Information Technology in the Next Millennium

– *the Challenges for the Chief Information Officer*

Nothing endures but change.

Heraclitus

(540 – 480 B. C.)

The growth of Information Technology (IT) has been most spectacular in the last fifteen years. This period has demonstrated that the only constant in the IT field is change. This industry has attracted a large number of visionary entrepreneurs, an abundance of venture capital, and a vast pool of high quality professionals. Not since the industrial revolution, has an industry brought about such improvements in value-for-money to users as has the IT industry. However, the best is yet to come. As we move into the next millennium, this industry will shape the lives of billions of people from the boardrooms of New York to the bazaars of Nepal. This year, Infosys brings you an abridged version of a very informative panel discussion on Information Technology in the Next Millennium – the Challenges for the Chief Information Officer.

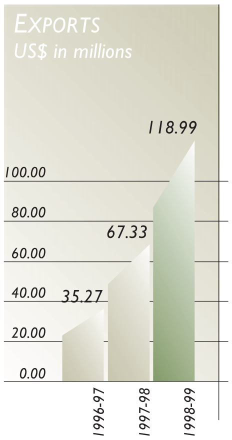
Contents

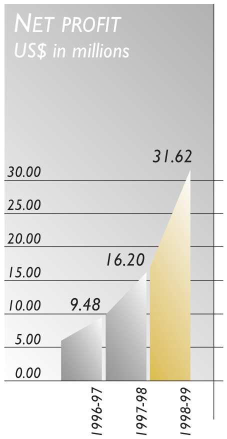
The year at a glance

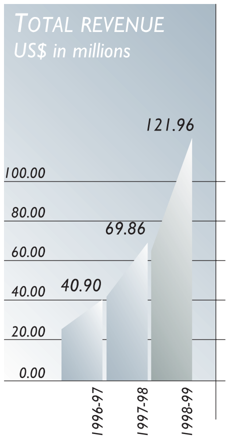
In millions, except per equity share data	March 31, 1999		March 31, 1998	
	Rs.	US$	Rs.	US$
For the year				
Total revenue	5,127.38	121.96	2,603.66	69.86
Exports	5,002.54	118.99	2,509.38	67.33
Operating profit (PBIDT)	1,917.48	45.61	886.12	23.78
Profit after tax (PAT) from ordinary activities	1,329.15	31.62	603.63	16.20
PBIDT as a percentage of total revenue	37.40%	37.40%	34.03%	34.03%
PAT (from ordinary activities) as a percentage of total revenue	25.92%	25.92%	23.18%	23.18%
Earnings per share (from ordinary activities)	40.19	0.96	18.25	0.49
Dividend per share (pro-rata)	7.50	0.18	6.00	0.16
Dividend amount	121.08	2.88	70.29	1.89
Capital investment	716.79	17.05	344.10	9.23
PAT as a percentage of average net worth	54.16%	54.16%	42.24%	42.24%
At the end of the year				
Total assets	5,744.31	136.31	1,729.57	43.81
Fixed assets (net)	1,007.16	23.90	649.54	16.45
Liquid assets	4,166.59	98.87	511.42	12.95
Working capital	4,729.60	112.24	972.26	24.63
Total debt	–	–	–	–
Net worth	5,744.31	136.31	1,729.57	43.81
Equity	330.70	7.85	160.17	4.06
Market capitalization	96,728.00	2,295.40	29,634.22	750.61

Figures in US$ were calculated by converting Indian GAAP figures at the average conversion rate for the year for all Profit and Loss Account items, and at the closing rate for all Balance Sheet items to facilitate comparison. The above figures are for information purposes only.

Market capitalization is calculated by considering the Indian market price for shares outstanding at year-end.







Awards for excellence – 1998-99

AON team

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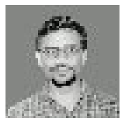
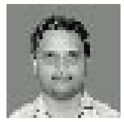


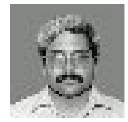

Basab Pradhan • Pravin Rao • Rajiv Raghu • Manish Tandon • Padmanabhan D.

NYNEXPR CMM Level 4 team



Shinju Damodaran • Santosh K. Srivastava • Savita Patkar

SAP implementation team

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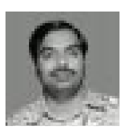
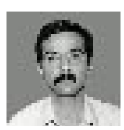
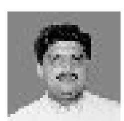
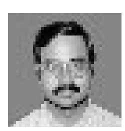








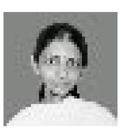
Balakrishnan V. • Sastry M. S. • Ramadas Kamath U. • Venkatesh Gadiyar H.
Raghavan S.• Vinayak Pai V. • Sivaramakrishnan K.

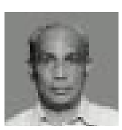
“Y2K-as-an-entry-strategy” team

3

Dheeshjith V. G. • Krishnamurthy T. S. • Subramanyam S. V. • Ravi Kiran • Harsha H. M. • Ganesh G.
Ramaa Sivaram • Muralikrishna K. • Samson David • Srikanta Kumar • Shaji Mathew • Chittibabu B.

Corporate Communications team





Sudha Kumar
B. M. Rao
Jessie Paul

Internal customer champions

Col. Krishna C.V. • Srivathsa P. S.
Madhu Krishna Rao • Suresh Kamath
Revanna S. • Chandrappa

Nandan M. Nilekani

Managing Director, President and Chief Operating Officer

I am very happy that I share the authorship of this year's *Letter to the shareholders* with my colleague, Mr. Nandan M. Nilekani (Nandan, as he is affectionately known), the new managing director of Infosys. As the company takes on new challenges of growth and globalization, I felt the need to share my responsibility with another person. The board of directors, after due deliberations, decided to appoint Nandan as the new managing director, president and chief operating officer, to take over the operational responsibilities from me so that I could concentrate on strategic issues as we move to the next millennium. Mr. N. S. Raghavan, the joint managing director, requested that the board not consider him as he felt that Infosys needed a much younger person for such a role. Once again, as he has always done, Raghavan demonstrated his farsighted views on leadership keeping in mind the long-term challenges that Infosys would face.

Nandan became the new managing director, president, and chief operating officer on February 11, 1999. He looks after all day-to-day operations and reports to me. I continue as the chairman and chief executive officer.

I have known Nandan closely ever since he walked into my room as a 23-year-old and charmed me into recruiting him as a software engineer when I was the head of software at PCS, Bombay in 1979. In fact, he is the first of more than three thousand software engineers who have worked with me and have emerged with flying colors from the tough battery of tests for learnability. My 25-year-old hypothesis is that, in a rapidly changing industry like software, learnability, rather than knowledge base, is critical for sustained success. Nandan is a flourishing icon of this idea that has been independently accepted and practised by other well-known companies.

Nandan has demonstrated the power of learnability by successfully handling a variety of responsibilities including software development, sales and marketing. He is a rare example of one endowed with the best of left and right brain capabilities. Whether it is analytics or articulation, you will find him always at his best. Tough when needed but always gentle at heart, he is a great asset to this growing company. Nobody knows better than he does that energy, enthusiasm and excellence in execution are the attributes of a great leader. I have no doubt that he will continue to demonstrate these attributes in every task that he takes up in his new role. I am excited at the prospect of shaping the future of Infosys jointly with him.

Best of everything, Nandan!

April 9, 1999
Bangalore

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Board of Directors

Left to right: ***top :*** Shibulal S. D., Dinesh K., Susim M. Datta, Nandan M. Nilekani, Prof. Marti Subrahmanyam
bottom : Raghavan N. S., N. R. Narayana Murthy, Ramesh Vangal, Gopalakrishnan S., Deepak M. Satwalekar

Letter to the shareholders

Dear Shareholder,

At the outset, we welcome our new investors who have purchased the Infosys American Depositary Shares (ADS) consequent to our listing on the NASDAQ. We had announced last year, as part of our globalization strategy, our intention to list on a stock exchange in the United States. On March 11, 1999, Infosys became the first India-registered company to be listed on a stock exchange in the United States. The listing will enhance our visibility in the marketplace, and also provide an acquisition currency. Infosys has also created an ADS-based Employees Stock Option Plan (ESOP), and the first lot of such stock options has been granted.

We are happy to report on another successful year. The total revenue, exports, PBIDT and PAT grew from Rs. 260.37 crore, Rs. 250.94 crore, Rs. 88.61 crore and Rs. 60.36 crore in 1997-98 to Rs. 512.74 crore, Rs. 500.25 crore, Rs. 191.75 crore and Rs. 135.27 crore respectively in 1998-99. Despite the sluggish domestic economy, domestic sales of Bancs2000 grew from Rs. 6.70 crore in 1997-98 to Rs. 8.32 crore in 1998-99. Achieving such overall growth without impacting quality, delivery schedule and cost is a rare phenomenon.

Our business is customized software development, re-engineering and maintenance in many vertical areas including retailing and distribution, banking and finance, insurance, manufacturing and data communication. We bring expertise in several technologies including hardware and software platforms for leveraging the capabilities of the Internet, open systems, the mid-ranges and the mainframes. Our growth strategy is based on our *global software delivery model*. This model provides a framework for scoping development, re-engineering and maintenance projects as fixed-price, fixed-time-frame projects. It leverages the availability of high-quality professionals in large numbers in India, our ability to operate world-class software development centers, fast implementation of new quality and productivity models, and our lower cost of operations. We are happy to state that the fixed-price, fixed-time-frame projects have contributed about 36% of the total revenue during the year.

Growth in sales and improvement in margins come from repeat transactions with the same client. Around 90% of the revenue this year has come from companies who were clients in the prior fiscal year. We have used the Year 2000 opportunity to establish relationships with thirteen new clients with eight of whom we have started our mainstream business of development, re-engineering and maintenance. Most of our growth in future is likely to come from the mainstream services of development, re-engineering and maintenance. Internet, package implementation, engineering services and telecom services are likely to be the services of the future registering significant growth rates, though on a small base.

E-commerce is the vehicle for growth in the next millennium. Your company designs, erects and maintains robust and secure Internet, intranet and extranet infrastructure both for improving internal productivity as well as for leveraging the power of e-commerce. This practice has shown considerable growth during the past year contributing 3.7% to the total revenue. We intend to focus even more on this growing market opportunity in the future.

Prudent risk management is a key requirement for any global business and is an integral part of the business strategy at Infosys. The business de-risking model of Infosys does not allow excessive dependence on any one client, technology, service or vertical market. The largest client contributed 6.4% to the total revenue. The top five clients contributed 28.4% of the total revenue this year as compared to 35.1% last year.

Right at the time of starting the Year 2000 services in 1997, we had prescribed a limit of 25% contribution to total revenue from the Year 2000 practice. The contribution from this service was: 8% in 1997, 23% in 1998 and 20% in 1999. The quarterly contribution of this service to total revenue during the year has been – 24% in Q1, 23% in Q2, 19% in Q3 and 15% in Q4. Thus, the de-risking model is working well. Efforts were also made to increase the share of revenue from countries other than the United States. Infosys invested Yen 24 million in JASDIC Park Company during this year. JASDIC Park is promoted by Mr. Kenichi Ohmae of the Heisei Research Institute. JASDIC Park, along with our branch office in Japan, will focus on increasing our presence in the Japanese market. Our Maastricht office has moved to Frankfurt, Germany.

As we move forward, our challenge is to grow while protecting our margins. This requires that we improve our per-capita revenue productivity and contain our costs. The composite per-capita revenue productivity has grown by 9.4% this year over last year. The company spent over 9% of its revenue on technology, and training to enhance the productivity of its professionals. Costs are under control and the benefits of economies of scale are visible. Our strategy of diversifying the base of software professionals by setting up software development centers at multiple locations in India has helped increase the pool of software professionals to 3,158 (3,389 IT professionals including those in support functions) at the year-end from 2,186 last year.

We have made significant investments in physical and technological infrastructure, tools, methodologies and processes to fine-tune the concurrent, distributed development module of our global delivery model. In future, this investment will reduce cycle times and costs, and improve quality and productivity for our customers. Infrastructural expansion, when completed in the next two to three years, is expected to add approximately 8,90,000 square feet of office space for over 6,000 employees in India. We completed the construction of 1,67,600 square feet of space at Infosys Park, our new campus in Bangalore. We added 23,000 square feet of office space at Chennai. We have started the development of a new campus at Pune. Our investments in technological infrastructure and telecommunications ensure that adequate capacity is built to meet increased demand from our clients.

Effective management of growth demands a user-friendly, robust, and secure information infrastructure. During the third quarter, your company went live on R/3 - SAP's end-to-end integrated information infrastructure. The implementation was completed in just over 5 months – one of the fastest ever. Infosys managed the entire project primarily using internal resources and expertise.

During the year, the company won several awards including the prestigious *Company of the Year* award instituted by The Economic Times, a highly-respected business daily in India.

As we move to the next millennium, IT is likely to play a greater role in shaping the destiny of corporations worldwide. Thus, the management council decided to hold a panel discussion at New Orleans, USA on October 8-9, 1998 to discuss the topic: *IT in the Next Millennium – the Challenges for the Chief Information Officer*. Mr. Phaneesh Murthy, Head (Worldwide Sales) – Infosys, moderated this discussion. The participants were: Mr. Bill Gauld, CIO, Textron; Mr. Ivo Cools, CIO, Belgacom Mobile; Mr. S. D. Shibulal, Director, Infosys; Prof. Vijay Gurbaxani, Professor, University of California, Irvine; Mr. Wolly Morin, CIO, Ann Taylor; Mr. Charlie Mitchell, Vice-President – Information Services, Nordstrom; Paul Strassmann, a well-known consultant; and David Grossmann, Managing Director at Thomas Wiesel Partners LLC. We are thankful to these well-known thinkers and practitioners.

Infoscions are men and women of high discipline, integrity, quality, productivity, creativity and commitment. On behalf of the board of directors and the management council, and on your behalf, we place on record our appreciation and gratitude to these high achievers.

Bangalore April 9, 1999	Nandan M. Nilekani *Managing Director, President and Chief Operating Officer*	N. R. Narayana Murthy *Chairman and Chief Executive Officer*

The forward-looking statements in the Letter to the Shareholders should be read in conjunction with the following cautionary statements*. Certain expectations and projections regarding future performance of the company referenced in this Annual Report are forward-looking statements. These expectations and projections are based on currently available competitive, financial, and economic data along with the company's operating plans and are subject to certain future events and uncertainties, that could cause actual results to differ materially.*

Information Technology in the Next Millennium – the Challenges for the Chief Information Officer

In the last twenty years, Information Technology (IT) has influenced our lives and the way we do business like no other technology has. Change, speed of change, and adaptability to change have become the key concerns of every Chief Information Officer (CIO). To understand the challenges for CIOs as we move into the next millennium, Infosys invited several well-known thinkers and practitioners of IT from across the globe for a panel discussion on this topic at New Orleans, Louisiana, USA on October 8-9, 1998.

Mr. Phaneesh Murthy, Head (Worldwide Sales) – Infosys, moderated the discussion. The participants were:

Mr. Phaneesh Murthy
Head – Worldwide Sales, Infosys

Mr. Bill Gauld (Bill)
CIO, Textron

Mr. Ivo Cools (Ivo)
CIO, Belgacom Mobile

Mr. S. D. Shibulal (Shibu)
Director, Infosys

Prof. Vijay Gurbaxani (Vijay)
Professor, University of California, Irvine

Mr. Wolly Morin (Wolly)
CIO, Ann Taylor

Mr. Charles Mitchell (Charles)
Vice-President – Information Services, Nordstrom

Mr. Paul Strassmann (Paul)
Consultant

Mr. David Grossmann (David)
Managing Director at Thomas Wiesel Partners LLC.

The editors of this annual report provide below an abridged version of the panel discussion. Infosys accepts full responsibility for any possible errors in abridging the views of the panelists. However, Infosys is not responsible for the views expressed by the panelists.

Phaneesh

Welcome to the panelists and the audience. I request the opinion of the panelists on the challenges that the CIOs face as they move to the next millennium.

Bill

I see three challenges in the future. First, realizing that we have to change the way we deliver information technology solutions to our businesses, which are likely to change even faster as we move to the next millennium. We may benefit from using the finer principles of supply chain management in delivering IT solutions to our end users.

The second challenge is to create an IT infrastructure that is robust, secure, inexpensive and, most importantly, flexible – able to handle the *unplanned* as easily as the planned. An IT infrastructure that is highly reusable and adaptively evolving can cumulatively strengthen the competitive advantage of the organization. In the 21st century, thanks to the high velocity of market dynamics, we will not be able to disrupt our entire business and replace all our applications and platforms, as we have done many times in the past. In addition, the imperative to reduce the cost of operations will force us to reuse our huge existing investment in IT.

Mr. Bill Gauld
CIO, Textron

The third challenge is a standard one - people shortage. The conventional wisdom is that this shortage will reduce post-Y2K. But, I think the shortage will continue at the current level, if not increase.

Ivo

Today, we need people with the skills of at least the last three generations of IT. This will continue in future. In addition, in technical areas like Telecommunications, we will need professionals with both engineering as well as IT skills. Finding these resources will become even harder in future.

I agree with Bill that our future systems will have to be highly adaptable and reusable to handle the higher pace of change that we will see in future. Our systems will have to become more object-oriented to handle changes inexpensively while causing minimum perturbation to the current operations. This requirement will become most pronounced in Europe as they integrate multi-currency, multi-lingual, and even multi-company operations.

We will also continue to face the challenge of de-risking the outsourcing strategy given the speed of change in business practices, marketplace and technology.

The IT professional must show greater speed in acquiring domain knowledge to help the organization innovate for success in a marketplace with a volatile customer base.

I also believe the 24-by-7 paradigm will become critical in development, maintenance and operational support of IT systems in future.

Shibu

I believe there are only two things constant in our profession - IT is here to stay, and it will be in a constant state of change! Business imperatives rather than technology advances will drive the changes. Thanks to advances in technology, the *any-time-any-where* paradigm will become the norm in solving the increasingly complex problems that the next millennium will force on us. Such a focus on decentralization in business operations will require similar decentralization even in IT application development, maintenance and operations. Corporate IT would, then, focus on network and security issues and on enterprise-wide solutions. Thus, IT will play a greater role in corporate strategy and the CIO is likely to be on the board. The challenge is to train the staff of IT departments to become more business-oriented and strategic in their thinking.

Vijay

Mr. Ivo Cools
CIO, Belgacom Mobile

We, in academia, have been studying how newer and better business models are easily outperforming the older ones. The first-mover advantage is becoming increasingly critical. There is immense pressure on the IT organization to deliver the capability to quickly catch up with the first-movers. Thus, the strength of the IT group in an organization will be measured by the learnability and quick implementation skills of its staff rather than the suite of applications it possesses currently. Developing these competencies will be a big challenge.

The pressures from e-commerce on price and delivery time will result in increased enterprise integration based on common information infrastructure – information utilities that perform all the transaction processing for many organizations. Designing enterprise-specific front-office applications, and deriving business intelligence from innovative data mining will become the key determinants for success in the marketplace.

Wolly

Mr. S. D. Shibulal
Director, Infosys

Our challenge is to use technology and innovation of our people to improve customer satisfaction, cost, cycle time, response time, and productivity. Motivating our staff is one of our biggest challenges.

In the beginning of the IT era, we took people out of business and made them technologists. In the recent past, we have been putting them back in the business functions where they belong. In the next millennium, the IS organization would be responsible only for databases, networks, standards, support, and security. Business functions would themselves create the IT systems they need, following the policies and standards set by the IS departments. The challenge is to learn these new skills.

