comfort, Jr.
Ms. Tarjani Vakil

Compensation Committee

Mr. William T. Comfort Jr. (Chairman)
Mr. Y. M. Kale
Mr. Charles Phillips (from January 9, 2006)

Shareholders' Grievances Committee

Ms. Tarjani Vakil (Chairperson)
Mr. Deepak Ghaisas

Allotment of ESOP shares

The shareholders of the Company had approved the Employees Stock Option Scheme (ESOP) of the Company in its Annual General Meeting of 2001.

According to the said scheme, the Company has granted shares to eligible employees from time to time. The details are given below.

Total number of options granted	
2001-02	4,548,920
2002-03	80,000
2003-04	36,000
2004-05	60,000
2005-06	10,000
Total	4,734,920
Pricing formula	At the fair market value as on the date of grant
Options vested	2,004,700
Options exercised during 2005-06	1,317,370
Total number of shares arising as a result of exercise of options during 2005-06	1,317,370
Options lapsed	
2002-03	129,520
2003-04	112,500
2004-05	82,200
2005-06	87,600
Total	411,820
Variation of terms of options	None
Money realized by exercise of options	350,000,110
Total number of options in force	2,756,880

Directors/Employee-wise details of options granted:

Number of options		
i)	Director – Mr. S. P. Bharucha	10,000
ii)	Any other employee who receives grant in any one year of options amounting to 5% or more of options granted during that year	Nil
iii)	Identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	Nil
iv)	a) Diluted Earnings Per Share (EPS) in Indian GAAP Standalone accounts pursuant to the issue of shares on exercise of options calculated in accordance with accounting standard 20 'Earnings Per Share' issued by the Institute of Chartered Accountants of India	Rs. 31.03
	b) Diluted Earnings Per Share (EPS) in Indian GAAP Consolidated accounts pursuant to the issue of shares on exercise of options calculated in accordance with accounting standard 20 'Earnings Per Share' issued by the Institute of Chartered Accountants of India	Rs. 30.62

Had compensation cost for the Company's ESOP been determined based on fair value at the grant dates, the Company's net income and earnings per share would have been reduced to pro forma amounts indicated below:

(All amounts in millions of Indian Rupees except per share data)

	March 31, 2006	
	As per Indian GAAP Standalone financials	As per Indian GAAP Consolidated financials
Net income as reported	2,407.99	2,376.53
Less: Share-based employee compensation determined using fair value of the options	(70.73)	(70.73)
Pro forma net income	2,337.26	2,305.80
Basic income per share		
As reported	31.87	31.45
Pro forma	30.93	30.51
Diluted income per share		
As reported	31.03	30.62
Pro forma	30.13	29.72

The fair value of options was determined using the Black-Scholes model with the following assumptions:

	March 31, 2006
Dividend yield	0.71%
Expected volatility	40%
Risk-free interest rates	6%
Expected life	6.5 years

Options issued during the year at market price:

Number of options	10,000
Weighted average exercise price	Rs. 708.65
Weighted average fair value	Rs. 334.00

Directors' responsibility statement

As required under Section 217 of the Companies Act, the Directors hereby confirm that:

i) In preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

ii) The Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

iii) The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv) The Directors had prepared the annual accounts on a 'going concern' basis.

Directors

Ms. Tarjani Vakil retires by rotation at the ensuing Annual General Meeting, and being eligible, offers herself for re-appointment.

Mr. Charles Phillips was Appointed as an Additional Director of the Company on November 24, 2005 pursuant to Section 260 of the Companies Act, 1956. Mr. Phillips would hold office up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing from a member proposing the candidature of Mr. Phillips for the office of Director.

The Directors recommend to the shareholders the resolutions for re-appointment of Ms. Tarjani Vakil and appointment of Mr. Charles Phillips as Directors.

Brief resume of the Directors proposed to be appointed/re-appointed, nature of their expertise in specific functional areas and names of companies in which they hold directorship and membership/chairmanship of Board Committees, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges are provided in the Notice of the Seventeenth Annual General Meeting and Report on Corporate Governance forming part of the Annual Report.

Auditors

M/s S. R. Batliboi & Associates, the present Statutory Auditors of the Company, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if re-appointed.

Conservation of energy, technology absorption and foreign exchange earnings and outgo

The particulars as prescribed under sub-section (1)(e) of Section 217 of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, the relevant data pertaining to conservation of energy, technology absorption and foreign exchange earnings and outgo are furnished hereunder:

a) Conservation of energy:

The operations of the Company are not energy-intensive. However measures have been taken to reduce energy consumption by using energy efficient computers and by the purchase of energy efficient equipment with the latest technologies. The expense on power in relation to income is nominal and under control.

b) Technology absorption

Since businesses and technologies are changing constantly, investment in research and development activities is of paramount importance. Your Company continued its focus on quality up-grades of software development process and software product enhancements.

c) Foreign exchange earnings and outgo:

	(All amounts in millions of Indian Rupees)
Foreign Exchange Earnings*	11,083
Foreign Exchange Outgo (Including capital goods & other expenditures)	2,546

*Excluding reimbursement of travelling expenses and interest income.

Prospects

The global financial industry critically relies on information technology, and with the increased competition, industry consolidation, and demanding regulatory requirements, the opportunities in the market place for your Company are increasing. These trends are driving the banks, both small and large, to consider replacing their core systems. The global banks are also increasingly looking at standardizing their core systems across multiple countries. These institutions are increasingly looking for complete solutions that help them expand their business and increase cost effectiveness. Lastly, outside your Company's traditional market, there are emerging opportunities in other verticals such as insurance.

Your Company is well positioned in this market with its comprehensive solutions stack and it is further expanding the portfolio to meet some of the unique opportunities, especially in the developed market. Your Company has signed master operating agreement with Oracle after their investment in the Company during the year. Your Company is expanding the partnership with Oracle to engage more intensively with the global Oracle network and sales force opening further growth opportunities.

Employee particulars

Information pursuant to Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 are set out in the Annexure included in this report.

Acknowledgements

Your Directors take this opportunity to thank the Company's customers, shareholders, vendors and bankers for their continued support during the year. Your Directors also wish to thank the Government of India and its various agencies, Department of Electronics, Software Technology Parks – Bangalore, Mumbai, Chennai and Pune, the Santacruz Export Processing Zone, Customs and Excise department, Ministry of Commerce, Ministry of Finance, Department of Telecommunication, the Reserve Bank of India, the State Governments of Maharashtra, Karnataka, Tamil Nadu, Haryana and other local Government bodies for their support, and look forward to their continued support in the future.

Your Directors' also place on record their appreciation for the excellent contribution made by all employees of i-flex through their commitment, competence, cooperation and diligence to duty in achieving consistent growth.

For and on behalf of the Board

Rajesh Hukku
Chairman and Managing Director

July 6, 2006

Annexure to Directors' report

To
The Board of Directors
i-flex Solutions Limited
Mumbai

This is to certify that:

a) We have reviewed the balance sheet, profit and loss account, all its schedules and notes attached thereto ("financial statements") and the cash flow statement of i-flex solutions ltd. ("the Company") for year ended March 31, 2006 and that to the best of our knowledge and belief:

   i) These financial statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

   ii) These financial statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b) There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.

c) We accept responsibility for establishing and maintaining internal control and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the auditors and the Audit Committee wherever applicable, deficiencies in the design or operation of internal control, if any, of which we are aware and the steps we have taken or propose to take to rectify the same.

d) We have indicated to the auditors and the Audit Committee wherever applicable:

   i) significant changes in internal control during the year;

   ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

   iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system.

For i-flex Solutions Limited

Rajesh Hukku	Deepak Ghaisas
Managing Director	Chief Financial Officer

May 05, 2006

Statement of particulars of employees pursuant to Section 217(2a) of the Companies Act, 1956, read with the companies (particulars of employees) amendment rules, 1975 and forming part of the directors report for the year ending March 31, 2006 employed for whole of the year.

Sr. no.	Name	Designation & nature of duties	Qualification	Age (Yrs.)	Date of joining #	Experience (Yrs.)	Remuneration received (Rs.)	Previous employer
1	Balasubramanian C	Senior Consultant	M.C.A.	37	May 15, 1992	14	2,455,483	M/s Citicorp Overseas Software Ltd
2	Bajaj Sanjay	Senior Manager	B.E. (Electrical)	39	June 8, 1998	17	2,500,326	M/s CS Ltd
3	Barath D$	Vice President, System Integration	PGDM	43	June 1, 1990	17	674,093	M/s Citicorp Overseas Software Ltd
4	Bhatia Mohan	Senior Principal Consultant, i-flex Consulting	M.Sc., AICWA, PGDST (NCST), FRM(GARP)	43	March 8, 2001	18	2,443,476	M/s Infosys Technologies Ltd
5	Cheriyan Mona	Senior Manager	B.A. HSM	42	June 15, 1993	22	2,673,072	M/s Essars Ltd
6	Davis K K	Senior Manager	B.Com. PGD PM & IR	47	May 19, 2004	23	2,400,799	M/s DSL Software Ltd
7	Deshpande Sanjay V	Senior Manager	M.Sc., M.B.A.	44	May 17, 2005	22	2,667,681	M/s iSmart Solutions Ltd
8	Dutta Basu	Senior Consultant	M.Sc., M.B.A.	52	April 2, 2001	24	3,018,236	M/s ANZ Information Technology
9	Gayathri K H	Senior Manager	B S COMM	39	July 1, 1991	17	2,635,091	M/s Wipro Infotech
10	Ghaisas Deepak K	CEO-India Operations, CFO & Company Secretary	A.C.A, F.C.S, A.I.C.W.A	48	July 7, 1993	25	18,439,342	M/s Tata Unisys Ltd
11	Ghosh Sanjay Kumar	Senior Manager	B.Tech.	34	September 1, 1994	12	2,442,268	–
12	Ghosh Arunabha	Senior Manager	B.E. (Electronics)	35	September 1, 1994	12	2,605,529	–
13	Govilkar Vivek	Sr. Vice President, Human Resources and Training	M.Tech	50	April 12, 1994	25	4,019,683	M/s Tata Unisys Ltd
14	Govindan Gopinath	Vice President, Corporate HR	PGDM	41	December 19, 1994	18	2,738,245	M/s Brooke Bond-Lipton
15	Gupta Atul	Sr. Vice President, Process & Quality Management Group	B.Tech., PGDM	45	April 1, 1994	24	4,474,894	M/s Citicorp Overseas Software Ltd
16	Gupta Das Buddhadeb	Senior Manager	B.Sc.	42	February 11, 1998	18	2,567,687	M/s Tata Steel Ltd
17	Gupta Kapil	Vice President, FLEXCUBE Development	M.TECH	42	March 21, 1991	15	3,563,356	M/s Citicorp Overseas Software Ltd
18	Gupta Vikram	Vice President, PrimeSourcing – e-solutions	B.E.	42	April 1, 1996	19	4,060,176	M/s T S B Bank
19	Hampihallikar Vinayak	Senior Manager	PGDM	38	May 20, 2002	19	3,084,198	M/s Home Trade Ltd
20	Handigol Ravi	Senior Consultant	MPM & PGDM	57	October 16, 2000	31	3,277,225	M/s Infrasoft
21	Hariharan S	Sr. Vice President, Infrastructure Services	M.E.	51	October 3, 1988	28	4,527,037	M/s Citicorp Overseas Software Ltd
22	Hukku Rajesh *	Chairman & Managing Director	B.E.	48	May 4, 1987	27	353,760	M/s Citicorp Overseas Software Ltd
23	Iyer Meenakshy	Vice President, Reveleus Development	M.Sc.	41	March 10, 1993	18	3,566,630	M/s Telco
24	John Joseph	Executive Vice President, Universal Banking Products	B.E.	49	December 15, 1988	24	5,704,741	M/s Citicorp Overseas Software Ltd
25	Kale Vivek S	Senior Manager	MPHIL	48	July 12, 2004	28	2,603,443	M/s EITL
26	Kapoor Madhukar Harbanslal	Senior Manager	B.E. (E&C)	44	April 21, 2004	21	2,557,040	M/s GTL Ltd
27	Ketkar Avadhut D	Chief Accounting Officer	A.C.A.,L.L.B.	39	June 3, 1991	15	2,805,053	M/s Citicorp Overseas Software Ltd
28	Khanna Rakesh$	Vice President, Product Marketing & Corporate Alliances	B.E., MMS	44	September 9, 1996	20	1,551,408	M/s Tata Unisys Ltd
29	Kothandaraman N R	Chief Operating Officer	M.Sc.	48	October 7, 1985	26	9,799,061	M/s Datamatics Consultant
30	Kulkarni Manoj N	Senior Manager	B.E.	39	February 6, 1995	17	2,626,052	M/s L & T
31	Kulkarni Dilip R	Chief Compliance Officer	MFM	52	December 1, 1993	32	4,048,601	M/s Citicorp Overseas Software Ltd
32	Kulkarni Manmath	Vice President, Retail Banking Products	M.Sc.	40	July 16, 1987	18	4,266,604	M/s Citicorp Overseas Software Ltd
33	Kulkarni Nandkumar	Sr. Vice President, Retail Banking Products	B.Tech., PGDM	53	October 13, 2000	24	4,133,744	M/s Opus Software Pvt. Ltd
34	Kumar M Ravi	Vice President, Facilities Management	B.Sc.	38	June 18, 1990	19	3,094,353	M/s Comstruct Software Private Ltd
35	Kumar Sampath	Senior Manager	MMS	38	February 12, 1996	17	2,773,841	M/s Stock Holding Corp. of India Ltd
36	Kumar Satish G	Senior Manager	B.E. (Electronics)	45	June 27, 2001	17	2,533,778	M/s Computer Associates India Ltd
37	Kumar Suresh P	Senior Manager		39	February 3, 1999	17	2,784,529	–
38	Mahadevan Ravi	Senior Manager	M.Sc., AICWA, PGDST (NCST), FRM(GARP)	41	July 1, 1998	18	2,494,464	M/s LIC Hsg. Finance Ltd

Sr. no.	Name	Designation & nature of duties	Qualification	Age (Yrs.)	Date of joining #	Experience (Yrs.)	Remuneration received (Rs.)	Previous employer
39	Mahesh R	Vice President, PrimeSourcing – Business Intelligence Group	B.E., PGDM	43	May 13, 1991	22	3,438,094	M/s Citicorp Overseas Software Ltd
40	Makhija Rajesh	Senior Consultant	B.E. (Electronics)	36	October 1, 1992	16	2,778,993	M/s Godrej and Boyce Ltd
41	Mathew Thomas	Vice President, Knowledge Management	M.B.A.	50	August 2, 1989	26	3,490,590	M/s Citicorp Overseas Software Ltd
42	Moonim Mustafa	Senior Manager	M.B.A.	39	November 10, 1998	16	3,118,210	M/s Informix International Ltd
43	Murthy Sunil Krishna$	Senior Manager	B.E. (Mechanical), Master of Science (Computer Information Sciences)	43	August 12, 2005	18	1,604,476	M/s Juniper Networks, Inc.
44	Nair Rajkumar V	Senior Manager	PGDM	43	June 1, 1989	17	2,909,917	M/s Citicorp Overseas Software Ltd
45	Narasimhan G	Vice President, Customer Fulfilment – Europe & Africa	CAIIB	43	March 11, 1993	18	3,132,761	M/s State Bank of India
46	Narasimhan R	Vice President, Customer Fulfilment – Asia Pacific, India & Middle East	MFM	44	September 1, 1993	21	3,930,640	M/s Canara Bank
47	Natarajan Kiran	Senior Manager	B.E. (Information Engineering), M.B.A.	36	February 14, 2005	13	2,554,162	M/s TREMA
48	Natarajan P V Jambu	Vice President, Software Quality Assurance	B.E., M.P.I.B	42	September 1, 1997	18	3,064,126	M/s National Bank of Oman, Oman
49	Ohrie Sheenam	Senior Manager	B.E. (ELEC)	37	September 1, 1992	13	2,794,579	–
50	Padalkar Makarand S	Chief of Staff & Investor Relations	M.Tech.	47	August 16, 1994	22	4,587,783	M/s Tata Unisys ltd
51	Padmanabhan Sridhar	Vice President, Enterprise Automation	Master of Engineering (IISc)	50	June 23, 1999	26	3,497,349	M/s KPMG India Pvt Ltd
52	Parthasarathy Gayathri$	Vice President, PrimeSourcing – Development & Integration Services	M.Sc.	42	July 20, 1992	18	3,219,419	M/s Citicorp Overseas Software Ltd
53	Patkar Vinay$	Senior Manager	M.B.A.	53	August 3, 1998	30	2,241,606	M/s Mastek Ltd
54	Perez Gratian	Vice President, Corporate Accounts	CAIIB	50	April 5, 1993	29	3,761,489	M/s University of North Texas, USA
55	Pingaley Arun	Senior Manager	B.Com (Hons), Grad CWA	39	July 30, 1997	17	2,526,852	M/s ANZ Grindlays Bank
56	Potdar Rajendra	Senior Manager	B.E.	36	August 3, 1992	14	2,584,937	M/s Citicorp Overseas Software Ltd
57	Prakash Sundaram$	Senior Manager	B.E.	55	February 14, 2005	32	1,290,679	M/s PeopleSoft India Pvt Ltd
58	Prasad R Karthick	Senior Manager	B.E. (Hons.) Computer Science	34	September 1, 1994	13	2,504,580	M/s People.com Consultants Inc., USA
59	Rai Anil	Senior Manager	B.E. (Electronics & Telecommunications)	48	May 3, 2002	25	2,783,285	M/s Deutsche Software Ltd
60	Rajan Sundar R	Senior Manager	B.E. (E E)	34	June 2, 1993	13	2,509,841	–
61	Rajpal Varun	Senior Manager	B.E. (Comp Tech)	38	August 1, 1994	14	2,723,367	M/s Inchcape System
62	Ramakrishnan Ganesh	Senior Manager	B.E., MMS	40	November 12, 1996	16	2,577,705	M/s BAARNS Consulting
63	Ramamurthi R	Vice President, Middle East Sales and Pre Sales Consulting	ACA	50	July 28, 1989	23	3,988,789	M/s Citicorp Overseas Software Ltd
64	Ranjan Puneet	Senior Manager	B.Tech.,M.B.A.	39	April 27, 1998	14	2,519,242	M/s Apple Credit Corporation
65	Rao Sanjeet Prakash	Senior Manager	B.E. (Mechanical)	34	September 1, 1994	12	2,716,870	–
66	Ravi Srilatha	Senior Manager	B.COM	43	July 2, 1993	20	2,772,843	M/s PSI Data System
67	Ravikumar V	Senior Manager	M.Sc., M.B.A.	41	October 19, 1995	12	2,946,640	M/s Bharat Overseas Bank Ltd
68	Ravisankar R *	CEO, International Operations and Business Development	B.Tech., PGDM	47	June 2, 1987	25	573,584	M/s Citicorp Overseas Software Ltd
69	Ravoori Prabhakar Venkata	Vice President, Software Engineering and Process Group	M.Tech.	45	January 24, 2002	21	2,923,977	M/s SIFY
70	Ray Abhik	Senior Consultant	B.Tech. (Electronics)	43	November 3, 1997	19	2,858,568	M/s Tata Infotech Ltd
71	Roy Ranjan	Senior Manager	B.Tech. (Mechanical), M.B.A. (Marketing)	38	December 5, 1997	14	3,358,701	M/s Tata Consultancy Services
72	Sampathkumar V	Senior Manager	B.Sc., CAIIB	45	August 26, 1996	25	2,515,722	M/s Canara Bank
73	Savanur Nagaraj	Senior Consultant	B.E. (Elect. Engg.)	37	September 1, 1992	15	3,005,589	M/s Triveni Engineering Works Ltd
74	Seth Samir K	Senior Manager	B.Tech.(Comp.Sc)	40	October 19, 1994	17	2,563,215	M/s Unysis, Austria
75	Shankar H V	Senior Manager	B.Sc. (Maths)	49	May 10, 2002	27	2,450,867	M/s KPMG Pvt Ltd, Mumbai
76	Shankar V	Executive Vice President, PrimeSourcing	M.Sc.	43	May 15, 1985	21	5,256,178	M/s Citicorp Overseas Software Ltd
77	Sharma Vijay	Sr. Vice President, i-flex Consulting & System Integration	B.Tech., PGDM	49	March 1, 1994	24	3,876,833	M/s Price Waterhouse Associates

Sr. no.	Name	Designation & nature of duties	Qualification	Age (Yrs.)	Date of joining #	Experience (Yrs.)	Remuneration received (Rs.)	Previous employer
78	Sheshadri K B	Senior Consultant	M.Sc., M.B.A.	45	March 1, 1996	21	2,919,789	M/s Industrial Development Bank of India
79	Shetty D V	Vice President, Administration	LLB	47	March 1, 1988	25	3,852,101	M/s Citicorp Overseas Software Ltd
80	Shukla Surendra V	Senior Consultant	M.Sc.	38	August 3, 1992	16	2,755,322	M/s Tata Institute of Fundamental Research
81	Soman Milind	Vice President, Payment Solutions, PrimeSourcing	B.Sc. (Mech. Engg), MMS (Marketing)	43	November 1, 1999	19	3,005,885	M/s Mega Ace Consultancy (I) Ltd
82	Sridhar R	Senior Consultant	B.Sc.	45	September 27, 2000	23	3,249,515	M/s National Bank of Dubai, Dubai, UAE
83	Srihari B	Senior Manager	M Sc. (Tech.)	33	September 1, 1994	12	2,425,489	–
84	Srikanth T	Senior Manager	PGDM	41	January 2, 1992	16	2,643,454	M/s State Bank of India
85	Srinivasan A	Vice President, Latin America and Caribbean Sales	ACA, AICWA	44	August 3, 1992	18	4,596,674	M/s Citicorp Overseas Software Ltd
86	Srinivasan Ramesh	Senior Consultant	B.Sc, P.G.D.B.A (IIM Calcutta)	37	June 1, 1992	14	3,006,623	–
87	Srinivasan Swati	Vice President, Software Quality Assurance	B.Tech.	45	July 26, 1988	23	3,851,493	M/s Citicorp Overseas Software Ltd
88	Srinivasan V	Vice President, Corporate Development	B.Sc.	44	December 13, 1988	21	4,016,018	M/s Citicorp Overseas Software Ltd
89	Subramaniam Venkata	Vice President, Customer Fulfilment – Retail Banking	CAIIB	47	November 20, 1992	23	3,940,778	M/s Citicorp Overseas Software Ltd
90	Subramanian Ganesh	Senior Manager	B.Sc., M.C.A.	38	September 11, 1993	15	2,635,332	M/s CMC Ltd
91	Sundararajan S	Vice President, Universal Banking Products	M.Sc. (Maths)	42	October 23, 1990	20	4,674,459	M/s Ashok Leyland
92	Thampi P Prasannavadanan	Vice President, Customer Fulfillment, Africa and Middle East	M.Sc., M.B.A., CAIIB	51	July 9, 1996	28	3,240,088	M/s Federal Bank
93	Venkatachalam G	Senior Manager	B.Tech. (Chemical)	34	September 1, 1994	12	2,604,570	–

Notes:

1) Gross remuneration comprises salary, allowances, monetary value of perquisites, commission to Directors and the Company's contribution to Provident and superannuation funds, but excludes provision for retiring gratuity for which separate figures are not available.
2) The nature of employees in all cases is contractual.
3) None of the employees mentioned above is a relative of any Director of the Company.
4) * Mr. Rajesh Hukku and Mr. R Ravisankar are deputed to USA as Chairman and CEO of i-flex solutions inc., respectively. Their Gross compensation comprising of fixed salary and variable performance based remuneration from i-flex solutions inc. for the financial year 2005-06 was USD 921,579 and USD 665,529 respectively. In addition, Mr. Hukku and Mr. Ravisankar served as chairman and Managing Director, and CEO International Operations and Business Development for i-flex solution ltd. for which they were paid a salary of Rs. 353,760, and Rs. 573,584, as in the table above.
5) The Department of Company Affairs has amended the Companies (Particulars of Employees) rules, 1975 to the effect that particulars of employees of companies engaged in the Information Technology Sector posted and working outside India, not being directors or their relatives, drawing more than Rs. 2,400,000/- per financial or Rs. 200,000/- per month, as the case may be, need not be included in the statement. Hence remuneration paid to such employees is not included in the above statement.
6) # Includes the period of continuity of employment.
7) $ Stands for part of the year.

For and on behalf of the Board

Rajesh Hukku
Chairman and Managing Director

July 6, 2006

Corporate governance report

The detailed report on Corporate Governance for the financial year April 1, 2005 to March 31, 2006 as per the format prescribed by SEBI under Clause 49 of the Listing Agreement is set out below:

1. Company's philosophy on code of governance

The Company believes in adopting and adhering to the globally recognized corporate governance practices and continuously benchmarking itself against each such practice. The Company understands and respects its fiduciary role and responsibility to the shareholders and strives hard to meet their expectations.

2. Board of Directors

2.1 Composition and category

The Company has six Directors including the Chairman. Of these, four Directors are independent Directors. The Chairman of the Board is an Executive Chairman and is also the Managing Director of the Company.

The composition of the Board of the Company as of March 31, 2006 was as given below:

Name	Designation	Category	Directorships in other Companies	Chairpersonship of Committees of Boards of other Companies	Membership of committees of Boards of other Companies
Mr. Rajesh Hukku	Chairman and Managing Director	Executive, Non-Independent Director	4	Nil	Nil
Mr. S. P. Bharucha*	Director	Non-Executive, Independent Director	1	Nil	Nil
Mr. William Twyman Comfort, Jr.	Director	Non-Executive, Independent Director	3	Nil	Nil
Mr. Y. M. Kale	Director	Non-Executive, Independent Director	5	1	1
Mr. Charles Phillips**	Director	Non-Executive, Non-Independent Director	3	Nil	1
Ms. Tarjani Vakil	Director	Non-Executive, Independent Director	5	3	2

* Mr. S. P. Bharucha was appointed as an Additional Director at the Board Meeting held on June 14, 2005 and was appointed as Director liable to retire by rotation at the Annual General Meeting of the Company held on August 12, 2005.

** Mr. Charles Phillips was appointed as an Additional Director of the Company on November 24, 2005.

Mr. Joseph P. Kennedy II resigned as a director of the Company on September 20, 2005.

2.2 Attendance of each Director at the Board Meetings and the last Annual General Meeting

The Company holds regular Board Meetings. The detailed agenda along with the explanatory notes are circulated in advance. The Directors can suggest inclusion of any item(s) in the agenda at the Board Meeting.

During the Financial Year 2005-2006, 11 Board Meetings were held on the following dates:

April 29, 2005, June 14, 2005, July 29, 2005, August 2, 2005, August 11, 2005, August 23, 2005, October 28, 2005, November 24, 2005, January 9, 2006, January 30, 2006 and February 28, 2006.

The attendance of the Directors at the Board Meetings and the Annual General Meeting held during the financial year 2005-2006 was as given below:

Name of the Director	Number of Board Meetings held during the tenure of the director	Number of Board Meetings attended		Last AGM Attended
		In person	On phone/ video conference	
Mr. Rajesh Hukku	11	3	8	Yes
Mr. S. P. Bharucha*	9	8	1	Yes
Mr. William Twyman Comfort, Jr.	11	3	6	Yes
Mr. Y. M. Kale	11	11	0	Yes
Mr. Joseph P. Kennedy II**	6	1	5	Yes
Mr. Charles Phillips***	3	1	1	N.A.
Ms. Tarjani Vakil	11	11	0	Yes

* Mr. S. P. Bharucha was appointed as an Additional Director at the Board Meeting held on June 14, 2005 and was appointed as Director liable to retire by rotation at the Annual General Meeting of the Company held on August 12, 2005.

** Mr. Joseph P. Kennedy II resigned as a director of the Company on September 20, 2005.

*** Mr. Charles Phillips was appointed as an Additional Director of the Company on November 24, 2005.

2.3 The details of the directorships of the Company's Directors in other companies as on March 31, 2006 are given below:

Name of the Director	Other directorships held as on March 31, 2006
Mr. Rajesh Hukku	i-flex solutions inc. i-flex America inc. SuperSolutions Corporation i-flex Processing Services Ltd.
Mr. S. P. Bharucha*	Press Trust of India Ltd.
Mr. William Twyman Comfort, Jr.	399 Venture Partners Inc. Citigroup Venture Capital Ltd. Court Square Capital Ltd.
Mr. Y. M. Kale	Hutchison Essar Ltd. IndusInd Telecom Network Ltd. Ashok Leyland Ltd. Ennore Foundries Ltd. Gulf Oil Bangladesh Ltd.
Mr. Charles Phillips**	Oracle Corporation Viacom Inc. Morgan Stanley
Ms. Tarjani Vakil	Asian Paints Ltd. Alkyl Amines Chemicals Ltd. Aditya Birla Nuvo Ltd. Mahindra Intertrade Ltd. D S P Merrill Lynch Trustee Co. Pvt. Ltd.

* Mr. S. P. Bharucha was appointed as an Additional Director at the Board Meeting held on June 14, 2005 and was appointed as Director liable to retire by rotation at the Annual General Meeting of the Company held on August 12, 2005.

** Mr. Charles Phillips was appointed as an Additional Director of the Company on November 24, 2005

2.4 Details of memberships of Board Committees

None of the Directors of the Company holds memberships of more than ten Committees nor is any Director a Chairperson of more than five Committees of the Boards of all the companies where he/she holds directorships. For this purpose, 'Committees' comprises of Audit Committee, Compensation Committee and Shareholders' Grievances Committee of a Company.

The details of the memberships of the Directors in the abovementioned Committees as on March 31, 2006 are given below:

Name of the Director	Audit Committee		Compensation Committee		Shareholders' Grievances Committee	
	Member	Chair-person	Member	Chair-person	Member	Chair-person
Mr. Rajesh Hukku	Nil	Nil	Nil	Nil	Nil	Nil
Mr. S. P. Bharucha	1	Nil	Nil	Nil	Nil	Nil
Mr. William Twyman Comfort, Jr.	1	Nil	Nil	1	Nil	Nil
Mr. Y. M. Kale	Nil	2	2	Nil	Nil	Nil
Mr. Charles Phillips	1	Nil	1	Nil	Nil	Nil
Ms. Tarjani Vakil	2	3	1	Nil	Nil	1

2.5 Brief resume of Director who will be retiring by rotation at the ensuing Annual General Meeting of the Company

Ms. Tarjani Vakil

Ms. Tarjani Vakil, born on October 30, 1936, has done her Masters in Arts from University of Bombay. After 40 years of contribution in the field of development banking, she retired in October 1996 as the Chairperson and Managing Director of Export – Import Bank of India ("EXIM Bank").

Ms. Vakil was actively involved in extensive interaction with multilateral agencies to initiate informal annual dialogues among heads of Export Credit Agencies in Asia and Australia.

Ms. Vakil has been a member consultant for carrying a study of the feasibility for establishment of an Export Credit Guarantee facility for GCC countries, and Malaysia. Currently, she is a Director on several major corporate boards in India.

Ms. Vakil has won several awards including Mahila Shiromani, CEO of the Year, Woman of the Year, etc. She was also ranked as the highest woman official in Banking in Asia and named among the 50 world-class women executives in the 1996 Survey conducted by KPMG Peat Marwick, USA.

2.6 Brief resume of new Director who is proposed to be appointed at the ensuing Annual General Meeting of the Company

Mr. Charles Phillips

Mr. Charles Phillips, born on June 10, 1959, holds a BS in Computer Science from the United States Air Force Academy, an MBA from Hampton University and a JD from New York Law School and is a member of the bar in Washington, D.C. and Georgia.

Mr. Charles Phillips is the President of Oracle Corporation and a member of the Board of Directors. He is responsible for global field operations, including consulting, marketing, sales, alliances and channels, and customer programs, as well as corporate strategy. Prior to joining Oracle, Mr. Phillips was a Managing Director with Morgan Stanley in its technology group. Prior to his career on Wall Street, Mr. Phillips was a Captain in the United States Marine Corps.

Mr. Phillips is on the Boards of Viacom Corporation, Jazz at Lincoln Center in New York City and New York Law School. Mr. Phillips also serves as a director of Viacom Inc. and Morgan Stanley.

3. Audit Committee

3.1 Primary objectives and powers of the Audit Committee

The primary objective of the Audit Committee is to monitor and provide effective supervision of the management's financial reporting process and to ensure accurate, timely and proper disclosures and transparency, integrity and quality of financial reporting. The powers of the Audit Committee include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

3.2 Broad terms of reference

The terms of reference of the Audit Committee are as follows:

1. Oversight of the Company's financial reporting process and the disclosure

of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing with the management the annual financial statements before submission to the Board for approval, with particular reference to:
   a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956
   b) Changes, if any, in accounting policies and practices and reasons for the same
   c) Major accounting entries involving estimates based on the exercise of judgment by management
   d) Significant adjustments made in the financial statements arising out of audit findings
   e) Compliance with listing and other legal requirements relating to financial statements
   f) Disclosure of any related party transactions
   g) Qualifications in the draft audit report.
5. Reviewing with management the quarterly financial statements before submission to the Board for approval.
6. Reviewing with management the performance of statutory and internal auditors and the adequacy of the internal control systems.
7. Reviewing the adequacy of the internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage, and frequency of internal audit.
8. Discussion with internal auditors regarding any significant findings and any follow-up required.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussion with statutory auditors, before the audit commences, about the nature and scope of the audit as well as post-audit discussion to determine any area of concern.
11. To determine the reasons for any substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower function.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

3.3 Composition of the Committee

The Composition of Audit Committee as on March 31, 2006 is as follows:

Mr. Y. M. Kale	Chairman, Non-Executive, Independent Director
Mr. S. P. Bharucha*	Member, Non-Executive, Independent Director
Mr. William Twyman Comfort, Jr.	Member, Non-Executive, Independent Director
Ms. Tarjani Vakil	Member, Non-Executive, Independent Director

* Mr. S. P. Bharucha was appointed as a member of the Audit Committee in the Board Meeting held on January 9, 2006.

3.4 Meetings and attendance

During the Financial Year 2005-2006, five meetings of the Committee were held on April 26, 2005, July 28 2005, October 26, 2005, December 30, 2005 and January 27, 2006.

The members' attendance at the Committee Meetings are as given below:

Name of Director/Member	Number of meetings attended	
	In person	On phone
Mr. Y. M. Kale	5	–
Mr. S. P. Bharucha*	1	–
Mr. William Twyman Comfort, Jr.	–	1
Ms. Tarjani Vakil	5	–

* Mr. S. P. Bharucha was appointed as a member of the Audit Committee in the Board Meeting held on January 9, 2006.

The auditors of the Company were also invited for the meetings.

3.5 Audit Committee's recommendations

The Committee reviewed the financial results of the Company prepared in accordance with Indian GAAP (including consolidated results) and US GAAP as at and for the periods ended June 30, 2005, September 30, 2005, December 31, 2005, and March 31, 2006, and recommended the same to the Board of Directors for their adoption.

The Committee also recommended to the Board of Directors the re-appointment of M/s S. R. Batliboi & Associates, Chartered Accountants, as statutory auditors of the Company from conclusion of the Annual General Meeting in the year 2005 to the forthcoming Annual General Meeting.

The Committee also reviewed Internal Auditors' reports and related report on actions taken, utilization of IPO proceeds, risk management policies, compliance with the revised clause 49 of the Listing Agreement, etc. from time to time.

4. Compensation Committee

4.1 Brief description of terms of reference

The scope of Compensation Committee is to determine the compensation of the Executive Management Officers (EMOs) comprising Mr. Rajesh Hukku, Chairman and Managing Director; Mr. R. Ravisankar, Chief Executive Officer – International Operations and Technology, Mr. Deepak Ghaisas, Chief Executive Officer – India Operations and Company Secretary, and Mr. N R K Raman, Chief Operating Officer – India Operations. The EMOs in turn, decide the compensation of key managerial personnel and other employees of the Company. The Compensation Committee also approves, allocates and administers the Employee Stock Option Plan 2002, reviews performance appraisal criteria, and sets norms for ESOP allocation.

4.2 The Composition of Compensation Committee as on March 31, 2006 is as follows:

Mr. William Twyman Comfort, Jr.	Chairman, Non-Executive, Independent Director
Mr. Y. M. Kale	Member, Non-Executive, Independent Director
Mr. Charles Phillips*	Member, Non-Executive, Non-Independent Director

* Mr. Charles Phillips was appointed as a member of the Compensation Committee in the Board Meeting held on January 9, 2006.

Mr. Joseph P. Kennedy II resigned as a director of the Company on September 20, 2005 and ceased to be a member of the committee from that date.

4.3 Meeting and attendance

The Committee met once during the year and the meeting was attended by all the members.

4.4 Remuneration policy

The Compensation Committee determines and recommends to the Board the compensation payable to the directors. Remuneration of the non-executive directors consists of commission and stock options. Remuneration of the Managing Director consists of salary and stock options. No sitting fees are paid to the directors.

The limit for the commission to be paid to the Board members and the remuneration payable to the Managing Director of the Company are approved by the shareholders of the Company. The annual compensation of the non-executive directors is approved by the Compensation Committee, within the parameters set by the shareholders at the shareholders' meetings.

The Committee also has the mandate to review and recommend compensation payable to the Senior Executives of the Company. It also sets norms for ESOP allocation.

4.5 Details of remuneration paid to the Directors during the financial year 2005-06 are as follows:

Name of Director	ESOPs granted under ESOP Plan	Commission paid (Rs. '000)	Salary (Rs. '000)	Contribution to PF (Rs. '000)	Total amount paid (Rs. '000)
Mr. Rajesh Hukku *	Nil	Nil	330	24	354
Mr. S. P. Bharucha**	10,000	600	Nil	Nil	600
Mr. William Twyman Comfort, Jr.	Nil	Nil	Nil	Nil	Nil
Mr. Y. M. Kale	Nil	1,000	Nil	Nil	1,000
Mr. Joseph Kennedy II***	Nil	5,605	Nil	Nil	5,605
Mr. Charles Phillips****	Nil	Nil	Nil	Nil	Nil
Ms. Tarjani Vakil	Nil	600	Nil	Nil	600
Total	10,000	7,805	330	24	8,159

* Mr. Rajesh Hukku is deputed to i-flex solutions inc., USA, as its Chairman. His gross compensation comprising fixed salary and variable performance based remuneration from i-flex solutions inc. for the financial year 2005-06 was USD 921,579. In addition, Mr. Hukku is Chairman and Managing Director of i-flex solutions ltd., and was paid a salary of Rs. 353,760 as mentioned in the table above, for his services as Managing Director of i-flex solutions ltd.

** Mr. S. P. Bharucha was appointed as an Additional Director at the Board Meeting held on June 14, 2005, and was appointed as Director liable to retire by rotation at the Annual General Meeting of the Company held on August 12, 2005.

*** Mr. Joseph P. Kennedy II resigned as Director of the Company on September 20, 2005.

**** Mr. Charles Phillips was appointed as an Additional Director of the Company on November 24, 2005.

There were no sitting fees and/or perquisites applicable and paid to the Directors during the financial year 2005-2006 except as stated above.

The terms of Employee Stock Purchase Scheme grants made to the Directors are given below:

Name of Director	Scheme	# of offered shares outstanding as at March 31, 2006	Offered shares exercised during the year	Grant price (Rs.)	Expiry Date
Mr. Rajesh Hukku	ESPS 1998	132,724	Nil	25.00	December 31, 2008
Mr. Rajesh Hukku	ESPS 2000	134,400	Nil	112.50	December 31, 2010

The above shares were offered at Fair Market Value on the date of the grant. The director becomes entitled to purchase the shares in a phased manner over a period of 5 years from the date of grant based on continued employment/directorship with the Company.

The terms of Employee Stock Options granted to the Directors are given below:

Name of Director	# of options outstanding as on March 31, 2006	Options exercised during the year	Grant price (Rs.)	Expiry date
Mr. Rajesh Hukku	409,400	Nil	265.00	March 3, 2012
Mr. S. P. Bharucha	10,000	Nil	708.65	June 13, 2015
Mr. Joseph P Kennedy, II	660,000	660,000	265.00	N.A.
Mr. Y. M. Kale	6,000	2,000	418.92	February 17, 2013
Ms. Tarjani Vakil	8,000	2,000	559.60	August 17, 2014

The above options were issued at Fair Market Value on the date of the grant. Options granted vest over a period of 5 years from the date of grant and are subject to the continued employment/directorship with the Company.

