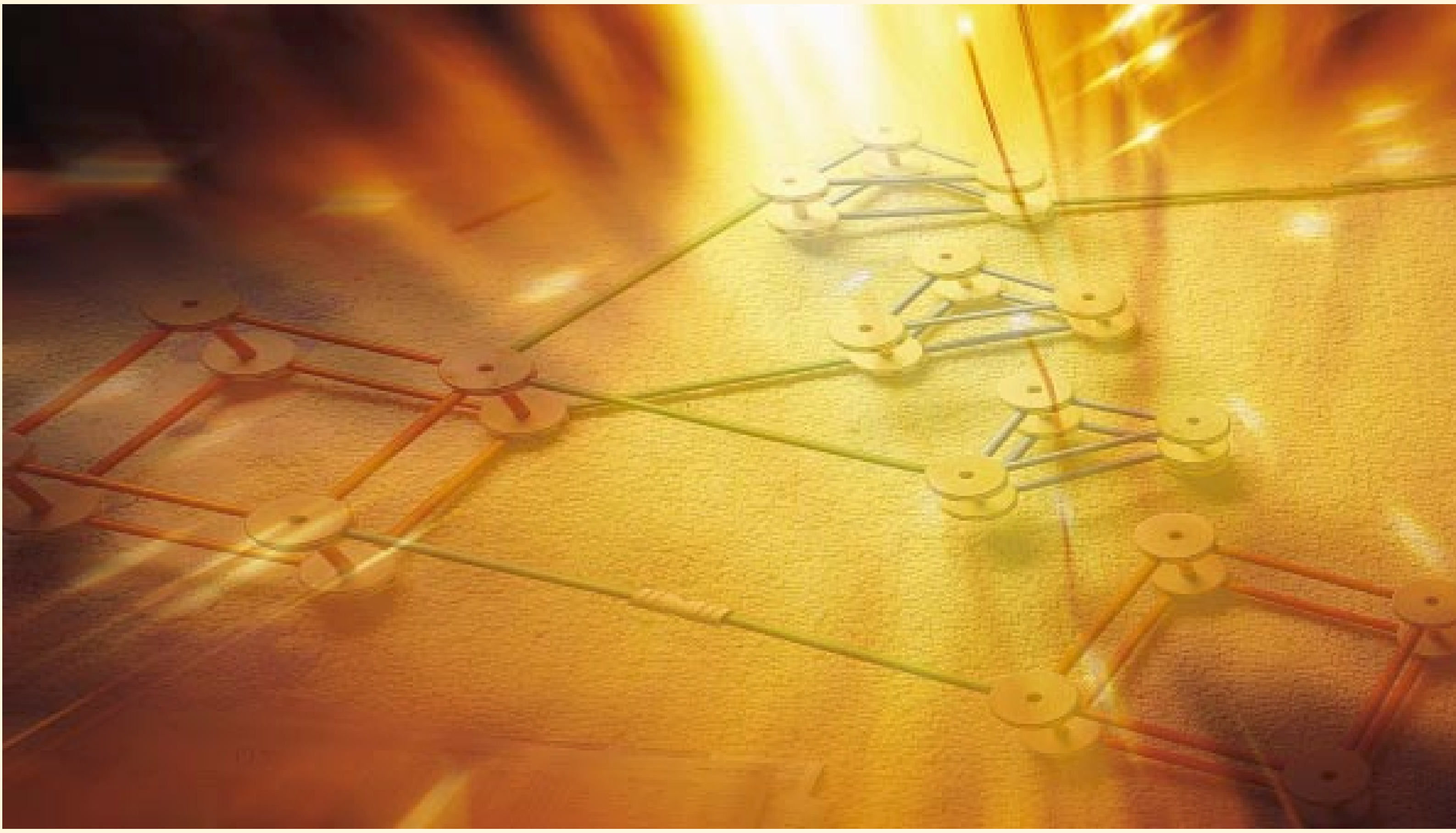
MBT



Mahindra - British Telecom Limited

Annual Report 04-05

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Anand G. Mahindra	Chairman
Mr. Vineet Nayyar	Managing Director & CEO
Mr. Bharat Doshi	
Mr. Clive Goodwin	
Mr. Akash Paul	
Mr. Anupam Puri	
Mr. Al-Noor Ramji	
Dr. Raj Reddy	
Mr. Arun Seth	
Mr. Ulhas N. Yargop	

AUDIT SUB - COMMITTEE

Mr. Anupam Puri	Chairman
Mr. Bharat Doshi	
Mr. Clive Goodwin	
Dr. Raj Reddy	

COMPENSATION COMMITTEE

Mr. Akash Paul	Chairman
Mr. Clive Goodwin	
Mr. Ulhas N. Yargop	

REGISTERED OFFICE

Gateway Building
Apollo Bunder,
Mumbai - 400 001

BANKERS

IDBI Bank
State Bank of India
HSBC

CORPORATE OFFICE

Sharda Centre
Off Karve Road,
Erandwane, Pune 411 004

AUDITORS

Deloitte Haskins & Sells
Mumbai

A SNAPSHOT

FINANCIAL PERFORMANCE (Consolidated)

	2001		2002		2003		2004		2005	
Particulars	Rs. Million	US$ Million	Rs. Million	US$ Million	Rs. Million	US$ Million	Rs. Million	US$ Million	Rs. Million	US$ Million
Total Income	4,280	91.8	5,580	114.5	6,259	131.5	7,565	171.7	9,542	217.3
PBT	1,097	23.5	1,602	32.9	1,926	40.5	720	16.3	1,115	25.4
PAT	862	18.5	1,234	25.3	1,626	34.2	637	14.4	1,024	23.3
EBIDTA Margin %	30%	30%	37%	37%	35%	35%	13%	13%	15%	15%
Net Margin %	20%	20%	22%	22%	26%	26%	8%	8%	11%	11%
Equity Capital	202	4.3	202	4.1	202	4.2	203	4.6	203	4.6
Net Worth	2,358	50.6	3,319	68.1	3,791	79.7	4,067	92.3	4,861	111.1
Net Block	1,191	25.5	1,289	26.5	1,431	30.1	1,544	35.0	2,937	67.1
Working Capital	1,085	23.3	1,787	36.7	2,026	42.6	1,987	45.1	1,834	41.9
Total Assets	3,043	65.2	4,212	86.5	4,824	101.4	5,445	123.6	6,767	154.6
Current Liabilities	685	14.7	892	18.3	1,033	21.7	1,378	31.3	1,906	43.5
Current Ratio	2.6	2.6	3.0	3.0	3.0	3.0	2.4	2.4	2.0	2.0
Total Assets Turnover	1.4	1.4	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Fixed Assets Turnover	3.6	3.6	4.2	4.2	4.3	4.3	4.8	4.8	5.4	5.4
ROCE %	37%	37%	37%	37%	43%	43%	16%	16%	21%	21%
Working Capital (Days of sales)	93	93	120	120	120	120	98	98	71	71

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DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors present their Eighteenth Annual Report together with the audited accounts of your Company for the year ended 31st March 2005.

FINANCIAL RESULTS

(Rupees Mn)

		2005	2004
Income		9,295.93	7,250.43
Gross Profit		1,687.42	1,312.93
Depreciation		(315.27)	(221.45)
Profit before tax		1,372.15	1,091.48
Provision for taxation		(142.81)	(150.20)
Profit after tax before non-recurring / exceptional items		1,229.34	941.28
Non-recurring / exceptional items		(518.42)	-
Profit for the year after tax and non-recurring / exceptional items		710.92	941.28
(Short) / Excess provision for Income-tax for previous year (Net)		-	38.12
Balance brought forward from previous years		3,382.71	2,925.94
Profit available for appropriation		4,093.64	3,905.34
Transfer to General Reserve		(88.00)	(100.00)
Dividend –	Interim paid	(223.20)	(232.72)
	Final (Proposed)	-	(141.91)
Tax on dividend –	On interim dividend	(28.86)	(29.82)
	On final dividend	-	(18.18)
Balance carried forward		3,753.58	3,382.71

DIVIDEND

Your Directors declared two interim dividends during the year under review as under:

Date of declaration	No. of shares	Face Value per share (Rs.)	Dividend %	Dividend per share (Rs.)	Total Dividend paid (Rs.)
15th July 2004	101,381,875	2	60%	1.20	121,658,250
14th February 2005	101,537,765	2	50%	1.00	101,537,765

Your Directors have recommended that this be treated as the only dividend for the year.

INCREASE IN SHARE CAPITAL

Your Company issued 362,520 shares of Rs. 2 each on the exercise of stock options, issued under the MBT ESOP PLAN 2000. Due to this, the issued, subscribed and paid-up equity shares of your Company increased from 101,364,055 shares to 101,726,575 shares.

BUSINESS PERFORMANCE

During the year under review, your Company's total income grew by 28.21% to Rs. 9,295.93 Mn from Rs. 7,250.43 Mn in the previous year. Profit after tax before non-recurring/ exceptional items increased to Rs. 1,229.34 Mn from Rs. 941.28 Mn in the previous year, a growth of 30.60%.

The Company witnessed strong growth in Asia Pacific & UK region. Revenue from the Asia Pacific region more than doubled over the previous year for the second year in succession. New business was commenced in Europe and the USA with prominent Tier 1 operators.

In addition to winning new customers and developing new offerings, the Company initiated various operational efficiency, productivity improvement and cost reduction measures. Considerable effort has been directed at making customer satisfaction an overriding organizational priority. Sales teams have been strengthened and Capability Supply Units aligned to create a market driven organization.

In partnership with customers, world leading standards in off-shoring have been achieved, while maintaining the highest service standards. Across a large engagement, projects have been successfully transitioned to a model where 90% of the staff is based offshore in India.

While continuing to grow its sales in the international arena, your Company has also focused its attention on the Indian market, which has one of the most rapid growth rates, globally, in the telecom sector.

Business Development - SBC

As you are aware, your Company has been investing in the development of its business in the North American and European markets. Your Company has recently signed a Master Services Agreement with SBC Services Inc., USA, a major Telecom Service Provider in North America, to provide certain software development services to its group companies. The Company has entered into an arrangement with an objective to ensure that the Company receives from SBC a steady and continuous flow of assignments which will result in substantial revenues being generated for the Company.

The arrangement entered into by the Company provides that SBC International, Inc. has options to obtain equity shares of the Company of up to 8% of the fully diluted equity of the Company over a five year period in tranches on meeting certain revenue generation milestones during this period. Pursuant to this transaction, the Company proposes to issue 9,931,638 equity shares of Rs. 2/- each at a price of Rs. 67/- per share to Mahindra-BT Investment Company (Mauritius) Limited (MBTM), a company incorporated in Mauritius, on a preferential basis. MBTM will be beneficially owned by Mahindra & Mahindra Limited and British Telecommunications plc. in the same proportion as their relative shareholdings in the Company. SBC International, Inc. has options on the shares that are proposed to be issued to MBTM.

FOCUS ON TELECOM SECTOR

In an age of emerging technologies, fierce competition and ever-demanding customers, your Company is constantly thinking ahead and adding value. Over the years, your Company has distinguished itself through a single-minded Telecom Focus that has helped position it as a leader in this vertical. This niche positioning, endorsed by leading consultants and industry analysts, is clearly vital in a market where large and internationally renowned players are competing aggressively. Most companies are now looking to use off-shoring to radically reduce costs so as to set the phase for business transformation. This transformation requires the integration of new software products ["Commercial Off The Shelf"(COTS) products] and brings high demand for scarce skills.

Your Company is now well placed to take advantage of these market changes, as it combines leading offerings in off-shoring with scarce skills and COTS integration capabilities. Your Company has also worked hard to reinforce its internal capabilities with a set of world leading alliances to meet these challenges.

Your Company is focused on diversifying its customer base in the telecom service provider segment of the telecom vertical. In addition, the Company is emphasizing heavily on the equipment and technology vendor segments. The Company has identified these two segments as key growth areas.

To meet the off-shoring challenge the Company has developed a transition process framework (mASTER™) for effective service delivery to customers. Moreover, the Company has developed a revolutionary diagnostic tool - ShoreCan™ - to evaluate the off-shoring potential of a project or group of projects in any phase of development. With this the Company is poised to bring the real benefits of off-shoring to its customers.

Your Company continues to consolidate its leadership position in the software industry and increasingly in the Telecom industry globally. The Company has been ranked 8th amongst software exporters in India in 2004 by NASSCOM. Your Company has also been ranked as the 9th largest BSS System Integrator in the World in 2004 by Gartner Inc. MBT is the only Indian company in this top 10 list.

Your Company has been differentiating itself in the Telecom industry by becoming a leader in the use of new integration technologies, by taking part in several industry-leading "proof-of-concepts" (PoC) with world-class players, and by being invited to lead the Security initiative by the industry's leading body, the Tele-Management Forum (TMF). Your Company is also leading a Catalyst Project in the field of Business Process Management at TeleManagement World, an event organized by the TeleManagement Forum.

During the year, the Company has invested in improving and fine tuning its portfolio based on its Telecom market segmentation, customer needs and challenges, and point-solutions and "Roadmaps" for the development of a competitive, leading portfolio of offerings. New areas with potential for business growth and improved margins are under development, including the following:

- Global Managed Services including Telecom Interconnect Billing Service Bureaus
- Business Process Outsourcing
- Business Process Management
- Security

PEOPLE

Your Company believes that qualified and experienced people are its most important assets and follows policies that aim to attract and retain the best talent with a combination of monetary and non-monetary benefits. Substantial progress has been made in this key facet of operation during the year.

The industry-leading ‘Job Family’ framework has enabled focused and accurate recruitment, better training and identifiable career paths for all employees. The Company has now fully evaluated its human assets against this framework.

The human asset base was substantially improved during the year with the Company crossing the 5000 employee mark. Engineering numbers increased by 1270 and within this, the number of experienced professionals grew significantly. The bench in the Company was managed well with utilization remaining at or above 77% throughout, and attrition levels remaining at the industry average despite increasing pressure from the growth in MNC off-shore development facilities.

Your Company conducts periodic training programs to enable employees to remain up-to-date with latest developments in relevant technological areas. During the year, a substantial number of employees enrolled for the MS (Telecom & Software Engineering) as well as MS (Integrated Software Systems) courses at BITS Pilani, which are subsidized by your Company. Some employees also registered themselves for the IIT Mumbai Distance Education Program (DEP). The Company has also initiated training in collaboration with University of London and BT to extend the BT MSc in Telecommunication program to a larger number of employees in UK & India.

To meet the challenge of staffing the organization in a way that allows leveraging internal capabilities and knowledge, your Company will hire fresh engineering graduates and train them rapidly. The Company aims at leveraging the managerial and professional capabilities of people to achieve more effective execution. The Company has also set out a plan to achieve world-class benchmarks in people care.

These initiatives and the scarce skilling activities have now placed the Company at the forefront of people development in the industry globally.

DIRECTORS

The term of office of Mr. Robert John Helleur as the Executive Director and CEO of the Company expired on 30th September 2004. He also resigned as Director with effect from that date. The Board places on record its sincere appreciation of the valuable services rendered by Mr. Helleur, since his appointment on the Board of Directors of your Company in 1994.

Mr. Vineet Nayyar was appointed as an Additional Director of the Company with effect from 17th January 2005 and also as the Managing Director and CEO for a period of five years effective from 17th January 2005. He holds office as Director upto the date of the forthcoming Annual General Meeting. The shareholders are required to approve the terms of appointment and remuneration payable to Mr. Nayyar. The Company has received a notice from a member signifying his intention to propose Mr. Nayyar as candidate for the office of Director.

Dr. Sinclair Stockman and Mr. Chris Price, nominees of British Telecommunications plc. resigned from the Board on 31st January 2005. The Board places on record its appreciation for the services rendered by Dr. Stockman and Mr. Price to the Company. Mr. Arun Seth, who was appointed as an Alternate Director to Mr. Clive Goodwin on 8th May 2003, also relinquished his office on 31st January 2005.

British Telecommunications plc. has nominated Mr. Al-Noor Ramji and Mr. Arun Seth as Directors of the Company in place of Dr. Sinclair Stockman and Mr. Chris Price, respectively, with effect from 14th February 2005. Mr. Al-Noor Ramji and Mr. Arun Seth hold office upto the forthcoming Annual General Meeting. The Company has received notices from members proposing Mr. Al-Noor Ramji and Mr. Arun Seth as Directors.

Dr. Raj Reddy and Mr. Akash Paul retire by rotation, and being eligible, offer themselves for re-election.

CORPORATE GOVERNANCE PHILOSOPHY

Your Company believes that Corporate Governance is a voluntary code of self-discipline. In line with this philosophy, the Company follows healthy Corporate Governance practices and reports to the shareholders the progress made on the various measures undertaken. Although the Company is not listed on any Stock Exchange, your Directors have been reporting the initiatives on Corporate Governance adopted by your Company. The same is included in the section 'Corporate Governance' in the Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to section 217(2AA) of the Companies Act, 1956, your Directors, based on the representation received from the Operating Management, and after due enquiry, confirm that:

i. in the preparation of the annual accounts, the applicable accounting standards have been followed;

ii. they have, in the selection of the accounting policies, consulted the Statutory Auditors and these have been applied consistently and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March 2005 and of the profit of the Company for the year ended on that date;

iii. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv. the annual accounts have been prepared on a going concern basis.

ADDRESSING SOCIAL CONCERNS

Your Company, as a responsible corporate entity believes in discharging its social responsibility towards development of underprivileged in the society. Apart from providing financial support for such activities, it also donates computer hardware to schools and charitable institutions. It encourages its employees to actively participate in social activities.

Continuing its aid to disaster calls in the past, your Company voluntarily responded to take up the task to reach out to the Tsunami victims. Keeping in line with the Company's social values, Mr. Anand Mahindra, Chairman of the Company presented a cheque of Rs. 4,000,000, representing employees' contribution, to the Prime Minister's National Relief Fund in India. In addition to contributing its employees' donations, your Company partnered with NGO Maitri for additional relief activities. Your Company also undertook a drive amongst its employees for donation of bed sheets and blankets, which was the most immediate need. Your Company donated an additional Rs. 1 lakh to purchase rice and distribute it in the affected area.

Post receiving the assessment reports from NGO Maitri, your Company delivered support in two phases: pre-assessment and post-assessment. The pre-assessment phase consisted of disbursing immediate help for providing food and safe drinking water, temporary shelter, clothes, sanitation facility, medical and health support, blankets and other house hold items, donated by the Company's employees. The post-assessment phase focused on adopting a village, repairing houses and repairing boats and engines.

EMPLOYEE STOCK OPTION PLAN 2000

During the year, the Compensation Committee granted 832,500 options to various employees at an exercise price of Rs. 67/- based on the report dated 10th July 2004 submitted by M/s Pravin P. Shah & Associates, Chartered Accountants.

None of the directors were granted any options during the year under this plan.

EMPLOYEE STOCK OPTION PLAN 2004

At the Extra-ordinary General Meeting of the shareholders of the Company held on 14th October 2004, your Company introduced a stock option plan - ESOP 2004. The Compensation Committee has granted 3,406,620 options to Mr. Vineet Nayyar, Managing Director & CEO out of a total of 10,219,860 options granted under the plan.

SUBSIDIARY COMPANIES

Presently, your Company is focused on improving its global reach through its subsidiaries in the US, Germany and Singapore. The sales and marketing infrastructure of the Company's subsidiaries have been reinforced by appointing senior level local executives from the telecom sector. Your Company will continue to invest in subsidiaries for further strengthening its market reach.

The financial results of MBT International Inc., MBT GmbH and MBT Software Technologies Pte. Limited, are as under:

Subsidiary	MBT International Inc., U.S.A.				MBT GmbH, Germany				MBT Software Technologies Pte. Ltd., Singapore			
Year ended	**March 31, 2005**	**March 31, 2005**	March 31, 2004	March 31, 2004	**March 31, 2005**	**March 31, 2005**	March 31, 2004	March 31, 2004	**March 31, 2005**	**March 31, 2005**	March 31, 2004	March 31, 2004
Currency	**USD**	**INR**	USD	INR	**Euro**	**INR**	Euro	INR	**SGD**	**INR**	SGD	INR
Income	**14,577,666**	**638,647,547**	15,532,851	680,494,202	**5,226,551**	**295,875,028**	1,270,829	68,484,990	**1,737,222**	**46,123,244**	1,483,724	39,392,872
Gross Profit / (Loss)	**(2,950,143)**	**(129,245,765)**	(3,958,598)	(173,426,179)	**(2,125,549)**	**(120,318,225)**	(3,337,245)	(179,844,140)	**24,599**	**653,103**	26,224	696,247
Depreciation	**51,375**	**2,250,739**	46,403	2,032,915	**56,747**	**3,212,475**	52,662	2,837,938	**12,257**	**325,423**	-	-
Taxation	**(1,186,317)**	**(51,972,548)**	(1,477,138)	(64,713,416)	**-**	**-**	-	-	**-**	**-**	-	-
Net Profit / (Loss)	**(1,815,201)**	**(79,523,956)**	(2,527,863)	(110,745,678)	**(2,182,297)**	**(123,539,826)**	(3,389,907)	(182,682,077)	**12,342**	**327,680**	26,224	696,247

The audited statements of account of the Company's subsidiaries for the year ended 31st March 2005 together with reports of their Directors and the Auditors and the Statement pursuant to section 212 of the Companies Act, 1956 are attached.

As per the latest available audited accounts of MBT International Incorporated, USA (MBTI) and MBT GmbH, Germany (MBTG) as of 31st March 2005, their respective net worth has been fully/substantially eroded. These subsidiaries have incurred losses due to substantial costs incurred over the past few years in building marketing capabilities but have made operating profits during the last quarter. Moreover, the subsidiaries have growth plans and expect to earn profits in subsequent years resulting in positive net worth over a period of time. Considering the above, out of abundant caution, the Company has made provisions, to the extent of accumulated losses in these subsidiaries, aggregating to Rs. 518 Mn towards diminution in the value of investments in MBTI and MBTG and towards debts recoverable from MBTI. However, these provisions have no impact at the consolidated level, as these losses were recognized in the consolidated performance in the years during which the losses were incurred.

CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION

In view of the nature of activities that are being carried on by the Company, Rule 2A and 2B of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, concerning conservation of energy and technology absorption, respectively are not applicable to the Company. The Company is, however, beginning to investigate ways of reducing energy consumption as a commitment to the global environment; this will cover accommodation facilities, communications and transport.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The foreign exchange earnings of your Company during the year were Rs. 9,199.70 Mn (Previous Year Rs. 7,112.11 Mn) while the outgoings were Rs. 3006.02 Mn (Previous Year Rs. 3,459.48 Mn).

PARTICULARS OF EMPLOYEES

As required under Section 217(2A) of the Companies Act, 1956, and the Rules made thereunder, a statement containing particulars of the Company's employees who were in receipt of remuneration of not less than Rs. 2,400,000 during the year ended 31st March 2005, or of not less than Rs. 200,000 per month, if, employed for part of the year, is given in the Annexure to this Report.

The Department of Company Affairs, has amended the Companies (Particulars of Employees) Rules, 1975 to the effect that particulars of employees of companies engaged in Information Technology sector posted and working outside India not being directors or their relatives, drawing more than Rs. 2,400,000 per financial year or Rs. 200,000 per month, as the case may be, need not be included in the statement but, such particulars shall be furnished to the Registrar of Companies. Accordingly, the statement included in this report does not contain the particulars of employees who are posted and working outside India.

DEPOSITS AND LOANS / ADVANCES

The Company has not accepted any deposits from the public or its employees during the year under review.

The Company has not made any loans/advances which are required to be disclosed in the annual accounts of the Company pursuant to Clause 32 of the Listing Agreement with the parent company, Mahindra & Mahindra Limited.

AUDITORS

M/s Deloitte Haskins & Sells, Chartered Accountants, the Auditors of the Company, hold office up to the conclusion of the forthcoming Annual General Meeting of the Company and have given their consent for re-appointment. The shareholders will be required to elect auditors for the current year and fix their remuneration. The Company has received a written confirmation from M/s Deloitte Haskins & Sells to the effect that their appointment, if made, would be in conformity with the limits prescribed in Section 224 of the Companies Act, 1956.The Board recommends the appointment of M/s Deloitte Haskins & Sells as the Auditors of the Company.

ACKNOWLEDGEMENTS

Your Directors gratefully acknowledge the contributions made by the employees towards the success of the Company. Your Directors are also thankful for the co-operation and assistance received from its customers, suppliers, bankers, STPI, State and Central Government Authorities and shareholders.

For and on behalf of the Board

Anand G. Mahindra
Chairman

Mumbai
24th May 2005

CORPORATE GOVERNANCE

MANAGEMENT:

Board of Directors

1. Composition and Category of Directors

Name	Category of Director
Mr. Anand G. Mahindra	Non-Executive Chairman
Mr. Vineet Nayyar	Managing Director & CEO
Mr. Bharat Doshi	Non-Executive
Mr. Clive Goodwin	Non-Executive
Mr. Akash Paul	Non-Executive, Independent
Mr. Anupam Puri	Non-Executive, Independent
Dr. Raj Reddy	Non-Executive, Independent
Mr. Al-Noor Ramji	Non-Executive
Mr. Arun Seth	Non-Executive
Mr. Ulhas N. Yargop	Non-Executive

2. Attendance of each director at the Board of Directors meetings and the last AGM

During the year 2004-05, five meetings of the Board of Directors were held.

The details of attendance of the directors at the Board Meeting and Annual General Meeting held during the year 2004-05 are given below:

Name	Number of Board meetings attended	Board Meeting					Annual General Meeting 16th July 2004
		11th May 2004	15th July 2004	11th Oct. 2004	18th Oct. 2004	14th Feb. 2005	
Mr. Anand G. Mahindra	5	✓	✓	✓	✓	✓	✓
Mr. Bharat Doshi	5	✓	✓	✓	✓	✓	✓
Mr. Clive Goodwin	3	x	✓	x	✓	✓	✓
Mr. Akash Paul	4	✓	✓	x	✓	✓	x
Mr. Anupam Puri	4	✓	✓	x	✓	✓	x
Dr. Raj Reddy	4	✓	✓	x	✓	✓	x
Mr. Ulhas N. Yargop	5	✓	✓	✓	✓	✓	✓
Mr. Robert John Helleur[1]	2	✓	✓	N.A.	N.A.	N.A.	✓
Mr. Vineet Nayyar[2]	1	N.A.	N.A.	N.A.	N.A.	✓	N.A.
Dr. Sinclair Stockman[3]	2	✓	x	x	✓	N.A.	x
Mr. Chris Price[4]	1	x	x	x	✓	N.A.	x
Mr. Arun Seth[5]	1	N.A.	N.A.	N.A.	N.A.	✓	N.A.
Mr. Al-Noor Ramji[6]	1	N.A.	N.A.	N.A.	N.A.	✓	N.A.

[1]Ceased to be a Director w.e.f. 1st October 2004
[2]Appointed as Managing Director and CEO w.e.f. 17th January 2005
[3]Ceased to be a Director w.e.f. 31st January 2005
[4]Ceased to be a Director w.e.f. 31st January 2005
[5]Appointed as a Director w.e.f. 14th February 2005
[6]Appointed as a Director w.e.f. 14th February 2005

Audit Sub-Committee

1. Composition, names of members and Chairman

The composition of the Audit sub-committee is as follows:

- Mr. Anupam Puri - Chairman
- Mr. Bharat Doshi
- Mr. Clive Goodwin
- Dr. Raj Reddy

2. Meetings and attendance during the year

Four meetings of the Audit sub-committee were held during the Financial Year 2004-2005. The meetings were held on 10th May 2004, 15th July 2004, 18th October 2004 and 14th February 2005.

The details of the number of Audit Sub-Committee meetings attended by its members are given below:

Name of Director	Number of Audit sub-committee meetings attended
Mr. Bharat Doshi	4
Mr. Clive Goodwin	3
Mr. Anupam Puri	4
Dr. Raj Reddy	4

3. Recommendations of the committee

All the recommendations of the Audit Sub-committee were accepted by the Board of Directors.

4. Terms of reference

The Board of Directors had constituted the Audit Sub-committee of the Board by a circular resolution passed on 17th January 1996. The Board reconstituted the Audit Sub-committee on 26th February 1999, 24th August 2000 and 26th February 2001.

The terms of reference of the Audit Sub-committee are as follows: -

a) The Committee shall have authority to investigate into any matter or activity within its terms of reference and in relation to items specified under Section 292A of the Companies Act, 1956 or referred to it by the Board.

b) The Committee shall have full access to information contained in the records of the Company and may, if necessary, seek external professional advice.

c) The Committee shall seek information from any employee.

d) The Committee shall secure attendance of outsiders with relevant expertise, if considered necessary.

e) The Committee may delegate any of its powers to one or more of its members or the Company Secretary.

f) The recommendations of the Audit Committee on any matter relating to financial management including the Audit Report shall be binding on the Board. However, where such recommendations are not accepted by the Board, the reasons for the same shall be recorded in the Minutes of the Board meeting and communicated to the shareholders.

g) The Committee shall oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.

h) The Committee shall recommend the appointment, dismissal and removal of statutory auditor, fixation of audit fee and also approval for payment for any other services rendered by the auditors.

i) The Committee shall review the performance of statutory auditors including scope of their audit and monitor the extent of their non-audit work.

j) The Committee shall review with management the quarterly, half yearly, annual financial results, annual report and accounts and other financial information including reviewing, with the statutory auditors scope and results of their audits and considering their Management Letter before submission of their reviews to the Board, with special emphasis on

- Any changes in accounting policies and procedures
- Major accounting entries based on exercise of judgment by management
- Qualifications in draft audit report
- Significant adjustments arising out of audit
- The going concern assumption
- Compliance with accounting standards
- Compliance with stock exchange (after listing) and legal requirements concerning financial statements
- Any related party transactions, i.e. transactions of the company of material nature with promoters or management, their subsidiaries or relatives etc. that may have potential conflict with the interest of company at large

k) The Committee shall review with the management, statutory and internal auditors, the adequacy of internal control systems.

l) The Committee shall review the adequacy of internal audit function, including the structure of internal audit department, if any, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

m) The Committee shall discuss with internal auditors any significant findings and follow up thereon.

n) The Committee shall review the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or failure of internal control systems of a material nature and report the matter to the Board.

o) The Committee shall discuss with statutory auditors before the audit commences, the nature and scope of audit as well as have post audit discussion to ascertain any area of concern.

p) The Committee shall review the company's financial and risk management policies.

q) The Committee shall look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of dividend) and creditors.

Compensation (Remuneration) Committee

1. Composition, name of members and Chairman

The composition of the Committee is as follows:

- Mr. Akash Paul - Chairman
- Mr. Ulhas N. Yargop
- Mr. Clive Goodwin

2. Meetings and attendance during the year

Four meetings of the Compensation Committee were held during the Financial Year 2004-2005 . The meetings were held on 10th May 2004 , 15th July 2004, 18th October 2004 and 14th February 2005.

The details of the number of Committee meetings attended by its members are given below:

Name	Number of Compensation committee meetings attended
Mr. Akash Paul	4
Mr. Clive Goodwin	3
Mr. Ulhas N. Yargop	4

3. Terms of reference

The Compensation committee was constituted for the purpose of determining the terms and conditions including the remuneration payable to Managing Director of the Company. By a resolution passed on 23rd October 2000, the Board of Directors enlarged the terms of reference of the committee and entrusted it with the following terms of reference, which were originally entrusted to the ESOP Compensation Committee:

a) To take actions arising out of Employee Stock Option Plan 2000 (ESOP 2000)

b) Employee Stock Option Plan Scheme

c) Formation of Trust thereunder

d) Appointment of Trustees of the Trust

FINANCIAL STATEMENTS OF

MAHINDRA - BRITISH TELECOM LIMITED

(CONSOLIDATED & STANDALONE)

FOR THE YEAR ENDED MARCH 31, 2005

AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF MAHINDRA-BRITISH TELECOM LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF MAHINDRA-BRITISH TELECOM LIMITED AND ITS SUBSIDIARIES

1. We have examined the attached Consolidated Balance Sheet of Mahindra-British Telecom Limited ("the Company") and its subsidiaries as at March 31, 2005, and the Consolidated Profit and Loss account and the Consolidated Cash Flow Statement for the year then ended annexed thereto.

2. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of the subsidiaries, whose financial statements reflect total assets of Rs.251,448,067/- as at March 31, 2005 and total revenues of Rs.245,968,452/- for the year then ended. These financial statements have been audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amount included in respect of the subsidiaries, is based solely on the report of the other auditors.

4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by The Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiaries included in the consolidated financial statements.

5. On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of the Company and its aforesaid subsidiaries, we are of the opinion that the said 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 consolidated state of affairs of the Company and its subsidiaries as at March 31, 2005;

   (b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of the Company and its subsidiaries for the year then ended and

   (c) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Company and its subsidiaries for the year then ended.

For Deloitte Haskins & Sells
Chartered Accountants

A.B.Jani
Partner
Membership No. 46488

Mumbai, May 17, 2005

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2005

		Schedule	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
I.	SOURCES OF FUNDS :			
	SHAREHOLDERS' FUNDS:			
	Capital	I	**203,453,150**	202,728,110
	Reserves and Surplus	II	**4,657,979,301**	3,864,709,105
		TOTAL	**4,861,432,451**	4,067,437,215
II.	APPLICATION OF FUNDS :			
	FIXED ASSETS:	III		
	Gross Block		**2,866,690,576**	2,189,185,820
	Less : Depreciation		**1,156,486,242**	843,693,992
	Net Block		**1,710,204,334**	1,345,491,828
	Capital Work-in-Progress, including Advances		**70,489,653**	198,529,227
			1,780,693,987	1,544,021,055
	INVESTMENTS	IV	**1,112,780,387**	451,062,733
	DEFFERED TAX ASSET (NET)		**133,728,512**	85,311,126
	CURRENT ASSETS, LOANS AND ADVANCES:	V		
	Sundry Debtors		**2,211,684,007**	2,670,606,629
	Cash and Bank Balances		**1,284,958,022**	388,468,637
	Loans and Advances		**243,300,791**	305,708,485
			3,739,942,820	3,364,783,751
	Less : CURRENT LIABILITIES AND PROVISIONS:			
	Liabilities	VI	**1,290,229,650**	778,851,130
	Provisions	VII	**615,483,605**	598,890,320
			1,905,713,255	1,377,741,450
	Net Current Assets		**1,834,229,565**	1,987,042,301
		TOTAL	**4,861,432,451**	4,067,437,215
	SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	XI		

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

A. B. Jani
Partner

Mumbai,
Dated : May 17, 2005

For Mahindra - British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
Mr. Bharat Doshi - *Director*
Mr. Clive Goodwin - *Director*
Mr. Anupam Puri - *Director*

Mr. Vineet Nayyar - *Managing Director & CEO*
Mr. Al-Noor Ramji - *Director*
Dr. Raj Reddy - *Director*
Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

London,
Dated : May 9, 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2005

	Schedule	**Year ended March 31, 2005 Rupees**	Year ended March 31, 2004 Rupees
INCOME	VIII	**9,541,898,337**	7,565,107,408
EXPENDITURE :			
Personnel	IX	**3,976,170,587**	2,448,616,139
Operating and Other Expenses	X	**4,129,988,032**	4,170,152,978
Depreciation		**321,132,074**	226,515,556
	TOTAL	**8,427,290,693**	6,845,284,673
PROFIT BEFORE TAXATION		**1,114,607,644**	719,822,734
Provision for Taxation (Refer note 10 of Schedule XI)			
- Current tax		**(142,248,589)**	(83,492,737)
- Deferred tax		**51,540,476**	332,935
PROFIT FOR THE YEAR AFTER TAX		**1,023,899,531**	**636,662,932**
Excess provision for income-tax in respect of earlier years		**-**	38,121,167
Balance brought forward from previous year		**3,076,610,062**	2,924,451,351
Balance available for appropriation		**4,100,509,593**	3,599,235,450
Interim Dividend - I		**(121,658,250)**	(192,210,945)
Interim Dividend - II		**(101,537,765)**	(40,505,762)
Final Dividend		**-**	(141,909,677)
Dividend Tax		**(28,857,180)**	(47,999,005)
Transfer to General Reserve		**(88,000,000)**	(100,000,000)
Balance Carried to Balance Sheet		**3,760,456,398**	3,076,610,061
Earning Per Share (Refer note 11 of Schedule XI)			
- **Basic**		**10.07**	6.67
- **Diluted**		**8.97**	6.59
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	XI		

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

A. B. Jani
Partner

Mumbai,
Dated : May 17, 2005

For Mahindra - British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
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Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

London,
Dated : May 9, 2005

CONSOLIDATED CASH FLOW FOR THE YEAR ENDED MARCH 31, 2005

Particulars	Rupees	Rupees
A Cash Flow from operating activities		
Net Profit before taxation		1,114,607,644
Adjustments for:		
Depreciation	321,132,074	
Loss on sale of Fixed Assets, (net)	3,357,211	
Fixed Assets written off	47,505	
Decrease in fair value of Current Investment	155,364	
Exchange gain (net)	(49,546,135)	
Currency translation adjustment	6,207,680	
Dividend from current Investments	(16,192,295)	
Interest Income	(31,561,412)	
Profit on Sale of Investments	(28,315)	
		233,571,677
Operating profit before working capital changes		1,348,179,321
Adjustments for:		
Trade and other receivables	474,543,067	
Trade and other payables	558,700,413	
		1,033,243,480
Cash generated from operations		2,381,422,801
Direct Taxes	25,414,580	
		25,414,580
Net cash from operating activities		2,406,837,381
B Cash flow from investing activities		
Purchase of Fixed assets	(549,409,983)	
Purchase of Investments	(1,318,669,769)	
Sale of Investments	656,825,066	
Sale of Fixed Assets	1,440,134	
Interest received	29,931,952	
Dividend received	16,192,295	
		(1,163,690,303)
Net cash used in investing activities		
C Cash flow from financing activities		
Proceeds from issue of Shares (including Share Premium)	15,941,220	
Dividend (including Dividend Tax paid)	(412,145,049)	
Net cash used in financing activities		(396,203,829)
Net increase in cash and cash equivalents (A+B+C)		846,943,249
Cash and cash equivalents at the beginning of the year		439,763,620
Cash and cash equivalents at the end of the year		1,286,706,869

Notes:

1. Components of cash and cash equivalents include cash, bank balances in current and deposit accounts as disclosed under Schedule V of the accounts.
2. Purchase of fixed assets are stated inclusive of movements of capital work in progress between the commencement and end of the year and are considered as part of investing activity.

	March 31, 2005 Rs
3. Cash and cash equivalents includes :	
Cash and Bank Balances	**1,284,958,022**
Unrealised gain on foreign currency Cash and cash equivalents	**1,748,847**
Total Cash and Cash equivalents	**1,286,706,869**

4. The Consolidated accounts are prepared by the company for the first time in accordance with Accounting Standard 21 - Consolidated Financial Statements and hence previous year's figures in respect thereof have not been disclosed.

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

A. B. Jani
Partner

Mumbai,
Dated : May 17, 2005

For Mahindra - British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
Mr. Bharat Doshi - *Director*
Mr. Clive Goodwin - *Director*
Mr. Anupam Puri - *Director*

London,
Dated : May 9, 2005

Mr. Vineet Nayyar - *Managing Director & CEO*
Mr. Al-Noor Ramji - *Director*
Dr. Raj Reddy - *Director*
Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE I			
SHARE CAPITAL :			
Authorised :			
125,000,000 Equity Shares of Rs. 2/- each		**250,000,000**	250,000,000
		250,000,000	250,000,000
Issued and Subscribed :			
101,726,575 (previous year 101,364,055) Equity Shares of Rs. 2/- each fully paid-up		**203,453,150**	202,728,110
		203,453,150	202,728,110
1. Out of above, 57,600,060 (including 200 held with nominees) Equity shares of Rs.2/- each fully paid up are held by Mahindra & Mahindra Limited, the holding company.			
2. The above includes 51,000,100 and 25,000,000 Equity Shares of Rs. 2/- each issued as fully paid-up bonus shares by capitalisation of balance of Profit and Loss Account and General Reserve, respectively			
SCHEDULE II			
RESERVES AND SURPLUS:			
General Reserve :			
As per last Balance Sheet	**630,430,284**		530,430,284
Add : Transfer from Profit and Loss Account	**88,000,000**		100,000,000
		718,430,284	630,430,284
Securities Premium :			
As per last Balance Sheet	**137,550,093**		125,424,293
Add : Received during the year	**15,216,180**		12,125,800
		152,766,273	137,550,093
Currency Translation Reserve			
As per last Balance Sheet	**20,118,666**		-
Addition during the year	**6,207,680**		20,118,666
		26,326,346	20,118,666
Balance in Profit and Loss Account		**3,760,456,398**	3,076,610,062
		4,657,979,301	3,864,709,105

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET (contd.)

SCHEDULE III

FIXED ASSETS :

Description of Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Cost as at April 01, 2004	Additions during the year	Deductions during the year	Cost as at March 31, 2005	Upto March 31, 2004	For the year	Deductions during the year	Upto March 31, 2005	As at March 31, 2005	As at March 31, 2004
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Leased Assets :										
Vehicles (Refer Note 5 of Schedule XI)	45,759,579	46,106,679	10,308,820	**81,557,438**	9,553,101	13,827,694	6,070,027	**17,310,768**	**64,246,670**	36,206,478
Other Assets :										
Office Building / Premises	1,139,784,302	270,493,508	-	**1,410,277,810**	236,035,085	84,846,212	-	**320,881,297**	**1,089,396,513**	903,749,217
Computers	466,736,180	150,211,709	316,085	**616,631,804**	317,344,072	98,204,478	140,468	**415,408,082**	**201,223,722**	149,392,108
Plant and Machinery	274,578,810	95,090,524	529,974	**369,139,360**	143,143,402	57,284,904	147,108	**200,281,198**	**168,858,162**	131,435,408
Furniture and Fixtures	261,376,898	128,786,941	1,079,675	**389,084,164**	136,715,786	66,968,786	1,079,675	**202,604,897**	**186,479,267**	124,661,112
Vehicles	950,051	-	950,051	**-**	902,546	-	902,546	**-**	**-**	47,505
Total	**2,189,185,820**	**690,689,361**	**13,184,605**	**2,866,690,576**	**843,693,992**	**321,132,074**	**8,339,824**	**1,156,486,242**	**1,710,204,334**	**1,345,491,828**
Previous year	1,952,394,612	525,632,504	288,841,296	2,189,185,820	901,011,858	226,518,512	283,836,378	843,693,992	1,345,491,828	

Note: Fixed assets include certain leased vehicles aggregating to Rs 74,754,716 (previous year Rs.28,648,037) on which vendors have a lien.