Charles

Finding experienced technical people is a big challenge. Secondly, the management of an enterprise expects to see a direct, short-term correlation between money spent on IT and improvement in profitability. As we all know, this is not always possible. Thus, the education of management is a key challenge.

Paul

The challenge of the future is to manage business risks arising out of IT applications. Recent IT developments and activities do decrease costs but also increase risks. The increasing risk of IT will be managed, not through IT vendors, but through third party verification and protection against risk – an independent information audit. Organizations will spend huge amounts on insurance policies for their information systems. This has already begun. The expanding market for Y2K insurance policies is a good example.

The next fifty years will focus on innovation and on the way we integrate IT into our socio-economic structure. Independent verification and insurance is the way society will deal with the risks associated with this process.

David

I will frame some of the previous comments in the context of IT services. In the recent past, a lot of thought has gone into leveraging external service providers to complement internal weaknesses, such as manpower shortage. The US continues to lag behind other economies in creating new supply. This is a big challenge.

Prof. Vijay Gurbaxani
Professor,
University of California, Irvine

Companies are not looking for technical partners anymore. They are, in fact, looking for business partners. The customer is not really the CIO; the customer is the end user who drives the need for new applications. Therefore, a service provider needs to understand the business issues to add value as a long-term partner. Making this transition from technology expertise to business domain expertise is a critical challenge for services companies.

Phaneesh

We have discussed challenges arising out of the imperatives to manage rapid changes in business and technology, competitive pressures, cycle time reduction, response time improvement and cost reduction. Thus, we have to master sophistication in technology and complexities of business. Given the trend of user-friendliness of technology in all aspects of our life, future end-users are likely to be much more IT literate than they are now. With this increasing sophistication at the user end, do you see a diminishing role for IT in the future?

Charles

In digital times, when a manufacturer understands customer service, technology will enable him to sell directly to the customer instead of coming through us. So, we are developing a different view of what Nordstrom is. We are a relationship company now and will, through the use of technology and the Internet, be more aggressive in future instead of being defensive and reactive. We will maintain optimal staffing levels in the process. We will move towards virtualization of the corporation. In the digital era of the next millennium, IT people will have an increasing role in creating this virtual corporation that includes all the players in the supply chain.

Wolly

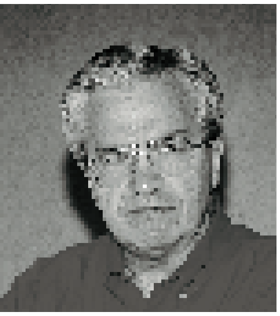
I think the trend of end-user sophistication is here to stay. In my opinion, the role of IS – as analytical people to help the users – is going to diminish, and the users' role – as intelligent users of technical capabilities – will increase.

Ivo

The closer you move to the customers, the more complex and challenging IT becomes. Therefore, the importance of IT will continue to increase, though the importance of IT people may decrease.

Bill

The trend of the end user doing more IT work will continue. This trend will permeate up the organization as we see a new generation of management take over. We will see more sophisticated tools that would become the basis for eliminating old applications. Our challenge is to manage our one real asset – information. Managing information would be a big responsibility in future. We will see end-user sophistication manifest itself in the form of functional people with quasi-systems responsibilities.



Mr. Wolly Morin
CIO, Ann Taylor

Shibu

I don't see the role of IT going down. The role will move from operational to strategic. Decentralization of applications would continue. The IT function will become part of the corporate group with responsibility for IT strategy, policies, standards and security. Corporate IT will be the custodian of organization-wide knowledge and will manage enterprise-wide IT infrastructure.

Vijay

As we move into a knowledge economy, the demand for information processing goes up. As the end user becomes more sophisticated, the demands on IT infrastructure and security standards increase. I see the roles of end-users and IT people as complementary rather than substitutable. Both these roles will increase significantly in the context of an information economy.

Phaneesh

The role of the CFO became strong in the 1930s after auditing requirements were introduced. Given the likelihood of audits on information assets of a company in addition to financial assets, do you think it would be necessary to put the CIO into the boardroom?

Paul

The SEC recently issued a regulation – 5A – mandating the disclosure of the magnitude of financial exposure arising out of the Y2K problem. The kind of questions being asked by SEC and the possible legal action against non-compliance have phenomenal implications on the issue of who is to decide SEC disclosure. The CFO is deeply steeped in the industrial age paradigm. He is unlikely to be equipped to account for the safety and risk of the large information assets. The most likely scenario is the emergence of a second fiduciary – the CIO - as being responsible for information assets.

Phaneesh

The regulation that Paul mentioned also requires disclosure on the status of Y2K-related projects. Based on this trend, do you think the SEC will now start asking for progress on other mission-critical projects as well?

Paul

In all likelihood, SEC would require the implementation of the Executive Order 65. This order deals with the security of national information infrastructure, especially for banking, utilities, communication and transportation. It requires every relevant organization to confirm that its IT infrastructure is secure against terrorist attacks and failures. IT is now the choice target for terrorist attack. Thus, we will see increasing government regulation in the IT area because you cannot let the economic well-being and security of a civilization continue to rest on the flimsy foundation of the current times.

Mr. Charles Mitchell
Vice-President –
Information Services, Nordstrom

Phaneesh

Is such a pro-active move by the SEC, in demanding disclosure on the safety and risk of IS projects, likely to bring significant changes in the oversight, quality and completion time of IT projects?

Bill

Oversight responsibilities have always been strong in our businesses. The forthcoming developments such as the SEC disclosure only formalize activities that are already in place and are not a big surprise. This may give the CIO a little bit more legitimacy in the boardroom but would have only a minor impact on our business processes.

Wolly

The disclosure requirement has not really changed our project plans. I already report to the chairman of the board and have good relationships with many of the members. Our projects are all business-sponsored. IT only owns projects internal to the department.

Paul

I would like to comment on the question whether the SEC requirements are business as usual. There is a specific question in the SEC disclosure requirements regarding the source of independent verification and validation. Now this is a very different development – the beginning of IT really becoming a fiduciary element rather than something that is just stated to be in good shape by the CIO himself.

Bill

We added mandatory external audits a year ago on our critical applications for exactly that reason.

Charles

I do believe that somebody has to be holding the CIOs accountable if they are turning over at 40% a year. Further, I don't see the management often allowing the CIO to present the information at the desired level of detail.

Paul

It is precisely because of the high turnover among CIOs that the question of the company paying the liability becomes critical. The instability among CIOs will necessitate proxy monitoring of risk. This would impose requirements on system vendors to produce test results for their deliverables. I predict that the vendor will have to give a regulated statement of test results with standard indicators of reliability and maintainability.

Mr. Paul Strassmann
Consultant

Charles

Why is the turnover of CIOs at such a high level? Better job offers. Well, isn't that a management problem?

Paul

The better job opportunities are a consequence, not the cause. The cause is that management is confused as to what is a CIO. The fundamental reason why CIOs fail is that it is not at all clear what is expected of them.

Phaneesh

At present, there are very few technology-driven businesses in the Fortune 500 or the Global 500. Do you see this trend changing over the next five years?

David

In my opinion, yes. Businesses want to reach as many different people as possible, and as quickly as possible. The Internet and other technology-related developments facilitate this and would play a significant role in shaping the future of business.

Paul

The average ratio of IT cost to payroll cost in the Fortune industrials is now 11%. The average IT ratio in the banking and financial sectors is 18%. In the next 10 years, that number is going to increase by about 5 points in each sector.

So, you can expect, in the banking and financial sector, the IT budget to be about 25% of the payroll cost and in the industrial sector about 16%.

Charles

A lot of high-growth IT companies – Amazon and a few others – that have not made any money yet are now worth more than some of the companies that have been around a hundred years. Yes, the presence of technology businesses in the Fortune 500 is likely to grow dramatically.

Paul

The answer is yes. Companies that are highly information intensive, especially if they can deliver information over the Internet, have a good chance of getting into the Fortune 500.

Vijay

Yes, I agree with that. You have got to believe that high-growth IT companies will occupy a bigger and bigger share of the Fortune 500.

MR. DAVID GROSSMANN
Managing Director,
Thomas Wiesel Partners LLC.

Shibu

Increasing customer expectations are going to necessitate a shift in focus from the product to the customer. This will definitely need extended use of technology.

Ivo

In the telecom business, my opinion is that technology will drive business more and more. Voice recognition and wireless data will have increased value-add for businesses.

Wolly

Look at the evolution of computing in the West. In the beginning, a few companies automated their businesses successfully and they were recognized as being experts in using computing at that time. In the next phase, process reengineering really took off. Now, we have more companies figuring out how to do that well and they too have become successful. We will see these successes increase dramatically because we are going through a transformation of the customer relationship – IT is between the customer and the company. These developments are going to fundamentally change the dependence of businesses on technology.

Phaneesh

Well, this discussion on the challenges for the CIOs as IT moves to the next millennium has been very informative. On behalf of Infosys, I would like to thank every one of the panelists for his seminal contribution to this dialogue.

Management Council

Nandan M. Nilekani
Managing Director, President, and Chief Operating Officer, Chairman – Management Council

Mohandas Pai T. V.
Senior Vice President and Head – Finance & Administration, Secretary – Management Council

Ajay Dubey
Vice President – Strategic Business Unit-2

Ashwani K. Khurana
Senior Vice President and Head – Sales and Support, Banking Business Unit

Balasubramanian P. Dr.
Senior Vice President and Head – Strategic Business Unit-2

Dinesh K.
Director and Head – Quality & Productivity and MIS

Girish G. Vaidya
Senior Vice President and Head, Banking Business Unit (SBU-6)

Gopalakrishnan S.
Deputy Managing Director and Head – Customer Delivery and Technology

Hema Ravichandar
Senior Vice President and Head – Human Resource Development

Jan DeSmet
Vice President – Consulting Services and Head – Strategic Business Unit-4

Phaneesh Murthy
Senior Vice President and Head – Worldwide Sales

Prabhu M. S. S. Dr.
Senior Vice President and Head – Strategic Business Unit-7

Raghavan N. S.
Joint Managing Director and Head – Human Resources Development, and Education & Research

Raghavan S.
Associate Vice President and Head – Quality & Productivity

Raghupathi G. Bhandi
Vice President – Strategic Business Unit-9

Rajiv Kuchhal
Associate Vice President and Head – Strategic Business Unit-8

Shibulal S. D.
Director and Head – Strategic Business Units 1 and 5

Srinath Batni
Senior Vice President and Head – Strategic Business Unit-3

Vasudeva Rao L.
Vice President – Strategic Business Unit-1

Yegneshwar S. Dr.
Associate Vice President and Head – Education & Research

Board of Directors

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

Susim M. Datta
Director

Deepak M. Satwalekar
Director

Ramesh Vangal
Director

Prof. Marti G. Subrahmanyam
Director

Raghavan N. S.
Joint Managing Director

Gopalakrishnan S.
Deputy Managing Director

Dinesh K.
Director

Shibulal S. D.
Director

Audit committee

Deepak M. Satwalekar, *Chairman*
Susim M. Datta
Ramesh Vangal
Prof. Marti G. Subrahmanyam

Compensation committee

Susim M. Datta, *Chairman*
Deepak M. Satwalekar
Ramesh Vangal

Nominations committee

Susim M. Datta, *Chairman*
Deepak M. Satwalekar
Ramesh Vangal
Prof. Marti G. Subrahmanyam

(L to R) **Row 1** – Raghavan N. S. • Gopalakrishnan S. • Nandan M. Nilekani • Mohandas Pai T.V. • Girish G.Vaidya
Row 2 – Balasubramanian P. • Ashwani K. Khurana • L.Vasudeva Rao
Row 3 – Yegneshwar S. • Jan DeSmet • Shibulal S. D.

(L to R) **Row 1** – Dinesh K. • Prabhu M. S. S. • Ajay Dubey
Row 2 – Rajiv Kuchhal • Bhandi G. Raghupathi • Raghavan S.
Row 3 – Srinath Batni • Phaneesh Murthy • Hema Ravichandar

Directors' report

To the Members,

Your directors are pleased to present their report on the business and operations of your company for the year ended March 31, 1999.

Financial results

*Rs. in crore **

Year ended March 31	1999	1998
Total revenue	512.74	260.37
Operating profit (PBIDT)	191.75	88.61
Interest	–	–
Depreciation	35.89	22.75
Profit before tax from ordinary activities	155.86	65.86
Provision for tax	22.94	5.50
Profit after tax from ordinary activities	132.92	60.36
Extraordinary income	2.34	–
Net profit	135.26	60.36
Appropriation		
Interim dividend paid	4.00	1.76
Dividend recommended – final	8.11	5.27
Total dividend	12.11	7.03
Dividend tax	1.21	0.70
Transferred to capital reserve	2.34	–
Transferred to general reserve	119.60	52.63

* Rs. One crore equals to Rs. 10 million.

Results of operations

Your company continued its rapid growth during this year as well. Total revenue has grown to Rs. 512.74 crore during the current year from Rs. 260.37 crore, a growth rate of 96.93%. The operating profit has grown to Rs. 191.75 crore (37.40% of total revenue) from Rs. 88.61 crore (34.03% of total revenue), a growth rate of 116.39%. The operating profit margins have increased due to enhanced revenue productivity, lower growth in administrative expenses and a broadening of the business mix. Profit after tax, from ordinary activities, has increased to Rs. 132.92 crore (25.92% of total revenue) from Rs. 60.36 crore (23.18% of total revenue), an increase of 120.19%. An extraordinary income of Rs. 2.34 crore (net of tax of Rs. 0.29 crore) was realized from the sale of part of your company's holding in preferred stock in its subsidiary Yantra Corporation.

Your company has instituted a contingency plan to meet any possible disruption in its business due to the Y2K impact on the technology and communication infrastructure provided to the company by its service providers. A provision of Rs. 6.66 crore has been made towards such a contingency. The losses incurred by Yantra Corporation, exceed your company's contribution to its capital. As a result, a provision of Rs. 7.06 crore has been made, as a matter of prudence. The provision for income tax has increased, as a percentage of total revenue, to 4.47% due to increase in income taxes payable outside India.

During the current year, your company revised the estimate of useful lives of buildings (software center and others) from 28 years and 58 years to 15 years, resulting in an additional charge for depreciation of Rs. 0.42 crore. A capital expenditure of Rs. 71.68 crore was incurred, compared to Rs. 34.41 crore in the previous year.

Dividend

An interim dividend of Rs. 2.50 per share (25% on par value of Rs. 10), was paid in November 1998. Your directors, now, recommend a final dividend of Rs. 5.00 per share (50% on par value of Rs. 10), pro rata, making in all, a total dividend of Rs. 7.50 per share (75% on par value of Rs. 10), pro rata, for the current year. The total amount of dividend is Rs. 12.11 crore as against Rs. 7.03 crore for the previous year. Dividend (including dividend tax), as a percentage of net profit after tax from ordinary activities, is 10.02% as compared to 12.81% in the previous year. The dividend is payable, pro rata, on the bonus shares and the ADS listed on the NASDAQ. Under the Indian Income Tax Act 1961, the receipt of dividend is tax-free in the hands of the shareholders. The tax on distributed profits, payable by the company, increased to Rs. 1.21 crore from Rs. 0.70 crore.

ADS (American Depositary Shares) issue

In the previous year, your directors had announced their intention to seek a listing on a stock exchange in the United States. Government approvals were received for this issue as well as for the issue of ADS-linked stock options during the year. Infosys became the first Indian-registered company to be listed on a stock exchange in the United States when it listed its American Depositary Shares (ADS) on the NASDAQ on March 11, 1999. The issue was priced at US$ 34 per ADS in the ratio of 2 ADS per equity share corresponding to a price of Rs. 2,890 per equity share, a discount of 9.72% to the closing price on the NSE on March 11, 1999. An amount of US$ 70.38 million (Rs. 296.86 crore) was realized through the issue of 2.07 million ADSs. The ADSs have quoted above the issue price since the listing day.

Increase in share capital

During the year, upon your approval, a bonus issue of 1:1 was made by capitalizing a sum of Rs. 16,01,72,000 from the general reserve. The paid-up capital also increased by Rs. 1,03,50,000 consequent to the listing of the ADSs on the NASDAQ. In all, the issued, subscribed and paid-up capital increased by Rs. 17,05,22,000 with the issue of 1,70,52,200 equity shares of Rs. 10 each. To provide for the issue of these additional shares, the authorized capital of your company was increased to Rs. 50,00,00,000 consisting of 5,00,00,000 shares of Rs. 10 each.

Business

The software export market continued to be buoyant during the year. Exports from India grew rapidly. Opinion is divided on whether the export market for Indian firms will continue to grow at the current high rates after the ebbing of the Year 2000 conversion opportunity. Your company has a clear de-risking model for its business through a breadth of service offerings and has used Year 2000 conversion services business as an entry opportunity to new marqués clients. Therefore, it is not likely to witness a significant slowdown in business due to the ebbing of the Year 2000 conversion opportunity. Your company's software export revenue grew by 99.35% to Rs. 500.25 crore from Rs. 250.94 crore. 39 new clients were added during the year. Your company invested Yen 24 million (Rs. 0.75 crore) during the current year in JASDIC Park Company furthering the relationship with JASDIC. New markets in Europe were also opened up. Your company continues to focus on offshore software development, maintenance and products. During the year, there were 137 new installations of Bancs2000 across nine banks. The share of the fixed-price component of the business is 36%, same as in the previous year. Revenue productivity also grew during the year in tune with your company's strategy.

Branding of services

Our strategy for branding services (such as creating tools, techniques, and methodologies, and training people to execute such projects as well as proactively marketing them) has been successful. *In2000®* is the service created as a solution for the millennium problem. *InEuro* is the service created for conversion to Euro currency. *IntERPryz* is the ERP package implementation service. *InRevive* is the service for reengineering of existing systems. All these services have performed satisfactorily during the year. We see continued opportunity for all the services except *In2000®*. The contribution of the *In2000®* practice declined approximately to 20% of the total revenue as compared to 23% in the previous year. However, clients with whom we built a relationship using *In2000®* as an entry strategy have given us business in mainstream areas of development, reengineering and maintenance. It is our intention to further reduce the contribution from the *In2000®* practice to the total revenue, as we move forward into the next year. The rapid growth of the Internet has opened a new market segment. In the previous year, your company had initiated an Internet and E-Commerce solutions practice. During this year, the revenue from this practice grew to Rs. 18.97 crore making up 3.7% of the total revenue.

Domestic market

The economic slowdown witnessed last year continued during this year also. Yet, sales opportunities for Bancs2000 in India improved during the year. The revenue from Bancs2000 during 1998-99 increased by 24.18% over the previous year. Your directors hope that this trend will accelerate in the future. Your company hosted BancIT 1998 as a platform to bring banking and technology professionals together to discuss issues of leveraging technology advances for business growth. Your company proposes to make BancIT an annual event. There were 370 installations (across 18 banks) of Bancs2000 in India, as on March 31, 1999.

Overseas branches

Marketing efforts were enhanced by the opening of a new sales office in Seattle in the US and moving the Maastricht office to Frankfurt, Germany. During the coming year, additional sales offices are expected to be opened in North America and Europe. Expansion of the overseas marketing network will enable the opening of new markets and broadening of the client base. As at the year-end, your company has thirteen marketing offices overseas (nine in the US, one each in Canada, Germany, the UK, and Japan).