The Executive Director of the Company is paid remuneration within the limits envisaged the Companies Act, 1956. Non-executive, Independent Directors of the Company are paid remuneration by way of commission as approved by the Board of Directors/shareholders of the Company subject however to the condition that the commission does not exceed 1% of the net profits of the Company for all the Non-executive Directors in aggregate in one financial year.

5. Shareholders' Grievances Committee

5.1 Composition of the Committee

The composition of Shareholders' Grievances Committee as on March 31, 2006 is as follows:

Ms. Tarjani Vakil	Chairperson, Non-Executive, Independent Director
Mr. Deepak Ghaisas	Chief Executive Officer – India Operations and Company Secretary

5.2 Scope of Shareholders' Grievances Committee's activities

The scope of the Shareholders' Grievances Committee is to review and address the grievances of the shareholders in respect of share transfers, transmission, dematerialization and rematerialization of shares and other share related activities.

During the year the committee held four meetings on July 12, 2005, September 22, 2005, October 14, 2005, and March 23, 2006, which were attended by both the members of the Committee.

5.3 Company Secretary

Name of Company Secretary	Mr. Deepak Ghaisas
Address	i-flex solutions ltd. i-flex Center 399, Subhash Road Vile Parle (East) Mumbai 400 057
Tel	+91-22-6718 5000
Fax	+91-22-2832 3374

5.4 Compliance Officer

Name of Compliance Officer	Mr. Avadhut (Vinay) Ketkar
Address	i-flex solutions ltd. i-flex Center 399, Subhash Road Vile Parle (East) Mumbai 400 057
Tel	+ 91-22-6718 5000
Fax	+ 91-22-2832 3374
e-mail	vinay.ketkar@iflexsolutions.com

5.5 Details of shareholders' complaints received, resolved during the year 2005-2006 and pending share transfers as on March 31, 2006:

Nature of complaint	Opening balance	Received	Cleared	Pending
Non-receipt of dividend warrant	–	64	63	1
Non-receipt of share certificate	–	4	4	–
Non-receipt of demat credit/reject	–	40	40	–
SEBI/stock exchange/DCA queries	–	12	12	–
Legal queries	–	18	18	–
Others	–	7	7	–

Number of pending share transfers as on March 31, 2006 – Nil

6. General Body Meetings

6.1 Location, date and time where last three Annual General Meetings were held:

Financial year	Venue	Date	Time
2004-2005	Le Royal Meridian, Sahar Airport Road, Andheri (East), Mumbai 400 059	August 12, 2005	3.00 p.m.
2003-2004	The Leela, Near Sahar Airport, Andheri (East), Mumbai 400 059	August 19, 2004	3.00 p.m.
2002-2003	The Leela, Near Sahar Airport, Andheri (East), Mumbai 400 059	July 31, 2003	3.00 p.m.

6.2 There were no matters requiring approval of the shareholders through Postal Ballot in any of the previous three Annual General Meetings of the Company.

7. Disclosures

a. All the relevant information in respect of materially significant related party transactions, i.e., transactions of the Company of material nature with its promoters, directors or management or their relatives, subsidiaries of the Company, etc., has been disclosed in the respective financial statements presented in the Annual Report. The Company did not undertake any transaction with any related party having potential conflict with the interest of the Company at large.

b. The Company has complied with statutory compliances and no penalty or stricture is imposed on the Company by the Stock Exchanges or Securities & Exchange Board of India (SEBI) or any other statutory authority on any matter related to the capital markets during the last three years.

c. The Company has a Whistle Blower Policy, which provides an avenue for employees to raise concerns of any violations of Code of Conduct, incorrect or misrepresentation of any financial statements and reports, unethical behaviour, etc. The policy provides adequate safeguards to employees reporting such violations to the Company. No employee has been denied access to the Audit Committee.

8. Means of communication

8.1 The quarterly, half-yearly and annual results of the Company were published in English and Marathi newspapers.

8.2 The Company organized investor conference calls to discuss its financial results every quarter where the investor queries were answered by the Executive Management Officers of the Company.

8.3 The Company's periodic financial results, press releases and transcripts of the investor conference calls are posted on the Company's website www.iflexsolutions.com.

8.4 Detailed Management Discussion and Analysis Reports covering Indian GAAP and US GAAP financials have been included in this Annual Report.

8.5 The Company has also posted information relating to its financial results and distribution of shareholding on a quarterly basis on Electronic Data Information Filing and Retrieval System (EDIFAR) http://sebiedifar.nic.in.

9. General shareholder information

Annual General Meeting	
Date	August 10, 2006
Time	3.00 p.m.
Venue	The Leela Kempinski, Sahar, Andheri (East), Mumbai 400 059
Financial year	April 1 to March 31
Date of book closure	August 5, 2006 to August 10, 2006 (both days inclusive)
Dividend payment date	August 17, 2006
Listing on stock exchanges at	Bombay Stock Exchange Limited (BSE), and National Stock Exchange of India Ltd. (NSE)
Stock code	
Bombay Stock Exchange Ltd (BSE)	532466
National Stock Exchange of India Ltd. (NSE)	I-FLEX

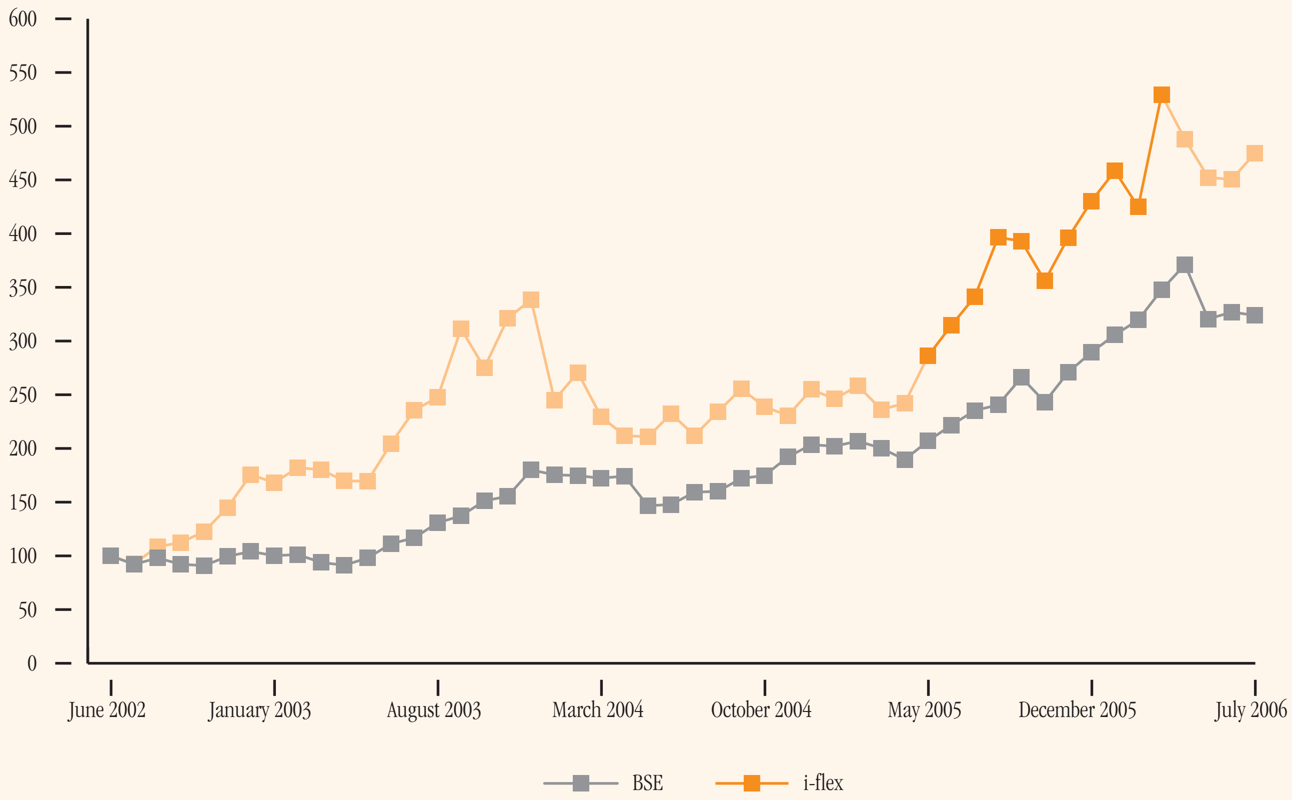
10. Market price data

Monthly high/low of the shares of the Company from April 1, 2005, to March 31, 2006 are given below:

Month and year	High (Rs.)	Low (Rs.)	Volume of shares	High (Rs.)	Low (Rs.)	Volume of shares
		BSE			NSE	
April 2005	637.80	541.10	555,394	611.20	553.15	1,675,879
May 2005	725.00	610.00	1,150,763	719.60	630.15	3,452,906
June 2005	797.50	705.00	809,473	786.60	708.65	3,522,575
July 2005	950.00	785.15	1,440,444	920.15	811.50	4,815,868
August 2005	1,066.00	750.00	3,542,406	1,047.55	829.90	13,497,077
September 2005	1,009.00	899.00	764,122	995.90	935.85	2,915,557
October 2005	1,019.80	840.00	1,789,005	1,005.30	861.50	5,603,783
November 2005	1,059.70	874.50	1,916,850	1,028.25	886.80	6,118,691
December 2005	1,088.00	975.00	1,321,158	1,074.35	1,015.10	5,380,826
January 2006	1,185.00	1,056.10	1,186,752	1,168.90	1,068.70	3,004,900
February 2006	1,155.00	1,030.00	1,138,627	1,112.25	1,041.75	3,583,706
March 2006	1,400.00	1,061.00	2,434,177	1,395.95	1,111.00	11,104,431

Relative movement chart

The chart below gives the relative movement of the closing price of the Company's share and BSE Sensex relative to the closing price. The period covered is June 28, 2002, to July 6, 2006.



11. Registrars and share transfer agent

Name	Intime Spectrum Registry Limited
Address	C-13, Pannalal Silk Mills Compound L. B. S. Marg, Bhandup (West) Mumbai 400 078
Tel	+91-22-2596 3838
Fax	+91-22-2596 2691
e-mail	isrl@vsnl.com
Branch	203, Davar House, 197/199 D. N. Road, Fort, Mumbai 400 001
Tel	+91-22-2269 4127

12. Share transfer system

The Registrar and Share Transfer Agent ("the Registrar") on receipt of transfer deed with respective share certificate(s) scrutinizes the same and verifies signature(s) of transferor(s) on the transfer deed with specimen signature(s) registered with the Company. A list of such transfers is prepared and checked thoroughly and a transfer register is prepared. The transfer register is placed before the Transfer Committee Meeting for approval.

To expedite the process of transfer of shares, the Board has delegated the power of approval of transfer of shares to a Transfer Committee. The Transfer Committee of the Company comprises Ms. Tarjani Vakil, Director and Mr. Deepak Ghaisas, Company Secretary. On approval by the Transfer Committee, the Register of Members is updated. The transfer endorsement stickers are printed through the system and affixed on reverse of respective share certificates, which are signed by the officials of the Company. The certificates then are dispatched to transferees by registered post/courier.

During the last financial year, 39,420 equity shares were transferred in physical mode.

13. Distribution of shareholding as on March 31, 2006

Distribution schedule as on March 31, 2006
Equity shares of face value of Rs. 5/- Each

Shares of nominal value of (Rs.)	Number of shareholders	%	Share amount (Rs.)	%
UPTO 2,500	13,429	83.40	46,91,830	1.23
2,501 – 5,000	592	3.68	23,27,955	0.61
5,001 – 10,000	520	3.23	39,72,705	1.04
10,001 – 20,000	457	2.84	69,58,085	1.82
20,001 – 30,000	198	1.23	48,90,535	1.28
30,001 – 40,000	178	1.10	63,48,710	1.66
40,001 – 50,000	105	0.65	49,60,195	1.30
50,001 – 1,00,000	299	1.86	2,08,50,450	5.47
1,00,001 & ABOVE	323	2.00	32,64,41,370	85.59
Total	16,101	100.00	38,14,41,835	100.00

14. Shareholding per category as on March 31, 2006

Category	Number of shares	% to Total
Promoter's holding		
Promoters		
Indian promoters	–	–
Foreign promoters	36,422,788	47.74
Persons acting in concert	–	–
Sub total	36,422,788	47.74
Non-promoters holding		
Institutional investors		
Mutual funds & UTI	2,668,809	3.50
Banks, FIs, Insurance companies, Central/State Government Institution/ Non-Government Institution	260,702	0.34
Foreign institutional investors	13,920,383	18.25
Sub total	16,849,894	22.09
Others		
Private corporate bodies	983,788	1.29
Indian public	17,795,037	23.33
NRIs/OCBs	4,080,225	5.35
Others		
Clearing member	156,635	0.20
Sub total	23,015,685	30.17
Grand total	76,288,367	100.00
Total foreign holding	54,423,396	71.34

During the financial year 2005-2006:

1. The Company issued and allotted 1,317,370 equity shares to its employees/directors who exercised their ESOPs during the year.
2. The Company also issued and allotted 91,347 equity shares to IBM Global Services India Pvt. Ltd. who opted to convert the warrants/options issued to it in September 2004.
3. On August 23, 2005, the Company issued and allotted 395,529 warrants/options on preferential basis to GE Capital Mauritius Equity Investment ("GE"). As per the terms of issue, GE shall have the right to apply for one equity share of the Company for every warrant/option within a period of 13 to 18 months from date of allotment of warrants/options, at a price of Rs. 1,015.55 per share.
4. The Company has not issued any ADR/GDR.

15. Dematerialization of shares and liquidity

Procedure for dematerialization/rematerialization of scrips:

The shares of the Company are under compulsory demat mode. To avail of the facility of demat/remat of shares, the shareholders are required to submit demat/

remat request to the Depository Participants (DP) with whom they maintain a demat account. Depository Participants send requests for demat of shares along with the physical share certificates to Registrars and Share Transfer Agents ("the Registrar") of the Company. The Registrar liaisons with Depository Participant (DP) and National Securities Depository Ltd. (NSDL)/Central Depository Services (India) Ltd. (CDSL) within 10 days from date of log in of the demat request in the system; acknowledges receipt of physical shares for demat and verifies the genuineness of share certificates, creates transaction and generates edit list. After verification of edit list and effecting corrections, if any, the Registrar updates the final Demat Register. The Registrar forwards confirmation report of the transaction to NSDL/CDSL or the rejection report, as the case may be. The Registrar does reconciliation and confirmation of capital. The Registrar also corresponds with the DP and shareholder in case of rejection.

As on March 31, 2006, 96.01% of the shares of the Company were in electronic form.

16. Address for correspondence

Registered office	Corporate office
i-flex solutions ltd. Unit 10-11, SDF-1, SEEPZ, Andheri (East), Mumbai 400 096, India	i-flex solutions ltd. i-flex Center 399, Subhash Road, Vile Parle (East), Mumbai 400 057, India
Tel +91-22- 5676 2000 Fax +91-22- 2829 2767 e-mail: investors@iflexsolutions.com	Tel +91-22- 6718 5000 Fax +91-22- 2832 3374

As on March 31, 2006, the Company also had following branch offices in the states of Maharashtra, Karnataka and Tamil Nadu.

i-flex Park Nirlon Compound Western Express Highway Goregaon (East) Mumbai 400 063	i-flex Center of Learning Plot No.13, Doddanekundi Industrial Area, Phase II Whitefield Road Mahadevapura Post Bangalore 560 048
i-flex Annexe Nirlon Compound Western Express Highway Goregaon (East) Mumbai 400 063	Pride Silicon Plaza 2nd Floor Next to Chatushringi Senapati Bapat Road Pune 411 053
Corporate Center A 3rd to 6th Floor Andheri-Kurla Road Andheri (East) Mumbai 400 059	i-flex Center Block 9, Ambrosia-I Bhavdhan Khurd, Tal. Mulshi Pune 411 021
Marchon House 2nd Floor J B Nagar Andheri-Kurla Road Andheri (East) Mumbai 400 059	i-flex Center Block 9A, Ambrosia-II Bhavdhan Khurd, Tal. Mulshi Pune 411 021
i-flex Park Embassy Business Park C V Raman Nagar Bangalore 560 075	143/1 Uttamar Gandhi Salai Nungambakkam Chennai 600 034
i-flex Center # 333, Kundalahalli Brookefields Bangalore 560 037	

Auditors' certificate

To
The Members of i-flex Solutions Limited

We have examined the compliance of conditions of corporate governance by i-flex solutions limited, for the year ended on March 31, 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchange(s).

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

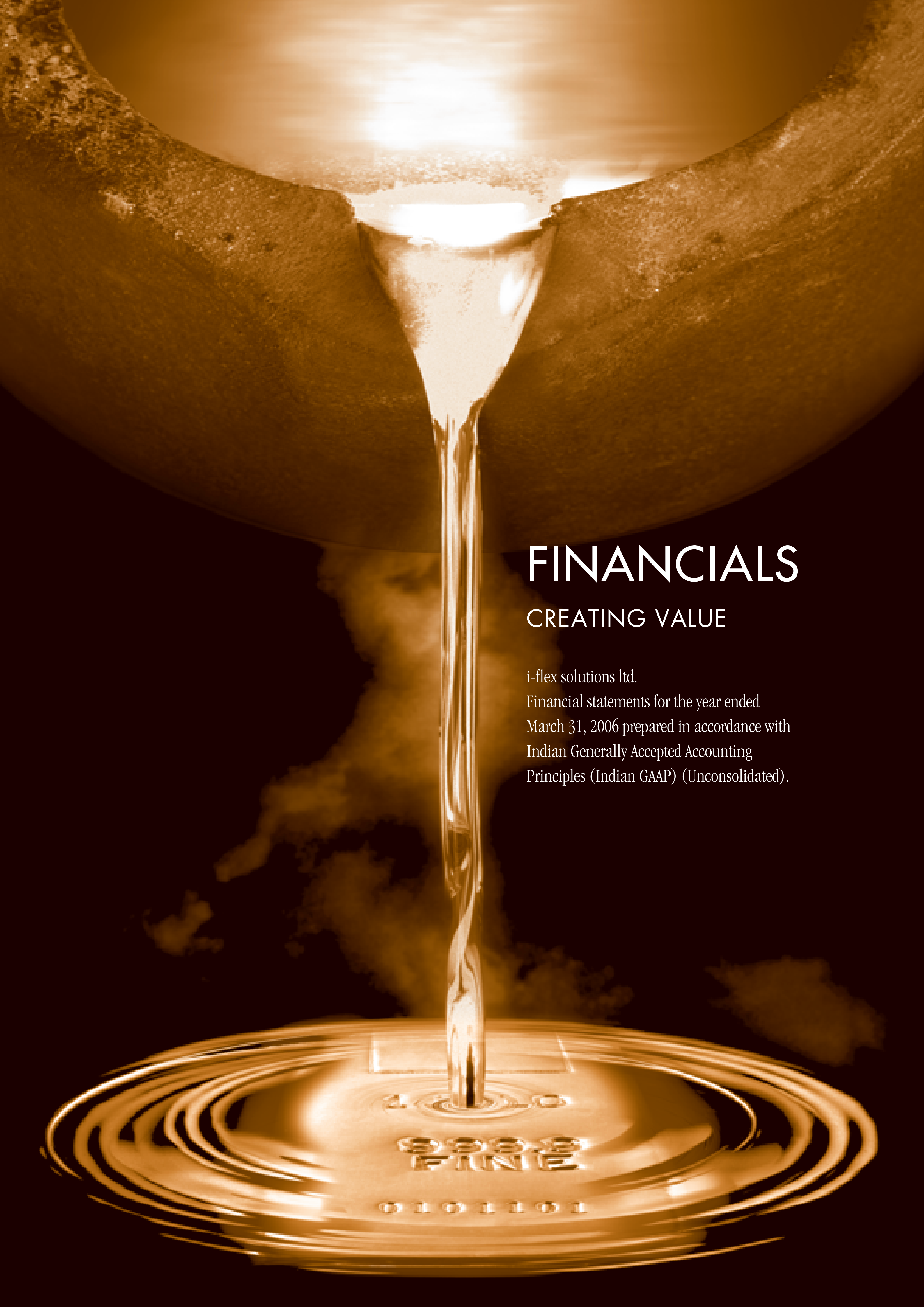
We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore
July 6, 2006



FINANCIALS

CREATING VALUE

i-flex solutions ltd.
Financial statements for the year ended March 31, 2006 prepared in accordance with Indian Generally Accepted Accounting Principles (Indian GAAP) (Unconsolidated).

Management's discussion and analysis
of financial condition and results of operations

The following discussion is based on our audited unconsolidated financial statements, which have been prepared in accordance with Accounting Standards referred to in Section 211 (3C) of the Companies Act 1956.

The following discussion of our financial condition and results of operations should be read together with the detailed unconsolidated Indian GAAP financial statements and the notes to those statements. Our fiscal year ends on March 31 of each year.

Corporate development

During the year, Oracle Global (Mauritius) Limited ("Oracle") purchased equity shares of i-flex solutions limited ("i-flex" or the "Company") from OrbiTech Ltd., the then major shareholder of the Company, and through an open offer and, also from the stock market, taking its shareholding to 47.74% as on March 31, 2006. On April 13, 2006, i-flex became a subsidiary company of Oracle when its shareholding reached 50.60%. As of July 6, 2006, Oracle's shareholding in the Company is 40,148,312 shares, i.e. 52.47%.

Information Technology (IT) industry

Over the past decade, the financial services industry has become increasingly dependent on IT. Today, IT is considered an important competitive advantage by financial institutions, and the global financial services industry spends more on IT than any other industry. The financial services industry is undergoing rapid transformation in response to the changing market environment. IT spending priority for the financial services industry is increasingly directed towards addressing the long-standing issues with core applications, including the achievement of higher operational efficiency, better risk management, ensuring regulatory compliance; and the deliver of enhanced service quality.

These priorities have significant implications for IT spending in the global financial services industry as they will drive decisions such as the replacement of core legacy systems, purchasing of packaged solutions, improvement in customer relationship management, and outsourcing of business and IT processes.

Our strategy is aligned to address the key requirements that emerge from these trends, and we believe that we are well equipped to meet them with our world-class products and services suite, and our globally diversified business model.

Overview

i-flex is in the business of providing comprehensive IT solutions to the financial services industry world-wide. The solutions portfolio includes packaged applications for the financial services industry (encompassing consumer banking, commercial banking, investor servicing and asset management for mutual funds, internet delivery of financial services, as well as business intelligence and analytical applications); custom application software development, deployment, maintenance and support services (both on-site and offshore) for financial institutions; business and IT consulting services; and technology deployment and management services (TDMS) in the financial services domain. i-flex's range of products and customized services enable financial institutions to cut costs, respond rapidly to market needs, enhance customer service levels and mitigate risk.

As of March 31, 2006, the Company has cumulatively serviced 642 customers in 123 countries. The company's de-risking revenue model continues to deliver consistent results despite changing global economic conditions. The company has a diversified revenue stream from a widespread customer base across the globe which serves to limit our dependency on any one geographical region.

We are organized by region and by business segment. We have two major business segments – the Products Business (comprising product licensing, customization, implementation and support); and the Services Business (providing customized software and consulting services). We have also recently launched a KPO business segment where we are making substantial investments for the future. These segments are described in greater detail below:

Products

Our flagship product offering is the **FLEXCUBE** suite, which comprises a comprehensive range of packaged solutions addressing the transaction processing, customer servicing, accounting, and internet delivery needs of a wide range of financial institutions, including corporate banks, consumer banks, universal banks, capital market intermediaries, investment banks and other specialized financial institutions.

Reveleus™ is a suite of analytical applications for the financial services industry focused in the areas of risk management, customer insight, and enterprise-wide financial performance. Reveleus' Risk Analytics product solves the most complex global challenges facing the financial industry today, including multi-jurisdictional Basel II compliance and operational risk management. Reveleus is positioned in Gartner's 'Leaders Quadrant' in its Basel II Risk Management Application Software Magic Quadrant. Tower Group has ranked Reveleus' Basel II solution amongst the best in the domain. Reveleus improves quality and consistency of information, thereby helping organizations reduce risk and improve efficiencies in information gathering, analysis and distribution.

Daybreak™ is a comprehensive consumer lending system. It automates all aspects of financing from origination to servicing and collections for installment loans, consumer leases, revolving products and home equity lines of credit. It empowers customer organizations with enhanced productivity, customer service advantages and reduced risks.

Together with **Castek** Software Inc., i-flex offers strategic business software and services for the global Property and Casualty insurance market. Castek provides insurance carriers with a suite of core business processing systems for insurance product and process configuration, policy processing, customer billing, claims management and services.

Services

PrimeSourcing™, i-flex's global IT services business, provides customized software solutions exclusively for the financial services industry worldwide. It focuses on corporate, investment, private and retail banking, and the insurance domain, and is backed by top-notch industry consultants, technology experts, and SEI-CMMi Level 5 compliant processes. Our deep domain expertise helps customers manage challenges associated with complex, mission-critical, outsourced functions.

The **i-flex Consulting** and Systems Integration group offers an end-to-end consulting partnership, providing comprehensive business and technology solutions that enable financial institutions to improve process efficiencies, optimize costs, meet risk and compliance requirements, define IT Architecture to support future needs, and manage the transformation process. Consulting services are offered in the areas of Business Transformation, Risk and Compliance, IT Architecture and Strategy, IT Governance and Process Improvement and Program Management.

i-flex's **Technology Deployment & Management Services (TDMS)** group designs, develops, deploys and manages Information Technology (IT) infrastructure for financial institutions. TDMS' services are based on the COBIT (Control Objectives for Information and related Technology) model, a globally accepted standard for IT management and control framework, and incorporates the best practices of many other standards, including ITIL (IT Infrastructure Library) and BS7799 (ISO17799).

Equinox Corporation, a wholly owned subsidiary of i-flex, provides innovative and cost-effective customer acquisition and knowledge process outsourcing services to the lending industry.

Business metrics

Our total revenue in fiscal 2006 were Rs. 11,538.2 million, representing an increase of 28% from Rs. 9,028.6 million in fiscal 2005. The net income in fiscal 2006 was Rs. 2,408 million, against Rs. 1,976.4 million in fiscal 2005. Our net income margins were 21% and 22% in fiscal years 2006 and 2005 respectively. We define net income margins for a particular period as the ratio of net income to total revenue during such period. We had 6,044 employees as on March 31, 2006 as against 4,533 at the end of the previous year in India.

Products business

(All amounts in millions of Indian Rupees)

	Year ended March 31 2006	2005
Product revenue	6,540.6	5,163.8
Cost of product revenue	(2,564.6)	(1,817.3)
Sales and marketing expenses	(592.4)	(441.8)
General and administrative expenses	(281.9)	(264.2)
Depreciation and amortization	(141.6)	(81.8)
Income from operations	2,960.1	2,558.7
Operating margin*	45%	50%

*Operating margin is defined as income from operations from the Products Business (excluding corporate expenses) as a percentage of total products revenue.

Products revenue

Our products revenue represented 57% of the total revenue for both fiscal years ended 2006 and 2005. Our products revenue were Rs. 6,540.6 million during the fiscal year ended March 31, 2006; an increase of 27% from Rs. 5,163.8 million during the fiscal year ended March 31, 2005.

Products revenue comprise license fees, professional fees for implementation & enhancement services and annual maintenance contract (Post Contract Support – PCS) fees for our products.

License fee

Our standard licensing arrangement for our products provides the user a perpetual right to use the product for a pre-defined number of users and sites upon the payment of a license fee. The license fee is a function of a variety of quantitative and qualitative factors including the number of copies sold, the number of concurrent users supported, the number and combination of the modules sold and the number of sites & geographical locations supported. The licenses are non-exclusive, personal, non-transferable and royalty free.

Implementation fee

After products are licensed to customers, we provide services related to the implementation of the products at customer sites, integration with other customer systems, and enhancement of products to address the specific requirements of the customers. The customer is typically charged a service fee either on a fixed-price basis or a time and materials basis. Implementation and enhancement services comprise functional enhancements, interface building, implementation planning, data conversion, training and product walkthroughs, and are provided to customers who enter into licensing arrangements with us.

Annual maintenance contracts fees

We also earn fees relating to the provision of annual maintenance contracts after the implementation of a product and following the expiration of the warranty period. Under these agreements, we provide technical support, maintenance, problem solving and upgrades of the licensed products. These support agreements are typically entered for a period of 12 months.

As the revenue from license fees and implementation and enhancement services rendered by us depend on the number of new customers we add and the implementation project life cycle, these revenue typically vary from year to year. The annual maintenance contracts generate steady revenue and would grow to the extent of new customers coming under the PCS. The percentages of our revenue from these streams are as follows:

	Fiscal Year Ended March 31, 2006	2005
License fees	39%	39%
Implementation and customization fees	42%	42%
PCS arrangements	19%	19%
Total	100%	100%

Cost of products revenue and operating expenses

The cost of our product revenue consists of costs attributable to the implementation, enhancement, maintenance and continued development, including research and development efforts, of our core product offerings – the FLEXCUBE suite of products, Reveleus and other products. These costs primarily consist of compensation expenses for all our IT professionals working in the Products Business, project-related travel expenses, professional fees paid to software services vendors, and the cost of application software for internal use.

Research and development costs are treated as expenses incurred. Software development costs are also treated as expenses incurred until technological feasibility is established. Software product development cost incurred subsequent to the achievement of technological feasibility is not material and is taken as incurred.

Operating expenses include selling and marketing expenses, general and administrative expenses that consist of commissions payable to our partners, product advertising, marketing expenses, and allocated overhead expenses associated with support and monitoring functions such as human resources, facilities and infrastructure expenses, quality assurance and finance.

Services business

(All amounts in millions of Indian Rupees)

	Year ended March 31 2006	2005
Services revenue	4,997.6	3,864.8
Cost of services revenue	(3,985.6)	(3,033.6)
Sales and marketing expenses	(10.7)	(27.1)
General and administrative expenses	(345.1)	(225.8)
Depreciation and amortization	(165.9)	(121.4)
Income from operations	490.3	456.9
Operating margin*	10%	12%

*Operating margin is defined as income from operations from the Services Business (excluding corporate expenses) as a percentage of total services revenue.

Services revenue

Our services revenue represented 43% of the total revenue for both the fiscal years ended March 31, 2006 and 2005. The services revenue were Rs. 4,997.6 million in the fiscal year ended March 31, 2006, an increase of 29% from Rs. 3,864.8 million in the fiscal year ended March 31, 2005.

The contracts relating to Services Business are either time and material contracts or fixed price contracts. The percentage of total services revenue from time and material contracts was 76% in fiscal 2006 and 82% in fiscal 2005, with the remainder of the services revenue attributable to fixed price contracts.

We provide our services through offshore centers located in India, on-site teams operating at the customers' premises and our development centers located in other parts of the world. Offshore services revenue consist of revenue from work conducted at our development centers in India on behalf of foreign customers while on-site revenue comprises work conducted at customer's premises outside India. Revenue from India represents work done for Indian customers at their locations and at our development centers in India. The composition of our on-site and offshore revenue is determined by the project life cycle. Typically, the work involving the design of new systems or relating to a system roll-out would be conducted on-site, while the core software development, maintenance and support activity may be conducted offshore. We received 59% of our services revenue from on-site work and 41% from offshore work during the fiscal year 2006 as against 55% and 45%, respectively in fiscal year 2005.

Cost of services revenue and operating expenses

The cost of revenue for services consists primarily of compensation expenses for our software professionals; cost of application software for internal use, travel expenses and professional fees paid to software services vendors. We recognize these costs as incurred. Our operating expenses include selling, general and administrative expenses and allocated overhead expenses associated with human resources, corporate marketing, information management systems, quality assurance and finance.

Geographic breakup of revenue

In line with the Company's strategy to increase penetration in the advanced markets, the contribution in Product revenue from USA and Europe have increased by 4% as compared to the previous year, while the overall revenue are well diversified.

The following table represents the percentage breakup of our revenue for Products and Services businesses by region:

	Year ended March 31, 2006			Year ended March 31, 2005		
	Products revenue	Services revenue	Total revenue	Products revenue	Services revenue	Total revenue
USA	22%	66%	42%	26%	69%	45%
Europe	34%	14%	25%	26%	14%	21%
Asia Pacific	17%	16%	16%	17%	13%	15%
Middle East, India and Africa	25%	3%	16%	28%	3%	17%
Latin America and Caribbean	2%	1%	1%	3%	1%	2%
Total	100%	100%	100%	100%	100%	100%

Customer concentration

Our operations and business depend on our relationships with a number of large customers. Revenues from our top ten customers for fiscal 2006 and 2005 were 22% and 27%, respectively, as a percentage of our total revenues. The top ten customers in our Services Business contributed 33% of the total services revenues, similar to the top ten customers in our Products Business, who contributed 33% of the total products revenues during fiscal 2006.

The percentage of total revenues during fiscal years 2006 and 2005 that we derived from our largest customer, largest five customers and largest ten customers is provided in the accompanying table. A significant portion of our customers are acquired and therefore billed through our international subsidiaries, and representation in the table below considers the end customer revenue. Further, various affiliates of Citigroup are classified as separate customers, and the last row sets forth the percentage of total revenues we earned from the various affiliates of Citigroup with respect to our Products and Services Business individually and with respect to our business taken as a whole.

	Products Revenue		Services Revenue		Total Revenue	
	2006	2005	2006	2005	2006	2005
Top customer	8%	15%	9%	8%	4%	9%
Top 5 customer	22%	30%	26%	33%	15%	21%
Top 10 customer	32%	41%	40%	50%	24%	33%
Citigroup and its affiliates	16%	24%	0%	0%	10%	14%

Trade receivables

Trade receivables as of March 31, 2006 and March 31, 2005 were Rs. 7,458 and Rs. 6,200.8 million respectively. Our days sales outstanding (which is the ratio of sundry debtors to total sales in a particular year multiplied by 365) for both fiscal 2006 and 2005 was approximately 236 and 251 respectively. The Company periodically reviews its account receivables outstanding as well as the aging, quality of the account receivable, customer relationship and history of the client.

The following table presents the age profile of our sundry debtors:

		Year ended March 31
	2006	2005
Period in days		
0-180	70%	64%
More than 180	30%	36%
Total	100%	100%

Foreign currency and treasury operations

A substantial portion of our revenue is generated in foreign currencies while a majority of our expenses are incurred in Indian Rupees, with the remaining expenses incurring in U.S. Dollars and European Currencies.

We follow a conservative philosophy of treasury operations, and the policy is to invest funds substantially in time deposits with well-known, sound Indian and foreign banks. The Company has ensured adequate controls over asset management, including cash management operations, credit management, and debt collection operations.

The Company also balances funds in USD accounts or INR deposits based on the comparative interest rates and currency requirements. The Company books forward covers from time to time, in line with its treasury management philosophy.

Income taxes

Currently, we benefit from the tax holidays the Government of India provides to software products and IT services exporters from specially designated Software Technology Parks in India. As a result of these incentives, our operations have been subject to relatively lower tax liabilities in India. These tax incentives currently include a 10-year tax holiday from Indian corporate income-taxes for the operations of seven of our Indian facilities. The Finance Act, 2000, restricts the ten-year tax holiday available from the fiscal year in which the undertaking begins to manufacture or produce, or until fiscal 2009, whichever is earlier. Accordingly, facilities set up after fiscal 2000 will enjoy the benefit of the tax holiday only until fiscal 2009. For seven of our facilities, these benefits expire in stages through 2009. Income taxes also include foreign taxes representing income taxes payable overseas by us in the United States, Kuwait, Singapore, Canada, Japan, Poland, Thailand, and Czech Republic.

Employee Stock Purchase Scheme ('ESPS')

On March 29, 1998 the Company adopted the ESPS to provide equity-based incentives to key employees of the Company ('1998 Scheme'). Subsequently on April 1, 1999, April 1, 2000, April 1, 2001 and June 1, 2004, the Company adopted other Stock-based schemes ('1999 Scheme', '2000 Scheme', '2001 Scheme' and '2004 Scheme'). These schemes which have similar terms are administered through a Trust ('the Trust'). The Trust purchases shares of the Company using the proceeds of loans obtained from the Company. Such shares are offered by the Trust to employees at an exercise price, which approximates the fair value on the date of the grant. The employees can purchase the shares in a phased manner over a period of five years based on continued employment, until which, the Trust holds the shares for the benefit of the employee. The employee will be entitled to receive dividends, bonus, etc., that may be declared by the Company from time to time for the entire portion of shares held by the Trust on behalf of the employees.

On the acceptance of the offer, the selected employee shall undertake to pay, within ten years from the date of acceptance of the offer the cost of the shares incurred by the Trust, including repayment of the loan relatable thereto. The repayment of the loan by the Trust to the Company would be dependent on employee repaying the amount to the Trust. If the employee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price, whereas the balance shares shall be forfeited in favor of the Trust. The Trustees have the right of recourse against the employee for any amounts that may remain unpaid on the shares accepted by the employee. The shares that an employee is eligible to exercise during the initial five-year period merely go to determine the amount and scheduling of the loan to be repaid on exercise by the employee. The Trust shall repay the loan obtained from the Company on receipt of payments from employees against shares exercised or otherwise.

The Securities and Exchange Board of India ('SEBI') has issued the Employee Stock Option Scheme and Stock Purchase Guidelines, 1999 ('SEBI guidelines'), which are applicable to stock purchase schemes for employees of all listed Companies. In accordance with these guidelines, the excess market price of the underlying equity shares on the date of grant of the stock options over the exercise price of the options is to be recognized in the books of account and amortized over the vesting period. However, no compensation cost would need to be recorded as the scheme terms are fixed, and the exercise price equals the market price of the underlying stock on the grant date.

Employee Stock Option Plan ('ESOP')

Pursuant to ESOP scheme approved by the shareholders of the Company held on August 14, 2001, the Board of Directors, on March 4, 2002, approved the Employees Stock Option Scheme ('the Scheme') for issue of 4,753,600 options to the employees and directors of the Company and its subsidiaries. According to the Scheme, the Company has granted 4,598,920 options prior to the IPO and 186,000 options at various dates after IPO. As per the scheme, options vest over a period of 5 years and have an exercise period of 10 years.

Analysis of our financial results

Comparison of fiscal 2006 with fiscal 2005

Revenue

Our total revenue in the fiscal year ended March 31, 2006, were Rs. 11,538.2 million, an increase of 28% over total revenue of Rs. 9,028.6 million in the fiscal year ended March 31, 2005. The increase in revenue was attributable to a 27% increase in the revenue from Products Business and a 29% increase in the revenue from Services Business.

Products revenue

Our products revenue in the fiscal year ended March 31, 2006, were Rs. 6,540.6 million, an increase of 27% over our products revenue of Rs. 5,163.8 million in the fiscal year ended March 31, 2005. The revenue from license fees comprised 39% of the revenue, implementation fees comprised 42%, and annual maintenance contracts comprised 19% of the revenue for the fiscal 2006.

Services revenue

Our services revenue in the fiscal year ended March 31, 2006, were Rs. 4,997.6 million, an increase of 29% over our services revenue of Rs. 3,864.8 million in the fiscal year ended March 31, 2005. Revenue from time and material contracts comprised 76% of the revenue, and fixed price contracts comprised 24% for the fiscal 2006.

Interest and other income

Other income in the fiscal year ended March 31, 2006, amounted to Rs. 4.7 million. This comprised an exchange loss of Rs. 22 million and the receipt of an insurance claim of Rs. 21.5 million. Effective treasury management and hedging of the forex risk ensured that exchange loss was reduced to Rs. 22 million as compared to Rs. 41.8 million in the fiscal year ended March 31, 2005, in a volatile exchange regime.

Cost of revenue

Our cost of revenue in the fiscal year ended March 31, 2006, was Rs. 6,550.2 million, an increase of 35% over cost of revenue of Rs. 4,850.9 million in the fiscal year ended March 31, 2005. Our cost of revenue as a percentage of total revenue was 57% in the fiscal year ended March 31, 2006, compared to 54% in the fiscal year ended March 31, 2005. We invest significantly both in our Products and Services business to meet growing market requirements, and create the foundation for growth in future. In the financial year ended 2005-06, we invested in enhancing the product suite to meet the requirements of countries such as Russia, China, Latin America, and the USA and enhanced the Reveleus Basel II suite. In our Services business, we invested in creating a new Insurance line of business as well as creating the Oracle Competency Center. Consequently, there has been a 3% increase, as compared to last year, in employee costs as a percentage of the total revenue.

