MASTEK GROUP

CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF MASTEK GROUP

Consolidated Balance Sheet

(₹ in Crore)

	As at June 30, 2011	As at June 30, 2010
I. Sources of funds		
1. Shareholders' Funds		
(a) Capital	**13.47**	13.47
(b) Reserves and surplus	**477.23**	534.31
	490.70	547.78
2. Loan funds	**18.41**	42.05
TOTAL	**509.11**	589.83
II. Application of funds		
1. Fixed assets		
(a) Gross block	**479.13**	450.51
(b) Less : Depreciation	**235.81**	208.87
(c) Net block	**243.32**	241.64
(d) Capital work in progress	**0.19**	35.57
	243.51	277.21
2. Investments	**61.83**	19.73
3. Deferred Taxation	**22.10**	23.12
4. Current assets, loans and advances		
(a) Sundry debtors	**163.00**	195.09
(b) Cash and bank balances	**97.20**	177.79
(c) Loans and advances	**149.35**	151.91
	409.55	524.79
Less: Current liabilities and provisions		
(a) Liabilities	**91.49**	90.44
(b) Provisions	**136.39**	164.58
	227.88	255.02
Net current assets	**181.67**	269.77
TOTAL	**509.11**	589.83

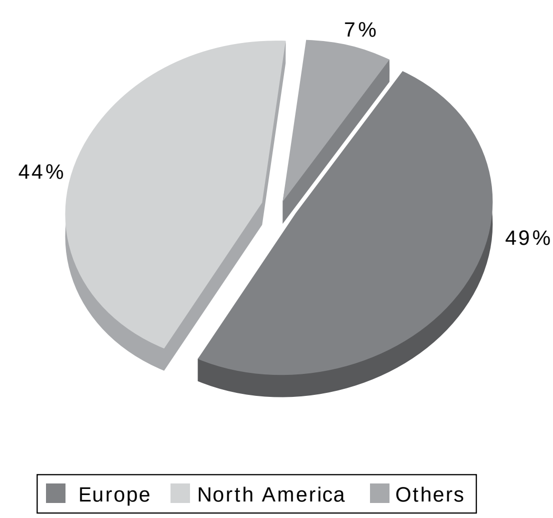
Consolidated Profit and Loss Account

(₹ in Crore)

	Year ended June 30, 2011	Year ended June 30, 2010
Income	**614.21**	721.90
Expenditure	**612.58**	626.61
Depreciation	**28.79**	26.73
Interest and Financial costs	**1.16**	1.29
(Loss)/Profit before exceptional item and taxation	**(28.32)**	67.27
Exceptional item - impairment of goodwill	**27.20**	–
(Loss)/Profit before taxation	**(55.52)**	67.27
Provision for tax, net charge/(credit)	**0.42**	(0.45)
(Loss)/Profit for the year	**(55.94)**	67.72

GEOGRAPHICAL CONTRIBUTION TO REVENUE

2010-2011



Auditors' Report on the Consolidated Financial Statements of Mastek Limited

The Board of Directors of Mastek Limited

1. We have audited the attached consolidated balance sheet of Mastek Limited (the "Company") and its subsidiaries, hereinafter referred to collectively as the "Group" (refer Note 3 on Schedule 16 to the attached consolidated financial statements) as at June 30, 2011, the related consolidated Profit and Loss Account and the consolidated Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These consolidated 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 the 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. We did not audit the financial statements of Mastek Asia Pacific Pte. Ltd., Singapore and Mastek MSC Software Sdn. Bhd., Malaysia, included in the consolidated financial statements, which constitute total assets of ₹ 2,401.81 Lacs and net assets of ₹ 2,194.66 Lacs as at June 30, 2011, total revenue of ₹ 1,513.78 Lacs, net profit of ₹ 197.30 Lacs and net cash flows amounting to ₹ 243.71 Lacs for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion on the consolidated financial statements to the extent they have been derived from such financial statements is based solely on the report of such other auditors.

4. We did not audit the financial statements of Mastek GmbH, Germany, included in the consolidated financial statements, which constitute total assets of ₹ 45.68 Lacs and net assets of ₹ 42.86 Lacs as at June 30, 2011, total revenue of ₹ 5.27 Lacs, net loss of ₹ 2.59 Lacs and net cash flows amounting to ₹ 292.51 Lacs for the year then ended. These financial statements and other financial information have been certified by its Directors and our opinion on the consolidated financial statements to the extent they have been derived from such financial statements is based solely on the management certified financial statements.

5. We report that the consolidated financial statements have been prepared by the Company's Management in accordance with the requirements of Accounting Standard (AS) 21 - Consolidated Financial Statements notified under sub-section 3C of Section 211 of the Companies Act, 1956.

6. Without qualifying our opinion, we draw your attention to Note 19 of Schedule 16, regarding excess remuneration paid during the year to the Chairman & Managing Director and an Executive Director of the Company, aggregating ₹ 63.36 Lacs and ₹ 22.40 Lacs respectively, for which Company intends to seek approval of the Members of the Company in the ensuing Annual General Meeting of the Company, and also from the Central Government.

7. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components of the Group as referred to above, and to the best of our information and according to the explanations given to us, in our opinion, the attached 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 June 30, 2011;

   (b) in the case of the consolidated Profit and Loss Account, of the loss of the Group for the year ended on that date: and

   (c) in the case of the consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

Pradip Kanakia
Partner
Membership Number: 39985

Mumbai
July 25, 2011

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2011

(₹ in Lakhs)

	Schedule	As at June 30, 2011	As at June 30, 2010
I. Sources of funds			
1. Shareholders' funds			
(a) Capital	1	**1,347.56**	1,347.20
(b) Reserves and surplus	2	**47,722.91**	53,430.71
		49,070.47	54,777.91
2. Loan funds			
Secured loans	3	**1,840.55**	4,204.71
		50,911.02	58,982.62
II. Application of funds			
1. Fixed assets	4		
(a) Gross block		**47,913.52**	45,050.87
(b) Less: Depreciation		**23,581.14**	20,886.97
(c) Net block		**24,332.38**	24,163.90
Capital work-in-progress (including capital advances)		**18.52**	3,556.82
		24,350.90	27,720.72
2. Investments	5	**6,182.72**	1,972.73
3. Deferred Taxation (Refer Note 9 of Schedule 16)	6	**2,210.01**	2,312.44
4. Current assets, loans and advances			
(a) Sundry debtors	7	**16,299.99**	19,508.55
(b) Cash and bank balances	8	**9,719.82**	17,779.26
(c) Loans and advances	9	**14,935.52**	15,190.78
		40,955.33	52,478.59
Less: Current liabilities and provisions			
(a) Liabilities	10	**9,148.91**	9,044.31
(b) Provisions	11	**13,639.03**	16,457.55
		22,787.94	25,501.86
Net current assets		**18,167.39**	26,976.73
		50,911.02	58,982.62
Notes to the consolidated accounts	16		

The Schedules referred to above and the notes thereon form an integral part of the Consolidated Balance Sheet and should be read in conjunction therewith.

In terms of our report of even date

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

Pradip Kanakia
Partner
Membership Number: 39985

Mumbai
Dated: July 25, 2011

For and on behalf of the Board of Directors

Sudhakar Ram
Chairman & Managing Director

Ashank Desai
Director

Bhagwant Bhargawe
Company Secretary

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

(₹ in Lakhs)

	Schedule	Year ended June 30, 2011	Year ended June 30, 2010
Income			
Information Technology Services and Products		**59,327.38**	71,382.51
Other income	**12**	**2,093.97**	807.76
		61,421.35	72,190.27
Expenditure			
Operational expenses	**13**	**55,143.29**	55,378.84
Other expenses	**14**	**6,115.08**	7,282.34
Depreciation		**2,878.84**	2,673.06
Finance costs	**15**	**116.19**	128.57
		64,253.40	65,462.81
(Loss)/Profit before exceptional item and taxation		**(2,832.05)**	6,727.46
Exceptional item - impairment of goodwill (Refer Note 16 of Schedule 16)		**2,719.93**	–
(Loss)/Profit before taxation		**(5,551.98)**	6,727.46
Provision for taxation (Refer Note 9 of Schedule 16)			
For the year			
- Current tax		**979.76**	1,760.37
Less: MAT credit receivable		**–**	(289.38)
		979.76	1,470.99
- Deferred tax		**91.41**	(510.07)
		1,071.17	960.92
Income tax for earlier years		**(1,028.81)**	(1,005.08)
(Loss)/Profit for the year		**(5,594.35)**	6,771.62
Add: Profit brought forward from previous year		**41,549.64**	37,494.86
Profit available for appropriation		**35,955.30**	44,266.48
Appropriations			
Interim dividend		**–**	539.50
Final dividend		**–**	336.80
Corporate dividend tax		**–**	147.63
Transferred to general reserve		**–**	1,692.91
Balance carried to Balance Sheet		**35,955.30**	41,549.64
		35,955.30	44,266.48
(Loss)/Earning per share (net of taxes) in ₹			
- Basic		**(20.76)**	25.15
- Diluted		**(20.76)**	24.99
(Refer Note 12 of Schedule 16) (Nominal value per share ₹ 5/- each)			
Notes to the consolidated accounts	**16**		

The Schedules referred to above and the notes thereon form an integral part of the Consolidated Profit and Loss Account and should be read in conjunction therewith.

