



**MindTree Consulting Ltd.
Annual Report 2006-07**



MindTree Consulting Limited

Board of Directors

Ashok Soota - *Chairman & Managing Director*
Dr. Albert Hieronimus - *Independent Director*
George M Scalise - *Independent Director*
Lip-Bu Tan - *Non-Executive Director*
Mark A Runacres - *Independent Director*
Siddhartha V G - *Non-Executive Director*
Srinivasan R - *Independent Director*
Subroto Bagchi - *Director & Chief Operating Officer*
Vivek Kalra - *Non-Executive Director*
Vittal N - *Independent Director*

Audit Committee

Vittal N - *Chairman*
Dr. Albert Hieronimus - *Member*
Siddhartha V G - *Member*
Srinivasan R - *Member*

Investor Grievances Committee

Dr. Albert Hieronimus - *Chairman*
Subroto Bagchi - *Member*

Compensation Committee

Mark A Runacres - *Chairman*
Lip-Bu Tan - *Member*
Srinivasan R - *Member*

Technology Committee

Lip-Bu Tan - *Chairman*
George M Scalise - *Member*
Vivek Kalra - *Member*

Business Heads

Krishnakumar N - *President & CEO - IT Services*
Janakiraman S - *President & CEO - R&D Services*

Company Secretary

Rostow Ramanan - *Chief Financial Officer & Company Secretary*

Auditors

BSR & Associates

Bankers

Hongkong & Shanghai Banking Corporation Limited
ICICI Bank Limited
Oriental Bank of Commerce
Standard Chartered Bank

Solicitors

Udwadia & Udeshi



Illustrations by Children with Cerebral Palsy
from the Spastics Society of Karnataka



CONTENTS

The Mind is an Amazing Thing	4
Chairman's Letter to the Shareholders	6
Auditors' Certificate on Corporate Governance	9
CEO and CFO Certification	10
Directors' Report	11
Corporate Governance Report	18
Auditors' Report	30
Financial Statement and Notes to Accounts	32
Management Discussion and Analysis	54
Report on Customer and People Satisfaction	63
Resources on Cerebral Palsy	66

The Mind is an Amazing Thing

What, you may ask, is the story of cerebral palsy doing in the Annual Report of an IT and R&D services company?

Our association with the cause of cerebral palsy, through our friendship with the Spastics Society of Karnataka, is as old as your company and we owe you the story of that association. It goes far beyond corporate social responsibility. As Chairman & Managing Director Ashok Soota says later in this report to you, the Spastics Society of Karnataka is a "partner" to us. Through this report, we bring you into our joyous relationship with them for another special reason. The reason is simple: 70 million Indians live with some form of serious disability. Disabled individuals do not need our sympathy or charity: they need understanding, engagement and respect. MindTree's relationship with the children of cerebral palsy is based on that premise.

Cerebral palsy is not a disease; it is a condition caused by malfunctioning of the brain and muscular disorder that together create a life-long disability which is among the most difficult, most resource-intensive to manage. Cerebral palsy was first classified in 1860 by an English Surgeon, Dr. William Little who ascribed it to a birth defect caused by inadequate supply of oxygen to the brain. Subsequently, it was Sigmund Freud, himself a neurologist, who questioned that theory and suggested that it had to do with the brain. Cerebral palsy since has been better understood. Simply put, in many, it is a case of an intelligent mind trapped in a disobedient body. Despite great progress



in medical research, we do not yet know what causes it and what could be done to prevent it. The only option parents have to manage children with cerebral palsy is through therapy, special care and education.

In every single case, it is a long walk, often without supporting legs for the child and sometimes, spirit for the parents. In a country like India where institutional resources and individual knowledge is scarce, that walk is often an uphill climb.

