

**WIPRO LIMITED AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH U.S. GAAP**

**AS OF AND FOR THE  
THREE MONTHS AND NINE MONTHS ENDED DECEMBER 31, 2004 AND 2005**

**WIPRO LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in millions, except share data)

	As of December 31,		
	2004	2005	2005
	(unaudited)	(unaudited)	(unaudited) Convenience translation into US\$
<b>ASSETS</b>			
Cash and cash equivalents .....	Rs. 3,214.59	Rs. 4,279.48	\$ 95.21
Accounts receivable, net of allowances .....	13,142.60	19,025.84	423.27
Costs and earnings in excess of billings on contracts in progress.....	2,845.40	4,240.63	94.34
Inventories .....	1,619.02	1,908.89	42.47
Investments in liquid and short-term mutual funds.....	21,605.05	31,122.97	692.39
Deferred income taxes.....	343.21	91.39	2.03
Other current assets .....	<u>3,625.61</u>	<u>4,459.90</u>	<u>99.22</u>
Total current assets.....	46,395.48	65,129.10	1448.92
Property, plant and equipment, net .....	12,250.57	16,156.80	359.44
Investments in affiliates (Note 4).....	744.06	1,002.23	22.3
Deferred income taxes.....	234.26	230.60	5.13
Purchase price pending allocation (Note 3).....	-	1,929.28	42.92
Intangible assets, net.....	381.38	342.33	7.62
Goodwill (Note 3).....	5,588.51	5,944.94	132.26
Other assets .....	<u>662.54</u>	<u>1,168.09</u>	<u>25.99</u>
Total assets.....	<u>Rs. 66,256.80</u>	<u>Rs. 91,903.37</u>	<u>\$ 2,044.57</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Borrowings from banks .....	Rs. 513.08	Rs. 1,054.36	\$ 23.46
Convertible bonds issued by subsidiary.....	-	272.05	6.05
Accounts payable.....	3,247.65	3,168.65	70.49
Accrued expenses .....	3,740.45	5,820.81	129.5
Accrued employee costs .....	2,929.13	4,109.12	91.42
Advances from customers.....	1,242.15	1,836.61	40.86
Other current liabilities .....	<u>1,976.30</u>	<u>4,290.71</u>	<u>95.46</u>
Total current liabilities .....	13,648.76	20,552.31	457.23
Other liabilities .....	<u>577.41</u>	<u>439.81</u>	<u>9.78</u>
Total liabilities .....	<u>14,226.17</u>	<u>20,992.12</u>	<u>467.01</u>
Minority interest .....	518.83	-	-
Stockholders' equity:			
Equity shares at Rs. 2 par value: 1,650,000,000 shares authorized; issued and outstanding: 1,404,241,862 and 1,420,739,099 shares as of December 31, 2004 and 2005 (Note 5).....	1,404.24	2,841.48	63.21
Additional paid-in capital .....	12,444.73	15,023.04	334.22
Deferred stock compensation .....	(3,235.89)	(2,385.79)	(53.08)
Accumulated other comprehensive income/(loss).....	233.03	246.77	5.49
Retained earnings .....	40,665.77	55,185.83	1,227.72
Equity shares held by a controlled Trust: 7,891,560 and 7,869,060 shares as of December 31, 2004 and 2005.....	<u>(0.08)</u>	<u>(0.08)</u>	<u>-</u>
Total stockholders' equity.....	<u>51,511.80</u>	<u>70,911.25</u>	<u>1,577.56</u>
Total liabilities and stockholders' equity.....	<u>Rs. 66,256.80</u>	<u>Rs. 91,903.37</u>	<u>\$ 2,044.57</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