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE IV			
INVESTMENTS (AT COST)			
Current Investments(at lower of cost and fair value) (Refer note 12 a of schedule XI)			
Non Trade:			
101,396.50 (previous year 30,276.37) units of Rs 1001.10 (previous year Rs. 1,024.24) each of Franklin Templeton Mutual Fund- Institutional Income Plan		**101,508,060**	31,010,373
Nil (previous year 24,883.98) units of Rs 1,024.92 each of Franklin Templeton Mutual Fund- Monthly Dividend Plan		**-**	25,504,026
Nil (previous year 2,562,050.47) units of Rs. 12.40 each of DSP Merrill Lynch Liquidity Fund - Weekly Dividend		**-**	31,780,656
1,030,408.52 (previous year 1,006,629.00) units of Rs. 10.23 (previous year Rs. 10.23) each of DSP Merrill Lynch - Short Term Fund - Dividend		**10,546,124**	10,301,365
3,113,621.34 (previous year 3,041,765.94) units of Rs. 10.21 (previous year Rs. 10.21) each of DSP Merrill Lynch - Short Term Fund		**31,780,197**	31,040,599
8,116,274.55 (previous year Nil) units of Rs. 10.03 each of DSP Merrill Lynch - Floating Rate - Weekly Dividend		**81,429,837**	-
4,315,175.02 (previous year 2,791,791.41) units of Rs.11.84 (previous year Rs. 11.83) each of Prudential ICICI Mutual Fund-Liquid Income Plan		**51,109,288**	33,032,197
1,119,449.83 (previous year 1,078,129.84) units of Rs. 10.85 (previous year Rs. 10.85) each of Prudential ICICI Mutual Fund Institutional Short Term Plan		**12,150,841**	11,702,182
4,748,969.47 (previous year Nil) units of Rs. 10.53 each of Prudential ICICI Mutual Fund FMP Yearly Growth Plan		**50,000,000**	-
9,313,161.61 (previous year 5,011,003.66) units of Rs 10.81(previous year Rs. 10.49) each of Birla Mutual Fund - Institutional Plan		**100,705,538**	52,590,970
Nil (previous year 1,097,493.80) units of Rs. 10.18 each of HSBC Mutual Fund-Growth Investment Plan		**-**	11,180,280
6,749,441.71 (previous year 4,825,565.75) units of Rs. 10.45 (previous year Rs.10.53) each of HSBC Mutual Fund - Short Term Institutional Fund		**70,536,265**	50,804,832
Nil (previous year 5,321,726.44) units of Rs. 10.10 each of Deutsche Mutual Fund - Growth Plan		**-**	53,754,706

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SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE IV (contd.)			
2,696,842.37 (previous year 2,606,236.89) units of Rs.10.02 (previous year Rs.10.01) each of J M Mutual Fund-Short Term Institutional Plan		**27,013,492**	26,094,064
5,035,302.57 (previous year Nil) units of Rs.10.02 (previous year Rs.Nil) each of J M Mutual Fund-High Liquidity Super Institutional Plan		**50,449,649**	-
3,034,216.23 (previous year Nil) units of Rs. 10.00 each of Kotak Floater Long Term - Weekly Dividend		**30,353,388**	-
5,048,809.48 (previous year 2,656,823.77) units of Rs. 10.03 (previous year Rs.10.02) each of Kotak Mutual Fund - Liquid Institiutional Plan		**50,623,936**	26,619,238
1,066,927.90 (previous year Nil) units of Rs.10.04 each of Principle Mutual Fund - Institutional Plan Dividend Reinvestment Monthly		**10,712,914**	-
4,032,914.19 (previous year Nil) units of Rs.10.0213 each of Principal Mutual Fund - Floating Rate Fund SMP		**40,415,043**	-
Nil (previous year 1,015,868.98) units of Rs. 10.16 each of Principal Mutual Fund - Monthly Short Term Plan		**-**	10,323,041
3,310,999.22 (previous year Nil) units of Rs. 15.28 each of Reliance Mutual Fund-Treasury Plan Institutional Option		**50,586,064**	-
2,000,000 (previous year Nil) units of Rs. 10.00 each of Reliance Mutual Fund-Fixed Term Quarterly Plan Dividend Option		**20,000,000**	-
5,000,000 (previous year Nil) units of Rs. 10.00 each of Reliance Mutual Fund-FMP		**50,000,000**	-
2,000,000 units of Rs. 10.00 (previous year Rs.10.00) each of Reliance Mutual Fund-Growth Plan		**20,000,000**	20,000,000
9,507,961.29 (previous year Nil) units of Rs.10.63 each of HDFC Cash Management Fund Weekly Dividend		**101,090,809**	-
4,409,628.75 (previous year Nil) units of Rs.11.49 each of Chola Fund Liquid Institutional Plus-Dividend Option		**50,676,570**	-
9,811,360.90 (previous year 2,522,066.63) units of Rs. 10.30 (previous year Rs.10.04) each of Standard Chartered Mutual Fund Weekly Dividend Plan		**101,092,372**	25,324,204
		1,112,780,387	451,062,733
Note : Refer note 12 b of schedule XI for additional information			

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE V			
CURRENT ASSETS, LOANS AND ADVANCES :			
Current Assets :			
(a) Sundry Debtors * :			
(Unsecured)			
Debts outstanding for a period exceeding six months:			
: considered good		**189,209,996**	225,787,416
: considered doubtful		**15,099,557**	10,896,553
		204,309,553	236,683,969
Other debts, considered good		**2,022,474,011**	2,444,819,213
		2,226,783,564	2,681,503,182
Less: Provision		**15,099,557**	10,896,553
		2,211,684,007	2,670,606,629
* Debtors include unbilled revenue of Rs. 346,914,306 (previous year Rs. 317,587,920)			
(b) Cash and Bank Balances :			
Balance with Scheduled banks :			
(i) In Current accounts	**833,933,251**		231,097,369
(ii) In Fixed Deposit accounts	**451,024,771**		157,371,268
		1,284,958,022	388,468,637
(c) Loans and Advances : (Unsecured)			
Bills of Exchange (considered doubtful)	**5,000,000**		5,000,000
Less: Provision	**5,000,000**		5,000,000
	-		-
Advances recoverable in cash or in kind or for			
value to be received........considered good	**243,300,791**		305,708,485
........considered doubtful	**3,758,992**		2,283,962
	247,059,783		307,992,447
Less : Provision	**3,758,992**		2,283,962
		243,300,791	305,708,485
		243,300,791	305,708,485
		3,739,942,820	3,364,783,752

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE VI			
CURRENT LIABILITIES :			
Sundry Creditors :			
Total outstanding dues to Small Scale Industrial Undertakings		-	-
Total outstanding dues of Creditors other than Small Scale Industrial Undertakings		**1,290,229,650**	778,851,130
		1,290,229,650	778,851,130
SCHEDULE VII			
PROVISIONS:			
Provision for taxation (net of payments)		**349,598,609**	233,475,171
Proposed Dividends		**-**	141,909,677
Provision for Dividend tax		**-**	18,182,177
Provision for Gratuity		**118,375,000**	90,865,000
Provision for Leave Encashment		**147,509,996**	114,458,295
		615,483,605	598,890,320

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT & LOSS ACCOUNT

	Rupees	Year ended March 31, 2005 Rupees	Year ended March 31, 2004 Rupees
SCHEDULE VIII			
INCOME :			
Income from Services	**9,418,836,680**		7,368,812,100
[Tax deducted at source Rs. 9,283,236/-			
(previous year Rs. 2,428,297)]			
Variance in Inventories	**5,009,437**		-
Management Fees (Net)	**32,565,075**		48,249,172
		9,456,411,192	7,417,061,272
Interest on :			
Deposits with Banks			
[Tax deducted at source Rs. 2,494,297			
(previous year Rs. 3,494,580)]	**30,972,159**		29,195,551
Others [Tax deducted at source Rs. 53,839			
(previous year Rs.10,705)]	**589,253**		1,520,775
		31,561,412	30,716,326
Dividend received on current investments		**16,220,610**	31,673,111
Exchange fluctuation (Net)		**13,323,871**	-
Profit on Sale of Fixed Assets (Net)		**-**	15,142,316
Excess Provisions for earlier years /			
Sundry Credit Balances Written Back		**220,779**	48,620,611
Provision for Doubtful Debts/Advances written back		**8,502,342**	2,224,488
Insurance claim received		**107,312**	117,082
Miscellaneous Income		**15,550,819**	19,552,202
		9,541,898,337	7,565,107,408
SCHEDULE IX			
PERSONNEL :			
Salaries, wages and bonus (Refer note 7 of Schedule XI)		**3,555,215,450**	2,261,564,104
Contribution to Provident and Other Funds		**253,907,360**	95,520,228
Staff Welfare		**167,047,777**	91,531,807
		3,976,170,587	2,448,616,139

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT & LOSS ACCOUNT (contd.)

	Rupees	Year ended March 31, 2005 Rupees	Year ended March 31, 2004 Rupees
SCHEDULE X			
OPERATING AND OTHER EXPENSES :			
Power		**46,987,908**	31,485,563
Rent		**160,026,515**	119,284,026
Rates and taxes		**4,559,252**	8,996,810
Communication expenses		**227,768,973**	156,529,010
Travelling expenses		**2,075,755,247**	2,382,873,473
[Net of recoveries Rs. 51,187,284 (previous year : Rs. 41,579,385)]			
Recruitment expenses		**32,735,064**	61,982,133
Hire Charges [includes car lease rentals Rs. 6,090,745/- (previous year Rs. 7,100,026)]		**118,485,525**	99,172,729
Sub-contracting costs		**799,891,178**	556,139,986
Repairs and Maintenance :			
Buildings (including leased premises)	**14,689,134**		14,028,151
Machinery	**22,011,760**		14,820,303
Others	**19,202,163**		16,297,135
		55,903,057	45,145,589
Insurance		**24,998,794**	17,603,859
Professional fees - Others		**132,193,255**	224,725,169
Software Packages [Net of recoveries Rs. Nil (previous year Rs. 14,380,704)		**80,029,919**	51,996,015
Training		**71,425,395**	69,536,051
Advertising, Marketing and Selling expenses		**82,224,380**	45,667,342
Commission on Services Income		**34,378,472**	64,309,523
Loss on sale of fixed assets		**3,357,211**	-
Excess of cost over fair value of current investments (Refer note 12 a of schedule XI)		**155,364**	-
Advances / debts written off		**13,397,660**	2,233,489
Provision for Doubtful Debts/Advances		**14,180,376**	3,213,138
Fixed Assets written off		**47,505**	1,307,004
Loss on exchange fluctualion (Net)		**-**	17,354,271
Miscellaneous expenses *		**151,486,982**	210,597,798
		4,129,988,032	4,170,152,978

* includes Printing and Stationery expenses, Hospitality expenses, Conveyance, etc.

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

SCHEDULE XI

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS FORMING PART OF CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2005

1. Significant accounting policies:

(a) Basis for preparation of accounts:

The accompanying consolidated financial statements of Mahindra British Telecom Limited (MBT) ("the holding company") and its wholly owned foreign subsidiaries ("the company") are prepared under the historical cost convention in accordance with the generally accepted accounting principles applicable in India (Indian GAAP), the provisions of the Companies Act, 1956 and the Accounting Standards issued by the Institute of Chartered Accountants of India to the extent possible in the same format as that adopted by the holding company for its separate financial statements.

The financial statements of the subsidiaries used in the consolidation are drawn upto the same reporting date as that of the Holding company namely March 31, 2005.

(b) Principles of consolidation:

The financial statements of the holding company and its subsidiaries have been consolidated on a line by line basis by adding together the book value of like items of assets, liabilities, income, expenses, after eliminating intra – group transactions and any unrealized gain or losses on the balances remaining within the group in accordance with the accounting standard (AS 21) "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.

The financial statements of the holding company and its subsidiaries have been consolidated using uniform accounting policies for like transaction and others events in similar circumstances.

(c) Use of Estimates:

The preparation of financial statements, in conformity with the generally accepted accounting principles, requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of financial statements and the reported amounts of revenues and expenses during the reported year. Differences between the actual results and estimates are recognised in the year in which the results are known/materialised.

(d) Fixed Assets:

All fixed assets are stated at cost less depreciation. Costs comprise of purchase price and attributable costs, if any.

(e) Assets taken on lease:

Assets taken on finance lease on or after April 1, 2001 are accounted for as fixed assets in accordance with Accounting Standard 19 on "leases", AS 19 issued by The Institute of Chartered Accountants of India. Accordingly, the assets have been accounted at fair value. Lease payments are apportioned between finance charge and reduction of outstanding liability.

(f) Depreciation on fixed assets:

The Company computes depreciation for all fixed assets including for assets taken on lease using the straight-line method based on estimated useful lives. Depreciation is charged on a pro-rata basis for assets purchased or sold during the year. Management's estimate of the useful life of fixed assets is as follows..

Buildings	15 years
Computers	3 years
Plant and machinery	3-5 years
Furniture and fixtures	5 years
Vehicles	5 years

(g) Impairment of Assets:

At the end of each year, the company determines whether a provision should be made for impairment loss on fixed assets by considering the indications that an impairment loss may have occurred in accordance with Accounting Standard 28 ''Impairment of Assets'' issued by The Institute of Chartered Accountants of India. Where the recoverable amount of any fixed asset is lower than its carrying amount, a provision for impairment loss on fixed assets is made for the difference.

(h) Investments:

Current investments are carried at lower of cost and fair value(Refer note 12 a below). Long term investments are carried at cost. Provision is made to recognise a decline other than temporary in the carrying amount of long term investment.

(i) Revenue recognition:

Revenue from software consists primarily of revenue earned from services performed on 'time and material' basis. The related revenue is recognized as and when services are performed. Income from service is performed by the Company pending receipt of purchase orders from customers, which are invoiced subsequently on receipt thereof, are recognized as unbilled revenue.

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

The Company also performs time bound fixed –price engagements, under which revenue is recognized using the percentage of completion method of accounting, unless work completed cannot be reasonably estimated. Dividend income is recognized when the Company's right to receive dividend is established. Interest income is recognized on time proportion basis.

(j) Foreign currency transactions:

Transactions in foreign currencies are recorded at the exchange rates prevailing on the date of transaction. Current assets and current liabilities are translated at the year-end rates, except, where they are covered by a forward cover, at the transaction rate. The exchange difference between the rate prevailing on the date of transaction and on the date of settlement as also on translation of current assets and current liabilities at the end of the year, is recognized as income or expense, as the case may be, except in case of fixed assets where it is adjusted to the cost of fixed assets. In case of forward contracts, the exchange difference between the forward rate and the exchange rate at the date of transaction is recognised as income or expense over the life of the contract, except in the case of fixed assets where it is adjusted to the cost of fixed assets.

(k) Translation and Accounting of Financial Statement of Foreign subsidiaries:

The financial statements are translated to Indian Rupees in accordance with the guidance issued by The Institute of Chartered Accountants of India in the background material to AS 21 as follows:

1 All incomes and expenses are translated at the average rate of exchange prevailing during the year
2 Assets and liabilities are translated at the closing rate on the Balance sheet date
3 Share Capital is translated at historical rate
4 The resulting exchange differences are accumulated in currency translation reserve.

(l) Retirement Benefits:

Provision is made for gratuity and encashment of unavailed leave on retirement on the basis of actuarial valuations.

(m) Income taxes:

Income taxes are accounted for in accordance with accounting standard 22 on "Accounting for Taxes on Income", issued by the, The Institute of Chartered Accountants of India. Tax expense comprises both current and deferred tax. Current tax is measured at the amount expected to be paid to/ recovered from the tax authorities, using the applicable tax rates. Deferred tax assets and liabilities are recognised for future tax consequences attributable to timing differences between taxable income and accounting income that are capable of reversal in one or more subsequent years and are measured using relevant enacted tax rates. The carrying amount of deferred tax assets at each Balance sheet date is reduced to the extent that it is no longer reasonably certain that sufficient future taxable income will be available against which the deferred tax asset can be realized.

(n) Contingent Liabilities:

These, if any, are disclosed in the notes and accounts. Provision is made in the accounts if it becomes probable that any outflow of resources embodying economic benefits will be required to settle the obligation.

2. Notes forming part of Consolidated Accounts

a) Description of Business

The company is engaged in the business of providing software , application, development, maintenance.

b) Subsidiaries to consolidation

The consolidated financial statements present the consolidated accounts of Mahindra British Telecom Limited with the following subsidiaries

Name of the Subsidiary company	Country of incorporation	Extent of Holding (%) as on March 31, 2005
MBT International Incorporated	United States of America	100 %
MBT GmbH	Germany	100 %
MBT Software Technologies Pte. Ltd.	Singapore	100 %

3. The estimated amount of contracts remaining to be executed on capital account, and not provided for as at March 31, 2005 **Rs. 92,431,940** (Previous year: Rs. 5,814,402).

4. Contingent liabilities:

i) Income tax demands disputed in appeal by the Company **Rs. 87,462,656** (Previous year Rs. 87,462,656) awaiting decision.

ii) Bank Guarantees outstanding **Rs. 53,529,879** (Previous year: Rs. 43,477,427)

5. Assets acquired on Lease on or after April 1, 2001:

The Company has acquired vehicles on lease, the fair value of which aggregates to Rs. 81,557,438. As per Accounting Standard 19 (AS-19) on Leases, issued by The Institute of Chartered Accountants of India the Company

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

has capitalised the said vehicles at their fair values as the leases are in the nature of finance leases as defined in AS-19. Lease payments are apportioned between finance charge and deduction of outstanding liabilities. The details of lease rentals payable in future are as follows:

	Not later than 1 year	Later than 1 year not later than 5 years
Minimum Lease rentals payable (Previous year Rs. 12,332,328 and Rs. 18,958,668 respectively)	22,372,588	33,467,813
Present value of Lease rentals payable (Previous year Rs. 11,186,800 and 14,662,662 respectively)	20,294,438	26,209,591

6. As per Accounting Standard 17 (AS-17) on Segment reporting issued by the Institute of Chartered Accountants of India, the Primary Segment of the Company is Geographical by location of customers. The Secondary Segments are identified based on the line of operations of the Company. The Accounting principles consistently used in the preparation of the financial statements are also applied to record income and expenditure in individual segments. There are no inter-segment transactions during the year.

   The Primary Geographical segments of the company consist of regions of Europe, United States of America (USA) and Asia Pacific (APAC). The Secondary Segments consist of services provided in the Telecom sector and other sectors.

A. PRIMARY SEGMENTS:

(in Rupees)

As on 31st March, 2005	GEOGRAPHICAL SEGMENTS BASED ON LOCATION OF CUSTOMERS			
PARTICULARS	**EUROPE**	**USA**	**APAC**	**TOTAL**
REVENUES	8,415,699,981	659,978,323	380,732,888	9,456,411,192
DIRECT EXPENSES	5,221,822,735	484,595,737	265,805,554	5,972,224,026
SEGMENTAL OPERATING INCOME	3,193,877,246	175,382,586	114,927,334	3,484,187,166
UNALLOCABLE EXPENSES				
1. Depreciation				321,132,074
2. Other Unallocable Expenses				2,133,934,593
Total				2,455,066,667
OPERATING INCOME				1,029,120,499
Other Income				85,487,145
NET PROFIT BEFORE TAXES				1,114,607,644
INCOME TAXES				
- Current				(142,248,589)
- Deferred				51,540,476
NET PROFIT AFTER TAXES				1,023,899,531

Segregation of assets, liabilities, depreciation and other non-cash expenses into various primary segments has not been done as the assets are used interchangeably between segments and the Company is of the view that it is not practical to reasonably allocate liabilities and other non-cash expenses to individual segments and an adhoc allocation will not be meaningful.

B. SECONDARY SEGMENTS:

Revenues from secondary segments are as under –

Sector	**Amount in Rs.**
Telecom	9,456,411,192
Others	-
Total	**9,456,411,192**

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

Segregation of assets into secondary segments has not been done as the assets are used interchangeably between segments. Consequently the carrying amounts of assets by location of assets is not given.

A. PRIMARY SEGMENTS:

(in Rupees)

As on 31st March, 2004	GEOGRAPHICAL SEGMENTS BASED ON LOCATION OF CUSTOMERS			
PARTICULARS	**EUROPE**	**USA**	**ROW**	**TOTAL**
REVENUES	6,516,403,623	716,068,432	184,589,217	7,417,061,272
DIRECT EXPENSES	4,050,619,738	498,995,020	145,828,930	4,695,443,688
SEGMENTAL OPERATING INCOME	2,465,783,886	217,073,412	38,760,287	2,721,617,584
UNALLOCABLE EXPENSES				
1. Depreciation				226,515,556
2. Other Unallocable Expenses				1,923,325,429
Total				2,149,840,985
OPERATING INCOME				571,776,599
Other income				148,046,135
NET PROFIT BEFORE TAXES				719,822,734
INCOME TAXES				
- Current				(83,492,737)
- Deferred				332,935
NET PROFIT AFTER TAXES				636,662,932

Segregation of assets, liabilities, depreciation and other non-cash expenses into various primary segments has not been done as the assets are used interchangeably between segments and the company is of the view that it is not practical to reasonably allocate liabilities and other non-cash expenses to individual segments and an adhoc allocation will not be meaningful.

B. SECONDARY SEGMENTS:

Revenues from secondary segments are as under –

Sector	**Amount in Rs.**
Telecom	7,417,061,272
Others	-
Total	**7,417,061,272**

Segregation of assets into secondary segments has not been done as the assets are used interchangeably between segments. Consequently the carrying amounts of assets by location of assets is not given.

7. Salaries, Wages, Bonus includes provision for Gratuity **Rs. 27,510,000** (Previous year Rs. 24,458,000), Encashment of unavailed leave **Rs. 35,983,556** (Previous year Rs. 37,311,979).

8 A) MBT has instituted " Employee Stock Option Plan 2000" (ESOP) for its employees and directors. For this purpose it had created a trust viz. MBT ESOP trust. In terms of the said Plan, the trust has granted options to the employees and directors in form of warrant which vest at the rate of 33.33% on each successive anniversary of the grant date. The options can be exercised over a period of 5 years from the date of grant. Each warrant carries with it the right to purchase one equity share of MBT at the exercise price determined by the trust on the basis of fair value of the equity shares at the time of grant.

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

The details of the options are as under:

	March 31, 2005	March 31, 2004
Options outstanding at the beginning of the year	1,818,080	2,140,350
Options granted during the year	832,500	-
Options lapsed during the year	58,320	27,570
Options exercised during the year	362,520	294,700
Options outstanding at the end of the year	2,229,740	1,818,080

Out of the options outstanding at the end of the year, **1,357,380** (Previous year 1,548,630) options have vested, which have not been exercised.

B) During the period MBT has instituted "Employee Stock Option Plan 2004" (ESOP 2004) for its employees. In terms of the said Plan, the Compensation Committee has granted options to employees of MBT and its subsidiary companies. The options are divided into Upfront options and Performance options. The Upfront Options are divided into three sets which will entitle holders to subscribe to option shares at the end of First year, Second year and Third year. The vesting of the Performance Options will be decided by the Compensation Committee based on the performance of employees.

Options granted and outstanding at the end of the period are 10,219,860.
None of the said options have vested as at the end of the period.