In terms of our report of even date

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

Pradip Kanakia
Partner
Membership Number: 39985

Mumbai
Dated: July 25, 2011

For and on behalf of the Board of Directors

Sudhakar Ram
Chairman & Managing Director

Ashank Desai
Director

Bhagwant Bhargawe
Company Secretary

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2011

(₹ in Lakhs)

	As at June 30, 2011	As at June 30, 2010
SCHEDULE 1		
CAPITAL		
Authorised		
40,000,000 equity shares of ₹ 5/- each	**2,000.00**	2,000.00
2,000,000 preference shares of ₹ 100/- each	**2,000.00**	2,000.00
	4,000.00	4,000.00
Issued, Subscribed and Paid up:		
Equity Shares		
26,951,187 shares of ₹ 5/- each, fully paid up	**1,347.56**	1,347.20
(Previous year 26,943,937 shares of ₹ 5/- each, fully paid up)		
(Refer Note 7 of Schedule 16)		
	1,347.56	1,347.20

Of the above:

- 14,054,594 and 6,913,280 equity shares of ₹ 5/- each fully paid, have been issued as bonus shares by utilisation of Capital Redemption Reserve and Share Premium Account respectively.
- 660,000 equity shares of ₹ 5/- each fully paid have been issued as bonus shares by capitalisation of profits transferred from General Reserve.

	As at June 30, 2011	As at June 30, 2010
SCHEDULE 2		
RESERVES AND SURPLUS		
Capital Reserve		
As per last balance sheet	**21.44**	21.44
	21.44	21.44
Capital Redemption Reserve Account		
As per last Balance Sheet	**1,295.27**	1,295.27
	1,295.27	1,295.27
Securities Premium Account		
As per last Balance Sheet	**139.66**	36.63
Add: Addition on account of ESOP	**10.93**	103.03
	150.59	139.66
Employees stock option outstanding (Refer note 7 of Schedule 16)	**145.50**	57.00
General Reserve		
As per last Balance Sheet	**10,405.24**	8,712.33
Add: Transferred from Profit and Loss Account	**–**	1,692.91
	10,405.24	10,405.24
Foreign Currency Translation Account		
As per last Balance Sheet	**(37.54)**	1,943.76
Add: Exchange (loss) on translation	**(212.89)**	(1,981.30)
	(250.43)	(37.54)
Profit and Loss Account	**35,955.30**	41,549.64
	47,722.91	53,430.71

(₹ in Lakhs)

	As at June 30, 2011	As at June 30, 2010
SCHEDULE 3		
SECURED LOANS		
Term Loan from Bank (Refer note 4(iii) of Schedule 16) (Secured against pledge of shares of System Task Group International Limited)	**1,341.00**	4,180.05
Line of Credit for Working Capital from Bank (Refer note 4(iii) of Schedule 16) (Secured against current assets including receivables of MajescoMastek,USA)	**447.00**	–
Obligations on assets under finance leases - hypothecated against leased assets [Due within one year ₹ 11.24 Lakhs (Previous year - ₹ 19.09 Lakhs)]	**52.55**	24.66
	1,840.55	4,204.71

SCHEDULE 4
FIXED ASSETS

(₹ in Lakhs)

Description	Gross Block (at cost)					Depreciation					Net Block	
	As at July 01, 2010	Additions	Deletions/ Adjust-ments	Translation Exchange Difference	**As at June 30, 2011**	As at July 01, 2010	For the year	Deletions/ Adjust-ments	Translation Exchange Difference	**As at June 30, 2011**	**As at June 30, 2011**	As at June 30, 2010
Goodwill (Note 3)	16,528.69	214.12	2,719.93	(623.67)	**13,399.21**	239.91	–	–	(9.04)	**230.87**	**13,168.34**	16,288.78
Leasehold Land and Premises	3,090.44	–	–	–	**3,090.44**	695.57	96.40	–	–	**791.97**	**2,298.47**	2,394.87
Owned Premises (Note 1)	2,683.06	1,483.66	–	–	**4,166.72**	488.99	152.56	–	–	**641.55**	**3,525.17**	2,194.07
Plant and Machinery	9,224.14	1,320.18	107.86	(43.36)	**10,393.10**	7,572.50	1,062.94	107.12	(37.53)	**8,490.79**	**1,902.31**	1,651.64
Software	7,991.53	2,008.31	1.13	38.91	**10,037.62**	7,386.77	832.37	1.13	39.77	**8,257.78**	**1,779.84**	604.76
Furniture and Fittings	4,665.64	1,211.18	–	4.16	**5,880.98**	3,828.37	640.93	–	4.45	**4,473.75**	**1,407.23**	837.27
Leasehold Improvements	471.69	37.51	–	(2.33)	**506.87**	452.40	23.80	–	(2.15)	**474.05**	**32.82**	19.29
Vehicles (Note 2)	395.68	138.63	95.73	–	**438.58**	222.46	69.84	71.92	–	**220.38**	**218.20**	173.22
Total	45,050.87	6,413.59	2,924.65	(626.29)	**47,913.52**	20,886.97	2,878.84	180.17	(4.50)	**23,581.14**	**24,332.38**	24,163.90
Previous Year	43,708.54	2,417.17	448.07	(626.77)	**45,050.87**	18,747.42	2,673.06	417.73	(115.78)	**20,886.97**	**24,163.90**	

1. Owned premises include subscription towards share capital of Co-operative societies amounting to ₹ 250 (Previous year ₹ 250).
2. Net block of vehicles include leased assets amounting to ₹ 42.73 Lakhs (Previous year ₹ 16.53 Lakhs).
3. Adjustment in Gross Block includes Impairment of Goodwill of ₹ 2,719.93 Lakhs as shown in the Profit and Loss Account under Exceptional item (refer Note 16 of Schedule 16).
4. The Company has capitalized the assets lying at its Chennai SEZ facility, with effect from July 1, 2010. Depreciation amounting to ₹ 546.29 Lakhs (Previous Year - ₹ Nil) on these capitalized assets has been charged at the rates specified in Note 2c of Schedule 16 to recognise the loss of value through effluxion of time, although the said facility has not yet been put to use.

(₹ in Lakhs)