**WIPRO LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in millions, except share data)

	Three months ended December 31,			Nine months ended December 31,		
	2004	2005	2005	2004	2005	2005
	(unaudited)	(unaudited)	Convenience translation into US\$ (unaudited)	(unaudited)	(unaudited)	Convenience translation into US\$ (unaudited)
Revenues:						
Global IT Services and Products						
IT Services .....	Rs. 14,083.56	Rs. 19,595.02	\$ 435.93	Rs. 39,478.05	Rs. 52,249.00	\$ 1,162.38
BPO Services .....	1,705.82	1,933.11	43.01	4,763.97	5,585.17	124.25
India and AsiaPac IT Services and Products						
Services .....	1,209.01	1,490.12	33.15	3,285.94	4,335.46	96.45
Products .....	2,031.16	2,376.45	52.87	5,607.43	6,845.27	152.29
Consumer Care and Lighting .....	1,231.21	1,460.73	32.5	3,367.40	4,141.75	92.14
Others .....	641.21	878.36	19.54	1,892.02	2,408.73	53.59
Total .....	<u>20,901.97</u>	<u>27,733.79</u>	<u>616.99</u>	<u>58,394.81</u>	<u>75,565.38</u>	<u>1,681.10</u>
Cost of revenues:						
Global IT Services and Products						
IT Services .....	9,029.18	12,428.88	276.5	24,644.23	33,337.69	741.66
BPO Services .....	1,238.36	1,402.19	31.19	3,302.21	4,264.72	94.88
India and AsiaPac IT Services and Product						
Services .....	658.76	834.07	18.56	1,845.43	2,514.34	55.94
Products .....	1,777.40	2,066.29	45.97	5,026.69	6,052.37	134.65
Consumer Care and Lighting .....	810.83	919.18	20.45	2,160.12	2,623.45	58.36
Others .....	438.15	655.64	14.59	1,290.96	1,794.77	39.93
Total .....	<u>13,952.68</u>	<u>18,306.25</u>	<u>407.26</u>	<u>38,269.64</u>	<u>50,587.34</u>	<u>1,125.41</u>
Gross profit .....	6,949.29	9,427.54	209.73	20,125.17	24,978.04	555.68
Operating expenses:						
Selling and marketing expenses .....	(1,385.82)	(1,712.62)	(38.10)	(4,002.68)	(4,952.12)	(110.17)
General and administrative expenses .....	(896.57)	(1,406.00)	(31.28)	(2,689.30)	(3,838.53)	(85.40)
Research and development expenses .....	(69.86)	(52.49)	(1.17)	(201.19)	(141.35)	(3.14)
Amortization of intangible assets .....	(22.61)	(10.54)	(0.23)	(122.02)	(35.62)	(0.79)
Foreign exchange gains/(losses), net .....	152.94	(407.39)	(9.06)	(287.45)	(500.33)	(11.13)
Others, net .....	23.72	13.58	0.30	55.64	45.78	1.02
Operating income .....	4,751.09	5,852.08	130.19	12,878.17	15,555.87	346.07
Loss on direct issue of stock by subsidiary .....	(10.42)	-	-	(206.58)	-	-
Other income, net .....	178.65	366.87	8.16	593.59	874.03	19.44
Equity in earnings/(losses) of affiliates (Note 4) .....	70.50	93.79	2.09	132.90	232.99	5.18
Income before income taxes and minority interest .....	4,989.82	6,312.74	140.44	13,398.08	16,662.89	370.70
Income taxes .....	(694.15)	(989.27)	(22.01)	(1,970.91)	(2,366.25)	(52.64)
Minority interest .....	(24.69)	-	-	(67.02)	(1.40)	(0.03)
Net income .....	<u>Rs. 4,270.98</u>	<u>Rs. 5,323.47</u>	<u>\$ 118.43</u>	<u>Rs. 11,360.15</u>	<u>Rs. 14,295.24</u>	<u>\$ 318.03</u>
Earnings per equity share:						
Basic .....	3.07	3.78	0.08	8.18	10.18	0.23
Diluted .....	3.02	3.74	0.08	8.12	10.07	0.22
Weighted average number of equity shares used in computing earnings per equity share:						
Basic .....	1,390,875,326	1,408,963,785	1,408,963,785	1,389,583,530	1,403,858,212	1,403,858,212
Diluted .....	1,413,879,800	1,424,652,106	1,424,652,106	1,399,654,328	1,419,926,002	1,419,926,002

See accompanying notes to the unaudited condensed consolidated financial statements.