9. As required under Accounting Standard 18 (AS – 18), following are details of transactions during the year with the related parties of the Company as defined in AS – 18:

(a) List of Related Parties and Relationships

Name of Related Party	**Relation**
Mahindra & Mahindra Limited	Holding Company
Mahindra Information Technology Services Limited	Promoter holding more than 20% stake for part of the previous year
British Telecommunications Plc.	Promoter holding more than 20% stake
Mahindra Engineering and Chemical Products Limited	Fellow Subsidiary Company
Mahindra Engineering Design and Development Company Limited	Fellow Subsidiary Company
Bristlecone India Limited (Formerly known as Mahindra Consulting Limited)	Fellow Subsidiary Company
Mahindra Consulting Inc.	Fellow Subsidiary Company
Bristlecone UK Limited (Formerly known as Mahindra Intertrade Limited UK)	Fellow Subsidiary Company
Mahindra Holidays & Resorts India Limited	Fellow Subsidiary Company
Mr. Robert John Helleur* Executive Director and Chief Executive Officer	Key Management Personnel
Mr. Vineet Nayyar* Managing Director and Chief Executive Officer	Key Management Personnel

* Part of the year

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

(b) Related Party Transactions :

Transactions	**Promoter Companies**	**Fellow subsidiary Companies**	**Key Management Personnel**
	Rupees	**Rupees**	**Rupees**
Reimbursement of Expenses (Net)-Paid/(Receipt)	(43,642,006) [(35,470,730)]	119,746 [3,425]	- [-]
Income from Services & Management Fees	7,933,535,493 [5,860,988,641]	1,525,000 [1,200,000]	- [-]
Interest on Loan	- [-]	- [-]	- [-]
Commission on Sales	- [-]	- [-]	- [-]
Sub-contracting cost	- [-]	5,841,954 [5,286,080]	- [-]
Dividend Paid	363,789,702 [232,421,273]	- [-]	152,652 [82,846]
Investment	- [-]	- [-]	- [-]
Provision for diminution in value of investment	- [-]	- [-]	- [-]
Loan Given/ (Repaid)	- [-]	- [-]	- [-]
Salary and Perquisites	- [-]	- [-]	8,188,440 [12,458,353]
Sale of Fixed Assets	- [-]	- [8,100,000]	- [-]
Provision for diminution in value of debtors	- [-]	- [-]	- [-]
Debit / (Credit) balances (Net) outstanding as on March 31, 2005	1,707,318,367 [2,132,843,800]	(908,470) [(1,286,618)]	- [(821,087)]

(Figures in brackets “[ ]”are for the previous year)

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

Out of the above items transactions with Promoter companies, Subsidiary Companies and Key Management Personnel in the excess of 10% of the total related party transactions are as under:

(Amount in Rupees)

Transactions		**For the year ended March 31, 2005**	For the year ended March 31, 2004
Reimbursement of Expenses (net) -			
Paid/(Receipt)			
Promoter Companies			
- British Telecommunications Plc.		**(51,069,289)**	(59,687,300)
Income from Services			
Promoter Companies			
- British Telecommunications Plc.		**7,949,298,612**	5,858,684,031
Dividend Paid			
Promoter Companies			
- Mahindra & Mahindra Ltd.	**207,360,216**		157,955,533
- Mahindra Information Technology Services Limited	**-**		124,284,761
- British Telecommunications Plc.	**156,429,486**		212,943,911
		363,789,702	495,184,205
Salary and Perquisites			
Key Management Personnel			
- Mr. Robert John Helleur*	**4,846,288**		12,458,353
- Mr. Vineet Nayyar*	**3,342,152**		-
		8,188,440	12,458,353

* Part of the year

Other related parties of the Company are as under:

- Automartindia Ltd.
- Bristlecone Ltd., Cayman Islands
- Bristlecone Inc.
- Mahindra Gesco Developers Ltd.
- Jayem Automotives Ltd.
- Mahindra Acres and Consulting Engineers Ltd.
- Mahindra Ashtech Ltd.
- Bristlecone GmbH
- Bristlecone Singapore Pte. Ltd.
- Mahindra Gujrat Tractor Ltd.
- Mahindra Holdings and Finance Ltd.
- Mahindra Holidays & Resorts USA Inc.

- Mahindra Insurance Brokers Ltd.
- Mahindra Infrastructure Developers Ltd.
- Mahindra Intertrade UK Ltd.
- Mahindra Industrial Park Ltd.
- Mahindra Logisoft Business Solutions Ltd.
- Mahindra Middleeast Electrical Steel Service Centre (FZE)
- Mahindra and Mahindra Financial Services Ltd.
- Mahindra and Mahindra South Africa (Pty) Ltd.
- Mahindra Overseas Investment Company (Mauritius) Ltd.
- Mahindra Sona Ltd.
- Mahindra Steel Service Centre Ltd.
- Mahindra Shublabh Services Ltd.
- Mahindra SAR Transmission Pvt. Ltd.
- NBS International Pvt. Ltd.
- Mahindra USA Inc.
- Ratna Bhoomi Enterprises Pvt. Ltd.

There have been no transactions with the aforesaid companies during the year.

10 The tax effect of significant timing differences that has resulted in deferred tax assets and liabilities are given below:

Rupees

Deferred Tax	**March 31, 2005**	March 31, 2004
a) *Deferred tax liability:*		
Depreciation	(1,226,029)	(2,006,270)
b) *Deferred tax asset :*		
Gratuity, Leave Encashment etc.	2,899,302	4,065,437
Doubtful Debts	334,107	507,151
Net operating losses carry forward	131,721,132	82,744,808
Total Deferred Tax Asset (Net)	**133,728,512**	**85,311,126**

MBT International Incorporated (MBTI) has net operating losses aggregating to Rs. 314,569,994 which are available to be carried forward. As stated in the audited financials of MBTI, MBTI expects to be able to utilize the entire deferred tax benefit on the said losses.

11. Earning Per Share is calculated as follows:

		2005 Rupees	2004 Rupees
a.	Net Profit after tax	1,023,899,531	636,662,932
	Less: Non recurring / Exceptional Items		
	Add: Excess provision for income-tax in respect of earlier years	-	38,121,167
	Net profit attributable to shareholders	1,023,899,531	674,784,099
b.	Weighted average number of Equity Shares		
	Basic	101,726,575	101,218,378
	Add: ESOPs outstanding at the end of the year	12,449,600	1,818,080
	Diluted	114,176,175	103,036,458
c.	Nominal value of equity share	Rs. 2	Rs. 2

12.

a) As at the year end, the company has reclassified investments in mutual funds, which were hitherto classified as long term investments, as current investments. Such reclassification have been made at lower of cost and carrying amount, of the investments, as the date of transfer and accordingly Rs. 155,364 has been charged to the Profit and Loss Account .

b) Details of Investments Purchased and Sold during the year

Particulars	March 31, 2005 Units	March 31, 2005 Cost
Templeton Mutual Fund – Short Term Monthly Dividend	81,528.440	101,482,419
DSP Merrill Lynch Mutual Fund – Weekly Dividend	4,074,844.141	50,557,485
Kotak Mutual Fund Liquid Institutional FMP	5,000,000.000	50,000,000
HDFC Cash Management Fund Dividend Reinvestment	4,969,230.195	50,093,801
Grindlays Cash Fund Institutional Plan	4,865,500.808	50,142,791

13. Previous year's figures have been regrouped wherever necessary, to conform to the current year's classification.

Signatures to Schedules I to XI
As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

A. B. Jani
Partner

Mumbai,
Dated : May 17, 2005

For Mahindra - British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
Mr. Bharat Doshi - *Director*
Mr. Clive Goodwin - *Director*
Mr. Anupam Puri - *Director*

London,
Dated : May 9, 2005

Mr. Vineet Nayyar - *Managing Director & CEO*
Mr. Al-Noor Ramji - *Director*
Dr. Raj Reddy - *Director*
Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

AUDITOR'S REPORT TO THE MEMBERS OF MAHINDRA-BRITISH TELECOM LIMITED

1. We have audited the attached Balance Sheet of Mahindra-British Telecom Limited as at 31st March 2005, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with 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. As required by Companies (Auditor's Report) Order, 2003 issued by the Central Government in terms of section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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

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

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

c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

e) On the basis of written representations received from the directors as on 31st March, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2005 from being appointed as a director in terms of clause (g) of sub- section (1) of section 274 of the Companies Act, 1956.

f) In our opinion and to the best of our information, and according to the explanations given to us, the said accounts read with the Significant Accounting Policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

i) in case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2005;

ii) in case of the Profit and Loss Account, of the profit for the year ended on that date; and

iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants

A B Jani
Partner
Membership No. 46488

Mumbai,
Dated: May 17, 2005

ANNEXURE TO THE AUDITORS' REPORT

Re: Mahindra-British Telecom Limited

(Referred to in Paragraph 3 of our report of even date)

i) The nature of the Company's activities are such that clauses (viii), (xiii) and (xiv) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company for the year.

ii)

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

(b) In accordance with the programme of physical verification of fixed assets of the Company, which is once in three years, the assets were physically verified by the management during the year ended 31st March, 2004 and the next verification falls due in the next cycle. Accordingly, the said assets were not physically verified during the year. In our opinion, the frequency of verification is reasonable.

(c) The Company has not disposed off a substantial part of fixed assets during the year.

iii) The activities of the Company and the nature of its business do not involve use of inventory. Accordingly, clause (ii) of the Companies (Auditor's Report) Order is not applicable.

iv)

(a) The Company has not granted or taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 and accordingly the sub-clauses (a), (b), (c), (d), (e), (f) and (g) of clause (iii) are not applicable to the Company.

v) In our opinion, and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and nature of its business with regard to purchase of fixed assets and sale of services. During the course of our audit we have not observed any continuing failure to correct major weaknesses in the internal control system.

vi)

(a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts/arrangements that are needed to be entered into the register maintained under Section 301 of the Companies Act, 1956 have been so entered.

(b) According to the information and explanations given to us, where of such transaction in pursuance of such contracts/arrangements are in excess of Rs. 5 lakhs in respect of any party during the year, these are at prices determined in negotiations with the said parties and are prima facie reasonable having regard to prevailing market prices where such market prices are available with the Company.

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

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

ix) According to information and explanations given to us in respect of statutory and other dues:

(a) The company has been regular in depositing undisputed statutory dues in respect of Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Custom duty, cess and any other material statutory dues with the appropriate authorities during the year.

(b) According to information and explanation given to us there are no dues of Sales tax / Income-tax / Customs duty / wealth tax / Service tax/ excise duty and cess, which have not been deposited with the appropriate authorities on account of any dispute, except in case of income-tax which is as detailed below:

Forum where dispute is pending	**Nature of dues**	**Amount (Rs.)**	**Financial Year to which amount relates**
Income tax appellant tribunal	Corporate tax	17,117,248/-	1998-1999
Income tax appellant tribunal	Tax deducted at source	44,806,504/-	1999-2000
Income tax appellant tribunal	Corporate tax	13,514,013/-	1999-2000
Deputy commissioner of Income tax appeals	Corporate tax	12,024,891/-	2000-2001
Total		**87,462,656/-**	

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

xi) According to information and explanations given to us, there are no dues payable to a financial institution or bank or debenture holders.

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

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

xiv) According to the information and explanations given to us, there are no term loans obtained by the Company.

xv) According to information and explanations given to us and on an overall examination of the balance sheet of the Company, funds raised on short term basis have, prima facie, not been used during the year for long term investment (fixed assets, etc.).

xvi) The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.

xvii) The Company has not issued any debentures during the year.

xviii) The Company has not raised funds by way of public issues during the year.

xix) According to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells
Chartered Accountants

A B Jani
Partner
Membership No. 46488

Mumbai,
Dated: May 17, 2005

BALANCE SHEET AS AT MARCH 31, 2005

		Schedule	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
I.	SOURCES OF FUNDS :			
	SHAREHOLDERS' FUNDS:			
	Capital	I	**203,453,150**	202,728,110
	Reserves and Surplus	II	**4,624,778,688**	4,150,693,666
		TOTAL	**4,828,231,838**	4,353,421,776
II.	APPLICATION OF FUNDS :			
	FIXED ASSETS:	III		
	Gross Block		**2,841,185,187**	2,164,872,109
	Less : Depreciation		**1,140,672,013**	832,515,728
	Net Block		**1,700,513,174**	1,332,356,381
	Capital Work-in-Progress, including Advances		**70,489,653**	198,529,226
			1,771,002,827	1,530,885,607
	INVESTMENTS	IV	**1,149,347,396**	732,364,709
	DEFFERED TAX ASSET (NET)		**2,007,380**	2,566,318
	CURRENT ASSETS, LOANS AND ADVANCES:	V		
	Sundry Debtors		**2,174,167,977**	2,762,115,554
	Cash and Bank Balances		**1,221,740,574**	291,502,487
	Loans and Advances		**233,998,494**	293,957,458
			3,629,907,045	3,347,575,499
	Less : CURRENT LIABILITIES AND PROVISIONS:			
	Liabilities	VI	**1,117,684,188**	701,612,029
	Provisions	VII	**606,348,622**	558,358,328
			1,724,032,810	1,259,970,357
	Net Current Assets		**1,905,874,235**	2,087,605,142
		TOTAL	**4,828,231,838**	4,353,421,776
	SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	XI		

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

A. B. Jani
Partner

Mumbai,
Dated : May 17, 2005

For Mahindra - British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
Mr. Bharat Doshi - *Director*
Mr. Clive Goodwin - *Director*
Mr. Anupam Puri - *Director*

Mr. Vineet Nayyar - *Managing Director & CEO*
Mr. Al-Noor Ramji - *Director*
Dr. Raj Reddy - *Director*
Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

London,
Dated : May 9, 2005

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2005

	Schedule	**Year ended March 31, 2005 Rupees**	Year ended March 31, 2004 Rupees
INCOME	VIII	**9,295,929,886**	7,250,427,943
EXPENDITURE :			
Personnel	IX	**3,537,255,987**	2,139,082,578
Operating and Other Expenses	X	**4,071,256,731**	3,798,411,940
Depreciation		**315,269,326**	221,448,803
	TOTAL	**7,923,782,044**	6,158,943,321
PROFIT BEFORE TAXATION AND			
NON-RECURRING / EXCEPTIONAL ITEMS		**1,372,147,842**	1,091,484,622
Provision for Taxation (Refer note 16 of Schedule XI)			
- Current tax		**(142,248,589)**	(150,542,123)
- Deferred tax		**(558,938)**	332,935
PROFIT AFTER TAXATION AND BEFORE			
NON-RECURRING / EXCEPTIONAL ITEMS		**1,229,340,315**	941,275,434
Non - recurring / exceptional items (Refer note 5 of schedule XI)		**518,418,278**	-
(Net of tax Rs Nil)			
PROFIT FOR THE YEAR AFTER TAX AND			
NON-RECURRING/EXCEPTIONAL ITEMS		**710,922,037**	941,275,434
Excess provision for income-tax in respect of earlier years		**-**	38,121,167
Balance brought forward from previous year		**3,382,713,289**	2,925,942,077
Balance available for appropriation		**4,093,635,326**	3,905,338,678
Interim Dividend - I		**(121,658,250)**	(192,210,945)
Interim Dividend - II		**(101,537,765)**	(40,505,762)
Final Dividend		**-**	(141,909,677)
Dividend Tax		**(28,857,180)**	(47,999,005)
Transfer to General Reserve		**(88,000,000)**	(100,000,000)
Balance Carried to Balance Sheet		**3,753,582,131**	3,382,713,289
Earning Per Share (Refer note 18 of Schedule XI)			
- Basic		**6.99**	9.68
- Diluted		**6.23**	9.51
SIGNIFICANT ACCOUNTING POLICIES			
AND NOTES ON ACCOUNTS	XI		

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

A. B. Jani
Partner

Mumbai,
Dated : May 17, 2005

For Mahindra - British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
Mr. Bharat Doshi - *Director*
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Mr. Vineet Nayyar - *Managing Director & CEO*
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Dr. Raj Reddy - *Director*
Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

London,
Dated : May 9, 2005

CASH FLOW FOR THE YEAR ENDED MARCH 31, 2005

Particulars	Rupees	Current Year Rupees	Previous Year Rupees
A Cash Flow from operating activities			
Net Profit before taxation and non-recurring/exceptional items		**1,372,147,842**	1,091,484,622
Adjustments for:			
Depreciation	**315,269,326**		221,448,803
Loss /(Profit) on sale of Fixed Assets, (net)	**3,174,459**		(15,142,316)
Fixed Assets written off	**47,505**		1,307,004
Decrease in fair value of Current Investment	**155,364**		-
Exchange gain (net)	**(49,546,136)**		72,101,784
Dividend from current Investments	**(16,192,295)**		(24,161,847)
Interest Income	**(30,848,248)**		(30,038,678)
Profit on Sale of Investments	**(28,315)**		(7,511,264)
		222,031,660	218,003,486
Operating profit before working capital changes		**1,594,179,502**	1,309,488,108
Adjustments for:			
Trade and other receivables	**497,103,502**		(1,117,983,965)
Trade and other payables	**494,791,062**		192,289,175
		991,894,564	(925,694,790)
Cash generated from operations		**2,586,074,066**	383,793,318
Direct Taxes	**(26,684,089)**		16,423,646
		(26,684,089)	16,423,646
Net cash from operating activities		**2,559,389,977**	400,216,964
B Cash flow from investing activities			
Purchase of Fixed Assets	**(546,608,653)**		(282,628,487)
Purchase of Investments	**(1,439,361,644)**		(823,739,664)
Sale of Investments	**656,825,066**		468,124,401
Sale of Fixed Assets	**1,239,951**		18,840,229
Interest received	**29,218,788**		33,076,853
Dividend received	**16,192,295**		31,673,111
Net cash used in investing activities		**(1,282,494,197)**	(554,653,555)
C Cash flow from financing activities			
Proceeds from issue of Shares (including Share Premium)	**15,941,220**		12,715,200
Dividend (including Dividend Tax paid)	**(412,145,049)**		(558,935,576)
Net cash used in financing activities		**(396,203,829)**	(546,220,376)
Net increase/(decrease) in cash and cash equivalents (A+B+C)		**880,691,951**	(700,656,967)
Cash and cash equivalents at the beginning of the year		**342,797,470**	1,043,454,437
Cash and cash equivalents at the end of the year		**1,223,489,421**	342,797,470

Notes :

1. Components of cash and cash equivalents include cash, bank balances in current and deposit accounts as disclosed under Schedule V of the accounts.

2. Purchase of fixed assets are stated inclusive of movements of capital work-in-progress between the commencement and end of the year and are considered as part of investing activity.

	March 31, 2005 Rs.	March 31, 2004 Rs.
3. Cash and cash equivalents includes :		
Cash and Bank Balances	**1,221,740,574**	291,502,487
Unrealised gain on foreign currency		
Cash and cash equivalents	**1,748,847**	51,294,983
Total Cash and Cash equivalents	**1,223,489,421**	342,797,470

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

A. B. Jani
Partner

Mumbai,
Dated : May 17, 2005

For Mahindra - British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
Mr. Bharat Doshi - *Director*
Mr. Clive Goodwin - *Director*
Mr. Anupam Puri - *Director*

London,
Dated : May 9, 2005

Mr. Vineet Nayyar - *Managing Director & CEO*
Mr. Al-Noor Ramji - *Director*
Dr. Raj Reddy - *Director*
Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

SCHEDULES FORMING PART OF THE BALANCE SHEET

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE I			
SHARE CAPITAL :			
Authorised :			
125,000,000 Equity Shares of Rs. 2/- each		**250,000,000**	250,000,000
		250,000,000	250,000,000
Issued and Subscribed :			
101,726,575 (previous year 101,364,055)			
Equity Shares of Rs. 2/- each fully paid-up		**203,453,150**	202,728,110
	TOTAL	**203,453,150**	202,728,110
1. Out of above, 57,600,060 (including 200 held with nominees) Equity shares of Rs.2/- each fully paid up are held by Mahindra & Mahindra Limited, the holding company.			
2. The above includes 51,000,100 and 25,000,000 Equity Shares of Rs. 2/- each issued as fully paid-up bonus shares by capitalisation of balance of Profit and Loss Account and General Reserve, respectively			
SCHEDULE II			
RESERVES AND SURPLUS:			
General Reserve :			
As per last Balance Sheet	**630,430,284**		530,430,284
Add : Transfer from Profit and Loss Account	**88,000,000**		100,000,000
		718,430,284	630,430,284
Securities Premium :			
As per last Balance Sheet	**137,550,093**		125,424,293
Add : Received during the year	**15,216,180**		12,125,800
		152,766,273	137,550,093
Balance in Profit and Loss Account		**3,753,582,131**	3,382,713,289
	TOTAL	**4,624,778,688**	4,150,693,666

SCHEDULES FORMING PART OF THE BALANCE SHEET (contd.)

SCHEDULE III

FIXED ASSETS :

Description of Assets	GROSS BLOCK Cost as at April 01, 2004	Additions during the year	Deductions during the year	Cost as at March, 31 2005	DEPRECIATION Upto March 31, 2004	For the year	Deductions during the year	Upto March 31, 2005	NET BLOCK As at March,31 2005	As at March 31, 2004
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Leased Assets :										
Vehicles	45,759,579	46,106,679	10,308,820	**81,557,438**	9,553,101	13,827,694	6,070,027	**17,310,768**	**64,246,670**	36,206,478
(Refer Note 11 of Schedule XI)										
Other Assets :										
Office Building / Premises	1,139,784,302	270,493,508	-	**1,410,277,810**	236,035,085	84,846,212	-	**320,881,297**	**1,089,396,513**	903,749,217
Computers	466,736,180	149,881,505	316,085	**616,301,600**	317,344,072	97,875,745	140,468	**415,079,349**	**201,222,251**	149,392,108
Plant and Machinery	262,380,591	93,709,405	-	**356,089,996**	138,366,369	54,007,280	-	**192,373,649**	**163,716,347**	124,014,222
Furniture and Fixtures	249,261,406	127,696,937	-	**376,958,343**	130,314,555	64,712,395	-	**195,026,950**	**181,931,393**	118,946,851
Vehicles	950,051	-	950,051	**-**	902,546	-	902,546	**-**	**-**	47,505
Total	**2,164,872,109**	**687,888,034**	**11,574,956**	**2,841,185,187**	**832,515,728**	**315,269,326**	**7,113,041**	**1,140,672,013**	**1,700,513,174**	**1,332,356,381**
Previous year	1,934,493,360	519,220,044	288,841,295	2,164,872,109	894,903,303	221,448,803	283,836,378	832,515,728	1,332,356,381	

Note: Fixed assets include certain leased vehicles aggregating to Rs 74,754,716 (previous year Rs.28,648,037) on which vendors have a lien.

