



R Systems Reports Record Revenues of US\$14.2 Million (Rs. 59 Crores) in Q2 2007; Profits increase 53.4% QoQ

Noida, India – July 30, 2007

Highlights

Consolidated results for the quarter ended June 30, 2007

- Consolidated revenues from operations for Q2-07 was Rs.58.93 crores (US\$14.24 mn.); YoY growth was 30.49% in US\$ and 18.93 % in INR and QoQ growth was 5.90 % in US \$ and (0.73) % in INR. The deviation in growth rates was a result of the appreciation in average value of INR v/s US\$ by 9.08% YoY and 6.41 % QoQ.
- Net profits after taxes was Rs.3.22 crores (US\$ 0.77 mn) compared to Rs 5.29 crores (US\$ 1.17 mn) in the same period last year and Rs 2.10 crores (US\$0.48) in Q1 07 ; QoQ growth was 53.42%.
- Earning per share was Rs. 2.37 in Q2 2007 as compared to Rs. 4.09 in Q2 2006 and Rs 1.55 in Q1 2007.

Others

- 7 new offshore customers were added during the quarter.
- Total associates as on June 30, 2007 increased to 1,698 compared to 1,260 at the end of June 06 and 1,675 at the end of March 31, 2007. We added a net of 23 associates during the second quarter.

“We had another record quarter with revenues of US\$14.2 million or Rs.59 crores, which exceeded our target. Our net earnings registered a significant increase QoQ of 53.4 % despite the appreciation of INR by 6.4%,” said Rekhi Singh, Chairman and Managing Director. “While we are experiencing growth in all service offering we are excited about the competency we have developed in digital media services and the new opportunities that are emerging in this space. We intend to grow our revenues significantly from this segment.”

“We had to operationally challenge ourselves with stretch goals in enhancing utilization, improving average realization and managing costs to mitigate the margin pressure caused by the appreciation of INR v/s the dollar. The extraordinary commitment of all R System associates across all divisions helped us to achieve our goals and register a QoQ growth in profitability by 53.4 %,” said Raj Swaminathan, COO of R Systems.



Key Operational Highlights

iPLM Services Group:

Our ability to offer a compelling value proposition to high tech sector with our deep domain competencies, rapid and agile development capabilities, proven global delivery platform, and end-to-end solutions and services from development and testing to customer care and technical support is helping our customers to strengthen their business models and gain a competitive advantage. As a result R Systems iPLM services continued to see significant growth in Q2 across all segments within the outsourced product development space. R Systems iPLM services are used by our customers across a wider range of application segments including enterprise software, enterprise security, mobility, Internet media, banking, search engine and performance optimization and resulted in positively impacting over 100 products during the quarter. R Systems established several key new relationships this quarter, including:

R Systems was selected after rigorous evaluation by a software company in the retail price optimization space that serves some of the leading retailers and grocers in the US. R Systems is currently working on multiple engagements to enable the customer to launch the next generation of products. These engagements are of strategic importance for our customer as they pursue larger deals which require a more scaleable, secure and user friendly solution using the latest technologies."

R Systems was chosen by a pioneer in the traffic-management software based in Silicon Valley after evaluating several contenders to manage their entire global technical support operation. Our team works on a 24x7 coverage directly serving our client's customers to optimize and sustain their network performance for their critical mission applications."

In the healthcare segment R Systems commenced with three new engagements:

A leading health care software company catering to the needs of community health centers chose R Systems as the sole technology partner. This multi-year engagement involves assisting the client in developing newer versions of their product and providing integration and maintenance services leveraging R Systems iPLM capabilities.

A state government department engaged R Systems to support the implementation of HIPAA National Provider Identifier (NPI) requirements on databases and applications supporting the cancer detection programs.

A community health center located in western United States engaged R Systems to provide full revenue cycle management services. R Systems has made a positive impact on the client's operations within two months of commencement of services.



Products Group:

In R Systems products group Indus[®] Loan Origination and Collections Product and ECnet[®] Supply Chain Solutions the Company continued to increase the order book position and deepen relationship with the customers. Some of the new engagements commenced during the quarter

Indus[®] Collections Product was selected for implementation in France for one our leading existing global customers increasing our presence in Western Europe. In addition for the same customer we deepened the relationship in Switzerland by commencing on significant new projects around Loan originations and client portals. We have also won a new retail project on a different technology platform with our existing client in Brazil which positions us well for newer opportunities in that area.