**WIPRO LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
(in millions, except share data)

	Equity shares		Additional paid in Capital	Deferred stock Compensation	Comprehensive Income	Accumulated other Comprehensive income / (loss)	Retained Earnings	Equity shares held by a		Total stockholders' Equity
	No. of shares	Amount						Controlled Trust		
								No. of shares	Amount	
Balance as of March 31, 2005 .....	<u>1,407,141,044</u>	<u>Rs. 1,407.14</u>	<u>Rs.13,272.57</u>	<u>Rs. (3,185.14)</u>		<u>Rs. 96.09</u>	<u>Rs. 45,138.37</u>	<u>(7,893,060)</u>	<u>Rs.(0.08)</u>	<u>Rs. 56,728.95</u>
Cash dividends (unaudited).....	-	-	-	-	-	-	(3,997.74)	-	-	(3,997.74)
Issuance of equity shares on exercise of options (unaudited).....	13,598,055	22.55	3,144.20	-	-	-	-	-	-	3,166.75
Stock split effected in the form of stock dividend (unaudited) .....	-	1,411.79	(1,161.75)	-	-	-	(250.04)	-	-	-
Equity shares granted by Trust (unaudited)	-	-	-	-	-	-	-	24,000	-	-
Reversals related to employee stock incentive plan, net of issuances (unaudited) (Note 6).....	-	-	(301.32)	272.13	-	-	-	-	-	(29.19)
Amortization of compensation related to employee stock incentive plan (unaudited).....	-	-	-	527.22	-	-	-	-	-	527.22
Income Tax benefit related to employee stock incentive plan, in excess of compensation cost recognized (unaudited).....	-	-	69.34	-	-	-	-	-	-	69.34
Comprehensive income Net income (unaudited).....	-	-	-	-	Rs. 14,295.24	-	14,295.24	-	-	14,295.24
Other comprehensive income / (loss)										
Translation adjustments (unaudited).....	-	-	-	-	32.50	-	-	-	-	-
Unrealised gain on investment securities, net (unaudited).....	-	-	-	-	160.20	-	-	-	-	-
Unrealized gain on cash flow hedging derivatives, net (unaudited).....	-	-	-	-	(42.02)	-	-	-	-	-
Total other comprehensive income / (loss) (unaudited).....	-	-	-	-	<u>150.68</u>	150.68	-	-	-	150.68
Comprehensive income (unaudited).....					<u>Rs. 14,445.92</u>					
Balance as of December 31, 2005 (unaudited).....	<u>1,420,739,099</u>	<u>Rs. 2,841.48</u>	<u>Rs.15,023.04</u>	<u>Rs. (2,385.79)</u>		<u>Rs. 246.77</u>	<u>Rs. 55,185.83</u>	<u>(7,869,060)</u>	<u>Rs.(0.08)</u>	<u>Rs. 70,911.25</u>
Balance as of December 31, 2005 (unaudited) (\$). .....		<u>\$ 63.21</u>	<u>\$ 334.22</u>	<u>\$ (53.08)</u>		<u>\$ 5.49</u>	<u>\$ 1,227.72</u>		<u>\$ -</u>	<u>\$ 1,577.56</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