SCHEDULES FORMING PART OF THE BALANCE SHEET (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE IV			
INVESTMENTS (AT COST)			
Long Term(unquoted)			
Trade:			
In Wholly Owned Subsidiary Companies :			
375,000 Ordinary Shares of US$ 1 each fully paid-up of MBT International Incorporated, U.S.A.	**11,794,500**		11,794,500
Less : Provision for Dimunition	**11,794,500**		-
(Refer Note 5 of Schedule XI)		**-**	11,794,500
3 Shares of Euro 25,000, 50,000 & 500,000 each, fully paid-up of MBT GmbH, Germany ***	**388,827,375**		268,135,500
Less : Provision for Dimunition	**353,632,342**		-
(Refer Note 5 of Schedule XI)		**35,195,033**	268,135,500
5,000 Shares of Singapore $ 10 each fully paid-up of MBT Software Technologies Pte Ltd, Singapore		**1,371,976**	1,371,976
Current Investments (at lower of cost and fair value) (Refer note 19 a of schedule XI)			
Non Trade :			
101,396.50 (previous year 30,276.37) units of Rs 1001.10 (previous year Rs. 1,024.24) each of Franklin Templeton Mutual Fund- Institutional Income Plan	**101,508,060**		31,010,373
Nil (previous year 24,883.98) units of Rs 1,024.92 each of Franklin Templeton Mutual Fund- Monthly Dividend Plan	**-**		25,504,026
Nil (previous year 2,562,050.47) units of Rs. 12.40 each of DSP Merrill Lynch Liquidity Fund - Weekly Dividend	**-**		31,780,656
1,030,408.52 (previous year 1,006,629.00) units of Rs. 10.23 each of DSP Merrill Lynch - Short Term Fund - Dividend	**10,546,124**		10,301,365
3,113,621.34 (previous year 3,041,765.94) units of Rs. 10.21 (previous year Rs. 10.21) each of DSP Merrill Lynch - Short Term Fund	**31,780,197**		31,040,599
8,116,274.55 (previous year Nil) units of Rs. 10.03 each of DSP Merrill Lynch - Floating Rate - Weekly Dividend	**81,429,837**		-
4,315,175.02 (previous year 2,791,791.41) units of Rs.11.84 (previous year Rs. 11.83) each of Prudential ICICI Mutual Fund-Liquid Income Plan	**51,109,288**		33,032,197
1,119,449.83 (previous year 1,078,129.84) units of Rs. 10.85 (previous year Rs. 10.85) each of Prudential ICICI Mutual Fund-Institutional Short Term Plan	**12,150,841**		11,702,182
4,748,969.47 (previous year Nil) units of Rs. 10.53 each of Prudential ICICI Mutual Fund-FMP Yearly Growth Plan	**50,000,000**		-
9,313,161.61 (previous year 5,011,003.66) units of Rs 10.81 (previous year Rs. 10.49) each of Birla Mutual Fund - Institutional Plan	**100,705,538**		52,590,970
Nil (previous year 1,097,493.80) units of Rs. 10.18 each of HSBC Mutual Fund-Growth Investment Plan	**-**		11,180,280

SCHEDULES FORMING PART OF THE BALANCE SHEET (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE IV (contd.)			
6,749,441.71 (previous year 4,825,565.75) units of Rs. 10.45 (previous year Rs.10.53) each of HSBC Mutual Fund - Short Term Institutional Fund	**70,536,265**		50,804,832
Nil (previous year 5,321,726.44) units of Rs. 10.10 each of Deutsche Mutual Fund - Growth Plan	**-**		53,754,706
2,696,842.37 (previous year 2,606,236.89) units of Rs.10.02 (previous year Rs.10.01) each of J M Mutual Fund- Short Term Institutional Plan	**27,013,492**		26,094,064
5,035,302.57 (previous year Nil) units of Rs.10.02 (previous year Rs.Nil) each of J M Mutual Fund- High Liquidity Super Institutional Plan	**50,449,649**		-
3,034,216.23 (previous year Nil) units of Rs. 10.00 each of Kotak Floater Long Term - Weekly Dividend	**30,353,388**		-
5,048,809.48 (previous year 2,656,823.77) units of Rs. 10.03 (previous year Rs.10.02) each of Kotak Mutual Fund - Liquid Institiutional Plan	**50,623,936**		26,619,238
1,066,927.90 (previous year Nil) units of Rs.10.04 each of Principle Mutual Fund - Institutional Plan Dividend Reinvestment Monthly	**10,712,914**		-
4,032,914.19 (previous year Nil) units of Rs.10.0213 each of Principal Mutual Fund - Floating Rate Fund SMP	**40,415,043**		-
Nil (previous year 1,015,868.98) units of Rs. 10.16 each of Principal Mutual Fund - Monthly Short Term Plan	**-**		10,323,041
3,310,999.22 (previous year Nil) units of Rs. 15.28 each of Reliance Mutual Fund-Treasury Plan Institutional Option	**50,586,064**		-
2,000,000 (previous year Nil) units of Rs. 10.00 each of Reliance Mutual Fund-Fixed Term Quarterly Plan Dividend Option	**20,000,000**		-
5,000,000 (previous year Nil) units of Rs. 10.00 each of Reliance Mutual Fund-FMP	**50,000,000**		-
2,000,000 units of Rs. 10.00 (previous year Rs.10.00) each of Reliance Mutual Fund-Growth Plan	**20,000,000**		20,000,000
9,507,961.29 (previous year Nil) units of Rs.10.63 each of HDFC Cash Management Fund Weekly Dividend	**101,090,809**		-
4,409,628.75 (previous year Nil) units of Rs.11.49 each of Chola Fund Liquid Institutional Plus-Dividend Option	**50,676,570**		-
9,811,360.90 (previous year 2,522,066.63) units of Rs. 10.30 (previous year Rs.10.04) each of Standard Chartered Mutual Fund Weekly Dividend Plan	**101,092,372**		25,324,204
		1,112,780,387	451,062,733
	TOTAL	**1,149,347,396**	732,364,709

*** includes Rs. 359,806,875 (previous year Rs. 239,115,000) invested towards capital reserve of the company in accordance with the German Commercial Code

Note :

Refer Note 19 b of schedule XI for additional information

SCHEDULES FORMING PART OF THE BALANCE SHEET (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE V			
CURRENT ASSETS, LOANS AND ADVANCES :			
Current Assets :			
(a) Sundry Debtors * :			
(Unsecured)			
Debts outstanding for a period exceeding six months:			
: considered good		189,209,996	225,787,416
: considered doubtful		168,090,993	10,896,553
		357,300,989	236,683,969
Other debts, considered good		1,984,957,981	2,536,328,138
		2,342,258,970	2,773,012,107
Less: Provision (Refer note 5 of schedule XI)		168,090,993	10,896,553
		2,174,167,977	2,762,115,554
* Debtors include unbilled revenue of Rs. 346,914,306 (previous year Rs.317,587,920)			
(b) Cash and Bank Balances :			
Balance with Scheduled banks :			
(i) In Current accounts	766,477,954		122,011,418
(ii) In Fixed Deposit accounts	451,024,771		157,371,268
Balance with other banks :			
With Commonwealth Bank of Australia @			
In Current accounts	4,237,849		12,119,801
		1,221,740,574	291,502,487
@ Maximum balance outstanding during the year : Current Account - Rs. 28,822,855 (previous year Rs.19,938,601)			
(c) Loans and Advances :			
(Unsecured)			
Loans and advances to subsidiary companies		-	5,653,987
Bills of Exchange (considered doubtful)	5,000,000		5,000,000
Less: Provision	5,000,000		5,000,000
		-	
Advances recoverable in cash or in kind or for value to be received........considered good	233,998,494		288,303,471
........considered doubtful	3,758,992		2,283,962
	237,757,486		290,587,433
Less : Provision	3,758,992		2,283,962
		233,998,494	288,303,471
		233,998,494	293,957,458
	TOTAL	3,629,907,045	3,347,575,499

SCHEDULES FORMING PART OF THE BALANCE SHEET (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE VI			
CURRENT LIABILITIES :			
Sundry Creditors :			
Total outstanding dues to			
Small Scale Industrial Undertakings		**-**	-
Total outstanding dues of Creditors other than Small Scale			
Industrial Undertakings *		**1,117,684,188**	701,612,029
* includes -			
Rs.48,471,143 (previous year Rs.83,233,800)			
due to MBT International Inc, USA a subsidiary company			
Rs.54,921,003 (previous year Rs.23,689,825) due to			
MBT GmbH, a subsidiary company			
Rs. 58,798 (previous year Rs.42,58,025) due to			
MBT Software Technologies Pte Ltd., a subsidiary company			
	TOTAL	**1,117,684,188**	701,612,029
SCHEDULE VII			
PROVISIONS :			
Provision for taxation (net of payments)		**349,598,609**	202,816,474
Proposed Dividends		**-**	141,909,677
Provision for Dividend tax		**-**	18,182,177
Provision for Gratuity		**118,375,000**	90,865,000
Provision for Leave Encashment		**138,375,013**	104,585,000
	TOTAL	**606,348,622**	558,358,328

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT

	Rupees	Year ended March 31, 2005 Rupees	Year ended March 31, 2004 Rupees
SCHEDULE VIII			
INCOME :			
Income from services (net)	9,190,808,613		7,066,766,987
[Tax deducted at source Rs. 9,283,236			
(previous year Rs.2,428,297)]			
Management fees (Net)	32,565,075		48,249,172
		9,223,373,688	7,115,016,159
Interest on :			
Deposits with banks	30,258,995		28,517,903
[Tax deducted at source Rs.2,494,297			
(previous year Rs.3,494,580)]			
Others [Tax deducted at source Rs.53,839	589,253		1,520,775
(previous year Rs.10,705)]		30,848,248	30,038,678
Dividend received on current investments		16,192,295	24,161,847
Profit on sale of investments		28,315	7,511,264
Exchange fluctuations (Net)		13,323,871	-
Profit on sale of fixed assets (Net)		-	15,142,316
Excess provisions for earlier years /			
sundry credit balances written back		220,779	48,620,611
Provision for doubtful debts/advances written back		8,502,342	2,224,488
Insurance claim received		107,312	117,082
Miscellaneous income		3,333,036	7,595,498
	TOTAL	9,295,929,886	7,250,427,943
SCHEDULE IX			
PERSONNEL :			
Salaries, wages and bonus (Refer note 13 of Schedule XI)		3,134,319,663	1,973,548,143
Contribution to provident and other funds		253,907,360	84,338,344
Staff welfare		149,028,964	81,196,091
	TOTAL	3,537,255,987	2,139,082,578

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT (contd.)

	Rupees	As at March 31, 2005 Rupees	As at March 31, 2004 Rupees
SCHEDULE X			
OPERATING AND OTHER EXPENSES :			
Power		**46,987,908**	31,485,563
Rent		**138,597,626**	97,467,299
Rates and taxes		**4,559,252**	8,996,810
Communication expenses		**209,278,851**	143,504,352
Travelling expenses [Net of recoveries Rs.51,187,284 (previous year Rs.41,579,385)]		**2,022,590,973**	2,330,036,595
Recruitment expenses		**32,125,277**	55,652,936
Hire charges [includes car lease rentals Rs.6,090,745 (previous year Rs.7,100,026)]		**118,485,525**	99,172,729
Sub-contracting costs		**955,595,123**	514,889,433
Repairs and maintenance :			
Buildings (including leased premises)	**14,689,134**		14,028,151
Machinery	**22,011,760**		14,820,303
Others	**19,202,163**		15,863,072
		55,903,057	44,711,526
Insurance		**14,419,746**	10,408,722
Professional fees		**94,398,461**	108,068,511
Software packages [Net of software recovery Rs.Nil (previous year Rs. 14,380,704)]		**80,029,919**	51,996,015
Training		**71,425,395**	69,536,051
Advertising, marketing and selling expenses		**46,335,716**	26,344,221
Commission on services income		**34,378,472**	64,309,523
Loss on sale of fixed assets (Net)		**3,174,459**	-
Excess of cost over fair value of current investments (Refer note 19 a of schedule XI)		**155,364**	-
Provision for doubtful debts/advances		**14,180,376**	3,213,138
Fixed assets written off		**47,505**	1,307,004
Advances / bad debts written off		**13,397,660**	2,233,489
Exchange fluctuations (Net)		**-**	17,354,271
Miscellaneous expenses *		**115,190,066**	117,723,752
	TOTAL	**4,071,256,731**	3,798,411,940

* includes Printing and stationery expenses, hospitality expenses, conveyance, etc.

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

SCHEDULE XI

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2005

1. Significant accounting policies:

(a) Basis for preparation of accounts:

The accounts have been prepared to comply in all material aspects with applicable accounting principles in India, the Accounting Standards issued by The Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

(b) Use of Estimates:

The preparation of financial statements, in conformity with the generally accepted accounting principles, requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of financial statements and the reported amounts of revenues and expenses during the reported year. Differences between the actual results and estimates are recognised in the year in which the results are known/materialised.

(c) Fixed Assets:

All fixed assets are stated at cost less depreciation. Costs comprise of purchase price and attributable costs, if any.

(d) Assets taken on lease:

Assets taken on finance lease on or after April 1, 2001 are accounted for as fixed assets in accordance with Accounting Standard 19 on “leases”, AS 19 issued by The Institute of Chartered Accountants of India. Accordingly, the assets have been accounted at fair value. Lease payments are apportioned between finance charge and reduction of outstanding liability.

(e) Depreciation on fixed assets:

The Company computes depreciation for all fixed assets including for assets taken on lease using the straight-line method based on estimated useful lives. Depreciation is charged on a pro-rata basis for assets purchased or sold during the year. Management’s estimate of the useful life of fixed assets is as follows..

Buildings	15 years
Computers	3 years
Plant and machinery	3-5 years
Furniture and fixtures	5 years
Vehicles	5 years

(f) Impairment of Assets

At the end of each year, the company determines whether a provision should be made for impairment loss on fixed assets by considering the indications that an impairment loss may have occurred in accordance with Accounting Standard 28 on ‘‘Impairment of Assets’’ issued by The Institute of Chartered Accountants of India. Where the recoverable amount of any fixed asset is lower than its carrying amount, a provision for impairment loss on fixed assets is made for the difference.

(g) Investments:

Current investments are carried at lower of cost and fair value (Refer note 19 a below). Long term investments are carried at cost. Provision is made to recognise a decline other than temporary in the carrying amount of long term investment.

(h) Revenue recognition:

Revenue from software consists primarily of revenue earned from services performed on ‘time and material’ basis. The related revenue is recognized as and when services are performed. Income from services performed by the Company pending receipt of purchase orders from customers, which are invoiced subsequently on receipt thereof, are recognized as unbilled revenue.

The Company also performs time bound fixed –price engagements, under which revenue is recognized using the percentage of completion method of accounting, unless work completed cannot be reasonably estimated.

Dividend income is recognized when the Company’s right to receive dividend is established. Interest income is recognized on time proportion basis.

(i) Foreign currency transactions:

Transactions in foreign currencies are recorded at the exchange rates prevailing on the date of transaction. Current assets and current liabilities are translated at the year-end rates, except, where they are covered by a forward cover, at the transaction rate. The exchange difference between the rate prevailing on the date of transaction and on the date of settlement as also on translation of current assets and current liabilities at the end of the year, is recognised as income or expense, as the case may be, except in case of fixed assets where it is adjusted to the cost of fixed assets. In case of forward contracts, the exchange difference between the forward rate and the exchange rate at the date of transaction is recognised as income or expense over the life of the contract, except in the case of fixed assets where it is adjusted to the cost of fixed assets.

(j) Retirement Benefits:

Provision is made for gratuity and encashment of unavailed leave on retirement on the basis of actuarial valuations.

(k) Income taxes:

Income taxes are accounted for in accordance with Accounting Standard 22 on "Accounting For Taxes on Income", issued by The Institute of Chartered Accountants of India. Tax expense comprises both current and deferred tax. Current tax is measured at the amount expected to be paid to/ recovered from the tax authorities, using the applicable tax rates. Deferred tax assets and liabilities are recognised for future tax consequences attributable to timing differences between taxable income and accounting income that are capable of reversal in one or more subsequent years and are measured using relevant enacted tax rates. The carrying amount of deferred tax assets at each Balance sheet date is reduced to the extent that it is no longer reasonably certain that sufficient future taxable income will be available against which the deferred tax asset can be realized.

(l) Contingent Liabilities:

These, if any, are disclosed in the notes and accounts. Provision is made in the accounts if it becomes probable that any outflow of resources embodying economic benefits will be required to settle the obligation.

2. The estimated amount of contracts remaining to be executed on capital account, and not provided for as at March 31, 2005 **Rs. 92,431,940 (**Previous year: Rs. 5,814,402).

3. Contingent liabilities:

i) Income tax demands disputed in appeal by the Company **Rs. 87,462,656** (Previous year Rs. 87,462,656) awaiting decision.

ii) Bank Guarantees outstanding **Rs. 47,362,405** (Previous year: Rs. 43,477,427)

4. Confirmation letters have been sent to the debtors and creditors of the Company and their balances are subject to reconciliation and consequent adjustments, if any, on receipt of such confirmations.

5. The company holds investments (unquoted) in two subsidiaries, viz., MBT International Incorporated, USA (MBTI) and MBT GmbH, Germany (MBTG) aggregating to **Rs. 11,794,500** and **Rs. 388,827,375** respectively (Refer Schedule IV), which are held as long-term strategic investments. Further, the company has trade receivables aggregating to **Rs. 462,967,657** from MBTI.

As per the latest available audited accounts of the aforesaid companies as at March 31, 2005, their respective net worth have been fully/substantially eroded. These subsidiaries have incurred losses due to substantial costs incurred over the past few years in building marketing capabilities but have made operating profits during the last quarter. Moreover, the subsidiaries have growth plans and expect to continue to earn profits in subsequent years resulting into positive net worth over a period of time.

Considering the above, out of abundant caution, the company has made provisions, to the extent of accumulated losses in these subsidiaries aggregating, to **Rs. 11,794,500** and **Rs. 353,632,342** towards diminution in the value of investments in MBTI and MBTG respectively and **Rs.152,991,436** towards debts recoverable from MBTI.

6. Payment to Auditors:

Particulars	**2005 Rupees**	2004 Rupees
1. Audit Fees	**850,000**	850,000
2. Audit of accounts as per USGAAP	**150,000**	150,000
3. As advisor or in any other capacity in respect of taxation and accounting matters	**250,000**	550,000
4. In any other manner for certification etc.	**365,000**	105,000
5. For expenses	**116,663**	44,603
6. For Service Tax	**111,185**	143,850
Total	**1,842,848**	1,843,453

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (Contd.)

7. (a) Value of Imports on C.I.F. Basis:

Particulars	**2005 Rupees**	2004 Rupees
Capital goods [includes Rs. 17,826,100 (Previous year Rs. 40,979,153) towards assets purchased in UK office]	**94,955,133**	96,722,359

(b) Expenditure in Foreign Currency:

Particulars	**2005 Rupees**	2004 Rupees
Professional Fees	**64,653,812**	78,654,550
Subcontracting cost	**803,409,635**	465,224,872
Traveling Expenses	**291,404,717**	1,808,807,799
Salaries	**1,223,572,940**	606,081,523
Software Packages	**40,133,442**	25,008,682
Others [including UK Corporation Tax **Rs. 86,269,405** (Previous year Rs.62,738,070) and Australia Tax **Rs. Nil** (Previous year Rs. 770,084)]	**582,845,703**	475,707,189
	3,006,020,249	3,459,484,615

8. Remittance in foreign currency on account of dividends to Non-Resident shareholders:

Number of Shareholders		Number of Equity Shares	Amount remitted Rupees	Dividend relating to Year ended
2004-2005				
Four	Final	43,502,015	60,902,821	March 31, 2004
Four	Interim – 1	43,502,015	52,202,418	March 31, 2005
Three	Interim – 2	43,528,325	43,528,325	March 31, 2005
2003-2004				
One	Final	43,452,635	112,976,851	March 31, 2003
Three	Interim – 1	43,502,015	82,679,828	March 31, 2004
One	Interim – 2	43,502,015	17,400,806	March 31, 2004

9. Earnings in Foreign Exchange:

Particulars	**2005 Rupees**	2004 Rupees
Income from Services	**9,162,196,652**	7,054,397,361
Management Fees (Net)	**32,565,075**	48,249,172
Interest on Fixed Deposit	**4,941,839**	9,464,497

10. Managerial Remuneration paid to Managing Director, Executive Director and Non-Executive Directors:

Particulars	**2005 Rupees**	2004 Rupees
Managerial Remuneration	**8,188,440**	9,060,753
Commission	**11,912,300**	12,929,150
Total	**20,100,740**	21,989,903

The above remuneration excludes provision for gratuity and leave encashment since these are based on actuarial valuation done on an overall company basis.

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

Computation of Net Profit in accordance with Section 309(5) of the Companies Act, 1956, for the year ended March 31, 2005.

