MPHASIS
Architecting Value

MphasiS BFL Limited
139/1, Hosur Road
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July 28, 2004

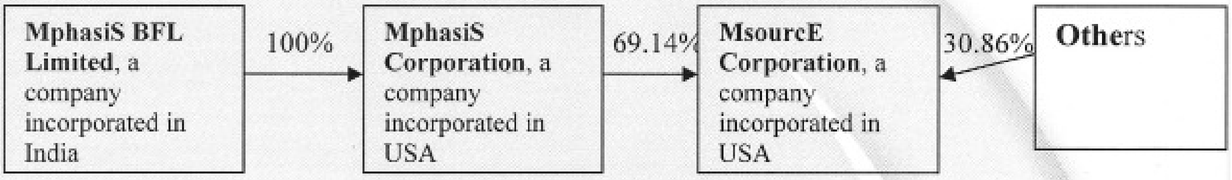
Ms. Neelam Bhardwaj
Deputy General Manager
Securities and Exchange Board of India
Corporation Finance Department
Division of Issues and Listing
Mittal Court, "B" Wing, 1st Floor 224,
Nariman Point
Mumbai: 400021

Re.: **Clarification under Securities and Exchange Board of India (Informal Guidance) Scheme 2003 - MphasiS BFL Limited**

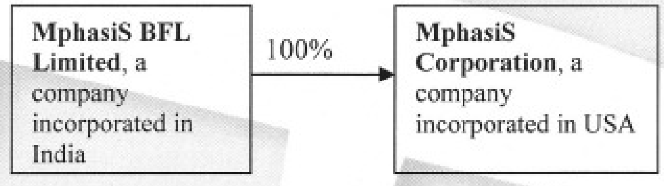
Dear Madam,

MphasiS BFL Limited, a company listed on stock exchanges in India has a wholly owned subsidiary company in the United States of America i.e. MphasiS Corporation. At present MphasiS Corporation holds 69.14% of the paid up capital of MsourcE Corporation (MsourcE), another company incorporated in the United States of America. MphasiS Corporation is now in the process of acquiring the balance 30.86% of the paid up capital of MsourcE held by its minority shareholders and merging MsourcE Corporation into MphasiS Corporation. Shares of MsourcE Corporation are not listed on any stock exchange in India or abroad.

Present Structure



Final Structure (Merger of MsourcE Corporation in MphasiS Corporation))



Subsequent to the approval of the MphasiS BFL Limited shareholders for this, approval of Foreign Investment Promotion Board, Ministry of Finance, Government of India has now been sought for issuing shares of MphasiS BFL Limited and payment of cash consideration to the MsourcE minority shareholders and options in MphasiS BFL Limited to the MsourcE option holders.

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As a part of the transaction, employees' of the MphasiS BFL Group who hold stock options in MsourcE, shall be granted stock options in MphasiS BFL Limited in exchange of their options in MsourcE. In case of some employees' a period of more than one year has lapsed since grant of options and for others it is less than one year.

Clause 9.1 of the SEBI (Employee Stock Option Scheme and Employee Purchase Scheme) Guidelines, 1999 (the Guidelines) provides that:

There shall be a minimum period of one year between the grant of options and vesting of option.

Securities and Exchange Board of India vide Notification Number SEBI/CFD/ESOP/3/2004/22/7 dated July 22, 2004 amended the Guidelines. The following proviso has been inserted after clause 9.1:

"Provided that in a case where options are granted by a company under an ESOS in lieu of options held by the same person under an ESOS in another company which has merged or amalgamated with the first mentioned company, the period during which the options granted by the transferor company were held by him shall be adjusted against the minimum vesting period required under this clause."

Clarifications sought

Since we are merging MsourcE Corporation into MphasiS Corporation and as part of the merger consideration we are granting MsourcE option holders options in MphasiS BFL Limited (MBFL) and this is with the approval of the Foreign Investment Promotion Board, kindly confirm that the above beneficial exception is available to the option holders of MsourcE who are being granted options in MBFL. This means that the vesting period already completed for the MsourcE options can be carried forward and used for computing the minimum vesting period of 1 year as required for the MBFL options as per the SEBI regulations. Hence to the extent of MsourcE options which have completed one year there will be no minimum vesting period clause for the MBFL options and where the MsourcE options have not completed one year, the period already completed can be carried forward for computing the minimum vesting period of one year for the MBFL options.

So if an MsourcE option holder has completed 12 months of vesting for the MsourcE options then the MBFL options he gets in exchange will vest immediately without any minimum vesting period clause. If another MsourcE option holder has completed 9 months of vesting for the MsourcE options, then the new MBFL options he gets in exchange will have a vesting period of only 3 months.

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Kindly provide us the requisite confirmation on the above since we believe that this will be a good employee retention and compensation tool.

We have enclosed with this request a Demand Draft of Rs. 25,000/- in favour of Securities and Exchange Board of India drawn on HDFC Bank, as required..

We hereby, authorise Luthra & Luthra, Chartered Accountants, A 16 / 9, Vasant Vihar, New Delhi 110 057, and / or their assigns to submit this application to you, to follow up the matter, receive orders, approvals and furnish clarification/ information on our behalf, as and when required by you.

Please address any correspondence to us at:

Luthra & Luthra
Chartered Accountants
A 16/9 Vasant Vihar
New Delhi 110 057
Ph: 011-2614 5325, 011-2614 8048, 011-2615 1013, 011-2615 1255
Fax: 011-2614 5222

Thanking you
Sincerely yours

Alok Chandra Misra
Vice President – Finance