**WIPRO LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(in millions)**

	Nine months ended December 31,		
	2004	2005	2005
	(unaudited)	(unaudited)	Convenience translation into US\$ (unaudited)
Cash flows from operating activities:			
Net income.....	Rs. 11,360.15	Rs. 14,295.24	\$ 318.03
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of property, plant and equipment.....	(107.47)	(4.48)	(0.10)
(Gain)/loss on sale of liquid and short-term mutual funds.....	(12.37)	(163.67)	(3.64)
Depreciation and amortization.....	1,862.92	2,291.08	50.97
Deferred tax (expense)/benefit.....	(152.69)	42.09	0.94
Loss on direct issue of stock by affiliate.....	206.58	-	-
Amortization of deferred stock compensation.....	175.44	498.03	11.08
Equity in earnings of affiliates.....	(132.90)	(232.99)	(5.18)
Minority interest.....	67.02	1.40	0.03
Changes in operating assets and liabilities:			
Accounts receivable.....	(2,169.66)	(4,073.20)	(90.62)
Costs and earnings in excess of billings on contracts in progress....	(745.56)	(1,500.98)	(33.39)
Inventories.....	(180.83)	(139.73)	(3.11)
Other assets.....	521.17	(1,213.13)	(26.99)
Accounts payable.....	515.07	(559.57)	(12.45)
Accrued expenses and employee costs.....	1,991.94	2,895.16	64.41
Advances from customers.....	279.40	556.97	12.39
Other liabilities.....	929.09	1,756.93	39.09
Net cash provided by operating activities.....	<u>14,407.30</u>	<u>14,449.15</u>	<u>321.45</u>
Cash flows from investing activities:			
Expenditure on property, plant and equipment.....	(4,925.27)	(5,155.55)	(114.70)
Proceeds from sale of property, plant and equipment.....	298.47	108.31	2.41
Dividends received from affiliates.....	8.40	-	-
Purchase of investments in liquid and short-term mutual funds.....	(50,982.63)	(40,924.19)	(910.44)
Proceeds from sale of liquid and short-term mutual funds.....	47,897.00	33,307.65	740.99
Purchase of intangible assets.....	(298.13)	-	-
Payment for acquisitions, net of cash acquired.....	(597.77)	(2,576.44)	(57.32)
Net cash used in investing activities.....	<u>(8,599.93)</u>	<u>(15,240.22)</u>	<u>(339.05)</u>
Cash flows from financing activities:			
Proceeds from issuance of equity shares.....	1,874.06	3,166.75	70.45
Proceeds from issuance of equity shares by a subsidiary.....	266.25	-	-
Proceeds from/(repayments of) short-term borrowing from banks, net.	(456.25)	230.08	5.12
Payment of cash dividends.....	(7,575.99)	(3,997.74)	(88.94)
Net cash provided by/(used in) financing activities.....	<u>(5,891.93)</u>	<u>(600.91)</u>	<u>(13.37)</u>
Net decrease in cash and cash equivalents during the period.....	(84.56)	(1,391.98)	(30.97)
Effect of exchange rate changes on cash.....	1.99	0.70	0.02
Cash and cash equivalents at the beginning of the period.....	<u>3,297.16</u>	<u>5,670.76</u>	<u>126.16</u>
Cash and cash equivalents at the end of the period.....	<u>Rs. 3,214.59</u>	<u>Rs. 4,279.48</u>	<u>\$ 95.21</u>
Supplementary information:			
Cash paid for interest.....	50.02	27.88	0.62
Cash paid for taxes.....	1,796.94	3,128.29	69.59

See accompanying notes to the unaudited condensed consolidated financial statements.

**WIPRO LIMITED AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(in millions, except share data and where otherwise stated)**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Wipro Limited ("Wipro" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments, which are of a normal recurring nature and necessary for a fair presentation, have been included. These financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's annual report on Form 20F for the year ended March 31, 2005.

The accompanying unaudited condensed consolidated financial statements have been prepared in Indian rupees, the national currency of India. Solely for the convenience of the readers, the financial statements as of and for the nine months ended December 31, 2005 have been translated into United States dollars at the noon buying rate in New York City on December 30, 2005, for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of \$1= Rs. 44.95. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate.

**NOTE 2: DERIVATIVE AND HEDGE ACCOUNTING**

The Company is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in foreign currency. The Company limits the effects of foreign exchange rate fluctuations by following established risk management policies including the use of derivatives. The Company enters into forward exchange and option contracts, where the counterparty is a bank. The Company considers the risks of non-performance by the counterparty as remote.

Forward contracts/options in respect of forecasted transactions, which meet the hedging criteria, are designated as cash flow hedges. Changes in the derivative fair values that are designated as effective cash flow hedges, under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, are deferred and recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are then recognized in the consolidated statements of income. The ineffective portion of a hedging derivative is immediately recognized in the consolidated statements of income.

The Company also acquires short-term contracts as part of a plan to replace/roll-over maturing contracts with successive new contracts upto the period in which forecasted transaction is expected to occur. The effectiveness of the hedge is evaluated on the basis of changes in spot rate and accordingly the changes in the fair value of forward premium/discount is recognized in a manner similar to ineffective portion of a hedge. The gains/losses on the maturing contracts, arising from changes in the underlying spot rates, is recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are then recognized in the consolidated statements of income.

The Company also designates zero-cost collars, which qualify as net purchased options, to hedge the exposure to variability in expected future foreign currency cash inflows due to exchange rate movements beyond a defined range. The range comprises an upper and lower strike price. At maturity, if the exchange rate remains within the range the Company realizes the cash inflows at spot rate, otherwise the Company realizes the inflows at the upper or lower strike price.

As of December 31, 2005, a gain of Rs. 71.79 relating to changes in fair value of forward contracts/options, designated as hedge of forecasted transactions, is included as a component of other comprehensive income/loss within stockholders' equity.