Particulars	Rupees	2005 Rupees	2004 Rupees
Profit before Tax and Exceptional Items as per Profit and Loss Account		**1,372,147,842**	1,091,484,622
Add :			
Depreciation charged in the accounts	**315,269,326**		221,448,803
Fixed assets written off	**47,505**		1,307,004
(Loss)/ Profit on sale of assets as per section 349 of the Companies Act, 1956 (Net)	**(3,174,459)**		15,142,316
Director's Remuneration	**20,100,740**		21,989,903
Provision for Doubtful Debts and Advances	**14,180,376**		3,213,138
		346,423,488	263,101,164
		1,718,571,330	1,354,585,786
Less :			
(Loss)/ Profit on sale of assets as per books	**(3,174,459)**		15,142,316
Depreciation u/s 350 of Companies Act, 1956	**315,269,326**		221,448,803
Fixed assets written off as per section 349 of the Companies Act, 1956 (Net)	**47,505**		1,307,004
Provision for doubtful debts/advances written back	**8,502,342**		2,224,488
		320,644,714	240,122,611
Total		**1,397,926,616**	1,114,463,175
Commission payable to the Managing Director and Executive Director.		**4,700,000**	4,600,000
Commission payable to non-executive directors		**7,212,300**	8,329,150

11. Assets acquired on Lease on or after April 1, 2001:

The Company has acquired vehicles on lease, the fair value of which aggregates to Rs. 81,557,438. As per Accounting Standard 19 (AS-19) on Leases, issued by The Institute of Chartered Accountants of India the Company has capitalised the said vehicles at their fair values as the leases are in the nature of finance leases as defined in AS-19. Lease payments are apportioned between finance charge and deduction of outstanding liabilities. The details of lease rentals payable in future are as follows:

	Not later than 1 year	**Later than 1 year not later than 5 years**
Minimum Lease rentals payable (Previous year Rs. 12,332,328 and Rs. 18,958,668 respectively)	22,372,588	33,467,813
Present value of Lease rentals payable (Previous year Rs. 11,186,800 and 14,662,662 respectively)	20,294,438	26,209,591

12. As per Accounting Standard 17 (AS-17) on Segment reporting issued by The Institute of Chartered Accountants of India, the Primary Segment of the Company is Geographical by location of customers. The Secondary Segments are identified based on the line of operations of the Company. The Accounting principles consistently used in the preparation of the financial statements are also applied to record income and expenditure in individual segments. There are no inter-segment transactions during the year.

The Primary Geographical segments of the Company consist of regions of Europe, United States of America (USA) and Asia Pacific (APAC). The Secondary Segments consist of services provided in the Telecom sector and other sectors.

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

A. PRIMARY SEGMENTS:

(in Rupees)

As on 31st March, 2005	GEOGRAPHICAL SEGMENTS BASED ON LOCATION OF CUSTOMERS			
PARTICULARS	EUROPE	USA	APAC	TOTAL
REVENUES	8,328,655,793	549,892,570	344,825,325	9,223,373,688
DIRECT EXPENSES	4,674,609,609	379,645,849	213,791,702	5,268,047,160
SEGMENTAL OPERATING INCOME	3,654,046,184	170,246,721	131,033,623	3,955,326,528
UNALLOCABLE EXPENSES				
1. Depreciation				315,269,326
2. Other Unallocable Expenses				2,340,465,558
Total				2,655,734,884
OPERATING INCOME				1,299,591,644
Other Income				72,556,198
NET PROFIT BEFORE TAX & NON-RECURRING / EXCEPTIONAL ITEMS				1,372,147,842
INCOME TAXES				
- Current				(142,248,589)
- Deferred				(558,938)
NET PROFIT AFTER TAX & BEFORE NON-RECURRING / EXCEPTIONAL ITEMS				**1,229,340,315**
Non Recurring / exceptional items				518,418,278
NET PROFIT AFTER TAX & NON RECURRING / EXCEPTIONAL ITEMS				**710,922,037**

Segregation of assets, liabilities, depreciation and other non-cash expenses into various primary segments has not been done as the assets are used interchangeably between segments and the Company is of the view that it is not practical to reasonably allocate liabilities and other non-cash expenses to individual segments and an adhoc allocation will not be meaningful.

B. SECONDARY SEGMENTS:

Revenues from secondary segments are as under –

Sector	**Amount in Rs.**
Telecom	9,223,373,688
Others	-
Total	**9,223,373,688**

Segregation of assets into secondary segments has not been done as the assets are used interchangeably between segments. Consequently the carrying amounts of assets by location of assets is not given.

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SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

A. PRIMARY SEGMENTS:

(in Rupees)

As on 31st March, 2004	GEOGRAPHICAL SEGMENTS BASED ON LOCATION OF CUSTOMERS			
PARTICULARS	**EUROPE**	**USA**	**ROW**	**TOTAL**
REVENUES	6,467,741,110	490,446,142	156,828,907	7,115,016,159
DIRECT EXPENSES	4,013,943,263	329,065,020	81,656,492	4,424,664,775
SEGMENTAL OPERATING INCOME	2,453,797,847	161,381,122	75,172,415	2,690,351,384
UNALLOCABLE EXPENSES				
1. Depreciation				221,448,803
2. Other Unallocable Expenses				1,512,829,743
Total				1,734,278,546
OPERATING INCOME				956,072,838
Other income				135,411,784
NET PROFIT BEFORE TAXES				1,091,484,622
INCOME TAXES				
- Current				(150,542,123)
- Deferred				332,935
NET PROFIT AFTER TAXES				941,275,434

Segregation of assets, liabilities, depreciation and other non-cash expenses into various primary segments has not been done as the assets are used interchangeably between segments and the Company is of the view that it is not practical to reasonably allocate liabilities and other non-cash expenses to individual segments and an adhoc allocation will not be meaningful.

B. SECONDARY SEGMENTS:

Revenues from secondary segments are as under –

Sector	**Amount in Rs.**
Telecom	6,777,052,891
Others	337,963,268
Total	**7,115,016,159**

Segregation of assets into secondary segments has not been done as the assets are used interchangeably between segments. Consequently the carrying amounts of assets by location of assets is not given.

13. Salaries, Wages, Bonus includes provision for Gratuity **Rs. 27,510,000** (Previous year Rs. 24,458,000), Encashment of unavailed leave **Rs. 33,790,013** (Previous year Rs. 27,421,000).

14. A) The Company has instituted " Employee Stock Option Plan 2000" (ESOP) for its employees and directors. For this purpose it had created a trust viz. MBT ESOP trust. In terms of the said Plan, the trust has granted options to the employees and directors in form of warrant which vest at the rate of 33.33% on each successive anniversary of the grant date. The options can be exercised over a period of 5 years from the date of grant. Each warrant carries with it the right to purchase one equity share of the Company at the exercise price determined by the trust on the basis of fair value of the equity shares at the time of grant.

The details of the options are as under:

	March 31, 2005	March 31, 2004
Options outstanding at the beginning of the year	**1,818,080**	2,140,350
Options granted during the year	**832,500**	-
Options lapsed during the year	**58,320**	27,570
Options exercised during the year	**362,520**	294,700
Options outstanding at the end of the year	**2,229,740**	1,818,080

Out of the options outstanding at the end of the year, **1,357,380** (Previous year 1,548,630) options have vested, which have not been exercised.

B) During the period the Company has instituted " Employee Stock Option Plan 2004" (ESOP 2004) for its employees. In terms of the said Plan, the Compensation Committee has granted options to employees of the Company. The options are divided into Upfront options and Performance options. The Upfront Options are divided into three sets which will entitle holders to subscribe to option shares at the end of First year, Second year and Third year. The vesting of the Performance Options will be decided by the Compensation Committee based on the performance of employees.

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

Options granted and outstanding at the end of the period are 10,219,860.
None of the said options have vested as at the end of the period.

15. As required under Accounting Standard 18 (AS -18), following are details of transactions during the year with the related parties of the Company as defined in AS -18:

(a) List of Related Parties and Relationships

Name of Related Party	Relation
Mahindra & Mahindra Limited	Holding Company
Mahindra Information Technolgy Services Limited	Promoter holding more than 20% stake for part of the previous year
British Telecommunications Plc.	Promoter holding more than 20% stake
MBT International Inc, USA	100% subsidiary company
MBT GmbH, Germany	100% Subsidiary company
MBT Software Technologies Pte Ltd, Singapore	100% Subsidiary company
Mahindra Engineering and Chemical Products Limited	Fellow Subsidiary Company
Mahindra Engineering Design and Development Company Limited	Fellow Subsidiary Company
Bristlecone India Limited (Formerly known as Mahindra Consulting Limited)	Fellow Subsidiary Company
Mahindra Consulting Inc.	Fellow Subsidiary Company
Bristlecone UK Limited (Formerly known as Mahindra Intertrade UK Limited)	Fellow Subsidiary Company
Mahindra Holidays & Resorts India Limited	Fellow Subsidiary Company
Mr. Robert John Helleur* Executive Director and Chief Executive Officer	Key Management Personnel
Mr. Vineet Nayyar* Managing Director and Chief Executive Officer	Key Management Personnel

* Part of the year

(b) Related Party Transactions :

Transactions	Promoter Companies	Subsidiary Companies	Fellow subsidiary Companies	Key Management Personnel
	Rupees	Rupees	Rupees	Rupees
Reimbursement of Expenses (Net) -Paid/(Receipt)	(43,642,006) [(35,470,730)]	192,245,525 [192,811,427]	119,746 [3,425]	- [-]
Income from Services & Management Fees	7,933,535,493 [5,860,988,641]	612,965,861 [501,394,838]	1,525,000 [1,200,000]	- [-]
Interest on Loan	- [-]	- [343,225]	- [-]	- [-]
Commission on Sales	- [-]	34,378,472 [39,549,787]	- [-]	- [-]
Sub-contracting cost	- [-]	212,939,120 [-]	5,841,954 [5,286,080]	- [-]
Dividend Paid	363,789,702 [232,421,273]	- [-]	- [-]	152,652 [82,846]
Investment	- [-]	120,691,875 [239,115,000]	- [-]	- [-]
Provision for diminution in value of investment	- [-]	365,426,842 [-]	- [-]	- [-]
Loan Given/ (Repaid)	- [-]	- [(5,823,902)]	- [-]	- [-]
Salary and Perquisites	- [-]	- [-]	- [-]	8,188,440 [12,458,353]
Sale of Fixed Assets	- [-]	- [-]	- [8,100,000]	- [-]
Provision for diminution in value of debtors	- [-]	152,991,436 [-]	- [-]	- [-]
Debit / (Credit) balances (Net) outstanding as on March 31, 2005	1,707,318,367 [2,132,843,800]	277,848,490 [265,365,219]	(908,470) [(1,286,618)]	- [(821,087)]

(Figures in brackets “[ ]”are for the previous year)

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

Out of the above items transactions with Promoter Companies, Subsidiary Companies and Key Management Personnel in the excess of 10% of the total related party transactions are as under:

(Amount in Rupees)

Transactions		**For the year ended March 31,2005**	For the year ended March 31,2004
Reimbursement of Expenses (net) - Paid/(Receipt)			
Promoter Companies			
- British Telecommunications Plc.	**(51,069,289)**		(59,687,300)
Subsidiary Companies			
- MBT International Inc.	**313,421,814**		195,910,997
- MBT GmbH	**93,412,582**		6,191,181
		355,765,107	142,414,878
Income from Services			
Promoter Companies			
- British Telecommunications Plc.		**7,949,298,612**	5,858,684,031
Commission on Sales			
Subsidiary Companies			
- MBT GmbH		**34,412,683**	39,549,787
Dividend Paid			
Promoter Companies			
- Mahindra & Mahindra Ltd.	**207,360,216**		157,955,533
- Mahindra Information Technology Services Limited	**-**		124,284,761
- British Telecommunications Plc.	**156,429,486**		212,943,911
		363,789,702	495,184,205
Investment			
Subsidiary Companies			
- MBT GmbH		**120,691,875**	239,115,000
Provision for Diminution in value of Investment			
Subsidiary Companies			
- MBT International Inc.	**11,794,500**		-
- MBT GmbH	**353,632,342**		-
		365,426,842	-
Salary and Perquisites			
Key Management Personnel			
- Mr. Robert John Helleur*	**4,846,288**		12,458,353
- Mr. Vineet Nayyar*	**3,342,152**		-
		8,188,440	12,458,353
Provision for Diminution in value of Debtors			
Subsidiary Companies			
- MBT International Inc.		**152,991,436**	-

Other related parties of the Company are as under:

- Automartindia Ltd.
- Bristlecone Ltd., Cayman Islands
- Bristlecone Inc.
- Mahindra Gesco Developers Ltd.
- Jayem Automotives Ltd.
- Mahindra Acres and Consulting Engineers Ltd.
- Mahindra Ashtech Ltd.
- Bristlecone GmbH
- Bristlecone Singapore Pte. Ltd.
- Mahindra Gujrat Tractor Ltd.
- Mahindra Holdings and Finance Ltd.
- Mahindra Holidays & Resorts USA Inc.
- Mahindra Insurance Brokers Ltd.
- Mahindra Infrastructure Developers Ltd.
- Mahindra Intertrade UK Ltd.
- Mahindra Industrial Park Ltd.
- Mahindra Logisoft Business Solutions Ltd.

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

- Mahindra Middleeast Electrical Steel Service Centre (FZE)
- Mahindra and Mahindra Financial Services Ltd.
- Mahindra and Mahindra South Africa (Pty) Ltd.
- Mahindra Overseas Investment Company (Mauritius) Ltd.
- Mahindra Sona Ltd.
- Mahindra Steel Service Centre Ltd.
- Mahindra Shublabh Services Ltd.
- Mahindra SAR Transmission Pvt. Ltd.
- NBS International Pvt. Ltd.
- Mahindra USA Inc.
- Ratna Bhoomi Enterprises Pvt. Ltd.

There have been no transactions with the aforesaid companies during the year.

16. The tax effect of significant timing differences that has resulted in deferred tax assets and liabilities are given below:

Deferred Tax	**March 31, 2005 Rupees**	March 31, 2004 Rupees
a) *Deferred tax liability:*		
Depreciation	**(1,226,029)**	(2,006,270)
b) *Deferred tax asset :*		
Gratuity, Leave Encashment etc.	**2,899,302**	4,065,437
Doubtful Debts	**334,107**	507,151
Total Deferred Tax Asset (Net)	**2,007,380**	2,566,318

17. Exchange gain/(loss)(net) accounted during the year:

Particulars	**2005 Rupees**	2004 Rupees
Income from services	**(2,799,680)**	32,182,954
Others	**13,323,871**	(17,354,271)

The amount of exchange difference in respect of forward exchange contracts to be recognised in the profit and loss account for subsequent accounting year aggregates to Rs. 2,112,765 (Gain) (previous year 3,376,389 (Loss))

18. Earning Per Share is calculated as follows:

		2005 Rupees	2004 Rupees
a.	Net Profit after tax but before Exceptional Item (in Rupees)	**1,229,340,315**	941,275,434
	Less: Non recurring / Exceptional Items	**518,418,278**	-
	Add: Excess provision for income-tax in respect of earlier years	**-**	38,121,167
	Net profit attributable to shareholders	**710,922,037**	979,396,601
b.	Weighted average number of Equity Shares		
	Basic	**101,726,575**	101,218,378
	Add: ESOPs outstanding at the end of the year	**12,449,600**	1,818,080
	Diluted	**114,176,175**	103,036,458
c.	Nominal value of equity share	**Rs. 2**	Rs. 2

19.

a) As at the year end, the Company has reclassified investments in mutual funds hitherto classified as long-term investments, as current investments. Such reclassification done on an individual investment basis, have been made at lower of cost and carrying amount of the investments, as the date of transfer in accordance with Account Standard 13 – 'Accounting for Investments'. Accordingly an amount Rs.155,364 has been charged to the Profit and Loss Account.

b) Details of Investments Purchased and Sold during the year

Particulars	**March 31, 2005 Units**	**March 31, 2005 Cost**
Templeton Mutual Fund – Short Term Monthly Dividend	**81,528.440**	**101,482,419**
DSP Merill Lynch Mutual Fund – Weekly Dividend	**4,074,844.141**	**50,557,485**
Kotak Mutual Fund Liquid Institutional FMP	**5,000,000.000**	**50,000,000**
HDFC Cash Management Fund Dividend Reinvestment	**4,969,230.195**	**50,093,801**
Grindlays Cash Fund Institutional Plan	**4,865,500.808**	**50,142,791**

20. Balance sheet Abstract and the Company's General Business Profile :

I. Registration Details

Registration Number	4 1 3 7 0 / 8 6	State Code 1 1
Balance Sheet date	3 1 0 3 2 0 0 5	
	Date Month Year	

II. Capital raised during the year (Amount in Rs. Thousands)

Public Issue	Rights Issue
N I L	N I L
Bonus Issue	Private Placements
N I L	7 2 5

III. Position of Mobilisation and deployment of funds (Amounts in Rs. Thousands)

Total Liabilities (including shareholders' funds)	Total Assets
6 5 5 2 2 6 5	6 5 5 2 2 6 5
Paid-up Capital	Reserves and Surplus
2 0 3 4 5 3	4 6 2 4 7 7 9
Secured Loans	Unsecured Loans
N I L	N I L
Net Fixed Assets	Investments
1 7 7 1 0 0 3	1 1 4 9 3 4 7
Net Current Assets	Deferred Tax Asset
1 9 0 5 8 7 4	2 0 0 7
Accumulated Losses	
N I L	

IV. Performance of Company (Amount in Rs. Thousand)

Turnover (Sales and Other Income)	Total Expenditure
9 2 9 5 9 3 0	7 9 2 3 7 8 2
Profit/(Loss) Before Tax	Profit/(Loss) After Tax
1 3 7 2 1 4 8	7 1 0 9 2 2
Earning per Share in Rs. (Refer Note 18 above)	Dividend Rate %
6 . 9 9	1 1 0

V. Generic Names of Three Principal Products/Service of Company (as per monetary terms)

Item Code (ITC Code)	8 5 2 4 9 0
Product Description	Computer Software Services

21. Previous year's figures have been regrouped wherever necessary, to conform to the current year's classification.

Signatures to Schedules I to XI
As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

A. B. Jani
Partner

Mumbai,
Dated : May 17, 2005

For Mahindra - British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
Mr. Bharat Doshi - *Director*
Mr. Clive Goodwin - *Director*
Mr. Anupam Puri - *Director*

Mr. Vineet Nayyar - *Managing Director & CEO*
Mr. Al-Noor Ramji - *Director*
Dr. Raj Reddy - *Director*
Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

London,
Dated : May 9, 2005

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (contd.)

Particulars	Names of the subsidiary Companies		
	MBT International Inc.	MBT GmbH	MBT Software Technologies Pte. Ltd.
The financial year of the Subsidiary Company ended on	March 31, 2005	March 31, 2005	March 31, 2005
	US $	Euro	S $
Number of Shares of the Subsidiary Company held by Mahindra-British Telecom Limited at the above date			
Equity	375,000	3	5000
Extent of holding	100 %	100 %	100 %
The Net aggregate of profits/losses of the Subsidiary Company for its financial year so far as they concern the members of Mahindra-British Telecom Limited :			
a) Dealt with in the accounts of Mahindra-British Telecom Limited for the Year ended March 31, 2005	—	—	—
b) Not dealt with in the accounts of Mahindra-British Telecom Limited for the Year ended March 31, 2005	(1,815,201)	(2,182,297)	12,342
The Net aggregate of profits/losses of the Subsidiary Company for its previous financial years, so far as they concern the members of Mahindra-British Telecom Limited :			
a) Dealt with in the accounts of Mahindra-British Telecom Limited for the Year ended March 31 2004	—	—	NA
b) Not dealt with in the accounts of Mahindra-British Telecom Limited for the Year ended March 31, 2004	(2,527,863)	(3,389,907)	26,224

For Mahindra-British Telecom Limited

Mr. Anand G. Mahindra - *Chairman*
Mr. Bharat Doshi - *Director*
Mr. Clive Goodwin - *Director*
Mr. Anupam Puri - *Director*

Mr. Vineet Nayyar - *Managing Director & CEO*
Mr. Al-Noor Ramji - *Director*
Dr. Raj Reddy - *Director*
Mr. Arun Seth - *Director*
Mr. Ulhas N. Yargop - *Director*

London,
Dated : May 9, 2005

FINANCIAL STATEMENTS OF SUBSIDIARIES OF

MAHINDRA - BRITISH TELECOM LIMITED

FOR THE YEAR ENDED MARCH 31, 2005

MBT INTERNATIONAL INCORPORATED

BOARD OF DIRECTORS

Mr. Anand G. Mahindra (Chairman)
Mr. Clive Goodwin
Mr. Vineet Nayyar
Mr. Al-Noor Ramji
Mr. Ulhas N. Yargop

KEY OFFICIALS

Mr. C. P. Gurnani (President)
Mr. Aloke Ghosh (Treasurer)
Mr. Jack Goldstein (Secretary)

AUDITORS

Capin Crouse L.L.P.
Accountants & Consultants
1465, Kelly Johnson Blvd, Suite 230
Colorado Springs, CO 80920

BANKERS

- PNC Bank
505 Thornell Street
Edison, NJ 08837
U.S.A.

- State Bank of India
460 Park Avenue
New York, NY 10022,
U.S.A.

- HSBC Bank
452, 5th Avenue
New York, NY 10018,
U.S.A.

REGISTERED OFFICE

22, Dogwood Circle, Matawan
New Jersey 07747
U.S.A.

CORPORATE OFFICE

5619 DTC Parkway
Suit # 920, Greenwood Village,
CO 80111,
U.S.A.

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DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors present their Report together with the audited accounts of your Company for the year ended March 31, 2005.

Financial Results

For the year ended March 31

	2005	2004
	US $	US $
Income	**14,577,666**	15,532,851
Profit/(Loss) before tax	**(3,001,518)**	(4,005,001)
Profit/(Loss) after tax	**(1,815,201)**	(2,527,863)

Review of Operations

During the fiscal year, the Company achieved sales of US $ 14,577,666, a marginal reduction over the previous year. The Company continues to invest heavily in strengthening its marketing infrastructure in the US which is identified as future growth area. The focus on right sizing the US operations while preparing for the next level of growth has helped the Company to reduce the losses.

Outlook for the current year

The Company believes that the investments made over the last few years in cultivating long term relationships with major telecom companies will begin to bear fruit in the near future. In fact the company is close to signing an agreement with a major Telco in the US.

Acknowledgements

Your Directors gratefully acknowledge the contributions made by the employees towards the success of the Company. Your Directors are also thankful for the co-operation and assistance received from its customers, suppliers, bankers, State and Federal Government Authorities and the shareholder.