	As at June 30, 2011	As at June 30, 2010
SCHEDULE 5		
INVESTMENTS		
I. Investment in units of mutual funds (Current, non-trade, unquoted)		
15,077,249 (Previous year - Nil) units of Sundaram Ultra Short Term - Super Inst. Plan - Daily Dividend Reinvestment. Purchased during the year ₹ 3,580.18 Lakhs (35,669,856 units) and sold during the year ₹ 2,066.88 Lakhs (20,592,607 units).	**1,513.30**	–
12,665,379 (Previous year - Nil) units of DWS Ultra Short Term Fund - Inst. Plan - Daily Dividend Reinvestment. Purchased during the year ₹ 2,895.56 Lakhs (28,903,847 units) and sold during the year ₹ 1,626.76 Lakhs (16,238,468 units).	**1,268.80**	–
12,057,334 (Previous year - Nil) units of ICICI Prudential Blended Plan - B Option II - Daily Dividend Reinvestment. Purchased during the year ₹ 1,206.64 Lakhs (12,057,334 units) and sold during the year ₹ Nil (Nil units).	**1,206.64**	–
7,173,190 (Previous year - Nil) units of SBI Magnum Income Fund - Floating Rate Plan - Saving Plus Bond Plan - Daily Dividend Reinvestment. Purchased during the year ₹ 721.78 Lakhs (7,173,190 units) and sold during the year ₹ Nil (Nil units).	**721.78**	–
7,036,776 (Previous year - Nil) units of Tata Floater Fund - Daily Dividend Reinvestment. Purchased during the year ₹ 3,778.55 Lakhs (37,651,422 units) and sold during the year ₹ 3,072.37 Lakhs (30,614,646 units).	**706.18**	–
Nil (Previous year - 4,499,550) units of TATA Fixed Income Portfolio Fund Scheme A2 - Inst. Purchased during the year ₹ 1.99 Lakhs (19,931 units) and sold during the year ₹ 451.99 Lakhs (4,519,481 units).	**–**	450.00
7,599,526 (Previous year - 225,384) units of Kotak Floater Long Term Fund - Daily Dividend Reinvestment. Purchased during the year ₹ 1,627.07 Lakhs (16,142,006 units) and sold during the year ₹ 883.78 Lakhs (8,767,864 units).	**766.02**	22.73
II. Investment in deposits		
Deposit with Housing Urban Development Corporation	**–**	1,500.00
	6,182.72	1,972.73
SCHEDULE 6		
DEFERRED TAXATION		
Deferred Tax Asset		
Tax effect of timing difference on account of :		
- Doubtful debts	**79.85**	63.80
- Fixed Assets	**761.16**	629.47
- Employee benefits	**1,252.78**	1,359.02
- Operating loss carry forwards	**–**	166.84
- Others	**116.22**	93.31
	2,210.01	2,312.44

(₹ in Lakhs)

	As at June 30, 2011	As at June 30, 2010
SCHEDULE 7		
SUNDRY DEBTORS - (UNSECURED)		
a) Debts outstanding for a period exceeding six months		
- Considered good	**55.49**	15.39
- Considered doubtful	**242.70**	274.55
	298.19	289.94
b) Other debts		
- Considered good	**16,244.50**	19,493.16
	16,542.69	19,783.10
Less: Provision for doubtful debts	**242.70**	274.55
	16,299.99	19,508.55
SCHEDULE 8		
CASH AND BANK BALANCES		
Cash balance on hand	**1.89**	1.80
Balances with banks#		
- in Current Accounts*	**2,900.00**	4,512.75
- in Fixed Deposits**	**6,817.93**	13,264.71
	9,719.82	17,779.26

* Includes amounts restricted ₹ 52.14 Lakhs (Previous year - ₹ 53.10 Lakhs) on account of unpaid dividends.

** Includes ₹ 143.50 Lakhs (Previous year - ₹ 72.47 Lakhs) restricted on account of margin money.

Consists of balance with unscheduled banks ₹ 6,183.93 Lakhs (Previous year - ₹ 6,413.46 Lakhs).

Name of the Bank	**Balance as at June 30, 2011**	Balance as at June 30, 2010
Chase Bank of Texas	**377.08**	935.43
JP Morgan Chase Bank, New Jersey	**88.48**	39.91
Dresdner Bank, Germany	**–**	335.32
Commerzbank, Germany	**42.81**	–
Shinhan Bank, Korea	**1.31**	–
Lloyds TSB, UK	**3,810.63**	2,834.64
MayBank, Malaysia	**538.94**	669.05
Canadian Imperial Bank of Commerce, Canada	**35.79**	26.90
Citibank, New York	**1,284.13**	1,569.71
Ayudhya Bank, Thailand	**4.76**	2.50
Total	**6,183.93**	6,413.46

(₹ in Lakhs)

	As at June 30, 2011	As at June 30, 2010
SCHEDULE 9		
LOANS AND ADVANCES		
(Unsecured, considered good unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	**1,706.73**	1,666.30
Less: Provision for doubtful advances	**89.40**	92.89
	1,617.33	1,573.41
Advance income tax	**11,046.00**	11,178.47
MAT credit entitlement	**2,272.19**	2,438.90
	14,935.52	15,190.78

	As at June 30, 2011	As at June 30, 2010
SCHEDULE 10		
LIABILITIES		
Sundry Creditors	**6,166.08**	5,728.69
Unclaimed dividends *	**52.14**	53.11
Unearned revenue	**734.06**	677.78
Book overdraft in current account with bank	**–**	1.17
Other Liabilities	**2,196.63**	2,583.56
	9,148.91	9,044.31

* Note: There is no amount due and outstanding to be credited to Investor Education and Protection Fund.

	As at June 30, 2011	As at June 30, 2010
SCHEDULE 11		
PROVISIONS		
Proposed dividend	**–**	336.80
Provision for Corporate dividend tax	**–**	55.94
Provision for taxes	**9,856.80**	11,470.95
Provision for gratuity	**1,772.14**	2,319.76
Provision for leave encashment	**2,010.09**	2,274.10
	13,639.03	16,457.55

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

(₹ in Lakhs)

	Year ended June 30, 2011	Year ended June 30, 2010
SCHEDULE 12		
OTHER INCOME		
Interest on deposits [Tax deducted at source ₹ 21.46 Lakhs (Previous year - ₹ 23.52 Lakhs)]	**349.14**	447.52
Interest on Income tax refunds	**134.78**	41.82
Interest on others	**14.23**	2.28
Profit on sale of fixed assets (net)	**–**	4.11
Profit on sale of investments (current, non-trade)	**0.90**	0.03
Exchange gain (net)	**1,030.46**	–
Income from investments (current, non-trade)	**149.42**	140.39
Bad debts recovered	**82.83**	–
Miscellaneous income	**332.21**	171.61
	2,093.97	807.76

	Year ended June 30, 2011	Year ended June 30, 2010
SCHEDULE 13		
OPERATIONAL EXPENSES		
Salaries, bonus and incentives*	**42,046.21**	41,574.17
Gratuity	**139.99**	322.48
Contribution to provident and other funds	**945.41**	797.95
Staff welfare	**2,317.58**	2,814.01
Recruitment and training expenses	**292.85**	449.90
Travelling and conveyance	**2,923.69**	3,619.63
Communication charges	**763.95**	859.56
Electricity	**585.05**	655.68
Consulting charges	**4,317.42**	3,934.79
Purchase of software and hardware for resale	**811.15**	350.67
	55,143.29	55,378.84

* Includes ₹ 88.50 Lakhs (Previous year - ₹ 57.00 Lakhs) on account of on Employee Stock Option cost.

(₹ in Lakhs)

	Year ended June 30, 2011	Year ended June 30, 2010
SCHEDULE 14		
OTHER EXPENSES		
Rates and taxes	**308.98**	262.15
Repairs		
- Building	**276.87**	241.13
- Machinery	**1,094.96**	983.94
Insurance	**375.18**	378.27
Printing and stationery	**102.42**	139.89
Exchange loss (net)	**–**	391.73
Professional fees	**2,018.66**	2,550.70
Rent (Refer Note 5 of Schedule 16)	**912.33**	1,069.48
Advertisement and publicity	**367.88**	565.49
Provision for doubtful debts	**57.11**	106.71
Bad debts written off	**50.68**	–
Loss on sale of fixed assets (net)	**3.08**	–
Loss on Investments written off	**–**	1.91
Miscellaneous expenses	**546.93**	590.94
	6,115.08	7,282.34

	Year ended June 30, 2011	Year ended June 30, 2010
SCHEDULE 15		
FINANCE COSTS		
Interest on cash credit	**5.48**	1.17
Interest on term loan	**59.39**	129.91
Bank charges	**15.97**	20.64
Interest on finance lease	**4.58**	2.32
Other finance charges	**30.77**	(25.47)
	116.19	128.57

SCHEDULE 16

1. DESCRIPTION OF BUSINESS

Mastek Limited (hereinafter referred to as "The Company") and its subsidiaries (hereinafter referred to collectively as "Mastek" or "the Group") are engaged in software development, technical and consultancy services, and business process outsourcing. Mastek adopts a cost effective synthesis of onsite and offshore development teams so as to enhance the value generation to its clients. The Company provides enterprise-wide solutions to the insurance industry, financial services segments such as trade finance, collection operations, asset-based lending systems, and ERP solutions based on oracle applications. The Company also provides policy acquisition, administration and processing solutions to players in the insurance industry. Mastek's service offerings include business and technology services comprising of Information Technology ('IT') consulting, application development, systems integration, application management outsourcing, testing, data warehousing and business intelligence, application security, Customer Relationship Management services and legacy modernisation.