Yantra Corporation

The sales effort at Yantra has been further intensified. Such accelerated effort requires funds as well as close links with prospective-client and prospective-employee networks. To meet additional cash requirements, Yantra issued 4.8 million shares of preferred stock at US$ 1.25 per stock to raise US$ 6 million. Several investors expressed a desire that Infosys bring its economic interest in Yantra to below 50% for independent operations. Hence, your company sold 1,363,637 shares from its preferred stock holding in Yantra corporation at US$ 1.10 per share (cost price for Infosys was US$ 0.75 per share in October 1997). The profit on sale arising due to exchange differences and also higher price realization has been disclosed as extraordinary income due to its non-recurring nature. As Yantra continues to be a subsidiary under the Companies Act, 1956, your company has provided fully towards its investment in Yantra as the losses in Yantra have exceeded your company's investment. The revenue of Yantra has grown significantly in the year under report and your directors are informed that Yantra is on the growth path.

JASDIC

JASDIC Park Company is an Indo-Japanese consortium founded by Mr. Kenichi Ohmae, the well-known management strategist and author, along with a few Japanese companies and three Indian companies including your company. The aim of JASDIC Park is to provide high-quality software services from India to the Japanese market. This is in line with your company's strategy to diversify its geographic client base. During the year, your company invested Yen 24 million (Rs. 0.75 crore) in the equity of JASDIC Park. Such an investment has increased the client base in Japan and shows promise of further growth.

New development centers and infrastructure

The progress on the new software development center – *Infosys Park* – at Electronics City, Bangalore, adjoining the existing facility, has been satisfactory. Four blocks, with a built-up area of 1,67,600 square feet and a seating capacity for up to 1,215 employees, have become operational during the year, along with a power generation block. The fifth software development block, a food court and additional recreational facilities will become operational during the first quarter of 1999-2000. This state-of-the-art facility, including the corporate block and a library, is expected to be completed by December 1999.

Your company inaugurated its second software center at Chennai in November 1998. This facility is spread over 23,000 square feet and has the capacity to seat up to 240 employees. Your company has also acquired 20 acres of land at Pune Infotech Park, Hinjawadi, Pune, and has begun the construction of a new software development campus. The first phase of the project includes four software blocks, a computer center, a food court and recreational facilities with a built-up area of over 1,83,000 square feet. Eventually, this campus is expected to accommodate over 2,000 employees. Over the next two-to-three years, your company expects to add 8,90,000 square feet (including the above development centers) of space to house over 6,000 software professionals.

Quality

The pursuit of quality at Infosys is relentless. The metrics database has expanded considerably during the year. The Quality Systems Documentation (QSD) was enhanced to include processes for the development and maintenance of software for engineering applications. The Bhubaneswar development center and the engineering services group received ISO 9001/TickIT certification in November 1998. The banking unit received certification to Level 4 of the Capability Maturity Model of the Software Engineering Institute, USA.

The new information infrastructure

During the third quarter, your company went live on *R/3* - SAP's end-to-end integrated business solution for erecting an enterprise-wide information infrastructure. The implementation was completed in just over 5 months – one of the fastest implementations in the world. Infosys managed the entire project primarily using internal resources and expertise.

Additional information to shareholders

In earlier years, your company had provided additional information in the form of an Intangible assets scoresheet, Human Resources Accounting, Value-Added analysis, Brand Accounting, Economic-Value-Added analysis and financial statements according to the GAAP of six countries in addition to the US and India. Such information is provided in the current year also.

Corporate governance

With increasing globalization, there has been a renewed thrust on corporate governance in India. Your company has been a pioneer in benchmarking its corporate governance policies with the best in the world. Your company's efforts in this direction have been widely recognized by the investors in India and abroad. As in earlier years, a compliance report on the *Code of Best practices in Corporate Governance* adopted by the Confederation of Indian Industry (CII) and on the recommendations of the *Cadbury Committee* has been included in this report. In addition, your directors have stated your company's internal policies on corporate governance. The increasing diversity of the investing community and the integration of global capital markets make corporate governance a key issue in the investment decisions of our investors.

Capital market developments

During the year, Infosys became a part of the 30-share Sensitive Index (Sensex) of the Stock Exchange, Mumbai. Your company has, for the last three years, been a part of the BSE Dollex of the Stock Exchange, Mumbai, and S&P CNX NIFTY Index of the National Stock Exchange. The Securities and Exchange Board of India (SEBI) mandated the trading of Infosys shares only in the dematerialized form with effect from January 4, 1999. Over 77% of the company's shares are presently held in electronic form. As stated earlier, 2.07 million American Depositary Shares (ADSs) representing 1.035 million equity shares are listed on the NASDAQ in the United States. The market capitalization of your company increased to Rs. 9,672.80 crore as on March 31, 1999 as compared to Rs. 2,963.42 crore as on March 31, 1998, based on the quotations on the Indian stock exchanges. The equity shares listed on the NASDAQ continue to quote at a premium to the Indian price.

Employees Stock Offer Plan (ESOP)

The Employees Stock Offer Plan, initiated in 1994, has been successful in enhancing employee commitment and reducing attrition. As on March 31, 1999, 1,747 employees have become beneficiaries under this ESOP. During the year 5,71,100 letters of right were granted to 1,713 employees. With these grants, only 54,800 shares were left to be granted. Your company also obtained the approval of the Government of India to institute an ADS-linked, dollar-denominated stock option plan. Consequent to the listing of the ADS on the NASDAQ, 2,13,000 options corresponding to 1,06,500 equity shares were granted to 36 employees, both in India and abroad, at the ADS issue price of US$ 34 per ADS. The details of the options granted under the 1998 ADS-linked ESOP are given below:

	Description		Details	
1.	Total number of shares		Equity shares corresponding to a total grant value of US$ 50 million	
2.	The pricing formula		Not less than 90% of the fair market value as on date of grant	
3.	Ratio of ADS to equity shares		One share represents two ADS	
4.	Price per option granted		US$ 34 (100% of fair market value)	
5.	Options granted during the year		2,13,000 options for 1,06,500 equity shares	
6.	Options exercised during the year		NIL	
7.	Total number of options in force		2,13,000	
8.	Grant to senior management			
	Jan DeSmet	40,000	Raghupathi G. Bhandi	3,000
	Phaneesh Murthy	40,000	Rajiv Kuchhal	3,000
	Balasubramanian P.	3,000	Srinath Batni	3,000
	Hema Ravichandar	3,000	Vasudeva Rao L.	3,000
	Mohandas Pai T. V.	3,000	Yegneshwar S.	3,000
	Prabhu M. S. S.	3,000	Total	1,07,000
9.	Employees holding 5% or more of the total number of options granted during the year.		2	

In March 1999, SEBI announced a new regulatory framework for ESOPs. Your directors have decided to place before the members, for their approval, the creation of a new ESOP for the grant of options for up to 33,00,000 new equity shares, to be issued, during the next few years at fair market value. Your directors consider the ESOP to be a key instrument in implementing the business strategy of your company.

Liquidity

A liquid balance sheet is a key element of the financial strategy of your company. Enhanced liquidity reduces financial risk and allows a rapid shift in direction should the market so demand. During the current year, internal cash accruals have more than adequately covered working capital requirements, capital expenditure and dividend payments, and have resulted in a surplus of Rs. 85.99 crore. As on March 31, 1999, excluding the funds collected under the ADS issue, your company had liquid assets of Rs. 137.13 crore as against Rs. 51.14 crore as at the previous year end. Including the funds collected under the ADS issue, your company had liquid assets of Rs. 416.66 crore. These funds have been invested both in rupee and dollar deposits with banks and financial institutions. A high level of liquidity reduces return on shareholders funds. However, a balance between high returns on funds deployed in the business and the ready availability of cash for strategic decisions on growth will have to be maintained. The creation of physical and technological infrastructure will take away a significant part of the liquid assets over the next three years.

Year 2000 risks and issues

Many existing computer systems, software applications and other control devices use only two digits to identify a year in the date field without considering the impact of the approaching new millennium. A few software applications do not correctly process 'leap year' dates. As a result, when corporations move to the next millennium, such systems and applications may fail or produce erroneous results. These applications have to be suitably remedied to correctly process dates in the next millennium. SEBI has directed companies to provide a report on the Year 2000 issues that affect the company's operations and the action taken to address the Year 2000 risks. Following is the report of your directors on the Year 2000 risks and issues.

Client IT services and products: Your company offers software services and sells a banking automation product – Bancs2000. Your company has evaluated each of its IT services and software products and believes that each is substantially Year 2000 compliant. In making such evaluations, the company has utilized its experience in providing Year 2000 compliance services to its clients. The company has a project team that will complete Year 2000 compliance before the end of 1999.

Internal infrastructure: The Year 2000 problem may affect office automation, information and transaction processing systems, computers and other information devices used by the company to operate and monitor all major aspects of its business including quality, client service, sales and marketing, finance, human resources development, infrastructure, materials requirement planning, master project scheduling, data communications and telecommunications facilities. This year, your company switched over to R/3, SAP's enterprise-wide integrated information system. This system has been certified by the suppliers as being Year 2000 compliant. Your company has identified and initiated action to remedy other major systems, software applications and related equipment used for its internal operations.

Third party suppliers: Your company relies directly and indirectly on computer software systems utilized by its suppliers of telecommunications, power, water, electronic hardware and software products. The global delivery model adopted by your company requires voice and data communication facilities between its main offices in Bangalore, the offices of its clients and its other software development facilities. Although your company maintains redundant software facilities and satellite communication links, any sustained disruption of your company's ability to transmit voice and data through satellite and telephone communications would have a material adverse effect on the company's business, results of operations and financial condition. To assess the supplier-readiness for handling the Year 2000 issue, the company has sent two separate questionnaires to a majority of its third party suppliers and has completed the assessment process.

Operations: Your company is currently developing contingency plans to address the Year 2000 issues that may pose a risk to its operations and expects such plans to be completed in the first quarter of 1999-2000. Such plans may include accelerated replacement of any remaining affected systems or software, temporary use of redundant or back-up systems or the implementation of manual procedures. Your company believes that the likely worst case scenario, should Infosys vendors not achieve Year 2000 compliance, is the intermittent or temporary disruption in telecommunications which could cause inefficiencies and delays in providing support services to clients. To minimize the impact of any potential telecommunications disruptions, your company is evaluating temporary measures such as placing additional IT professionals at client sites. In assessing the worst case scenario, your company has taken into account the nature of its operations as well as the availability of its IT professionals to attend to any internal problems that may arise. Your company has made a provision of Rs. 6.66 crore towards this contingency plan and propose to provide a total of Rs. 20 crore till March 31, 2000, subject to periodic evaluation.

Organizational changes

Mr. Nandan M. Nilekani was appointed by the board as the managing director, president, and chief operating officer. He looks after all day-to-day operations and reports to Mr. N. R. Narayana Murthy who continues as the chairman and chief executive officer.

Ms. Hema R. Ravichandar rejoined your company as Senior Vice President and Head, (HRD). Mr. Girish Vaidya joined Infosys as Senior VP and Head, Banking Business Unit. A new strategic business unit – SBU 9 – was added during the year to focus on ERP services with Mr. Raghupathi G. Bhandi as its head. Another strategic business unit – SBU 4 – was also created this year to provide consulting services based in the US. Mr. Jan DeSmet was appointed

Vice President, Consulting Services to head this SBU. These organizational changes reflect the continued efforts made by your directors to meet the challenges ahead.

Research and educational initiatives

Your company has instituted the Infosys Fellowship Program at five Indian Institutes of Technology, the Indian Institute of Science, the National Center for Software Technology, Pune University, three Indian Institutes of Management, the National Law School of India University and the Institute of Chartered Accountants of India for Ph.D. programs in computer science, management, law and accounting. This is part of your company's initiative to foster excellence in education. Twenty-six fellowships have been instituted (at two fellowships per institution) at a total cost of Rs. 2.34 crore during the year.

Infosys Foundation

To further your company's commitment to the social causes of our milieu, *Infosys Foundation* was promoted last year by your company as a *not-for-profit* trust. The focus of this foundation is to help organizations devoted to the cause of destitutes, disadvantaged people, spastics, rural poor, senior citizens, and illiterates. A sum of Rs. 136.00 lakhs was paid to the Foundation during 1998-99, and a sum of Rs. 146.20 lakhs was utilized by the Foundation towards various social causes. A summary of the work of the Foundation appears elsewhere in this report. On your behalf, your directors thank the honorary trustees for sparing their valuable time and energy for the activities of the Foundation.

Community services

Your company continued the three social programs initiated last year – *Catch them Young, Train the Trainer* and *Rural Reach.* We are glad to report satisfactory progress. The 'Rural Reach' program taught village children to use computers, the 'Catch them Young' program selected promising students for intensive computer training, and the 'Train the Trainer' program familiarized college lecturers with advances in the IT industry. This year, your company, along with Microsoft, launched a new program – *Computers@Classrooms.* As part of this initiative, your company committed a donation of 433 computers from its purchases in earlier years to 154 institutions in various states of India. In addition, Infosys development centers outside Karnataka will each give 50 PCs to educational institutions in their respective areas.

Awards

Your directors are happy to report on some of the awards that your company received during the year.

a. Infosys won the maiden 'Company of the Year' award instituted as part of *The Economic Times Awards for Corporate Excellence 1998*. The contribution made by Infosys towards corporate excellence in enhancing stakeholder values and in pushing the frontiers of technology was recognized by a readers' poll and a CEO's poll conducted by the Times of India group, the publishers of The Economic Times.

b. For the third year in succession, your company received the *Silver Shield* from the Institute of Chartered Accountants of India for the *Best Presented Accounts*, amongst the entries received from non-financial, private sector companies, for the year 1996-97.

c. The *AsiaMoney* magazine poll of financial analysts voted Infosys the best in management among the listed companies in India for the third time and the fifth best in Asia.

d. The South Asian Federation of Accountants (SAFA) presented Infosys with the *Award for Excellence for the Best Corporate Report* in the non-financial sector for the year 1996-97.

e. National Export Award by the Ministry of Commerce, Government of India, for outstanding performance in 1996-97 and 1997-98.

f. All India ESC Award for Excellence in Export (Electronics and Computer Software Export Promotion Council, sponsored by Ministry of Commerce) for the year 1996-97.

Fixed deposits

Your company has not accepted any deposits and, as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

Directors

According to the terms of Article 122 of the Articles of Association, Mr. N. S. Raghavan, Mr. S. Gopalakrishnan, and Mr. S. D. Shibulal retire by rotation in the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

Auditors

The auditors, Bharat S Raut & Co. Chartered Accountants, retire at the forthcoming Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if re-appointed.

Conservation of energy, research and development, technology absorption, foreign exchange earnings and outgo

The particulars as prescribed under subsection (1)(e) of section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the report of board of directors) Rules, 1988, are set out in the annexure included in this report.

Particulars of employees

As required under the provisions of section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure included in this report.

Acknowledgments

Your directors thank the clients, vendors, investors and bankers for their continued support of your company's growth. Your directors place on record their appreciation of the contribution made by the employees at all levels, who, through their competence, hard work, solidarity, co-operation and support, have enabled the company to achieve rapid growth.

Your directors thank the Government of India, particularly the Department of Electronics, the Customs and Excise departments, Software Technology Parks - Bangalore, Chennai, Pune, Bhubaneswar and New Delhi, the Ministry of Commerce, RBI, VSNL, the Department of Telecommunications, the state governments, and other governmental agencies for their support during the year, and look forward to their continued support.

For and on behalf of the board of directors

Bangalore
April 9, 1999

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Annexure to the directors' report

a) Particulars pursuant to Companies (Disclosure of particulars in the report of board of directors) Rules, 1988

1. Conservation of energy

The operations of your company are not energy-intensive. Adequate measures have, however, been taken to reduce energy consumption by using energy-efficient computer terminals and by the purchase of energy-efficient equipment incorporating the latest technology. Your company has replaced the existing incandescent lamps with CFL fittings and has shifted to the use of electronic ballast to reduce the power consumption of fluorescent tubes. Your company constantly evaluates new technologies and invests in them to make its infrastructure more energy-efficient. Energy-efficient transformers and UPS systems have been purchased. Energy-saving air conditioners are being purchased and air-conditioned areas have been treated with heat-resistant material to reduce heat absorption. These measures have enhanced energy efficiency. As energy cost forms a very small part of the total cost, the impact on cost is not material.

2. Research and Development (R & D)

Your company continues to make investments in research and development activities that are crucial to the company's continued success. Your company is recognized as a leader in innovation in all aspects of business – both technical and non-technical. Your company will continue to innovate through research and development in order to maintain its leadership position.

a. R & D initiative at institutes of national importance

This initiative has been described in the Directors' report.

b. Specific areas for R & D at Infosys

Since businesses and technologies are changing constantly, continuous investments in research and development need to be made. Your company has taken the approach that its research must be beneficial to the company and to its clients either in the short term or in the medium term. As in earlier years the your company continues to do research in the areas of software engineering, offshore project management, the global delivery model, emerging technologies, new tools and techniques and product lines. Your company has also initiated research in the area of education and training delivery. Continuous education is required to keep up with changes around. The traditional form of classroom training is synchronous, and requires the trainer and trainee to be physically present in the same location at the same time. Effectiveness of non-traditional and asynchronous modes of training is an area of research at your company.

Your company has, as a result of research, been able to develop processes and methodologies for engineering services. This was instrumental in your company getting quality certification for the engineering services group. A consulting methodology has been developed. Research has been initiated in the areas of software architecture and performance engineering. This is to help projects deliver high performance/high transaction volume software solutions to clients. Research has also been started in object and component technologies to create modules for repeatability of projects.

Your company continues to undertake research in the following areas:

- General software engineering – This includes development and refinement of methodologies, tools and techniques, implementation of metrics, improvements in the estimation process, and adoption of new technologies. These will improve quality and productivity on an ongoing basis.

- Branded services – Branding involves creating tools and reusable components for enhancing the quality and productivity of each service, preparing training material for quick enabling of programmers and analysts, and producing marketing and sales collateral for efficiency in selling.
- New technologies – Technology is changing constantly and businesses need to leverage the latest technologies for creating competitive advantages. Your company will continue to research these technologies, absorb them for internal use, and create services, which can then help clients be successful.
- Products – Your company will continue to improve its existing products and enhance the power of these products.
- Management techniques – Your company has pioneered the use of several leading-edge management principles in the software industry in India, and will continue to innovate in these areas.

c. Benefits derived as a result of the above R & D

Your company has seen continued improvements in revenue productivity due to the above effort. Your company has so far been able to maintain its margins despite increasing manpower costs. Services like *In2000*® (to address the Year 2000 problem), migration to new technologies, Eurocurrency conversion, and ERP package implementation services are some of the business benefits of the R & D effort.

The Internet services group has started offering network security audit and implementation services. This addresses one of the biggest concerns of information technology executives – how to provide a secure technology infrastructure when there is a need to integrate the internal systems with external systems.

BankAway has been successfully installed at a bank in India.

d. Future plan of action

There will be continued focus and investment in the above categories of R & D. Future benefits are expected to flow in from the initiatives undertaken this year.

e. Expenditure on R & D for the year ended March 31

Rs. in crore

	1999	1998
Revenue expenditure	9.51	4.63
Capital expenditure	0.30	0.71
Total R & D expenditure	9.81	5.34
R & D expenditure as a percentage of total revenue	1.91%	2.05%

3. Technology absorption, adaptation and innovation

As technologies change rapidly, your company continues to invest in new technologies in order to leverage them for improving productivity and quality. It is essential to have a technology infrastructure that is on par with the best in the world. Your company has upgraded its NT and UNIX servers, and added several IBM AS/400 systems. The current standard for the desktop environment is Pentium II 350 MHz with 64MB of RAM, 4 GB of storage capacity, 32x CD ROM, 15 inch color monitor and Windows98. Senior managerial and project staff use notebook computers during client interactions.