Our cost of products revenue in the fiscal year ended March 31, 2006, was Rs. 2,564.6 million, an increase of 41% over cost of products revenue of Rs. 1,817.3 million in the fiscal year ended March 31, 2005. Our cost of products revenue as a percentage of products revenue was 39% in the fiscal year ended March 31, 2006, compared to 35% in the fiscal year ended March 31, 2005. This increase, as stated above was largely attributable to the higher investments in the product business.

Our cost of services revenue in the fiscal year ended March 31, 2006, was Rs. 3,985.6 million, an increase of 31% over cost of services revenue of Rs. 3,033.6 million in the fiscal year ended March 31, 2005. Our cost of services revenue as a percentage of services revenue was 80% in the fiscal year ended March 31, 2006, compared to 78% in the fiscal year ended March 31, 2005. The primary reasons for the increase in costs during this year as stated above were higher employee costs needed for investments in creating the new competencies.

Sales and marketing expenses

Our sales and marketing expenses in the fiscal year ended March 31, 2006, were Rs. 603.1 million, an increase of 29% over sales and marketing expenses of Rs. 469 million in the fiscal year ended March 31, 2005. Our sales and marketing expenses as a percentage of total revenue for the fiscal year ended March 31, 2006, remained steady at 5% like in the fiscal year ended March 31, 2005.

Our sales and marketing expenses for the Products Business in the fiscal year ended March 31, 2006, were Rs. 592.4 million, an increase of 34% as compared to sales and marketing expenses for the Products Business of Rs. 441.8 million in the fiscal year ended March 31, 2005. Sales and marketing expenses for our Products Business as a percentage of products revenue remains steady at 9% in the fiscal year ended March 31, 2006, like in the fiscal year ended March 31, 2005.

Our sales and marketing expenses for our Services Business in the fiscal year ended March 31, 2006 were Rs. 10.7 million, as against Rs. 27.1 million in the fiscal year ended March 31, 2005. Since our expenses are incurred largely in our subsidiaries, this reduction is not materially significant.

General and Administrative Expenses

Our general and administrative expenses in the fiscal year ended March 31, 2006 were Rs. 1,401.1 million, an increase of 22% over our general and administrative expenses of Rs. 1,149.5 million in the fiscal year ended March 31, 2005. In the financial year, we expanded our facilities to meet the growth requirements and created new development facilities during the year for our Services Business in Bangalore, Chennai and Mumbai. Our general and administrative expenses as a percentage of total revenue however was 12% in the fiscal year ended March 31, 2006, registering a marginal decrease compared to 13% in the fiscal year ended March 31, 2005.

General and administrative expenses for our Products Business in the fiscal year ended March 31, 2006, were Rs. 281.9 million, a marginal increase of 7% over general and administrative expenses for our Products Business of Rs. 264.2 million in the fiscal year ended March 31, 2005 caused by increased rent, power and communication costs and offset by a reduction in application software costs. These expenses as a percentage of products revenue were 4% in the fiscal year ended March 31, 2006, compared to 5% in the fiscal year ended March 31, 2005.

General and administrative expenses for our Services Business in the fiscal year ended March 31, 2006, were Rs. 345.1 million, an increase of 53% over our general and administrative expenses for our Services Business of Rs. 225.8 million in the fiscal year ended March 31, 2005. This increase is due to new development centers becoming operational for the services business. Our general and administrative expenses for our Services Business as a percentage of services revenue was 7% in the fiscal year ended March 31, 2006, compared to 6% in the fiscal year ended March 31, 2005, the increase attributable to increased facilities created for the Services Business.

Income taxes

Our provision for income taxes in the fiscal year ended March 31, 2006, was Rs. 447.6 million, a decrease of 10% over our provision for income taxes of Rs. 494.7 million in the fiscal year ended March 31, 2005. Our effective tax rate was 15% in the fiscal year ended March 31, 2006 as compared to 20% in the fiscal year ended March 31, 2005. The decrease in tax rate is attributable to the higher generation of revenue from units availing tax holidays in India.

Income from operations and net income

As a result of the foregoing factors, income from operations increased 13% from Rs. 2,293.3 million in fiscal 2005 to Rs. 2,595.9 million in fiscal 2006 and net income increased by 22% from to Rs. 2,408 million in fiscal 2006 against Rs. 1,976.4 million in fiscal 2005. We define net income margins for a particular period as the ratio of net income to total revenue during such a period.

Liquidity and capital resources

Our capital requirements relate primarily to financing the growth of our business. We have historically financed the majority of our working capital, capital expenditure and other requirements through our operating cash flow. During fiscal 2006 and 2005 we generated cash from operations of Rs. 1,130 million and Rs. 666.3 million respectively.

i-flex is a zero debt company. We expect that our primary financing requirements in the future will be capital expenditure and working capital requirements in connection with the expansion of our business. We believe that cash generated from operations will be sufficient to satisfy our currently foreseeable capital expenditure and working capital requirements.

Material development in human resources

We recruit graduates from leading engineering and management institutions. We also hire functional experts from the banking industry. We had a net addition of 1,511 employees during the fiscal year taking our employee strength to 6,044 employees as on March 31, 2006. The blend of functional knowledge and technical expertise, coupled with i-flex training and experience make our employees unique.

We enjoy cordial relationships with our employees and endeavor to give them an excellent, professionally rewarding, and enriching work environment. We operate an effective performance management system with a focus on employee development. This measures key result areas, competencies and training needs, ensuring all-round employee development.

Risks and concerns

Quantitative and qualitative disclosures about risk

Our primary risk exposures are due to the following:

- foreign exchange rate fluctuations, principally relating to the fluctuation of the U.S. dollar to the Indian rupee;
- fluctuations in interest rates; and
- fluctuations in the value of our investments.

As of March 31, 2006, we had cash and bank balances of Rs. 5,579.9 million, out of which Rs. 4,896.6 million is in interest-bearing bank deposits. Consequently, we face an exposure on account of fluctuation in interest rates. These funds were invested in the bank deposits of longer maturity (more than 90 days) to earn a higher rate of interest income.

A substantial portion of our revenue is generated in foreign currencies, while a majority of our expenses are incurred in Indian Rupees. Our functional currency for Indian operations is the Indian Rupee. We expect that the majority of our revenue will continue to be generated in foreign currencies for the foreseeable future, and a significant portion of our expenses, including personnel costs and capital and operating expenditure, would continue to be incurred in Indian Rupees.

In addition, we face normal business risks such as global competition and country risks pertaining to countries that we operate in.

Integration of mergers and acquisitions

i-flex has acquired a couple of companies in the past, i.e., SuperSolutions Corporation, USA and ISP Internet Mauritius Company, Mauritius. During the year, we acquired 76.77% in Canada-based Castek Software Inc. ("Castek") in an all cash deal. These mergers and acquisitions involve inherent risks, including:

– unforeseen contingent risks or latent liabilities relating to these businesses that may only become apparent after the merger or acquisition is finalized;
– integration and management of the operations, sales and marketing, personnel and systems;

The company, as part of its policies ensures that the companies acquired are successfully integrated into the mainstream business.

SWOT analysis for the company

Strengths:

– Comprehensive solutions portfolio.
– World-class technology
– Deep domain expertise
– Extensive global client base
– Superior quality and cost-efficient delivery
– High-quality manpower resources
– Strong R&D capability, well linked with business

Weaknesses:

– Exposure to various economies

Opportunities

– India is becoming a favored outsourcing destination
– Increasing momentum in purchasing core banking systems by large, global financial institutions
– Entry into hitherto untapped markets
– Expanding solutions portfolio, and entry into new market segments – consumer finance, anti-money laundering, amongst others.

Threats:

– Increasing competition
– Growing backlash of outsourcing from advanced markets
– Legislative and visa-related restrictions

Outlook

There are several key opportunities in the marketplace for i-flex. First, there is increased traction in large institutions looking to replace their core systems. Multi-country standardization opportunities also form an integral part of the core banking replacement strategy for global banks. i-flex is already well-positioned in this market with its comprehensive solutions stack, and is further expanding the portfolio to meet unique opportunities, especially in the developed market. Second, there are opportunities opening up in replacing older packages in banks. While this was always a traditional market segment, the opportunities in these areas are significantly increasing. Third, risk and compliance is the key priority area for banks; and, again the i-flex solutions' stack can be considered world-class in this area. With partners now being enabled to implement these products, this will be an important element of our strategy to expand the available talent pool for implementation.

Lastly, outside i-flex's traditional market of core banking, there are emerging opportunities in other verticals within the financial services industry. i-flex recently entered the insurance vertical and plans to continue to expand the capability within the financial services domain.

Internal control systems and their adequacy

The Company has in place adequate systems of internal control and documented procedures covering all financial and operating functions. These systems have been designed to provide reasonable assurance with regard to maintaining proper accounting controls, monitoring economy and efficiency of operations, protecting assets from unauthorized use or losses, and ensuring reliability of financial and operational information. The Company continuously strives to align all its processes and controls with global best practices.

Reconciliation statement of income as per the Indian GAAP unconsolidated, Indian GAAP consolidated with US GAAP

(All amounts in thousands of Indian Rupees)

	Year ended March 31, 2006	Year ended March 31, 2005
Net income as per Indian GAAP unconsolidated profit and loss account	2,407,986	1,976,401
Add		
Revenue of subsidiaries, net		
i-flex solutions b.v.	444,049	337,033
i-flex solutions pte ltd	406,082	255,456
i-flex America inc. – consolidated	2,181,974	1,705,380
ISP Internet Mauritius Company – consolidated	234,670	48,296
	3,266,775	2,346,165
Other (expense) income from subsidiaries, net	(12,169)	61,381
	3,254,606	2,407,546
Less		
Expenses of subsidiaries, net		
i-flex solutions b.v.	(450,815)	(306,862)
i-flex solutions pte ltd	(240,137)	(181,613)
i-flex America inc. – consolidated	(2,190,748)	(1,513,195)
ISP Internet Mauritius Company – consolidated	(409,081)	(77,508)
	(36,175)	328,368
Profit after consolidating subsidiaries	2,371,811	2,304,769
Add		
Proportionate revenue of joint venture, net	18,005	15,442
Proportionate other income from joint venture, net	171	279
	18,176	15,721
Less		
Proportionate expenses of joint venture, net	(16,790)	(16,019)
Reversal of diminution in value of investment	–	20,680
	(16,790)	4,661
Profit (loss) on equity investment	3,328	(820)
Net income as per Indian GAAP consolidated profit and loss account	2,376,525	2,324,331
Unrealized loss on forward contract	(9,097)	(49,658)
Amortization of intangible assets	(44,684)	(30,319)
Additional gratuity (provision) reversal of provision as per SFAS 87	26,131	(16,448)
Provision for vacation pay	(21,826)	(8,733)
Deferred revenue for post-contract support, significant discounts and SOP 81-1, net	(311,709)	(92,441)
Prior period item on account of forward contract	48,230	–
Charge of options and warrants to IBM and GE	(8,199)	(6,755)
Profit on embedded derivatives	17,749	3,978
Effect of SAB 104	25,902	(105,000)
Effect of SOP 97-2	38,363	–
Translation effect -Adjusted in shareholders' equity	52,984	12,457
Net income as per US GAAP consolidated statement of income	2,190,369	2,031,412

Auditors' report

To
The Members of i-flex Solutions Limited

1. We have audited the attached balance sheet of i-flex Solutions Limited ('the Company') as at March 31, 2006 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 (as amended) ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

   i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   iii) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

   iv) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act.

   v) On the basis of the written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

   vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

      a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2006;

      b) in the case of the profit and loss account, of the profit for the year ended on that date; and

      c) in the case of cash flow statement, of the cash flows for the year ended on that date.

For S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
May 5, 2006

Annexure referred to in paragraph 3 of our report of even date
Re: i-flex Solutions Limited

i) a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

b) Fixed assets have been physically verified by the management during the year and as informed, no material discrepancies were identified on such verification.

c) There was no substantial disposal of fixed assets during the year.

ii) Due to the nature of its business, clause (ii) of the Order, relating to physical verification of inventory is not applicable to the Company.

iii) a) As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Act.

b) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act.

iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas. Due to the nature of its business the Company does not purchase any inventory.

v) According to the information and explanations provided by the management, we are of the opinion that there are no contracts and arrangements that need to be entered into the register maintained under Section 301 of the Act.

vi) The Company has not accepted any deposits from the public.

vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for the products of the Company.

ix) a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it and generally regular in depositing undisputed statutory dues related to provident fund and value added tax.

b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

c) According to the information and explanation given to us, there are no dues of income tax, sales-tax, wealth tax, service tax, custom duty, excise duty and cess which have not been deposited on account of any dispute.

x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

xi) The Company did not have any dues to any financial institution, bank or debenture holder during the year.

xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.

xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.

xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

xvi) The Company did not have any term loans outstanding during the year.

xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act.

xix) The Company did not have any outstanding debentures during the year.

xx) We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.

xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
May 5, 2006

Balance sheet
as at March 31

(All amounts in thousands of Indian Rupees)

	Schedules	2006	2005
Sources of funds			
Shareholders' funds			
Share capital	1	381,442	374,398
Reserves and surplus	2	13,245,866	10,877,489
		13,627,308	11,251,887
Application of funds			
Fixed assets	3		
Cost		2,818,892	2,127,784
Less: Accumulated depreciation and amortization		1,184,941	806,255
Net book value		1,633,951	1,321,529
Capital work-in-progress and advances		581,356	85,618
		2,215,307	1,407,147
Investments	4	413,536	425,414
Deferred tax asset	5	70,762	1,208
Current assets, loans and advances	6		
Sundry debtors		7,458,015	6,200,778
Cash and bank balances		5,579,881	5,393,856
Other current assets		257,437	168,947
Loans and advances		2,537,839	1,673,995
		15,833,172	13,437,576
Less: Current liabilities and provisions	7		
Current liabilities		4,416,391	3,558,597
Provisions		489,078	460,861
		4,905,469	4,019,458
Net current assets		10,927,703	9,418,118
		13,627,308	11,251,887
Notes to accounts	16		

The schedules referred to above and notes to accounts form an integral part of the balance sheet.

As per our report of even date

S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
May 5, 2006

For and on behalf of the Board of Directors

Rajesh Hukku
Chairman
& Managing Director

Y. M. Kale
Director

Deepak Ghaisas
Company Secretary

Tarjani Vakil
Director

Redwood City, United States of America
May 5, 2006

Profit and loss account
for the year ended March 31

(All amounts in thousands of Indian Rupees except share and per share data)

	Schedules	2006	2005
Revenue	8	11,538,224	9,028,604
Cost of revenue	9	(6,550,247)	(4,850,863)
Gross profit		4,987,977	4,177,741
Operating expenses			
Selling and marketing expenses	10	(603,141)	(468,964)
General and administrative expenses	11	(1,401,131)	(1,149,485)
Depreciation and amortization		(387,812)	(265,944)
Income from operations		2,595,893	2,293,348
Non-operating income (expense)			
Interest income	12	294,460	264,419
Other income (expenses)	13	4,748	(86,660)
Income before provision for taxes and prior period item		2,895,101	2,471,107
Provision for taxes	14	(447,566)	(494,706)
Net income for the year before prior period item		2,447,535	1,976,401
Prior period item	16(11)	(39,549)	–
Net income		2,407,986	1,976,401
Profit and loss account, beginning of the year		492,494	443,036
Amount available for appropriation		2,900,480	2,419,437
Transfer to general reserve		(2,000,000)	(1,500,000)
Proposed dividend		(381,442)	(374,398)
Corporate dividend tax		(53,497)	(52,509)
Dividend paid on ESOP exercised		(1,140)	(32)
Corporate dividend tax on ESOP exercised		(160)	(4)
Profit and loss account, end of the year		464,241	492,494
Earnings per share of Rs. 5/- each (in Rs.)			
Basic		31.87	26.43
Diluted		31.03	25.64
Notes to accounts	16		

The schedules referred to above and notes to accounts form an integral part of the profit and loss account.

As per our report of even date

S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
May 5, 2006

For and on behalf of the Board of Directors

Rajesh Hukku
Chairman
& Managing Director

Y. M. Kale
Director

Deepak Ghaisas
Company Secretary

Tarjani Vakil
Director

Redwood City, United States of America
May 5, 2006

Statement of cash flow
for the year ended March 31

(All amounts in thousands of Indian Rupees)

	2006	2005
Cash flows from operating activities		
Income before provision for taxes and prior period item	2,895,101	2,471,107
Adjustments to reconcile income before provision for taxes to cash provided by operating activities:		
Depreciation and amortization	387,812	265,944
Profit on sale of fixed assets, net	(314)	(3,947)
(Profit) loss on sale of investments	4,785	(16,804)
Provision (reversal) for diminution in the value of investments, net	(5,528)	71,208
Interest income	(294,460)	(264,419)
Effect of exchange difference on cash and bank balances	(5,694)	(12,202)
Finance charge on leased assets	2,389	1,218
Advances written off	22,800	–
Provision for doubtful debts	45,743	1,395
	3,052,634	2,513,500
Changes in assets and liabilities, net of effect of acquisition		
Increase in sundry debtors and unbilled debtors	(1,377,373)	(2,283,715)
Increase in loans and advances	(662,941)	(321,410)
Increase in current liabilities and provisions	793,259	1,295,010
Cash from operating activities	1,805,579	1,203,385
Receipt of refund of tax of previous assessment years	–	10,539
Payment of domestic and foreign taxes	(675,571)	(547,598)
Net cash from operating activities	1,130,008	666,326
Cash flows from investing activities		
Additions to fixed assets including capital work in progress	(1,099,422)	(384,041)
Acquisition of Customer Contract and IPRs	(43,009)	(193,621)
Investment in ISP Internet Mauritius Company	–	(192,115)
Investment in Login SA	–	(6,593)
Investment in Dhanalakshmi Bonds	(10,000)	–
Proceeds from sale of fixed assets	8,948	11,430
Bank fixed deposits having maturity of more than 90 days matured	7,579,352	6,753,658
Bank fixed deposits having maturity of more than 90 days booked	(8,122,931)	(8,114,585)
Proceeds from sale/maturity of investments	2,621	266,804
Interest received	279,525	218,647
Net cash used in investing activities	(1,404,916)	(1,640,416)
Cash flows from financing activities		
Issue of shares against ESOP Scheme and options to IBM	391,761	36,968
Advance against options granted to IBM	–	5,367
Advance against warrants granted to GE	40,441	–
Advance against equity shares to be issued under ESOP Scheme	10,309	6,546
Repayment of loan by Employee Stock Purchase Scheme ('ESPS') Trust	117,500	67,000
Loan to subsidiaries	(209,417)	(91,558)
Payment of dividend and tax thereon	(428,207)	(295,203)
Payment for lease obligations	(10,652)	(9,949)
Net cash used in financing activities	(88,265)	(280,829)
Effect of exchange difference on cash and bank balances	5,694	12,202
Net decrease in cash and cash equivalents	(357,479)	(1,242,717)
Cash and cash equivalents at beginning of the year	1,153,215	2,395,932
Cash and cash equivalents at end of the year (Note 1)	795,736	1,153,215

Statement of cash flow (continued)

for the year ended March 31

(All amounts in thousands of Indian Rupees)

	2006	2005
Note 1: Component of cash and cash equivalent		
Cash in hand	661	320
Cheques on hand	86,975	–
Balances with scheduled banks:		
Current accounts in foreign currency	428,269	320,754
Other current accounts	159,018	49,830
Deposit accounts	4,366,036	4,064,209
Deposit amount of unutilized IPO funds	528,728	835,077
Margin money deposit	1,883	121,388
Unclaimed dividend accounts	2,027	2,101
Balances with non-scheduled banks:		
Current accounts in foreign currency	5,895	177
Deposit account in foreign currency	389	–
Total Cash and bank balances	5,579,881	5,393,856
Less:		
Bank deposits having maturity of more than 90 days	(4,780,235)	(4,117,152)
Margin money deposit	(1,883)	(121,388)
Unclaimed dividend accounts	(2,027)	(2,101)
Cash and cash equivalents at the end of the year	795,736	1,153,215

As per our report of even date

S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
May 5, 2006

For and on behalf of the Board of Directors

Rajesh Hukku
Chairman
& Managing Director

Y. M. Kale
Director

Deepak Ghaisas
Company Secretary

Tarjani Vakil
Director

Redwood City, United States of America
May 5, 2006

(All amounts in thousands of Indian Rupees except share and per share data)

	As at March 31, 2006	As at March 31, 2005

Schedule 1: Share capital

Authorized:		
100,000,000 (2005 – 100,000,000) equity shares of Rs. 5/- each	500,000	500,000
Issued, subscribed and fully paid up:		
76,288,367 (2005 – 74,879,650) equity shares of Rs. 5/- each	381,442	374,398

a) Of the above, 62,121,800 (2005 – 62,121,800) equity shares of Rs. 5/- each had been issued as fully paid up bonus shares by capitalizing the securities premium account.

b) Refer Note 5(b) of Schedule 16 for options granted for unissued equity shares.

c) In Annual General Meeting of the Company held on August 12, 2005, the shareholders have approved a resolution to issue warrants up to 0.5% of the fully diluted paid up capital of the Company to GE Capital Mauritius Equity Investment, a designated affiliate of General Electric Capital Corporation (GE). The Board of Directors of the Company at their meeting held on August 23, 2005, allotted 395,529 warrants to GE at a price of Rs. 1,015.55 determined in accordance with the SEBI Guidelines. These warrants are convertible at a future date into equal number of equity shares of face value of Rs. 5/- each. GE is entitled to subscribe to these warrants in two tranches over a period of 13 to 18 months from the date of issue of options subject to the completion of predetermined conditions. As required by SEBI guidelines, GE has deposited Rs. 40,441, an amount equivalent to 10% of total consideration.

Schedule 2: Reserves and surplus

Securities premium		
Balance, beginning of the year	2,146,426	2,110,156
Received during the year	396,630	36,270
Balance, end of the year	2,543,056	2,146,426
General reserve		
Balance, beginning of the year	8,238,569	6,738,569
Transferred from profit and loss account	2,000,000	1,500,000
Balance, end of the year	10,238,569	8,238,569
Profit and loss account	464,241	492,494
	13,245,866	10,877,489

Schedule 3: Fixed assets

Particulars	Gross block				Depreciation and amortization				Net book value	
	As at April 1, 2005	Additions	Sale/ deletions	As at March 31, 2006	As at April 1, 2005	For the year	Sale/ deletions	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Tangible assets										
Land	232,674	–	–	232,674	–	–	–	–	232,674	232,674
Improvement to leasehold premises	72,545	78,740	–	151,285	32,393	25,963	–	58,356	92,929	40,152
Buildings (See Note 1)	249,267	4,073	–	253,340	16,835	12,282	–	29,117	224,223	232,432
Computer equipments	741,896	252,076	1,558	992,414	516,293	155,181	291	671,183	321,231	225,603
Electrical and office equipments	250,034	160,155	668	409,521	84,401	52,344	237	136,508	273,013	165,633
Furniture and fixtures	242,757	87,023	36	329,744	82,358	43,352	–	125,710	204,034	160,399
Leased vehicles	37,180	13,121	12,536	37,765	13,541	8,921	8,598	13,864	23,901	23,639
Intangible assets										
Goodwill on acquisition (See Note 2)	168,817	28,656	–	197,473	35,227	54,034	–	89,261	108,212	133,590
Customer contracts (See Note 2)	21,798	492	–	22,290	16,350	5,817	–	22,167	123	5,448
Product IPR (See Note 2)	110,816	27,803	–	138,619	8,857	26,334	–	35,191	103,428	101,959
PeopleSoft ERP	–	53,767	–	53,767	–	3,584	–	3,584	50,183	–
Total	2,127,784	705,906	14,798	2,818,892	806,255	387,812	9,126	1,184,941	1,633,951	1,321,529
As at March 31, 2005	1,579,584	697,630	149,430	2,127,784	661,332	265,944	121,021	806,255		
					Capital work-in-progress and advances				581,356	85,618
									2,215,307	1,407,147

Notes:

1. Includes 10 (2005-10) shares of Rs. 50/- each in Takshila Building No.9, Co-op Housing Society Ltd., Mumbai.
2. For additions to intangible assets refer Note 6 of Schedule 16

	As at March 31, 2006	As at March 31, 2005
Schedule 4: Investments		
Long term investments		
i) Trade (unquoted)		
EBZ Online Private Limited		
242,240 (2005–242,240) equity shares of Rs. 10/- each, fully paid-up	45,000	45,000
Less: Provision for diminution in value of investment	(45,000)	(45,000)
	–	–
Eastern Software Systems Limited		
Nil (2005–268,283) equity shares of Rs. 10/- each, fully paid-up	–	7,406
Less: Provision for diminution in value of investment	–	(5,528)
	–	1,878
Flexcel International Private Limited		
2,068,000 (2005–2,068,000) equity shares of Rs. 10/- each, fully paid-up	20,680	20,680
Less: Provision for diminution in value of investment	(20,680)	(20,680)
	–	–
Login SA		
33,000 (2005–33,000) equity shares of EUR 2/- each, fully paid up	6,593	6,593
ii) Non trade (unquoted)		
12.75% KEONICS Mahithi Bonds Series-1		
Nil (2005–400) Bonds of Rs. 50,000/- each, fully paid-up	–	20,000
9% Dhanalakshmi Bank Bonds Series VI		
10 (2005-Nil) Bonds of Rs. 1,000,000 each, fully paid up	10,000	–
National Savings Certificate – VIII issue	131	131
iii) Non trade (quoted)		
6.75% Tax Free US-64 Bonds		
331,225 (2005–331,225) Bonds of Rs. 100/- each, fully paid-up	33,123	33,123
iv) In wholly owned subsidiaries (unquoted)		
i-flex solutions b.v.		
5,185 (2005–5,185) equity shares of EUR 100/- each, fully paid-up	25,119	25,119
i-flex solutions pte ltd		
250,000 (2005–250,000) equity shares of SGD 1/- each, fully paid up	6,626	6,626
i-flex America inc.		
1 (2005–1) equity share of USD 0.01 each, fully paid up	139,829	139,829
ISP Internet Mauritius Company		
30,000 (2005–30,000) equity shares of USD 1/- each, fully paid up	192,115	192,115
	413,536	425,414
Aggregate cost of quoted investments	33,123	33,123
Aggregate market value of quoted investments	33,623	34,613
Aggregate cost of unquoted investments	380,413	392,291

Schedule 5: Deferred tax asset

Difference between book and tax depreciation	70,762	1,208

	As at March 31, 2006	As at March 31, 2005
Schedule 6: Current assets, loans and advances		
a) Sundry debtors (unsecured)		
Debts outstanding for a period exceeding six months		
Considered good	2,172,204	2,256,382
Considered doubtful	78,316	31,735
	2,250,520	2,288,117
Other debts – considered good	5,285,811	3,944,396
	7,536,331	6,232,513
Less: Provision for doubtful debts	(78,316)	(31,735)
	7,458,015	6,200,778
Amount due from subsidiaries [Refer Note 8 of Schedule 16]	5,933,317	5,163,221
b) Cash and bank balances		
Cash in hand	661	320
Cheques on hand	86,975	–
Balances with scheduled banks		
Current accounts in foreign currency	428,269	320,754
Other current accounts	159,018	49,830
Deposit accounts	4,366,036	4,064,209
Deposit amount of unutilized IPO funds	528,728	835,077
Margin money deposit	1,883	121,388
Unclaimed dividend accounts	2,027	2,101
Balances with non-scheduled banks		
Current accounts in foreign currency	5,895	177
Deposit account in foreign currency	389	–
	5,579,881	5,393,856
Balances with non-scheduled banks		
Citibank, Dubai current account	666	177
Citibank, Dubai deposit account	389	–
Citibank, Moscow current accounts	5,229	–
Maximum balance held during the year		
Citibank, Dubai current account	3,461	1,548
Citibank, Dubai deposit account	389	–
Citibank, Moscow current accounts	15,467	–
c) Other current assets		
Interest accrued on		
Bank deposits	51,674	57,752
Bonds	746	1,202
Loan to subsidiaries [Refer Note 8 of Schedule 16]	33,528	12,059
Unbilled debtors [Refer Note 8 of Schedule 16]	171,489	97,934
	257,437	168,947
d) Loans and advances (unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received:		
Loan to ESPS Trust [Refer Note 5(a) and 8 of Schedule 16]	4,925	122,425
Loan to subsidiaries [Refer Note 8 of Schedule 16]	738,475	529,058
Premises and other deposits	1,221,469	597,594
Prepaid expenses	109,459	119,221
Advance tax, net of provision for taxes	275,199	108,067
Other advances	188,312	197,630
	2,537,839	1,673,995

	As at March 31, 2006	As at March 31, 2005

Schedule 7: Current liabilities and provisions

	As at March 31, 2006	As at March 31, 2005
a) Current liabilities		
Amount due to subsidiaries [Refer Note 8 of Schedule 16]	1,990,501	2,003,727
Accrued expenses	1,123,413	698,299
Deferred revenue	969,921	622,748
Accounts payable	72,097	73,421
Advances from customers	21,553	14,480
Advance against options and warrants granted [Refer Note c of Schedule 1]	40,441	5,367
Investor Education and Protection Fund to be credited by unclaimed dividends*	2,027	2,101
Advance against equity shares to be issued under the ESOP Scheme	10,309	6,546
Other current liabilities	186,129	131,908
	4,416,391	3,558,597
Amounts due to Small Scale Industrial undertakings	–	–

* There is no amount due and outstanding as at balance sheet date to be credited to the Investor Education and Protection Fund.

	As at March 31, 2006	As at March 31, 2005
b) Provisions		
Proposed dividend	381,442	374,398
Corporate dividend tax	53,497	52,509
Provision for leave encashment	54,139	33,954
	489,078	460,861

	Year ended March 31, 2006	Year ended March 31, 2005

Schedule 8: Revenue

	Year ended March 31, 2006	Year ended March 31, 2005
Product licenses and related activities	6,540,633	5,163,846
IT solutions and consulting services	4,997,591	3,864,758
	11,538,224	9,028,604

Schedule 9: Cost of revenue

	Year ended March 31, 2006	Year ended March 31, 2005
Employee costs	4,564,662	3,367,083
Travel related expenses (net of recoveries)	1,301,120	1,008,998
Application software	335,360	165,396
Professional fees	349,105	309,386
	6,550,247	4,850,863

Schedule 10: Selling and marketing expenses

	Year ended March 31, 2006	Year ended March 31, 2005
Employee costs	154,506	170,639
Travelling expenses	117,041	98,342
Professional fees	186,854	90,538
Advertising expenses	62,127	33,014
Communication expenses	8,239	8,961
Other expenses	74,374	67,470
	603,141	468,964

Schedule 11: General and administrative expenses

	Year ended March 31, 2006	Year ended March 31, 2005
Employee costs	466,431	417,364
Rent	156,880	97,109
Communication expenses	111,484	88,360
Application software	31,487	72,188

	Year ended March 31, 2006	Year ended March 31, 2005
Professional fees	161,989	111,215
Power	100,744	63,447
Travelling expenses	60,218	40,192
Rates and taxes	10,064	10,370
Other expenses	301,834	249,240
	1,401,131	1,149,485

Schedule 12: Interest income

Interest on		
Bank deposits	268,723	248,153
[includes tax deducted at source of Rs. 70,739 (2005 – Rs. 44,376)]		
Bonds	4,330	4,812
[includes tax deducted at source of Rs. 572 (2005 – Rs. 533)]		
Loans to employees	230	384
Loan to subsidiaries	21,177	10,417
Income tax refunds	–	653
	294,460	264,419

Schedule 13: Other income (expenses)

Reversal (provision) for diminution in value of investment, net	5,528	(71,208)
Profit (loss) on sale of investment	(4,785)	16,804
Foreign exchange loss, net	(21,964)	(41,827)
Profit on sale of fixed assets, net	314	3,947
Insurance claim	21,530	–
Miscellaneous income	4,125	5,624
	4,748	(86,660)

Schedule 14: Provision for taxation

Current taxes		
Domestic income tax	415,270	442,859
Foreign taxes	46,850	51,105
Deferred tax	(69,554)	742
Fringe benefit tax	55,000	–
	447,566	494,706

Schedule 15: Reconciliation of basic and diluted equity shares used in computing earnings per share

	As at March 31, 2006 No of shares	As at March 31, 2005 No of shares
Weighted average shares outstanding for basic earnings per share	75,562,947	74,782,487
Add: Effect of dilutive stock options	2,046,096	2,289,333
Weighted average shares outstanding for diluted earnings per share	77,609,043	77,071,820

Schedule 16: Notes to accounts for the year ended March 31, 2006

1. Background and nature of operations

i-flex solutions limited ("i-flex" or the "Company") was incorporated in India with limited liability on September 27, 1989. The Company is principally engaged in the business of providing information technology solutions and business process outsourcing services to the financial services industry worldwide. i-flex has a suite of banking products, which caters to the needs of corporate, retail, investment banking, treasury operations and data warehousing.

As at March 31, 2006 Oracle Global (Mauritius) Limited ("Oracle") holds 47.74% ownership interest in the Company after it acquired 43% ownership interest from OrbiTech Limited on November 18, 2005 and balance from the open market. Subsequent to the balance sheet date, i-flex has become subsidiary of Oracle with 50.96% ownership interest.

2. Summary of significant accounting policies

a) Basis of presentation

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting, in conformity with accounting principles generally accepted in India and in accordance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 ('the Act'). The accounting policies applied by the Company are consistent with those used in the previous year.

The significant accounting policies adopted by the Company, in respect of the financial statements are set out below.

b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting year end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

c) Fixed assets, depreciation and amortization

Fixed assets including assets under finance lease arrangements are stated at cost less accumulated depreciation. The Company capitalizes all direct costs relating to the acquisition and installation of fixed assets. Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready to use before such date are disclosed under 'Capital work-in-progress and advances'. Customer contracts and product IPRs are capitalized based on a fair value. The Company records the difference between consideration paid to acquire these contracts and the fair value of assets and liabilities acquired as goodwill.

The Company purchases certain specific use application software, which is in ready to use condition, for internal use. It is estimated that such software has a relatively short useful life, usually less than one year. The Company, therefore, charges to income the cost of acquiring such software.

Depreciation and amortization are computed using straight-line method, at the rates specified in Schedule XIV to the Act or based on the estimated useful life of assets, whichever is higher.

The estimated useful life considered for depreciation of fixed assets are as follows:

Asset description	Asset life (in years)
Tangible assets	
Improvement of leasehold premises	Lesser of estimated useful life or lease term
Buildings	20
Computer equipments	3
Electrical and office equipments	2-7
Furniture and fixtures	2-7
Leased vehicles	Lesser of estimated useful life or lease term
Intangible assets	
Goodwill on acquisition	3-5
Customer contract	5
Product IPR	5
PeopleSoft ERP	5

The carrying amounts of assets are reviewed at each balance sheet date. If there is any indication of impairment based on internal/external factors, an impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

d) Investments

Trade investments refer to the investments made with the aim of enhancing the Company's business interests in providing information technology solutions to the financial services industry worldwide. Long term investments are stated at cost less provision for diminution on account of other than temporary decline in the value of the investment.

Current investments are stated at lower of cost and fair value determined on an individual investment basis.

e) Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rates prevailing on the date of the transaction. Foreign currency denominated monetary items are translated into rupees at the closing rates of exchange prevailing at the date of the balance sheet. 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. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded, are recognized as income or as expenses in the year in which they arise. There are no exchange differences relating to the acquisition of fixed assets.

In respect of forward exchange contracts entered into by the Company to hedge the foreign currency risk, the premium or discount arising at the inception of forward exchange contracts is amortized as expense or income over the life of the contract. Exchange differences on such contracts are recognized in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the year.

The Company uses foreign currency option contracts to hedge its exposure to movement in foreign exchange rates. Any profit or loss arising on settlement or expiry of option contracts is recognized as income or expense for the year.

f) Revenue recognition

Revenue is recognized as follows:

Product licenses and related revenue

- License fees are recognized, on delivery and subsequent milestone schedule as per the terms of the contract with the end user.
- Implementation/Enhancement services are recognized as services are provided when arrangements are on a time and material basis. Revenue for fixed price contracts are recognized using the Proportionate Completion method to the extent of achievement of customer certified milestones.
- Product maintenance revenue is recognized, over the period of the maintenance contract.

IT solutions and consulting services

Revenue from IT solutions and consulting services are recognized as services are provided when arrangements are on a time and material basis. Revenue from fixed price contracts are recognized using the Proportionate Completion method to the extent of achievement of customer certified milestones.

Proportionate Completion is measured based upon the efforts incurred to date in relation to the total estimated efforts to complete the contract. If the Proportionate Completion efforts are higher than the related contractual milestone requiring customer acceptance, revenue is recognized only to the extent customer acceptance has been received.

The Company monitors estimates of total contract revenue and cost on a routine basis throughout the delivery period. The cumulative impact of any change in estimates of the contract revenue or costs is reflected in the period in which the changes become known. In the event that a loss is anticipated on a particular contract, provision is made for the estimated loss.

Reimbursable expenses for projects are invoiced separately to customers and although reflected as sundry debtors to the extent outstanding as at year-end, are not included as revenue or expense.

g) Research and development expenses for software products

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is established. Software product development costs incurred subsequent to the achievement of technological feasibility are not material and are expensed as incurred.

h) Retirement benefits

Retirement benefits to employees comprise payments to gratuity, superannuation and provident funds as per the approved schemes of the Company.

The Company has schemes of retirement benefits of provident fund, superannuation fund and gratuity fund in respect of which the Company's contribution to the funds are charged to the statement of profit and loss. The gratuity fund and superannuation fund benefits of the Company are administered by a trust formed for this purpose through the Group Schemes of the Life Insurance Corporation of India ('LIC'). In respect of gratuity, the adequacy of the accumulated funds available with the LIC has been confirmed on the basis of an actuarial valuation made at the year-end and provision has been made for the shortfall if any.

i) Leave encashment

Accrual for leave encashment is estimated on the basis of an actuarial valuation for the unavailed leave balance standing to the credit of the employees at the year-end.

j) Operating leases

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

k) Income-tax

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes are recognized for the future tax consequences attributable to timing differences between the financial statement determination of income and their recognition for tax purposes. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Unrecognized deferred tax assets of earlier year are re-assessed and recognized to the extent that it has become reasonably certain that future taxable income will be available against which deferred tax assets can be realized. Deferred tax asset is recognized only on those timing differences, which reverses in post tax free period, as Company enjoys exemption under Section 10A of Income Tax Act, 1961.

l) Earning per share

The earnings considered in ascertaining the Company's earnings per share comprise the net profit after tax. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average number of shares considered for deriving basic earnings per share, and also the weighted average number of shares, if any which would have been issued on the conversion of all dilutive potential equity shares. The number of shares and potentially dilutive equity shares are adjusted for the bonus shares and sub-division of shares.

m) Share based compensation/payments

The Company uses the intrinsic value method of accounting for its employee share based compensation plan and other share based arrangements. Under this method compensation expense is recorded over the vesting period of the option, if the fair market value of the underlying stock exceeds the exercised price at the measurement date, which typically is the grant date.

n) Provision and contingencies

A provision is recognized when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on management estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates.

3. Commitments

a) Capital commitments

Contracts remaining to be executed on capital account and not provided for (net of advances) aggregates to Rs. 801,100 as at March 31, 2006 (2005 – Rs. 68,988).

b) Lease commitment

Finance leases

The Company takes vehicles under finance leases of up to five years. Future minimum lease payments under finance leases as at March 31, 2006 and 2005 are as follows:

			As at March 31, 2006
	Principal	Interest	Total
Not later than one year	8,152	1,728	9,880
Later than one year but not later than five years	17,597	1,885	19,482
Total minimum payments	25,749	3,613	29,362
			As at March 31, 2005
Not later than one year	6,823	1,858	8,681
Later than one year but not later than five years	18,379	2,394	20,773
Total minimum payments	25,202	4,252	29,454

Operating leases

The Company has taken certain office premises and residential premises for employees under operating leases, which expire at various dates through year 2012. Gross rental expenses for the year ended March 31, 2006 aggregated to Rs. 149,131 (2005 – Rs. 92,757).