Many people who come to know MindTree ask us how we got associated with the cause. Did any of the founder's family members have cerebral palsy? In reality: No. Many years ago, one of the co-founders happened to visit the Spastics Society of Karnataka's school in Bangalore and that proved to be a turning point. There he saw, a visiting art teacher from Ireland, Ms. Sheena Watson painstakingly trying to teach tiny children with cerebral palsy to hold a paint brush. To Ms. Sheena Watson it was not just an effort to make the children creative; it was therapy for a more fundamental problem - muscular control: teaching the hand, the eyes, and the face, to obey the brain. For each of these children, holding the brush is where it all begins. The MindTree co-founder stood there transfixed as each child held on to the brush, with difficult motions dipped it in paint and labored to produce spectacularly brilliant pieces of work. Probably because many of these children cannot speak and otherwise express themselves without severe effort, their paintings have extraordinary vibrance in them. The colors are spectacular and spontaneous - as if compensating for the gaps of an unseen God. It was also a moment of great self-realisation. These children were, as they were painting, not focused on their disability but on their dreams. Every one of us has some disabilities and a few dreams. The disabilities are real, the dreams are abstract. The former is here and now,

the latter is in to the future. The former is what we are born with or we pick up along our way; the latter is what we leave behind. In life, we have to make a choice, which one of the two we want to define who we are, our disabilities or our dreams?

August 1998. MindTree was about to be born. The founders had decided that the DNA of the company would be Imagination, Action and Joy. The name was chosen carefully from a shortlist of six hundred, but we did not have a visual identity. So the group decided to opt for the unusual. They walked into the Spastics Society of Karnataka's school and met Director Mrs. Rukmini Krishnaswamy, Principal Mrs. Indira Dave and Special Educator Mrs. Lathika Ratnam with a question. Would they let their children work with us for a week on the concept of a software company, understanding its business plan, its DNA and create its visual identity? Working with people with disabilities gives you an openness and sense of inclusion that is rare. The School readily agreed. After a few days of running a workshop of what is a company, why a company has a logo, what was MindTree intended to become, the children got down to designing. The output was disheartening. They had taken the word "MindTree" literally and some had created pictures such as leaves emerging from the brain. For a moment, it seemed like a non-starter. Then, another round of workshops was conducted to give the children an appreciation of many famous logos and they were encouraged to discover subliminal meaning in them during the process, they were encouraged to interpret values in the visual identity of a brand. Then the magic happened. They got back to work. The ten children gave their best and the result was the astounding work of Chetan, at that time 17, who said in support of his work that the blue upward stroke stood for limitless imagination, the red background denoted action and the yellows were "bubbles of joy".

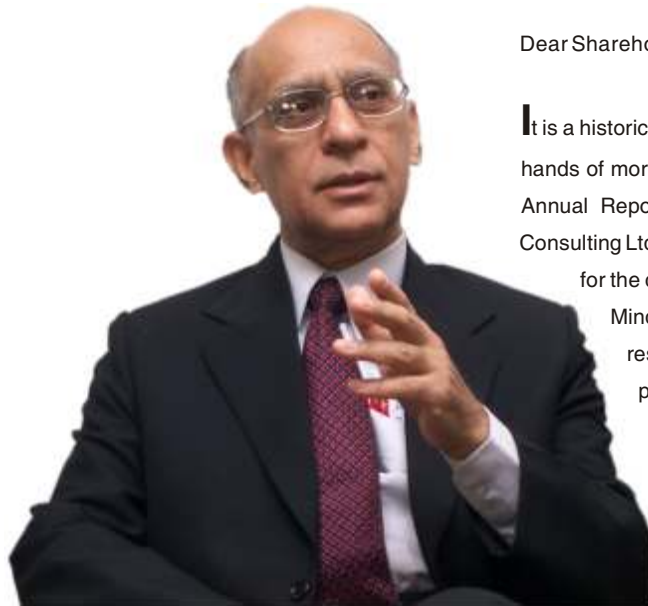


As part of our appreciation, the Spastics Society of Karnataka was gifted 5000 MindTree stocks. Latha, who was one of the students there, who had captivated us with her smile, became our first receptionist. When Bill Clinton visited India as the President of the United States of America and met with CEOs of IT companies, we took along Chetan, creator of our logo to shake hands with him. Every MindTree facility we subsequently designed became a museum of art by the children of the Spastics Society of Karnataka. Every year, they invade us in hordes, they run amok in their tiny wobbly legs, in wheel chairs and calipers and look at the larger-than-life, digital enlargements of their work of art in joyous wonder. Back in their School, some of them, grown up ones, are taught baking in their school as one of the means of rehabilitation to prepare them to be economically self-reliant. We have a deal with them. MindTree buys as many cookies as they produce and we serve them with pride to our guests, our customers and prospects who visit us from every part of the world.