Your company continues to invest in additional telecommunications links to connect to clients as well as to its various development centers in India. ISDN lines have been added as a backup facility at all the development centers and this technology would be used in future to harness video conferencing facility at all development centers outside Bangalore. With the implementation of Unicenter/TNG at all centers, your company is able to manage its network better. At its campuses, gigabit ethernets have been installed to connect buildings with 100Mbps between servers, and 10Mbps from the servers to the desktop using level 3 switched technology. Such high bandwidth is required on the campus network since the network traffic in future will contain video, audio, still images and data. Collaborative software development requires good communication capabilities – desktop video, real video / audio broadcasting and chat.

Your company has invested in CASE tools like *Rational Rose*; testing tools like *Purify, Quantify, SQA and Teamtest;* integrated development and re-engineering tools like *Cobol Analyst, and Revolve* to improve the quality and productivity of projects.

Your company is setting up concept centers in order to showcase technology in action. It has already set up the Banking Concept Center where a visitor can understand how technologies like ATM, Internet Kiosk, and Internet Banking work together with existing technologies.

4. Foreign exchange earnings and outgo

a. Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services, and export plans

Your company has always had a predominant export focus. In 1998-99, 97.57% of the revenues came from exports. Your company has, over the years, built up a substantial direct marketing network all over the world. The marketing offices are situated in North America, Europe and Asia, and are staffed with sales and marketing people who directly sell your company's services to large, international clients. The export thrust of your company will continue in the future. During the year, your company opened an office in Seattle, US, and moved its European office from Maastricht to Frankfurt, Germany. The Banking Business Unit has expanded its client base to Africa, Sri Lanka, Seychelles and Mauritius.

Your company has launched a plan to increase the awareness of the Infosys brand, and of its products and services, globally. Several press and public relations exercises have been launched in the US to enhance your company's visibility. Your company plans to take part in several international exhibitions to promote its products and services.

The long-term goal of your company is to be a highly respected name in the global market for its services and products, and to continue to realize a significant portion of its revenue from exports.

b. Foreign exchange used and earned for the year ended March 31

Rs. in crore

	1999	1998
Foreign exchange earnings	477.44	226.12
Foreign exchange outgo (including capital goods and imported software packages)	192.56	98.65

For and on behalf of the board of directors

Bangalore
April 9, 1999

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Annexure to the directors' report

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, and forming part of the Directors' Report for the year ended March 31, 1999

Sl. No.	Name	Designation	Qualification	Age (Years)	Date of joining	Experience (Years)	Gross Remuneration (Rs.)	Previous employment – Designation
1.	Ajay Dubey	Vice President	B.Tech. (IITK)	41	07.06.1993	17	7,82,519.00	ANZ Bank, New Zealand – Technical Team Leader
2.	Ashwani Kumar Khurana	Senior Vice President	B.Tech. (IITD)	48	01.02.1994	26	10,65,613.00	Infosys Digital Systems Pvt. Ltd. – Managing Director
3.	Balakrishnan V.	Senior Manager (Finance)	B.Sc., ACA, ACS, AICWA	34	02.09.1991	14	6,06,581.00	AMCO Batteries Ltd. – Senior Accounts Executive
4.	Balasubramanian P. Dr.	Senior Vice President	M.Tech. (IITM), Ph.D (Purdue)	49	01.10.1995	26	12,45,693.00	Hitek Software Systems Ltd. – Technical Director
5.	Bhandi R. G.	Vice President	B.E., M.Tech. (IITK)	38	07.07.1988	15	8,65,925.00	Wipro Infotech Ltd. – Systems Engineer
6.	Bhashyam M. R.	Senior Manager (Quality)	M.E.	48	07.07.1995	25	6,54,725.00	Aeronautical Development Agency – Scientist
7.	Bibhu R. Pattanayak	Senior Project Manager	M.Tech. (IITM)	41	11.08.1997	16	6,36,068.00	Universal Card, USA – Project Manager
*8.	Bikramjit Maitra	Senior Project Manager	B.Sc., B.Tech.	44	22.02.1999	19	62,850.00	R. S. Software – Vice President, Technology
9.	Binod H. R.	Senior Manager (Commercial)	B.E.	36	02.08.1993	13	6,10,032.00	Motor Industries Company Ltd. – Senior Engineer (Technical Sales)
*10.	C. S. Srinivas	Associate Vice President	B.E.	42	15.10.1998	16	3,06,209.00	Textronics – India Engg. Manager
*11.	Chandra Shekar Kakal	Senior Consultant	B.E., MBA	38	01.03.1999	16	51,327.00	Ramco Systems – Product Manager
12.	Col. Krishna C. V.	Advisor (Infrastructure)	B.E., MBA	52	01.04.1998	23	6,01,162.00	Indian Army – General Engineering
13.	Dheeshjith V. G.	Senior Project Manager	B.Sc., M.E. (IISc)	34	14.09.1987	11	6,25,087.00	–
14.	Dinesh K.	Director	M.Sc.	43	01.09.1981	23	12,72,496.00	Patni Computer Systems Pvt. Ltd. – Senior Software Engineer
*15.	Girish G. Vaidya	Senior Vice President (BBU)	B.E., PGD (IIMC)	48	22.01.1999	24	2,31,532.00	ANZ Grindlays – Director and Head Operations India
16.	Gopalakrishnan S.	Deputy Managing Director	M.Tech. (IITM)	43	18.10.1994	19	12,53,711.00	Sofware Sourcing Company, Atlanta, USA – Vice President (Technical)
*17.	Hema Ravichandar	Senior Vice President (HRD)	BA, PGD (IIMA)	37	30.12.1998	15	2,38,290.00	Empower Associates (HR Consultancy) – Proprietrix
18.	Krishnamoorthy A. S.	Associate Vice President	B.Tech. (IITM), M.Sc.	37	10.01.1986	15	6,61,579.00	Urban Transport Dev. Corp., Canada – Research Asst.
19.	Krishnamurthy T. S.	Senior Project Manager	B.E.(Hon.)	36	26.10.1987	14	6,18,428.00	Zenith Electro Systems Pvt. Ltd. – Software Executive
20.	Mallya P. D.	Associate Vice President	M.Tech. (IITM)	44	15.12.1986	21	6,59,726.00	Infosys Digital Systems Pvt. Ltd. – Associate Vice President
21.	Merwin Fernandes	Senior Manager (Sales & Marketing)	B.Com.	39	06.08.1997	17	6,71,718.00	Systems Software Associates India – Regional Accounts Manager
22.	Mohan M. M.	Senior Manager (HRD)	B.Com., PGDBM	53	11.07.1992	29	6,10,068.00	Motor Industries Company Ltd. – Asst. Officer (HRD)
23.	Mohandas Pai T. V.	Senior Vice President (F&A)	B.Com., LL.B, FCA	40	17.10.1994	19	10,82,874.00	Prakash Leasing Ltd. – Executive Director
24.	Nandan M. Nilekani	Managing Director, President and Chief Operating Officer	B.Tech. (IITB)	43	01.09.1981	21	12,82,169.00	Patni Computer Systems Pvt. Ltd. – Asst. Project Manager
25.	N. R. Narayana Murthy	Chairman and Chief Executive Officer	M.Tech. (IITK)	52	01.04.1982	30	13,12,601.00	Patni Computer Systems Pvt. Ltd. – Head (Software Group)
26.	Padmanabhan D.	Senior Project Manager	B.Sc.	36	02.11.1992	15	6,26,555.00	PSI Data Systems Ltd. – Product Support Manager
27.	Parameswar Y.	Senior Project Manager	B.E., M.Tech. (IITK)	42	14.10.1996	19	6,26,246.00	C-DOT – Divisional Manager
28.	Prabhu M. S. S. Dr.	Senior Vice President	B.E., Ph.D (IISc)	51	01.08.1997	25	11,65,425.00	Tata Consultancy Services – Vice President
*29.	Prahlad D. N.	Senior Vice President	B.E. (IISc)	43	01.04.1989	16	5,24,992.00	Datacons Pvt. Ltd. – Project Leader
30.	Pravin Rao U. B.	Associate Vice President	B.E.	37	04.08.1986	13	6,80,635.00	Indian Institute of Science – Programmer Trainee
31.	Priti J. Rao	Senior Project Manager	M.Sc. (IITB)	39	02.07.1997	16	6,33,750.00	Larsen & Toubro Ltd. – Systems Manager
32.	Raghavan N. S.	Joint Managing Director	B.E.	55	01.09.1981	35	12,43,081.00	Patni Computer Systems Pvt. Ltd. – Asst. Manager
33.	Raghavan S.	Associate Vice President (Quality)	B.E.	37	16.04.1987	15	7,00,983.00	Bharat Heavy Electricals Ltd. – Maintenance Engineer
*34.	Rajan N. V.	Associate Vice President (HRD)	B.Sc., PGDPM (XLRI)	40	20.01.1997	16	6,42,136.00	Maxworth Home Ltd. – Associate Vice President (HRD & Legal)

Sl. No.	Name	Designation	Qualification	Age (Years)	Date of joining	Experience (Years)	Gross Remuneration (Rs.)	Previous employment – Designation
35.	Rajasekaran K. S.	Manager (Business Development, Banking)	M.Sc.	40	08.11.1983	15	6,16,742.00	Voores High School – Teacher
36.	Rajiv Kuchhal	Associate Vice President	B.Tech. (IITD)	33	05.02.1990	12	7,26,851.00	Telecommunications Consultants (I) Ltd. – Asst. Manager
37.	Ramadas Kamath U.	Senior Manager (Accounts & Administration)	BBM, FCA	38	01.07.1994	14	6,06,581.00	Manipal Printers & Publishers Ltd. – Accountant
38.	Ravi C.	Senior Project Manager	B.E.	33	02.05.1988	11	6,13,781.00	–
39.	Rohan Joshi	Senior Manager (Corporate Business Development Support)	B.E., MBA	37	02.11.1993	12	6,45,695.00	Philips International – Junior Vice President
40.	Seshan P.	Senior Project Manager	B.E.(Hon.)	37	01.06.1993	15	6,04,393.00	Infosys Manufacturing Systems Pvt. Ltd. – Asst. Project Manager
41.	Sharad K. Hegde	Senior Vice President	B.Tech. (IITM), PGDIE (NITIE)	40	01.07.1983	18	11,75,378.00	Patni Computer Systems Pvt. Ltd. – Software Engineer Trainee
42.	Shibulal S. D.	Director	M.Sc., MS (Boston Univ.)	44	10.01.1997	23	12,23,336.00	Sun Micro Systems – Senior IR Manager
43.	Shivaprasad K. G.	Associate Vice President	B.Sc.(Hon.), M.Sc.	43	10.06.1996	22	7,19,807.00	Oman Computer Services – Software Development Manager
*44.	Sivashankar J.	Senior Manager (MIS)	B.Tech., MMS	39	22.01.1999	14	1,11,581.00	Anuvin Business Solutions. – Director
45.	Srinath Batni	Senior Vice President	M.E. (IISc)	44	15.06.1992	21	9,73,591.00	PSI Bull Ltd. – Senior Manager (Marketing Technical Support)
46.	Srinivasan V.	Senior Project Manager	B.Tech. (IITD)	37	03.03.1997	13	6,03,565.00	Deutsche Software – Asst. Systems Manager
47.	Subbaraya Sastry M.	Associate Vice President	B.Tech., PGDBM (IIMB)	40	13.05.1995	16	6,82,208.00	Verifone India Pvt. Ltd. – Manager (MIS)
48.	Sudheer K.	Associate Vice President	B.Tech. (IITM)	38	14.11.1986	14	8,00,886.00	Indian Organic Chemicals Ltd. – Programmer Analyst
49.	Vasudeva Rao L.	Vice President	B.E.	37	01.08.1994	14	7,69,893.00	Software Sourcing Company, Atlanta, USA – Project Manager
50.	Vijay Kumar C.	Senior Manager (Infrastructure Development)	B.E.	37	03.11.1987	18	6,47,314.00	Self employed
51.	Yegneshwar S. Dr.	Associate Vice President	B.E.(Hon.), Ph.D (IITB)	38	06.04.1993	11	6,74,593.00	IIM, Ahmedabad – Asst. Professor

NOTE:

Remuneration comprises basic salary, allowances and taxable value of perquisites.

*Employed for part of the year.

None of the employees are related to any director of the company.

For and on behalf of the board of directors

Bangalore
April 9, 1999

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Risk management

The management cautions readers that the risks outlined below are not exhaustive and are for information purposes only. Investors are requested to exercise their own judgement in assessing various risks associated with the company and to refer to discussions of some of these risks in the company's earlier annual reports and Securities and Exchange Commission filings.

Prudent risk management practices form a key element of business strategy, especially in companies characterized by high growth and innovation. As Infosys moves towards globalizing its operations, these practices will have to be constantly reviewed in response to changing environmental and internal imperatives.

Infosys has an integrated approach to risk management. The board of directors is responsible for monitoring risk levels, and the management council is responsible for ensuring implementation of mitigation measures, if required. Senior management personnel and line officers aid the board in this process. Formal reporting and control mechanisms ensure timely and comprehensive information availability and facilitate proactive risk assessment.

The risk management system currently monitors the following risks :

1. Business portfolio risks
   - Service concentration
   - Client concentration
   - Geographical concentration
   - Vertical domain concentration
   - Technology concentration
2. Financial risks
   - Foreign currency rate fluctuations
   - Liquidity
   - Leverage
3. Legal and statutory risks
   - Contractual liabilities
   - Statutory compliance
4. Internal process risks
   - Project execution
   - Disaster prevention and recovery
   - Technological obsolescence
   - Human resource management
   - Internal control systems
   - Acquisitive growth
5. Political risks

1. Business portfolio risks

Excessive dependence on any single business segment increases risk and therefore needs to be avoided. To this end, the company has adopted prudential norms to prevent undesirable concentration. Systems to facilitate continuous tracking are in place; these include on-line reports to senior management (with exception reporting mechanisms) and detailed quarterly analyses of the data. Based on this information, the management takes appropriate corrective steps, when required.

1.1 Service concentration

Infosys has an array of service offerings across various horizontal and vertical business segments. To prevent excessive dependence on any service offering that caters to one-time market opportunities, the company has adopted a norm to restrict business from any such service to less than 25% of total revenue.

Further, these opportunities (Y2K and Euro) have been used to make inroads into hitherto untapped client accounts. These have resulted in a broader client base for other services and have also helped build fruitful, long-term client relationships. For example, for the 13 clients who started their association with the company through the Y2K service, the proportion of FY 1999 billings from non-Y2K services is around 35%.

1.2 Client concentration

Excessive exposure to a few large clients has the potential to impact profitability and to increase credit risk. However, large clients and high repeat business lead to higher revenue growth and lower marketing costs. Therefore, the company needs to strike a balance. Infosys has chosen to limit the revenue from any one client to 10% of total revenue.

In addition to increasing revenues from existing clients, Infosys actively seeks new business opportunities and clients to minimize concentration. Efforts have also been made to reduce the proportion of revenues from the company's top-five and top-ten clients. These steps ensure a wider client base and lower volatility in revenues.

The following table provides historical data on client concentration (based on Indian GAAP).

	FY 1999	FY 1998	FY 1997	FY 1996
Active clients	115	93	69	31
Clients added during the year	39	45	45	17
% revenues from the top-five clients	28.4%	35.1%	43.1%	59.7%
% revenues from the top-ten clients	44.0%	50.1%	59.9%	77.5%
Clients accounting for > 5% of total revenue	5	5	5	6

1.3 Geographical concentration

A high geographical concentration of business could lead to volatility because of political and economic factors in target markets. However, individual markets have distinct characteristics – growth, IT spends, willingness to outsource, costs of penetration, and price points. Further, the cost and difficulty of penetrating new geographies is a key factor. Cultural issues such as language, work culture and ethics, and acceptance of global talent also come into play. Further, due to these business considerations the company has decided not to impose rigid limits on geographical concentration.

This risk is managed by proactively looking for business opportunities in new geographical areas and thereby increasing their contribution to total revenues.

The following table provides historical data relating to geographical concentration (based on Indian GAAP).

Geographical area	FY 1999	FY 1998	FY 1997	FY 1996
North Americas	81.4%	81.5%	75.8%	71.6%
Europe	9.3%	8.9%	8.0%	12.9%
Rest of the World	6.9%	6.0%	1.6%	1.5%
India	2.4%	3.6%	14.6%	14.0%
Total	100.0%	100.0%	100.0%	100.0%

1.4 Vertical domain concentration

Vertical domains relate to the industry in which clients operate. Infosys has chosen to focus on certain vertical segments with a view to leverage accumulated domain expertise to deliver enhanced value to its clients. To ensure that cyclicality in any one industry does not adversely impact revenues, proportion of revenue from each vertical domain is closely monitored. Focussed marketing efforts in chosen domains serve to mitigate this risk.

The following table provides historical information on the proportions of revenue from various domains (based on Indian GAAP).

Industry Class	FY 1999	FY 1998
Manufacturing	24.6%	21.1%
Insurance, Banking and Financial Services	23.3%	19.7%
Telecom	14.2%	16.8%
Retail	13.8%	17.6%
Others	24.1%	24.8%
Total Revenue	100.0%	100.0%

1.5 Technology concentration

Being a company exposed to rapid shifts in technology, an undue focus on any particular technology could adversely affect the risk profile of the company. However, given the rapid pace of technological change, Infosys has chosen not to impose rigid concentration limits. Often, the choice of technology is determined by industry characteristics.

Focussed efforts to solicit business from sunrise technologies has served to keep the risk on this parameter within manageable limits.

The following table provides historical technology-related data (based on Indian GAAP).

Technology	FY 1999	FY 1998
Distributed systems	41.5%	36.4%
Mainframe / Mid-range	37.1%	38.9%
Internet	3.7%	0.1%
Proprietary Telecom systems	12.1%	19.2%
Others	5.6%	5.4%
Total	100.0%	100.0%

2. Financial risks

2.1 Foreign currency rate fluctuations

Infosys derives its revenue from more than 20 countries around the world. The US constitutes a significant portion of total revenue with 88% of revenue in FY 1999 being dollar-denominated. A large proportion of its expenses are in Indian rupees. Operating profits are therefore subject to foreign currency rate fluctuations. While the depreciation of the Indian rupee would have a favorable bottom-line impact, an appreciation would affect the company's profitability adversely. As Infosys is a net foreign currency earner, it has a natural hedge on all forex-related payments.

The table below gives the foreign currency receipts and payments.

Rs. in crore

	FY 1999	FY 1998	FY 1997	FY 1996
Earnings in foreign curency	477.44	226.12	114.03	74.46
Revenue expenditure in foreign currency	162.75	79.12	42.59	26.82
Net revenue foreign currency earnings	314.69	147.00	71.44	47.64
Capital expenditure in foreign currency	29.81	19.53	13.58	6.53
Net foreign currency earnings	284.88	127.47	57.86	41.11

To avoid risks arising from short-term foreign currency rate fluctuations, Infosys hedges a part of its dollar receivables in the forward market. Dollar expenses are met out of foreign currency accounts. A significant part of the surplus funds of the company is maintained in foreign currency deposits. The company does not take active trading positions in the foreign currency markets and operates only to hedge its receivables. Any bad debt write-offs in foreign currencies are effected only after obtaining permission from the Reserve Bank of India.

2.2 Liquidity

An essential part of the financial strategy of Infosys is to have a liquid balance sheet. The company aims to have liquid assets at 25% of revenue and around 40% of total assets. Operating as it does in a high technology area, a high level of liquidity enables quick responses to rapid changes in the environment.