Vineet Nayyar
Director

Pune, April 13, 2005

INDEPENDENT AUDITORS' REPORT

MBT International Incorporated
a wholly owned subsidiary of Mahindra - British Telecom Limited, an India corporation
Denver, Colorado

We have audited the accompanying balance sheets of MBT International Incorporated, a wholly owned subsidiary of Mahindra - British Telecom Limited, an India corporation, as of March 31, 2005 and 2004, and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MBT International Incorporated, a wholly owned subsidiary of Mahindra -British Telecom Limited, an India corporation, as of March 31, 2005 and 2004. and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purposes of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules of Income and Expenses on page 9 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Colorado Springs, Colorado

April 8,2005

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULE

MBT International Incorporated
a wholly owned subsidiary of Mahindra - British Telecom Limited, an India corporation
Denver, Colorado

Our reports on our audits of the basic financial statements of MBT International Incorporated, a wholly owned subsidiary of Mahindra - British Telecom Limited, an India corporation, for 2005 and 2004 appear on page 1. We conducted our audits in accordance with U.S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. This information on pages 11-18 are presented for purposes of additional analysis and are not a required part of the basic financial statements. It has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Foreign Currency amounts in the supplemental schedules are translated for convenience into Indian Rupees at the exchange rate of Rs. 43.81 to 1.00 USD, which is the average of the telegraphic transfer buying and selling rates quoted by the Mumbai Branch of State Bank of India on 31st March 2005.

Capin Crouse LLP

Colorado Springs, Colorado
April 8, 2005

SUPPLEMENTAL BALANCE SHEETS

	March 31, 2005 USD	2005 INR	March 31, 2004 USD	2004 INR
ASSETS:				
Current assets:				
Cash (including $412,000(18,049,720 INR) and $501,000(21,948,810 INR) in interest bearing accounts as of March 31, 2005 and 2004, respectively)	**1,024,400**	**44,878,964**	1,127,091	49,377,857
Accounts receivable, trade (Note 5)	**3,089,997**	**135,372,769**	2,706,841	118,586,704
Deferred income tax asset	**420,000**	**18,400,200**	-	-
Employee advances	**79,500**	**3,482,895**	49,940	2,187,871
Prepaid expenses and other current assets	**55,960**	**2,451,608**	191,728	8,399,604
Total current assets	**4,669,857**	**204,586,435**	4,075,600	178,552,036
Deferred income tax benefit (Note 3)	**2,589,393**	**113,441,307**	1,827,403	80,058,525
Fixtures and equipments (less accumulated depreciation of $172,955 (7,577,159INR) and $146,247 (6,407,081INR) as of March 31, 2005 and 2004, respectively)	**104,080**	**4,559,745**	130,552	5,719,483
Security deposits	**16,003**	**701,091**	13,240	580,044
Total Assets	**7,379,333**	**323,288,579**	6,046,795	264,910,089
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Current liabilities:				
Accounts payable, trade	**176,676**	**7,740,176**	214,627	9,402,809
Accrued expenses	**1,086,925**	**47,618,184**	754,299	33,045,839
Due to parent (Note 4)	**9,521,093**	**417,119,084**	6,668,029	292,126,350
Total current liabilities	**10,784,694**	**472,477,444**	7,636,955	334,574,999
Commitments (Note 6)	**-**	**-**	-	-
Stockholder's Equity				
Common stock - $1 par value - 500,000 shares authorized, 375,000 shares issued and outstanding	**375,000**	**16,428,750**	375,000	16,428,750
Retained earnings (deficit)	**(3,780,361)**	**(165,617,615)**	(1,965,160)	(86,093,660)
Total stockholders' equity	**(3,405,361)**	**(149,188,865)**	(1,590,160)	(69,664,910)
Total Liabilities and Stockholders' Equity	**7,379,333**	**323,288,579**	6,046,795	264,910,089

SUPPLEMENTAL STATEMENT OF INCOME AND RETAINED EARNINGS

	Schedule	Years Ended March 31, 2005 USD	2005 INR	Years Ended March 31, 2004 USD	2004 INR
INCOME (Note 5)	I	**14,577,666**	**638,647,547**	15,532,851	680,494,202
EXPENSES:					
Personnel	II	**4,707,188**	**206,221,906**	4,268,290	186,993,785
Operating and other expenses (Note 4)	III	**12,820,621**	**561,671,406**	15,223,159	666,926,596
Depreciation		**51,375**	**2,250,739**	46,403	2,032,915
Total expenses		**17,579,184**	**770,144,051**	19,537,852	855,953,296
Loss before income tax expense		**(3,001,518)**	**(131,496,504)**	(4,005,001)	(175,459,094)
Income tax benefit (Note 3)		**(1,186,317)**	**(51,972,548)**	(1,477,138)	(64,713,416)
NET LOSS		**(1,815,201)**	**(79,523,956)**	(2,527,863)	(110,745,678)
Retained Earnings (Deficit), Beginning of Year		**(1,965,160)**	**(86,093,660)**	562,703	24,652,018
Retained Earnings (Deficit), End of Year		**(3,780,361)**	**(165,617,615)**	(1,965,160)	(86,093,660)

SUPPLEMENTAL STATEMENT OF CASH FLOWS

	Years Ended March 31, 2005 USD	Years Ended March 31, 2005 INR	Years Ended March 31, 2004 USD	Years Ended March 31, 2004 INR
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	**(1,815,201)**	**(79,523,956)**	(2,527,863)	(110,745,678)
Adjustments to reconcile net income to cash used by operating activities:				
Depreciation	**51,375**	**2,250,739**	46,403	2,032,915
Changes in operating assets and liabilities:				
Accounts receivable, trade	**(383,156)**	**(16,786,064)**	(582,179)	(25,505,262)
Employee advances	**(29,560)**	**(1,295,024)**	18,883	827,264
Prepaid expenses and other current assets	**135,768**	**5,947,996**	(75,997)	(3,329,429)
Accounts payable, trade	**(37,951)**	**(1,662,633)**	125,187	5,484,442
Accrued expenses	**332,626**	**14,572,345**	275,461	12,067,946
Deferred income tax benefit	**(1,181,990)**	**(51,782,982)**	(818,122)	(35,841,925)
Due to parent	**2,853,064**	**124,992,734**	3,744,448	164,044,267
Net Cash Provided (Used) by Operating Activities	**(75,025)**	**(3,286,845)**	206,221	9,034,542
CASH FLOWS FROM INVESTING ACTIVITIES:				
Fixtures and equipment purchased	**(24,903)**	**(1,091,000)**	(55,944)	(2,450,907)
Proceeds from sale of fixture and equipment				
Net change in security deposits	**(2,763)**	**(121,047)**	7,623	333,964
Net Cash Used by Investing Activities	**(27,666)**	**(1,212,047)**	(48,321)	(2,116,943)
Net Change in Cash	**(102,691)**	**(4,498,893)**	157,900	6,917,599
Cash, Beginning of Year	**1,127,091**	**49,377,857**	969,191	42,460,258
Cash, End of Year	**1,024,400**	**44,878,964**	1,127,091	49,377,857
Supplemental Disclosures:				
Cash paid for income taxes	**747**	**32,726**	1,536	67,292

SUPPLEMENTAL NOTES TO FINANCIAL STATEMENTS MARCH 31, 2005 AND 2004

1. NATURE OF ORGANIZATION:

MBT International Incorporated (MBTI) is a wholly owned subsidiary of Mahindra-British Telecom Limited (MBT), which is incorporated in the country of India. MBTI was incorporated in the State of New Jersey in November 1993 and provides computer consulting and programming support services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of MBTI have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The significant accounting policies are described as follows:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of checking and savings accounts and a certificate of deposit with an original maturity of less than three months. These accounts may, at times, exceed federally insured limits. MBTI has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

ACCOUNTS RECEIVABLE, TRADE

MBTI considers accounts receivable, trade to be fully collectible; accordingly, no allowance for uncollectible accounts has been recorded.

FIXTURES AND EQUIPMENT

Fixtures and equipment are recorded at cost and depreciated using the straight-line method over an estimated remaining useful life of five years.

DUE TO PARENT

Due to parent represents the net amount due to MBT for salary expenses, subcontracting fees, travel expenses, employee advances, and secondment fees (fees paid to MBT for the use of MBT employees).

REVENUE AND EXPENSE

All MBTI customer contracts are written so that computer consulting and programming support services are billable to MBTI clients as time is spent. Therefore, revenue is recognized immediately upon MBTI providing these services. Expenses are recorded when incurred.

3. INCOME TAXES:

MBTI accounts for income taxes under the provisions of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*.

Income tax benefit consists of the following:

	Years Ended March 31, 2005	2005	Years Ended March 31, 2004	2004
	USD	**INR**	USD	INR
Federal	**940,000**	**41,181,400**	1,270,000	55,638,700
State	**246,317**	**10,791,148**	207,138	9,074,716
	1,186,317	**51,972,548**	1,477,138	64,713,416

MBTI has incurred net operating losses of $7,180,324 (314,569,994 INR) which are available to be carried forward through March 31, 2019. MBTI expects to be able to utilize the entire deferred tax benefit during that period, and therefore, no valuation allowance has been recorded to reduce the asset.

4. TRANSACTIONS WITH RELATED PARTIES:

MBTI has had an agreement with MBT, which was recently terminated on December 31, 2004. Under this agreement MBTmade available to MBTI qualified employees to work in the United States on a temporary basis. In addition to wages paid to employees, MBTI pays MBT $1,200 (Rs. 52,572) per month for each employee. MBTI was responsible for transportation between India and the United States for such employees. In addition, MBTI subcontracted with MBT for computer consulting and programming support services related to certain contracts obtained by MBTI. MBTI paid MBT 90% of the total contract revenues recognized under this agreement. MBTI entered into a new contract, effective January 1, 2005 with MBT. Under the new contract MBTI pays MBT 100% of all contract revenue. However, MBT, has agreed to : 1) reimburse MBTI all direct project expenses, plus 5.75% of these expenses and 2) reimburse MBTI all indirect costs, plus 4% for services as marketing service provider. The above transactions are summarized as follows:

	Years Ended March 31, 2005		Years Ended March 31, 2004	
	USD	**INR**	USD	INR
Beginning balance, due to parent (MBT)	**6,668,029**	**292,126,350**	2,923,581	128,082,084
Secondment fees incurred	**132,000**	**5,782,920**	345,000	15,114,450
Contract revenue	**11,959,401**	**523,941,358**	10,316,178	451,951,758
Income from parent	**(2,781,176)**	**(121,843,321)**	-	-
Payments to Parent (MBT)	**(10,048,789)**	**(440,237,446)**	(6,356,409)	(278,474,278)
Advances received from parent	**7,864,079**	**344,525,301**	3,673,866	160,952,069
Payments made on behalf of parent (MBT)	**(4,272,451)**	**(187,176,078)**	(4,234,187)	(185,499,732)
Ending balance, due to parent (MBT)	**9,521,093**	**417,119,084**	6,668,029	292,126,350

5. CONCENTRATIONS:

MBTI works with three customers that each comprise a significant portion of MBTI's total business. Consulting sales revenue and accounts receivable concentrations are as follows:

Consulting sales revenue concentrations:

	Years Ended March 31, 2005			Years Ended March 31, 2004		
		Amount	**Concentration**		Amount	Concentration
Rockwell Electronic Commerce	**$**	**3,237,650**	**22%**	$	4,16,796	27%
Convergys, Inc.	**$**	**2,309,485**	**16%**	$	-	0%
Alltel Information Systems	**$**	**1,996,780**	**14%**	$	4,726,839	30%
Qwest	**$**	**1,771,122**	**12%**	$	3,020,596	19%
Fidelity Information Systems	**$**	**1,526,937**	**10%**	$	1,476,172	10%

Consulting sales revenue concentrations (INR):

	Years Ended March 31, 2005			Years Ended March 31, 2004		
		Amount	**Concentration**		Amount	Concentration
Rockwell Electronic Commerce	**INR**	**141,841,447**	**22%**	INR	182,284,473	27%
Convergys, Inc.	**INR**	**101,178,538**	**16%**	INR	-	0%
Alltel Information Systems	**INR**	**87,478,932**	**14%**	INR	207,082,817	30%
Qwest	**INR**	**77,592,855**	**12%**	INR	132,332,311	19%
Fidelity Information Systems	**INR**	**66,895,110**	**10%**	INR	64,671,095	10%

Accounts receivable concentrations:

	Years Ended March 31, 2005			Years Ended March 31, 2004		
		Amount	**Concentration**		Amount	Concentration
Convergys, Inc.	**$**	**767,983**	**25%**	$	-	0%
Qwest	**$**	**447,852**	**14%**	$	421,636	16%
Rockwell Electronic Commerce	**$**	**412,022**	**13%**	$	1,110,098	41%
Fidelity Information Systems	**$**	**373,172**	**12%**	$	-	0%
Alltel Information Systems	**$**	**317,172**	**10%**	$	626,792	23%

Accounts receivable concentrations (INR):

	Years Ended March 31, 2005			Years Ended March 31, 2004		
		Amount	**Concentration**		Amount	Concentration
Convergys, Inc.	**INR**	**33,645,335**	**25%**	INR	-	0%
Qwest	**INR**	**19,620,396**	**14%**	INR	18,471,873	16%
Rockwell Electronic Commerce	**INR**	**18,050,684**	**13%**	INR	48,633,393	41%
Fidelity Information Systems	**INR**	**16,348,665**	**12%**	INR	-	0%
Alltel Information Systems	**INR**	**13,895,305**	**10%**	INR	27,459,758	23%

6. COMMITMENTS:

MBTI leases office space under operating leases. Rent expesne under these operating leases was $229,041 (Rs. 10,034,286 INR) and $279,159 (12,229,956 INR) for the years ended March 31, 2005 and 2004, respectively. Future minimum lease payments under operating leases are as follows.

Years Ending March 31,	USD	INR
2006	154,946	6,788,184
2007	122,208	5,353,932
2008	61,956	2,714,292
	339,110	14,856,409

7. FINANCIAL CONDITION:

As of March 31, 2005, MBTI had a deficit in stockholders' equity of $3,405,361 (149,188,865 INR). The deficit was a result of the loss from operations, which increased the amount due to MBT (Parent) to $9,521,093 (417,119,084 INR). Over the past several months, MBTI has implemented a new marketing strategy, which management believes will be successful. MBT has represented that they will continue to support MBTI until its operations become profitable. Additionally, MBTI has entered into a new contract with MBT, which will generate a profit for them (See Note 4).

SUPPLEMENTAL SCHEDULES OF INCOME AND EXPENSES

		Years Ended March 31,		Years Ended March 31,	
		2005	2005	2004	2004
		USD	INR	USD	INR
SCHEDULE I					
INCOME:					
Income from services, net		14,432,537	632,289,446	15,524,338	680,121,248
Income from parent	2,781,176				
Expenses related to the income above	(2,646,314)				
Net income from parent		134,862	5,908,304	-	-
Interest income on bank deposits		10,267	449,797	8,513	372,955
		14,577,666	638,647,547	15,532,851	680,494,202
SCHEDULE II					
PERSONNEL EXPENSES:					
Salaries:					
Software engineers		177,736	7,786,614	1,441,544	63,154,043
Administrative		2,245,476	98,374,304	2,345,536	102,757,932
Payroll taxes		273,683	11,990,052	253,508	11,106,185
Employee benefits		410,293	17,974,936	227,702	9,975,625
		3,107,188	136,125,906	4,268,290	186,993,785
SCHEDULE III					
OPERATING AND OTHER EXPENSES:					
Contracted services		559,505	24,511,914	1,293,624	56,673,667
MBT secondment fees		132,000	5,782,920	345,000	15,114,450
MBT offshore project charges		9,313,087	408,006,341	10,316,178	451,951,758
Marketing and advertising		627,666	27,498,047	164,618	7,211,915
Insurance		233,406	10,225,517	149,040	6,529,442
Travel		427,519	18,729,607	703,894	30,837,596
Entertainment		3,283	143,828	3,705	162,316
Automobile expenses		-	-	2,652	116,184
Professional fees		860,783	37,710,903	1,463,463	64,114,314
Rent		229,041	10,034,286	279,159	12,229,956
Communications		263,656	11,550,769	286,941	12,570,885
Office expenses		53,130	2,327,625	74,241	3,252,498
Recruiting		13,885	608,302	139,436	6,108,691
Miscellaneous expenses		103,660	4,541,345	1,208	52,922
		12,820,621	561,671,406	15,223,159	666,926,596

MBT GmbH

SUPERVISORY BOARD

Mr. Vineet Nayyar - Chairman

Mr. Ulhas N. Yargop

Mr. Clive Goodwin

MANAGING DIRECTORS

Mr. Marcus Schueler
Mr. Sonjoy Anand

AUDITORS

Deloitte & Touche GmbH,
Dusseldorf, Germany

BANKERS

Dresdner Bank AG
State Bank of India, Germany

REGISTERED OFFICE

MBT GmbH
Rather Straße 110B,
40476,
Dusseldorf,
Germany

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MANAGING DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Managing Directors present their report together with the audited accounts for the period ended March 31, 2005.

Financial Results

For the year ended March 31

	2005	2004
	Euro	**Euro**
Income	**5,226,551**	1,270,829
Profit/(Loss) after tax	**(2,182,297)**	(3,389,907)

The income for the year has quadrupled. The company continued its investment in sales & marketing in Europe, focused on optimizing costs and earned operating profit in the last quarter of the year.

SHARE CAPITAL

The Company's share capital is Euro 575,000. The share capital is fully paid up.

MANAGEMENT

During the year, Mr. Robert John Helleur resigned as Chairman and member of the Supervisory Board. The current Chairman of the Supervisory Board is Mr. Vineet Nayyar. The other members of the Board are Mr. Ulhas N. Yargop and Mr. Clive Goodwin.

Mr. Sonjoy Anand and Mr. Marcus Schueler are Managing Directors of the Company.

ACKNOWLEDGEMENTS

Your Directors gratefully acknowledge the contributions made by the employees towards the success of the Company. Your Directors are also thankful for the co-operation and assistance received from its customers, suppliers, bankers, State and Federal Government Authorities and the shareholder.

Sonjoy Anand
Managing Director

Pune : April 8, 2005

INDEPENDENT AUDITORS' REPORT

We have audited the annual financial statements, together with the bookkeeping system, of MBT GmbH, DÜsseldorf, for the business year from 1 April, 2004 to 31 March 2005. The maintenance of the books and records and the preparation of annual financial statements pursuant to German Commercial Law are the responsibility of the Company's Management. Our responsibility is to express an opinion on these annual financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the annual financial statements by appropriate application of § 317 HGB ["Handelsgestzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der WirtschaftspÜfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and the results of operations of MBT GmbH, DÜsseldorf, in accordance with German principles of proper accounting.

Without qualifying this conclusion, we draw your attention to the fact that the continued existence of the Company is only guaranteed if the Company is provided or guaranteed sufficient financial means to finance its current operations.

Conclusion

The above report on our audit of the annual financial statements for the business year from 1 April 2004 to 31 March 2005 of MBT GmbH, DÜsseldorf, complies with the legal regulations and the German generally accepted reporting standards applicable to the audit of financial statement (auditing standard of the Institut der WirtschaftsprÜfer - IDW PS 450).

For the unqualified auditors' opinion given by us on 8 April 2005, we refer to Section 5 "Copy of Auditors' Opinion".

DÜsseldorf, 8 April 2005

Deloitte & Touche GmbH
WirtschaftsprÜfungsgesellschaft

Signed: Thiede	Signed: Herrel
WirtschaftsprÜfer	WirtschaftsprÜfer
[German Public Auditor]	[German Public Auditor]

MEMO

Date	:	22/04/2005
To	:	MBT GmbH, Dusseldorf
From	:	Paul-Herbert Thiede / Detlef Herrel
Subject	:	Converting of Financial Statements of MBT GmbH, Dusseldorf

Dear Sirs,

Please find attached the Balance Sheet and Profit and Loss Account of MBT GmbH, DÜsseldorf, signed for identification purposes only.

Foreign Currency amounts (including prior year amounts) are translated for convenience into Indian Rupees (INR) at the exchange rate of Rs. 56,61=EUR 1 which is the average of the telegraphic transfer buying and selling rates quoted by the Mumbai branch of State Bank of India on 31st March, 2005.

Kind regards,

Deloitte & Touche GmbH
WirtschaftsprÜfungsgesellschaft

(Paul-Herbert Thiede)
WirtschaftsprÜfer

(Detlef Herrel)
WirtschaftsprÜfer

BALANCE SHEET AS AT MARCH 31, 2005

Assets	March 31, 2005 EUR	March 31, 2005 INR	Prior year EUR'000	Prior year INR'000
A. Fixed assets				
I. Intangible assets				
Software	**19,886.17**	**1,125,756**	18	1,016
II. Tangible assets				
Other equipment, factory and office equipment	**69,057.01**	**3,909,317**	110	6,238
	88,943.18	**5,035,073.42**	128	7,254
B. Current assets				
I. Inventories				
Unfinished services	**86,725.60**	**4,909,536**	-	-
II. Receivables and other assets				
1. Trade receivables	**1,120,147.81**	**63,411,568**	134	7,579
2. Receivables from affiliated companies	**963,864.57**	**54,564,373**	516	29,201
3. Other assets	**28,670.02**	**1,623,010**	59	3,390
	2,112,682.40	**119,598,950.66**	709	40,170
III. Cash-in-hand, bank balances	**285,406.21**	**16,156,846**	778	44,029
	2,484,814.21	**140,665,332.43**	1,487	84,199
C. Prepaid expenses	**12,444.80**	**704,500**	5	277
	2,586,202.19	**146,404,905.98**	1,620	91,730

Equity and Liabilities	March 31, 2005 EUR	March 31, 2005 INR	Prior year EUR'000	Prior year INR'000
A. Equity				
I. Subscribed capital	**575,000.00**	**32,550,750.00**	575	32,551
II. Capital reserve	**6,625,000.00**	**375,041,250.00**	4,500	254,745
III. Net retained losses	**(4,098,917.02)**	**(232,039,692.50)**	(709)	(40,137)
IV. Net loss for the year	**(2,182,296.87)**	**(123,539,825.81)**	(3,390)	(191,903)
	918,786.11	**52,012,481.69**	976	55,256
B. Accruals				
Other accruals	**427,628.38**	**24,208,042.59**	232	13,118
C. Liabilities				
1. Payments received in advance	**120,000.00**	**6,793,200.00**	-	-
2. Trade payables	**456,166.54**	**25,823,587.83**	73	4,118
3. Payables to affiliated companies	**519,195.10**	**29,391,634.61**	56	3,189
4. Other liabilities	**144,426.06**	**8,175,959.26**	283	16,048
Of which taxes:EUR 98,715.32 (Perior year:EUR103 thousand) Of which relating to social security and similar obligations: EUR 44,045.25 (Prior year : EUR 42 thousand)				
	1,239,787.70	**70,184,381.70**	412	23,356
	2,586,202.19	**146,404,905.98**	1,620	91,730

Note : Foreign Currency amounts (including the prior year amounts) are translated for convenience into Indian Rupees (INR) at the exchange rate of Rs. 56.61 = EURO 1 which is the average of the telegraphic transfer buying and selling rates quoted by the Mumbai branch of State Bank of India on March 31, 2005.