Mastek has evolved a matrix of subsidiary based model of operations. Accordingly, it has subsidiaries in United Kingdom ('UK'), United States of America ('US'), Germany, Singapore, Thailand, Malaysia and Canada, and branch offices in UK, Japan and Korea, to enable Mastek to cater to the needs of the customers in the specific regions. The offshore software development centers are located at Mumbai, Pune, Chennai and Mahape (all of them being in India).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The consolidated financial statements of Mastek are prepared under historical cost convention in accordance with generally accepted accounting principles applicable in India and the Accounting Standard 21 on Consolidated Financial Statements issued by the Institute of Chartered Accountants of India and to the extent possible, in the same format as that adopted by the parent Company (Mastek Limited) for its separate financial statements.

The financial statements of the Company and its subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses. Intra group balances and intra group transactions and resulting unrealized profits are eliminated in full. Unrealized losses resulting from intra group transactions are also eliminated unless cost cannot be recovered.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

b) Use of Estimates

The preparation of the financial statements in conformity with the generally accepted accounting principles requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

c) Fixed Assets and Depreciation

Fixed Assets are stated at cost of acquisition less accumulated depreciation. Direct costs are capitalized until the assets are ready for use and include inward freight, duties, taxes and expenses incidental to acquisition and installation.

Depreciation on fixed assets is provided on the Straight Line Method over the useful life of assets, as estimated by the management or as per Schedule XIV of the Act in cases where the rates specified therein are higher. Assets individually costing less than ₹ 5,000/- are depreciated fully in the year of acquisition. Expenditure incurred on purchase of Software used in operations of the entity is depreciated over its estimated life. The useful lives estimated by the management which are higher than rates specified as per Schedule XIV are as under:

Goodwill	3 years
Leasehold Land	Lease Term ranging from 95 - 99 years
Owned/Leasehold Premises	25 - 30 years
Computers (Included in Plant & Machinery)	2 years
Other Plant & Machinery	5 years
Software	1 - 5 years
Furniture and Fittings	5 years
Leasehold Improvements	5 years or the primary period of lease whichever is less
Vehicles	5 years

d) Investments

Long-term investments are stated at cost less provision made to recognize any decline, other than temporary, in the value of such investments. Current investments are stated at the lower of cost and fair value. Any reduction in carrying amount and any reversal of such reductions are charged or credited to the Profit and Loss Account.

e) Foreign Currency Transactions and Translation

The consolidated financial statements are prepared in Indian Rupees. The Indian Rupee is the functional currency for Mastek Limited. However, U.S. Dollar, Pound Sterling, Singapore Dollar, Malaysian Ringitts, Thai Baht, Canadian Dollar and Euro are the functional currencies for its subsidiaries located in United States of America, United Kingdom, Singapore, Malaysia, Thailand, Canada and Europe (Germany), respectively. The translation of the functional currencies into Indian Rupees (reporting currency) is performed for assets and liabilities using the current exchange rates in effect at the Balance Sheet date and for revenues and expenses using average exchange rates prevailing during the reporting periods and for share capital and reserves using the exchange rate at the date of transaction. The differences on translation are taken directly to reserves, under Foreign Currency Translation Reserve Account.

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currency are converted at the rate of exchange prevailing on the date of the Balance Sheet. Exchange differences arising on foreign currency transactions and balances are recognized as income or expense in the Profit and Loss Account.

In case of forward exchange contract or any other financial instrument that is in substance a forward exchange contract to hedge the foreign currency risk which is on account of firm commitment and/or is a highly probable forecast transaction, the premium or discount arising at the inception of the contract is amortized as expense or income over the life of the contract. Gains/losses on settlement of transaction arising on cancellation or renewal of such a forward exchange contract are recognized as income or expense for the period.

In case of Forward Contracts that are open on the Balance Sheet date and are not backed by Receivables, the gain or loss is computed by multiplying the foreign currency amount of the forward contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate. The loss so computed is recognised in the profit and loss account for the period; however the gain is not recognised.

In respect of transactions related to foreign branch, all revenue and expense transactions during the year are reported at average rate. Monetary assets and liabilities are translated at the rate prevailing on the Balance Sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Net gain/loss on foreign currency translation is recognized in the Profit and Loss Account.

f) Employee Benefits

i) Long-term Employee Benefits

a) Defined Contribution Plans

The Company has Defined Contribution Plans for post employment benefits in the form of Provident Fund and Superannuation Fund in India which are administered through Government of India and/or Life Insurance Corporation of India (LIC). The Group also makes contributions towards defined contribution plans in respect of its subsidiaries in foreign jurisdictions, as applicable. Under such Defined Contribution Plans, the Group has no further obligation beyond making the contributions. The Group's contributions to Defined Contribution Plans are charged to the Profit and Loss Account as incurred.

b) Defined Benefit Plans

The Company has Defined Benefit Plans for post employment benefits in the form of Gratuity and Leave

Encashment for the employees in India. The Group also provides for Leave Encashment liability towards employees of foreign subsidiaries and UK branch. Liability for Defined Benefit Plans is provided on the basis of actuarial valuations, as at the Balance Sheet date, carried out by independent actuary. The actuarial valuation method used by independent actuary for measuring the liability is the Projected Unit Credit method. Actuarial gains and losses comprise experience adjustments and the effects of changes in actuarial assumptions and are recognised immediately in the Profit and Loss Account as income or expense.

ii) Short-term Employee Benefits

The undiscounted amount of short term employee benefits expected to be paid in exchange for the services rendered by employees is recognised during the period when the employee rendered the services. These benefits include compensated absences such as paid annual leave, overseas social security contributions and performance incentives.

g) Revenue Recognition

Mastek derives its revenues primarily from software services.

Revenues from customer support services are recognised ratably over the term of the support period.

Revenues from software related services are primarily related to implementation services performed on a time and material basis under separate service arrangements. Revenues with respect to time and material contracts are recognised as and when services are rendered.

Revenues from fixed price, fixed time frame contracts are recognised in accordance with the percentage of completion method measured by the percentage of cost incurred over the estimated total cost for each contract. The cumulative impact of any revision in estimates of the percentage of work completed is reflected in the period in which the change becomes known. Provisions for estimated losses on such engagements are made during the period in which a loss becomes probable and can be reasonably estimated.

Amounts received or billed, in advance of services performed are recorded as unearned revenue. Unbilled revenue included in debtors, represents amounts recognised based on services performed in accordance with contract terms and where billings are pending.

Dividend income from investments is recognised when the right to receive payment is established.

Interest income is recognised on time proportion basis.

h) Borrowings Costs

Borrowing costs that are incurred on borrowings made specifically for the acquisition, construction or production of a qualifying asset are capitalized as a part of that asset. The amount of borrowing costs from funds that are borrowed generally and used for the purpose of obtaining a qualifying asset are calculated by applying a weighted average capitalization rate to the expenditure on that asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

i) Leases

Assets taken on leases which transfer substantially all the risks and rewards incidental to ownership of the assets i.e. finance leases, in terms of provisions of Accounting Standard (AS) 19 – 'Leases', are capitalized. The assets are capitalized at the lower of the fair value at the inception of the lease and the present value of minimum lease payments and a liability is created for an equivalent amount. Such assets are disclosed as a part of the class of owned assets to which they belong and are depreciated accordingly. Each lease rental paid on the finance lease is allocated between the liability and interest cost, so as to obtain a constant periodic rate of interest on the outstanding liability for each period. Other leases are classified as operating leases and rental payments in respect of such leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

j) Earnings per share

Basic earnings per share (EPS) are calculated by dividing the net loss/profit after tax for the year (including the post-tax effect of extraordinary items, if any) attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Diluted earnings per share is computed by adjusting the number of shares used for basic EPS with the weighted average number of shares that could have been issued on the conversion of all dilutive potential equity shares.

Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value i.e. average market value of outstanding shares. The number of shares and potentially dilutive shares are adjusted for share splits and bonus shares, as appropriate. In calculating diluted earnings per share, the effects of anti dilutive potential equity shares are ignored. Potential equity shares are anti-dilutive when there conversion to equity shares would increase earnings per share or decrease loss per share.

k) Income taxes

Provision for tax for the year comprises of current tax and deferred tax. Current tax provision is measured by the amount of tax expected to be paid on the taxable profits after considering tax allowances and exemptions and using applicable tax rates and laws. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences between the financial statements' carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured on the timing differences applying the tax rates and tax laws that have been enacted or substantively enacted by the Balance Sheet date. Changes in deferred tax assets and liabilities between one Balance Sheet date and the next are recognised in the Profit and Loss account in the year of change. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the Profit and Loss account in the year of change.