### NOTE 3: ACQUISITIONS

#### *Acquisition of ownership interest in a subsidiary*

As of March 31, 2005, the Company held approximately 93% of the outstanding equity shares of Wipro BPO Solutions Limited (“Wipro BPO”). The remaining shares were held by the employee shareholders.

During the nine months ended December 31, 2005, the Company acquired the balance 7% of the equity shares from the employee shareholders at fair value for an aggregate consideration of Rs. 852.00. The step-acquisition resulted in goodwill of Rs. 304.14.

#### *MPower Software Services Inc. and subsidiaries*

Effective December 1, 2005, the Company acquired 100% equity of MPower Software Services Inc. and subsidiaries (MPower) including the minority shareholding held by MasterCard International in MPact India, a joint venture between MasterCard International and MPower Inc, for an aggregate cash consideration of Rs.1,292.32. MPower Software Services Inc. is a US based Company engaged in providing IT services in the payments space.

As a part of this acquisition, Wipro aims to provide MasterCard a wide range of services including application development and maintenance, infrastructure services, package implementation, BPO and testing. Wipro believes that through this acquisition, it will be able to expand domain expertise in the payment space and increase the addressable market for IT services.

The total purchase price has been preliminarily allocated to the acquired assets and liabilities as follows:

<b>Description</b>	<b>Fair value</b>
Net tangible assets .....	Rs. 185.39
Purchase price pending allocation .....	<u>1,089.18</u>
Total	<u>Rs. 1,274.57</u>

The purchase consideration has been allocated on a preliminary basis based on management’s estimates. The Company is in the process of making a final determination of the carrying value of assets and liabilities, which may result in changes in the carrying value of net assets recorded. Finalization of the purchase price allocation, which is expected to be completed by April 2006, may result in certain adjustments to the above allocation.

#### *BVPENTE Beteiligungsverwaltung GmbH and subsidiaries*

On December 28, 2005, the Company acquired 100% equity of BVPENTE Beteiligungsverwaltung GmbH and subsidiaries (New Logic). New Logic is a European system-on-chip design company. The consideration includes cash payment of Rs. 1,156.54 and an earn-out of Euro 26.00 million to be determined and paid in the future based on financial targets being achieved over a 3 year period. A portion of this earn-out, up to a maximum of Euro 2.50 million, is linked to continuing employment of one of the selling shareholders.

Wipro believes that through this acquisition, it has acquired strong domain expertise in semiconductor IP cores and complete system-on-chip solutions with digital, analog mixed signal and RF design services. The acquisition also enables the Company to access over 20 customers in the product engineering space.

The purchase price paid has been preliminarily allocated to the acquired assets and liabilities as follows:

<b>Description</b>	<b>Fair value</b>
Net tangible assets .....	Rs. 316.44
Purchase price pending allocation .....	<u>840.10</u>
Total	<u>Rs. 1,156.54</u>

The purchase consideration has been allocated on a preliminary basis based on management’s estimates. The Company is in the process of making a final determination of the carrying value of assets and liabilities which may result in changes in the carrying value of net assets recorded. Finalization of the purchase price allocation, which is expected to be completed by April 2006, may result in certain adjustments to the above allocation.

#### **NOTE 4: INVESTMENTS IN AFFILIATES**

##### *Wipro GE Medical Systems ("Wipro GE")*

The Company has accounted for its 49% interest in Wipro GE by the equity method. The carrying value of the investment in Wipro GE as of December 31, 2004 and 2005 was Rs. 558.07 and Rs. 797.81, respectively. The Company's equity in the income of Wipro GE for nine months ended December 31, 2004 and 2005 was Rs. 101.61 and Rs. 215.40, respectively.

##### *WeP Peripherals*

The Company has accounted for its 40.5% and 37.7% interest as of December 31, 2004 and 2005, respectively in WeP Peripherals by the equity method. The carrying value of the equity investment in WeP Peripherals as of December 31, 2004 and 2005, was Rs.185.99 and Rs. 204.42 respectively. The Company's equity in the income of WeP Peripherals for the nine months ended December 31, 2004 and 2005 was Rs. 31.29 and Rs. 17.59 respectively. During the nine months ended December 31, 2004 the Company received dividends of Rs.8.40 from WeP Peripherals.