Every day that we come to work, we want to focus on our dreams, our special abilities, and not on our disabilities. We learned that from the children with cerebral palsy: they taught us that the mind is indeed an amazing thing!

The first Annual Report of MindTree Consulting after becoming publicly listed is a salute to the indomitable spirit that says ordinary people can do extraordinary things. At the end of this report, we are proud to list cerebral palsy-related resources available in the spirit of Imagination, Action and Joy.

Chairman's Letter to the Shareholders



Dear Shareholders,

It is a historic occasion for me to be placing in the hands of more than 85,000 new owners, the first Annual Report of the publicly listed MindTree Consulting Ltd. First of all, let me thank each of you for the confidence that you have reposed in MindTree through the overwhelming response to our IPO. The response places on us, the responsibility of ensuring the continued success of the company which we plan to achieve through adopting the highest standards of Corporate Governance and differentiating strategies.

Since this is my first communication to you, it is appropriate for me to share with you the history of how MindTree was born in August 1999 and the story of our journey so far. MindTree's 10 co-founders came from 3 different streams (Cambridge Technology Partners, Lucent and Wipro). The early leadership comprised players from many nationalities and from many global services companies. Today, eight years later, the entire founding team is intact and the attrition in the senior leadership team has been just around 1% per annum!

We were born at the height of the dotcom boom and logically chose to position ourselves as an Internet Consulting company. We created a hybrid model with high consulting capability at the front end combined with the low cost and scalability of India. We were gratified to see the Industry, including leading MNC's and the Indian players, gravitate to this model.

A few months after commencing our IT Services business, we also launched our R&D Services business in the Communication Vertical which was another hot segment at that time. What we didn't know then was that within 18 months, business in both these spaces would crash to a grinding halt with the dotcom bust and the telecom bust which followed. To make matters worse, these were followed by September 11 and a global recession. It was like pulling the rug from under the feet of a toddler learning to walk! Looking back, we believe this was the best thing that could have happened to us. While companies in our space were collapsing around us, we began the challenge of building the company which you see today. The first task was to ensure keeping the team together while trying to eke out growth, even though it meant that we would absorb significant losses for 2 years.

There are no shortcuts to building an IT Services company-it has to be done customer by customer, person by person, brick by brick. The journey over the next few years was to progressively build our capabilities and competencies. We took the approach of verticalizing our R&D Services business (adding Consumer, Industrial, Storage verticals amongst others to our original Communication capability). We also invested in our own Intellectual Property and went on to achieve a global leadership position in Bluetooth. In IT Services, we added a new practice every year (Business intelligence, ERP, Mainframes, Testing, Infrastructure and Tech Support) to enhance our addressable



market. We also made two small acquisitions to bring in IBM iSeries capability and enhance our SAP Practice. The foundation building efforts gave us the confidence that when markets reopened we would be in a position to capitalize on these. We were able to demonstrate the success of this approach through the compounded growth rate of 52.24 % we were able to achieve between FY 2002 to 2006.

At the end of 6 full financial years, we became the first Indian IT Services company to achieve 100 million dollars revenue in such a short time span. But more than just that, we were building a sustainable, value-centric organization that would create great value for whoever came in contact with it.

Let me also now share with you some highlights of the 7th financial year, the year just gone by for which we are presenting our results.

One significant move for us was to take our first major steps in expanding our India delivery presence outside Bangalore, even while we continued to invest in new capacity here. We started a facility in Chennai, settled contracts for a second larger one within an SEZ in the same city and also, for the first time, procured our own land in Bhubaneswar where we expect to start functioning from 2008-09. Our two businesses continued to execute leading edge, exciting work for our customers. We continued to expand our geographic presence to reach a total of 18 sales offices manned by a strong team of 46 Business Development executives. This was the year in which we also began a structured approach to verticalizing our IT Services business. Building on the success already achieved, we created vertical industry groups in Manufacturing, Travel & Leisure and Insurance. The charter of these groups is to build deep domain knowledge. A few others such as Banking and Financial Services where we already have demonstrated capability will be added in future years, though we have no intention of trying to be all things to all people. Finally, it was a year in which we took a look at our business portfolio and decided to exit from low margin accounts / businesses including a staff augmentation business we inherited through an acquisition. This impacted revenue growth, but helped boost our profitability to a 66% year over year growth with an ROCE of 28%.