The minimum rental payments to be made in future in respect of these leases are as follows:

	March 31, 2006	March 31, 2005
Not later than one year	179,861	56,972
Later than one year and but not later than five years	295,149	109,755
Later than five years	55,183	38,175
	530,193	204,902

c) Loan given to Equinox Global Services Private Limited ('Equinox') has conversion option in equity shares of Equinox. In case of conversion, interest of 8% would not be payable by Equinox. The Company intends to exercise the option of conversion and hence no interest has been accrued on the loan.

4. Derivatives

The Company enters into forward foreign exchange contracts and option contracts where the counter party is a bank. The Company purchases forward foreign exchange contracts and option contracts to mitigate the risks of change in foreign exchange rate on receivable and payables denominated in certain foreign currencies. The Company considers the risk of non-performance by the counter party as immaterial.

As at March 31, 2006 and 2005 the Company has following outstanding derivative instruments:

Particulars	March 31, 2006	March 31, 2005
Forward contracts – Sell		
in USD	115,000	108,000
in EUR	6,250	–
Option contracts – Sell		
in USD	18,000	–

As at March 31, 2006 the Company has following foreign currency exposures which are not hedged:

Particulars	
Foreign currency receivables	
in USD	27,886
in EUR	8,779
in GBP	132
Foreign currency payables	
in USD	37,097
in EUR	2,844
in GBP	1,090
in SGD	4,312

5. Share based compensation/payments

a) Employee stock purchase scheme ('ESPS')

On March 29, 1998 the Company adopted the ESPS to provide equity based incentives to key employees of the Company ('1998 Scheme'). Subsequently on April 1, 1999, April 1, 2000, April 1, 2001 and June 1, 2004, the Company adopted other Stock based schemes ('1999 Scheme', '2000 Scheme', '2001 Scheme' and '2004 Scheme'). These schemes which have similar terms are administered through a Trust ('the Trust'). The Trust purchases shares of the Company using the proceeds of loans obtained from the Company. Such shares are offered by the Trust to employees at an exercise price, which approximates the fair value on the date of the grant. The employees can purchase the shares in a phased manner over a period of five years based on continued employment, until which, the Trust holds the shares for the benefit of the employee. The employee will be entitled to receive dividends, bonus, etc., that may be declared by the Company from time to time for the entire portion of shares held by the Trust on behalf of the employees.

On the acceptance of the offer, the selected employee shall undertake to pay within ten years from the date of acceptance of the offer the cost of the shares incurred by the Trust including repayment of the loan relatable thereto. The repayment of the loan by the Trust to the Company would be dependent on employee repaying the amount to the Trust. In case the employee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favour of the Trust. The Trustees have the right of recourse against the employee for any amounts that may remain unpaid on the shares accepted by the employee. The shares that an employee is eligible to exercise during the initial five-year period merely go to determine the amount and scheduling of the loan to be repaid on exercise by the employee. The Trust shall repay the loan obtained from the Company on receipt of payments from employees against shares exercised or otherwise.

The Securities and Exchange Board of India ('SEBI') has issued the Employee Stock Option Scheme and Stock Purchase Guidelines, 1999 ('SEBI guidelines'), which are applicable to stock purchase schemes for employees of all listed Companies. In accordance with these guidelines, the excess of market price of the underlying equity shares on the date of grant of the stock options over the exercise price of the options is to be recognized in the books of account and amortized over the vesting period. However, no compensation cost would need to be recorded as the scheme terms are fixed and the exercise price equals the market price of the underlying stock on the grant date.

A summary of the activity in the Company's ESPS is as follows:

	March 31, 2006	March 31, 2005
	Number of shares	
Opening balance of unallocated shares	70,606	340,681
Shares allocated to employees	–	(330,000)
Shares forfeited during the year	50,282	59,925
Closing balance of unallocated shares	120,888	70,606
Opening balance of allocated shares	3,393,936	4,125,080
Shares allocated to employees	–	330,000
Shares exercised during the year	(1,263,108)	(1,001,219)
Shares forfeited during the year	(50,282)	(59,925)
Closing balance of allocated shares	2,080,546	3,393,936
Shares eligible for exercise	1,830,774	2,975,955
Shares not eligible for exercise	249,772	417,981
Closing balance of allocated shares	2,080,546	3,393,936

b) Employee Stock Option Plan ('ESOP')

Pursuant to ESOP Scheme approved by the shareholders of the Company held on August 14, 2001, the Board of Directors, on March 4, 2002 approved the Employees Stock Option Scheme ('the Scheme') for issue of 4,753,600 options to the employees and directors of the Company and its subsidiaries. According to the Scheme, the Company has granted 4,598,920 options prior to the IPO and 186,000 options at various dates after IPO. As per the scheme, options vest over a period of 5 years and have exercise period of 10 years.

A summary of the activity in the Company's ESOP is as follows:

		Year ended March 31, 2006		Year ended March 31, 2005
Particulars	Shares arising from options	Weighted average exercise price	Shares arising from options	Weighted average exercise price
Outstanding at beginning of year	4,151,850	274	4,313,550	270
Granted	10,000	709	60,000	555
Exercised	(1,317,370)	(266)	(139,500)	(265)
Forfeited	(87,600)	(282)	(82,200)	(295)
Outstanding at end of year	2,756,880	280	4,151,850	274

The details of options outstanding and options vested and exercisable as on March 31, 2006 are as follows:

	Range of exercise prices	Shares	Weighted average exercise price (Rs.)	Weighted average remaining contractual life (Years)
Options unvested	265–265	658,180	265	5.9
	419–560	84,000	507	7.7
	709–709	10,000	709	9.2
Options vested and exercisable	265–265	1,934,700	265	5.9
	419–560	70,000	484	7.4
		2,756,880	280	6.0

The weighted average share price for stock options granted during the year, on the date of grant was Rs. 709 and the estimated weighted average fair value of options granted during the year is Rs. 334.

The fair value of options granted during the year under the ESOP was estimated on the date of the grant using the Black-Scholes model with the following assumptions:

Dividend yield	0.71%
Expected volatility	40%
Risk-free rate of interest	6%
Expected life	6.5 years

Had compensation cost been determined in a manner consistent with the fair value approach, compensation cost would have been higher by Rs. 70,728 resulting in net income of the Company being changed to Rs. 2,337,258 and basic and diluted earnings per share would have changed to Rs. 30.93 and Rs. 30.13 per share respectively.

6. Acquisition of Product IPR

On June 10, 2005 'i-flex' entered into an agreement with Capital Markets Company N.V. ("Capco"), to acquire right, title and ownership interests of operational risk solution based on a software product, i.e. the Operational Risk Tool Suite ("ORTOS"), and certain related assets of Capco.

The consideration consists of an initial payment of Rs. 42,779 and a contingent consideration of Rs. 29,477, payable based on a formulae linked to future sales of the product. The cost of the acquisition is Rs. 43,926 and excludes the deferred consideration, which is considered to be in the nature of contingent consideration. As at March 31, 2006 the Company has estimated Rs. 9,847 payable in respect of contingent consideration. The acquired assets include certain previously unrecognized intangible assets for which the Company has obtained an independent valuation.

The net assets of the acquired business comprise of the following:

Particulars	
Property plant and equipment, net	2,996
Intellectual property rights – ORTOS	27,803
Customer contracts	492
Current assets	596
Current liabilities	(6,770)
Net assets	25,117

The Company has recognized Rs. 28,656 as goodwill on acquisition of which Rs. 18,809 represents the excess of the initial consideration over the net assets and Rs. 9,847 of consideration paid based on formulae linked to further sales of the product.

7. 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 organized geographically and by business segment. For management purposes the Company is primarily organized 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.

Particulars	Products	Services	Corporate	Year ended March 31, 2006 Total
Revenue	6,540,633	4,997,591	–	11,538,224
Cost of revenue	(2,564,647)	(3,985,600)	–	(6,550,247)
Gross profit	3,975,986	1,011,991	–	4,987,977
Selling and marketing expenses	(592,426)	(10,715)	–	(603,141)
General and administrative expenses	(281,865)	(345,068)	(774,198)	(1,401,131)
Depreciation and amortization	(141,578)	(165,884)	(80,350)	(387,812)
Income from operations	2,960,117	490,324	(854,548)	2,595,893
Interest income				294,460
Other income				4,748
Income before provision for taxes and prior period item				2,895,101
Provision for taxes				(447,566)
Net income for the year before prior period item				2,447,535
Prior period item				(39,549)
Net income				2,407,986
Other information				
Capital expenditure by segment	303,208	316,908	85,790	705,906
Segment assets	5,174,648	5,656,021	7,702,108	18,532,777
Segment liabilities	1,436,437	463,504	3,005,528	4,905,469
Share capital and reserves and surplus	–	–	13,627,308	13,627,308

Particulars	Products	Services	Corporate	Year ended March 31, 2005 Total
Revenue	5,163,846	3,864,758	–	9,028,604
Cost of revenue	(1,817,276)	(3,033,587)	–	(4,850,863)
Gross profit	3,346,570	831,171	–	4,177,741
Selling and marketing expenses	(441,828)	(27,136)	–	(468,964)
General and administrative expenses	(264,265)	(225,804)	(659,416)	(1,149,485)
Depreciation and amortization	(81,787)	(121,374)	(62,783)	(265,944)
Income from operations	2,558,690	456,857	(722,199)	2,293,348
Interest income				264,419
Other expense				(86,660)
Income before provision for taxes				2,471,107
Provision for taxes				(494,706)
Net income				1,976,401
Other information				
Capital expenditure by segment	195,391	301,331	200,908	697,630
Segment assets	3,216,594	4,826,550	7,228,201	15,271,345
Segment liabilities	919,367	316,583	2,783,508	4,019,458
Share capital and reserves and surplus	–	–	11,251,887	11,251,887

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 revenue, 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:

		Year ended March 31, 2006		Year ended March 31, 2005
Regions	Amount	%	Amount	%
United States of America	4,761,396	42%	4,026,328	45%
Europe	2,923,013	25%	1,875,670	21%
Asia Pacific	1,873,481	16%	1,372,126	15%
Middle East, India and Africa	1,827,933	16%	1,592,145	17%
Latin America and Caribbean	152,401	1%	162,335	2%
	11,538,224	100%	9,028,604	100%

8. Related party transactions

Relationship	Names of the related parties
Principal shareholder and its affiliates ("Oracle") (from November 18, 2005)	Oracle Global (Mauritius) Limited Oracle (India) Private Limited Oracle USA, Inc.
Promoter Company and its affiliates ("Citigroup") (till November 17, 2005)	OrbiTech Limited Polaris Software Lab Limited Citigroup Inc. Citicorp Technology Holdings Inc., USA Citibank branches Citicorp Information Technology, Inc. e-Serve International Limited
Subsidiaries	i-flex solutions b.v. i-flex solutions pte ltd i-flex solutions inc. i-flex America inc. SuperSolutions Corporation ISP Internet Mauritius Company Equinox Corporation Equinox Global Services Private Ltd. Castek Software Inc.
Joint ventures	Flexcel International Private Limited
Associates	Login SA
Other entities where company has significant influence	i-flex Employee Stock Purchase Scheme Trust
Key Managerial Personnel ("KMP")	Rajesh Hukku – Chairman and Managing Director R Ravisankar – Chief Executive Officer – International Operations and Business Development Deepak Ghaisas – Chief Executive Officer – India Operations, Chief Financial Officer and Company Secretary N R K Raman – Chief Operating Officer – India Operations Makarand Padalkar – Chief of Staff and Investor Relations Joseph John – Executive Vice President – Universal Banking Products Division V Shankar – Executive Vice President – PrimeSourcing Olivier Trancart – Head – Global Sales and Marketing Nandkumar Kulkarni – Sr. Vice President – Retail Banking Products Division Atul Gupta – Sr. Vice President – Process and Quality Management Group Vijay Sharma – Sr. Vice President – Consulting and System Integration S Hariharan – Sr. Vice President – Infrastructure Services Vivek Govilkar – Sr. Vice President – Human Resources

8. Related party transactions (continued)

The related party transactions, other than disclosed elsewhere in the financial statements, are summarized in the table below:

	Income				Expenses								
Particulars	Sale of products	Sale of services	Interest on bank deposits	Interest on loan	Purchase of software	Provision for doubtful debts	Professional fees	Rent	Other expenses	Remuneration (Note 2)	Re-imbursement of expenses	Finance charges on finance leases	Bank charges
For the year ended March 31, 2006													
Citigroup (Note 1)	515,964	14,825	6,860	–	–	–	–	–	–	–	–	–	633
Oracle	88	258	–	–	123,351	–	846	–	1,106	–	–	–	–
Subsidiaries													
i-flex solutions b.v.	1,502,708	716,465	–	–	–	–	–	–	–	–	313,292	–	–
i-flex solutions inc.	823,855	3,281,081	–	–	–	13,408	–	–	–	–	1,347,628	–	–
i-flex solutions pte ltd	903,933	777,084	–	–	–	–	–	–	–	–	566,778	–	–
i-flex America inc.	–	–	–	19,688	–	–	–	–	–	–	–	–	–
ISP Internet Mauritius Company	–	6,978	–	1,489	–	–	–	–	–	–	–	–	–
SuperSolutions Corporation	42,863	–	–	–	–	–	–	–	–	–	–	–	–
Joint Venture													
Flexcel International Private Limited	7,858	20	–	–	–	–	6,850	2,988	–	–	–	–	–
Key Managerial Personnel	–	–	–	–	–	–	–	166	–	77,753	–	–	–
Total	3,797,269	4,796,711	6,860	21,177	123,351	13,408	7,696	3,154	1,106	77,753	2,227,698	–	633
For the year ended March 31, 2005													
Citigroup	1,242,796	1,831	–	–	–	–	–	–	–	–	–	386	2,233
Subsidiaries													
i-flex solutions b.v.	1,085,007	537,002	–	–	–	–	–	–	–	–	254,812	–	–
i-flex solutions inc.	403,172	2,666,758	–	–	–	–	–	–	–	–	1,512,057	–	–
i-flex solutions pte ltd	666,754	512,182	–	–	–	–	–	–	–	–	319,831	–	–
i-flex America inc.	–	–	–	10,019	–	–	–	–	–	–	–	–	–
ISP Internet Mauritius Company	–	–	–	398	–	–	–	–	–	–	–	–	–
SuperSolutions Corporation	–	–	–	–	72,188	–	–	–	–	–	–	–	–
Joint Venture													
Flexcel International Private Limited	10,707	–	–	–	–	–	–	1,638	–	–	–	–	–
Key Managerial Personnel	–	–	–	27	–	–	–	118	–	51,804	–	–	–
Total	3,408,436	3,717,773	–	10,444	72,188	–	–	1,756	–	51,804	2,086,700	386	2,233

8. Related party transactions (continued)

The related party transactions, other than disclosed elsewhere in the financial statements, are summarized in the table below:

												As at March 31, 2006
	Assets								Liabilities		Other transactions	
Particulars	Sundry debtors	Unbilled debtors	Loan outstanding (Note 3)	Loan to Trust/ Employee	Interest accrued on loan to subsidiaries	Other advances	Advance rent	Deposit rent	Accounts payable	Deferred revenue	Dividend paid	Capital contribution
Citigroup											161,180	
Oracle	348	–	–	–	–	–	–	–	–	–	–	–
Subsidiaries												
i-flex solutions b.v.	1,364,101	23,358	–	–	–	–	–	–	238,266	148,397	–	–
i-flex solutions inc.	3,743,513	114,640	–	–	–	–	–	–	1,570,784	241,725	–	–
i-flex solutions pte ltd	775,756	29,060	–	–	–	–	–	–	118,885	57,793	–	–
i-flex America inc.	–	–	446,100	–	31,630	–	–	–	–	–	–	–
Equinox Global Services	6,786	–	250,000	–	–	30,000	–	–	–	–	–	–
ISP Internet Mauritius Company	–	–	42,375	–	1,898	–	–	–	–	–	–	–
SuperSolutions Corporation	43,161	–	–	–	–	–	–	–	62,566	–	–	–
Joint Venture												
Flexcel International Private Limited	6,119	–	–	–	–	–	–	–	–	653	–	–
ESPS Trust	–	–	4,925	(117,500)	–	–	–	–	–	–	14,634	–
Key Managerial Personnel	–	–	–	–	–	–	114	200	–	–	7,914	–
Total	5,939,784	167,058	743,400	(117,500)	33,528	30,000	114	200	1,990,501	448,568	22,548	–
												As at March 31, 2005
Citigroup	234,099	60,217	–	–	–	–	–	–	–	4,424	112,826	–
Subsidiaries												
i-flex solutions b.v.	957,515	4,126	–	–	–	–	–	–	133,140	119,699	–	–
i-flex solutions inc.	3,489,477	3,634	–	–	–	–	–	–	1,693,023	114,967	–	–
i-flex solutions pte ltd	716,229	25,436	–	–	–	–	–	–	105,376	58,049	–	–
i-flex America inc.	–	–	437,500	–	11,660	–	–	–	–	–	–	–
Equinox Global Services	–	–	50,000	–	–	–	–	–	–	–	–	–
ISP Internet Mauritius Company	–	–	41,558	–	399	–	–	–	–	–	–	192,115
SuperSolutions Corporation	–	–	–	–	–	–	–	–	72,188	–	–	–
Joint Venture												
Flexcel International Private Limited	8,758	–	–	–	–	–	–	–	–	2,099	–	–
Associate												
Login SA	–	–	–	–	–	–	–	–	–	–	–	6,593
ESPS Trust	–	–	122,425	(67,000)	–	–	–	–	–	–	15,230	–
Key Managerial Personnel	–	–	–	(4,000)	–	–	10	–	–	–	4,801	–
Total	5,406,078	93,413	651,483	(71,000)	12,059	–	10	–	2,003,727	299,238	132,857	198,708

1. All the transactions with Citigroup have been disclosed till November 17, 2005. Balances as on March 31, 2006 with promoters and affiliates have not been disclosed as they cease to be related party. 2. Includes salary, bonus and perquisites. 3. Loan given to subsidiaries represents loan to i-flex America inc. amounting to Rs. 446,100 (interest LIBOR + 50 basis points) as at March 31, 2006 (March 31, 2005 – 437,500), ISP Internet Mauritius Company amounting to Rs. 42,375 (interest LIBOR + 50 basis points) as at March 31, 2006 (March 31, 2005 – 41,558) and Equinox Global Services amounting to Rs. 250,000 (interest LIBOR + 50 basis points) as at March 31, 2006 (March 31, 2005 – 50,000) with no fixed repayment terms.

Maximum balances outstanding during the year were as follows:

	March 2006	March 2005
i-flex America inc.	446,100	437,500
ISP Internet Mauritius Company	42,375	41,558
Equinox Global Services	250,000	50,000

	Year ended March 31, 2006	Year ended March 31, 2005

9. Supplementary information

a) Aggregate expenses

Following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Companies Act 1956:

	Year ended March 31, 2006	Year ended March 31, 2005
Salaries and bonus	4,857,200	3,725,197
Staff welfare expenses	189,034	132,923
Contribution to provident and other funds	139,365	96,966
Travel related expenses (net of recoveries)	1,478,379	1,147,532
Professional fees	697,948	511,139
Application software	369,670	277,845
Communication expenses	119,723	97,321
Rent	163,728	100,466
Advertising expenses	65,693	40,399
Power	103,783	65,549
Insurance	1,454	3,465
Repairs and maintenance		
Leasehold premises	7,184	6,246
Computer equipments	24,612	19,752
Others	17,761	10,802
Rates and taxes	13,013	14,605
Finance charge on leased assets	2,389	1,218
Provision for doubtful debts	45,743	1,395
Advances written off	22,800	–
Other expenses	235,040	216,492
	8,554,519	6,469,312

b) Managerial remuneration

	Year ended March 31, 2006	Year ended March 31, 2005
Salary and incentives	330	330
Contribution to provident and other funds	24	24
Commission to non whole time directors	7,805	12,770
	8,159	13,124

In addition to the above, the Managing Director of the Company has also been paid remuneration aggregating Rs. 40,881 (including bonus of Rs. 16,250 which was provided as on March 31,2005) for the year ended March 31, 2006 (March 31, 2005 – Rs. 36,874) from i-flex inc., a subsidiary of the Company.

The Company accrues for gratuity benefit and bonus for all employees as a whole. It is not possible to ascertain the provision for individual director and hence the same has not been disclosed above.

Computation of net profit for calculating commission payable to non-whole time directors in accordance with Section 198 of the Companies Act 1956.

	Year ended March 31, 2006	Year ended March 31, 2005
Net income after tax and prior period item	2,407,986	1,976,401
Add		
Managerial remuneration	354	354
Commission to non-wholetime Directors	7,805	12,770
Provision for bad and doubtful debts	45,743	1,395
Depreciation and amortization as per books of accounts	387,812	265,944
Provision for income taxes	447,566	494,706
	3,297,266	2,751,570
Less		
Profit on sale of investment	743	–
Profit on sale of fixed assets, net	314	3,947
Depreciation and amortization as per Section 350 of the Act (Note 1 below)	387,812	265,944
Net profit on which commission is payable	2,908,397	2,481,679
Commission payable to non-wholetime Director		
Maximum allowed as per Companies Act, 1956 (1 percent)	29,084	24,817

	Year ended March 31, 2006	Year ended March 31, 2005
Maximum approved by the shareholders (1 percent)	29,084	24,817
Commission approved by the Board of Directors	7,805	12,770

Note 1: The Company depreciates fixed assets based on estimated useful lives that are lower than those implicit in Schedule XIV of the Act. Accordingly, the rates of depreciation used by the company are higher than the minimum rates prescribed by Schedule XIV.

	Year ended March 31, 2006	Year ended March 31, 2005
c) Payments to auditors		
Statutory audits	4,377	4,298
Tax audit	561	551
Special reports	1,796	1,763
Certifications	563	957
Reimbursement of out-of-pocket expenses	580	400
	7,877	7,969
d) Earnings in foreign currency (on accrual basis)		
Product licenses and related revenue	6,080,537	4,934,873
IT solutions and consulting services	4,977,506	3,859,367
Interest income	25,010	10,417
	11,083,053	8,804,657
e) Expenditure in foreign currency (on accrual basis)		
Travelling, net of recovery	940,608	683,222
Professional fees	406,407	298,590
Application software	65,246	90,658
Foreign taxes	46,850	51,105
Advertising	27,061	14,488
Salaries and bonus	1,876,131	1,543,491
Representative office expenses	2,362	2,069
Seminar expenses	12,687	21,937
Others	109,646	77,965
	3,486,998	2,783,525
f) Value of imports on CIF basis – capital goods	146,928	139,733

g) Remittance in foreign currencies for dividend

The Company has not remitted any amount in foreign currencies on account of dividends during the year to non-resident shareholders. The particulars of dividends declared and paid to non-resident shareholders are as under:

Year of dividend payment	2005-06	2004-05
Year to which it relates	2004-05	2003-04
Number of non-resident shareholder	445	446
Number of equity shares held	5,281,299	6,269,567
Amount of dividend	26,406	21,943

10. Utilization of IPO Funds up to March 31, 2006

Proceeds from issue of shares	1,780,800
Less: Issue expenses	(103,074)
Net IPO Proceeds	1,677,726
Less: Utilization of funds	
Bangalore Development Centre	(554,753)
Mumbai Development Centre	(488,872)
Investment in/loans to subsidiary companies	
i-flex solutions b.v.	(24,380)
i-flex solutions pte	(6,626)
i-flex solutions inc.	(73,064)
Setting up Dubai marketing office	(1,303)
Unutilized IPO Funds	528,728

11. Prior period items

Prior period item represents reversal of forward contract asset amounting to Rs. 39,549 (net of taxes Rs. 8,681) erroneously recorded during the year ended March 31, 2005. Had the asset not been recorded in the previous period, the Company's profit after tax for the year ended March 31, 2005 would have been lower by Rs. 39,549 (net of taxes Rs. 8,681).

12. Prior year comparatives

Prior year amounts have been reclassified, where necessary to confirm with current year's presentation.

As per our report of even date

S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
May 5, 2006

For and on behalf of the Board of Directors

Rajesh Hukku
Chairman
& Managing Director

Y. M. Kale
Director

Deepak Ghaisas
Company Secretary

Tarjani Vakil
Director

Redwood City, United States of America
May 5, 2006

Balance sheet abstract and company's general business profile

I) Registration details

Registration number	53666	State Code	11
Balance Sheet date	31 03 2006 (Date Month Year)		

II) Capital raised during the year (amount in Rs. thousands)

Public issue	Rights issue
NIL	NIL
Bonus issue	Private placement
NIL	NIL

III) Position of mobilization and deployment of funds (amount in Rs. thousands)

	Total liabilities	Total assets
	13627308	13627308
Sources of funds	Paid-up capital	Reserves and surplus
	381442	13245866
	Secured loans	Unsecured loans
	NIL	NIL
Application of funds	Net fixed assets	Investments
	2215307	413536
	Net current assets	Miscellaneous expenditure
	10927703	NIL
	Accumulated losses	
	NIL	

IV) Performance of company (amount in Rs. thousands)

	Turnover		Total expenditure
	11538224		8942331
+/–	Profit/loss before tax	+/–	Profit/loss after tax
+	2895101	+	2407986

(Please tick appropriate box + for profit, – for loss)

Earning per share in Rs. Basic	Dividend rate %
31.87	100
Earning per share in Rs. Diluted	
31.03	

V) Generic names of three principal products/services of company

(as per monetary terms)

Item Code number (ITC code): N.A.

Product description

SOFTWARE DEVELOPMENT SERVICES

SOFTWARE PROJECT ASSIGNMENTS

SOFTWARE PRODUCT MANAGEMENT

Statement pursuant to Section 212 of the Companies Act, 1956
relating to subsidiary companies

(Amount in thousands of Indian Rupees)

Name of the subsidiary	i-flex solutions b.v.	i-flex solutions pte ltd	i-flex America inc.	i-flex solutions inc.	SuperSolutions Corporation	Castek Software Inc.	ISP Internet Mauritius Company	Equinox Corporation	Equinox Global Services Pvt Ltd
The Financial Year of the Subsidiary Company ended on	March 31, 2006	March 31, 2006	March 31, 2006	March 31, 2006	March 31, 2006	October 31, 2005	March 31, 2006	March 31, 2006	March 31, 2006
Holding Company	i-flex solutions ltd.	i-flex solutions ltd.	i-flex solutions ltd.	i-flex America inc.	i-flex America inc.	i-flex America inc.	i-flex solutions ltd.	ISP Internet Mauritius Company	ISP Internet Mauritius Company
Holding Company's interest	100%	100%	100%	100% held by i-flex America inc.	100% held by i-flex America Inc.	76.77% held by i-flex America Inc.	100%	100% held by ISP Internet Mauritius Company	99.83 % held by ISP Internet Mauritius Company
Shares held by the Holding Company in the Subsidiary	5,185 equity shares of EUR 100/- each, fully paid-up	250,000 shares of SGD 1/- each fully paid-up	1 Equity shares of USD 0.01 each fully paid-up	Nil	Nil	528,138,676 common shares of CAD 0.0032583 per share	30,000 Equity shares of USD 1/- each fully paid-up	20,000 common stock of USD 0.01 each	5,808,660 equity shares of Rs. 10/- each fully paid-up
Net aggregate of Profit/(losses) of the subsidiary so far as it concerns the Members of the Holding Company and is not dealt with in the accounts of the Holding Company.									
a) for the financial year ended on March 31, 2006	86,525	157,957	(20,226)	99,984	(142,314)	(58,786)	(2,285)	(95,951)	(77,794)
b) for the previous financial years of the subsidiary since it became a subsidiary	(98,012)	186,079	(18,125)	26,083	53,446	–	(469)	(16,835)	(12,293)
Net aggregate of Profit/(losses) of the subsidiary so far as it concerns the Members of the Holding Company and is dealt with or provided for in the accounts of the Holding Company.									
a) for the financial year ended on March 31, 2006	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
b) for the previous financial years of the subsidiary since it became a subsidiary	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

For and on behalf of the Board of Directors

Rajesh Hukku Chairman & Managing Director	Y. M. Kale Director	Tarjani Vakil Director	Deepak Ghaisas Company Secretary

Redwood City, United States of America
May 5, 2006

Statement pursuant to exemption received under Section 212(8) of the Companies Act, 1956
relating to subsidiary companies

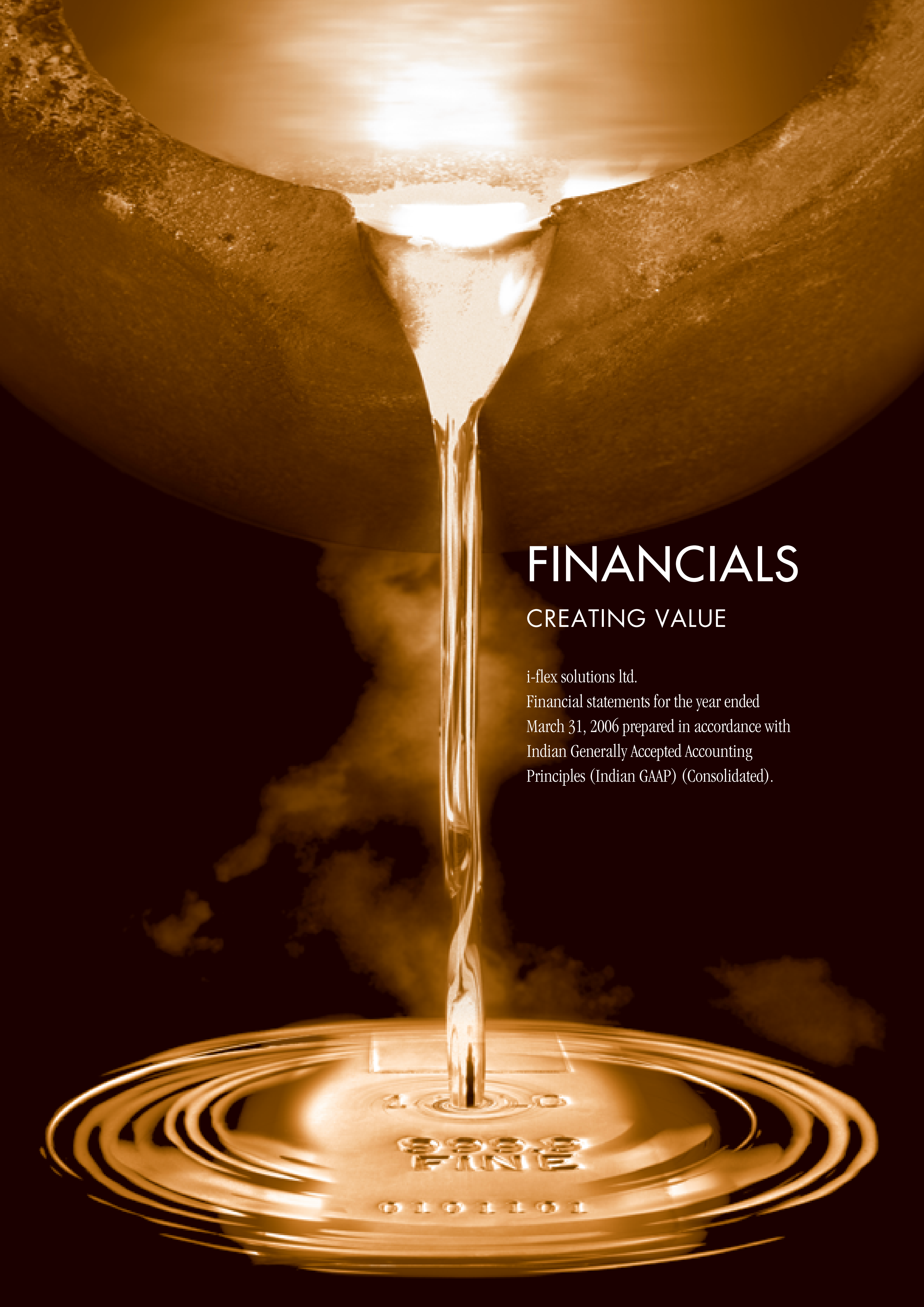
(Amount in thousands of Indian Rupees)

Name of the subsidiary company	Reporting currency	Exchange rate	Share capital	Reserves	Total assets	Total liabilities	Investment other than investment in subsidiary	Turnover	Profit/(Loss) before taxation	Provision for taxation	Profit after taxation	Proposed dividend	Country
i-flex solutions b.v.	EUR	54.18	28,119	(11,486)	1,653,519	1,636,886	–	2,707,700	150,675	(64,150)	86,525	–	Amsterdam
i-flex solutions pte ltd	USD	44.61	6,090	344,037	1,439,229	1,089,102	–	2,164,708	231,081	(73,124)	157,957	–	Singapore
i-flex America inc.	USD	44.61	133,830	(54,602)	3,477,476	3,398,248	–	6,417,510	(73,149)	(45,593)	(118,742)	–	USA
ISP Internet Mauritius Company	USD	44.61	143,389	(221,556)	329,513	407,680	–	245,030	(174,779)	–	(174,779)	–	Mauritius

For and on behalf of the Board of Directors

Rajesh Hukku	Y. M. Kale	Tarjani Vakil	Deepak Ghaisas
Chairman & Managing Director	Director	Director	Company Secretary

Redwood City, United States of America
May 5, 2006



FINANCIALS

CREATING VALUE

i-flex solutions ltd.
Financial statements for the year ended March 31, 2006 prepared in accordance with Indian Generally Accepted Accounting Principles (Indian GAAP) (Consolidated).

Auditors' report

To the Board of Directors of
i-flex Solutions Limited:

1. We have audited the attached consolidated balance sheet of i-flex Solutions Limited, its subsidiaries, associate company and joint venture (together referred to as 'the Group' as described in Note 1 of schedule 16 to the financial statements) as at March 31, 2006 and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Group's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We report that the consolidated financial statements have been prepared by the Group's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements and AS 27, Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India.

4. In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   a) in the case of the consolidated balance sheet, of the state of affairs of the Group as at March 31, 2006;

   b) in the case of the consolidated profit and loss account, of the profit of the Group for the year then ended; and

   c) in the case of the consolidated cash flow statement, of the cash flows of the Group for the year then ended.

For S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
June 1, 2006

Consolidated balance sheet
as at March 31

(All amounts in thousands of Indian Rupees)

	Schedules	2006	2005
Sources of funds			
Shareholders' funds			
Share capital	1	381,442	374,398
Reserves and surplus	2	13,415,421	11,078,505
Deferred tax liability	3	1,649	1,617
		13,798,512	11,454,520
Application of funds			
Fixed assets	4		
Cost		3,966,811	3,095,872
Less: Accumulated depreciation, amortization and impairment		1,389,133	880,253
Net book value		2,577,678	2,215,619
Capital work-in-progress and advances		581,356	85,618
		3,159,034	2,301,237
Investments	5	52,355	60,905
Deferred tax asset	3	70,762	1,208
Current assets, loans and advances	6		
Sundry debtors		5,287,315	3,790,998
Cash and bank balances		6,869,435	6,634,799
Other current assets		309,124	175,064
Loans and advances		2,049,494	1,233,827
		14,515,368	11,834,688
Less: Current liabilities and provisions	7		
Current liabilities		3,400,439	2,196,319
Provisions		598,568	547,199
		3,999,007	2,743,518
Net current assets		10,516,361	9,091,170
		13,798,512	11,454,520
Notes to accounts	16		

The schedules referred to above and notes to accounts form an integral part of the consolidated balance sheet.

As per our report of even date

S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
June 1, 2006

For and on behalf of the Board of Directors

Rajesh Hukku
Chairman
& Managing Director

Y. M. Kale
Director

Deepak Ghaisas
Company Secretary

Tarjani Vakil
Director

Redwood City, United States of America
May 5, 2006

Consolidated profit and loss
for the year ended March 31

(All amounts in thousands of Indian Rupees except share and per share data)

	Schedules	2006	2005
Revenue	8	14,823,003	11,385,928
Cost of revenue	9	(7,829,013)	(5,701,107)
Gross profit		6,993,990	5,684,821
Operating expenses			
Selling and marketing expenses	10	(2,009,832)	(1,528,386)
General and administrative expenses	11	(1,722,018)	(1,154,979)
Depreciation and amortization		(460,368)	(309,347)
Provision for impairment of goodwill		(57,958)	–
Income from operations		2,743,814	2,692,109
Non-operating income (expenses)			
Interest income	12	294,552	259,231
Other income (expenses)	13	(9,907)	874
Income before provision for taxes and prior period items		3,028,459	2,952,214
Provision for taxes	14	(560,417)	(627,063)
Net income for the year before minority interest, share of profit (loss) of associate and prior period items		2,468,042	2,325,151
Minority interest		2,564	–
Share of profit (loss) of associate company		3,328	(820)
Net income for the year before prior period items		2,473,934	2,324,331
Prior period items	16(10)	(97,409)	–
Net income		2,376,525	2,324,331
Profit and loss account, beginning of the year		690,664	293,276
Amount available for appropriation		3,067,189	2,617,607
Transfer to general reserve		(2,000,000)	(1,500,000)
Proposed dividend		(381,442)	(374,398)
Corporate dividend tax		(53,497)	(52,509)
Dividend paid on ESOP exercised		(1,140)	(32)
Corporate dividend tax on ESOP exercised		(160)	(4)
Profit and loss account, end of the year		630,950	690,664
Earnings per share of Rs. 5/- each (in Rs.)			
Basic		31.45	31.08
Diluted		30.62	30.16
Notes to accounts	16		

The schedules referred to above and notes to accounts form an integral part of the consolidated profit and loss account.