#### **NOTE 5: STOCK DIVIDEND**

In July 2005, the members of the Company approved a stock dividend, effective August 24, 2005, in the ratio of 1 additional equity shares or ADS for every equity share or ADS held. Accordingly, the Company issued 705,893,574 additional shares and has transferred an amount of Rs. 1,161.75 from additional paid in capital and Rs. 250.04 from retained earnings, to equity shares. The allocation between additional paid in capital and retained earnings is in line with the local statutory accounts. Share and per share data for all periods reported have been adjusted to reflect the stock split effected in the form of stock dividend. Capitalization of additional paid in capital and retained earnings aggregating Rs. 1,411.79 has been recorded in the nine months ended December 31, 2005.

#### **NOTE 6 : RESTRICTED STOCK UNIT PLAN**

In June 2004, the Company established a rupee option plan titled Wipro Restricted Stock Unit Plan (WRSUP 2004) and a dollar option plan titled Wipro ADS Restricted Stock Unit Plan (WARSUP 2004). The Company is authorized to issue up to 12 million options to eligible employees under each plan. Options under the plan will be granted at a nominal exercise price (par value of the equity shares).

These options generally vest ratably at the end of each year over a period of five years from the date of grant. Upon vesting the employees can acquire one equity share for every option. The options are subject to forfeiture if the employee terminates employment before vesting. The excess of market price on the date of grant over the exercise price payable by the employees is recognized as deferred compensation cost. The Company has elected to amortize the deferred compensation cost on a straight-line basis over the vesting period.

As of December 31, 2005, the Company has 7,977,166 RSUs under the WRSUP 2004 plan and 1,051,960 RSUs outstanding under the WARSUP 2004 Plan. The deferred compensation cost arising from such grants is being amortized over the vesting period of five years.

During the nine months ended December 31, 2005 the Company has amortized Rs. 470.49 of deferred compensation cost, net of reversals relating to these plans.

#### **NOTE 7: CONTINGENCIES**

In March 2004, the Company received a demand from the tax authorities of Rs. 2,614.57, including interest, upon completion of their tax review for the financial year ended March 31, 2001. The tax demand is mainly on account of disallowances of deduction claimed by Company under section 10A of the Income Tax Act of India, 1961, which allows a tax holiday in respect of profits earned on some of the undertakings of the Company. On similar grounds, in March 2005, the Company received a demand from the tax authorities of Rs. 2,617.15, including interest, upon completion of their tax review for the financial year ended March 31, 2002. Management, including external counsel has concluded that the ultimate outcome of this proceeding will not have a material adverse effect



on the Company's financial position or overall trends in results of operations. As of December 31, 2004 and December 31, 2005, the net exposure of the Company was Rs. 2,315.57 and Rs. 4,737.95 respectively.

In June 2005, the Income Tax appellate Tribunal (ITAT) has upheld, for a different assessment years, certain income tax deductions claimed by the Company. Applying such principles to the other assessment year, the above demand made by the tax authorities for the financial years ended March 31, 2001 and 2002, is expected to reduce by Rs. 2,159.38.

#### **NOTE 8: SEGMENT INFORMATION**

The Company is currently organized by segments, including Global IT Services and Products (comprising of IT Services and BPO Services segments), India and AsiaPac IT Services and Products, Consumer Care and Lighting and 'Others'.

The Chairman of the Company has been identified as the Chief Operating Decision Maker ("CODM") as defined by SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. The Chairman of the Company evaluates the segments based on their revenue growth, operating income and return on capital employed.

Until June 30, 2005, the Company reported Global IT Services and Products as an integrated business segment. Effective July 2005, the company reorganized the management structure of Global IT Services and Products Segment. Pursuant to this reorganization, the Company identified new operating segments. Operating segments with similar economic characteristics and complying with other aggregation criteria specified in SFAS No. 131 have been combined to form the Company's new reportable segments. Consequently, IT Services and BPO services now qualify as reportable segments. Segment data for previous periods have been reclassified to conform to the current period presentation.

The IT Services segment provides research and development services for hardware and software design to technology and telecommunication companies, software application development services to corporate enterprises. The BPO services segment provides Business Process Outsourcing services to large global corporations.

In December 2005, the Company acquired MPower, a Company engaged in providing IT services in the payments space and New Logic, a European system-on-chip design company. The operations of MPower and New Logic, which are a component of IT Services and Products, are currently reviewed by the CODM separately and have accordingly been reported separately as Acquisitions.