Infosys also has a policy to settle its payables well within stipulated time frames. Further, the nature of business is such that significant investments may have to be made in marketing, and research and development activities. All these factors call for considerable liquidity.

The following table gives the data on the liquidity position of the company based on Indian GAAP.

Ratio	FY 1999	FY 1998	FY 1997	FY 1996
Operating cash flow as % of revenue	30.98%	22.19%	16.95%	24.95%
Days of sales receivable	61	57	47	46
Cash and equivalents as % of assets	72.51%	29.57%	25.5%	35.41%
Cash and equivalents as % of revenue	81.26%	19.64%	20.01%	31.88%

2.3 Leverage

Infosys has been a zero-debt company for the past 3 financial years. Currently, the company has a policy to use debt financing only for short-term funding requirements.

3. Legal and statutory risks

3.1 Contractual liabilities

Litigation regarding intellectual property rights, patents and copyrights is increasing in the software industry. Litigation due to Year 2000 services is also on the rise. In addition, there are other general corporate legal risks.

The management has clearly charted out a review and documentation process for contracts. This process focuses on evaluating the legal risks involved in a contract, on ascertaining the legal responsibilities of the company under the applicable law of the contract, on restricting its liabilities under the contract and covering risks. The management has also taken sufficient insurance cover abroad to cover possible liabilities arising out of non-performance of the contract. The management reviews this on a continuous basis and takes corrective action. As a matter of policy the company does not enter into contracts which have open-ended legal obligations.

To date, the company has no material litigation in relation to contractual obligations pending against it in any court in India or abroad.

3.2 Statutory compliance

Infosys has a compliance officer to advise the company on compliance issues with respect to the laws of various jurisdictions in which the company has its business activities and to ensure that the company is not in violation of the laws of any jurisdiction where the company has operations. The compliance officer reports from time to time on the compliance or otherwise of the laws of various jurisdictions to the board of directors. Various business heads give compliance certificates to the board of directors and the compliance officer reports deviations, if any. Generally, the company takes appropriate business decisions after ascertaining from the compliance officer and, if necessary, from independent legal counsels, that the business operation of the company is not in contravention of any law in the jurisdiction in which it is undertaken. Legal compliance issues are an important factor in assessing all new business proposals. The company has strengthened its legal team and put in place appropriate policies towards legal compliance. The company follows an affirmative policy in protecting its trade name and trademark/service mark and is actively pursuing trademark infringement suits against various persons / companies in India.

4. Internal process risks

4.1 Project execution

Risk management processes at the operational level are a key requirement for reducing uncertainty in delivering high-quality software solutions to clients within budgeted time and cost. Adoption of quality models such as the Capability Maturity Model (CMM) has ensured that risks are identified and measures are taken to mitigate them at the project plan stage itself. A Risk Management Guideline is in place to provide guidance to project leaders and module leaders on ways in which risks can be identified and mitigated. Important metrics are also collected and analyzed for all projects and a database of such information is maintained to focus attention on key improvement areas. Standard methodologies, perfected through accumulated experience, form the basis for execution of projects in most of Infosys' service offerings.

Infosys also has an effective system in place to ensure creation, documentation and dissemination of experiential knowledge. The backbone of this system is a user friendly, searchable database known as the "Body of Knowledge (BoK)" comprising of knowledge components contributed by employees of the company. Incentive schemes are in place to encourage a knowledge sharing culture in the organization.

4.2 Disaster prevention and recovery

Adherence to ISO 9001 and CMM Level 4 quality standards has ensured that the company has a robust disaster prevention and recovery system in place. The company has a disaster recovery plan for each of its work locations as well as for each technology category. Possible risks for each category have been identified and action plans have been put in place to cope with any contingencies. These plans are reviewed and updated periodically to make sure that they are in sync with changes in technology and risks.

All software media brought into the company's offices are scanned for viruses before being used. Further, Infosys has firewalls in place on all connections to clients and to the Internet.

The Year 2000 problem has the potential to affect systems, transaction processing, computer applications and devices used by the company to operate and monitor major aspects of its business. Towards reducing this risk, the company has converted its financial applications software to programs certified by the suppliers as Year 2000 compliant and is currently in the process of modifying and upgrading all other affected systems in the company. The company has also taken up an assessment of the Year 2000 preparedness of its third party suppliers. Suitable steps to ensure compliance at their end would be taken based on the results of this assessment.

The company has instituted a contingency plan to meet any possible disruption in client support due to the Y2K impact on the technology and communication infrastructure of the company. A provision of Rs. 6.66 crore has been made during the financial year towards such a contingency plan. Further, to avoid failure of telecommunications infrastructure, which is the lifeline of the company, Infosys has installed multiple links supplied by different service providers for redundancy. These links take different routes to client locations.

4.3 Technological obsolescence

The company evaluates technological obsolescence and the associated risks on a continuing basis and makes investments accordingly. Information technology is possibly the only area where costs for a given technology reduce over time. The cost of acquiring technology also includes the cost of installation and retraining.

The technology requirements of the company can be classified into three categories and different strategies are used to manage risk in each category. The first category is the company's desktop environment consisting of PCs along with associated software. In this category, volumes are large and retraining costs are high. The company considers this as a commodity product and goes for a technology that is mature – not leading edge – so that costs are low. The company has also standardized its user interface software so that retraining costs are minimal. Once the warranty period on these systems expires, they are donated to educational and charitable institutions, after obtaining suitable approval.

The second category of systems are proprietary systems used for development of software for clients as well as the servers used for running internal IS applications. The technological obsolescence in these areas is not rapid, especially in the mainframe segment. Purchase decisions in this category are determined by client requirements. The company has standardized on the Windows NT platform for internal MIS needs. Network components also fall into this category and the company is standardizing its network components, based on a few suppliers.

The third category of systems are the tools required for software development including project management tools, integrated software development environments, testing and other CASE tools, collaborative software development tools, etc. In this category, the company continuously looks out for leading-edge products that help increase productivity and also give the company an advantage over its competitors. In its technology infrastructure, Infosys aims to be on par with or better than the best anywhere in the world including its clients. The company's clients would like it to advise them on emerging products and technologies. Hence, Infosys continuously invests in these technologies. Several research initiatives are going on in the company to review and adopt the technology for use internally as well as on client projects.

The company's amortization strategy reflects the requirements of the various categories of systems. Infosys has an aggressive amortization program under which category 1 and 2 are amortized in 2 years except for mainframe technology. Further, purchase of software is treated as revenue expenditure in the same year. Other assets are also aggressively amortized to ensure that the investment is current and that any change in technology would not lead to large write-offs. Such an amortization policy also ensures full cost recovery as part of current costs.

The following table gives depreciation expense and software expense as a proportion of revenues for the last four years (based on Indian GAAP).

	FY 1999	FY 1998	FY 1997	FY 1996
Depreciation / average gross block	26.2%	25.8%	17.8%	23.9%
Depreciation / total revenue	7.0%	8.7%	7.3%	9.2%
Software for own use / total revenue	2.9%	3.4%	2.7%	3.1%

4.4 Human resource management

The key resource for Infosys is its people. The company has been able to create a favorable work environment that encourages innovation and meritocracy. This, combined with a well-balanced compensation package, ensures that Infosys has one of the lowest attrition rates in the industry, today. The table below gives attrition rates for the past two years:

	FY 1999	FY 1998
Attrition rate	11.5%	15.9%

One of the reasons for the low attrition has been the company's stock option scheme. As the current scheme is coming to a close, a new scheme is being put in place.

Infosys enjoys very good relations with universities locally, and thus, has a huge talent pool to draw from. The company has grown from 480 software professionals as on March 31, 1994 to 3,158 software professionals as on March 31, 1999 (3,389 IT professionals including those in support functions). This has been achieved in-spite of the stiff entry criteria the company sets for aspiring employees.

To enable access to a wider talent pool, the company has started building relationships with universities outside India. Given Infosys' track record and the awareness it has created in this segment, the company is confident of scaling up to the numbers required to support growth.

4.5 Internal control systems

Being a process-oriented company, Infosys has in place clear processes and well-defined roles and responsibilities for people at various levels. This, coupled with robust internal information systems, ensures appropriate information flow to facilitate monitoring. Adherence to these processes is ensured through frequent internal audits. Additionally, the following measures are in place to ensure proper control:

- Any unbudgeted expense has to be approved by the managing director.
- Any policy change is approved by a committee headed by the chairman after a 5-year profitability impact assessment.
- Senior management personnel submit periodic reports on their activities and achievements and these are reviewed by the managing director.

4.6 Acquisitive growth

Infosys has grown organically in the past. In the future, however, Infosys may consider mergers and acquisitions as a possible route for its discontinuous growth. To ensure preparedness for such growth, a team has been formed to set strategic objectives, evaluation guidelines, and tentative implementation mechanisms for any such possibility.

5. Political risks

Recognizing that India's education system, its world-class professionals, and its low cost structure give it an intrinsic comparative advantage in software exports, successive governments have accorded a special status to this industry. Task Forces comprising politicians, bureaucrats and industrialists have recommended policy measures to give a fillip to the Indian IT industry. Implementation of these recommendations is in progress. On the whole, the Government's favorable disposition towards the IT industry – and specifically towards software exports – is highly encouraging. Given the consensus among all leading political parties on the importance of the software industry, it is likely to remain a focus area for governmental policy in the years to come. However, in order to mitigate the risk of operating from a single country, Infosys is exploring the possibility of establishing development centers in countries other than India.

Corporate governance

Corporate governance policies

Infosys has been a pioneer in benchmarking its corporate governance policies with the best in the world. Your directors present below for your information, the internal policies on corporate governance.

A. Board composition

1. Responsibilities of the CEO and the COO

The current policy of the company is to have an executive chairman and chief executive officer (CEO) and a managing director, president and chief operating officer (COO). There is a clear demarcation of responsibilities and authority between the two. The CEO is responsible for corporate strategy, brand equity, planning, external contacts, acquisitions, and board matters. The COO is responsible for all day-to-day operational issues and achievement of the annual targets in client satisfaction, sales, profits, quality, productivity, employee enabling and retention. The CEO, COO, executive directors and the senior management staff make periodic presentations to the board on their targets, responsibilities and performance.

2. Size of the board

The board has ten members, and periodically reviews the need for its expansion. As per the bye laws of the company, the board can have up to twelve members.

3. Executive and independent directors

The current policy is to have an appropriate mix of executive and independent directors to maintain the independence of the board, and to separate the board functions of governance and management. To ensure independence of the board, the members of the audit committee, the nominations committee and the compensation committee are composed entirely of independent directors. The current board has four independent directors and six executive directors. All the executive directors are also the founders of the company.

4. Board membership criteria

The board members are expected to possess the expertise, skills and experience required to manage and guide a high growth, hi-tech software company deriving revenue primarily from G-7 countries. Expertise in strategy, technology, finance, quality and human resources is essential. Generally, they will be between 40 and 55 years of age. They will not be a relative of an executive director or of an independent director. They are not expected to serve in any executive or independent position in any company in direct competition with Infosys. The board members are expected to rigorously prepare for, attend, and participate in all board and applicable committee meetings. Each board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member's responsibility as a director of Infosys.

5. Membership term

The board constantly evaluates the contribution of its members, and recommends to shareholders their re-appointment periodically as per statute. The current law in India mandates the retirement of one third of the board members every year and qualifies the retiring members for re-appointment. The executive directors are appointed by the shareholders for a maximum period of five years at one time but are eligible for re-appointment upon completion of their term. The nominations committee of the board, composed entirely of independent directors, recommends such appointment / re-appointment. However, the membership term is limited by the retirement age for members.

6. Retirement policy

The board has adopted a retirement policy for its members. Under this policy, the maximum age of retirement of executive directors, including the CEO, is 60 years which is the age of superannuation for the employees of the company. Their continuation as members of the board upon superannuation / retirement is determined by the nominations committee. The age limit for retirement from the board is 65 years.

7. Board compensation review

The compensation committee determines and recommends to the board, the compensation payable to the members of the board. The compensation of the executive directors consists of a fixed component that is paid monthly, and a variable component which is paid quarterly based on performance. A quarterly appraisal of their performance is made by the compensation committee. The annual compensation of the executive directors is approved by the compensation committee within the parameters set by the shareholders at the shareholders meetings. The shareholders determine the compensation of the executive directors for the entire period of their term.

The compensation of the independent directors is approved at a meeting of the full board. The components are a fixed amount, and a variable amount based on their attendance of the board and committee meetings. The total compensation payable to all the independent directors together is limited to a fixed sum per year determined by the board. This sum is within the limit of 0.5% of the net profits of the company for the year calculated as per the provisions of the Companies Act and as approved by the shareholders and is separately disclosed in the financial statements. The compensation payable to the independent directors and the method of calculation are also disclosed separately in the financial statements. As founders of the company, the executive directors have voluntarily excluded themselves from the 1994 ESOP and the 1998 ADS-linked ESOP. The independent directors are also not eligible for stock options under both the plans. However, under the proposed 1999 India-ESOP, the independent directors of the board, would be eligible for stock options. The founder directors are excluded.

8. Memberships of other boards

The executive directors are excluded from serving on the board of any other company / body unless the said entity is an industrial body whose interests are germane to the business of the software industry, or government bodies that have a relevance to the software industry, or bodies whose objective is the upliftment of society. The independent directors are not expected to serve on the boards of competing companies. Other than this, there is no limitation save that imposed by law and good corporate governance.

B. Board meetings

1. Scheduling and selection of agenda items for board meetings

Normally, the board meetings are scheduled at least a month in advance. Most of the meetings are held at the company's registered office at Electronics City, Bangalore, India. The chairman of the board and the company secretary draft the agenda along with the explanatory notes for each board meeting and distribute it in advance to the board members. Every board member is free to suggest the inclusion of items on the agenda. Normally, the board meets once a quarter to review the quarterly results and other items on the agenda. The board also meets on the occasion of the annual shareholders' meeting. Based on the need, additional meetings are held. The independent directors are expected to attend at least four board meetings in a year. A committee of the board meets as and when required for transacting business of a routine nature.

2. Availability of information to the members of the board

The board has unfettered and complete access to any information within the company, and to any employee of the company. At the meetings of the board, the board welcomes the presence of managers who can provide additional insights into the items being discussed.

C. Board committees

1. The committees of the board

Currently, the board has three committees – the audit committee, the compensation committee and the nominations committee. The functions of these committees have been described elsewhere in this report. These committees are composed entirely of independent directors.

2. Assignment and terms of service of committee members

The board decides, in consultation with the chairman and considering the views of individual board members, terms of service of various committees and the assignment of specific board members to various committees.

3. Frequency and duration of committee meetings and committee agenda

The chairman of the board, in consultation with the company secretary of the company and the committee chairman, determines the frequency and duration of the committee meetings. Normally, the committees meet at least twice a year. The committee agenda and the minutes of the committee meeting are submitted to the full board for approval.

D. Management review and responsibility

1. Formal evaluation of officers

A committee headed by the chairman and CEO reviews, evaluates and decides the annual compensation for officers of the company from the level of associate vice president excluding members of management council. The grant of stock options under the 1994 ESOP are decided by the advisory board constituted under the plan. The compensation committee of the board will administer the 1998 ADS-linked-ESOP and the proposed 1999-India-ESOP.

2. Succession planning and management development

The chairman reviews succession planning and management development with the board from time to time.

3. Board interaction with clients, employees, institutional investors and the press

The chairman and CEO manages all interaction with the investors, media, and the government. In this task, he seeks advice and help from the managing director, president and COO as well as the CFO, where necessary. The managing director and COO manages all interaction with the clients taking the advice and the help of the CEO, where necessary. Both the CEO and the COO handle employee communication.

Compliance with corporate governance codes

Corporate governance has assumed great significance in India in the recent past. Even though the Companies Act provided a framework for corporate governance, defined the powers, duties and responsibilities of the board, instituted a system of checks and balances with punishment for transgression of law, there was a felt need for a comprehensive code of corporate governance. Indian industry associations have taken the lead in framing such a code. Globally, the Cadbury Committee on corporate governance has framed a similar code. As already stated, the company is committed to good corporate governance and has benchmarked itself against global best practices. As additional disclosure of the company's compliance with the industry-set-standards, a report on compliance with the Confederation of Indian Industry Code and the Cadbury Committee code is given hereunder.

1. Compliance with the CII code on corporate governance

"Corporate Governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis-à-vis its claimants – in particular, its shareholders, creditors, clients, the state and employees. There is a global consensus about the objective of "good" corporate governance –

maximizing long-term shareholder value. Since shareholders are residual claimants, this objective follows from a premise that, in well performing capital and financial markets, whatever maximizes shareholder value must necessarily maximize corporate prosperity, and best satisfy the claims of shareholders and the state".

Desirable Corporate Governance – A Code: Confederation of Indian Industry (CII)

The CII has taken the initiative to improve corporate governance by publishing a code of corporate governance. Your company has been complying with most recommendations of this code, for several years. Your company supports this initiative and believes that this will considerably improve investor protection and governance.

The CII committee on corporate governance has made seventeen specific recommendations. Your company complies with substantially all these recommendations except for the following:

The CII has recommended that no single person should hold directorship in more than ten companies.

Two non-executive directors hold directorship in more than ten companies.

The CII has recommended that non-executive directors be entitled to stock options to enable them to bring in long-term value to the shareholders.

Currently, non-executive directors are not entitled to stock options due to regulatory constraints. In the proposed 1999-India-ESOP, non-executive directors will be eligible.

Board of directors

Recommendation 1 – The full board should meet a minimum of six times a year, preferably at an interval of two months, and each meeting should have agenda items that require at least half a day's discussion.

The board of directors met nine times during the year with a clearly defined agenda for each meeting.

Recommendation 2 – Any listed company with a turnover of Rs. 100 crore and higher should have professionally competent, independent, non-executive directors, who should constitute at least 30% of the board if the chairman of the company is a non-executive director, or at least 50% of the board if the chairman and managing director is the same person.

In fiscal 1999, non-executive directors constituted 40% of the board. The board has divided the responsibility for the management of the company between an executive chairman and CEO, and a managing director, president and COO. The non-executive directors are independent and accomplished professionals in the corporate and academic worlds.

Recommendation 3 – No single person should hold directorships in more than ten companies.

Except for two of the non-executive directors, none of the other directors hold directorship in more than ten companies.

Recommendation 4 – For non-executive directors to play a material role in corporate decision making and maximizing long term shareholder value, they need to become active participants on the board, not passive advisors; have clearly defined responsibilities within the board such as the audit committee; and know-how to read a balance sheet, profit and loss account, cash flow statements and financial ratios and have some knowledge of various company laws. This, of course, excludes those who are invited to join boards as experts in other fields such as science and technology.

The Infosys board has four non-executive directors. The non-executive directors play an active role in all the board meetings. The board has constituted three committees - the audit committee, the nominations committee, and the compensation committee, consisting entirely of non-executive directors. The reports of the above committees are provided elsewhere in this annual report.

Recommendation 5 – To secure better effort from non-executive directors, companies should pay a commission over and above the sitting fees for the use of professional inputs. The present commission of 1% of net profits (if the company has a managing director), or 3% (if there is no managing director) is sufficient; Consider offering stock options, so as to relate rewards to performance. Commissions are rewards on current profits. Stock options are rewards contingent upon future appreciation of *corporate value. An appropriate mix of the two can align a non-executive director towards keeping an eye on short-term profits as well as long term shareholder value.*

The non-executive directors are eligible for a commission of up to 0.5% of the net profits of the company. During the financial year 1998-99, the total commission payable to the non-executive directors amounted to Rs. 24 lakhs. However, they were not eligible for any stock options due to regulatory constraints. The new regulations issued by SEBI make them eligible for stock options. The 1999-India-ESOP, to be submitted for shareholder approval, would include non-executive directors as beneficiaries.