As per our report of even date	For and on behalf of the Board of Directors	
S. R. Batliboi & Associates Chartered Accountants	Rajesh Hukku Chairman & Managing Director	Y. M. Kale Director
Sunil Bhumralkar Partner Membership No.: 35141	Deepak Ghaisas Company Secretary	Tarjani Vakil Director
Bangalore, India June 1, 2006	Redwood City, United States of America May 5, 2006	

Consolidated statement of cash flow
for the year ended March 31

(All amounts in thousands of Indian Rupees)

	2006	2005
Cash flows from operating activities		
Income before provision for taxes and prior period items	3,028,459	2,952,214
Adjustments to reconcile income before provision for taxes to cash provided by operating activities:		
Depreciation and amortization	460,368	309,347
Profit on sale of fixed assets, net	(314)	(3,960)
Loss (profit) on sale of investments	4,785	(16,804)
(Reversal) provision for diminution in the value of investments	(5,528)	50,528
Interest income	(294,552)	(259,231)
Effect of exchange difference on cash and bank balances	(34,347)	(12,202)
Finance charge on leased assets	2,665	1,220
Advances written off	22,800	–
Provision for impairment of goodwill	57,958	–
Provision for doubtful debts, net	52,535	2,658
	3,294,829	3,023,770
Changes in assets and liabilities, net of effect of acquisition		
Increase in sundry debtors and unbilled debtors	(1,691,184)	(1,467,230)
Increase in loans and advances	(705,842)	(275,380)
Increase in current liabilities and provisions	1,133,689	785,525
Cash from operating activities	2,031,492	2,066,685
Receipt of refund of tax of previous assessment years	–	10,539
Payment of domestic and foreign taxes	(952,397)	(599,235)
Net cash from operating activities	1,079,095	1,477,989
Cash flows from investing activities		
Additions to fixed assets including capital work in progress	(1,220,372)	(447,047)
Acquisition of customer contract and IPRs	(43,009)	(273,005)
Acquisition of companies, net of cash acquired	(34,962)	(229,414)
Investment in Dhanalakshmi Bonds	(10,000)	–
Investment in Login SA	–	(6,593)
Proceeds from sale of fixed assets	8,948	12,377
Bank fixed deposits having maturity of more than 90 days matured	7,600,014	6,753,658
Bank fixed deposits having maturity of more than 90 days booked	(8,122,931)	(8,135,246)
Proceeds from sale/maturity of investments	2,621	266,804
Interest received	301,072	223,700
Net cash used in investing activities	(1,518,619)	(1,834,766)
Cash flows from financing activities		
Issue of shares against ESOP Scheme and options to IBM	391,761	36,968
Advance against options granted to IBM	–	5,367
Advance against warrants granted to GE	40,441	–
Advance against equity shares to be issued under ESOP Scheme	10,309	6,546
Repayment of loan by Employee Stock Purchase Scheme (‘ESPS’) Trust	117,500	67,000
Payment of dividend and tax thereon	(428,207)	(295,203)
Payment of lease obligations	(14,834)	(11,119)
Net cash provided by (used in) financing activities	116,970	(190,441)
Effect of exchange difference on cash and bank balances	34,347	12,202
Net decrease in cash and cash equivalents	(288,207)	(535,016)
Cash and cash equivalents at beginning of the year	2,373,497	2,908,513
Cash and cash equivalents at end of the year (Note 1)	2,085,290	2,373,497

Consolidated statement of cash flow (continued)
for the year ended March 31

(All amounts in thousands of Indian Rupees)

	2006	2005
Note 1: Component of cash and cash equivalent		
Cash in hand	4,354	1,174
Cheques on hand	86,975	–
Balances with scheduled banks		
Current accounts in foreign currency	428,269	320,754
Other current accounts	159,153	48,257
Deposit accounts	4,382,123	4,084,275
Deposit amount of unutilized IPO funds	528,728	835,077
Margin money deposit	1,883	125,006
Unclaimed dividend amount	2,027	2,101
Balances with non-scheduled banks		
Current accounts in foreign currency	1,275,534	1,218,155
Deposit account in foreign currency	389	–
Total cash and bank balances	6,869,435	6,634,799
Less:		
Bank deposits having maturity of more than 90 days	(4,780,235)	(4,134,195)
Margin money deposit	(1,883)	(125,006)
Unclaimed dividend accounts	(2,027)	(2,101)
Cash and cash equivalents at the end of the year	2,085,290	2,373,497

As per our report of even date

S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
June 1, 2006

For and on behalf of the Board of Directors

Rajesh Hukku
Chairman
& Managing Director

Y. M. Kale
Director

Deepak Ghaisas
Company Secretary

Tarjani Vakil
Director

Redwood City, United States of America
May 5, 2006

Schedules annexed to and forming part of the accounts
for the year ended March 31

(All amounts in thousands of Indian Rupees except share and per share data)

	As at March 31, 2006	As at March 31, 2005
Schedule 1: Share capital		
Authorized:		
100,000,000 (2005 – 100,000,000) equity shares of Rs. 5/- each	500,000	500,000
Issued, subscribed and fully paid-up:		
76,288,367 (2005 – 74,879,650) equity shares of Rs. 5/- each	381,442	374,398

a) Of the above, 62,121,800 (2005 – 62,121,800) equity shares of Rs. 5/- each had been issued as fully paid up bonus shares by capitalizing the securities premium account.

b) Refer Note 5(b) of Schedule 16 for the options granted for unissued equity shares.

c) In Annual General Meeting of the Company held on August 12, 2005, the shareholders have approved a resolution to issue warrants up to 0.5% of the fully diluted paid up capital of the Company to GE Capital Mauritius Equity Investment, a designated affiliate of General Electric Capital Corporation (GE). The Board of Directors of the Company at their meeting held on August 23, 2005, allotted 395,529 warrants to GE at a price of Rs. 1,015.55 determined in accordance with the SEBI Guidelines. These warrants are convertible at a future date into equal number of equity shares of face value of Rs. 5/- each. GE is entitled to subscribe to these warrants in two tranches over a period of 13 to 18 months from the date of issue of options subject to the completion of predetermined conditions. As required by SEBI guidelines, GE has deposited Rs. 40,441, an amount equivalent to 10% of total consideration.

Schedule 2: Reserves and surplus		
Securities premium		
Balance, beginning of the year	2,146,736	2,110,466
Received during the year	396,630	36,270
Balance, end of the year	2,543,366	2,146,736
General reserve		
Balance, beginning of the year	8,238,569	6,738,569
Transferred from profit and loss account	2,000,000	1,500,000
Balance, end of the year	10,238,569	8,238,569
Gain on dilution of equity investment in joint venture	2,536	2,536
Profit and loss account	630,950	690,664
	13,415,421	11,078,505

Schedule 3: Deferred tax asset (liabilities)		
Difference between book and tax depreciation		
Deferred tax asset	70,762	1,208
Deferred tax liabilities	(1,649)	(1,617)
	69,113	(409)

Schedule 4: Fixed assets

Particulars	Gross block				Depreciation, amortization and impairment					Net book value	
	As at April 1, 2005	Additions	Sale/ Deletions	As at March 31, 2006	As at April 1, 2005	For the year	Sale/ Deletions	Impairment	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Tangible assets											
Land	232,674	–	–	232,674	–	–	–	–	–	232,674	232,674
Improvement to leasehold premises	126,134	125,328	–	251,462	46,623	43,565	–	–	90,188	161,274	79,511
Buildings (See Note 1)	249,267	4,073	–	253,340	16,835	12,282	–	–	29,117	224,223	232,432
Computer equipments											
Owned	830,211	322,546	1,789	1,150,968	559,800	197,862	522	–	757,140	393,828	270,411
Leased	7,028	204	–	7,232	1,415	3,025	–	–	4,440	2,792	5,613
Electrical and office equipments	267,636	164,020	668	430,988	88,358	55,547	326	–	143,579	287,409	179,278
Furniture and fixtures											
Owned	274,880	93,100	319	367,661	91,483	48,878	–	–	140,361	227,300	183,397
Leased	3,263	106	–	3,369	1,764	519	–	–	2,283	1,086	1,499
Leased Vehicles	37,180	13,121	12,536	37,765	13,541	8,921	8,598	–	13,864	23,901	23,639
Intangible assets											
Goodwill on consolidation (See Note 3 and 4)	766,168	53,035	–	819,203	–	–	–	57,958	57,958	761,245	766,168
Goodwill on acquisition (See Note 2)	168,817	28,656	–	197,473	35,227	54,034	–	–	89,261	108,212	133,590
Customer contracts (See Note 2)	21,798	492	–	22,290	16,350	5,817	–	–	22,167	123	5,448
Product IPR (See Note 2)	110,816	27,803	–	138,619	8,857	26,334	–	–	35,191	103,428	101,959
PeopleSoft ERP	–	53,767	–	53,767	–	3,584	–	–	3,584	50,183	–
Total	3,095,872	886,251	15,312	3,966,811	880,253	460,368	9,446	57,958	1,389,133	2,577,678	2,215,619
As at March 31, 2005	2,220,107	1,027,743	151,978	3,095,872	691,997	309,347	121,091	–	880,253		
					Capital work-in-progress and advances					581,356	85,618
										3,159,034	2,301,237

Notes:

1. Includes 10 (2005-10) shares of Rs. 50/- each in Takshila Building No.9, Co-op Housing Society Ltd., Mumbai.
2. For additions to intangible assets refer Note 6(a) of Schedule 16
3. For additions to goodwill on consolidation refer Note 6(b) of Schedule 16
4. During the year ended March 31, 2006 the Group has recorded impairment loss amounting to Rs. 57,958 in respect of goodwill created for SuperSolutions Corporation.

	As at March 31, 2006	As at March 31, 2005
Schedule 5: Investments		
Long term investments		
i) Trade (unquoted)		
EBZ Online Private Limited		
242,240 (2005 – 242,240) equity shares of Rs. 10/- each, fully paid-up	45,000	45,000
Less: Provision for diminution in value of investment	(45,000)	(45,000)
	–	–
Eastern Software Systems Limited		
Nil (2005 – 268,283) equity shares of Rs. 10/- each, fully paid-up	–	7,406
Less: Provision for diminution in value of investment	–	(5,528)
	–	1,878
Login SA		
33,000 (2005 – 33,000) equity shares of EUR 2/- each, fully paid up	5,773	6,593
Add: Profit (loss) of equity investment	3,328	(820)
	9,101	5,773
ii) Non trade (unquoted)		
12.75% KEONICS Mahiti Bonds Series-1		
Nil (2005 – 400) Bonds of Rs. 50,000/- each, fully paid-up	–	20,000
9% Dhanalakshmi Bank Bond Series VI		
10 (2005 – Nil) Bonds of Rs. 1,000,000 each, fully paid up	10,000	–
National Savings Certificate – VIII issue	131	131
iii) Non trade (quoted)		
6.75% Tax Free US-64 Bonds		
331,225 (2005 – 331,225) Bonds of Rs. 100/- each, fully paid-up	33,123	33,123
	52,355	60,905
Aggregate cost of quoted investments	33,123	33,123
Aggregate market value of quoted investments	33,623	34,613
Aggregate cost of unquoted investments	19,232	27,782

Schedule 6: Current assets, loan and advances

	As at March 31, 2006	As at March 31, 2005
a) Sundry debtors (unsecured)		
Debts outstanding for a period exceeding six months		
Considered good	697,099	1,389,528
Considered doubtful	99,439	45,152
	796,538	1,434,680
Other debts – considered good	4,590,216	2,401,470
	5,386,754	3,836,150
Less: Provision for doubtful debts	(99,439)	(45,152)
	5,287,315	3,790,998
b) Cash and bank balances		
Cash in hand	4,354	1,174
Cheques on hand	86,975	–
Balances with scheduled banks		
Current accounts in foreign currency	428,269	320,754
Other current accounts	159,153	48,257
Deposit accounts	4,382,123	4,084,275
Deposit amount of unutilized IPO funds	528,728	835,077
Margin money deposit	1,883	125,006
Unclaimed dividend accounts	2,027	2,101

	As at March 31, 2006	As at March 31, 2005
Balances with non-scheduled banks		
Current accounts in foreign currency	1,275,534	1,218,155
Deposit account in foreign currency	389	–
	6,869,435	6,634,799
c) Other current assets		
Interest accrued on		
Bank deposits	51,688	57,752
Bonds	746	1,202
Unbilled debtors	256,690	116,110
	309,124	175,064
d) Loans and advances (unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received:		
Loan to ESPS Trust	4,925	122,425
Premises and other deposits	1,258,967	625,395
Prepaid expenses	149,268	140,114
Advance tax, net of provision for taxes	401,364	108,660
Other advances	234,970	237,233
	2,049,494	1,233,827

Schedule 7: Current liabilities and provisions

a) Current liabilities		
Accrued expenses	1,621,352	949,241
Deferred revenue	1,183,257	754,887
Accounts payable	147,070	155,024
Advances from customers	134,772	36,939
Advance against options and warrants granted (Refer Note c of Schedule 1)	40,441	5,367
Investor Education and Protection Fund to be credited by unclaimed dividends*	2,027	2,101
Advance against equity shares to be issued under the ESOP Scheme	10,309	6,546
Other current liabilities	261,211	286,214
	3,400,439	2,196,319

*There is no amount due and outstanding as at balance sheet date to be credited to the Investor Education and Protection Fund.

b) Provisions		
Proposed dividend	381,442	374,398
Corporate dividend tax	53,497	52,509
Provision for leave encashment	94,982	40,399
Provision for taxation, net of advance tax	68,647	79,893
	598,568	547,199

	Year ended March 31, 2006	Year ended March 31, 2005

Schedule 8: Revenue

Product licenses and related activities	7,637,364	5,975,085
IT solutions and consulting services	7,164,491	5,395,401
Share of sales of joint venture companies	21,148	15,442
	14,823,003	11,385,928

Schedule 9: Cost of revenue

Employee costs	5,740,914	4,170,476
Travel related expenses (net of recoveries)	1,332,338	1,028,283
Professional fees	419,588	335,752
Application software	336,173	166,596
	7,829,013	5,701,107

	Year ended March 31, 2006	Year ended March 31, 2005

Schedule 10: Selling and marketing expenses

Employee costs	989,158	775,574
Professional fees	357,582	215,138
Travelling expenses	243,061	165,489
Advertising expenses	135,373	45,997
Rent	66,121	65,372
Communication expenses	52,695	47,008
Other expenses	165,842	213,808
	2,009,832	1,528,386

Schedule 11: General and administrative expenses

Employee costs	578,011	452,741
Professional fees	200,011	122,167
Rent	195,888	99,744
Communication expenses	149,775	92,670
Power	101,257	63,795
Travelling expenses	70,347	47,696
Rates and taxes	11,589	11,722
Provision for doubtful debts	52,535	–
Other expenses	362,605	264,444
	1,722,018	1,154,979

Schedule 12: Interest income

Interest on		
Bank deposits	289,992	253,380
[includes tax deducted at source of Rs. 70,739 (2005 – Rs. 44,376)]		
Bonds	4,330	4,812
[includes tax deducted at source of Rs. 572 (2005 – Rs. 533)]		
Loans to employees	230	386
Income tax refund	–	653
	294,552	259,231

Schedule 13: Other income (expenses)

Reversal (provision) for diminution in value of investment, net	5,528	(50,528)
Profit (loss) on sale of investment	(4,785)	16,804
Foreign exchange loss, net	(38,072)	(31,769)
Profit on sale of fixed assets, net	314	3,960
Insurance claim	21,530	–
Miscellaneous income	5,578	62,407
	(9,907)	874

Schedule 14: Provision for taxation

Current taxes		
Domestic income tax	415,270	442,859
Foreign taxes	159,701	183,108
Deferred tax	(69,554)	1,096
Fringe benefit taxes	55,000	–
	560,417	627,063

	As at March 31, 2006	As at March 31, 2005

Schedule 15: Reconciliation of basic and diluted shares used in computing earnings per share

	No. of shares	No. of shares
Weighted average shares outstanding for basic earnings per share	75,562,947	74,782,487
Add: Effect of dilutive stock options	2,046,096	2,289,333
Weighted average shares outstanding for diluted earnings per share	77,609,043	77,071,820

Schedule 16: Notes to accounts

1. Background and nature of operations

i-flex solutions limited ("i-flex" or the "Company") was incorporated in India with limited liability on September 27, 1989. The Company along with its subsidiaries and associates is principally engaged in the business of providing information technology solutions and business process outsourcing services to the financial services industry worldwide. i-flex has a suite of banking products, which caters to the needs of corporate, retail, investment banking, treasury operations and data warehousing.

As at March 31, 2006 Oracle Global (Mauritius) Limited ("Oracle") holds 47.74% ownership interest in the Company after it acquired 43% ownership interest from OrbiTech Limited on November 18, 2005 and balance from the open market. Subsequent to the balance sheet date, i-flex has become subsidiary of Oracle with 50.96% ownership interest.

The company has following direct subsidiaries, joint venture and associates:

Companies	Country of Incorporation	Voting Interest	Relationship
i-flex solutions b.v.	The Netherlands	100%	Subsidiary
i-flex solutions pte ltd	Singapore	100%	Subsidiary
i-flex America inc.	United States of America	100%	Subsidiary
ISP Internet Mauritius Company	Republic of Mauritius	100%	Subsidiary
Flexcel International Private Limited	India	40%	Joint Venture
Login SA	France	33%	Associate

Further i-flex America inc. has following direct subsidiaries:

Companies	Country of Incorporation	Voting Interest
SuperSolutions Corporation	United States of America	100%
i-flex solutions inc.	United States of America	100%
Castek Software Inc.	Canada	76.77%

ISP Internet Mauritius Company has following direct subsidiaries:

Companies	Country of Incorporation	Voting Interest
Equinox Corporation	United States of America	100%
Equinox Global Services Private Limited	India	99.83%

2. Summary of significant accounting policies

a) Basis of presentation and consolidation

The consolidated financial statements include the accounts of i-flex and its subsidiaries and joint venture (hereinafter collectively referred as the "Group") are prepared in accordance with accounting principles generally accepted in India under the historical cost convention on the accrual basis. The financial statements are presented in the general format specified in Schedule VI to the Companies Act 1956 ('the Act'). However, as these financial statements are not statutory financial statements, full compliance with the Act is not required and hence these financial statements do not reflect all the disclosure requirements of the Act.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous years.

The consolidated financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down under the Accounting Standard on Consolidated Financial Statements issued by the Institute of Chartered Accountants of India. The financial statements of the Company and its subsidiaries are consolidated on a line to line basis by adding together like items of assets, liabilities, income and expenses. Any excess of the cost to the parent company of its investment in a subsidiary and the parent company's portion of equity of subsidiary at the date, at which investment in the subsidiary is made, is described as goodwill and recognized separately as an asset in the consolidated financial statements. In respect of the joint venture company, the Group applies the proportionate consolidation method. All significant inter-company transactions and balances between the entities included in the consolidated financial statements have been eliminated. Investment in associate company is accounted under equity method in consolidated financial statements.

The significant accounting policies adopted by the Group, in respect of the consolidated financial statements are set out below.

b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting year end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

c) Fixed assets, depreciation and amortization

Fixed assets including assets under finance lease arrangements are stated at cost less accumulated depreciation. The Group capitalizes all direct costs relating to the acquisition and installation of fixed assets. Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready to use before such date are disclosed under 'Capital work-in-progress and advances'. Customer contracts and product IPRs are capitalized based on a fair value. The Group records the difference between considerations paid to acquire these contracts and the fair value of assets and liabilities acquired as goodwill.

The Group purchases certain specific use application software, which is in ready to use condition, for internal use. It is estimated that such software has a relatively short useful life, usually less than one year. The Group, therefore, charges to income the cost of acquiring such software.

The Company computes, depreciation and amortization using straight-line method, at the rates specified in Schedule XIV to the Act or based on the estimated useful life of assets, whichever is higher. All other entities in the group including joint venture and associate compute depreciation and amortization using straight line method based on estimated useful life of the assets.

The estimated useful life considered for depreciation of fixed assets is as follows:

Asset description	Asset life (in years)
Tangible assets	
Improvement of leasehold premises	Lesser of estimated useful life or lease term
Buildings	20
Computer equipments	3
Electrical and office equipments	2–7
Furniture and fixtures	2–7
Leased assets	Lesser of estimated useful life or lease term
Intangible assets	
Goodwill on acquisition	3–5
Customer contract	5
Product IPR	5
PeopleSoft ERP	5

Goodwill arising on consolidation is evaluated for impairment annually.

The carrying amounts of assets are reviewed at each balance sheet date. If there is any indication of impairment based on internal/external factors, an impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

d) Investments

Trade investments refer to the investments made with the aim of enhancing the Group's business interests in providing information technology solutions to the financial services industry worldwide. Long term investments are stated at cost less provision for diminution on account of other than temporary decline in the value of the investment.

Current investments are stated at lower of cost and fair value determined on an individual investment basis.

e) Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rates prevailing on the date of the transaction. Foreign currency denominated monetary items are translated into reporting currency at the closing rates of exchange prevailing at the date of the balance sheet. 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. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded, are recognized as income or as expenses in the year in which they arise. There are no exchange differences relating to the acquisition of fixed assets.

All the foreign operations of the Group are classified as integral foreign operations. The financial statements of integral foreign operations are translated using the same principle as stated above and exchange difference is dealt with in the statement of profit and loss.

In respect of forward exchange contracts entered into by the Group to hedge the foreign currency risk, the premium or discount arising at the inception of forward exchange contracts is amortized as expense or income over the life of the contract. Exchange differences on such contracts are recognized in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the year.

The Group uses foreign currency option contracts to hedge its exposure to movement in foreign exchange rates. Any profit or loss arising on settlement or expiry of option contracts is recognized as income or expense for the year.

f) Revenue recognition

Revenue is recognized as follows:

Product licenses and related revenue

- License fees are recognized, on delivery and subsequent milestone schedule as per the terms of the contract with the end user.
- Implementation/Enhancement services are recognized as services are provided when arrangements are on a time and material basis. Revenue for fixed price contracts are recognized using the Proportionate Completion method to the extent of achievement of customer certified milestones.
- Product maintenance revenue is recognized, over the period of the maintenance contract.

IT solutions and consulting services

Revenue from IT solutions and consulting services are recognized as services are provided when arrangements are on a time and material basis. Revenue from fixed price contracts are recognized using the Proportionate Completion method to the extent of achievement of customer certified milestones.

Proportionate Completion is measured based upon the efforts incurred to date in relation to the total estimated efforts to complete the contract. If the Proportionate Completion efforts are higher than the related contractual milestone requiring customer acceptance, revenue is recognized only to the extent customer acceptance has been received.

The Group monitors estimates of total contract revenue and cost on a routine basis throughout the delivery period. The cumulative impact of any change in estimates of the contract revenue or costs is reflected in the period in which the changes become known. In the event that a loss is anticipated on a particular contract, provision is made for the estimated loss.

Reimbursable expenses for projects are invoiced separately to customers and although reflected as sundry debtors to the extent outstanding as at year-end, are not included as revenue or expense.

g) Research and development expenses for software products

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is established. Software product development costs incurred subsequent to the achievement of technological feasibility are not material and are expensed as incurred.

h) Retirement benefits

Retirement benefits to employees comprise payments to gratuity, superannuation and provident funds as per the approved schemes of the Group.

In India, the Company has schemes of retirement benefits of provident fund, superannuation fund and gratuity fund in respect of which the Company's contribution to the funds are charged to the statement of profit and loss. The gratuity fund and superannuation fund benefits of the Company are administered by a trust formed for this purpose through the Group Schemes of the Life Insurance Corporation of India ('LIC'). In respect of gratuity, the adequacy of the accumulated funds available with the LIC has been confirmed on the basis of an actuarial valuation made at the year-end.

i) Leave encashment

Accrual for leave encashment is estimated on the basis of an actuarial valuation for the unavailed leave balance standing to the credit of the employees at the year-end.

j) Operating leases

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

k) Income-tax

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes are recognized for the future tax consequences attributable to timing differences between the financial statement determination of income and their recognition for tax purposes. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent that it has become reasonably certain that future taxable income will be available against which deferred tax assets can be realized. Deferred tax asset is recognized only on those timing differences, which reverses in post tax free period, as company enjoys exemption under Section 10A of Income Tax Act, 1961.

l) Earnings per share

The earnings considered in ascertaining the Group's earnings per share comprise the net profit after tax. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average number of shares considered for deriving basic earnings per share, and also the weighted average number of shares, if any which would have been issued on the conversion of all dilutive potential equity shares. The number of shares and potentially dilutive equity shares are adjusted for the bonus shares and sub-division of shares.

m) Share based compensation/payments

The Group uses the intrinsic value method of accounting for its employee share based compensation plan and other share based arrangements. Under this method compensation expense is recorded over the vesting period of the option, if the fair market value of the underlying stock exceeds the exercised price at the measurement date, which typically is the grant date.

n) Provision and contingencies

A provision is recognized when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on management estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates.

3. Commitments

a) Capital commitments

Contracts remaining to be executed on capital account and not provided for (net of advances) aggregates to Rs. 801,100 as at March 31, 2006 (2005 – Rs. 74,363).

b) Lease commitment

Finance leases

The Group takes vehicles, furniture and fixture and computer equipments under finance leases of up to five year. Future minimum lease payments under finance leases as at March 31, 2006 and 2005 are as follows:

			As at March 31, 2006
	Principal	Interest	Total
Not later than one year	10,371	2,064	12,435
Later than one year but not later than five years	19,653	1,932	21,585
Total minimum payments	30,024	3,996	34,020
			As at March 31, 2005
Not later than one year	10,444	2,456	12,900
Later than one year but not later than five years	22,000	2,870	24,870
Total minimum payments	32,444	5,326	37,770

Operating leases

The Group has taken certain office premises and residential premises for employees under operating leases, which expire at various dates through year 2012. Gross rental expenses for the year ended March 31, 2006 aggregated to Rs. 249,429 (2005 – Rs. 158,772).

The minimum rental payments to be made in future in respect of these leases are as follows:

	March 31, 2006	March 31, 2005
Not later than one year	275,051	124,285
Later than one year but not later than five years	537,641	232,483
Later than five years	82,603	50,697
	895,295	407,465

4. Derivatives

The Group enters into forward foreign exchange contracts and option contracts where the counter party is a bank. The Group purchases forward foreign exchange contracts and option contracts to mitigate the risks of change in foreign exchange rate on receivable and payables denominated in certain foreign currencies. The Group considers the risk of non-performance by the counter party as immaterial.

As at March 31, 2006 and 2005 the Group has following outstanding derivative instruments:

Particulars	March 31, 2006	March 31, 2005
Forward contracts – Sell		
in USD	115,000	108,000
in EUR	6,250	–
Option contracts – Sell		
in USD	18,000	–

As at March 31, 2006, the Company had following foreign currency exposures which were not hedged:

Particulars	
Foreign currency receivables	
in USD	37,700
in EUR	8,779
in GBP	166
in KRW	34,097
in SGD	5,709
Foreign currency payables	
in USD	55,024
in EUR	2,844
in GBP	1,090
in SGD	4,581

5. Share based compensation/payments

a) Employee stock purchase scheme ('ESPS')

On March 29, 1998 the Company adopted the ESPS to provide equity based incentives to key employees of the Company ('1998 Scheme'). Subsequently on April 1, 1999, April 1, 2000, April 1, 2001 and June 1, 2004, the Company adopted other Stock based schemes ('1999 Scheme', '2000 Scheme', '2001 Scheme' and '2004 Scheme'). These schemes which have similar terms are administered through a Trust ('the Trust'). The Trust purchases shares of the Company using the proceeds of loans obtained from the Company. Such shares are offered by the Trust to employees at an exercise price, which approximates the fair value on the date of the grant. The employees can purchase the shares in a phased manner over a period of five years based on continued employment, until which, the Trust holds the shares for the benefit of the employee. The employee will be entitled to receive dividends, bonus, etc., that may be declared by the Company from time to time for the entire portion of shares held by the Trust on behalf of the employees.

On the acceptance of the offer, the selected employee shall undertake to pay within ten years from the date of acceptance of the offer the cost of the shares incurred by the Trust including repayment of the loan relatable thereto. The repayment of the loan by the Trust to the Company would be dependent on employee repaying the amount to the Trust. In case the employee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favour of the Trust. The Trustees have the right of recourse against the employee for any amounts that may remain unpaid on the shares accepted by the employee. The shares that an employee is eligible to exercise during the initial five-year period merely go to determine the amount and scheduling of the loan to be repaid on exercise by the employee. The Trust shall repay the loan obtained from the Company on receipt of payments from employees against shares exercised or otherwise.

The Securities and Exchange Board of India ('SEBI') has issued the Employee Stock Option Scheme and Stock Purchase Guidelines, 1999 ('SEBI guidelines'), which are applicable to stock purchase schemes for employees of all listed Companies. In accordance with these guidelines, the excess of market price of the underlying equity shares on the date of grant of the stock options over the exercise price of the options is to be recognized in the books of account and amortized over the vesting period. However, no compensation cost would need to be recorded as the scheme terms are fixed and the exercise price equals the market price of the underlying stock on the grant date.

A summary of the activity in the Company's ESPS is as follows:

	March 31, 2006	March 31, 2005
	Number of shares	
Opening balance of unallocated shares	70,606	340,681
Shares allocated to employees	–	(330,000)
Shares forfeited during the year	50,282	59,925
Closing balance of unallocated shares	120,888	70,606
Opening balance of allocated shares	3,393,936	4,125,080
Shares allocated to employees	–	330,000
Shares exercised during the year	(1,263,108)	(1,001,219)
Shares forfeited during the year	(50,282)	(59,925)
Closing balance of allocated shares	2,080,546	3,393,936
Shares eligible for exercise	1,830,774	2,975,955
Shares not eligible for exercise	249,772	417,981
Closing balance of allocated shares	2,080,546	3,393,936

b) Employee Stock Option Plan ('ESOP')

Pursuant to ESOP Scheme approved by the shareholders of the Company held on August 14, 2001, the Board of Directors, on March 4, 2002 approved the Employees Stock Option Scheme ('the Scheme') for issue of 4,753,600 options to the employees and directors of the Company and its subsidiaries. According to the Scheme, the Company has granted 4,598,920 options prior to the IPO and 186,000 options at various dates after IPO. As per the scheme, options vest over a period of 5 years and have exercise period of 10 years.

A summary of the activity in the Company's ESOP is as follows:

		Year ended March 31, 2006		Year ended March 31, 2005
	Shares arising from options	Weighted average exercise price (Rs.)	Shares arising from options	Weighted average exercise price (Rs.)
Outstanding at beginning of year	4,151,850	274	4,313,550	270
Granted	10,000	709	60,000	555
Exercised	(1,317,370)	(266)	(139,500)	(265)
Forfeited	(87,600)	(282)	(82,200)	(295)
Outstanding at end of year	2,756,880	280	4,151,850	274

The details of options outstanding and options vested and exercisable as on March 31, 2006 are as follows:

	Range of exercise prices	Shares	Weighted average exercise price (Rs.)	Weighted average remaining contractual life (Years)
Options unvested	265–265	658,180	265	5.9
	419–560	84,000	507	7.7
	709–709	10,000	709	9.2
Options vested and exercisable	265–265	1,934,700	265	5.9
	419–560	70,000	484	7.4
		2,756,880	280	6.0

The weighted average share price for stock options granted during the year, on the date of grant was Rs. 709 and the estimated weighted average fair value of options granted during the year is Rs. 334.

The fair value of options granted during the year under the ESOP was estimated on the date of the grant using the Black-Scholes model with the following assumptions:

Dividend yield	0.71%
Expected volatility	40%
Risk-free rate of interest	6%
Expected life	6.5 years

Had compensation cost been determined in a manner consistent with the fair value approach, compensation cost would have been higher by Rs. 70,728 resulting in net income of the Group being changed to Rs. 2,305,797 and basic and diluted earnings per share would have changed to Rs. 30.51 and Rs. 29.72 per share respectively.

6. Business combinations

a) Acquisition of Product IPR

On June 10, 2005 'i-flex' entered into an agreement with Capital Markets Company N.V. ('Capco'), to acquire right, title and ownership interests of operational risk solution based on a software product, i.e. the Operational Risk Tool Suite (ORTOS), and certain related assets of Capco.

The consideration consists of an initial payment of Rs. 42,779 and a contingent consideration of Rs. 29,477, payable based on a formulae linked to future sales of the product. The cost of the acquisition is Rs. 43,926 and excludes the deferred consideration, which is considered to be in the nature of contingent consideration. As at March 31, 2006 the Group has estimated Rs. 9,847 payable in respect of contingent consideration. The acquired assets include certain previously unrecognized intangible assets for which the Group has obtained an independent valuation.

The net assets of the acquired business comprise of the following:

Particulars	Amount
Property plant and equipment, net	2,996
Intellectual property rights – ORTOS	27,803
Customer contracts	492
Current assets	596
Current liabilities	(6,770)
Net assets	25,117

The Group has recognized Rs. 28,656 as goodwill on acquisition of which Rs. 18,809 represents the excess of the initial consideration over the net assets and Rs. 9,847 of consideration paid based on formulae linked to further sales of the product.

b) Acquisition of Castek Software Inc. ("Castek")

On August 17, 2005, the Group acquired 76.77% ownership interest in Castek for total consideration of Rs. 61,508.

The net assets of the acquired business comprise of the following:

Particulars	Amount
Property plant and equipment, net	4,641
Cash and cash equivalents	26,546
Current assets (other than cash and cash equivalents)	6,689
Current liabilities	(29,403)
Net assets	8,473

The group recorded Rs. 53,035 as goodwill on consolidation.

7. Segment information

Business segments are defined as components of an enterprise 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 Group is organized geographically and by business segment. 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')
c) Knowledge Processing Services ('KPO-Services')

The business segments are the basis on which the Group reports its primary operational information to management. Product licenses and related activities segment deals with banking software products like the FLEXCUBE suite of products, Reveleus, Microbanker and Daybreak which cater to needs of corporate, retail and investment banking as well as treasury operations and datawarehousing 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 subsegments i.e. Business Intelligence, Customer Relationship Management, Brokerage, e-commerce, Internet Services and IT and Business Consulting.

KPO-Services comprises of knowledge process outsourcing services to the mortgage banking industry.

The activities of the joint venture are disclosed as a separate segment.

Particulars	Products	IT Solutions	KPO-Services	Joint ventures	Corporate	Eliminations	Year ended March 31, 2006 Total
Revenue							
External revenue	7,637,364	6,929,821	234,670	21,148	–	–	14,823,003
Inter-segment revenue	3,143	–	–	–	–	(3,143)	–
Total revenue	7,640,507	6,929,821	234,670	21,148	–	(3,143)	14,823,003
Cost of revenue	(2,747,936)	(4,925,227)	(150,239)	(5,611)	–	–	(7,829,013)
Gross profit	4,892,571	2,004,594	84,431	15,537	–	(3,143)	6,993,990
Selling and marketing expenses	(1,623,980)	(312,968)	(70,855)	(2,029)	–	–	(2,009,832)
General and administrative expenses	(424,170)	(345,069)	(159,870)	(6,644)	(786,265)	–	(1,722,018)
Depreciation and amortization	(179,197)	(173,576)	(24,741)	(2,506)	(80,348)	–	(460,368)
Provision for impairment of goodwill	–	–	–	–	(57,958)	–	(57,958)
Inter-segment expense	–	–	–	(3,143)	–	3,143	–
Income from operations	2,665,224	1,172,981	(171,035)	1,215	(924,571)	–	2,743,814
Interest income							294,552
Other expense							(9,907)
Income before provision for taxes and prior period items							3,028,459
Provision for taxes							(560,417)
Net income for the year before minority interest, share of profit of associate and prior period items							2,468,042
Minority interest							2,564
Share of profit of associate company							3,328
Net income for the year before prior period items							2,473,934
Prior period items, net of taxes							(97,409)
Net income							2,376,525
Other information							
Capital expenditure by segment	304,199	316,215	78,695	5,963	181,179	–	886,251
Segment assets	4,634,950	4,036,178	385,410	14,236	8,726,745	–	17,797,519
Segment liabilities	1,580,865	498,704	76,303	7,723	1,837,061	–	4,000,656
Share capital and reserves and surplus	–	–	–	–	13,796,863	–	13,796,863

Particulars	Products	IT Solutions	KPO-Services	Joint ventures	Corporate	Eliminations	Year ended March 31, 2005 Total
Revenue							
External revenue	5,975,085	5,347,106	48,295	15,442	–	–	11,385,928
Inter-segment revenue	4,283	–	–	–	–	(4,283)	–
Total revenue	5,979,368	5,347,106	48,295	15,442	–	(4,283)	11,385,928
Cost of revenue	(2,021,243)	(3,643,909)	(27,668)	(8,287)	–	–	(5,701,107)
Gross profit	3,958,125	1,703,197	20,627	7,155	–	(4,283)	5,684,821
Selling and marketing expenses	(1,259,336)	(255,704)	(13,346)	–	–	–	(1,528,386)
General and administrative expenses	(240,674)	(225,805)	(33,515)	(760)	(654,225)	–	(1,154,979)
Depreciation and amortization	(111,458)	(129,438)	(2,979)	(2,689)	(62,783)	–	(309,347)
Inter-segment expense	–	–	–	(4,283)	–	4,283	–
Income from operations	2,346,657	1,092,250	(29,213)	(577)	(717,008)	–	2,692,109
Interest income							259,231
Other income							874
Income before provision for taxes							2,952,214
Provision for taxes							(627,063)
Net income for the year before share of loss of associate							2,325,151
Share of loss of associate company							(820)
Net income							2,324,331
Other information							
Capital expenditure by segment	195,391	301,331	19,554	1,430	510,037	–	1,027,743
Segment assets	2,896,104	2,712,691	298,660	10,573	8,280,010	–	14,198,038
Segment liabilities	1,051,506	316,583	42,277	5,626	1,329,143	–	2,745,135
Share capital and reserves and surplus	–	–	–	–	11,452,903	–	11,452,903

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 and knowledge process outsourcing 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 revenue, 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 segments on a reasonable basis. Assets and liabilities that cannot be allocated between the segments are shown as part of corporate assets and liabilities.

Geographical segments

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

Regions	Year ended March 31, 2006 Amount	%	Year ended March 31, 2005 Amount	%
United States of America	6,943,534	47%	5,731,708	50%
Europe	3,364,672	23%	2,212,703	19%
Asia Pacific	2,279,064	15%	1,627,582	14%
Middle East, India and Africa	2,083,105	14%	1,651,601	15%
Latin America and Caribbean	152,628	1%	162,334	2%
	14,823,003	100%	11,385,928	100%

8. Related party transactions

Relationship	Names of the related parties
Principal shareholder and its affiliates ("Oracle") (from November 18, 2005)	Oracle Global (Mauritius) Limited Oracle (India) Private Limited Oracle USA, Inc.
Promoter Company and its affiliates ("Citigroup") (till November 17, 2005)	OrbiTech Limited Polaris Software Lab Limited Citigroup Inc. Citicorp Technology Holdings Inc., USA Citibank branches Citicorp Information Technology, Inc. e-Serve International Limited
Key Managerial Personnel ('KMP')	Rajesh Hukku – Chairman and Managing Director R Ravisankar – Chief Executive Officer – International Operations and Business Development Deepak Ghaisas – Chief Executive Officer – India Operations, Chief Financial Officer and Company Secretary N R K Raman – Chief Operating Officer – India Operations Makarand Padalkar – Chief of Staff and Investor Relations Joseph John – Executive Vice President – Universal Banking Products Division V Shankar – Executive Vice President – PrimeSourcing Olivier Trancart – Head – Global Sales and Marketing Nandkumar Kulkarni – Sr. Vice President – Retail Banking Products Division Atul Gupta – Sr. Vice President – Process and Quality Management Group Vijay Sharma – Sr. Vice President – Consulting and System Integration S Hariharan – Sr. Vice President – Infrastructure Services Vivek Govilkar – Sr. Vice President – Human Resources V Senthil Kumar – CEO – i-flex solutions b.v. Kishore Kapoor – CEO – i-flex solutions pte ltd Cafo Boga – COO – i-flex solutions inc. Sajal Mukherjee – CEO – SuperSolutions Corporation & Vice President, North America Sales Sanjib Ganguly – CEO – Equinox Corporation V Shyam Sundar – COO – Equinox Global Services Pvt. Ltd. Yung Wu – CEO – Castek Software Inc.

8. Related party transactions (continued)

The related party transactions are summarized in the table below:

Particulars	Income: Sale of Products	Income: Sale of Services	Expenses: Interest on bank deposits/loan	Purchase of Software	Professional Fees	Other Expenses	Reimbursement of expenses	Remuneration (Note 2)	Referral fees	Finance charges	Bank charges	Rent (Note 3)
For the year ended March 31, 2006												
Citigroup (Note 1)	544,381	2,105,286	6,860	–	–	–	27,116	–	–	–	2,415	–
Oracle	26,055	258	–	123,351	846	1,106	722	–	7,353	–	–	–
Key managerial personnel	–	–	–	–	–	–	–	216,109	–	–	–	166
Total	570,436	2,105,544	6,860	123,351	846	1,106	27,838	216,109	7,353	–	2,415	166
For the year ended March 31, 2005												
Citigroup (Note 1)	1,302,272	3,456,389	–	–	–	–	57,451	–	–	386	3,990	–
Oracle	–	–	–	–	–	–	–	–	7,353	–	–	–
Key managerial personnel	–	–	27	–	–	–	–	167,910	–	–	–	118
Total	1,302,272	3,456,389	27	–	–	–	57,451	167,910	7,353	386	3,990	118

Particulars	Assets: Sundry debtors	Assets: Unbilled debtors	Assets: Loan to employee	Assets: Bank balances	Assets: Advance rent	Assets: Deposit rent	Assets: Interest accrued on fixed deposits	Liabilities: Finance lease obligation	Liabilities: Accrued expenses	Liabilities: Deferred revenue	Other transactions: Dividend
As at March 31, 2006											
Citigroup (Note 1)	–	–	–	–	–	–	–	–			161,180
Oracle	28,066	–	–	–	–	–	–	–	7,394	5,998	–
Key managerial personnel	–	–	–	–	114	200	–	–	–	–	8,097
Total	28,066	–	–	–	114	200	–	–	7,394	5,998	169,277
As at March 31, 2005											
Citigroup (Note 1)	1,180,613	70,844	–	2,090,221	–	–	9,838	434	–	15,556	112,826
Oracle	–	–	–	–	–	–	–	–	–	–	–
Key managerial personnel	–	–	(4,000)	–	10	–	–	–	–	–	4,984
Total	1,180,613	70,844	(4,000)	2,090,221	10	–	9,838	434	–	15,556	117,810

Notes:

1. All the transactions with Citigroup have been disclosed till November 17, 2005. Balances as on March 31, 2006 with promoters and affiliates have not been disclosed as they cease to be related party.
2. Includes salary, bonus and perquisites. The Group accrues bonus for all employees in total and it is not possible to ascertain individual breakup of bonus provision.
3. Includes rent paid for the flats taken on rent from KMP and a relative of a KMP.