I have mentioned earlier about adopting the highest standards of Corporate Governance. Many of our top companies today have set high standards of disclosure and transparency and we will emulate them. We believe that two of the most important leading indicators of the health of the IT Services business are Customer Satisfaction and People Satisfaction. We believe it is important to disclose the position on these. You will find in this Annual Report the results of our Surveys in this area, giving not just the latest Survey results, but also the historical movements in Customer and People Satisfaction through the years. MindTree's people satisfaction surveys (done for us by Professor Sumita Raghuram in Penn State University) are reinforced by the consistently high position that MindTree gets in the ranking of Best Employers in India: for example, we were ranked No. 2 across all industries in the most recent Mercer - Business Today study and No. 6 in the Great Places to Work - Businessworld study.

We believe the high people satisfaction levels are a result of people friendly policies, empowerment, inclusiveness, career development, exciting work, depth of communication with our teams and the joyous work environment we have created. It is also worth mentioning that when we went Public, all 4200 MindTree Minds (as we call our team members) were already part owners, having received MindTree stock options. We are the first Indian IT Services Company to have provided 100% coverage and have done more wealth generation than any other Indian IT Services company at a comparable stage of its life.

As regards Customer Satisfaction, we are acutely aware that we owe our existence to our customers and are truly grateful to them for their support and trust over the years. We are proud of our teams who will always go the extra mile to achieve the highest level of customer satisfaction. We recently

participated in a bench marking exercise conducted by a global consulting company which indicates that MindTree's customer satisfaction is at a best in class level.

Looking ahead, the outlook for growth in the Indian IT Services space remains robust and MindTree is well positioned to grow ahead of the industry. We will continue to be consulting-led in our IT Services business and IP-led in our R&D Services business. Our intent is to build a successful company that is globally admired.

If I were to pick out one challenge on the horizon as a concern area, it is the sharp appreciation in the Rupee (w.r.t. the US\$) which is placing a significant pressure on margins and profitability. MindTree does have a few levers to offset this impact, but at the same time, as a young company, we also need to keep investing in building our domain capabilities etc. One area which I would like to bring to the attention of the Government and urge the Finance Minister to consider is the need for extension of the STPI scheme beyond its current expiry in 2009. The larger companies have the financial ability to create their own SEZ to get extended tax protection. Extension of the STPI scheme will provide a level playing field for the small and medium players.

Before I conclude, I would once again go back to the beginning and highlight two important aspects of MindTree. First, MindTree is a venture funded entity (we believe we are also the first VC funded, Indian IT Services Company to go public). I would like to express our gratitude to our initial investors, Walden and Global Technology Ventures and Capital International who joined on the second round for the support and strength they gave us, particularly through the early difficult years.

Let me also touch upon something deeply integral to MindTree and reflected in the theme of this Annual Report. When we began MindTree, we defined our DNA as Imagination, Action and Joy. We took the idea to the children of the Spastics Society of Karnataka and requested them to design our logo. In the process, we not only got our lovely visual identity, but this also marked the beginning of a long relationship with the Spastics Society of Karnataka. Today, each of our buildings is an art gallery of work done by these children. Their joy, innocence and exuberance bring joy and energy into our work environment and lives. We invite you to visit our offices and experience it for yourself. Incidentally, MindTree's IPO year is also the completion of 25 years for the Spastics Society of Karnataka. We are proud to present their cause through our report as more than 85,000 investor-owners of MindTree will be great spokespersons for the cause of disability. In celebrating their cause, we are saluting a partner.

As we continue our journey, we will count on your support and I feel confident that all 4500-plus MindTree Minds are committed to building a bigger and better MindTree.



Ashok Soota
Chairman & Managing Director

Auditors' Certificate on Corporate Governance

To the Members,

MindTree Consulting Limited (formerly MindTree Consulting Private Limited)

We have examined the compliance of conditions of corporate governance by MindTree Consulting Limited (formerly MindTree Consulting Private Limited) ('the Company'), for the period from March 7, 2007 (date of initial listing) to March 31, 2007, as stipulated in Clause 49 of the listing agreement of the Company with the stock exchanges.

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

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of corporate governance as stipulated in the above mentioned listing agreement.

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

for BSR & Associates
Chartered Accountants

Zubin Shekary
Partner
Membership No. 48814

Bangalore
June 12, 2007