Recommendation 6 – While re-appointing members of the board, companies should give the attendance record of the concerned directors. If a director has not been present (absent with or without leave) for 50% or more meetings, then this should be explicitly stated in the resolution that is put to vote. As a general practice, one should not re-appoint any director who has not had the time to attend even one half of the meetings.

In the Internet age, the contribution of a director cannot be measured only by physical presence at a board meeting. If a company has global ambitions, it has to invite well-known persons from across the globe to serve on the board. It is not reasonable to expect these busy and accomplished people to travel to India for every meeting, particularly when there are other effective means of participation. In the case of every non-executive director, without exception, the company has been able to tap their expertise, wisdom and experience in solving strategic and operational issues using teleconferencing, e-mail and video conferencing. Therefore, the definition of physical presence should include presence by way of teleconferencing or videoconferencing in addition to physical presence in counting the number of meetings attended. For the sake of completeness, the number of board meetings held during the year, and the number attended by the directors is given below.

Director	No. of meetings held	No. of meetings attended
Susim M. Datta	9	5
Deepak M. Satwalekar	9	7
Ramesh Vangal	9	2
Prof. Marti G. Subrahmanyam	9	5
N. R. Narayana Murthy	9	8
Nandan M. Nilekani	9	9
N. S. Raghavan	9	8
S. Gopalakrishnan	9	7
K. Dinesh	9	9
S. D. Shibulal	9	8

Key information

Recommendation 7 – Key information that must be reported and placed before the board must contain:

- *Annual operating plans and budgets, together with up-dated long term plans*
- *Capital budgets, manpower and overhead budgets*
- *Quarterly results for the company as a whole and its operating divisions or business segments*
- *Internal audit reports, including cases of theft and dishonesty of a material nature*
- *Show cause, demand and prosecution notices received from revenue authorities that are considered to be materially important. (Material nature of any exposure that exceeds 1% of the company's net worth)*
- *Fatal or serious accidents, dangerous occurrences, and any effluent or pollution problems*
- *Default in payment of interest or non-payment of the principal on any public deposit, and/or to any secured creditor or financial institution*
- *Defaults such as non-payment of inter-corporate deposits by or to the company, or materially substantial non-payment for goods sold by the company*

- *Any issue which involves possible public or product liability claims of a substantial nature, including any judgement or order which may have either passed strictures on the conduct of the company, or taken an adverse view regarding another enterprise that can have negative implications for the company*
- *Details of any joint venture or collaboration agreement*
- *Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property*
- *Recruitment and remuneration of senior officers just below the board level, including appointment or removal of the chief financial officer and the company secretary*
- *Labor problems and their proposed solutions*
- *Quarterly details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement, if material.*

The required key information is being provided to the board at regular intervals.

Audit committee

Recommendation 8 – Listed companies with either a turnover of over Rs. 100 crore or a paid-up capital of Rs. 20 crore, should set up audit committees within two years. Audit committees should consist of at least three members, all drawn from a company's non-executive directors, who should have adequate knowledge of finance, accounts and basic elements of company law. To be effective, the audit committee should have clearly defined terms of reference and its members must be willing to spend more time on the company's work vis-à-vis other non-executive directors. Audit committees should assist the board in fulfilling its functions relating to corporate accounting and reporting practices, financial and accounting controls, and financial statements and proposals that accompany the public issue of any security- and thus provide effective supervision of the financial reporting process. The audit committee should periodically interact with the statutory auditors and the internal auditors to ascertain the quality and veracity of the company's accounts as well as the capability of the auditors themselves. For the audit committee to discharge its fiduciary responsibilities with due diligence, it must be incumbent upon the management to ensure that members of the committee have full access to financial data of the company, its subsidiary and associated companies, including data on contingent liabilities, debt exposure, current liabilities, loans and investments. By the fiscal year 1998-99, listed companies with either a turnover of over Rs. 100 crore or a paid-up capital of Rs. 20 crore, should have in place a strong internal audit department, or an external auditor to carry out internal audits; without this, any audit committee will be toothless.

The audit committee consists of four non-executive directors with Mr. Deepak M. Satwalekar as chairman. The committee deals with accounting matters, financial reporting and internal controls. The committee meets at least twice a year and reviews the reports of the internal auditors and the statutory auditors. The committee also monitors proposed changes in the accounting policy, reviews the internal audit functions, and discusses the accounting implications of major transactions. The committee members have free access to information and employees across the company.

The system of internal financial control comprises those controls established in order to provide reasonable assurance of:

a) The safety of assets against unauthorized use or disposition,

b) The maintenance of proper accounting records and the reliability of financial information used within the business or for publication, and

c) Internal controls and internal checks within the company.

Disclosures

Recommendation 9 – Under "Additional Shareholder's Information", listed companies should give data on high and low monthly averages of share prices in a major stock exchange where the company is listed for the reporting year; greater detail on business segments, up to 10% of turnover, giving share in sales revenue, review of operations, analysis of markets and future prospects.

The information on high and low monthly averages of share prices in all the stock exchanges where the company is listed is provided under *Shareholder information*. The segmental information of revenue is provided elsewhere in this report.

Recommendation 10 – Consolidation of group accounts should be optional and subject to the financial institutions allowing companies to leverage on the basis of the group's assets and the income tax department using the group concept in assessing corporate income tax. If a company chooses to voluntarily consolidate, it should not be necessary to annex the accounts of its subsidiary companies under Section 212 of the Companies Act. However, if a company consolidates, then the definition of "group" should include the parent company and its subsidiaries (where the reporting company owns over 50% of the voting stake)

Infosys has been providing consolidated financial statements under US GAAP. Consolidated, unaudited financial statements under Indian GAAP are being provided as additional information to shareholders. However, effective November 1998, Infosys economic interest in Yantra under US GAAP has dropped below 50% due to sale of part of its holding and consolidation under US GAAP has ceased from such date.

Recommendation 11 – Major Indian Stock Exchanges should gradually insist upon a compliance certificate, signed by the CEO and CFO which clearly states that, the management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the annual report, and which also suggest that the company will continue in business in the course of the following year; the accounting policies and principles confirm to standard practice, and where they do not, full disclosure has been made of any material departures; the board has overseen the company's system of internal accounting and administrative controls systems either directly or through its audit committee (for companies with a turnover of Rs. 100 crore or paid-up capital of Rs. 20 crore).

The management statement on the integrity and fair presentation of the financial statements is provided elsewhere in this report.

Recommendation 12 – For all companies with a paid-up capital of Rs. 20 crore or more, the quality and quantity of disclosure that accompanies a GDR issue should be the norm for any domestic issue.

Financial information prepared in compliance with US GAAP is provided elsewhere in this report. As a policy, the disclosure policies are as per global standards.

Capital market issues

Recommendation 13 – Government must allow far greater funding to the corporate sector against the security of shares and other paper.

Not applicable.

Creditors' rights

Recommendation 14 – It would be desirable for financial institutions as pure creditors to re-write their covenants to eliminate having nominee directors except in the event of serious and systematic debt default and in case of the debtor company not providing six-monthly or quarterly operational data to the concerned financial institutions.

Not applicable.

Recommendation 15 – If any company goes to more than one credit rating agency, then it must divulge in the prospectus and issue document, the rating of all the agencies that did such an exercise. It is not enough to state the ratings. These must be given in a tabular format that shows where the company stands relative to higher and lower ranking. It makes considerable difference to an investor to know whether the rating agency or agencies placed the company in the top slots, or in the middle, or in the bottom. It is essential that we look at the quantity and quality of disclosures that accompany the issue of company bonds, debentures, and fixed deposits in the USA and Britain - if only to learn what more can be done to inspire confidence and create an environment of transparency. Finally, companies that are making foreign debt issues cannot have two sets of disclosure norms: an exhaustive one for the foreigners, and a relatively minuscule one for Indian investors.

Not applicable.

Recommendation 16 – Companies that default on fixed deposits should not be permitted to accept further deposits and make inter-corporate loans or investments until the default is made good, and declare dividends until the default is made good.

Not applicable.

Financial institutions and nominee directors

Recommendation 17 – Reduction in the number of companies where there are nominee directors. It has been argued by Financial Institutions that there are too many companies where they are on the board, and too few competent officers to do the task properly. So, in the first instance, financial institutions should take a policy decision to withdraw from boards of companies where their individual shareholding is 5% or less, or total financial institutions holding is under 10%.

Not applicable.

2. Compliance with the Cadbury Committee recommendations

The Cadbury Committee was set up in May 1991 in the United Kingdom. The stated objective of the committee was “to help raise the standards of corporate governance and the level of confidence in financial reporting and auditing by setting out clearly what it sees as the respective responsibilities of those involved and what it believes is expected of them”.

The Infosys management is committed to global levels of transparency and disclosure. In pursuance of this, an attempt has been made to provide voluntarily, hereunder, the information as required under the recommendations of the Cadbury Committee on corporate governance. The management informs the shareholders that Infosys is not, as yet, legally required to provide this information and that this is provided for information purposes only.

Compliance

The Cadbury Committee on corporate governance has made nineteen recommendations. The company complies with substantially all recommendations except for the following:

1. The board should consist of a majority of non-executive directors - currently, the company has six executive directors and four non-executive directors.

The company has set up committees of the board to focus on substantive issues in the form of the audit committee, the compensation committee and the nominations committee. The reports of these committees are disclosed in this chapter.

Going concern

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the Going Concern basis in preparing accounts.

Bangalore
April 9, 1999

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Report of the committees of the board

1. Compensation committee

The compensation committee of the board consists of:

Mr. Susim M. Datta, *Chairman*
Mr. Deepak M. Satwalekar
Mr. Ramesh Vangal

The compensation committee met four times during the year.

Compensation policy

The overall policy of the committee is to institute such compensation and benefits for board members, as well as for the members of the management council, which reward performance as per set criteria. Periodic evaluation of the performance decides the variable component of the compensation.

Salaries

The committee reviewed and approved the compensation payable to the executive directors of the company within the overall limits approved by the shareholders. The information on compensation and other benefits provided to executive directors is disclosed elsewhere in the report. The committee also reviewed the compensation proposed for all the management council members of the company. The committee believes that the proposed compensation and benefits along with stock options is adequate to motivate and retain senior officers of the company.

Stock option scheme

Executive directors (excluding the founders) and the management council members are eligible for stock options issued by the company. A statement of stock options issued to management council members in the last fiscal, is given below:

Name	Options linked to ADSs*		Option on equity shares**	
	Average exercise price($)	No. of options	Average exercise price(Rs.)	No. of options
Jan DeSmet	34	40,000	–	–
Phaneesh Murthy	34	40,000	–	–
Balasubramanian P. Dr.	34	3,000	100	3,500
Hema Ravichandar	34	3,000	100	32,000
Mohandas Pai T. V.	34	3,000	100	3,500
Prabhu M. S. S. Dr.	34	3,000	100	3,500
Raghupathi G. Bhandi	34	3,000	100	2,500
Rajiv Kuchhal	34	3,000	100	2,500
Srinath Batni	34	3,000	100	3,200
Vasudeva Rao L.	34	3,000	100	3,000
Yegneshwar S. Dr.	34	3,000	100	1,500
Girish Vaidya	–	–	100	8,000
Raghavan S.	–	–	100	2,000
Ajay Dubey	–	–	100	1,300
		107,000		66,500

* Options vesting period – March 2000-March 2003
** Options vesting date – Five years from date of grant

Independent directors

Independent directors are paid compensation not exceeding the limit specified by statute and based on the approval of the members of the company. Of the compensation payable for the year, 60% is paid pro rata and the balance

40% is paid in proportion to the board/committee meetings attended. This is to compensate the independent directors for the time spent and also for the responsibilities undertaken. The table, below, discloses the compensation payable to independent directors.

Rs. in lakhs

Name	Pro rata compensation	Compensation payable on attendance	Total
Susim M. Datta	3.60	3.00	6.60
Deepak M. Satwalekar	3.60	3.60	7.20
Ramesh Vangal	3.60	1.00	4.60
Prof. Marti G. Subrahmanyam	3.60	2.00	5.60
Total	14.40	9.60	24.00

Save as disclosed, none of the directors had a material beneficial interest in any contract of significance to which the company or any of its subsidiary undertakings was a party, during the financial year.

April 9, 1999

Susim M. Datta
Chairman, Compensation Committee

2. Nominations committee

The nominations committee of the board consists of:

Mr. Susim M. Datta, *Chairman*
Mr. Deepak M. Satwalekar
Mr. Ramesh Vangal
Prof. Marti G. Subrahmanyam

The nominations committee met twice during the year

The committee discussed the request of Mr. N. R. Narayana Murthy for the appointment of a managing director, president and COO to handle the day-to-day operations of the company so that he could concentrate on strategic issues. After an appraisal of various options and the request of Mr. N. S. Raghavan that a younger candidate be considered, the committee recommended the appointment of Mr. Nandan M. Nilekani as the managing director, president and COO. The shareholders were informed by way of a statutory notice of such appointments.

The committee considered the issue of the retirement of members of the board as per statute. As one third of the members have to retire every year based on the date of appointment, Mr. N. S. Raghavan, Mr. S. Gopalakrishnan and Mr. S. D. Shibulal will retire. The committee considered their performance and recommended that they be considered for re-appointment by the shareholders.

The committee considered expansion of the board and decided against the induction of any other member.

April 9, 1999

Susim M. Datta
Chairman, Nominations Committee

3. Audit committee

The audit committee of the board consists of:

Mr. Deepak M. Satwalekar, *Chairman*
Mr. Susim M. Datta
Mr. Ramesh Vangal
Prof. Marti G. Subrahmanyam

The audit committee met twice during the year.

The audit committee is responsible for effective supervision of the financial reporting process, ensuring financial and accounting controls, and ensuring compliance with financial policies of the company. The committee periodically interacts with the statutory auditors and the internal auditors to ascertain the quality and veracity of the company's transactions; to review the manner in which they are performing their responsibilities; and to discuss auditing, internal control and financial reporting issues. The committee provides the overall direction on the risk management policies including the focus of internal and management audits. The committee has full access to financial data and to members of the company's staff.

The committee reviews the annual and half yearly financial statements before they are submitted to the board. The committee also monitors proposed changes in the accounting policy, reviews the internal audit functions and discusses the accounting implications of major transactions.

Financial controls

The system of internal financial control comprises those controls established in order to provide reasonable assurance of:

a) The safety of assets against unauthorized use or disposition
b) The maintenance of proper accounting records and the reliability of financial information used within the business or for publication, and
c) Internal controls and internal checks within the company.

The system of internal audit and statutory audit is designed to bring out any material weaknesses in the internal control systems of the organization, and to ensure that the accounts of the company are properly maintained and the transactions are in accordance with prevailing laws and regulations. While acknowledging their responsibility for the system of internal financial control, the directors are aware that such a system cannot provide an absolute assurance against material misstatement or loss.

The key elements of this system are:

1. The "Quality charter of the company" – a statement of corporate values distributed to every employee of the company.
2. The organization chart.
3. Corporate policies for financial reporting, accounting, risk management, corporate governance, and security and confidentiality of information belonging to the company and to its clients.
4. Annual budgets and long-term business plans for all operating units, identifying key risks and opportunities.
5. Monitoring performance against plans and budgets, and reporting thereon on a monthly basis.
6. The internal auditor who reviews key business processes and controls.
7. The audit committee which reviews audit plans and deals with significant control issues raised by internal and external auditors.

Review by the audit committee

The committee reviewed the reports submitted by both the internal auditors as well as the statutory auditors of the company. The committee also reviewed the action taken on various items discussed in the previous audit committee meeting. The committee reviewed the internal controls to ensure that the accounts of the company are properly maintained and that the transactions are in accordance with prevailing laws and regulations.

The committee found no material discrepancy or weakness in the internal control systems of the company.

April 9, 1999

Deepak M. Satwalekar
Chairman, Audit Committee

Management statement

The financial statements are in full conformity with the requirements of the Companies Act, 1956 and the Generally Accepted Accounting Principles (GAAP) in India. The management of Infosys accepts responsibility for the integrity and objectivity of these financial statements as well as for estimates and judgements relating to matters not concluded by the year end. The management believes that the financial statements reflect fairly the form and substance of transactions and reasonably present the company's financial condition, and results of operations. To ensure this, the company has installed a system of internal controls which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the company have been followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls.

The financial statements have been audited by Bharat S Raut & Co., Chartered Accountants, the independent auditors.

The audit committee, at Infosys, meets periodically with the board of directors, the internal auditors and the independent auditors to review the manner in which they are performing their responsibilities, and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the audit committee to discuss any matter of substance.

The audit committee for 1998-99 was:

Deepak M. Satwalekar, *Chairman*

Susim M. Datta

Ramesh Vangal

Prof. Marti G. Subrahmanyam

Bangalore
April 9, 1999

T. V. Mohandas Pai
Senior Vice President (Finance & Administration)

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Auditors' report

To
The Members,
Infosys Technologies Limited

We have audited the attached Balance Sheet of Infosys Technologies Limited (the Company) as at March 31, 1999 and the Profit and Loss Account of the company for the year ended on that date, annexed thereto, and report that:

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board 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.
2. Further to our comments in the Annexure referred to in paragraph (1) above:
   (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose 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 these books;
   (c) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
   (d) in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report have been prepared in compliance with the accounting standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956, to the extent applicable;
   (e) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:
      (i) in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 1999; and
      (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date.
3. We have also examined the attached Cash Flow Statement of the company for the year ended March 31, 1999. The Statement has been prepared by the company in accordance with the requirements of Clause 32 of the listing agreements entered into with the Stock Exchanges.

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

Bangalore
April 9, 1999

Annexure to the Auditors' report

The Annexure referred to in paragraph 1 of the auditors' report to the members of Infosys Technologies Limited (the company) for the year ended March 31, 1999. We report that:

Internal controls

1. In our opinion and according to the information and explanations given to us, having regard to the explanations that certain items purchased are of a special nature in respect of which suitable alternative sources do not exist for obtaining comparative quotations, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of computer hardware and software, consumables, plant and machinery, equipment and other assets. The activities of the company during the year did not involve the sale of goods.
2. In our opinion and according to the information and explanations given to us, in respect of the service activities, the company, commensurate with the size and the nature of its business, has a reasonable system of:
   - recording receipts, issues and consumption of materials and allocating materials consumed to each project;
   - allocating man-hours utilized to each project; and
   - authorization and control over the allocation of labour costs to each project.
3. In our opinion, the company has an internal audit system, commensurate with its size and the nature of its business.

Fixed assets

4. The company has maintained proper records of fixed assets showing full particulars, including quantitative details and location. The company has a regular programme of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. In accordance with this programme, certain fixed assets have been physically verified by Management during the year and no material discrepancies have been identified on such verification.
5. None of the fixed assets have been revalued during the year.

Inventories

6. The company has not maintained any inventories during the year and consequently, paragraphs 4(A)(iii) to 4(A)(vi), 4(A)(xii), 4(A)(xiv), 4(A)(xvi) and 4(C)(ii) of the Manufacturing and Other Companies (Auditor's Report) Order, 1988, are not applicable in relation to its activities.