ECnet[®] Vendor Managed Inventory (“VMI”) Solution was chosen by an existing customer, who is a global electronics market leader, for roll out of the VMI solution in Mexico. The client’s selection validates our strategy of creating global opportunities for our solutions by demonstrating tangible measurable value from prior engagements for our customers.

ECnet also commenced on a new project for forecasting and planning in supply chain as a bolt-on solution to the ECnet[®] Supply Chain Solution for a leading electronics contracts manufacturer in the Far East. The solution will help the customer gain incremental competitive advantage over competitors.

Liquidity and Shareholder Funds

Cash and cash equivalents, including bank deposits, as on June 30, 2007 was Rs. 44.71 crores compared to Rs. 53.17 crores as on December 31, 2006. Total shareholder funds as on June 30, 2007 was Rs.132.32 crores compared to Rs 128.23 crores as on December 31, 2006. The increase in shareholder funds was as a result of net earnings of Rs 5.32 Crores during the period YTD June 30, 2007.

“The R Systems team reacted speedily to mitigate the margin pressure caused by record fall in \$ this past quarter by executing well on several fronts including enhancing price realization, managing utilization, improving volumes and controlling costs. The fall in average \$ rate from Rs. 44.1 to Rs. 41.3 reduced operating margins by 340 basis points, but by improving operating metrics we managed to significantly grow profits QoQ by 53.4%. The bearish \$ sentiments and fall in forward premium rates will weigh heavily on our efforts to achieve margin growth, however we remain confident of growth opportunities,” said O’Neil Nalavadi, Director Finance.

Strategic Alliance

R Systems and Aisel Corporation, an independent IT solutions provider in Japan, had announced intent for a strategic alliance in October 2006 that involved equity crossing holding by both parties and a business agreement to pursue outsourcing opportunities in Japan. The parties have now mutually decided to pursue the strategic alliance without equity cross holding by cooperating for outsourcing business opportunities in Japan. R Systems has relocated business development personnel in Japan at Aisel offices to jointly pursue business opportunities.



Human Resources

R Systems ended June, 2007 with total count of 1,698 associates, a net addition of 23 during the quarter. We continued to invest in recruitment, training and attracting skilled resources. R Systems relationships in Internet and digital media, consumer finance solutions, mobile applications, security and healthcare amongst others continued to offer exciting and challenging assignments for its associates providing unique experience for employees to grow.

R Systems Process and Quality

R Systems continued to make investments to enhance our proprietary pSuite Framework and protecting customer's intellectual property. During the quarter R Systems processes in the BPO center in Noida were recertified to meet the ISO 9001:2000 standards after an exhaustive audit by the Directorate, Department of Information Technology, Government of India. Further R Systems successfully completed the first surveillance audit of ISO27001:2005 conducted by senior auditors from Intertek Quality Registrar, UK. We believe our processes, quality standards, security standards and domain knowledge provide a competitive edge to our customers.

Capacity of Development and Service Centers

At the end of June 30, 2007 the total square footage of R Systems' six development centers was 162,800 square feet with a seating capacity of 2,262.

About R Systems International Ltd.

R Systems International Ltd. founded in 1993, is one of the leading provider of outsourced product development and customer support services. We help companies accelerate the speed to market for their products and services with a high degree of time and cost predictability by using our proprietary pSuite execution framework. Clients can choose services specific to their needs from R Systems **iPLM** suite of services. We help companies build scalable, configurable and secure products and applications; and help our clients support their customers for products and services using our global delivery model. R Systems rapidly growing customer list includes a variety of Fortune 1000, government and mid-sized organizations across a wide range of industry verticals including Banking and Finance, High Technology and Independent Software Vendors, Government, HealthCare, Manufacturing and Logistic Industries. R Systems maintains six development and service centers and using our global delivery model we serve customers in the US, Europe, South America, the Far East, the Middle East and Africa.