The India and AsiaPac IT Services and Products segment focuses primarily on addressing the IT and electronic commerce requirements of companies in India, MiddleEast and AsiaPacific region.

The Consumer Care and Lighting segment manufactures, distributes and sells soaps, toiletries, lighting products and hydrogenated cooking oils for the Indian market.

'Others' consist of business segments that do not meet the requirements individually for a reportable segment as defined in SFAS No. 131. Corporate activities such as treasury, legal and accounting, which do not qualify as operating segments under SFAS No. 131 have been considered as reconciling items.

Segment data for previous periods has been reclassified on a comparable basis.

Information on reportable segments is as follows:

Nine months ended December 31, 2004 (unaudited)

	Global IT Services and Products			India and AsiaPac IT Services and Products	Consumer Care and Lighting	Others	Reconciling Items	Entity Total
	IT Services	BPO Services	Total					
Revenues.....	Rs. 39,478.05	Rs. 4,763.97	Rs. 44,242.02	Rs. 8,893.37	Rs. 3,367.40	Rs. 1,892.02	-	Rs. 58,394.81
Exchange rate fluctuations.....	(158.18)	(46.30)	(204.48)	(22.13)	0.59	(7.68)	233.70	-
Total revenues.....	39,319.87	4,717.67	44,037.54	8,871.24	3,367.99	1,884.34	233.70	58,394.81
Cost of revenues.....	(24,644.23)	(3,302.21)	(27,946.44)	(6,872.12)	(2,160.12)	(1,290.96)	-	(38,269.64)
Selling and marketing expenses ...	(2,295.35)	(72.65)	(2,368.00)	(828.80)	(654.61)	(131.98)	(19.29)	(4,002.68)
General and administrative expenses.....	(1,570.48)	(375.99)	(1,946.47)	(578.21)	(60.50)	(91.98)	(12.14)	(2,689.30)
Research and development expenses.....	(201.19)	-	(201.19)	-	-	-	-	(201.19)
Amortization of intangible assets .....	(39.00)	(70.00)	(109.00)	-	(13.02)	-	-	(122.02)
Exchange rate fluctuations.....	-	-	-	-	-	-	(287.45)	(287.45)
Others, net.....	6.98	-	6.98	4.90	14.58	12.54	16.64	55.64
Operating income of segment	<u>Rs. 10,576.60</u>	<u>Rs. 896.82</u>	<u>Rs. 11,473.42</u>	<u>Rs. 597.01</u>	<u>Rs. 494.32</u>	<u>Rs. 381.96</u>	<u>Rs. (68.54)</u>	<u>Rs. 12,878.17</u>
Total assets of segment (2).....	Rs. 26,982.85	Rs. 7,626.60	Rs. 34,609.45	Rs. 5,223.60	Rs. 1,561.86	Rs. 1,844.08	Rs. 23,017.81	Rs. 66,256.80
Capital employed (2).....	19,337.21	7,122.35	26,459.56	1,742.48	692.97	1,362.68	22,863.43	53,121.12
Return on capital employed (2),(3) .....	83%	15%	62%	41%	100%	-	-	-
Accounts receivable.....	9,367.12	784.93	10,152.05	2,267.01	305.32	418.22	-	13,142.60
Cash and cash equivalents and investments in liquid and short-term mutual funds.....	2,676.02	975.69	3,651.71	177.86	82.58	568.84	20,338.65	24,819.64
Depreciation.....	1,157.63	383.04	1,540.67	69.89	59.47	34.60	36.27	1,740.90

Nine months ended December 31, 2005 (unaudited)