Loans and advances

7. The parties to whom loans or advances in the nature of loans have been given by the company are regular in repaying the principal amounts as stipulated and interest where applicable. In a case where the repayments have not been as stipulated, Management has taken adequate follow-up action.
8. The company has not taken any loans, secured or unsecured from companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, or from companies under the same management as defined under Section 370(1B) of the Companies Act, 1956, the rate of interest and other terms and conditions of which are, prima facie, prejudicial to the interest of the company.
9. The company has not granted any loans, secured or unsecured to companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, or to companies under the same management as defined under Section 370(1B) of the Companies Act, 1956, the rate of interest and other terms and conditions of which are, prima facie, prejudicial to the interest of the company.

Related parties

10. In our opinion, and according to the information and explanations given to us, the transactions for the purchase of goods and materials and sale of goods, materials and services, made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000 or more in respect of each party, have been made at prices which are reasonable having regard to prevailing market prices as available with the company for such goods, materials or services or the prices at which transactions for similar goods, materials or services have been made with the other parties.

Fixed deposits

11. The company has not accepted any deposits from the public and consequently the provisions of Section 58A of the Companies Act, 1956, and the rules framed thereunder are not applicable.

Staff welfare

12. Provident Fund and Employees' State Insurance dues have been regularly deposited during the year with the appropriate authorities.
13. On the basis of the examination of the books of account carried out by us in accordance with generally accepted auditing practices and according to the information and explanations given to us, no personal expenses of employees or directors have been charged to the profit and loss account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

Taxation

14. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty which are outstanding as at March 31, 1999 for a period of more than six months from the date that they became payable.

Others

15. The company is not a sick industrial company within the meaning of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

for Bharat S Raut & Co.
Chartered Accountants

Bangalore
April 9, 1999

Ravi Ramu
Partner

Balance Sheet as at March 31

in Rs.

	Schedule	1999	1998
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	33,06,95,500	16,01,73,500
Reserves and surplus	2	541,36,15,748	156,93,99,419
		574,43,11,248	172,95,72,919
APPLICATION OF FUNDS			
FIXED ASSETS	3		
Gross block		168,92,38,345	105,13,90,563
Less : Depreciation		83,09,14,934	47,50,66,754
Net block		85,83,23,411	57,63,23,809
Add : Capital work-in-progress		14,88,35,800	7,32,13,272
		100,71,59,211	64,95,37,081
INVESTMENTS	4	75,48,469	10,77,71,960
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	5	84,51,88,425	39,88,48,667
Cash and bank balances	6	405,04,82,999	43,86,55,723
Loans and advances	7	68,35,96,522	39,18,00,686
		557,92,67,946	122,93,05,076
Less : Current liabilities	8	42,83,42,481	11,20,36,854
Provisions	9	42,13,21,897	14,50,04,344
NET CURRENT ASSETS		472,96,03,568	97,22,63,878
		574,43,11,248	172,95,72,919
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	13		

The Schedules referred to above and the notes thereon form an integral part of the Balance Sheet.

This is the Balance Sheet
referred to in our report
of even date.

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

Susim M. Datta
Director

Deepak M. Satwalekar
Director

Ramesh Vangal
Director

Prof. Marti G. Subrahmanyam
Director

N. S. Raghavan
Jt. Managing Director

S. Gopalakrishnan
Dy. Managing Director

Bangalore
April 9, 1999

K. Dinesh
Director

S. D. Shibulal
Director

T. V. Mohandas Pai
Senior Vice President (Finance & Administration)

V. Viswanathan
Company Secretary

Profit and Loss Account for the year ended March 31

in Rs.

	Schedule	1999	1998
INCOME			
Software development services and products			
Overseas		500,25,40,418	250,93,75,443
Domestic		8,63,71,250	6,70,33,205
Sale of imported software packages		–	1,64,840
Other income	10	3,84,71,833	2,70,83,794
		512,73,83,501	260,36,57,282
EXPENDITURE			
Cost of imported software packages sold		–	1,30,429
Software development expenses	11	261,51,74,052	141,20,17,617
Administration and other expenses	12	45,75,30,137	30,53,93,818
Provision for contingencies		6,66,00,000	–
Provision for investment in subsidiary		7,05,95,674	–
		320,98,99,863	171,75,41,864
Operating profit (PBIDT)		191,74,83,638	88,61,15,418
Interest		–	–
Depreciation		35,89,30,078	22,74,82,339
Profit before tax		155,85,53,560	65,86,33,079
Provision for tax – earlier year		4,32,00,000	1,50,50,000
– current year		18,62,00,000	3,99,50,000
Profit after tax from ordinary activities		132,91,53,560	60,36,33,079
Extraordinary income (net of tax)		2,34,54,103	–
Net profit		135,26,07,663	60,36,33,079
AMOUNT AVAILABLE FOR APPROPRIATION		135,26,07,663	60,36,33,079
Dividend			
Interim		4,00,43,011	1,75,73,859
Final (proposed)		8,10,32,734	5,27,17,738
Dividend Tax		1,21,07,574	70,29,160
Amount transferred – capital reserve		2,34,54,103	–
– general reserve		119,59,70,241	52,63,12,322
		135,26,07,663	60,36,33,079
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	13		

The Schedules referred to above and the notes thereon form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

Susim M. Datta
Director

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Director

Ramesh Vangal
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Director

N. S. Raghavan
Jt. Managing Director

S. Gopalakrishnan
Dy. Managing Director

Bangalore
April 9, 1999

K. Dinesh
Director

S. D. Shibulal
Director

T. V. Mohandas Pai
Senior Vice President (Finance & Administration)

V. Viswanathan
Company Secretary

Schedules to the Balance Sheet as at March 31

in Rs.

	1999	1998
1. SHARE CAPITAL		
AUTHORIZED		
5,00,00,000 (3,00,00,000) equity shares of Rs. 10 each.	50,00,00,000	30,00,00,000
ISSUED, SUBSCRIBED AND PAID UP		
3,30,69,400 (1,60,17,200) equity shares of Rs. 10 each fully paid up.	33,06,94,000	16,01,72,000
[Of the above, 2,89,44,100 (1,29,26,900) equity shares of Rs. 10 each fully paid up have been issued as bonus shares by capitalization of general reserve]		
Add : Forfeited shares	1,500	1,500
	33,06,95,500	16,01,73,500
2. RESERVES AND SURPLUS		
Capital reserve as at April 1, 1998	3,59,00,000	3,59,00,000
Add : Transferred from Profit and loss account	2,34,54,103	–
	5,93,54,103	3,59,00,000
Share premium account as at April 1, 1998	41,49,51,460	34,75,41,460
Add : Received during the year		
On conversion of warrants	–	6,74,10,000
On issue of American Depositary Shares (ADS)	295,82,78,400	–
	337,32,29,860	41,49,51,460
Less : ADS issue expenses written off	17,33,14,415	–
	319,99,15,445	41,49,51,460
Investment allowance reserve (utilized) as at April 1, 1998	–	6,65,000
Less : Transferred to general reserve	–	6,65,000
	–	–
General reserve as at April 1, 1998	111,85,47,959	67,16,56,637
Less : Capitalized for issue of bonus shares	16,01,72,000	8,00,86,000
	95,83,75,959	59,15,70,637
Add : Transferred during the year from investment allowance reserve (utilized)	–	6,65,000
Transferred from Profit and Loss Account	119,59,70,241	52,63,12,322
	215,43,46,200	111,85,47,959
	541,36,15,748	156,93,99,419

Schedules to the Balance Sheet as at March 31

3. FIXED ASSETS

in Rs.

	Gross block				Depreciation				Net block	
Assets	Cost as at 1.4.98	Additions during the year	Deductions during the year	Cost as at 31.3.99	As at 1.4.98	For the year	Deductions during the year	As at 31.3.99	As at 31.3.99	As at 31.3.98
Land – free-hold	1,89,83,650	–	–	1,89,83,650	–	–	–	–	1,89,83,650	1,89,83,650
Land – lease-hold	2,90,22,980	6,07,53,525	–	8,97,76,505	–	–	–	–	8,97,76,505	2,90,22,980
Buildings	19,35,72,375	9,42,90,059	–	28,78,62,434	1,13,62,346	1,20,60,428	–	2,34,22,774	26,44,39,660	18,22,10,029
Plant and machinery	19,56,27,346	11,52,37,182	57,656	31,08,06,872	7,13,00,057	6,91,43,525	30,103	14,04,13,479	17,03,93,393	12,43,27,289
Computer equipment	48,45,37,704	28,94,72,182	32,63,958	77,07,45,928	32,42,95,817	19,38,87,312	30,51,795	51,51,31,334	25,56,14,594	16,02,41,887
Furniture and fixtures	12,78,89,938	8,14,16,448	–	20,93,06,386	6,78,28,663	8,32,08,343	–	15,10,37,006	5,82,69,380	6,00,61,275
Vehicles	17,56,570	–	–	17,56,570	2,79,871	6,30,470	–	9,10,341	8,46,229	14,76,699
Total	105,13,90,563	64,11,69,396	33,21,614	168,92,38,345	47,50,66,754	35,89,30,078	30,81,898	83,09,14,934	85,83,23,411	57,63,23,809
Previous year	71,29,16,621	34,13,26,052	28,52,110	105,13,90,563	25,02,44,587	22,74,82,339	26,60,172	47,50,66,754	57,63,23,809	

Note: Buildings include Rs. 250 being the value of 5 shares of Rs. 50 each in Mittal Towers Premises Co-operative Society Ltd.

in Rs.

		1999	1998
4. INVESTMENTS			
TRADE (UNQUOTED) – at cost	No. of shares		
Long- term investments			
Yantra Corporation, a subsidiary company incorporated in the USA			
Common stock at US$ 0.20 each, fully paid, par value US$ 0.01 each	75,00,000	5,32,51,600	5,32,51,600
Series A Convertible Preferred Stock at US$ 0.75 each, fully paid, par value US$ 0.01 each	6,36,363 (previous year 20,00,000)	1,73,44,074	5,45,10,000
		7,05,95,674	10,77,61,600
Less : Provision for investment in subsidiary		7,05,95,674	–
		–	10,77,61,600
JASDIC Park Company (common stock at Yen 50,000 each, fully paid up)	480	75,38,109	–
Software Services Support Education Center Limited (Equity shares of Rs. 10 each fully paid up)	1	10	10
The Saraswat Co-operative Bank Limited (Equity shares of Rs. 10 each fully paid up)	1,035	10,350	10,350
		75,48,469	10,77,71,960
Aggregate of unquoted investments – carrying value / cost		75,48,469	10,77,71,960

	1999	1998
5. SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months		
Unsecured		
Considered good	–	–
Considered doubtful	1,27,23,349	1,52,12,216
Other debts - unsecured, considered good *	84,51,88,425	39,88,48,667
	85,79,11,774	41,40,60,883
Less: Provision for doubtful debts	1,27,23,349	1,52,12,216
	84,51,88,425	39,88,48,667
*Due by subsidiary – Yantra Corporation	1,06,80,297	62,89,036

in Rs.

	1999	1998
6. CASH AND BANK BALANCES		
Cash on hand	8,80,351	5,30,077
Balances with scheduled banks		
in current accounts *	15,18,51,331	10,60,52,806
in deposit accounts in Indian rupees	12,41,56,133	42,06,643
certificates of deposit in Indian rupees	–	15,52,06,706
in deposit accounts in foreign currency	346,11,46,800	5,20,55,249
Balances with non-scheduled banks – in current accounts		
ABN Amro Bank, Heerlen, Netherlands	19,06,318	10,72,838
Bank of America, Los Angeles, USA	7,09,257	3,53,326
Bank of America, Milpitas, USA	36,81,071	11,07,73,736
Bank of America, Palo Alto, USA	29,27,16,702	–
Bank of Boston, Boston, USA	18,01,647	45,81,111
Barclays Bank, London, UK	26,34,197	4,58,195
Deutsche Bank, Frankfurt, Germany	6,71,259	–
First Chicago Bank, Chicago, USA	25,28,864	88,850
Hongkong Bank of Canada, Toronto, Canada	12,68,577	8,87,116
Michigan National Bank, Detroit, USA	5,54,105	–
Nations Bank, Dallas, USA	11,25,702	5,98,598
Nations Bank, Georgia, USA	8,88,657	–
Seafirst Bank, Seattle, USA	5,19,580	–
Sanwa Bank, Tokyo, Japan	9,07,608	43,845
Summit Bank, Bridgewater, USA	5,34,840	17,46,627
	405,04,82,999	43,86,55,723
Maximum balance held during the year:		
ABN Amro Bank, Heerlen, Netherlands	19,55,717	28,77,014
Bank of America, Los Angeles, USA	48,32,906	16,31,113
Bank of America, Milpitas, USA	27,81,50,845	14,99,74,560
Bank of America, Palo Alto, USA	34,45,46,960	–
Bank of Boston, Boston, USA	56,13,937	5,50,09,836
Barclays Bank, London, UK	60,22,293	24,05,326
Deutsche Bank, Frankfurt, Germany	8,81,045	–
First Chicago Bank, Chicago, USA	25,42,183	24,23,279
Hongkong Bank of Canada, Toronto, Canada	19,90,796	8,87,116
Michigan National Bank, Detroit, USA	10,01,950	–
Nations Bank, Dallas, USA	14,58,595	12,94,793
Nations Bank, Georgia, USA	11,31,832	–
Seafirst Bank, Seattle, USA	6,97,458	–
Sanwa Bank, Tokyo, Japan	18,47,164	13,28,328
Summit Bank, Bridgewater, USA	37,29,977	17,96,076

* Includes Rs. 12,98,113 (previous year Rs. 11,66,513) being the balance in the unclaimed dividend account.

in Rs.

	1999	1998
7. LOANS AND ADVANCES		
Unsecured, considered good		
Advances recoverable in cash or in kind or for value to be received	8,93,38,338	5,21,21,294
Advance income tax	19,10,80,222	9,59,04,567
Loans and advances to employees *	21,82,98,877	7,54,56,651
Other advances	96,29,958	4,16,88,775
Rent and maintenance deposits	5,91,41,182	5,38,65,413
Deposits with Financial Institution / body corporate	11,61,07,945	7,27,63,986
	68,35,96,522	39,18,00,686
Unsecured, considered doubtful		
Deposit with company	1,19,02,331	70,10,039
Loans and advances to employees	4,01,814	–
	69,59,00,667	39,88,10,725
Less : Provision for doubtful loans and advances	1,23,04,145	70,10,039
	68,35,96,522	39,18,00,686
* Due by non-director officers of the company	1,11,95,272	89,71,524
Maximum amount due at any time during the year	1,60,70,546	1,07,49,219
8. CURRENT LIABILITIES		
Sundry creditors		
for goods	31,73,360	39,38,682
for accrued salaries and benefits	13,13,31,791	6,23,37,905
for other liabilities	9,79,73,278	3,70,85,711
Advances received from clients	7,80,446	50,56,601
Deferred revenue	94,94,534	24,51,442
Unearned Revenue	18,42,90,959	–
Unclaimed dividend	12,98,113	11,66,513
	42,83,42,481	11,20,36,854
9. PROVISIONS		
Provision for taxation	23,94,60,761	7,99,76,791
Proposed dividend	8,10,32,734	5,27,17,738
Provision for contingencies	6,66,00,000	–
Provision for post-sales client support	3,42,28,402	1,23,09,815
	42,13,21,897	14,50,04,344

in Rs.

	1999	1998
10. OTHER INCOME		
Interest received on deposits with banks and others	3,67,00,927	1,58,69,826
Tax deducted at source Rs. 21,21,726 (Rs. 17,60,067)		
Profit on sale of assets	–	1,09,159
Sale of special import licenses	–	1,01,26,872
Miscellaneous income	17,70,906	9,77,937
	3,84,71,833	2,70,83,794
11. SOFTWARE DEVELOPMENT EXPENSES		
Salaries and bonus including overseas staff expenses	151,56,56,923	87,45,07,472
Staff welfare	3,06,17,200	2,37,53,531
Contribution to provident and other funds	11,42,90,209	3,90,03,595
Foreign tour and travel	58,11,20,975	25,21,33,000
Consumables	1,06,44,207	58,70,353
Cost of software packages		
for own use	14,86,91,737	8,74,93,506
for domestic software development	1,78,19,890	1,98,37,506
Provision for post-sales client support	2,19,18,587	1,23,09,815
Computer maintenance	3,29,08,467	1,53,49,718
Communication expenses	9,59,08,515	5,74,16,558
Consultancy charges	4,55,97,342	2,43,42,563
	261,51,74,052	141,20,17,617
12. ADMINISTRATION AND OTHER EXPENSES		
Travelling and conveyance	4,15,37,200	2,96,75,343
Rent	7,44,54,587	5,35,80,219
Telephone charges	5,15,34,846	3,37,04,179
Legal and professional charges	5,37,56,388	2,67,63,969
Printing and stationery	1,76,34,923	1,13,49,709
Advertisements	76,84,502	1,15,01,922
Office maintenance	2,95,44,190	2,76,24,915
Repairs to building	1,08,24,460	65,00,864
Repairs to plant and machinery	86,47,678	45,54,587
Power and fuel	2,73,37,769	1,67,48,311
Insurance charges	1,28,78,968	43,57,933
Rates and taxes	1,16,79,290	1,11,51,246
Donations	1,49,82,357	52,34,364
Auditors' remuneration – audit fees	14,35,000	9,00,000
– certification charges	2,00,000	–
– other services	8,00,000	–
– out-of-pocket expenses	1,50,000	30,000
Provision for bad and doubtful debts	(13,06,919)	1,52,12,216
Provision for doubtful loans and advances	52,94,106	70,10,039
Bank charges and commission	38,95,031	29,27,262
Commission charges	7,40,413	10,58,955
Obsolete stock written off	–	2,26,729
Miscellaneous expenses	5,29,25,348	3,52,81,056
Research grants	3,09,00,000	–
	45,75,30,137	30,53,93,818

13. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

13.1 Significant accounting policies

13.1.1 Basis for preparation of financial statements

The financial statements are prepared under the historical cost convention, in accordance with the Generally Accepted Accounting Principles (GAAP) and the provisions of the Companies Act, 1956, as adopted consistently by the company. All income and expenditure having a material bearing on the financial statements are recognized on the accrual basis.

The preparation of the financial statements in conformity with the GAAP requires that the management make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Examples of such estimates include, estimates of expected contract costs to be incurred to complete software development, provision for doubtful debts, future obligations under employee retirement benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.

13.1.2 Revenue recognition

Revenue from software development on a time-and-material basis is recognized based on software developed and billed to clients as per the terms of specific contracts. In the case of fixed-price contracts, revenue is recognized based on the milestones achieved as specified in the contracts, on the percentage of completion basis. Revenue from the sale of software products is recognized when the sale has been completed with the passing of title. Revenues from Annual Technical Services (ATS) is recognized on a pro rata basis over the period in which such services are rendered. Interest on deployment of surplus funds is recognized using the time-proportion method, based on interest rates implicit in the transaction. Dividend income is recognized when the right to receive dividend is established. Revenue from the sale of Special Import Licences is recognized when the licences are actually sold.

13.1.3 Expenditure

Expenses are accounted on the accrual basis and provisions are made for all known losses and liabilities. Provisions are made for future unforeseeable factors which may affect the ultimate profit on fixed-price software development contracts. The cost of software purchased for use in software development and services is charged to revenue in the same year. The leave encashment liability of the company is provided on the basis of actuarial valuation. Provisions are made towards likely expenses on providing post-sales client support for fixed-price contracts.

13.1.4 Fixed assets

Fixed assets are stated at the cost of acquisition, less accumulated depreciation. Direct costs are capitalized till the assets are ready to be put to use. These costs include financing costs relating to specific borrowing(s) attributable to fixed assets.