9. Other disclosure as required by Schedule VI to the Companies Act, 1956

Following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Act:

	Year ended March 31, 2006	Year ended March 31, 2005
Salaries and bonus	6,916,529	5,112,695
Staff welfare expenses	247,514	172,004
Contribution to provident and other funds	144,040	114,092
Travel related expenses (net of recoveries)	1,645,746	1,241,468
Professional fees	977,181	673,057
Application software	375,737	210,154
Rent	266,016	171,494
Communication expenses	202,470	139,678
Advertising expenses	138,939	53,382
Power	106,763	67,520
Rates and taxes	15,052	15,957
Repairs and maintenance		
Leasehold premises	8,698	7,190
Computer equipments	44,068	20,404
Others	22,410	14,052
Insurance	4,479	8,070
Finance charge on leased assets	2,665	1,220
Advances written off	22,800	–
Provision for doubtful debts, net	52,535	2,658
Other expenses	367,221	359,377
	11,560,863	8,384,472

10. Prior period items

Prior period items recorded in the current year consist of the following:

Particulars	Amount
Expenses (income) related to the year ended March 31, 2005, not recorded earlier	
Forward contract asset (net of taxes of Rs. 8,681)	39,549
Foreign exchange loss	27,694
Staff cost	16,910
Travel marketing	7,050
Referral fees	(26,390)
Rent	2,539
Legal and professional fees	2,900
Provision for tax for the year ended March 31, 2005	27,157
	97,409

Had the Group recorded the above period items in the previous year the profit for the year ended March 31, 2005 would have been lower by Rs. 97,409

11. Prior year comparatives

Prior year amounts have been reclassified, where necessary to conform with current year's presentation.

As per our report of even date

S. R. Batliboi & Associates
Chartered Accountants

Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore, India
June 1, 2006

For and on behalf of the Board of Directors

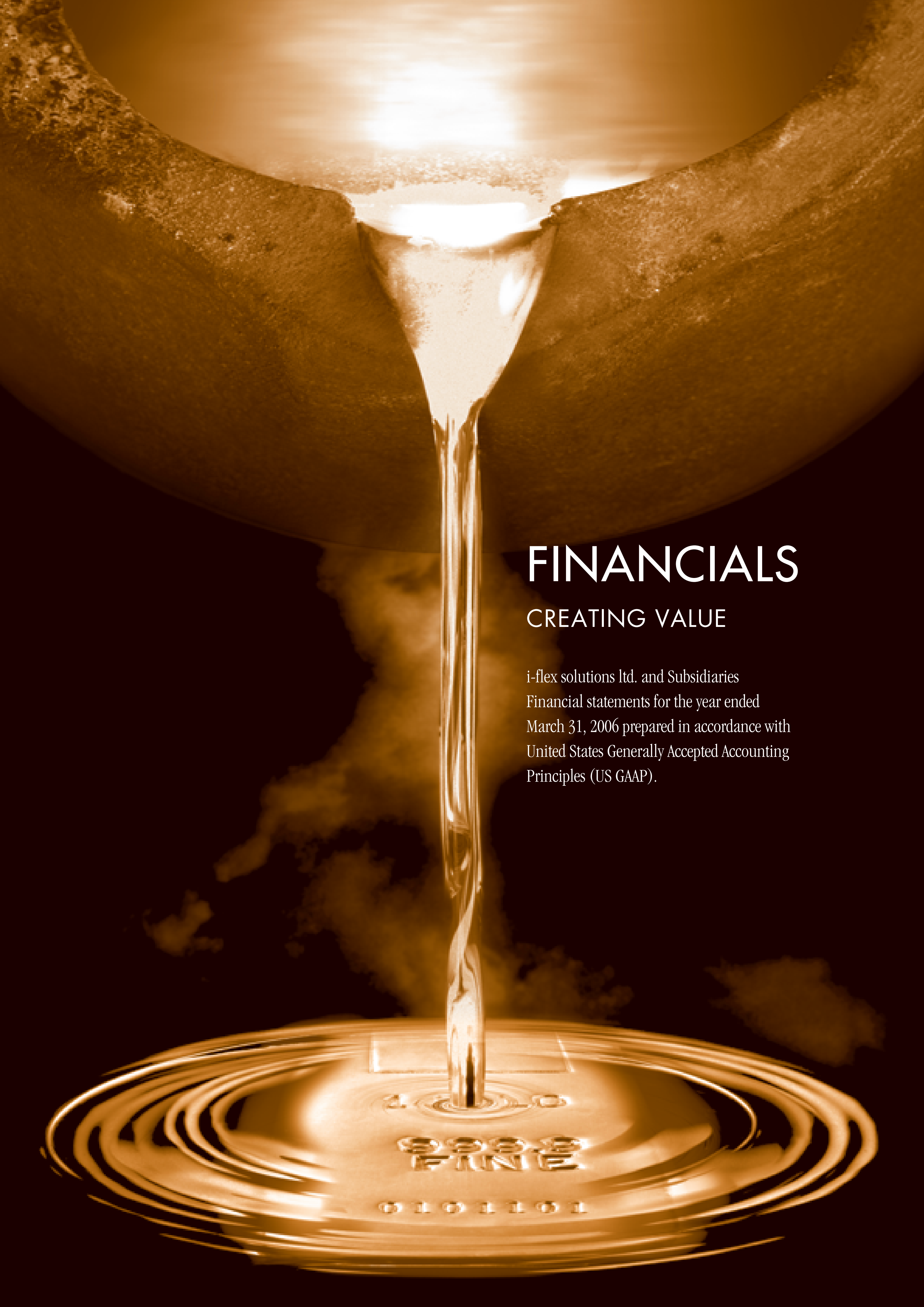
Rajesh Hukku
Chairman
& Managing Director

Y. M. Kale
Director

Deepak Ghaisas
Company Secretary

Tarjani Vakil
Director

Redwood City, United States of America
May 5, 2006



FINANCIALS

CREATING VALUE

i-flex solutions ltd. and Subsidiaries
Financial statements for the year ended March 31, 2006 prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP).

Management's discussion and analysis
of financial condition and results of operations

The following discussion is based on our audited consolidated financial statements, which have been prepared in accordance with US GAAP.

The financial statements are consolidated for i-flex (The Group) that includes i-flex solutions limited and its subsidiaries, i-flex solutions b.v. i-flex solutions pte ltd. i-flex America inc., i-flex solutions inc., SuperSolutions Corporation, Castek Software inc. and ISP Internet Mauritius Company. Investment in joint venture company Flexcel International Private Limited and in associate company Login SA is accounted for using the equity method since we exert significant influence over their operations.

The following discussion of our financial conditions and results of operations you should read together with the detailed consolidated US GAAP financial statements and the notes to those statements. Our fiscal year ends on March 31 of each year.

Corporate development

During the year, Oracle Global (Mauritius) Limited ("Oracle") purchased equity shares of i-flex solutions limited ("i-flex" or the "Company") from OrbiTech Ltd., the then major shareholder of the Company, and through an open offer and, also from the stock market, taking its i-flex shareholding to 47.74% as on March 31, 2006. On April 13, 2006, i-flex became a subsidiary company of Oracle when its shareholding reached 50.60%. As of July 6, 2006, Oracle's shareholding in the Company is 40,148,312 shares, i.e. 52.47%.

Information Technology (IT) industry

Over the past decade, the financial services industry has become increasingly dependent on IT. Today, IT is considered an important competitive advantage by financial institutions, and the global financial services industry spends more on IT than any other industry. The financial services industry is undergoing rapid transformation in response to the changing market environment. IT spending priority for the financial services industry is increasingly directed towards addressing the long-standing issues with core applications, including the achievement of higher operational efficiency, better risk management, ensuring regulatory compliance; and the delivery of enhanced service quality.

These priorities have significant implications for IT spending in the global financial services industry as they will drive decisions such as the replacement of core legacy systems, purchasing of packaged solutions, improvement in customer relationship management and outsourcing of business and IT processes.

Our strategy is aligned to address the key requirements that emerge from these trends, and we believe that we are well equipped to meet them with our world-class products and services suite, and our globally diversified business model.

Overview

i-flex is in the business of providing comprehensive Information Technology solutions to the financial services industry world-wide. The solutions portfolio includes packaged applications for the financial services industry (encompassing consumer banking, commercial banking, investor servicing and asset management for mutual funds, Internet delivery of financial services, as well as business intelligence and analytical applications); custom application software development, deployment, maintenance and support services (both onsite and offshore) for financial institutions; business and IT consulting services; technology deployment services; and the KPO services in the financial services domain. i-flex's range of products and customized services enable financial institutions to cut costs, respond rapidly to market needs, enhance customer service levels and mitigate risk.

As of March 31, 2006, the Group has cumulatively serviced 642 customers in 123 countries through its portfolio of products and services. The Group's de-risking revenue model continues to deliver consistent results despite changing global economic conditions. The company has a diversified revenue stream from a widespread customer base across the globe which serves to limit our dependency on any one geographical region.

We are organized by region and by business segment. We have two major business segments – the Products Business (comprising product licensing, customization, implementation and support); the Services Business (providing customized software and consulting services). We have also recently launched the Knowledge Process Outsourcing Services (provides value added knowledge outsourcing) which is in the initial investment phase. These segments are described in greater detail below:

Products

Our flagship product offering is the **FLEXCUBE** suite, which comprises a comprehensive range of packaged solutions addressing the transaction processing, customer servicing, accounting, and internet delivery needs of a wide range of financial institutions, including corporate banks, consumer banks, universal banks, capital market intermediaries, investment banks and other specialized financial institutions.

Reveleus™ is a suite of analytical applications for the financial services industry focused in the areas of risk management, customer insight, and enterprise-wide financial performance. Reveleus' Risk Analytics product solves the most complex global challenges facing the financial industry today, including multi-jurisdictional Basel II compliance and operational risk management. Reveleus is positioned in Gartner's 'Leaders Quadrant' in its Basel II Risk Management Application Software Magic Quadrant. Tower Group has ranked Reveleus' Basel II solution amongst the best in the domain. Reveleus improves quality and consistency of information, thereby helping organizations reduce risk and improve efficiencies in information gathering, analysis and distribution.

Daybreak™ is a comprehensive consumer lending system. It automates all aspects of financing from origination to servicing and collections for instalment loans, consumer leases, revolving products and home equity lines of credit. It empowers customer organizations with enhanced productivity, customer service advantages and reduced risks.

Together with **Castek** Software Inc., i-flex offers strategic business software and services for the global Property and Casualty insurance market. Castek provides insurance carriers with a suite of core business processing systems for insurance product and process configuration, policy processing, customer billing, claims management and services.

Services

PrimeSourcing, i-flex's global IT services business, provides customized software solutions exclusively for the financial services industry worldwide. It focuses on corporate, investment, private and retail banking, and the insurance domain, and is backed by top-notch industry consultants, technology experts, and SEI-CMMi Level 5 compliant processes. Our deep domain expertise helps customers manage challenges associated with complex, mission-critical, outsourced functions.

The **i-flex Consulting** and Systems Integration group offers an end-to-end consulting partnership, providing comprehensive business and technology solutions that enable financial institutions to improve process efficiencies, optimize costs, meet risk and compliance requirements, define IT Architecture to support future needs, and manage the transformation process. Consulting services are offered in the areas of Business Transformation, Risk and Compliance, IT Architecture and Strategy, IT Governance and Process Improvement and Program Management.

i-flex's **Technology Deployment & Management Services** (TDMS) group designs, develops, deploys and manages Information Technology (IT) infrastructure for financial institutions. TDMS' services are based on the COBIT (Control Objectives for Information and related Technology) model, a globally accepted standard for IT management and control framework, and incorporates the best practices of many other standards, including ITIL (IT Infrastructure Library) and BS7799 (ISO17799).

Knowledge Process Outsourcing (KPO) services

Last year, i-flex acquired all of the issued and outstanding equity shares of ISP Internet Mauritius Company ('ISP Internet') a corporation organized under the laws of the Republic of Mauritius along with its two wholly owned subsidiaries:

i) Equinox, Inc., ('Equinox US'), and
ii) Equinox Global Services Pvt. Ltd., (Equinox India)

('Equinox India' together with 'Equinox US', as 'Equinox').

Equinox Corporation, a wholly owned subsidiary of i-flex, provides innovative and cost-effective customer acquisition and knowledge process outsourcing services to the lending industry.

The acquisition of ISP is in line with the Group's business policy and will enable it to enrich and complement its existing IT Solutions Portfolio. With this acquisition i-flex made a foray in the Knowledge Process Outsourcing (KPO) Sector of the software industry.

Business metrics

Our total revenue in fiscal 2006 were Rs. 14,835.2 million, representing an increase of 30% from Rs. 11,404.4 million in fiscal 2005 and a CAGR of 33% since fiscal 2003. The net income in fiscal 2006 was Rs. 2,190.4 million, against as Rs. 2,031.4 million in fiscal 2005 and a CAGR of 7% since fiscal 2003. Our net income margins are 15% and 18% for the fiscal years 2006 and 2005 respectively. We define net income margins for a particular period as the ratio of net income to total revenue during such period. We had 6,858 employees as on March 31, 2006 against 4,747 at the end of the previous year.

Products business

(All amounts in millions of Indian Rupees)

	Year ended March 31 2006	2005
Product revenue	7,570.9	6,061.2
Cost of product revenue	(2,978.7)	(2,206.5)
Sales and marketing expenses	(1,672.0)	(1,260.2)
General and administrative expenses	(427.5)	(240.7)
Depreciation and amortization	(209.8)	(138.4)
Income from operations	2,282.9	2,215.4
Operating margin*	30%	37%

*Operating margin is defined as income from operations from the Products Business (excluding corporate expenses) as a percentage of total products revenue.

Products revenue

As of March 31, 2006, our products included the FLEXCUBE suite, Reveleus and Daybreak Lending Suite. Our product revenue represented 51% and 53% of our total revenue for fiscal years ended 2006 and 2005, respectively. Our product revenue were Rs. 7,570.9 million during the fiscal year ended March 31, 2006, an increase of 25% from Rs. 6,061.2 million during the fiscal year ended March 31, 2005.

Our product revenue comprise license fees, professional fees for implementation and enhancement services and annual maintenance contract (post contract support – 'PCS') fees for our products.

License fee

Our standard licensing arrangements for our products provides the user a perpetual right to use the product for a pre-defined number of users and sites upon the payment of a license fee. The license fee is a function of a variety of quantitative and qualitative factors including the number of copies sold, the number of concurrent users supported, the number and combination of the modules sold, and the number of sites and geographical locations supported. The licenses are non-exclusive, personal, non-transferable and royalty free.

Implementation fee

After products are licensed to customers, we provide services related to the implementation of the products at customer sites, integration with other customer systems and enhancement of products to address the specific requirements of the customers. The customer is typically charged a service fee either on a fixed price basis or a time and material basis. Implementation and enhancement services comprise functional enhancements, interface building, implementation planning, data conversion, training and product walkthroughs and are provided to customers who enter into licensing arrangements with us.

Annual maintenance contracts fees

We also earn fees relating to the provision of annual maintenance contracts after the implementation of a product and following the expiration of the warranty period. Under these agreements, we provide technical support, maintenance, problem solving and upgrades of the licensed products. These support agreements are typically entered for a period of 12 months.

As the revenue from license fees and implementation and enhancement services rendered by us depend on the number of new customers we add and the implementation project lifecycle, these revenue typically vary from year to year. The annual maintenance contracts generate steady revenue and would grow to the extent of new customers coming under Post Contract Support. The percentages of our revenue from these streams are as follows:

	Fiscal Year Ended March 31 2006	2005
License fees	35%	35%
Implementation and customization fees	47%	47%
PCS arrangements	18%	18%
Total	100%	100%

The consistency, from one period to another, of the revenue recognized from license fees and implementation and customization services rendered by us, depends on the number of new customers and timing of the related implementation. Our

Post Contract Support arrangements, though, generate steady revenue that are therefore more predictable.

Cost of products revenue and operating expenses

The cost of our product revenue consists of costs attributable to the implementation, enhancement, maintenance and continued development, including research and development efforts, of our core product offerings – the FLEXCUBE suite of products, Reveleus and other products. These costs primarily consist of compensation expenses for all of our IT professionals working in the Products Business, project-related travel expenses, professional fees paid to software services vendors and the cost of application software for internal use.

Research and development costs are expensed as incurred. Software development costs are expensed as incurred until technological feasibility is established. Software product development cost incurred subsequent to the achievement of technological feasibility is not material and is expensed as incurred.

Our operating expenses include selling and marketing expenses, general and administrative expenses that consist of commissions payable to our partners, product advertising, marketing expenses and allocated overhead expenses associated with support and monitoring functions such as human resources, facilities and infrastructure expenses, quality assurance and finance.

Services business

(All amounts in millions of Indian Rupees)

	Year ended March 31 2006	2005
Services revenue	7,029.7	5,294.9
Cost of services revenue	(5,014.1)	(3,714.0)
Sales and marketing expenses	(327.6)	(255.7)
General and administrative expenses	(349.4)	(225.8)
Depreciation and amortization	(173.7)	(129.4)
Income from operations	1,164.9	970.0
Operating margin*	17%	18%

*Operating margin is defined as income from operations from the Services Business (excluding corporate expenses) as a percentage of total services revenue.

Services revenue

Our services revenue represented 47.4% and 46.4% of our total revenue for the fiscal year ended March 31, 2006 and 2005. Our services revenue were Rs. 7,029.7 million in the fiscal year ended March 31, 2006, an increase of 33% from Rs. 5,294.9 million in the fiscal year ended March 31, 2005.

The contracts relating to our Services Business are either time and material contracts or fixed price contracts. The percentage of total services revenue from time and material contracts was 81% in fiscal 2006 and 82% in fiscal 2005, with the remainder of our services revenue attributable to fixed price contracts.

We provide our services through offshore centers located in India, onsite teams operating at our customers' premises and our development centers located in other parts of the world. Offshore services revenue consists of revenue from work conducted at our development centers in India and for Indian customers at their locations. Onsite revenue consist of work conducted at customer premises outside India and our development centers outside India. The composition of our onsite and offshore revenue is determined by the project life cycle. Typically, the work involving the design of new systems or relating to a system roll-out would be conducted onsite, while the core software development, maintenance and support activity may be conducted offshore. We received 66% and 63% of our services revenue from on-site work and 34% and 37% from off-shore work during the fiscal years 2006 and 2005 respectively.

Our services revenue and profits are also affected by the rate at which our software professionals are utilized. The utilization rate is calculated as the percentage billed for our personnel in a particular period to average number of staff that is considered billable in that same period. For the purpose of calculating the number of billable staff, we exclude the personnel that are engaged in management, administration, marketing support, initial training (six months for personnel without any prior work experience and three months for personnel with over two years experience) and personnel allocated to the approved internal investment projects. Our onsite personnel deployment on projects is based on project needs and therefore such personnel are fully utilized. Utilization rates for our Services Business were 73% and 76% for fiscal 2006 and 2005 respectively.

Cost of services revenue and operating expenses

The cost of revenue for services consists primarily of compensation expenses for our software professionals; cost of application software for internal use, travel expenses and professional fees paid to software services vendors. We recognize these costs as incurred. Our operating expenses include selling, general and administrative expenses and allocated overhead expenses associated with support and monitoring functions such as human resources, corporate marketing, information management systems, quality assurance and finance.

Knowledge Process Outsourcing (KPO) services business

(All amounts in millions of Indian Rupees)

	Year ended March 31 2006	2005
Services revenue	234.7	48.3
Cost of services revenue	(153.8)	(27.7)
Sales and marketing expenses	(67.3)	(13.3)
General and administrative expenses	(159.9)	(33.5)
Depreciation and amortization	(38.1)	(6.3)
Income from operations	(184.4)	(32.5)
Operating margin*	(79%)	(67%)

(The comparable data is for three months ended March 31, 2005 since last year was the first year of operation of KPO Services after acquisition of ISP Internet Mauritius Company in December 2004).

Knowledge Process Outsourcing (KPO) services revenue

Our services revenue represented 1.6% and 0.4% of our total revenue for the fiscal year ended March 31, 2006 and 2005. Our services revenue were Rs. 234.7 million in the fiscal year ended March 31, 2006, an increase of 386% from Rs. 48.3 million in the fiscal year ended March 31, 2005.

(The comparable data is for three months ended March 31, 2005 since last year was the first year of operation of KPO Services after acquisition of ISP Internet Mauritius Company in December 2004).

Cost of Knowledge Process Outsourcing (KPO) services revenue and operating expenses

The cost of revenue for KPO Services consists primarily of compensation expenses for our professionals, travel expenses and professional fees paid to vendors. We recognize these costs as incurred. Our operating expenses include selling, general and administrative expenses and allocated overhead expenses.

Geographic breakup of revenue

In line with the Group's strategy to increase penetration in the advanced markets the contribution in Product revenue from the USA and Europe have increased 3% as compared to previous year while the overall revenue are well diversified. The following table represents the percentage breakup of our revenue for our Products and Services Business by region:

			Year ended March 31, 2006			Year ended March 31, 2005
	Products revenue	Services revenue	Total revenue	Products revenue	Services revenue	Total revenue
USA	25%	70%	47%	30%	72%	50%
Middle East, India and Africa	22%	5%	14%	24%	3%	14%
Asia Pacific	19%	13%	16%	18%	12%	15%
Europe	33%	11%	22%	25%	12%	19%
Latin America and Caribbean	1%	1%	1%	3%	1%	2%
Total	100%	100%	100%	100%	100%	100%

Customer concentration

Our operations and business depend on our relationships with a number of large customers. Revenue from our top ten customers for fiscal 2006 and 2005 were 22% and 27%, respectively, as a percentage of our total revenue. The top ten customers in our Services Business contributed 33% of the total services revenue, similar to the top ten customers in our Products Business, who contributed 33% of the total products revenue during fiscal 2006.

The percentage of total revenue during fiscal years 2006 and 2005 that we derived from our largest customer, largest five customers and largest ten customers is provided in the accompanying table. In the table, various affiliates of Citigroup are classified as separate customers, and the last row sets forth the percentage of total revenue we earned from the various affiliates of Citigroup with respect to our Products and Services Business individually and with respect to our business taken as a whole.

	Products revenue		Services revenue		Total	
	2006	2005	2006	2005	2006	2005
Top customer	6%	14%	6%	6%	3%	7%
Top 5 customers	22%	26%	20%	24%	13%	18%
Top 10 customers	33%	36%	33%	37%	22%	27%
Citigroup and its affiliates	18%	22%	55%	65%	36%	42%

Trade receivables

Trade receivables as of fiscal March 31, 2006 and 2005 were Rs. 5,552.5 and Rs. 3,822.1 million respectively. Our days sales outstanding (which is the ratio of sundry debtors to total sales in a particular year multiplied by 365) for fiscal 2006 and 2005 were approximately 121 and 115 respectively. The Group periodically reviews its account receivables outstanding as well as the aging, quality of the account receivables, customer relationship and history of the client. The following table presents the age profile of our debtors:

	2006	2005
Period in days		
0-180	86%	86%
More than 180	14%	14%
Total	100%	100%

Foreign currency and treasury operations

A substantial portion of our revenue is generated in foreign currencies while a majority of our expenses are incurred in Indian Rupees with the remaining expenses incurring in U.S. Dollars and European currencies.

We follow a conservative philosophy of treasury operations and the policy is to invest funds substantially in time deposits with well-known, sound Indian and foreign banks. The Company has ensured adequate controls over asset management including cash management operations, credit management and debt collection operations.

The Group also balances funds in USD accounts or INR deposits based on the comparative interest rates and currency requirements. The Group books forward covers from time to time in line with its treasury management philosophy.

Income taxes

Currently, we benefit from the tax holidays the Government of India provides to software products and IT services exporters from specially designated software technology parks in India. As a result of these incentives, our operations have been subject to relatively lower tax liabilities in India. These tax incentives currently include a 10-year tax holiday from Indian corporate income-taxes for the operation of seven of our Indian facilities. As a result a substantial portion of our pre-tax income has not been subject to significant tax in recent years.

The Finance Act, 2000 restricts the ten-year tax holiday available from the fiscal year in which the undertaking begins to manufacture or produce or until fiscal 2009, whichever is earlier. Accordingly, facilities set up after fiscal 2000 will enjoy the benefit of the tax holiday only until fiscal 2009. For seven of our facilities, these benefits expire in stages through 2009. Income taxes also include foreign taxes representing income taxes payable overseas by us in various countries.

Employee Stock Purchase Scheme (ESPS)

On March 29, 1998 the Company adopted the ESPS to provide equity-based incentives to key employees of the Company ("1998 Scheme"). Subsequently on April 1, 1999, April 1, 2000 and April 1, 2001, the Company adopted other Stock based schemes ("1999 Scheme", "2000 Scheme", "2001 Scheme" and

"2004 Scheme"). These schemes, which have similar terms, are administered through a Trust (the "Trust"). The Trust purchases shares of the Company using the proceeds of loans obtained from the Company. Such shares are offered by the Trust to employees at an exercise price, which approximates the fair value on the date of the grant. The employees can purchase the shares in a phased manner over a period of five years based on continued employment, until which, the Trust holds the shares for the benefit of the employees. The employee will be entitled to receive dividends, bonus, etc that may be declared by the Company from time to time for the entire portion of shares held by the Trust on behalf of the employees.

On the acceptance of the offer, the selected employee shall undertake to pay within ten years from the date of acceptance of the offer the cost of the shares incurred by the Trust including repayment of the loan relatable thereto. The repayment of the loan by the Trust to the Company would be dependent on the employee repaying the amount to the Trust. In case the employee resigns from employment, the rights relating to the shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favor of the Trust. The Trustees have the right of recourse against the employee for any amounts that may remain unpaid on the shares accepted by the employee. The shares that an employee is eligible to exercise during the initial five-year period merely go to determine the amount and scheduling of the loan to be repaid on exercise by the employee. The Trust shall repay the loan obtained from the Company on receipt of payments from employees against shares exercised or otherwise. Accordingly, the scheme eliminates any price risk that the Company could bear and does not contain any option features.

The Company has elected to adopt Accounting Principles Board Opinion No. 25, "Accounting for Stock issued to Employees" ("APB 25"), in accounting for stock, granted under its scheme. As per APB 25, the Company did not recognize compensation expense on the stock granted because the terms are fixed and the exercise price equals the fair value of the underlying stock on the grant date. The shares issued to the Trust have been considered as outstanding for basic EPS purposes, to the extent these shares have been allocated to employees pursuant to the above schemes and are eligible to be exercised by the employee.

Employee Stock Option Plan (ESOP)

At the Annual General Meeting of the shareholders of the Company held on August 14, 2001, the Company introduced an additional ESOP, pursuant to which equity shares not exceeding an additional 7.5% of the issued and paid-up equity share capital of the Company had been earmarked for grant, at any given time to present and future employees and directors of the Company and its existing and future subsidiaries. Pursuant to the above resolution, the Board of Directors, at their meeting held on March 4, 2002 approved the Employees Stock Option Scheme (the "Scheme") for issue of 4,753,600 options to the employees and directors of the Group. According to the ESOP, the Company has granted 4,548,920 options to the eligible employees and directors of the Company and its subsidiaries, prior to the IPO, and 186,000 options thereafter. As per the terms of the Scheme, the exercise price would equate the IPO price for the options granted prior to the IPO and at the fair market value on the date of grant for options granted thereafter. 20% of the total options granted under the Scheme will vest to the eligible employees and directors on the completion of 12, 24, 36, 48 and 60 months and is subject to the continued employment of the employee or director with the Company or its subsidiaries.

The Group applied APB Opinion 25 and related interpretations in accounting for this plan. In accordance with APB Opinion 25, no compensation cost would need to be recognized for the Employee Stock Option Plan as the exercise price would equal to the fair value of value of the shares on the date of the IPO or the fair market value on the date of grant for options granted thereafter.

A summary of the activity in the Group's ESOP is as follows:

	Year ended March 31			
	2005		2006	
	Shares arising from options	Weighted average exercise price	Shares arising from options	Weighted average exercise price
Outstanding at beginning of year	4,313,550	270	4,151,850	274
Granted	60,000	555	10,000	709
Exercised	(139,500)	(265)	(1,317,370)	(266)
Forfeited	(82,200)	(295)	(87,600)	(282)
Outstanding at end of year	4,151,850	274	2,756,880	280

	Range of exercise prices (Rs)	Shares	Weighted average exercise price (Rs)	Weighted average remaining contractual life (Years)
Options unvested	265-265	658,180	265	5.8
	419-560	84,000	507	7.7
	709-709	10,000	709	9.2
Options vested and exercisable	265-265	1,934,700	265	5.9
	419-560	70,000	484	7.4
		2,756,880	280	6.0

Shares reserved as at March 31, 2006 for the future issuance of options was 430,500. The weighted-average fair value of options granted during the year ended March 31, 2005 and 2006 was Rs. 262 and Rs. 334, respectively.

Analysis of our financial results

Comparison of fiscal 2006 with fiscal 2005

Revenue

Our total revenue in the fiscal year ended March 31, 2006 were Rs. 14,835.2 million, an increase of 30% over our total revenue of Rs. 11,404.4 million in the fiscal year ended March 31, 2005. The increase in revenue was attributable to a

25% increase in the revenue from our Products Business, a 33% increase in the revenue from our Services Business.

Products revenue

Our products revenue in the fiscal year ended March 31, 2006 were Rs. 7,570.9 million, an increase of 25% over our products revenue of Rs. 6,061.2 million in the fiscal year ended March 31, 2005. The revenue from license fees comprised 35% of the revenue, implementation fees comprised 47% and Annual Maintenance Contracts comprised 18% of the revenue for the fiscal 2006.

Services revenue

Our services revenue in the fiscal year ended March 31, 2006 were Rs. 7,029.7 million, an increase of 33% over our services revenue of Rs. 5,294.9 million in the fiscal year ended March 31, 2005. Revenue from time and material contracts comprised 81% of the revenue and fixed price contracts comprised 19% for the fiscal 2006.

Knowledge Process Outsourcing (KPO) revenue

Our revenue from KPO Services in the fiscal year ended March 31, 2006 were Rs. 234.7 million, an increase of 386% over our revenue from KPO Services of Rs. 48.3 million in the fiscal year ended March 31, 2005. (The comparable data is for three months ended March 31, 2005 since last year was the first year of operation of KPO Services after acquisition of ISP Internet Mauritius Company in December 2004).

Interest and other income

Our interest and other income in the fiscal year ended March 31, 2006 was Rs. 305.7 million, an increase of 35% over our interest and other income of Rs. 226.6 million in the fiscal year ended March 31, 2005. The increase was mainly due to drop in the foreign exchange losses amounting to Rs. 16.8 million as a result of effective hedging policy, depreciation of 2% in dollar/rupee during the year, and increase in interest from Bank Deposits of Rs. 35 million as compared to fiscal 2005, due to rise in interest rates.

Cost of revenue and operating expenses

Cost of revenue

Our cost of revenue in the fiscal year ended March 31, 2006 was Rs. 8,146.7 million, an increase of 37% over our cost of revenue of Rs. 5,948.1 million in the fiscal year ended March 31, 2005. Our cost of revenue as a percentage of total revenue was 55% in the fiscal year ended March 31, 2006, compared to 52% in the fiscal year ended March 31, 2005. We invest significantly both in our Products and Services Businesses to meet emerging market requirements, and create the foundation for the growth in future. In the financial year ended 2005-06, we invested in enhancing the product suite to meet the requirements in countries such as Russia, China, Latin America, and the USA and enhanced the Reveleus Basel II suite. In our Services business, we invested in creating new Insurance line of business as well as creating the Oracle Competency Center. Consequently, there has been a 3% increase as compared to last year in employee costs as a percentage of total revenue. Further, our KPO business, which currently is in investment phase, has also contributed to the reduction in the overall gross margins as compared to the last financial year.

Our cost of products revenue in the fiscal year ended March 31, 2006 was Rs. 2,978.7 million, an increase of 35% over our cost of products revenue of Rs. 2,206.5 million in the fiscal year ended March 31, 2005. Our cost of products revenue as a percentage of products revenue was 39% in the fiscal year ended March 31, 2006, compared to 36% in the fiscal year ended March 31, 2005. This increase, as stated above, was largely attributable to the higher investments in the product business.

Our cost of services revenue in the fiscal year ended March 31, 2006 was Rs. 5,014.1 million, an increase of 35% over our cost of services revenue of Rs. 3,714 million in the fiscal year ended March 31, 2005. The cost of services revenue as a percentage of services revenue was 71% in the fiscal year ended March 31, 2006, compared to 70% in the fiscal year ended March 31, 2005. The primary reasons for the increase in costs during this year as stated above were higher employee costs needed for investments in creating the new competencies.

Sales and marketing expenses

Our sales and marketing expenses in the fiscal year ended March 31, 2006 were Rs. 2,066.9 million, an increase of 35% over our sales and marketing expenses of Rs. 1,529.3 million in the fiscal year ended March 31, 2005. Our sales and marketing expenses as a percentage of total revenue was at 14% for the fiscal year ended March 31, 2006 compared to 13% for the fiscal year ended March 31, 2005. The increase in sales and marketing expenses of Rs. 537.6 million was principally due to enhanced international marketing efforts especially in the advanced markets and commissions to marketing partners and alliances.

Our sales and marketing expenses for our Products Business in the fiscal year ended March 31, 2006 were Rs. 1,672 million, an increase of 33% over our sales and marketing expenses for our Products Business of Rs. 1,260.2 million in the fiscal year ended March 31, 2005. Sales and marketing expenses for our Products Business as a percentage of products revenue was 22% in the fiscal year ended March 31, 2006, compared to 21% in the fiscal year ended March 31, 2005. The increase in the internal sales and marketing efforts as stated above was largely attributable to the Products Business.

Our sales and marketing expenses for our Services Business in the fiscal year ended March 31, 2006 were Rs. 327.6 million, an increase of 28% over our sales and marketing expenses for our Services Business of Rs. 255.7 million in the fiscal year ended March 31, 2005. Sales and marketing expenses for our Services Business as a percentage of services revenue remained at 5% in the fiscal year ended March 31, 2006 and the fiscal year ended March 31, 2005.

General and administrative expenses

Our general and administrative expenses in the fiscal year ended March 31, 2006 were Rs. 1,699.3 million, an increase of 47% over our general and administrative expenses of Rs. 1,157.1 million in the fiscal year ended March 31, 2005. In the financial year, we expanded our facilities to meet the growth requirements and created new development facilities in Bangalore, Chennai and Mumbai and their costs like rent, power and communication. Our general and administrative expenses as a percentage of total revenue was 11% in the fiscal year ended March 31, 2006, compared to 10% in the fiscal year ended March 31, 2005.

General and administrative expenses for our Products Business in the fiscal year ended March 31, 2006 were Rs. 427.5 million, an increase of 78% over our general and administrative expenses for our Products Business of Rs. 240.7 million in the fiscal year ended March 31, 2005. The increase is attributable to increased rent, power and communication costs. Our general and administrative expenses for our Products Business as a percentage of products revenue was 6% in the fiscal year ended March 31, 2005, compared to 4% in the fiscal year ended March 31, 2005.

General and administrative expenses for our Services Business in the fiscal year ended March 31, 2006 were Rs. 349.4 million, an increase of 55% over our general and administrative expenses for our Services Business of Rs. 225.8 million in the fiscal year ended March 31, 2005. Our general and administrative expenses for our Services Business as a percentage of services revenue was 5% in the fiscal year ended March 31, 2006, compared to 4% in the fiscal year ended March 31, 2005. This increase is on account of a new development centers becoming operational for the services business.

Income taxes

Our provision for income taxes in the fiscal year ended March 31, 2006 was Rs. 515.2 million, a decrease of 18% over our provision for income taxes of Rs. 627.1 million in the fiscal year ended March 31, 2005. Our effective tax rate was 19 % in the fiscal year ended March 31, 2006 compared to 24% in the fiscal year ended March 31, 2005. The decrease in tax rate is attributable to the higher generation of revenue from units availing tax holidays in India.

Income from operations and net income

As a result of the foregoing factors, income from operations decreased by 2% to Rs. 2,392.5 million in fiscal 2006 from Rs. 2,433 million in fiscal 2005, and net income increased by 8% to Rs. 2,190.4 million in fiscal 2006 from Rs. 2,031.4 million in fiscal 2005. In the current financial year, our recent acquisitions contributed negatively to the tune of almost Rs. 350 million to the net income, while adding Rs. 460 million to the top line, overall thus effectively resulting in negative contribution to the margins by 3%. These acquisitions are in the investment phase and add strategic value to our business and growth prospects. Our net margins decreased to 15% from 18% in fiscal 2006. We define net income margins for a particular period as the ratio of net income to total revenue during such period.

Liquidity and capital resources

Our capital requirement relate primarily to financing the growth of our business. We have historically financed the majority of our working capital, capital expenditure and other requirements through our operating cash flow. During fiscal 2006 and 2005 we generated cash from operations of Rs. 1,415.3 million and Rs. 1,711.8 million respectively.

i-flex is a zero debt company. We expect that our primary financing requirements in the future will be capital expenditure and working capital requirements in connection with the expansion of our business. We believe that the cash generated from operations will be sufficient to satisfy our currently foreseeable capital expenditure and working capital requirements.

Human capital

We recruit graduates from leading engineering and management institutions. We also hire functional experts from the banking industry. We had a net addition of 2,202 employees during the fiscal year taking our employee strength to 6,858 employees as on March 31, 2006. The blend of functional knowledge and technical expertise, coupled with i-flex training and experience make our employees unique.

We enjoy cordial relationships with our employees and endeavor to give them an excellent, professionally rewarding and enriching work environment. We operate an effective performance management system with a focus on employee development. This measures key result areas, competencies and training needs ensuring all-round employee development.

Risks and concerns

Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposures are due to the following:

- foreign exchange rate fluctuations,
- fluctuations in interest rates; and
- fluctuations in the value of our investments.

As of March 31, 2006, we had Cash and Bank Balances of Rs. 6,864.22 million out of which Rs. 4,780.2 million was in interest–bearing bank deposits. Consequently, we face an exposure on account of fluctuation in interest rates. These funds were invested in bank deposits of longer maturity (more than 90 days) to earn a higher rate of interest income.

A substantial portion of our revenue is generated in foreign currencies while a majority of our expenses are incurred in Indian Rupees and the balance in US Dollars and European currencies. Our functional currency for Indian operations and consolidated financials is the Indian Rupee. We expect the majority of our revenue will continue to be generated in foreign currencies for the foreseeable future and a significant portion of our expenses, including personnel costs and capital and operating expenditure, to continue to be incurred in Indian Rupees.

In addition we face normal business risks such as global competition and country risks pertaining to countries that we operate in.

Integration of mergers and acquisitions

i-flex has acquired a couple of companies in the past, i.e., SuperSolutions Corporation, USA and ISP Internet Mauritius Company, Mauritius. During the year, we acquired 76.77% in Canada based Castek Software Inc. ("Castek") in an all cash deal. These mergers and acquisitions involve inherent risks, including:

- unforeseen contingent risks or latent liabilities relating to these businesses that may only become apparent after the merger or acquisition is finalized;
- integration and management of the operations, sales and marketing, personnel and systems;

The company as part of its policies ensures that the companies acquired are successfully integrated into the mainstream business.

SWOT analysis

Strengths:

- Comprehensive solutions portfolio.
- World-class technology
- Deep domain expertise
- Extensive global client base
- Superior quality and cost-efficient delivery
- High quality manpower resources
- Strong R&D capability, well linked with business

Weaknesses:

- Exposure to various economies

Opportunities

- India is becoming a favored outsourcing destination
- Increasing momentum in purchasing core banking systems by large and global financial institutions
- Entry into hitherto untapped markets
- Expanding solutions portfolio and entry into new market segments – consumer finance, business analytics, Basel II, anti-money laundering, among others

Threats:

- Increasing competition
- Growing backlash of outsourcing from advanced markets
- Legislative and visa related restrictions

Outlook

There are several key opportunities in the market place for i-flex. First, there is increased traction in large institutions looking to replace their core systems. Multi-country standardization opportunities also form an integral part of the core banking replacement strategy for global banks. i-flex is already well positioned in this market with its comprehensive solutions stack and it is further expanding the portfolio to meet unique opportunities, especially in the developed market. Second, there are opportunities opening up in replacing older packages in banks. While this was always a traditional market segment, the opportunities in these areas are significantly increasing. Third, risk and compliance is the key priority area for banks and again the i-flex solutions' stack is world-class in this area. With partners now being enabled to implement these products, this will be an important element of our strategy to expand the available talent pool for implementation.