Deferred tax assets are recognised only if there is reasonable certainty that they will be realized by way of future taxable income. Deferred tax assets related to unabsorbed depreciation and carry forward losses are recognised only to the extent that there is virtual certainty of realization. Deferred tax assets are reviewed for appropriateness of their carrying amounts at each Balance Sheet date.

l) Accounting for Employee Stock Options

Stock options granted to employees of Mastek Limited and its subsidiaries under the stock option schemes established after June 19, 1999 are accounted as per the treatment prescribed by Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 (SEBI guidelines) issued by the Securities and Exchange Board of India (SEBI) and as amended from time to time. According to the above guidelines, the excess of market value of the stock options as on the date of grant over the exercise price of the options is to be recognised as deferred employee compensation and is to be charged to profit and loss account ratably over the vesting period of the options.

m) Provisions

Provisions are recognised when the Group has a present obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, only when such reimbursement is virtually certain.

n) Impairment of Assets

At each Balance Sheet date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, management estimates the recoverable amount. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the Profit and Loss Account to the extent carrying amount exceeds recoverable amount.

3. LIST OF SUBSIDIARIES CONSIDERED FOR CONSOLIDATION

Name of Subsidiary Company	Country of Incorporation	Extent of Holding (%) as on June 30, 2011	Extent of Holding (%) as on June 30, 2010
MajescoMastek~	USA	100%	100%
Mastek (UK) Limited	UK	100%	100%
Mastek GmbH	Germany	100%	100%
Mastek Asia Pacific Pte Ltd.	Singapore	100%	100%
Mastek MSC Software Sdn. Bhd.	Malaysia	100%	100%
Carretek LLC *	USA	NA	100%
Mastek MSC (Thailand) Co. Ltd. **	Thailand	100%	100%
Vector Insurance Services LLC <	USA	90%	90%
Systems Task Group International Limited >	USA	100%	100%
Keystone Solutions Private Limited #	India	100%	100%
MajescoMastek Canada Ltd. (Formerly known as MajescoMastek Enterprise Solutions Canada Co. Ltd.)	Canada	100%	100%

* Carretek LLC has been closed down w.e.f . September 27, 2010.

** Incorporated on February 5, 2007 and 100% held by Mastek MSC Software Sdn. Bhd., Malaysia.

< Acquired w.e.f. July 1, 2007 and 90% held by MajescoMastek, USA.

> Acquired w.e.f. January 1, 2008 and 100% held by MajescoMastek, USA.

Held by Systems Task Group International Ltd. USA - 100% subsidiary w.e.f. January 1, 2008.

~ 70% held by Mastek Ltd. and 30% held by Mastek (UK) Limited w.e.f. April 20, 2011.

4. CONTINGENT LIABILITIES AND COMMITMENTS

(₹ in Lakhs)

		As at June 30, 2011	As at June 30, 2010
(i)	Counter guarantees outstanding in respect of guarantees given by banks on behalf of the Company	**175.25**	103.19
(ii)	Corporate performance guarantees given by the Company:		
	a) on behalf of subsidiary, MajescoMastek Canada Ltd.	**2,411.84**	967.53
	b) on behalf of subsidiary, Mastek MSC (Thailand) Co. Ltd.	**229.34**	153.49
	c) on behalf of subsidiary, Mastek (UK) Limited	**42,828.87**	36,462.26
(iii)	Corporate guarantees given by the Company: a) on behalf of subsidiary, MajescoMastek for its term loan	**1,341.00**	4,180.05
	b) on behalf of subsidiary, MajescoMastek for its Line of Credit for Working Capital from Bank	**447.00**	–
(iv)	Claims against the Company not acknowledged as debts *	**2,309.06**	105.78
(v)	Estimated amount of contracts remaining to be executed on capital account not provided for	**196.95**	1,813.15

* Claims against the Company not acknowledged as debts include:

a) a demand from the Indian tax authorities for payment of additional tax of ₹ 1,115.03 Lakhs, including interest of ₹ 379.47 Lakhs upon completion of their tax review for financial year ended March 31, 2006.

b) a demand from the Indian tax authorities for payment of additional tax of ₹ 1,088.25 Lakhs, including interest of ₹ 370.73 Lakhs upon completion of their tax review for financial year ended March 31, 2007.

A substantial portion of both the tax demands pertains to the adjustment to total income carried out on account of transfer pricing. The matter in respect of 2006 is pending before the Income Tax Appellate Tribunal, Ahmedabad and in respect of 2007 before the Commissioner of Income-tax (Appeals), Ahmedabad. Against the additional tax demand of ₹ 1,115.03 Lakhs for the year 2006, the Income-Tax department has adjusted ₹ 628.17 Lakhs in respect of Income Tax Refunds due to the Company.

The Company has treated such adjustment as payment under protest and has accordingly reflected this adjustment under Loans and advances. The Company is contesting the demands and the Management believes that its position will likely be upheld in the appellate process and accordingly the same will not have a material adverse effect on the Company's financial position and the result of its operations. As a result, no provision has been made in the financial statements for the tax demands raised.

As a substantial portion of the transfer pricing adjustment relates to the international transactions between the Company and its subsidiary in UK, the latter has in parallel also filed a letter with the Competent Authority (CA) in UK under the Article 27 on Mutual Agreement Procedure of the Double Tax Avoidance Agreement signed between India and UK. This letter has been filed in order to ensure that the adjustment to the total income carried out in India does not result in double taxation for the Mastek Group. A copy of the said letter has also been filed by the Company with the CA in India. Mutual Agreement Procedure (MAP) is a dispute resolution process in addition to the local legal remedies available to the Company. It is a process whereby the CA of two contracting states viz. India and UK would discuss the transfer pricing adjustment and negotiate a position whereby the international transaction between the Company and India will not suffer double taxation.

Based on the above, the Management believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Group's financial position and result of operations.

5. LEASES

(₹ in Lakhs)

		As at June 30, 2011	As at June 30, 2010
a)	Total minimum finance lease payments outstanding (in respect of vehicles):		
	Due within one year	**17.52**	21.16
	Due later than 1 year but not later than 5 years	**50.83**	9.07
	Due later than 5 years	**–**	–
	Total minimum lease payments	**68.35**	30.23
	Less: Interest not due	**(15.80)**	(5.57)
	Present value of net minimum capital leases payments	**52.55**	24.66
b)	Operating lease rentals recognised in the profit and loss account	**912.33**	1,069.48
c)	Future minimum lease payments under non-cancellable operating leases (in respect of properties):		
	Due within one year	**376.24**	278.70
	Due later than 1 year but not later than 5 years	**858.74**	795.23
	Due later than 5 years	**107.65**	–
	Total minimum lease payments	**1,342.63**	1,073.93
d)	Description of significant operating lease arrangements:		
	- The Company has given refundable interest free security deposit under the lease agreements.		
	- All agreements contain provision for renewal at the option of either parties.		
	- All agreements provide for restriction on sub lease.		

6. FORWARD CONTRACTS

Forward Contracts outstanding as on June 30, 2011 amounting to ₹ 21,113.84 Lakhs (Previous year ₹ 28,034.66 Lakhs). Gain/(loss) of foreign exchange forward contracts are included under the head Exchange gain/loss (net). Forward contracts amounting to ₹ Nil (Previous year ₹ 3,830.93 Lakhs) are backed by receivables.

7. EMPLOYEE STOCK OPTIONS

Plan II

The Company established a new scheme in 2002 for granting 700,000 stock options to employees and each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employees Stock Purchase Guidelines issued in 1999 by SEBI. There is a minimum period of twelve months for the first vesting from the date of the grant of options. The options are exercisable within two years of their vesting. As per the SEBI guidelines issued in 1999, and as amended from time to time, the excess of the market price of the underlying equity shares as of the date of the grant of the option over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year. In April, 2006, the Company issued Bonus Shares in the ratio of 1:1 and the number of unvested and unexercised options and the price of the said options have been adjusted accordingly.

In accordance with the Guidelines, the Company has passed the necessary special resolutions in January 2002 to approve the scheme and to extend the plan to the employees of its subsidiaries.

(No. of options)

	Year ended June 30, 2011	Year ended June 30, 2010
Opening Balance	**7,750**	91,520
Granted during the year	**–**	–
Exercised during the year	**(5,250)**	(14,458)
Cancelled during the year	**(2,500)**	(69,312)
Balance unexercised options	**–**	7,750

Plan III

The Company passed special resolutions at its Annual General Meeting held on September 20, 2004 approving the allocation of 700,000 stock options to the eligible employees of the Company and its subsidiaries.