Safe Harbor:

Investors are cautioned that this presentation contains forward looking statements that involve risks and uncertainties. The Company undertakes no obligation publicly to update or revise any forward-looking statements, whether because of new information, future events, or otherwise. Actual results, performance, or achievements could differ from those expressed or implied in such forward-looking statements.

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Financial Performance

Consolidated Profit & Loss Statement (Un-audited) for the Quarter Ended June 30, 2007 (As per Indian GAAP)

(Rs in mn. except per share data)

Sr. No.	Particulars	Quarter Ended June 30		YoY Growth %	Quarter Ended Mar 31, 2007	QoQ Growth %
		2007	2006			
1	Income					
1.1	Net Sales	589.27	495.46	18.93	593.61	(0.73)
1.2	Other Income	13.95	6.03	131.32	8.60	62.22
	Total	603.22	501.49	20.29	602.21	0.17
2	Expenditure					
2.1	Staff Cost	364.43	291.81	24.89	391.19	(6.84)
2.2	Traveling Cost	60.10	32.74	83.55	45.23	32.87
2.3	Communication Costs	16.72	10.46	59.82	16.82	(0.59)
2.4	Legal & Professional Exp.	55.35	47.77	15.87	55.35	0.01
2.5	Other Expenditure	48.87	44.87	8.91	47.72	2.41
	Total Expenditure	545.47	427.65	27.55	556.31	(1.95)
3	EBITDA	57.75	73.84	(21.80)	45.90	25.81
4	Interest	1.05	1.13	(6.83)	0.44	137.98
5	Depreciation/Amortisation	16.57	12.45	33.01	17.65	(6.14)
6	Profit/(Loss) before Tax and Prior Period Expenses	40.13	60.26	(33.40)	27.81	44.30
7	Prior Period Income/(Expenses)	0.88	-	-	-	-
8	Profit/(Loss) before Tax	41.01	60.26	(31.94)	27.81	47.48
9	Provision for Tax					
9.1	Current Tax	5.70	4.12	38.34	4.48	27.11
9.2	MAT credit entitlement	(1.55)	-	-	-	-
9.3	Deferred Tax	3.10	2.11	46.86	0.65	374.77
9.4	Fringe Benefit Tax	1.54	1.10	40.00	1.67	(7.89)
	Total	8.79	7.33	19.91	6.81	29.16
10	Net Profit/(Loss) After Tax	32.22	52.93	(39.12)	21.00	53.42
11	Earning Per Share	2.37	4.09	(41.97)	1.55	53.42

Financial Performance

Consolidated Profit & Loss Statement (Un- audited) for the Six Months Ended June 30, 2007 (As per Indian GAAP)

(Rs. in mn. except per share data)

Sr. No.	Particulars	Six Months Ended June 30		Growth %
		2007	2006	
1	Income			
1.1	Net Sales	1,182.88	936.77	26.27
1.2	Other Income	21.77	10.26	112.04
	Total	1,204.65	947.03	27.20
2	Expenditure			
2.1	Staff Cost	755.62	579.52	30.39
2.2	Traveling Cost	105.34	59.74	76.32
2.3	Communication Cost	33.54	20.26	65.54
2.4	Legal and Professional Expenses	110.70	89.10	24.24
2.5	Other Expenditure	95.80	73.97	29.52
	Total Expenditure	1,101.00	822.59	33.84
3	EBITDA	103.65	124.44	(16.70)
4	Interest	1.49	2.96	(49.68)
5	Depreciation/Amortisation	34.22	23.71	44.33
6	Profit/(Loss) before Tax and Prior Period Expenses	67.94	97.77	(30.50)
7	Prior Period Income/(Expenses)	0.88	-	-
8	Profit/(Loss) before Tax	68.82	97.77	(29.60)
9	Provision for Tax			
9.1	Current Tax	10.18	5.91	72.19
9.2	MAT Credit Entitlement	(1.55)	-	-
9.3	Deferred Tax	3.76	3.67	2.46
9.4	Fringe Benefit Tax	3.21	2.43	32.11
	Total	15.60	12.02	29.88
10	Net profit/(Loss) After Tax	53.22	85.75	(37.93)
11	Earning Per Share	3.92	7.25	(45.97)

Financial Performance

Consolidated Profit & Loss Statement (Un- audited) for the Quarter Ended June 30, 2007 (Contribution Analysis Format; Basis Indian GAAP)