Lastly, outside i-flex's traditional market of core banking, there are emerging opportunities in other verticals within the financial services industry. i-flex recently entered the insurance vertical and it plans to continue to expand the capability within the financial services domain.

Acquisition

In March 2005, i-flex through one of its subsidiaries, i-flex America Inc. (i-flex America), entered into an arrangement with Castek Software Inc ('Castek'), which provides i-flex an option to purchase a 34 per cent stake in Castek. As per the terms of the arrangement, i-flex had made a payment of $ 0.18 million, which had been considered as an advance towards investments as at the end of that quarter.

On August 17, 2005, i-flex America exercised its option to purchase common shares and acquired 65.38% stake in Castek. On the same date, i-flex America also acquired convertible debentures and converted them into shares, resulting in an additional stake of 1.19% in Castek. On September 16, 2005, i-flex America purchased shares from the existing Castek shareholders and increased its stake by 10.18%. As at the end of the quarter ended September 2005, i-flex America had a 76.77% stake in Castek. The total cost of acquisition is $1.398 million.

Internal control systems and their adequacy

i-flex group has in place adequate systems of internal control and documented procedures covering all financial and operating functions. These systems have been designed to provide reasonable assurance with regard to maintaining proper accounting controls, monitoring economy and efficiency of operations, protecting assets from unauthorized use or losses, and ensuring reliability of financial and operational information. The group continuously strives to align all its processes and controls with global best practices.

Report of independent auditors

The Board of Directors and Shareholders of
i-flex Solutions Limited

We have audited the accompanying consolidated balance sheets of i-flex Solutions Limited as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of i-flex Solutions Limited at March 31, 2005 and 2006, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States.

S. R. Batliboi & Associates
June 1, 2006

Consolidated balance sheets
as at March 31

(All amounts in thousands except share data)

	2005 Rs.	2006 Rs.	2006 USD
Assets			
Current assets			
Cash and cash equivalents	2,372,046	2,082,098	46,810
Bank deposits	4,134,194	4,780,235	107,469
Accounts receivables, net of allowance of Rs. 45,152 and Rs. 99,439, respectively	2,516,023	5,223,217	117,428
Accounts receivables – related parties	1,190,008	34,185	769
Unbilled accounts receivables	116,110	295,053	6,633
Marketable securities, available for sale	–	10,000	225
Prepaid expenses	128,198	149,241	3,355
Other current assets	453,691	797,740	17,935
Total current assets	10,910,270	13,371,769	300,624
Goodwill	583,540	549,535	12,355
Intangible assets, net	386,814	343,265	7,717
Property and equipment, net	1,285,285	2,174,282	48,882
Investment in equity investees	10,903	15,616	351
Other investments	55,132	33,254	748
Rental deposits	570,105	1,206,553	27,126
Restricted cash and cash equivalents	125,006	1,883	42
Deferred tax assets	1,208	70,762	1,591
Total assets	13,928,263	17,766,919	399,436
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	128,457	139,549	3,137
Accrued employee costs	721,451	1,052,549	23,663
Deferred revenue	1,079,438	1,731,980	38,938
Income tax payable	79,893	68,647	1,543
Other current liabilities	586,781	988,174	22,216
Obligations under capital leases – current	10,444	10,371	233
Total current liabilities	2,606,464	3,991,270	89,730
Deferred revenue	377	131,838	2,964
Obligations under capital leases – non current	22,000	19,653	442
Deferred tax liabilities	1,617	1,649	37
Commitments and contingencies			
Shareholders' equity			
Equity shares, Rs. 5 par value, Authorized: 100,000,000 shares			
Issued and outstanding, 74,879,650 and 76,288,367 shares, respectively	374,398	381,442	8,576
Equity shares subscribed 24,700 and 38,900 shares, respectively	6,546	10,309	232
Additional paid-in-capital	2,516,636	3,070,283	69,026
Retained earnings	8,933,133	10,695,295	240,452
Accumulated other comprehensive loss	(54,700)	(74,920)	(1,684)
Deferred stock based compensation – Employees Stock Purchase Scheme ("ESPS") Trust	(478,208)	(459,900)	(10,339)
Total shareholders' equity	11,297,805	13,622,509	306,263
Total liabilities and shareholders' equity	13,928,263	17,766,919	399,436

See accompanying notes.

Consolidated statements of income
for the year ended March 31

(All amounts in thousands except share and per share data)

	2005 Rs.	2006 Rs.	2006 USD
Revenue	11,404,408	14,835,246	333,526
Cost of revenue (excluding depreciation and amortization)	(5,948,105)	(8,146,671)	(183,153)
Gross profit	5,456,303	6,688,575	150,373
Operating expenses			
Selling and marketing expenses	(1,529,280)	(2,066,853)	(46,467)
General and administrative expenses	(1,157,058)	(1,669,277)	(37,529)
Depreciation and amortization	(336,975)	(501,947)	(11,285)
Impairment of goodwill	–	(57,958)	(1,303)
Operating income	2,432,990	2,392,540	53,789
Non-operating income (expense), net			
Interest income	259,050	294,381	6,618
Other income (expense), net	(32,448)	11,323	255
Income before income taxes	2,659,592	2,698,244	60,662
Provision for income taxes	(627,062)	(515,152)	(11,582)
Equity in net income (loss) of equity investees	(1,118)	4,713	106
Minority interest	–	2,564	58
Net income	2,031,412	2,190,369	49,244
Earnings per share			
Basic	27.34	29.13	0.65
Diluted	26.48	28.24	0.63

See accompanying notes.

Consolidated statements of cash flows
for the year ended March 31

(All amounts in thousands)

	2005 Rs.	2006 Rs.	2006 USD
Cash flows from operating activities			
Net Income	2,031,412	2,190,369	49,244
Adjustments to reconcile net income to net cash provided by operating activities			
Advances written off	–	22,800	513
Allowance for doubtful accounts	2,658	52,535	1,182
Amortization of stock based compensation	6,755	8,199	184
Depreciation and amortization	336,975	501,947	11,285
Impairment of goodwill	–	57,958	1,303
Profit from sale of property and equipment, net	(3,946)	(314)	(7)
Profit on sale of investment	(16,804)	(743)	(17)
Diminution in value of investment	50,528	–	–
Deferred tax (benefit) expense	1,095	(69,554)	(1,564)
Equity in net (income) loss of equity investees	1,118	(4,713)	(106)
Minority Interest	–	(2,564)	(58)
	2,409,791	2,755,920	61,959
Changes in operating assets and liabilities, net of effect of acquisition			
Accounts receivables and unbilled receivables	(1,543,873)	(1,856,985)	(41,749)
Other current assets and other assets	(236,007)	(896,308)	(20,151)
Current liabilities and other liabilities	1,081,849	1,412,681	31,760
Net cash provided by operating activities	1,711,760	1,415,308	31,819
Cash flows from investing activities			
Purchase of property and equipment including capital work-in-progress	(430,469)	(1,214,086)	(27,295)
Acquisition of customer contracts and IPRs	(273,005)	(43,009)	(967)
Investment in Login SA	(6,593)	–	–
Investment in Dhanalakshmi Bond	–	(10,000)	(225)
Acquisition of companies, net of cash acquired	(229,414)	(34,962)	(786)
Proceeds from sale of property and equipment	12,377	8,948	201
Proceeds from Bank deposits	6,753,658	7,600,014	170,864
Investment in Bank deposits	(8,135,246)	(8,122,931)	(182,620)
Proceeds from sale of investment	266,804	2,621	59
Net cash used in investing activities	(2,041,888)	(1,813,405)	(40,769)
Cash flows from financing activities			
Shares subscribed but not issued	6,546	10,309	232
Issue of shares against ESOP Scheme and options to IBM	36,967	391,761	8,808
Advance towards exercise of options and warrants	5,367	40,441	909
Repayment of loan by the ESPS trust	67,000	117,500	2,642
Capital lease payments	(9,899)	(12,169)	(274)
Dividend and dividend tax	(295,203)	(428,207)	(9,627)
Net cash (used in) provided by financing activities	(189,222)	119,635	2,690
Net decrease in cash and cash equivalents during the year	(519,350)	(278,462)	(6,260)
Effect of exchange rate changes on cash and cash equivalents	(14,790)	(11,486)	(258)
Cash and cash equivalents at the beginning of the year	2,906,186	2,372,046	53,328
Cash and cash equivalents at the end of the year	2,372,046	2,082,098	46,810
Supplemental disclosure of cash flow information			
Taxes paid	588,696	952,397	21,412
Accounts payable related to the purchase of property and equipment	26,566	54,832	1,233
Assets acquired under capital leases	25,028	13,431	302

See accompanying notes.

Consolidated statements of shareholders' equity

for the years ended March 31

(All amounts in thousands except share and per share data)

	Equity shares Number	Equity shares Par value	Shares subscribed but not issued	Additional paid-in-capital	Retained earnings	Accumulated other comprehensive loss	Deferred compensation cost in respect of ESPS Trust	Total shareholders' equity INR
Balance at April 1, 2004	74,740,150	373,701	–	2,464,825	7,196,924	(25,095)	(541,247)	9,469,108
Options exercised	–	–	6,546	–	–	–	–	6,546
Shares issued for exercised options	139,500	697	–	36,270	–	–	–	36,967
Fair value of options granted to IBM	–	–	–	11,580	–	–	–	11,580
Repayment of loan by the ESPS trust	–	–	–	–	–	–	67,000	67,000
Deferred stock based compensation–ESPS trust	–	–	–	3,961	–	–	(3,961)	–
Cash dividend	–	–	–	–	(295,203)	–	–	(295,203)
Comprehensive income								
Net income	–	–	–	–	2,031,412	–	–	2,031,412
Foreign currency translation	–	–	–	–	–	(13,235)	–	(13,235)
Reversal of unrealized gain on securities available for sale	–	–	–	–	–	(16,370)	–	(16,370)
Comprehensive income								2,001,807
Balance at March 31, 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	1,317,370	6,587	(6,546)	343,423	–	–	–	343,464
Shares issued for options exercised by IBM	91,347	457	–	53,207	–	–	–	53,664
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 March 31, 2006	76,288,367	381,442	10,309	3,070,283	10,695,295	(74,920)	(459,900)	13,622,509
								USD
Balance at March 31, 2006	76,288,367	8,576	232	69,026	240,452	(1,684)	(10,339)	306,263

Notes to consolidated financial statements
for the year ended March 31, 2005 and 2006

(All amounts in thousands except share and per share data)

1. Organization and description of business

i-flex solutions limited ("i-flex" or the "Company") was incorporated in India with limited liability on September 27, 1989. The Company along with its subsidiaries is principally engaged in the business of providing information technology solutions and business process outsourcing services to the financial services industry worldwide. i-flex has a suite of banking products, which caters to the needs of corporate, retail, investment banking, treasury operations and data warehousing.

As at March 31, 2006, Oracle Global (Mauritius) Limited ("Oracle") had approximately 48% ownership interest in the Company which was acquired from OrbiTech Limited in November 2005 and the open market. Subsequent to the balance sheet date, Oracle increased its ownership interest to approximately 52%.

2. Summary of significant accounting policies

2.1. Basis of presentation

The accompanying consolidated financial statements include the accounts of i-flex and its subsidiaries (hereinafter collectively referred to as the "Group") and are prepared in accordance with United States generally accepted accounting principles ("US GAAP"). All significant inter-company balances and transactions have been eliminated upon consolidation. An acquired business is included in the Group's Consolidated Statement of Income with effect from the date of the acquisition.

The Group uses the India Rupee ("Rs.") as its reporting currency. For the convenience of readers, the consolidated financial statements for the year ended March 31, 2006 have been translated into United States Dollars ("USD") at the noon buying rate in New York City on March 31, 2006 for cable transfers in Indian Rupees, as certified for customs purposes by the Federal Reserve Bank of New York of 1 USD = Rs. 44.48. The convenience translation should not be construed as a representation that the Indian Rupee amounts or the USD amounts referred to in these consolidated financial statements have been, could have been, or could in the future be, converted into USD or Rs., as the case may be, at this or at any other rate of exchange, or at all.

The Group also separately presents its consolidated financial statements for the same periods prepared in accordance with India generally accepted accounting principles ("Indian GAAP"). Significant differences between the Indian GAAP and US GAAP relate to the deferral of revenue pertaining to post-contract support for US GAAP and accounting for compensated absences, employee benefit plans, marketable securities, foreign forward exchange contracts and option contracts and derivatives and business combinations.

Certain reclassifications have been made to conform prior year amounts to the current year's presentation. These reclassifications had no effect on reported net income.

2.2. Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2.3. Foreign currency

The Company's foreign operations use their respective local currency as their functional currency. Accordingly, assets and liabilities of foreign subsidiaries are translated into Rs. at exchange rates in effect at the balance sheet date, while revenue and expenses are translated at average exchange rates prevailing during the year. Translation adjustments are reported as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Foreign currency denominated assets and liabilities are translated into the functional currency at exchange rates in effect at balance sheet date. Foreign currency transaction gains and losses are recorded in the Consolidated Statement of Income within other income.

2.4. Revenue recognition

The Group derives revenue from software licensing and related services and IT solutions and consulting services.

Software licensing and related services

The Group enters into agreements to generally convey a perpetual license to its customers and also provides implementation services and customization as required. Customers also have the option to enter into a maintenance arrangement (post contract support or "PCS"), which is generally an annual contract, and commences when the implementation is complete and the warranty period has ended.

License revenue for perpetual licenses are recognized upon delivery, when services that are required to be performed under the terms of the arrangement with the customer are not considered essential to the functionality of the software and when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable and the collection of the fee is probable. License revenue from arrangements, which contain extended payment terms is not considered to be fixed and determinable at the inception of the arrangement and accordingly revenue is recognized as payments from customers become due, assuming all other conditions for revenue recognition have been satisfied.

In limited situations the Group enters into time-based or term licenses for a specified period, the license and PCS revenue is recognized ratably over the period of the arrangement.

Services are not considered essential to the functionality of the software when such services primarily consist of minor functional enhancements, simple interfaces, implementation planning, data conversion, training and product walkthrough and the realizability of the license fees is not dependent on such services. When vendor specific objective evidence ("VSOE") of the fair value of the services, based on historical evidence of sales of similar services exists, revenue related to implementation services are recognized as services are provided when arrangements are on a time and material basis. In the case of fixed price arrangements, subject to VSOE being established, revenue related to implementation services is recognized using the proportional performance method of accounting. Performance is measured based upon the efforts incurred to date in relation to the total estimated efforts to complete the contract. If the realizability of the services fees are dependent on acceptance conditions, revenue is recognized only when such acceptance has been met.

When an arrangement provides for significant modification or customization of the product or if services are essential to the functionality of the product or the realization of the license fees is dependent on the services, the revenue related to both the license and services is recognized using the percentage of completion method of accounting. Percentage of completion is measured based upon the efforts incurred to date in relation to the total estimated efforts to complete the contract. If the realizability of the services fees is dependent on acceptance conditions, revenue is recognized only when such acceptance has been met.

The Group enters into PCS arrangements, which are generally for a period of 12 months and renewable thereafter, to provide technical support, maintenance, query solving and upgrades (on a when and if available basis) to its customers. PCS revenue is recognized ratably over the period of the PCS. When PCS is provided together with other elements, VSOE of PCS is based on the renewal rate for the PCS arrangement. When the arrangement includes a free maintenance period, including the implied benefit to receive upgrades during the implementation and warranty period, a portion of the license fees based on the VSOE of PCS is deferred and recognized over the free PCS period.

If an up-front discount is provided in an arrangement, a proportionate portion of that discount, relative to the VSOE of that element, is applied to each element in the arrangement based on each element's fair value.

IT solutions and consulting services

The Group provides bespoke software development and other consulting services to customers primarily in banking and financial services.

Revenue from IT solutions and consulting services are recognized as services are provided when arrangements are on a time and material basis. Revenue for fixed price contracts are recognized based on a proportional performance method. If the proportional performance is higher than a related contractual milestone requiring customer acceptance, revenue is recognized only to the extent customer acceptance has been received. The Company monitors estimates of total contract revenue and cost throughout the delivery period. The cumulative impact of any change in estimates of the contract revenue or costs is reflected in the period in which the changes become known. If a loss is anticipated on a particular contract, provision is made for the estimated loss.

The Company issues invoices related to fixed price contracts based on either the achievement of milestones during a project or other contractual terms. Differences between the timing of billings and the recognition of revenue based upon the proportional performance method of accounting are recorded as deferred revenue. Deferred revenue also includes the revenue remaining to be recognized on PCS arrangements.

Reimbursement for out-of-pocket expenses

Reimbursements of out-of-pocket expenses amounting to Rs. 233,837 and Rs. 282,518 for the years ended March 31, 2005 and 2006, respectively are included in revenue in accordance with Emerging Issues Task Force Consensus ("EITF") 01-14 "Income Statement Characterization of Reimbursement received for "Out of Pocket" expenses incurred".

2.5. Cost of revenue

Cost of revenue comprises of salaries and employee benefits, project related travel costs, application software costs and professional fees.

2.6. Research and development

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is established. Software product development costs incurred subsequent to the achievement of technological feasibility are not material and have also been expensed. These costs primarily consist of salaries and employee benefits and other related expenses. Research and development cost for the years ended March 31, 2005 and 2006 amounted to Rs. 120,229 and Rs. 188,908, respectively and is included in cost of revenue.

2.7. Cash and cash equivalents

The Group considers all highly liquid investments with an initial maturity of up to three months to be cash equivalents. Cash and cash equivalents include Rs. 320,754 and Rs. 290,197 at March 31, 2005 and 2006, respectively, related to the Company, that are in Indian banks and are subject to local exchange control restrictions and can be remitted overseas only with prior approval from the relevant regulatory authorities.

2.8. Accounts receivable

Accounts receivable represent trade receivables, net of an allowance for doubtful accounts. The allowance for doubtful accounts represents the Group's best estimate of receivables that are doubtful of recovery, based on a specific identification basis.

The changes in the allowance for doubtful accounts for the years ended March 31, 2006 and 2005 were as follows:

	2005 Rs.	2006 Rs.	March 31 2006 USD
Balance at the beginning of the year	41,499	45,152	1,015
Charged to operations	2,658	54,822	1,233
Reversal on account of collections	–	(2,287)	(51)
Translation adjustments	995	1,752	39
Balance at the end of the year	45,152	99,439	2,236

2.9. Property and equipment

Property and equipment, which include amounts recorded under capital lease, are recorded at cost.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which is as follows:

Asset description	Asset life (in years)
Buildings	20
Computer equipments	3
Electrical and office equipments	2–7
Furniture and fixtures	2–7
PeopleSoft ERP	5
Leased assets	Lesser of estimated useful life or lease term
Improvement of leasehold premises	Lesser of estimated useful life or lease term

Advances paid towards the acquisition of property and equipment and the cost of property and equipment not put to use before the balance sheet date are disclosed under caption capital work-in-progress in Note 4. Property and equipment are reviewed for impairment if indicators of impairment arise. The evaluation of impairment is based upon a comparison of the carrying amount of the property and equipment to the estimated future undiscounted net cash flows expected to be generated by the property and equipment. If estimated future undiscounted cash flows are less than the carrying amount of the property and equipment, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the property and equipment to its carrying value, with any shortfall from fair value recognized as an expense in the current year.

2.10. Goodwill and intangibles assets

Goodwill is not amortized but is reviewed for impairment annually or more frequently if indicators arise. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities for that reporting unit. The fair values used in this evaluation are estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions.

Intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible assets. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment, if indicators of impairment arise. Intangible asset such as Trademark is considered to have indefinite life and is reviewed for impairment annually or more frequently, if indicators arises. The evaluation of impairment is based upon a comparison of the carrying amount of the intangible asset to the estimated future undiscounted net cash flow expected to be generated by the asset. If estimated future undiscounted cash flow are less than the carrying amount of the asset, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current year.

Amortization of the Group's definite lived intangible assets is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Asset description	Asset life (in months)
Technologies/software	60
Customer relationship	36–60
Customer contracts and customer order backlog	12
Process know how	60
Intellectual property right	60
Others	12–36

2.11. Investments

Investments in marketable securities are classified as available for sale and are accounted for at fair value, which is determined by reference to prevailing market prices. Changes in fair value are recorded, net of taxes as comprehensive income (loss) and reported in accumulated other comprehensive income (loss), as a separate component of shareholders' equity. A decline in fair value below original cost is recorded in the income statement when it is considered to be other than temporary.

Investments where the Group has between a 20% to 50% voting interest are accounted for using the equity method. Investments in unquoted equity securities where the Group owns less than 20% of the voting interest are accounted for at cost. A decline in fair value below original cost is recorded in the income statement when it is considered to be other than temporary.

2.12. Income taxes

The Group applies the asset and liability method of accounting for income taxes as described in Statement of Financial Accounting Standards ("SFAS") No. 109, *"Accounting for Income Taxes"*. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recognized to reduce the deferred tax assets to an amount that is more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income. The Group evaluates potential exposures related to tax contingencies or claims made by the tax authorities in various jurisdictions and determines if a reserve is required.

2.13. Dividends

Dividends distributable to the shareholders are accounted upon the approval of the payment of the dividend by shareholders at their general meeting.

2.14. Employee benefit plans

Defined contribution plans

Eligible employees of the Group in India receive benefits from a Provident Fund, administered by the Government of India, which is a defined contribution plan. Both the employees and the Group make monthly contributions to the Provident Fund equal to a specified percentage of the eligible employees' salary.

Eligible employees of the Group in India receive benefits from a Superannuation Plan, administered by Life Insurance Corporation of India ("LIC"), which is a defined contribution plan. The Company makes monthly contributions to the Superannuation fund equal to a specified percentage of the eligible employees' salary.

The Company has no further obligation under defined contribution plans beyond the contributions made to the plan. Contributions are charged to income in the year in which they accrue and are included in the Consolidated Statement of Income.

Defined benefit plan

Employees in India are entitled to benefits under the Payment of Gratuity Act 1972, a defined benefit retirement plan. The plan provides for a lump-sum payment to eligible employees at retirement, death, incapacitation or on termination of employment, of an amount based on the respective employee's salary and tenure of employment subject to a maximum of approximately Rs. 350 per employee.

The Company makes contributions to a fund administered and managed by the LIC to fund the gratuity liability. Under this scheme, the obligation to pay gratuity remains with the Group, although LIC administers the scheme. The gratuity liability and net periodic gratuity cost has been actuarially determined after considering discount rates, expected long term return on plan assets and increases in compensation levels. Differences between the amount paid to LIC and the net periodic gratuity cost is recorded as a prepaid (accrued) pension cost.

2.15. Leases

The Group classifies all leases at the inception date as either a capital lease or an operating lease. Lease of assets under which there is transfer of substantially all of the risk and rewards incident to ownership as prescribed in SFAS No. 13, *"Accounting for Leases"* are classified as capital leases otherwise all leases are classified as operating leases. Assets under capital leases are capitalized and leases payments are appropriated towards the lease obligation and interest on the obligation amount. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

2.16. Earnings per share

Basic income per share is computed using the weighted-average number of equity shares outstanding during the year. Diluted income per share is computed by considering the impact of the potential issuance of ordinary shares, using the treasury stock method, on the weighted average number of shares outstanding.

The following table sets forth the computation of basic and diluted earnings per share:

		March 31
	2005	2006
Numerator		
Net income	2,031,412	2,190,369
Denominator		
Basic weighted average equity shares outstanding	74,289,899	75,192,287
Dilutive impact of stock options and stock purchase scheme	2,412,573	2,371,459
Diluted weighted average equity shares outstanding	76,702,472	77,563,746

2.17. Fair value of financial instruments

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate their fair value due to the short maturity of these items.

Restricted cash and cash equivalents of Rs. 1,883 with Bank represent margin money against the bank guarantee issued for a period equal to or above five years. The Group receives interest on these deposits, which are at the rates offered by the bank on such transactions. Hence the fair value of the bank deposits closely approximates the current value of the bank deposits in the consolidated financial statements. Long-term rental deposits comprise of interest free deposits maintained for office and residential premises taken on lease. Such deposits are recoverable on termination of such lease agreements. Long-term rental deposits amounted to Rs. 570,105 and Rs. 1,206,553 at March 31, 2005 and 2006, respectively and their fair value determined using market rates of interest as of March 31, 2005 and 2006 was Rs. 489,919 and Rs. 1,057,835 respectively.

2.18. Concentration of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash equivalents, account receivables-related parties and bank deposits. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. The Group's cash equivalents, bank deposits and restricted cash are invested with banks with high investment grade credit ratings. Account receivables are typically unsecured and are derived from revenue earned from customers in the financial service industry primarily in the United States and Europe. The Group monitors the credit worthiness of its customers to which it grants credit terms in the normal course of business. Management believes there is no significant risk of loss in the event of non-performance of the counter parties to these financial instruments, other than the amounts already provided for in the consolidated financial statements.

2.19. Derivative instruments and hedging activities

The Group has entered into forward and option foreign exchange contracts where the counter party is a bank. The Group purchases forward foreign exchange contracts to mitigate the risks of change in foreign exchange rates on accounts receivable denominated in certain foreign currencies. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* as amended. Under SFAS 133, the changes in the fair value of derivatives that are either not designated as a hedge or is so designated but do not qualify for hedge accounting, is recognized in the income statement. As of March 31, 2006, the Group held net forward foreign exchange contracts of USD 115,000 and EUR 6,250, and net foreign exchange option contracts of USD 18,000. These contracts mature between 1 to 12 months. The Group has recorded Rs. 49,658 and Rs. 8,273 as forward foreign exchange loss for the years ended March 31, 2005 and 2006, respectively in respect of these contracts.

Further, certain license arrangements entered into by the Group with its customers are denominated in a currency which is neither the functional currency of the Group or the customer, and thus qualify as embedded derivative instruments under SFAS No. 133. Accordingly, gains or losses on such embedded derivative instruments are recognized in the Group's consolidated income statements based on the fair value of the embedded derivative contracts at year end and the corresponding asset/liability is recorded in the balance sheet under other current assets or other current liabilities. The Group has recorded Rs. 3,978 and Rs. 17,749 as gains for the year ended March 31, 2005 and 2006, respectively related to such embedded derivatives.

2.20. Stock-based compensation

The Group uses the intrinsic value method of accounting prescribed by the Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees"* and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation 44, *"Accounting for Certain Transactions involving Stock Compensation"*, an interpretation of APB Opinion 25, to account for its employee stock-based compensation plan. Under this method, compensation expense is recorded over the vesting period of the option, if the fair market value of the underlying stock exceeds the exercise price at the measurement date, which typically is the grant date.

The Group has provided pro forma disclosures as required by SFAS No. 123, *"Accounting for Stock-Based Compensation"* and SFAS 148, *"Accounting for Stock-Based Compensation – Transition and Disclosure."*

Had compensation cost been determined in a manner consistent with the fair value approach described in SFAS No. 123, the Group's net income and net income per share as reported would have changed to the amounts indicated below:

			March 31
	2005	2006	2006
	Rs.	Rs.	USD
Net income as reported	2,031,412	2,190,369	49,244
Add: Stock-based employee compensation expense included in reported net income	–	–	–
Less: Stock-based employee compensation determined using fair value of the options	(127,633)	(70,728)	(1,590)
Pro forma net income	1,903,779	2,119,641	47,654
Basic income per share			
As reported	27.34	29.13	0.65
Pro forma	25.63	28.19	0.63
Diluted income per share			
As reported	26.48	28.24	0.63
Pro forma	24.82	27.27	0.61

The fair value of options was determined using the Black-Scholes model using the following assumptions:

	2005	March 31 2006
Dividend yield	0.5 %	0.7 %
Expected volatility	65 %	40 %
Risk-free interest rates	8.5 %	6.0 %
Expected life	6.2 years	6.5 years

In December 2004, SFAS No. 123(R), *"Share-Based Payment"*, was issued, which establishes standards of accounting for transactions in which an entity exchanges its equity instruments for goods or services. This standard will be adopted by the Group effective April 1, 2006. The Group has decided to use the modified prospective method for transition and under this method the Group will be required to recognize compensation cost relating to the unvested portion of those awards calculated in accordance with SFAS No. 123 (i.e., the portion of the award for which the requisite service has not yet been rendered) in the financial statements, beginning with the date on which Statement 123(R) is adopted, until the requisite service has been provided. All awards granted, modified or settled after the date of adoption should be accounted for under the provision of the new standard. Adoption of this standard may have a significant impact on the Group's results of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of this standard cannot be predicted at this time as it will depend on levels of stock-based payments made in the future. However, had the Group adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of having accounted for stock-based payments in accordance with SFAS 123 as described in the disclosure of pro forma net income and earnings per share above.

2.21. Recent accounting pronouncements

In June 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections,"* ("SFAS 154") which is a replacement of APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 changes the accounting for and reporting of changes in accounting principles and error corrections by requiring retrospective application to prior period financial statements unless impracticable. This statement is effective in fiscal years beginning after December 15, 2005. The Group does not expect the adoption of SFAS 154 to have a significant impact on its financial statements.

In February 2006, the FASB issued SFAS No. 155, *"Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140,"* ("SFAS No. 155"). SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends Statement No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Group has not completed its evaluation of the effect of SFAS No. 155.

3. Business combination

During the year ended March 31, 2006, the Group completed following acquisitions:

	Purchase Consideration Rs.	Net assets acquired Rs.	Goodwill Rs.
Purchase of Product IPR from Capital Markets Company N.V.	53,773	30,931	22,842
Acquisition of 76.77% ownership in Castek Software inc.	61,508	61,508	–
	115,281	92,439	22,842

Acquired intangibles (included in net asset acquired above) were as follows:

	Weighted average amortization period (Months)	Amount Rs.	Amount USD
Intellectual property rights	60	80,600	1,812
Customer contracts	12	492	11
Customer lists	12	3,292	74
Customer relationship	60	2,522	57
Customer order backlog	12	238	5
		87,144	1,959

Capital Markets Company N.V. ('Capco')

On June 10, 2005 'i-flex' entered into an agreement with Capital Markets Company N.V. ('Capco'), to acquire right, title and ownership interests in operational risk solutions based on a software product and technology that was previously owned by Capco (the Operational Risk Tool Suite (ORTOS), and certain related assets). The consideration consisted of an initial payment of Rs. 42,779 and contingent consideration of Rs. 29,477, payable based on a formulae linked to future sales of the product. The cost of the acquisition was Rs. 53,773, including Rs. 9,847 payable in respect of contingent consideration.

Castek Software Inc. ('Castek')

On August 17, 2005, the Group acquired a 76.77% ownership interest in Castek for a total consideration of Rs. 61,508.

The acquisition of the software product and technology and related assets of Capco qualified as an acquisition of a business. The above acquisitions were accounted for under the purchase method of accounting and the operations of each acquisition is included in the statement of income from the date of acquisition.

The effect of these acquisitions on revenue and net income was not material.

During the year ended March 31, 2005, the Group completed following acquisitions:

	Purchase Consideration Rs.	Net assets acquired Rs.	Goodwill Rs.
Acquisition of a contract from Trigyn Technologies Limited	190,615	190,615	–
Purchase of Product IPR from SRA Systems Limited	44,081	44,081	–
Acquisition of a Software product, Simple RM from TriVium System Inc.	66,736	66,736	–
Acquisition of all of the equity shares of ISP Internet Mauritius	233,483	39,041	194,442
	534,915	340,473	194,442

Acquired intangibles (included in net asset acquired above) were as follows:

	Weighted average amortization period (months)	Amount (Rs.)
Customer contract	12	28,545
Customer relationship	42	168,817
Customer relationship	36	10,382
Process knowhow	60	14,601
Intellectual property rights	60	110,817
		333,162

Trigyn Technologies Limited

On July 1, 2004, the Group acquired the IT consulting services contract covering master services agreement and all current statements of work of a large investment bank from Trigyn Technologies Limited.

SRA Systems Limited

On October 1, 2004, the Group acquired all rights, title, interest, ownership and benefit with respect to copyrights, licenses, IPRs and trademarks for software products – Flowmate and Documate of SRA Systems Limited ('SRA'). These rights are restricted only to the Banking, Financial Services and Insurance sector. However, SRA retains the right to license Documate to all clients.

TriVium Systems Inc.

On November 29, 2004, the group acquired rights, title, interest and ownership with respect to a software product SimpleRM and services for successful transitioning of the software to i-flex, from TriVium Systems Inc.

ISP Internet Mauritius

On December 22, 2004, the Group acquired all of the issued and outstanding equity shares of ISP Internet Mauritius Company ('Equinox'). Equinox along with its subsidiaries in US and India is engaged in providing business process outsourcing services to the mortgage banking industry.

The acquisition of a contract from Trigyn Technologies Limited and products from SRA Systems Limited and TriVium Systems Limited qualified as acquisitions of businesses. The above acquisitions were accounted for under the purchase method of accounting and the operations of each acquisition are included in the statement of income from the date of acquisition.

4. Property and equipment, net

The major classes of property and equipment are as follows:

	2005 Rs.	2006 Rs.	March 31 2006 USD
Land	232,674	232,674	5,231
Building	249,267	253,340	5,696
Computer equipment	829,992	1,147,088	25,788
Electrical and office equipment	266,725	430,056	9,669
Furniture and fixtures	276,990	369,534	8,308
Vehicles	37,180	37,765	849
Leasehold improvements	124,415	249,524	5,610
PeopleSoft ERP	–	53,767	1,209
Capital work-in-progress	85,618	581,356	13,069
	2,102,861	3,355,104	75,429
Accumulated depreciation and amortization	(817,576)	(1,180,822)	(26,547)
Property and equipment, net	1,285,285	2,174,282	48,882

The depreciation expense for the year ended March 31, 2005 and 2006 is Rs. 246,221 and Rs. 371,197, respectively.

Assets held under capital leases included above are as follows:

	2005 Rs.	2006 Rs.	March 31 2006 USD
Computer equipments	7,028	7,367	166
Furniture and fixtures	3,263	3,420	77
Vehicles	37,180	37,765	849
	47,471	48,552	1,092
Accumulated amortization	(16,720)	(20,648)	(464)
	30,751	27,904	628

5. Goodwill and intangible assets, net

The components of intangible assets are as follows:

	March 31, 2005 Gross Rs.	Accumulated amortization Rs.	Net Rs.
Amortizable intangible asset			
Technologies/software	118,584	27,300	91,284
Customer relationship	194,571	39,633	154,938
Customer contracts	28,545	18,037	10,508
Process know how	14,601	730	13,871
Intellectual property right	110,816	8,857	101,959
Others	4,084	2,172	1,912
Non-amortizable intangible asset			
Trademark	12,342	–	12,342
	483,543	96,729	386,814

			March 31, 2006
	Gross	Accumulated amortization	Net
	Rs.	Rs.	Rs.
Amortizable intangible asset			
Technologies/software	120,753	53,247	67,506
Customer relationship	197,093	96,007	101,086
Customer contracts	29,037	28,915	122
Process know how	14,601	3,650	10,951
Intellectual property right	191,416	41,505	149,911
Others	7,614	6,460	1,154
Non-amortizable intangible asset			
Trademark	12,535	–	12,535
	573,049	229,784	343,265

			March 31, 2006
	Gross	Accumulated amortization	Net
	USD	USD	USD
Amortizable intangible asset			
Technologies/software	2,715	1,197	1,518
Customer relationship	4,431	2,158	2,273
Customer contracts	653	650	3
Process know how	328	82	246
Intellectual property right	4,303	933	3,370
Others	171	146	25
Non-amortizable intangible asset			
Trademark	282	–	282
	12,883	5,166	7,717

Amortization expense related to intangible amounted to Rs. 90,754 and Rs. 130,750 for the year ended March 31, 2005 and 2006, respectively.

The estimated amortization expense based on current intangible balances for the next five fiscal years beginning April 1, 2006 is as follows:

		Year ending March 31
	Rs.	USD
2007	121,941	2,741
2008	107,742	2,422
2009	63,160	1,420
2010	32,121	722
2011	5,766	130
	330,730	7,435

The changes in carrying value of goodwill by segment (Refer to Note 14) were as follows:

	Product	KPO
	Rs.	Rs.
Balance as at March 31, 2004	389,098	–
Acquired during the year		
ISP Internet Mauritius	–	194,442
Balance as at March 31, 2005	389,098	194,442
Acquired during the year		
Capital Markets Company N.V.	22,842	–
Translation adjustments	(2,711)	3,822
Impairment during the year	(57,958)	–
Balance as at March 31, 2006	351,271	198,264

	Product	KPO
	USD	USD
Balance as at March 31, 2004	8,748	–
Acquired during the year		
ISP Internet Mauritius	–	4,371
Balance as at March 31, 2005	8,748	4,371
Acquired during the year		
Capital Markets Company N.V.	514	–
Translation adjustments	(61)	86
Impairment during the year	(1,303)	–
Balance as at March 31, 2006	7,898	4,457

6. Investments

Marketable securities

The fair values of the available for sale securities are as follows:

			March 31
	2005	2006	2006
	Rs.	Rs.	USD
Opening carrying value	266,370	–	–
Add: Unrealized gain during the year	–	–	–
Add: Investment during the year	–	10,000	225
Less: Reversal of unrealized gain	16,370	–	–
Less: Redemption value	266,804	–	–
Add: Gain on redemption	16,804	–	–
Carrying value of the investment	–	10,000	225

During the year ended March 31, 2005, the Group redeemed its investment in JM High Liquidity Fund at Rs. 266,804 and recorded gain of Rs. 16,804 to income statement.

Investment during the year ended March 31, 2006 was in debt securities of 9% Dhanalakshmi Bank Bond Series VI (allotted on March 30, 2006) are non-convertible redeemable at par at the end of 7 years 3 months from the date of allotment.

Investments in equity investees

The Group has a 40% investment in Flexcel International Private Limited ("Flexcel"), a joint venture between HDFC Bank Limited and its affiliates, Lord Krishna Bank Limited and its affiliates and the Company. Flexcel provides the Group's products through an Application Service Provider ("ASP") model to various banks and financial institutions in India. In January, 2005, i-flex acquired a 33% equity stake in a France based treasury software specialists firm, Login SA from its existing shareholders for EUR 66. Login SA is a front and mid office treasury solution provider with its product Login Acumen. The Group has accounted for these investments using equity method.

Other investments

			March 31
	2005	2006	2006
	Rs.	Rs.	USD
Equity securities – Unquoted			
EBZ Online Private Limited ("EBZ")	–	–	–
Eastern Software Systems Limited ("ESSL")	1,878	–	–
	1,878	–	–
Held to maturity debt securities			
12.75% KEONICS Mahithi Bonds Series –1	20,000	–	–
UTI US-64 – 6.75% Tax free Bonds	33,123	33,123	745
National Saving Certificates – VIII issue	131	131	3
	53,254	33,254	748
	55,132	33,254	748

The Company's ownership interest in EBZ is 19.5%. EBZ is a strategic partnership between Brihans Technologies Private Limited ("BTPL") and the Company to integrate the selected and adapted software provided under Group's products with BTPL's products for the Co-operative banking sector in India. Management is of the view that the fair value of its investment in EBZ has declined permanently. Hence, as of March 31, 2005 management had made a provision of Rs. 45,000 towards the diminution in the value of its investment in EBZ. In September 2005, Investment in ESSL was sold for Rs. 2,621. Management had previously made a provision for the diminution in value of this investment of Rs. 5,528 and the carrying value of the investment as of March 31, 2005 was Rs. 1,878. Accordingly, a gain of Rs. 743 was recorded during the year ended March 31, 2006.

The Group holds 331,225 US-64–6.75 % Tax-free bonds. These bonds are redeemable at par on June 1, 2008. The fair value of these bonds as on March 31, 2006 is Rs. 33,623. On February 1, 2006 12.75% KEONICS Mahithi Bonds Series -1 were redeemed on exercise of call option by the issuer.