The Company subsequently established a new scheme in 2004 for granting 700,000 stock options to the employees referred to above, each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within two years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year. In April, 2006 the Company issued Bonus Shares in the ratio of 1:1 and the number of unvested and unexercised options and the price of the said options have been adjusted accordingly.

(No. of options)

	Year ended June 30, 2011	Year ended June 30, 2010
Opening Balance	**546,794**	898,624
Granted during the year	**–**	–
Exercised during the year	**–**	(26,938)
Cancelled during the year	**(267,502)**	(324,892)
Balance unexercised options	**279,292**	546,794

Plan IV

The Shareholders of the Company through Postal Ballot on August 9, 2007 approved the allocation of 1,000,000 stock options to the eligible employees of the Company and its subsidiaries.

The Company subsequently established a new scheme in 2007 for granting 1,000,000 stock options to the employees referred to above, each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within two years from the date of vesting. During the year the Company has extended the vesting period from two years to seven years. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year.

(No. of options)

	Year ended June 30, 2011	Year ended June 30, 2010
Opening Balance	**513,714**	614,917
Granted during the year	**–**	–
Exercised during the year	**(2,000)**	(3,047)
Cancelled during the year	**(104,476)**	(98,156)
Balance unexercised options	**407,238**	513,714

Plan V

The Company introduced a new scheme in 2008 for granting 1,500,000 stock options to the employees, each option representing one equity share of the Company. The exercise price as may be determined by the Compensation Committee and such price may be the face value of the share from time to time or may be the Market Price or any price as may be decided by the Committee and will be governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within seven years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the financial year ended June 30, 2011 and June 30, 2010 have been granted at an exercise price which is equal to the market price of the underlying equity shares except for 50,000 Options (Previous Year 25,000 options), which had been granted at a price less than the market price. Consequently, compensation cost of ₹ 88.50 Lakhs (Previous Year ₹ 57.00 Lakhs) has been charged to the Profit and Loss account during the current year.

(No. of options)

	Year ended June 30, 2011	Year ended June 30, 2010
Opening Balance	**891,000**	61,000
Granted during the year	**879,248**	1,116,000
Exercised during the year	**–**	–
Cancelled during the year	**(452,900)**	(286,000)
Balance unexercised options	**1,317,348**	891,000

Plan VI

The Company introduced a new scheme in 2010 for granting 2,000,000 stock options to the employees, each option representing one equity share of the Company. The exercise price as may be determined by the Compensation Committee and such price may be the face value of the share from time to time or may be the Market Price or any price as may be decided by the Committee and will be governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within seven years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period

(No. of options)

	Year ended June 30, 2011	Year ended June 30, 2010
Opening Balance	**–**	–
Granted during the year	**569,600**	–
Exercised during the year	**–**	–
Cancelled during the year	**–**	–
Balance unexercised options	**569,600**	–

8. EMPLOYEE BENEFIT PLANS

a) Defined contribution plans

The Company makes contribution towards provident fund and superannuation fund to a defined contribution employee benefit plan for qualifying employees. The provident fund plan is operated by the Regional Provident Fund Commissioner and the superannuation fund is maintained by making contribution to Life Insurance Corporation of India. Under the schemes, the Company is required to contribute a specified percentage of payroll cost to the employee benefit schemes to fund the benefits. Similar contributions have been made towards defined contribution plans of overseas subsidiaries and branch, as applicable.

The Company recognized ₹ 831.98 Lakhs (Previous year ₹ 694.52 Lakhs) for provident fund contribution and ₹ 31.68 Lakhs (Previous year ₹ 30.16 Lakhs) for superannuation contribution in the Profit and Loss account. The contributions payable to these plans by the Company are at rates specified in the rules of the schemes. In addition subsidiaries and UK branch contributed ₹ 81.75 Lakhs (Previous year ₹ 73.27 Lakhs) towards other funds as per the requirements of the local laws.

b) Defined benefit plan

The Company makes annual contributions to the Mastek Limited Employees Group Gratuity Assurance Scheme administered by Life Insurance Corporation of India. The scheme provides benefit to the members upon retirement on or after normal retirement date or upon death whilst in service or upon retirement owing to ill-health or incapacitation equivalent to 15 days of salary for each completed year of service. Further the scheme also provides benefit on death of a member whilst in service before normal retirement date equivalent to 15 days of salary for each completed year of service up to the date of death and the sum assured under the term assurance effected in respect of the member.

The Group also provides for leave encashment payable to the employees. Leave encashment vest to the employees at time of retirement, death while in employment or on termination of employment equivalent to salary payable for number of days of accumulated leave balance.

c) The following table sets out the status of gratuity and the amounts recognized in the consolidated financial statements as at June 30, 2011 and June 30, 2010.

(₹ in Lakhs)

	As at June 30, 2011	As at June 30, 2010
1. Change in defined benefit obligations:		
Projected benefit obligation, beginning of the year (July 1, 2010)	**2,330.95**	1,998.55
Transfer from Keystone Solutions Private Limited	**–**	115.05
Service cost	**428.60**	472.81
Interest cost	**239.01**	186.31
Actuarial (gain)/loss	**(531.62)**	(318.14)
Benefits paid	**(220.75)**	(123.63)
Projected benefit obligation, closing of the year (June 30, 2011)	**2,246.19**	2,330.95

(₹ in Lakhs)

	As at June 30, 2011	As at June 30, 2010
2. Change in fair value of assets:		
Fair value of plan assets, beginning of the year (July 1, 2010)	**–**	–
Expected return on plan assets	**–**	–
Employer's contribution	**687.60**	123.63
Acquisitions	**–**	–
Benefit paid	**(220.75)**	(123.63)
Actuarial (gain)/loss	**–**	–
Fair value of plan assets, closing of the year (June 30, 2011)	**466.85**	–
3. Amount recognized in the Balance Sheet		
Present value of obligations as at June 30, 2011	**2,246.19**	2,330.95
Fair value of plan assets as at June 30, 2011	**466.85**	–
Amount not recognized as an asset	**–**	–
Unrecognised Past service cost	**7.20**	11.19
Net Liability recognized as at June 30, 2011	**1,772.14**	2,319.76
4. Net gratuity cost for the year ended June 30, 2011		
Service cost	**432.60**	461.62
Interest cost	**239.01**	186.31
Expected return on plan assets	**–**	–
Net actuarial (gain)/loss recognized in the year	**(531.62)**	(318.14)
Net gratuity cost	**139.99**	329.79
5. Assumptions used in accounting for the gratuity plan:		
Discount rate (p.a.)	**8.50%**	8.15%
Salary escalation rate (p.a.)	**10%**	20 % p.a. for 1st year & 10% p.a. thereafter
6. Return on Plan Assets (p.a.)	**7.50%**	N.A.

Experience adjustments

(₹ in Lakhs)

	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30,2007
Defined benefit obligation	**2,246.19**	2,330.95	2,122.17	1,284.64	1,159.48
Plan assets	**466.85**	–	–	–	–
Surplus/(deficit)	**(1,779.34)**	(2,330.95)	(2,122.17)	(1,284.64)	(1,159.48)
Experience adjustments					
On plan liabilities	**(434.66)**	(402.73)	199.45	(61.68)	(51.21)
On plan assets	–	–	–	–	–

d) Leave encashment charged during the year amount to ₹ 436.21 Lakhs (Previous year ₹ 491.74 Lakhs).

9. INCOME TAXES

The Company follows Accounting Standard 22 'Accounting for taxes on income'.

a) The Company's operations are eligible for significant tax incentives under the Indian taxation laws. These incentives presently include an exemption from payment of Indian corporate taxes for a period of ten consecutive years of operations of software development facilities designated as Software Technology Park or in Special Economic Zone. The management estimates the provision for current taxes and deferred taxes after considering such tax benefits and the expected results of the future operations of the Company.

b) Pursuant to the changes in the Indian Income Tax Act, the Company has calculated its tax liability after considering Minimum Alternate Tax (MAT). The MAT liability can be carry forward and set off against future tax liability. Accordingly, a sum of ₹ 2,272.19 Lakhs (Previous year ₹ 2,438.90 Lakhs) has been carried forward and shown under 'Loans and Advances'.

c) In addition to Indian operations, the Group has accounted for the tax liabilities of its foreign subsidiaries and the UK branch in accordance with their respective tax legislations.