	Global IT Services and Products			
	IT Services	Acquisitions	BPO Services	Total
Revenues.....	Rs. 52,190.13	Rs. 58.87	Rs. 5,585.17	Rs. 57,834.17
Exchange rate fluctuations.....	(371.34)	(0.50)	(52.38)	(424.22)
Total revenues.....	51,818.79	58.37	5,532.79	57,409.95
Cost of revenues.....	(33,307.01)	(30.68)	(4,264.72)	(37,602.41)
Selling and marketing expenses .....	(2,850.36)	(5.27)	(42.45)	(2,898.08)
General and administrative expenses.....	(2,417.14)	(7.25)	(576.44)	(3,000.83)
Research and development expenses.....	(141.35)	-	-	(141.35)
Amortization of intangible assets .....	(8.00)	-	(3.71)	(11.71)
Exchange rate fluctuations.....	-	-	-	-
Others, net.....	(3.04)	0.40	-	(2.64)
Operating income of segment (1)	<u>Rs. 13,091.89</u>	<u>Rs. 15.57</u>	<u>Rs. 645.47</u>	<u>Rs. 13,752.93</u>
Total assets of segment (2).....	Rs. 32,899.54	Rs. 3,282.86	Rs. 10,786.32	Rs. 46,968.72
Capital employed (3).....	20,894.73	2,760.92	9,840.82	33,496.47
Return on capital employed (2),(3) .....	82%	-	10%	58%
Accounts receivable.....	13,862.30	223.35	891.18	14,976.83
Cash and cash equivalents and investments in liquid and short-term mutual funds.....	915.08	604.41	3,224.78	4,744.27
Depreciation.....	1,604.10	2.16	439.86	2,046.12

**Nine months ended December 31, 2005 (unaudited)**

	<b>India and AsiaPac IT Services and Products</b>	<b>Consumer Care and Lighting</b>	<b>Others</b>	<b>Reconciling Items</b>	<b>Entity Total</b>
Revenues.....	Rs. 11,180.73	Rs. 4,141.75	Rs. 2,408.73	Rs. -	Rs. 75,565.38
Exchange rate fluctuations.....	0.24	(0.99)	4.50	420.47	-
Total revenues.....	11,180.97	4,140.76	2,413.23	420.47	75,565.38
Cost of revenues.....	(8,566.71)	(2,623.45)	(1,794.77)	-	(50,587.34)
Selling and marketing expenses ...	(1,015.62)	(848.86)	(173.58)	(15.98)	(4,952.12)
General and administrative expenses.....	(627.17)	(75.89)	(81.57)	(53.07)	(3,838.53)
Research and development expenses.....	-	-	-	-	(141.35)
Amortization of intangible assets.....	(8.00)	(15.91)	-	-	(35.62)
Exchange rate fluctuations.....	-	-	-	(500.33)	(500.33)
Others, net.....	4.20	10.02	11.84	22.36	45.78
Operating income of segment (1)	<u>Rs. 967.67</u>	<u>Rs. 586.67</u>	<u>Rs. 375.15</u>	<u>Rs. (126.55)</u>	<u>Rs. 15,555.87</u>
Total assets of segment (2).....	Rs. 6,536.40	Rs. 2,106.88	Rs. 2,327.46	Rs. 33,963.91	Rs. 91,903.37
Capital employed (3).....	2,525.11	1,065.22	1,634.53	33,684.15	72,405.48
Return on capital employed (2),(3).....	63%	78%	-	-	-
Accounts receivable.....	2,756.66	551.68	740.65	-	19,025.84
Cash and cash equivalents and investments in liquid and short-term mutual funds.....	125.22	62.40	435.56	30,035.00	35,402.45
Depreciation.....	83.14	55.54	42.67	27.99	2,255.46

(1) Operating income of IT Services, BPO Services, India and AsiaPac IT Services and Products, Consumer Care and Lighting, Others and Reconciling Items is after Rs. 405.42, Rs. 17.24, Rs. 30.02, Rs. 6.08, Rs. 6.98 and Rs. 32.30 respectively, of amortization of deferred stock compensation cost arising from the grant of options.

(2) Return on capital employed is computed based on the average of the capital employed at the beginning and at the end of the period.

(3) The total assets, capital employed and return on capital employed for the India and AsiaPac IT Services and Products segment excludes the impact of certain acquisition-related goodwill relating to the segment. This goodwill of Rs. 656.24 as of December 31, 2004 and 2005 has been reported as a component of reconciling items.

The Company has four geographic segments: India, United States, Europe and Rest of the world.

Revenues from the geographic segments based on domicile of the customer are as follows:

	<b>Nine months ended December 31,</b>	
	<b>2004</b>	<b>2005</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
India.....	Rs. 12,810.78	Rs. 15,938.85
United States.....	30,468.37	37,805.29
Europe.....	11,878.24	17,290.39
Rest of the world.....	3,237.42	4,530.85
	<u>Rs. 58,394.81</u>	<u>Rs. 75,565.38</u>