(Figures in mn. except per share data)

Particulars	Q2 2007		Q2 2006		Q1 2007	
	INR	US\$	INR	US\$	INR	US\$
Revenues	589.27	14.24	495.46	10.91	593.61	13.45
Cost of Revenues	380.80	9.21	288.11	6.34	386.70	8.76
Gross Margin	208.47	5.03	207.35	4.57	206.91	4.69
SG & A	35.38%		41.85%		34.86%	
Expenses	163.78	3.97	138.75	3.06	168.12	3.81
Depreciation/Amortisation	16.57	0.39	12.45	0.27	17.65	0.40
	180.35	4.36	151.20	3.33	185.77	4.21
	30.61%		30.52%		31.30%	
Income/(Loss) from Operations	28.12	0.67	56.14	1.24	21.14	0.48
Interest Expense	(1.06)	(0.02)	(1.12)	(0.02)	(0.45)	(0.01)
Other Income, Net	13.95	0.33	5.24	0.12	7.12	0.16
Income/(Loss) before Income Tax	41.01	0.98	60.26	1.33	27.81	0.63
Income Tax Provision	8.79	0.21	7.33	0.16	6.81	0.15
Net Earnings/(Loss)	32.22	0.77	52.93	1.17	21.00	0.48
Earnings Per Share	2.37	0.06	4.09	0.09	1.55	0.04

Financial Performance

Consolidated Statement of Operations (Un-audited) for the Six Months Ended June 30, 2007
(Contribution Analysis Format; Basis Indian GAAP)

(Figures in mn. except per share data)

Particulars	Jan to June 07		Jan to June 06	
	INR	US\$	INR	US\$
Revenues	1,182.88	27.69	936.77	20.85
Cost of Revenues	767.50	17.97	567.10	12.62
Gross Margins	415.38	9.72	369.67	8.23
SG and A	35.12%		39.46%	
Expenses	331.90	7.77	255.49	5.69
Depreciation	34.22	0.80	23.71	0.53
	366.12	8.57	279.20	6.22
	30.95%		29.80%	
Income/(Loss) from Operations	49.26	1.15	90.47	2.01
Interest Expense	(1.49)	(0.03)	(2.96)	(0.07)
Other Income, Net	21.06	0.49	10.26	0.23
Income/(Loss) before Income Tax	68.83	1.61	97.77	2.18
Income Tax Provision	15.61	0.37	12.02	0.27
Net Earnings/(Loss)	53.22	1.25	85.75	1.91
Earnings Per Share	3.92	0.09	7.25	0.16

Consolidated Balance Sheet (Un-audited) as at
(As per Indian GAAP)

(Figures in Rs. mn)

Description	As at June 30		As at March31
	2007	2006	2007
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	135.09	134.62	135.09
Reserves and Surplus	1,188.08	1170.37	1,167.84
Net Worth	1,323.17	1,304.98	1,302.93
Loan Funds			
Secured Loans	63.74	7.56	32.24
Deferred Payment Liability	10.98	-	11.71
Deferred Tax liability (Net)	21.43	-	18.35
TOTAL	1,419.32	1,312.55	1365.23
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	857.65	537.70	854.29
Less: Depreciation	299.35	251.61	292.19
Net Block	558.30	286.09	562.11
Capital Wok-in-Progress	46.03	37.53	34.83
	604.33	323.62	596.93
Investments	12.43	1.69	13.26
Current Assets, Loans & Advances			
Sundry Debtors	544.66	452.47	483.57
Cash & Bank Balances	447.08	649.14	482.81
Other Current Assets	147.07	107.44	148.68
Loans and Advances	95.58	90.29	84.24
	1,234.39	1,299.34	1,199.30
Less : Current Liabilities and Provisions			
Liabilities	349.94	247.37	326.90
Provisions	81.89	84.03	117.36
Net Current Assets	802.55	967.94	755.04
Deferred Tax Assets (Net)	-	19.30	-
	1,419.32	1,312.55	1,365.23

Notes:

1. US\$ equivalent figures are derived by converting the Rupee figures using average currency rates from Oanda.com.
2. Previous period's figures have been regrouped/ recast wherever applicable, to the extent possible.