10. RELATED PARTY DISCLOSURES

The Company has entered into transactions with the following related parties:

Key Management Personnel: Sudhakar Ram (Chairman & Managing Director)

R. Sundar (Executive Director)

(₹ in Lakhs)

	Transactions during the year ended	
	June 30, 2011	June 30, 2010
	Key Management Personnel	Key Management Personnel
Remuneration paid/ payable*:		
Sudhakar Ram	**116.19**	175.12
R. Sundar	**73.78**	73.38

* Refer Note 19 of Schedule 16.

11. SEGMENT REPORTING

Mastek follows AS 17, 'Segment Reporting' issued by the Institute of Chartered Accountants of India, which requires disclosures of financial and descriptive information about Mastek's reportable segments, both primary and secondary.

Mastek's operations predominantly relate to providing IT services, delivered to customers globally. The organizational and reporting structure of Mastek is based on Strategic Business Units (SBUs) concept. The SBUs are primarily geographical segments of Mastek. SBUs are the operating segments of Mastek for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by the executive management in deciding how to allocate resources and in assessing performance. These SBUs primarily provide end-to-end information technology solution that includes consulting on time and material basis contracts and fixed bid contracts.

Mastek's reportable primary segments consist of the following SBUs, which are primarily based on the location of the customers: North America operations, UK Operations, and Others. 'Others' include operations of Mastek in other parts of the world including India.

Since Mastek operates only in IT services (which is not classified further by the management), Mastek only has one reportable business segment.

Segmental Reporting on the basis of location of customers

(₹ in Lakhs)

	Year ended June 30,	
	2011	2010
Revenue		
UK	**29,090.85**	37,393.41
North America	**25,804.39**	29,283.72
Others	**4,432.14**	4,705.38
Inter-segment	**–**	–
Total	**59,327.38**	71,382.51
Segment Contribution		
UK	**6,448.47**	11,488.62
North America	**(43.68)**	4,463.24
Others	**(1,518.91)**	630.57
Inter-segment	**–**	–
Total	**4,885.88**	16,582.43
Common unallocable charges	**(9,213.46)**	(10,534.16)
Finance costs	**(116.19)**	(128.57)
Other Income	**1,611.72**	807.76
(Loss)/Profit before taxation and exceptional items	**(2,832.05)**	6,727.46
Exceptional item – impairment of goodwill	**(2,719.93)**	–
(Loss)/Profit before taxation	**(5,551.98)**	6,727.46

Mastek Limited incurs common costs on account of various support functions for services that are provided to SBUs. These support functions mainly include services of technical cell, resources, recruitment, infrastructure, training, quality, etc.

Mastek Limited also incurs expenses on account of corporate functions, which are provided to these SBUs, and which are not specifically allocable to the SBUs. These unallocable costs primarily consist of expenses relating to offices of Directors, interest cost and public relations. Hence, Mastek has disclosed 'Segment Contribution' before the common unallocable charges and interest.

Major portion of segments assets used in Mastek's business comprise of fixed assets, which are primarily located at its off shore centers in India and are commonly used by various SBUs. These fixed assets are therefore not directly identifiable to any particular reportable segment and have been allocated to SBUs on the basis man-months billed by these SBUs.

(₹ in Lakhs)

Other Segmental Information	**Segmental Assets**		**Segmental Liabilities**	
	As at June 30,			
	2011	2010	**2011**	2010
UK	**13,400.10**	26,223.78	**4,796.04**	10,077.23
North America	**27,479.34**	30,094.64	**6,162.95**	9,237.75
Others	**5,780.37**	8,887.76	**2,328.68**	731.16
Segmental Assets/Liabilities	**46,659.81**	65,206.18	**13,287.67**	20,046.14
Unallocated Corporate Assets/Liabilities	**27,039.15**	19,278.30	**11,340.81**	9,660.43
Total Assets/Liabilities	**73,698.96**	84,484.48	**24,628.48**	29,706.57

12. EARNINGS PER SHARE (EPS)

The components of basic and diluted earnings per share were as follows:

	As at June 30, 2011	As at June 30, 2010
(a) Net (loss)/income available to equity shareholders (₹ in Lakhs)	**(5,594.35)**	6,771.62
(b) Weighted average number of outstanding equity shares		
Considered for basic EPS	**26,950,108**	26,923,796
Add: Effect of dilutive issue of stock options	**322,025**	168,742
Considered for diluted EPS	**27,272,133**	27,092,538
(c) (Loss)/Earnings per share (net of taxes) in ₹		
Basic	**(20.76)**	25.15
Diluted *	**(20.76)**	24.99
(Nominal value per share ₹ 5/- each)		

*The effect of potential equity shares on the net loss for the year is anti-dilutive hence the diluted EPS is same as the basic EPS.

13. During the year ended June 30, 2008, MajescoMastek, a subsidiary of Mastek Limited had acquired System Task Group International Limited (STG) w.e.f. January 1, 2008. The terms of purchase provides for payment of contingent consideration to the selling shareholders, payable over two years and calculated based on achievement of specific targets. The contingent consideration is payable in cash and cannot exceed $ 2 Million. The consideration so payable would be accounted in the books of account in the year of achieving the milestones under the agreement.

Accordingly MajescoMastek has paid $ Nil (Previous year $ 0.71 Million) equivalent to ₹ Nil (Previous year ₹ 331.58 Lakhs) during the year which has been accounted as additional cost of acquisition in accordance with the terms of agreement. As a result, the goodwill in these consolidated financial statements has been increased by $ Nil (Previous year $ 0.71 Million) equivalent to ₹ Nil (Previous year ₹ 331.58 Lakhs).

14. During the year ended June 30, 2008, MajescoMastek, a subsidiary of Mastek Limited had acquired Vector Insurance Services LLC (Vector) on 1 July, 2007. The terms of purchase provides for payment of contingent consideration to the selling shareholders, payable over two years and calculated based on achievement of specific targets. The contingent consideration is payable in cash and cannot exceed $ 4.5 Million. The consideration so payable would be accounted in the books of account in the year of achieving the milestones under the agreement.

Accordingly MajescoMastek has accounted $ Nil (Previous year $ 0.13 Million) equivalent to ₹ Nil (Previous year ₹ 50.78 Lakhs) as additional cost of acquisition in accordance with the terms of agreement. As a result the goodwill in these consolidated financial statements has been increased by $ Nil (Previous year $ 0.13 Million) equivalent to ₹ Nil (Previous year ₹ 50.78 Lakhs).

15. ACQUISITION OF KEYSTONE'S BUSINESS

The Board of Directors of Mastek Limited at its meeting held on May 9, 2009 had approved the acquisition of business activities pertaining to "Keystone Solutions Private Limited" ('Keystone'), a fully owned subsidiary of System Task Group International Ltd. Consequent to this, Mastek Limited had entered into a business transfer agreement dated June 8, 2009 and addendum to agreement dated August 1, 2009 with Keystone to purchase the entire business on a slump sale basis as a going concern for a total consideration of ₹ 2,036 Lakhs with effect from August 31, 2009. This transfer has no impact on the Group's financial position or results of its operations.

16. EXCEPTIONAL ITEM

During the year ended June 30, 2011 Mastek has provided a loss of ₹ 2,719.93 Lakhs on account of impairment of Goodwill of Vector Insurance Service LLC (Vector) a step down subsidiary in USA, as a result of lower than expected economic performance of Vector.

The same has been disclosed as adjustment from Gross block in the Fixed Assets schedule. Considering the nature and amount of loss provided, it has been disclosed as an exceptional item. The same has been disclosed as adjustment from Gross Block in the Fixed Assets schedule (refer Schedule 4, footnote 3).

17. REDUCTION OF CAPITAL OF MASTEK GmbH

Pursuant to management decision to discontinue business operation in Germany, the share capital of Mastek GmbH (wholly owned subsidiary) has been reduced by ₹ 261.42 Lakhs (Euro 515,000) during the year to align with business requirements.

18. MERGER OF KEYSYONE SOLUTIONS LTD WITH MASTEK LTD

The Scheme of Amalgamation of Keystone Solutions Private Limited (a wholly owned step down subsidiary) with the Company with appointed date as July 1, 2011 has been approved by the Boards of Directors of the respective companies. Under the scheme, all assets and liabilities of Keystone will be transferred to and vested in the Company with effect from the appointed date. Since the entire share capital of Keystone is currently held by a wholly owned subsidiary of the Company, upon the scheme becoming effective, no shares will be issued by the Company as consideration in accordance with the scheme of amalgamation. The scheme is pending approval of the Jurisdictional High Court under sections 391 to 394 of the Companies Act, 1956. This amalgamation when approved, will have no impact on the Group's financial position or results of its operations.