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PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM APRIL 1, 2004 TO MARCH 31, 2005

	2004/2005 EUR	2004/2005 INR	Prior year EUR'000	Prior year INR'000
1. Sales	**4,923,764.79**	**278,734,324.76**	1,053	59,608
2. Variance in inventories	**86,725.60**	**4,909,536.22**	-	-
3. Other operating income	**211,519.67**	**11,974,128.52**	213	12,040
4. Cost of services	**(2,556,047.86)**	**(144,697,869.35)**	-	-
5. Personnel expenses				
a) Wages and salaries	**(3,019,504.45)**	**(170,934,146.91)**	(2,271)	(128,543)
b) Social security	**(357,572.37)**	**(20,242,171.87)**	(199)	(11,260)
6. Depreciation on intangible fixed assets and tangible assets	**(56,747.49)**	**(3,212,475.41)**	(53)	(2,981)
7. Other operating expenses	**(1,418,814.04)**	**(80,319,062.80)**	(2,131)	(120,645)
8. Other interest and similar income	**4,540.52**	**257,038.84**	5	293.27
9. Interest and similar expenses Of which to affiliated companies: EUR 0,000 (prior year: EUR 6 thousand)	**(161.24)**	**(9,127.80)**	(7)	(415)
10.Net loss for the year	**(2,182,296.87)**	**(123,539,825.81)**	(3,390)	(191,903)

Note : Foreign Currency amounts (including the prior year amounts) are translated for convenience into Indian Rupees (INR) at the exchange rate of Rs.56.61 = EURO 1 which is the average of the telegraphic transfer buying and selling rates quoted by the Mumbai branch of State Bank of India on March 31, 2005.

MOVEMENTS IN FIXED ASSETS IN THE BUSINESS YEAR 2004/2005

	Acquisition/ production cost				Accumulated depreciation				Net book values	
	Balance as at April 1, 2004 EUR	Additions EUR	Disposals EUR	**Balance as at March 31, 2005 EUR**	Balance as at April 1, 2004 EUR	Additions EUR	Disposals EUR	**Balance as at March 31, 2005 EUR**	**Balance as at March 31, 2005 EUR**	Prior year EUR'000
I. Intangible assets										
Software	27,874.75	13,763.45	-	**41,638.20**	9,926.25	11,825.78	-	**21,752.03**	**19,886.17**	18
II. Tangible assets										
Other equipment, factory and office equipment	183,386.41	10,156.18	(9,178.63)	**184,363.96**	73,192.07	44,921.71	(2,806.83)	**115,306.95**	**69,057.01**	110
	211,261.16	23,919.63	(9,178.63)	**226,002.16**	83,118.32	56,747.49	(2,806.83)	**137,058.98**	**88,943.18**	128

	Acquisition/ production cost				Accumulated depreciation				Net book values	
	Balance as at April 1, 2004 INR	Additions INR	Disposals INR	**Balance as at March 31, 2005 INR**	Balance as at April 1, 2004 INR	Additions INR	Disposals INR	**Balance as at March 31, 2005 INR**	**Balance as at March 31, 2005 INR**	Prior year INR'000
I. Intangible assets										
Software	1,577,989.60	779,148.90	-	**2,357,138.50**	561,925.01	669,457.41	**-**	**1,231,382.42**	**1,125,756.08**	1,016
II. Tangible assets										
Other equipment, factory and office equipment	10,381,504.67	574,941.35	(519,602.24)	**10,436,843.78**	4,143,403.08	2,543,018.00	(158,894.65)	**6,527,526.44**	**3,909,317.34**	6,238
	11,959,494.27	1,354,090.25	(519,602.24)	**12,793,982.28**	4,705,328.10	3,212,475.41	(158,894.65)	**7,758,908.86**	**5,035,073.42**	7,254

Note : Foreign Currency amounts (including the prior year amounts) are translated for convenience into Indian Rupees (INR) at the exchange rate of Rs. 56.61 = EURO 1 which is the average of the telegraphic transfer buying and selling rates quoted by the Mumbai branch of State Bank of India on March 31, 2005.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE BUSINESS YEAR 2004/2005

A. General Information

The annual financial statements for the business year from 1 April 2004 to 31 March 2005 comply with the valid stipulation of the German Commercial Code (HGB) and the statutes for the limited liability companies (GmbHG).

The company has partly taken favour of disclosure simplifications of the German Commercial Code.

The company is a small corporation according to sec 267 para 1 German Commercial Code.

B. Information on Accounting and Valuation Methods.

Intangible assets are valued at acquisition cost less scheduled straight-line amortization and depreciation.

Fixed assets are valued at acquisition cost less scheduled amortization and depreciation in accordance with their estimated useful life. Low value assets (less than EUR 410) are fully depreciated in the year of their acquisition.

Receivables and other assets as well as liquid funds are capitalized at nominal value. If necessary, allowance for implied risk are set up.

The subscribed capital is valued at nominal value.

Other accruals cover all risks and contingent liabilities identifiable as at the balance sheet date.

The liabilities are recorded at the amount at which they will be repaid.

Receivables and payables denominated in foreign currency are translated at the rate in effect at the date of transaction. Exchange losses as at the balance sheet date are taken into account

C. Notes to the Balance Sheet.

Receivables and other assets

All receivables and other assets have a residual term of less than one year.

The receivables from affiliated companies relate to trade receivables. Receivables from affiliated companies in the amount of EUR 963,864.57 (INR 54,564,373) relate to shareholders.

Other Accruals

Other accruals comprise mainly of accruals for vacation not taken (EUR 38 Thousand, INR 2,151thousand), management bonuses (EUR 147 thousand, INR 8,322 thousand), release of employment contracts (EUR 168 thousand, INR 9,510 thousand), year-end audit (EUR 11 thousand, INR 623 thousand) and other accruals (EUR 64 thousand, INR 3,623 thousand).

Liabilities

All liabilities have a residual term of less than one year.

The liabilities to affiliated companies relate to trade receivables. Receivables from affiliated companies in the amount of EUR 519,195.10 (INR 29,391,635) relate to shareholders.

D. Other Required Disclosures

As at the balance sheet date, the financial commitments as stipulated by sec 285 para 3 German Commercial Code are as follows:

Financing Commitments from rent contracts	**EUR**	**INR**
Upto one year	74,201.05	4,200,521
One to two years	24.20	1,370
Two to three years	-	-
Later	-	-
Financial Commitments from leasing contracts		
Upto one year	62,960.64	3,564,202
One to two years	40,021.56	2,265,621
Two to three years	5,862.00	331,848
Later	5,862.00	331,848

Management

Managing Director were :

Marcus Schuler, Sprockhovel, Germany

Sonjoy Anand, Pune, India

Supervisory Board

The supervisory board comprises of the following members :

Robert John Helleur, Ipswich, Great Britain, Chairman (resigned as of September 30, 2004)

Ulhas Yargop, Mumbai, India

Clive Goodwin, Middlesex, Great Britain

Sanjay Kalra, Bangalore, India (from October 11, 2004, resigned as of February 13, 2005)

Vineet Nayyar, New Delhi, India, Chairman (from February 14, 2005)

Group affiliation

Mahindra-British Telecom Ltd., Mumbai, India prepares the consolidated financial statements for the smallest and largest group of companies in which the annual financial statements of MBT GmbH, DÜsseldorf are included. These annual financial statements are available at the registered office of Mahindra British Telecom Ltd., Mumbai, India.

Marcus SchÜler
Managing Director

Sonjoy Anand
Managing Director

DÜsseldorf, April 5, 2005

Pune, April 5, 2005

MBT SOFTWARE TECHNOLOGIES PTE. LIMITED

BOARD OF DIRECTORS

Mr. Sonjoy Anand
Mr. Lim Tiong Beng

AUDITORS

Deloitte & Touche
Certified Public Accountants,
Singapore

BANKERS

Standard Chartered Bank
Singapore

REGISTERED OFFICE

152, Beach Road,
#32-01/04 Gateway Tower (East),
Singapore 189721

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REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the financial year ended March 31, 2005.

1 DIRECTORS

The directors of the company in office at the date of this report are:

Lim Tiong Beng

Sonjoy Anand (Appointed on June 7, 2004)

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors to acquire benefits by means of the acquisition of shares or debentures in the company or any other body corporate.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors holding office at the end of the financial year had no interests in the share capital of the company and related corporations as recorded in the register of directors' shareholdings kept by the company under Section 164 of the Singapore Companies Act except as follows:

Name of director and company in which interest is held	Options registered in the name of director	
	At date of appointment	At end of year
Mahindra-British Telecom Limited	Units of Indian rupee 2 each	
Sonjoy Anand	-	25,000

4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest. Certain directors received remuneration from related corporations in their capacities as directors and/or executives of those related corporations.

5 OPTION TO TAKE UP UNISSUED SHARES

During the financial year, no option to take up unissued shares of the company was granted.

6 OPTION EXERCISED

During the financial year, there were no shares of the company issued by virtue of the exercise of an option to take up unissued shares.

7 UNISSUED SHARES UNDER OPTION

At the end of the financial year, there were no unissued shares of the company under option.

8 AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to accept re-appointment.

Lim Tiong Beng
Sonjoy Anand

April 15, 2005

AUDITORS' REPORT
TO THE MEMBER OF MBT SOFTWARE TECHNOLOGIES PTE. LIMITED

We have audited the accompanying financial statements of MBT Software Technologies Pte. Limited as set out on pages 4 to 13 for the year ended March 31, 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. 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 the directors, as well as, evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

a) the accompanying financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the company as at March 31, 2005 and of the results, changes in equity and cash flows of the company for the year ended on that date; and

b) the accounting and other records required by the Act to be kept by the company have been properly kept in accordance with the provisions of the Act.

Deloitte & Touche

Certified Public Accountants

Singapore

April 15, 2005

BALANCE SHEET
MARCH 31, 2005

	Note	2005 $	2005 Rs.	2004 $	2004 Rs.
ASSETS					
Current assets:					
Cash and cash equivalents	5	**70,531**	**1,872,598**	78,356	2,080,352
Trade receivables	6	**675,944**	**17,946,313**	338,571	8,989,060
Other receivables and prepayments	7	**17,382**	**461,492**	83,104	2,206,411
Total current assets		**763,857**	**20,280,403**	500,031	13,275,823
Non-current asset:					
Equipment	8	**-**	**-**	-	-
Total assets		**763,857**	**20,280,403**	500,031	13,275,823
LIABILITIES AND EQUITY					
Current liabilities:					
Other payables	9	**289,539**	**7,687,260**	38,027	1,009,617
Income tax payable		**-**	**-**	28	743
Total current liabilities		**289,539**	**7,687,260**	38,055	1,010,360
Capital and reserves:					
Issued capital	10	**50,000**	**1,327,500**	50,000	1,327,500
Accumulated profits		**424,318**	**11,265,643**	411,976	10,937,963
Total equity		**474,318**	**12,593,143**	461,976	12,265,463
Total liabilities and equity		**763,857**	**20,280,403**	500,031	13,275,823

See accompanying notes to financial statements.

PROFIT AND LOSS STATEMENT
YEAR ENDED MARCH 31, 2005

	Note	2005 $	2005 Rs.	2004 $	2004 Rs.
Revenue	11	**1,737,222**	**46,123,244**	1,483,724	39,392,872
Staff costs	12	**(1,371,354)**	**(36,409,449)**	(1,019,265)	(27,061,486)
Other operating expenses		**(353,526)**	**(9,386,115)**	(438,235)	(11,635,139)
Profit before income tax	12	**12,342**	**327,680**	26,224	696,247
Income tax expense	13	**-**	**-**	-	-
Profit after income tax		**12,342**	**327,680**	26,224	696,247

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2005

	Issued capital		Accumulated profits		Total	
	$	Rs.	$	Rs.	$	Rs.
Balance at March 31, 2003	50,000	1,327,500	385,752	10,241,716	435,752	11,569,216
Net profit for the year	-	-	26,224	696,247	26,224	696,247
Balance at March 31, 2004	50,000	1,327,500	411,976	10,937,963	461,976	12,265,463
Net profit for the year	-	-	12,342	327,680	12,342	327,680
Balance at March 31, 2005	50,000	1,327,500	424,318	11,265,643	474,318	12,593,143

See accompanying notes to financial statements.

CASH FLOW STATEMENT
YEAR ENDED MARCH 31, 2005

	2005		2004	
	$	**Rs.**	$	Rs
Cash flows from operating activities:				
Profit before income tax	**12,342**	**327,680**	26,224	696,247
Adjustment for:				
Depreciation expense	**12,257**	**325,423**	-	-
Operating profit before working capital changes	**24,599**	**653,103**	26,224	696,247
Trade receivables	**(337,373)**	**(8,957,253)**	364,307	9,672,351
Other receivables and prepayments	**72,013**	**1,911,945**	(79,534)	(2,111,628)
Other payables	**245,221**	**6,510,617**	(452,164)	(12,004,954)
Cash generated from (used in) operations	**4,460**	**118,412**	(141,167)	(3,747,984)
Income tax paid	**(28)**	**(743)**	(96,910)	(2,572,960)
Net cash from (used in) operating activities	**4,432**	**117,669**	(238,077)	(6,320,944)
Cash flows used in investing activity:				
Purchase of equipment	**(12,257)**	**(325,423)**	-	-
Net decrease in cash and cash equivalents	**(7,825)**	**(207,754)**	(238,077)	(6,320,944)
Cash and cash equivalents at beginning of year	**78,356**	**2,080,352**	316,433	8,401,296
Cash and cash equivalents at end of year (Note 5)	**70,531**	**1,872,598**	78,356	2,080,352

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2005

1. GENERAL

The company (Registration No. 200203658M) is incorporated in the Republic of Singapore with its principal place of business and registered office at 152 Beach Road #32-01/04, Gateway East, Singapore 189721. The financial statements are expressed in Singapore dollars and Indian Rupees. Singapore dollars is the measurement currency as a majority of the transactions are denominated in Singapore dollars.

The accompanying Indian Rupees financial statements is used solely for the purpose of presenting the company's financial statements along with the financial statements of its ultimate holding company and is disclosed as supplementary information only.

The company is principally engaged in providing consultancy and services relating to information technology and development of software solutions and products.

The financial statements of the company for the financial year ended March 31, 2005 were authorised for issue by the Board of Directors on April 15, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements are prepared in accordance with the historical cost convention and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards.

FINANCIAL ASSETS - The company's principal financial assets are cash and cash equivalents, trade and other receivables. Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

EQUIPMENT - Equipment are carried at cost less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Equipment - 1 year

IMPAIRMENT OF ASSETS - At each balance sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

FINANCIAL LIABILITIES AND EQUITY - Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities include other payables. Other payables are stated at their nominal value. Equity instruments are recorded at the fair value of the consideration received, net of direct issue costs.

PROVISIONS - Provisions are recognised when the company has a present obligation as a result of a past event where it is probable that the obligation will result in an outflow of economic benefits that can be reasonably estimated.

REVENUE RECOGNITION - Revenue from the rendering of services that are of a short duration is recognised when the services are completed.

RETIREMENT BENEFIT COSTS - Payments to defined contribution retirement benefit plans (including state-managed retirement benefit schemes, such as the Singapore Central Provident Fund) are charged as an expense when incurred.

EMPLOYEE LEAVE ENTITLEMENT - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

INCOME TAX - Tax expense is determined on the basis of tax effect accounting, using the liability method, and it is applied to all significant temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

FOREIGN CURRENCY TRANSACTIONS - Transactions in foreign currencies are recorded using the rates ruling on the dates of the transactions. At each balance sheet date, recorded monetary balances and balances carried at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet date. All realised and unrealised exchange adjustment profits and losses are dealt with in the profit and loss statement.

INDIAN RUPEES FINANCIAL STATEMENTS - The accompanying Indian Rupees financial statements have been translated for convenience in accordance with INT FRS 30. All balance sheet and profit and loss items are translated at the rate of one Singapore dollar to Indian Rupee ("Rs.") 26.55 (2004 : S$1 = Indian Rupee 26.55), the rate prevailing at the balance sheet date. The rate prevailing at the balance sheet date approximates the average rate for the year. The translation should not be construed as representations that Indian Rupee have been or could be converted to Singapore dollars and vice versa and is disclosed as supplementary information only.

3. FINANCIAL RISKS AND MANAGEMENT

(i) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the company. The company has adopted the policy of only dealing with creditworthy counterparties.

The carrying amount of financial assets recorded in the financial statements, net of any provision for losses, represents the company's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

(ii) Foreign currency risk

The company does not enter into derivative foreign exchange contracts and foreign currency borrowings to hedge against foreign currency risk. It is the company's policy not to trade in derivative contracts.

(iii) Interest rate and liquidity risk

The company's exposure to interest rate and liquidity risks is insignificant.

(iv) Fair value of financial assets and financial liabilities

The carrying amounts of cash and cash equivalent, trade and other receivables, and other payable approximate their respective fair values due to the relatively short-term maturity of the financial instrument.

4. HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The company is a subsidiary of Mahindra - British Telecom Limited, incorporated in India which is also the company's ultimate holding company. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

Some of the company's transactions and arrangements are between members of the group and the effect of these on the basis determined between the parties is reflected in these financial statements. The intercompany balances are unsecured, interest-free and without fixed repayment terms unless otherwise stated.

Significant intercompany transactions, other than those disclosed elsewhere in the notes to the profit and loss statement are as follows:

		2005		2004	
		$	**Rs.**	$	Rs.
	Other charges	**-**	**-**	351,076	9,321,068
	Secondment fees	**449,800**	**11,942,190**	416,000	11,044,800
5.	**CASH AND CASH EQUIVALENTS**				
	Cash at bank	**50,531**	**1,341,598**	78,356	2,080,352
	Fixed deposit	**20,000**	**531,000**	-	-
		70,531	**1,872,598**	78,356	2,080,352
6.	**TRADE RECEIVABLES**				
	Outside parties	**675,944**	**17,946,313**	338,571	8,989,060

		2005 $	2005 Rs.	2004 $	2004 Rs.
7	**OTHER RECEIVABLES AND PREPAYMENTS**				
	Holding company (Note 4)	**-**	**-**	65,705	1,744,468
	Deposits	**5,527**	**146,742**	5,527	146,742
	Prepayments	**3,492**	**92,713**	2,070	54,958
	Staff advances	**-**	**-**	9,802	260,243
	Other receivables	**8,363**	**222,037**	-	-
		17,382	**461,492**	83,104	2,206,411
8	**EQUIPMENT**				
	Cost:				
	Addition during the year and balance at end of year	**12,257**	325,423		
	Accumulated depreciation:				
	Depreciation for the year and balance at end of year	**(12,257)**	(325,423)		
	Carrying amount:				
	At end of year	**-**	**-**		
9	**OTHER PAYABLES**				
	Holding company (Note 4)	**207,099**	**5,498,478**	-	-
	Other payables	**82,440**	**2,188,782**	38,027	1,009,617
		289,539	**7,687,260**	38,027	1,009,617

10 ISSUED CAPITAL

	2005 Number of ordinary shares of $10 each	2004 Number of ordinary shares of $10 each	2005 $	2005 Rs.	2004 $	2004 Rs.
Authorised	**10,000**	10,000	**100,000**	**2,655,000**	100,000	2,655,000
Issued and paid:						
At beginning and end of year	**5,000**	5,000	**50,000**	**1,327,500**	50,000	1,327,500

11 REVENUE

	2005 $	2005 Rs.	2004 $	2004 Rs.
Rendering of services	**1,737,222**	**46,123,244**	1,483,724	39,392,872

	2005		2004	
12 PROFIT BEFORE INCOME TAX				
Number of employees at the end of year (contract based employees)	**15**		15	
	2005		2004	
	$	**Rs.**	$	Rs.
Directors' fees	**2,000**	**53,100**	2,000	53,100
Staff costs	**1,371,354**	**36,409,449**	1,019,265	27,061,486
Cost of defined contribution plans included in staff costs	**14,276**	**379,028**	3,143	83,447
Foreign exchange adjustment gain	**(2,871)**	**(76,225)**	-	-

13 INCOME TAX EXPENSE

	2005		2004	
	$	**Rs.**	$	Rs.
Current	**-**	**-**	-	-

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 20% (2004 : 20%) to profit before income tax as a result of the following differences:

	2005		2004	
	$	**Rs.**	$	Rs.
Income tax expense statutory rate	**2,468**	**65,525**	5,245	139,255
Non-allowable items	**-**	**-**	30	796
Exempt income	**(2,468)**	**(65,525)**	(5,275)	(140,051)
Total income tax expense	**-**	**-**	-	-

14 CONTINGENT LIABILITIES

	2005		2004	
	$	**Rs.**	$	Rs.
Bank guarantee (secured)	**169,090**	**4,489,340**	-	-

STATEMENT OF DIRECTORS

In the opinion of the directors, the accompanying financial statements set out on pages 4 to 13 are drawn up so as to give a true and fair view of the state of affairs of the company as at March 31, 2005 and of the results, changes in equity and cash flows of the company for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

Lim Tiong Beng
Sonjoy Anand

April 15, 2005

NOTES

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