7. Income taxes

The Group's (provision) benefit for income taxes consists of the following:

			March 31
	2005	2006	2006
	Rs.	Rs.	USD
Current taxes			
Domestic taxes	(442,859)	(406,589)	(9,141)
Foreign taxes	(183,108)	(178,117)	(4,005)
	(625,967)	(584,706)	(13,146)
Deferred taxes			
Domestic taxes	(742)	69,554	1,564
Foreign taxes	(353)	–	–
	(1,095)	69,554	1,564
	(627,062)	(515,152)	(11,582)

Income (loss) before income taxes for the years ended March 31, 2005 and 2006 primarily arose in the following jurisdictions:

			March 31
Jurisdiction	2005	2006	2006
	Rs.	Rs.	USD
India	2,219,107	2,552,652	57,389
United States	166,344	(110,597)	(2,486)
Singapore	177,353	171,816	3,863
The Netherlands	98,535	154,664	3,477
Others	(1,747)	(70,291)	(1,581)
	2,659,592	2,698,244	60,662

The Group's Indian operations are eligible to claim income-tax exemption with respect to profits earned from export revenue from an operating unit registered under the Software Technology Parks of India ("STPI"). The benefit is available from the date of commencement of operations to March 31, 2009, subject to a maximum of 10 years. The Company had six and seven such locations for the years ended March 31, 2005 and 2006, respectively. The benefits expire in stages from April 1, 2006 to March 31, 2009.

The additional income tax expense at the statutory rate in India, if the tax exemption was not available, would have been Rs. 489,748 and Rs. 665,944 for the years ended March 31, 2005 and 2006, respectively. The impact of such additional tax on basic and diluted income per share for the year ended March 31, 2005, would have been Rs. 6.59 and Rs. 6.39, respectively and for the year ended March 31, 2006 would have been Rs. 8.86 and Rs. 8.59, respectively.

The following is a reconciliation of the Indian statutory tax rate with the effective tax rate:

	2005 Rs.	2006 Rs.	March 31 2006 USD
Net income before taxes	2,659,592	2,698,244	60,662
Enacted tax rate in India	36.59%	33.66%	33.66%
Statutory income tax	973,211	908,229	20,419
(Provision) benefit due to			
Tax effect on exempt income	(450,454)	(680,409)	(15,297)
Effect of change in tax rate	1,882	578	13
Differential foreign tax rate	51,105	45,578	1,025
Permanent differences	–	161,221	3,625
Net losses with no current benefits	7,285	76,108	1,711
Changes in valuation allowance	–	8,731	196
Others	44,033	(4,884)	(110)
Provision for income taxes	627,062	515,152	11,582

The components of the deferred tax assets are as follows:

	2005 Rs.	2006 Rs.	March 31 2006 USD
Deferred tax assets – Non current			
Loss on sale of investment	22,373	25,083	564
Share of loss in equity investees	4,018	3,817	86
Net operating losses carried forward	85,074	151,835	3,414
Difference between book and tax depreciation	1,208	70,762	1,591
Diminution in value of investment	18,489	15,147	341
Others	6,387	15,974	358
	137,549	282,618	6,354
Less: valuation allowance	(101,342)	(185,534)	(4,171)
	36,207	97,084	2,183
Deferred tax liability			
Difference between book and tax depreciation	(36,616)	(27,971)	(629)
Net deferred tax assets (liability)	(409)	69,113	1,554

As at March 31, 2006, the Group had net operating loss carry forwards aggregating to Rs. 63,651 in US which expires in 2024, Rs. 133,963 in Canada which expires in 2015 and Rs. 34,185 in Japan which expires between 2012 and 2013. Further, the Group has created a valuation allowance, for the deferred tax asset related to the loss on sale of investment and share of losses in equity investees. The above items would be deductible for tax only when the investments are sold and if the Group has offsetting capital gains. The change in valuation allowance was primarily on account of recording valuation allowance for net operating losses carried forward.

Deferred income taxes on undistributed earnings of foreign subsidiaries have not been provided as such earnings are deemed to be permanently reinvested.

In determining the tax provisions, the Group also provides for tax exposures based on the Group's assessment of regulatory reviews. Such accruals, which are recorded in income taxes payable, are based on management's estimates and accordingly are subject to revision based on additional information and are dependent upon the judgment of regulatory reviewers.

8. Deferred revenue

Deferred revenue comprise of:

	2005 Rs.	2006 Rs.	March 31 2006 USD
Advance billings	628,845	1,135,101	25,519
Unexpired post contract support	414,031	593,945	13,353
Advances from customers	36,939	134,772	3,030
	1,079,815	1,863,818	41,902

9. Other current liabilities

Other current liabilities comprise payable in respect of:

	2005 Rs.	2006 Rs.	March 31 2006 USD
Referral fee/commission	117,509	199,502	4,485
Professional fees	148,083	231,156	5,197
Rates and taxes	167,002	173,563	3,902
Application software	27,092	71,770	1,614
Travelling expenses	20,393	87,366	1,964
Embedded derivatives	28,472	9,281	209
Others	78,230	215,536	4,845
	586,781	988,174	22,216

10. Employee benefit plans

Defined contributed plans

During the years ended March 31, 2005 and 2006, the Group contributed the following amounts to defined contributions plans:

	2005 Rs.	2006 Rs.	March 31 2006 USD
Provident fund – India	63,810	95,847	2,155
Superannuation – India	24,212	10,641	239
	88,022	106,488	2,394

Defined benefit plan – gratuity

	2005 Rs.	2006 Rs.	March 31 2006 USD
Change in projected benefit obligation			
Obligation at beginning of the year	52,449	66,131	1,487
Service cost	11,233	15,785	355
Interest cost	3,493	4,722	106
Benefits paid	(2,864)	(5,854)	(132)
Actuarial (loss) gain	1,820	(2,190)	(49)
Benefit obligation at end of the year	66,131	78,594	1,767
Change in plan assets			
Plan assets at beginning of the year	8,822	5,922	133
Return on plan assets	(36)	250	6
Actual contribution	–	1,500	34
Benefits paid	(2,864)	(5,854)	(132)
Plan assets at end of the year	5,922	1,818	41
Funded status	(60,210)	(76,776)	(1,726)
Unrecognized net actuarial loss	24,217	21,523	484
Accrued cost	(35,993)	(55,253)	(1,242)
Accumulated benefit obligation at end of the year	44,470	52,494	1,180

	2005 Rs.	2006 Rs.	March 31 2006 USD
Net periodic gratuity cost			
Service cost	11,233	15,785	355
Interest cost	3,493	4,722	106
Expected return on plan assets	(1,813)	(1,518)	(34)
Recognized net actuarial loss	1,620	1,773	40
Net periodic cost	14,533	20,762	467

The assumptions used in accounting for the gratuity plan are set out as below:

	2005	March 31 2006
Discount rate	7.50 %	8.00%
Expected return on plan assets	7.50 %	7.50%
Rate of compensation increase	5.00 %	5.00%

The Group evaluates these assumptions annually based on its long-term plans of growth and industry standards. The discount rates are based on current market yields on government securities adjusted for a suitable risk premium. Plan assets are administered by the LIC and invested in lower risk assets, primarily debt securities. The Group's contribution to the fund for the year ended March 31, 2007 is expected to be Rs. 2,011.

The expected benefit payments from the fund as of March 31, 2006 are below:

	Rs.	Year ending March 31 USD
2007	7,837	176
2008	8,513	191
2009	10,205	229
2010	14,570	328
2011	18,848	424
2012–2016	101,278	2,277
	161,251	3,625

11. Shareholders' equity

Equity Shares

The Group has only one class of share referred to herein as equity shares. Each holder of equity shares is entitled to one vote per share.

Dividends proposed by the Board of Directors are payable when formally approved by the shareholders, who have the right to decrease but not increase the amount of the dividend recommended. The Company accrues for dividend upon obtaining shareholder approval. The Company paid cash dividends of Rs. 261,676 (Rs. 3.50 per share) and Rs. 375,538 (Rs. 5.00 per share) during the years ended March 31, 2005 and 2006, respectively. During the years ended March 31, 2005 and 2006, the Company paid dividend tax amounting to Rs. 33,527 and Rs. 52,669, respectively.

Under the Indian Companies Act, all Indian companies are mandatorily required to transfer its current year's earnings to a general reserve, which is restricted for the purpose of distribution of dividend. As at March 31, 2006, the Company had a general reserve amounting to Rs. 10,238,569 (USD 230,184) which is included in retained earnings.

12. Stock-based compensation

Employee Stock Purchase Scheme ("ESPS")

On March 29, 1998 the Company adopted the ESPS to provide equity-based incentives to key employees of the Company ("1998 Scheme"). Subsequently on April 1, 1999, April 1, 2000 and April 1, 2001, the Company adopted additional share based schemes ("1999 Scheme", "2000 Scheme", "2001 Scheme" and "2004 Scheme"). These schemes, which have similar terms, are administered through a Trust (the "Trust"). The Trust purchases shares of the Company using the proceeds of loans obtained from the Company. Such shares are offered by the Trust to employees at an exercise price, which approximates the fair value on the date of the grant. The right to purchase the shares vests over a period determined at the grant date. Employees are entitled to the dividends on shares allocated to them by the Trust. The employee is allowed a period of ten years to pay the exercise price. The Trustees have the right of recourse against the employee for any amounts that may remain unpaid on the shares accepted by the employee.

The shares allocated by the Trust are accounted in accordance with APB 25. No compensation cost is recorded if the exercise price equals the fair value of the underlying stock on the grant date. The shares held by the Trust have been considered as outstanding for basic EPS purposes, to the extent these shares have been allocated to employees pursuant to the above schemes and are eligible to be exercised by the employee. For diluted EPS, shares not eligible for exercise are considered in determining weightage number of shares outstanding using the treasury stock method. The fair value of the unallocated shares held by the Trust is recorded as deferred stock based compensation.

A summary of the activity in the Company's ESPS is as follows:

	March 31 2005	2006
	Number of shares.	
Opening balance of unallocated shares	340,681	70,606
Shares allocated to employees	(330,000)	–
Shares forfeited during the year	59,925	50,282
Closing balance of unallocated shares	70,606	120,888
Opening balance of allocated shares	4,125,080	3,393,936
Shares allocated to employees	330,000	–
Shares exercised during the year	(1,001,219)	(1,263,108)
Shares forfeited during the year	(59,925)	(50,282)
Closing balance of allocated shares	3,393,936	2,080,546
Shares eligible for exercise	2,975,955	1,830,774
Shares not eligible for exercise	417,981	249,772
Closing balance of allocated shares	3,393,936	2,080,546

As the shares granted to the employees vest upon the employee accepting the offer, the fair value of the shares granted to the employee computed in accordance with SFAS 123 would not differ significantly from the intrinsic value of the shares as determined in accordance with APB 25.

Employee Stock Option Plan ("ESOP")

The Company has granted 4,753,600 options to the employees and directors of the Group. As per the Scheme, 20% of the total options granted under the Scheme will vest to the eligible employees and directors on the completion of 12, 24, 36, 48 and 60 months and is subject to the continued employment of the employee or director with the Company or its subsidiaries.

A summary of the activity in the Group's ESOP is as follows:

	Year ended March 31 2005		2006	
	Shares arising from options	Weighted average exercise price	Shares arising from options	Weighted average exercise price
Outstanding at beginning of year	4,313,550	270	4,151,850	274
Granted	60,000	555	10,000	709
Exercised	(139,500)	(265)	(1,317,370)	(266)
Forfeited	(82,200)	(295)	(87,600)	(282)
Outstanding at end of year	4,151,850	274	2,756,880	280

The details of options outstanding and options vested and exercisable as on March 31, 2006 are as follows:

	Range of exercise prices (Rs.)	Shares	Weighted average exercise price (Rs.)	Weighted average remaining contractual life (Years)
Options unvested	265–265	658,180	265	5.8
	419–560	84,000	507	7.7
	709–709	10,000	709	9.2
Options vested and exercisable	265–265	1,934,700	265	5.9
	419–560	70,000	484	7.4
		2,756,880	280	6.0

Shares reserved as at March 31, 2006 for the future issuance of options was 430,500. The weighted-average fair value of options granted during the year ended March 31, 2005 and 2006 was Rs. 262 and Rs. 334, respectively.

Share based transactions with non-employees

GE warrants

Pursuant to a subscription agreement entered into between the Group and GE Capital Mauritius Equity Investment, the Company granted 395,529 warrants to GE at a fair market value of Rs. 1,015.55. GE will be entitled to subscribe for these warrants in two tranches and after completion of and compliance with certain predetermined requirements. As required by Securities and Exchange Board of India ("SEBI") Guidelines 2003, GE has deposited Rs. 40,441, an amount equivalent to 10% of total consideration as a deposit.

As per the requirements of SFAS 123 and EITF 96-18, the fair value of the equity instruments issued is being used to measure the transaction as that value is more reliably measurable than the fair value of the services received. The fair value of the warrants measured using the date of issue as the measurement date aggregates Rs. 57,825. This amount has been recognized as discounts, as a reduction of revenue with a corresponding credit to additional paid in capital over a period of 10 years. For the year ended March 31, 2006 the Company has recorded Rs. 3,374 as discount on revenue.

The fair value of the warrants has been measured using the Black-Scholes option-pricing model using the following assumptions:

Risk-free interest rate	6%
Expected life	0.76 years
Expected volatility	36%
Expected dividends	25%

IBM options

Pursuant to a subscription agreement entered into between the Group and IBM Global Services Pvt. Ltd. ("IBM"), the Company granted 91,347 options to IBM at a fair market value of Rs. 587.57. IBM will be entitled to subscribe for these options in two tranches and after completion of and compliance with certain predetermined requirements. During the current year, IBM has exercised the option and accordingly the Company has issued 91,347 shares to IBM.

As per the requirements of SFAS 123 and EITF 96–18, the fair value of the equity instruments issued is being used to measure the transaction as that value is more reliably measurable than the fair value of the services received. The fair value of the options measured using the date of issue as the measurement date aggregates Rs. 11,580. This has been recognized as discounts, as a reduction of revenue with a corresponding credit to additional paid in capital over a period of 12 months. The Group has recorded discount on revenue amounting to Rs. 6,755 and Rs. 4,825 for the years ended March 31, 2005 and 2006, respectively.

The fair value of the options has been measured using the Black-Scholes option-pricing model using the following assumptions:

Risk-free interest rate	6%
Expected life	1.25 years
Expected volatility	39%
Expected dividends.	25%

13. Related party transactions

Relationship	Names of the related parties
Principal Shareholder and its affiliates ("Oracle") (From November 18, 2005)	Oracle Global (Mauritius) Limited Oracle (India) Private Limited Oracle USA, Inc.
Promoter Company and its affiliates ("Citigroup") (Until November 17, 2005)	OrbiTech Limited Polaris Software Lab Limited Citigroup Inc. Citicorp Technology Holdings Inc, USA Citibank branches Citicorp Information Technology, Inc e-Serve International Limited
Joint Ventures	Flexcel International Private Limited
Associate	Login SA

Transactions and balances outstanding with these parties are described below:

	Transactions			Amount receivable (payable)		
			Year ended March 31			At March 31
	2005	2006	2006	2005	2006	2006
	Rs.	Rs.	USD	Rs.	Rs.	USD
Citigroup						
Revenue	4,796,288	2,681,174	60,278	1,181,250	–	–
Interest income	–	6,860	154	9,838	–	–
Finance charges on leases	386	–	–	–	–	–
Bank charges	3,990	2,415	54	–	–	–
Bank balance	–	–	–	2,090,221	–	–
Deferred revenue	–	–	–	15,556	–	–
Oracle						
Revenue	–	27,035	608	–	28,066	631
Professional fees	–	846	19	–	–	–
Application software	–	123,351	2,773	–	–	–
Referral fees	–	7,353	165	–	7,394	166
Other expenses	–	1,106	25	–	–	–
Deferred revenue	–	–	–	–	5,998	135
Flexcel						
Revenue	10,707	10,626	238	8,758	6,119	138
Deferred revenue	–	–	–	2,099	653	15

Transactions with the Citigroup have been disclosed up to November 17, 2005. Balances as on March 31, 2006 with promoters and its affiliates have not been disclosed as they ceased to be a related party on November 17, 2005.

14. 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 defined as components of an enterprise about which separate financial information is available. This information is reviewed and evaluated regularly by management, in deciding how to allocate resources and in assessing the performance. 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 units to management. The Product license segment has 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. Substantially all of the products 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 revenue 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 revenue 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 revenue 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 revenue, 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.

	Products	Services	KPO	Corporate	Year ended March 31, 2005 Total Rs.
Revenue	6,061,202	5,294,910	48,296	–	11,404,408
Cost of revenue (excluding depreciation and amortization)	(2,206,465)	(3,713,972)	(27,668)	–	(5,948,105)
Gross profit	3,854,737	1,580,938	20,628	–	5,456,303
Operating expenses					
Selling and marketing expenses	(1,260,231)	(255,703)	(13,346)	–	(1,529,280)
General and administrative expenses	(240,673)	(225,804)	(33,515)	(657,066)	(1,157,058)
Depreciation and amortization	(138,483)	(129,437)	(6,260)	(62,795)	(336,975)
Operating profit	2,215,350	969,994	(32,493)	(719,861)	2,432,990
Interest income					259,050
Other expense, net					(32,448)
Income before income taxes					2,659,592
Provision for income taxes					(627,062)
Equity in net loss of equity investees					(1,118)
Net income					2,031,412
Segment assets as at March 31, 2005	2,838,358	2,672,971	2,94,439	8,122,495	13,928,263
Segment liabilities as at March 31, 2005	1,282,239	461,485	41,739	844,995	2,630,458
Capital expenditure by segment	195,391	301,331	245,725	283,347	1,025,794

	Products	Services	KPO	Corporate	Year ended March 31, 2006 Total Rs.
Revenue	7,570,888	7,029,689	234,669	–	14,835,246
Cost of revenue (excluding depreciation and amortization)	(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 amortization	(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					2,190,369
Segment assets as at March 31, 2006	4,593,177	3,917,018	374,322	8,882,402	17,766,919
Segment liabilities as at March 31, 2006	1,461,707	499,811	75,766	2,107,126	4,144,410
Capital expenditure by segment	304,199	316,215	78,695	181,195	880,304

	Products	Services	KPO	Corporate	Year ended March 31, 2006 Total USD
Revenue	170,209	158,042	5,275	–	333,526
Cost of revenue (excluding depreciation and amortization)	(66,967)	(112,728)	(3,458)	–	(183,153)
Gross profit	103,242	45,314	1,817	–	150,373
Operating expenses					
Selling and marketing expenses	(37,591)	(7,364)	(1,512)	–	(46,467)
General and administrative expenses	(9,611)	(7,856)	(3,594)	(16,468)	(37,529)
Depreciation and amortization	(4,715)	(3,905)	(858)	(1,807)	(11,285)
Impairment of goodwill	–	–	–	(1,303)	(1,303)
Operating profit	51,325	26,189	(4,147)	(19,578)	53,789
Interest income					6,618
Other income, net					255
Income before income taxes					60,662
Provision for income taxes					(11,582)
Equity in net income of equity investees					106
Minority interest					58
Net income					49,244
Segment assets as at March 31, 2006	103,264	88,062	8,416	199,694	399,436
Segment liabilities as at March 31, 2006	32,862	11,237	1,703	47,371	93,173
Capital expenditure by segment	6,839	7,109	1,769	4,074	19,791

Geographical segments

The following table shows the distribution of the Group's consolidated revenue by geographical market based on the location of the customers:

				March 31	
		2005			2006
	Rs.	%	Rs.	USD	%
United States of America	5,682,587	50	6,938,469	155,991	47
Europe	2,186,585	19	3,275,487	73,640	22
Asia Pacific	1,719,813	15	2,363,380	53,134	16
Middle East, India and Africa	1,634,142	14	2,087,242	46,925	14
Latin America and Caribbean	181,281	2	170,668	3,836	1
	11,404,408	100	14,835,246	333,526	100

The Group does not track its profits, assets and liabilities by region. The Group derives more than 10% of its revenue from Citigroup as follows:

			March 31
	2005	2006	2006
	Rs.	Rs.	USD
Product segment related	1,339,899	1,365,472	30,699
Service segment related	3,456,389	4,028,743	90,574
	4,796,288	5,394,215	121,273

15. Other income (expense), net

Other income (expense), net comprises of the following:

			March 31
	2005	2006	2006
	Rs.	Rs.	USD
Foreign exchange loss, net	(68,958)	(34,587)	(778)
Profit on sale of investment in ESSL	–	743	17
Profit on sale of mutual fund units	16,804	–	–
Diminution in value of investment	(50,528)	–	–
Gain on embedded derivatives	3,978	17,749	399
Refund of withholding tax	56,988	–	–
Insurance claim	–	21,530	484
Miscellaneous income	9,268	5,888	133
	(32,448)	11,323	255

16. Commitments and contingencies

Capital Expenditure

As at March 31, 2005 and 2006, the Group had committed to spend Rs. 74,363 and Rs. 801,100 respectively, under agreements to purchase property and equipment.

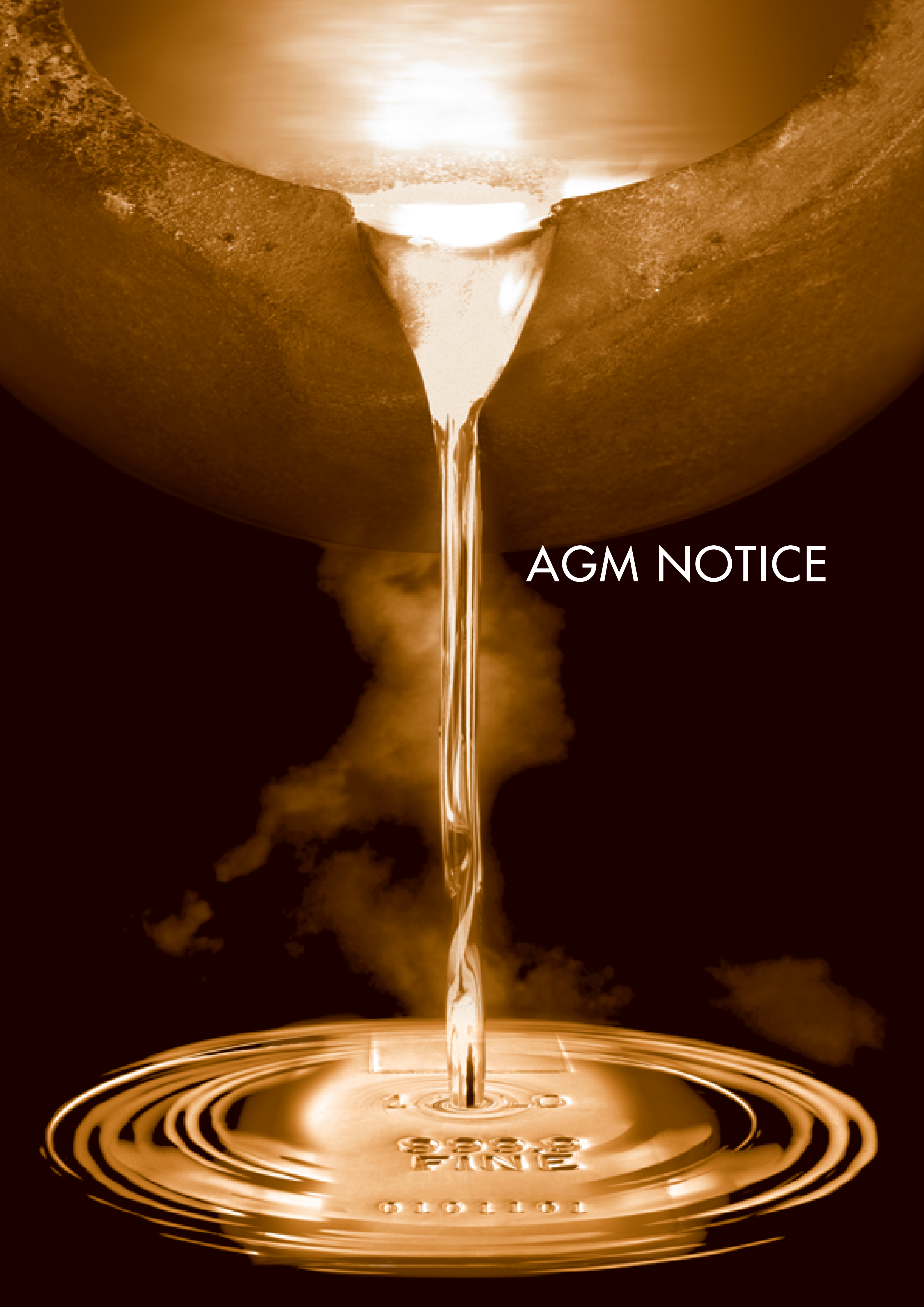
Leases

Future minimum lease payments under capital leases and operating leases consisted of the following at March 31, 2006:

			Year ending March 31	
	Capital leases		Operating leases	
	Rs.	USD	Rs.	USD
2007	12,434	280	275,051	6,184
2008	10,790	243	235,514	5,295
2009	6,956	156	131,243	2,951
2010	3,299	74	98,353	2,211
2011	541	12	72,531	1,631
Thereafter till 2013			82,603	1,857
Total minimum payments	34,020	765	895,295	20,129
Amount representing interest	(3,996)	(90)		
Present value of minimum lease payment	30,024	675		
Obligation under capital leases				
Long term	19,653	442		
Current	10,371	233		
	30,024	675		

The Group has taken certain office premises, residential premises and vehicles for employees under operating leases, which expire at various dates through year 2012. Gross rental expenses for the years ended March 31, 2005 and 2006 was Rs. 158,772 and Rs. 249,429, respectively.

AGM NOTICE



Notice to members

NOTICE is hereby given that the Seventeenth Annual General Meeting of i-flex solutions limited will be held at The Leela Kempinski, Sahar, Andheri (East) Mumbai 400 059 on Thursday, August 10, 2006 at 3.00 p.m. to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Audited Balance Sheet as on March 31, 2006, the Profit and Loss Account for the year ended on that date, and the Reports of the Board of Directors and the Auditors thereon.

2. To declare a dividend for the financial year ended March 31, 2006.

3. To appoint a Director in place of Ms. Tarjani Vakil, who retires by rotation and, being eligible, offers herself for re-appointment.

4. To appoint Auditors of the Company and to fix their remuneration.

Special Business:

5. To consider and, if thought fit, to pass, with or without modification(s), as an Ordinary Resolution the following:

   "RESOLVED THAT Mr. Charles Phillips, who was appointed as an Additional Director of the Company and who holds office until the date of the Annual General Meeting pursuant to Section 260 of the Companies Act, 1956, and Article 109 of Articles of Association of the Company, and in respect of whom the Company has received a notice from a member under Section 257 of the Companies Act, 1956, proposing his candidature, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

6. To consider and, if thought fit, to pass, with or without modification(s), as a Special Resolution the following:

   "RESOLVED THAT pursuant to Section 163 of the Companies Act, 1956 ("the Act"), the consent of the Members of the Company be and is hereby accorded for keeping the Register of Members, Index of Members, copies of Annual Returns of the Company under Section 159 of the Act together with copies of certificates and documents required to be annexed thereto and such other documents under any applicable provisions of the Act, at the offices of Intime Spectrum Registry Ltd, the Registrar and Share Transfer Agent of the Company, at C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (West), Mumbai – 400 078 or at i-flex Center, 399 Subhash Road, Vile Parle (East), Mumbai – 400057 or at i-flex park, Off Western Express Highway, Goregaon (East), Mumbai 400 063, instead of at the Registered Office of the Company.

   RESOLVED FURTHER THAT the Registers, Index, Returns, Books, Certificates and Documents of the Company required to be maintained and kept open for inspection by the Members/any other persons entitled there to under the Act be kept open for such inspection, at any or all of the above mentioned place(s) where they are kept, to the extent and in the manner, and on payment of the fees, if any, specified in the Act, between the hours of 2.00 p.m. to 4.00 p.m. on any working day (excluding Saturday, Sunday and public holidays) and except when the Registers and Books are closed under provisions of the Act."

By Order of the Board

Deepak Ghaisas
Chief Executive Officer – India Operations
and Company Secretary

Registered Office:
Unit 10-11, SDF 1, SEEPZ,
Andheri (East),
Mumbai 400 096.

July 6, 2006

Notes:

a) An Explanatory Statement as required under Section 173 (2) of the Companies Act, 1956 and the information as required under the Listing Agreements with Stock Exchanges in respect of item nos. 5 and 6 mentioned in the above Notice are annexed hereto.

b) The Register of Members and the Share Transfer Books of the Company will remain closed from August 5, 2006 to August 10, 2006, both days inclusive.

c) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THAT A PROXY NEED NOT BE A MEMBER.

d) The instrument appointing proxy should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.

e) The members/proxies are requested to bring duly filled in Attendance Slips sent herewith for attending the meeting.

f) Dividend on shares as recommended by the Directors, if approved at this Annual General Meeting, will be paid to those members whose names will appear on the Register of Members as at opening of the business hours on August 7, 2006. In respect of the shares in the electronic form, the dividend will be payable on the basis of beneficial ownership as per the details furnished by National Securities Depository Limited and Central Depository Services (India) Limited for this purpose.

g) The documents referred to in the Explanatory Statement annexed hereto are available for inspection by the members of the Company at the Registered Office of the Company between 2.00 P.M. to 4.00 P.M. on any working day of the Company.

h) The members are requested to intimate the Company their Permanent Account Number (PAN) or General Index Register (GIR) Number allotted to them by the Income Tax Department and the details of the Income Tax Ward/Range.

i) The members who hold shares in physical form are requested to notify promptly any change in their addresses to the Company's Registrars and Transfer Agents. The members who hold shares in demat mode are requested to notify promptly any change in their addresses to their Depository Participants.

j) The members seeking any information with regard to accounts are requested to write to the Company at an early date to enable the Management to keep the information ready.

k) The members are requested to dematerialize their shares and to avail Electronic Clearing System (ECS) facility for receiving dividends.

l) Pursuant to Sections 205A and 205C of the Companies Act, 1956, any money transferred to the unpaid dividend account which remains unpaid or unclaimed for a period of 7 years from the date of such transfer is required to be transferred to the 'Investor Education and Protection Fund' set up by the Central Government. Accordingly, the amount of unclaimed dividend for the financial year ended March 31, 1999 will be transferred to the 'Investor Education and Protection Fund' in due course. Once the amount is so transferred, no claim shall lie against the aforesaid fund or the Company in respect of such dividend amount thereafter. The members are requested to send to the Company their claims, if any, for the dividend for financial year 1998-1999 onwards before the amount becomes due for transfer to the above fund. The members are requested to encash the dividend warrants immediately on their receipt by them.

ADDITIONAL INFORMATION PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

DETAILS OF DIRECTORS SEEKING APPOINTMENT/ RE-APPOINTMENT AT THE FORTHCOMING ANNUAL GENERAL MEETING:

Ms. Tarjani Vakil

Ms. Tarjani Vakil, born on October 30, 1936, has done her Masters in Arts from University of Bombay. After 40 years of contribution in the field of development banking, she retired in October 1996 as the Chairperson and Managing Director of Export – Import Bank of India ("EXIM Bank").

Ms. Vakil was actively involved in extensive interaction with multilateral agencies to initiate informal annual dialogues among heads of Export Credit Agencies in Asia and Australia.

Ms. Vakil has been a member consultant for carrying a study of the feasibility for establishment of an Export Credit Guarantee facility for GCC countries, and Malaysia. Currently, she is a Director on several major corporate boards in India.

Ms. Vakil has won several awards including Mahila Shiromani, CEO of the Year, Woman of the Year, etc. She was also ranked as the highest woman official in Banking in Asia and named among the 50 world-class women executives in the 1996 Survey conducted by KPMG Peat Marwick, USA.

Ms. Vakil is holding 2,000 equity shares of the Company as on date.

Mr. Charles Phillips

Mr. Charles Phillips, born on June 10, 1959, holds a BS in Computer Science from the United States Air Force Academy, an MBA from Hampton University and a JD from New York Law School and is a member of the bar in Washington, D.C. and Georgia.

Mr. Charles Phillips is the President of Oracle Corporation and a member of the Board of Directors. He is responsible for global field operations including consulting, marketing, sales, alliances and channels, and customer programs, as well as corporate strategy. Prior to joining Oracle, Mr. Phillips was a Managing Director with Morgan Stanley in its technology group. Prior to his career on Wall Street, Mr. Phillips was a Captain in the United States Marine Corps.

Mr. Phillips is on the Boards of Viacom Corporation, Jazz at Lincoln Center in New York City and New York Law School. Mr. Phillips also serves as a director of Viacom Inc. and Morgan Stanley.

Mr. Charles Phillips is not holding any equity shares of the Company as on date.

THE DETAILS OF OTHER DIRECTORSHIPS AND MEMBERSHIPS OF THE COMPANY'S DIRECTORS WHO ARE SEEKING APPOINTMENT/ RE-APPOINTMENT AT THIS ANNUAL GENERAL MEETING ARE GIVEN BELOW:

Name of Director	Other Directorship(s)
Ms. Tarjani Vakil	Asian Paints Ltd. Alkyl Amines Chemicals Ltd. Aditya Birla Nuvo Ltd. Mahindra Intertrade Ltd. D S P Merrill Lynch Trustee Co. Pvt. Ltd.
Mr. Charles Phillips	Oracle Corporation Viacom Inc. Morgan Stanley

Memberships of Committees of other companies of Ms. Tarjani Vakil

	Audit Committee	Shareholders' Grievances Committee	Compensation Committee
i-flex solutions ltd.	Member	Chairperson	–
Asian Paints Ltd.	Chairperson	–	Member
Aditya Birla Nuvo Ltd.	Chairperson	–	–
Mahindra Intertrade Ltd.	Chairperson	–	–
DSP Merrill Lynch Trustees Co. Pvt. Ltd.	Member	–	–

Memberships of Committees of other companies of Mr. Charles Phillips

	Audit Committee	Shareholders' Grievances Committee	Compensation Committee
i-flex solutions ltd.	–	–	Member
Viacom Inc.	Member	–	–

Annexure to notice

Explanatory Statement as required by Section 173 (2) of the Companies Act, 1956.

The following Explanatory Statement sets out all the material facts relating to the special business mentioned in the accompanying notice dated July 6, 2006.

Item no. 5

Mr. Charles Phillips, representing Oracle Global (Mauritius) Limited ("Oracle"), was appointed as an Additional Director of the Company at the Board Meeting held on November 24, 2005. Pursuant to Section 260 of the Companies Act, 1956 and Article 109 of the Articles of Association of the Company, Mr. Phillips holds office up to the date of the forthcoming Annual General Meeting.

In accordance with Clause 49 of the listing agreement executed between the Company and the Stock Exchanges on which the Company's shares are listed, a brief bio-data of Mr. Phillips has been set out above in the notice.

The Board of Directors is of the view that the Company will be benefited by Mr. Phillips's vast experience and knowledge in the field of Information Technology, industry trends, customer needs and related areas.

A notice from a member signifying his intention to propose the candidature of Mr. Charles Phillips for the office of the Director liable to retire by rotation along with the deposit of Rs. 500/- has been received as required by Section 257 of the Companies Act, 1956.

Except Mr. Charles Phillips, none of the Directors of the Company is concerned or interested in the resolution under item no. 5 of the notice to the members.

Your Directors recommend the resolution under item no. 5 of the notice to the members.

Item no. 6

Pursuant to Section 163 of the Companies Act, 1956 ("the Act"), the Company is required to keep the Register of Members, Index of Members, copies of all Annual Returns prepared by the Company under Section 159 of the Act together with copies of certificates and documents required to be annexed thereto at its Registered Office. However, the said documents can also be kept at a place other than the Registered Office subject to the approval of the Members in the General Meeting.

For effectively managing the growing volume of these documents, it is proposed to keep the Register of Members, Index of Members, copies of all Annual Returns prepared by the Company under Section 159 of the Act together with copies of certificates and documents at Intime Spectrum Registry Ltd, the Registrars and Share Transfer Agents of the Company, at C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (West), Mumbai – 400 078 or i-flex Center, 399 Subhash Road, Vile Parle (East), Mumbai – 400 057 or i-flex park, off Western Express Highway, Goregaon (East), Mumbai 400 063 instead of at the Registered Office of the Company.

None of the Directors of the Company is concerned or interested in the resolution under item no. 6 of the notice to the members.

Your Directors recommend the resolution under item no. 6 of the notice to the members.

By Order of the Board

Deepak Ghaisas
Chief Executive Officer – India Operations
and Company Secretary

Registered Office:
Unit 10-11, SDF 1, SEEPZ,
Andheri (East),
Mumbai 400 096.

July 6, 2006

Bus Arrangements for the Annual General Meeting

For reaching the venue of the 17th Annual General Meeting of the Company to be held on Thursday, August 10, 2006, at 3.00 p.m., at The Leela Kempinski, Sahar, Mumbai 400059, the Company has made the following bus arrangements for its members.

From Ghatkopar Station (East):	From Andheri Station (East):
Near Municipal Office (Near Jain Mandir) The bus will depart at 2.00 p.m.	Teli Gali – at Roti Hotel The bus will depart at 2.00 p.m.

Marketing offices

New York	Tel: +1-646-619 5454	Fax: +1-212-430 1918
New Jersey	Tel: +1-646-619 5320	Fax: +1-732-548 6030
Minneapolis	Tel: +1-952-942 6297	Fax: +1-952-942 6451
Boston	Tel: +1-617-619 3730	Fax: +1-617-619 3731
Miami	Tel: +1-646-619 5401	Fax: +1-786-275 8681
Toronto	Tel: +1-416-646 4281	Fax: +1-416-777 2551
London	Tel: +44-207-531 4400	Fax: +44-207-531 4401
Amsterdam	Tel: +31-20-575 4200	Fax: +31-20-575 4201
Frankfurt	Tel: +49-69-3085 5901	Fax: +49-69-3085 5104
Moscow	Tel: +7-095-787 2764	Fax: +7-095-795 0632
Dubai	Tel: +971-4-391 1890	Fax: +971-4-390 4876
Shanghai	Tel: +86-21-6375 8562	Fax: +86-21-6375 9456
Singapore	Tel: +65-6238 1900	Fax: +65-6238 1282
Tokyo	Tel: +81-3-5521 1166	Fax: +81-3-5521 1167
Mumbai	Tel: +91-22-6718 5000	Fax: +91-22-6718 3140
Bangalore	Tel: +91-80-6659 7000	Fax: +91-80-2534 5090

PROXY FORM

i-flex solutions ltd.
Registered Office: 10-11, SDF 1, SEEPZ,
Andheri (East), Mumbai 400 096.

I/We .... of .... in the district of .... being a member/members of the above named Company, hereby appoint .... of .... in district of .... or failing him .... of .... in the district of .... as my/our proxy to attend and vote for me/us and on my/our behalf at the Seventeenth Annual General Meeting of the Company to be held on Thursday, August 10, 2006 at 3.00 p.m. at The Leela Kempinski, Sahar, Andheri (East) Mumbai 400 059 and at any adjournment thereof.

Signed this .... day of .... 2006.

Signature/s ....

Ledger Folio No .... DP ID .... Client ID ....

No. of Shares held ....

Affix
Re. 1/-
Revenue
Stamp

Note: 1. The proxy need not be a member.

2. The proxy form duly signed across Re.1/- revenue stamp should reach the Registered Office of the Company not less than 48 hours before the time fixed for the meeting.

ATTENDANCE SLIP

i-flex solutions ltd.
Registered Office: 10-11, SDF 1, SEEPZ,
Andheri (East), Mumbai 400 096.

I hereby record my presence at the Seventeenth Annual General Meeting of the Company to be held on Thursday, August 10, 2006 at 3.00 p.m. at. The Leela Kempinski, Sahar, Andheri (East) Mumbai 400 059.

Full name of the Shareholder ....
(in block letters)

Ledger Folio No .... DP ID .... Client ID ....

Number of Shares held ....

Signature of Shareholder or proxy attending ....

Full name of Proxy ....
(in block letters)

Please give full name of the 1st Joint Holder.

Mr./Mrs./Miss ....

Note: Please fill in the attendance slip and hand it over at the ENTRANCE OF THE HALL

TRANSPORT DETAILS OVERLEAF

Bus Arrangements for the Annual General Meeting

For reaching the venue of the 17th Annual General Meeting of the Company to be held on Thursday, August 10, 2006, at 3.00 p.m., at The Leela Kempinski, Sahar, Mumbai 400059, the Company has made the following bus arrangements for its members.

From Ghatkopar Station (East):	From Andheri Station (East):
Near Municipal Office (Near Jain Mandir) The bus will depart at 2.00 p.m.	Teli Gali – at Roti Hotel The bus will depart at 2.00 p.m.

www.iflexsolutions.com