19. Excess managerial remuneration paid during the year to the Chairman & Managing Director and an Executive Director of the Company, aggregating ₹ 63.36 Lakhs and ₹ 22.40 Lakhs respectively, over the permissible limits as prescribed under Schedule XIII to the Companies Act, is subject to the approval of shareholders and Central Government of India. The Company intends to apply to the Central Government in this regard.

In the event that the Central Government approval is not received for the amounts mentioned above, these amounts will have to be refunded by such Directors. Had the Company paid managerial remuneration to these Directors as per the limits prescribed under Schedule XIII to the Companies Act, the loss for the year would have been lower by ₹ 85.76 Lakhs.

20. ACQUISITION OF BUSINESS OF SEG SOFTWARE LLC

During the year ended June 30, 2011, Mastek acquired the business and assets of SEG Software LLC, USA, a provider of Policy Administration Software for the life and annuity insurance industry.

The terms of purchase provides for payment of USD 1 million to the selling shareholders which is contingent upon successful achievement of software delivery milestones to a customer and a further consideration payable over three years contingent upon sale of new License values and Maintenance Charges.

The consideration so payable, if any, in future years would be accounted as goodwill.

21. SALE OF INVESTMENT IN MAJESCOMASTEK, USA

During the year, the Company sold 55,035,000 equity shares of MajescoMastek, USA (a wholly owned subsidiary before this sale) to Mastek UK Ltd. (also a wholly owned subsidiary) for a total consideration of ₹ 4,914.54 Lakhs. After the sale, Mastek Ltd. holds 70% of MajescoMastek and the balance 30% is held by Mastek UK Ltd.

22. The previous year's figures have been regrouped/ reclassified, wherever necessary.

Signatures to Schedules 1 to 16
For and on behalf of the Board of Directors

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

Pradip Kanakia
Partner
Membership Number: 39985

Mumbai
Dated: July 25, 2011

Sudhakar Ram
Chairman & Managing Director

Ashank Desai
Director

Bhagwant Bhargawe
Company Secretary

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

(₹ in Lakhs)

	Year ended June 30, 2011	Year ended June 30, 2010
Cash flows from operating activities		
Net Profit before tax	**(5,551.98)**	6,727.46
Adjustments for:		
Interest income	**(498.15)**	(491.62)
Income from investments (current, non-trade)	**(149.42)**	(140.39)
Employee Stock Options	**88.50**	57.00
Interest expense	**100.22**	107.93
Depreciation and amortisation	**2,878.84**	2,673.06
Exceptional Item	**2,719.93**	–
Provision for doubtful debts	**57.11**	106.71
Bad debts written off	**50.68**	–
Loss/(Profit) on sale of asset	**3.08**	(4.11)
Loss on Investments written off	**–**	1.91
Profit on sale of investments (Long-term, trade)	**(0.90)**	(0.03)
Unrealised Foreign exchange (gain)/loss	**(383.04)**	651.49
Operating (loss)/profit before working capital changes	**(685.13)**	9,689.41
Decrease/(Increase) in sundry debtors	**3,206.14**	(1,035.79)
(Increase)/Decrease in loans and advances	**(23.86)**	616.46
(Decrease) in liabilities and provisions	**(325.00)**	(4,130.38)
Cash generated from operations	**2,172.15**	5,139.70
Income taxes paid (net of refunds received)	**(1,228.09)**	(1,997.89)
Net cash from operating activities	**944.06**	3,141.81
Cash flows from investing activities		
Proceeds from sale of fixed assets	**21.45**	38.54
Purchase of fixed assets, net of capital work in progress capitalised	**(2,826.49)**	(2,285.71)
Interest received	**498.15**	491.62
Sale proceeds of current investments	**36,619.32**	66,817.37
Dividend from current investments	**149.43**	140.39
Purchase of current investments	**(40,828.42)**	(58,653.45)
Net cash (used in)/from investing activities	**(6,366.56)**	6,548.76

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011 (CONTD.)

(₹ in Lakhs)

	Year ended June 30, 2011	Year ended June 30, 2010
Cash flows from financing activities		
Proceeds from equity share capital	**11.29**	105.26
Proceeds from Working Capital Loan (net)	**447.00**	–
Payment of Lease obligation	**(20.84)**	(67.22)
Repayment of Long Term loan	**(2,769.90)**	(2,633.88)
Dividends paid (including Corporate dividend tax)	**(393.71)**	(2,980.68)
Interest paid on loans and lease obligations	**(100.22)**	(107.93)
Net cash (used in) financing activities	**(2,826.38)**	(5,684.45)
Effect of exchange changes	**189.44**	(86.08)
Total increase in cash and cash equivalents during the year	**(8,059.44)**	3,920.04
Cash and cash equivalents at the beginning of the year	**17,779.26**	13,859.22
Cash and cash equivalents at the end of the year	**9,719.82**	17,779.26

Notes:

1. The above cash flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard -3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. Assets acquired on lease - ₹ 48.77 Lakhs (Previous year ₹ 8.88 Lakhs) being a non-cash transaction has not been considered in the cash flow statement.
3. Cash and cash equivalents includes ₹ 52.14 Lakhs (Previous year ₹ 53.10 Lakhs) restricted on account of unpaid dividend.
4. Figures in brackets indicate cash outgo.
5. Previous year's figures have been regrouped/reclassified wherever necessary.

This is the consolidated cash flow referred to in our report of even date

For and on behalf of the Board of Directors

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

Pradip Kanakia
Partner
Membership Number: 39985

Mumbai
Dated: July 25, 2011

Sudhakar Ram
Chairman & Managing Director

Ashank Desai
Director

Bhagwant Bhargawe
Company Secretary

KEY STATISTICS

(₹ in Lakhs)

Particulars	2006-07	2007-08	2008-09	2009-10	**2010-11**
Total Income	81,036	91,619	96,497	72,190	**61,421**
Operating Profit (EBIDT)	14,780	18,205	18,153	9,529	**163**
Net Profit	10,692	12,588	14,116	6,772	**(5,594)**
EPS (₹/share)	37.8	44.23	52.45	25.15	**(20.76)**
DPS (₹/share)	7.5	10.0	10.00	3.25	**–**
Growth in					
Revenue/Income	16%	13%	5%	-25%	**-15%**
Operating Profit	13%	23%	-0.3%	-47.5%	**-98%**
Net Profit	55%	18%	12%	-52%	**-183%**
Operating Profit Margin	18%	20%	19%	13%	**0.3%**
Net Profit Margin	13%	14%	15%	9%	**-9%**
Effective Depreciation rate	4%	4%	3%	4%	**5%**
Effective Tax rate	26%	14%	4%	-1%	**-1%**
Interest Cover	132.64	41.50	31.77	53.33	**NA**
Return on Networth	27%	34%	31%	13%	**-11%**
Debt/Equity (Debt includes Preference Shares)	0.00	0.22	0.14	0.08	**0.04**
Current Ratio	1.7	1.5	1.7	2.9	**1.8**
Debtors Turnover (No. of days)	96	124	77	99	**97**
Depreciation/Average Gross Block	15%	11%	7%	6%	**6%**
Dividend Payout	20%	23%	19%	13%	**–**
Dividend Yield	2.6%	2.7%	4.5%	1.3%	**–**
Operating Cash flows	8,990	8,507	21,426	3,142	**944**
Capital Expenditure in Fixed Assets	3,914	17,676	4,395	2,286	**2,826**
Cash and Cash Equivalent (including investment in Mutual Funds)	19,897	13,173	23,996	19,752	**15,903**
Cash and Cash Equivalent as % of total assets	57%	27%	41%	34%	**31%**
Book Value of Shares	123.54	145.84	189.03	203.30	**182.07**
Market Value to Book Value	2.4	2.5	1.2	1.3	**0.6**
Price Earning Multiple	8	8	4	10	**–**
Group Employees as at the year end	3315	4071	3759	3243	**2905**
Offshore (No.)	2292	2870	2822	2449	**2138**
Onsite (No.)	1023	1201	937	794	**767**
Off-shore Facility (Sq. feet)	307892	343554	343554	343554	**343554**