13.1.5 Capital work-in-progress

Advances paid towards the acquisition of fixed assets, and the cost of assets not put to use before the year-end, are disclosed under capital work-in-progress.

13.1.6 Depreciation

Depreciation on fixed assets is provided using the straight-line method, based on useful lives as estimated by the management. Depreciation is charged on a pro rata basis for assets purchased / sold during the year. Individual assets costing less than Rs. 5,000 are depreciated in full in the year of purchase. The management's estimate of useful lives for the various fixed assets is given below.

Buildings	15 years
Plant and machinery	5 years
Computer equipment	2-5 years
Furniture and fixtures	5 years
Vehicles	5 years

13.1.7 Inventories

Inventories are valued at the lower of the historic cost and the net realizable value. A periodic review is made of slow-moving stock, and appropriate provisions are made for anticipated losses, if any. Cost is determined using the first-in, first-out (FIFO) method.

13.1.8 Retirement benefits to employees

13.1.8a Gratuity

In accordance with the Indian law, the company provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement, death or termination of employment, based on the respective employee's salary, and the years of employment with the company.

The company has established the Infosys Technologies Limited Employees' Group Gratuity Fund Trust (the Trust). Liabilities with regard to the gratuity plan are determined by actuarial valuation, based upon which, the company makes contributions to the Trust. Trustees administer the contributions made to the Trust. The funds contributed to the Trust are invested in specific designated securities as mandated by law, and generally comprise central and state government bonds, and debt instruments of government-owned corporations.

13.1.8b Superannuation

Apart from being covered under the gratuity plan described above, the senior officers of the company are also participants of a defined contribution benefit plan. The plan is termed the superannuation plan to which the company makes monthly contributions, based on a specified percentage of each covered employee's salary. The company has no further obligations under the plan beyond its monthly contributions.

13.1.8c Provident fund

In addition to the above benefits, all employees receive benefits from a provident fund which is a defined contribution plan. Both the employee and the employer make monthly contributions to the plan equal to 12% of the covered employee's salary.

The company has established a Provident Fund Trust to which a part of the contributions are made each month. The remainder of the contributions are made to the Government's provident fund. The company has no further obligations under the plan beyond its monthly contributions.

13.1.9 Research and development

Capital and revenue expenditure incurred on research and development is charged off to revenue in the same year in which such expenditure is incurred.

13.1.10 Foreign currency transactions

Sales made to clients outside India and realizations deposited into foreign currency bank accounts are accounted for on the basis of the exchange rate as on the date of the transaction. Adjustments are made for any variations in the sale proceeds on conversion into Indian currency upon actual receipt. Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Disbursements made out of foreign currency bank accounts are reported at a rate that approximates the actual monthly rate. Fixed assets purchased at overseas offices are accounted for on the basis of the actual cost incurred at the exchange rate prevalent at the time of purchase. Depreciation is charged as per company policy. Exchange differences arising on foreign currency transactions are recognized as income or expense in the year in which they arise.

Current assets and current liabilities denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resulting difference is accounted for in the profit and loss account. In the case of forward contracts, the difference between the forward rate and the exchange rate on the date of the transaction is recognized as income or expense over the life of the contract.

13.1.11 Investments

Investments are classified into current investments and long-term investments. Current investments are carried at the lower of the cost and the fair value, and provision is made to recognize any decline in the carrying value. Long-term investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment. Overseas investments are carried at their original rupee cost.

13.1.12 Investment in subsidiary

The investment in the subsidiary is accounted on the cost method, whereby, the company recognizes only dividends received from the subsidiary as income. In case of losses made by the subsidiary, other than temporary, adequate provision is made to recognize any decline in the value of the investment.

13.1.13 Income tax

Provision is made for income tax on a yearly basis, under the tax-payable method, based on the tax liability as computed after taking credit for allowances and exemptions. In case of matters under appeal, due to disallowances or otherwise, full provision is made when the said liabilities are accepted by the company.

13.2 Notes on accounts

The previous year's figures have been recast / restated, wherever necessary, to conform to the current year's classification.

13.2.1 Contingent liabilities

a. The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advance) is Rs. 24,90,40,333. The amount of such contracts as at the previous year-end was Rs. 10,95,12,576.
b. The company has outstanding counter guarantees of Rs. 3,20,40,263 as at March 31, 1999, to various banks, in respect of guarantees given by the said banks in favor of various government authorities. The counter guarantees outstanding, as at the previous year-end, were Rs. 1,73,09,161.
c. Claims against the company, not acknowledged as debts, amounted to Rs. 17,91,814 as at March 31, 1999. Such claims for the previous year-end were Rs. 25,17,576.

13.2.2 Quantitative details

The company is engaged in the development and maintenance of computer software. The production and sale of such software cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details of sales and the information as required under paragraphs 3, 4C and 4D of part II of Schedule VI of the Companies Act, 1956.

13.2.3 Managerial remuneration paid to the chairman, managing director and whole-time directors

in Rs.

	1999	1998
Salary	38,95,200	28,92,000
Contribution to Provident Fund and other funds	12,39,120	9,19,944
Perquisites	36,92,197	22,50,981

13.2.4 Managerial remuneration paid to non-whole-time directors

in Rs.

	1999	1998
Commission	24,00,000	9,00,000
Sitting fees	58,000	22,000
Reimbursement of expenses	7,58,645	1,74,138

13.2.5 Computation of net profit in accordance with Section 349 of the Companies Act, 1956, and calculation of commission payable to non-whole-time directors

in Rs.

	1999	1998
Profit after tax from ordinary activities	132,91,53,560	60,36,33,079
Add :		
Whole-time directors' remuneration (including perquisites)	88,26,517	60,62,925
Directors' sitting fees	58,000	22,000
Commission to non-whole-time directors	24,00,000	9,00,000
Depreciation as per the accounts	35,89,30,078	22,74,82,339
Provision for investment in subsidiary	7,05,95,674	-
Provision for taxation	22,94,00,000	5,50,00,000
	199,93,63,829	89,31,00,343
Less :		
Depreciation as per Section 350 of the Companies Act, 1956	19,35,60,009	16,04,87,054
Profit on sale of fixed assets as per Profit and Loss Account	–	1,09,159
Loss on sale of fixed assets (net) as per Section 350 of the Companies Act, 1956	–	4,05,438
Net profit on which commission is payable	180,58,03,820	73,20,98,692
Commission payable to non-whole-time directors @ 0.50% per annum of net profit	90,29,019	17,34,974
Commission approved by the board	24,00,000	9,00,000

13.2.6 Imports on CIF basis

in Rs.

	1999	1998
Capital goods	27,12,27,684	15,01,26,347
Software packages	2,69,36,735	4,52,03,814

13.2.7 Expenditure in foreign currency

in Rs.

	1999	1998
Travel expenses	50,72,37,245	18,54,56,374
Professional charges	2,88,63,027	1,77,59,820
Other expenditure incurred overseas for software development	109,13,62,546	58,79,49,763

13.2.8 Earnings in foreign exchange

in Rs.

	1999	1998
Income from software development services and products on a receipts basis	475,29,01,875	226,03,94,056
Interest received on deposits with banks	2,14,60,480	8,35,309

13.2.9 Particulars in respect of traded items (imported and other software packages)

	1999		1998	
	Qty.	Value (Rs.)	Qty.	Value (Rs.)
Opening stock	–	–	118	4,10,878
Purchases	–	–	–	–
Closing stock	–	–	–	–
Turnover	–	–	118	4,10,878

13.2.10 Depreciation on assets costing less than Rs. 5,000 each

During the year, the company charged depreciation at one hundred percent in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 11,37,41,697. The corresponding figure for the previous year was Rs. 2,86,94,241.

13.2.11 Post-sales client support

With effect from July 1, 1997, the company commenced making a provision for post-sales client support on fixed-price contracts. The provision for the current year is Rs. 2,19,18,587. The corresponding figure for the previous year was Rs. 1,23,09,815.

13.2.12 Depreciation

With effect from October 1, 1998, the company revised the estimates of useful lives of buildings (software centers and others) from 28 years / 58 years to 15 years. Due to this change, depreciation for the current year is higher by Rs. 42,23,419. As a result, the profit for the current year is lower by Rs. 42,23,419 on a comparative basis.

13.2.13 Annual Technical Services (ATS)

With effect from July 1, 1997, the company accounts for revenue from ATS on a pro rata basis over the period in which such services are rendered. Consequently, an amount of Rs. 94,94,534, forming the ATS for the current year, has been deferred and will be recognized in future. The corresponding figure for the previous year was Rs. 24,51,442.

13.2.14 Exchange differences

Income from overseas software development services and products includes net realized and unrealized exchange gains of Rs. 2,77,93,084. The corresponding figure for the previous year was Rs. 3,43,20,847.

13.2.15 Research and development expenditure

Research and development expenses charged to the Profit and Loss Account on both capital and revenue accounts amount to Rs. 9,81,06,490 (previous year – Rs. 7,79,72,734). This includes Rs. 30,30,000 being the depreciation charged at 100% in respect of R & D assets acquired during the year (previous year – Rs. 3,93,85,138).

13.2.16 Investment in subsidiary

During the year, the company sold a part of its holding of preferred stock in Yantra Corporation resulting in an extraordinary income of Rs. 2,34,54,103 net of tax (gross Rs. 2,62,54,103). The company also made a provision for its investment in Yantra Corporation of Rs. 7,05,95,674 as the losses of Yantra Corporation exceeded the company's contribution to its capital.

13.2.17 Provision for contingencies

The company has instituted a contingency plan to meet any possible disruption in client support due to the Y2K impact on the technology and communication infrastructure provided to the company by vendors. The company had made a provision of Rs. 6,66,00,000 during the year towards such a contingency plan.

13.2.18 Unearned revenue

Unearned revenue as of March 31, 1999 consists primarily of advance client billings on fixed-price, fixed-time-frame contracts for which related costs were not yet incurred.

13.2.19 Dues to Small-Scale Industrial undertakings

As of March 31, 1999, the company had no outstanding dues to small-scale industrial undertakings.

Management's discussion and analysis of financial condition and results of operations

Overview

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and the Generally Accepted Accounting Principles (GAAP) in India. The management of Infosys accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgements used therein. In addition to the historical information contained herein, the following discussion includes forward-looking statements which involve risks and uncertainties, including, but not limited to, risks inherent in the company's growth strategy, dependence on certain clients, dependence on availability of qualified technical consultants and other factors discussed in this report.

A Financial condition

1. Share capital

The company has, at present, only one class of shares. During the year 10,35,000 shares (equivalent to 20,70,000 ADSs) were issued under the American Depositary Shares (ADS) program at US$ 34 per ADS (equivalent to US$ 68 per equity share) and the same were listed on the NASDAQ stock exchange. During March 1999, the company also issued 1,60,17,200 shares as bonus shares to its shareholders in the ratio of 1:1 as approved by the shareholders in the Extraordinary General Meeting of the company held in January 1999. To provide for the creation of new shares, the authorized capital of the company was increased to Rs. 50,00,00,000 consisting of 5,00,00,000 shares of Rs. 10 each.

The increase in share capital during the previous year was due to the issue of 7,49,000 shares arising out of the conversion of warrants issued under the Employees Stock Offer Plan (ESOP) to employees and to the Employees Welfare Trust and also due to the issue of 80,08,600 shares as bonus shares in the ratio of 1:1 as approved by the shareholders in the Annual General Meeting of the company held in June 1997.

2. Reserves and surplus

The addition to the share premium account, of Rs. 295,82,78,400 during the year, is due to the premium received on issue of 10,35,000 equity shares (equivalent to 20,70,000 ADSs) under the American Depositary Shares (ADS) program. The addition to the share premium was reduced by the cost of the issue of Rs. 17,33,14,415 comprising of the underwriters spread, legal fees, accounting fees and travel expenses, etc., representing bills received to date. Bills for additional costs are still awaited. The details of ADS issue expenses are given as under.

Nature of expenses	*in Rs.*
Travel expenses	35,91,484
India advisor's fees	1,48,43,142
Legal and accounting fees	1,79,01,524
Registration and filing fee	30,86,211
Stamp duty	29,88,150
Underwriters' spread	14,28,61,129
Contribution received from depositary	(1,19,57,225)
	17,33,14,415

The addition to the share premium account, of Rs. 6,74,10,000, during the previous year, was due to the premium of Rs. 90 per share received upon conversion of 7,49,000 warrants under the ESOP scheme.

During the year, the company transferred the balance profit of Rs. 119,59,70,241 to the General Reserve, after transferring a sum of Rs. 2,34,54,103 to Capital Reserve and after providing for a dividend payment of Rs. 12,10,75,745 and dividend tax of Rs. 1,21,07,574. During the previous year, the company transferred the balance profit of Rs. 52,63,12,322 to the General Reserve, after providing for a dividend payment of Rs. 7,02,91,597 and dividend tax of Rs. 70,29,160.

3. Fixed assets

During the year, the company added Rs. 64,11,69,396 to its gross block, including investment in technology assets of Rs. 28,94,72,182. During the previous year, the company added Rs. 34,13,26,052 to its gross block, including investment in technology assets of Rs. 17,50,02,584. The capital work-in-progress as on years ended March 31, 1999 and 1998, represents advances paid towards acquisition of fixed assets, and the cost of assets not put to use. During the year, the company donated computer systems costing Rs. 30,02,107 (book value Nil) to certain educational institutions and the same is disclosed under the heading *Deductions during the year*, under both *Gross block* and *Depreciation*. The same stood at Rs. 15,71,400 during the previous year.

The company estimates that it would be able to fund its capital acquisition program from its internal accruals and liquid assets. The company may also take recourse to borrowings to meet its capital expenditure, should it be deemed necessary.

4. Investments

The company's subsidiary, Yantra Corporation, is incorporated in the US. The company had made an investment of US$ 500,000 (Rs. 1,73,51,600) by a cash remittance, after obtaining the necessary approvals, during the year ended March 31, 1996, towards the issue of 2,500,000 shares of common stock at US$ 0.20 per share with a par value of US$ 0.01 per share. During the year ended March 31, 1997, the company sold its software product, Eagle, to Yantra Corporation for an amount of US$ 1,000,000 (Rs. 3,59,00,000). The sale was paid for by the issue of 5,000,000 shares of common stock at US$ 0.20 per share with a par value of US$ 0.01 per share. Thus, the cumulative investment by the company in the capital of Yantra Corporation till the year ended March 31, 1997, was US$ 1,500,000 (Rs. 5,32,51,600). During the year ended March 31, 1998, the company invested an amount of US$ 1,500,000 (Rs. 5,45,10,000), towards the issue of 2,000,000 shares of Convertible Preferred Stock in Yantra Corporation at US$ 0.75 per share, by way of cash remittance. At the same time, the capital of Yantra also increased by US$ 2,250,000 due to the issue of 3,000,000 shares of Convertible Preferred Stock at US$ 0.75 each to venture capitalists.

During September 1998, further capital was raised from venture capital funds amounting to US$ 6,000,000 (Rs. 25,47,00,000), by the issue of 4,800,000 shares of Convertible Preferred Stock along with convertible warrants in Yantra Corporation at US$ 1.25 per share, by way of cash remittance.

During October 1998, Infosys sold part of its Convertible Preferred Stock holding of 1,363,637 shares at US$ 1.10 per share amounting to US$ 1,500,000 (Rs. 6,34,20,030) to a venture capital firm and received the consideration in cash. Post this sale, the economic interest of Infosys in Yantra Corporation stands at 47%. The Yantra accounts have not been consolidated with Infosys from that date as per US GAAP but Yantra is still deemed a subsidiary in terms of the Companies Act 1956.

The losses in Yantra have exceeded the investments, to date. Hence, a provision of Rs. 7,05,95,674 was made during the year towards investments in Yantra Corporation. With this provision, the investments in Yantra Corporation have a carrying value of nil in the books.

The financial statements of the subsidiary are provided elsewhere in this report.

During the year, Infosys invested an amount of Yen 24 million (Rs. 75,38,109) towards the issue of 480 shares of JASDIC Park Company.

5. Sundry debtors

Sundry debtors amount to Rs. 84,51,88,425 (net of provisions for bad and doubtful debts) as at March 31, 1999, as compared with Rs. 39,88,48,667 as at March 31, 1998. These debtors are considered good and realizable, and provision has been made for all debtors outstanding for more than 180 days. The debtors as a percentage of total software revenue is 16.61% for the year ended March 31, 1999, as compared with 15.48% for the previous year. This amounts to an outstanding of 61 days and 57 days of software revenue for the respective years. The age profile is as given below:

Period in days	March 31, 1999	March 31, 1998
0 – 30	58.03%	60.88%
31 – 60	24.09%	29.90%
61 – 90	10.66%	6.43%
More than 90	7.22%	2.79%
	100.00%	100.00%

6. Cash and bank balances

in Rs.

		March 31, 1999	March 31, 1998
Cash balances		8,80,351	5,30,077
Bank balances in India	– current accounts	15,18,51,331	10,60,52,806
	– deposit account	12,41,56,133	15,94,13,349
	– EEFC deposit account in US$	62,06,68,810	5,20,55,249
Bank balances - overseas	– current account	31,24,48,384	12,06,04,242
	– deposit account	284,04,77,990	–
		405,04,82,999	43,86,55,723

The bank balances in India include both rupee accounts and foreign currency accounts. They also include Rs. 12,98,113 and Rs. 11,66,513 in the unclaimed dividend account for the years ended March 31, 1999 and 1998. The deposit account represents deposits for short tenures. The company also has a deposit of US$ 14,728,758 (Rs. 62,06,68,810) in the Exchange Earners Foreign Currency (EEFC) account as at March 31, 1999. The bank balances in overseas deposit accounts include a net amount of US$ 66,993,060 (Rs. 282,57,67,270) received on completion of the American Depositary Shares (ADS) program and maintained as a deposit with State Bank of India, Nassau, OBU, New York. The bank balances in overseas accounts are maintained to meet the expenditure of the overseas branches in USA and other countries, and to meet project-related expenditure overseas.

The cash and cash equivalents as at March 31, 1999 and 1998, amounted to Rs. 416,65,90,944 (including Rs. 11,61,07,945 deposited with a financial institution and body corporate) and Rs. 51,14,19,709. This represents 73% and 30% of the total assets as at March 31, 1999 and 1998.

7. Loans and advances

Advances recoverable in cash or in kind or for value to be received, are primarily towards amounts paid in advance for value and services to be received in future. Advance income tax represents payments made towards tax liability for the years ended March 31, 1999 and 1998, and so also refunds due for previous years. The company's liability towards income tax has been fully provided for. Deposits with financial institution and body corporate of Rs. 11,61,07,945 represent amounts kept with Housing Development Finance Corporation Limited and GE Capital Services India as deposits. The company's treasury policy calls for investing only in highly rated companies for short maturities with a limit for individual companies. Loans to employees are made to enable the purchase of assets by employees and to meet any emergency requirements. The loans to employees increased significantly during the year, due to an increase in the number of employees taking such loans, and also due to the introduction of various new loan schemes. Other advances represent electricity deposits and advances of a similar nature. The company has taken on lease, several buildings for its software development centers in various cities and also for housing its staff. The deposits paid towards the above are shown under rent and maintenance deposits.

8. Current liabilities

Sundry creditors for goods represent the amount payable to vendors for the supply of goods. Sundry creditors for accrued salaries and benefits include the provision for bonus payable to the staff, and towards the company's liability for leave encashment valued on an actuarial basis. Sundry creditors for other liabilities represent amounts accrued for various other operational expenses. Advances received from clients denote monies received for the delivery of future services. Unclaimed dividends represent dividend paid, but not encashed by shareholders, and are represented by a bank balance of equivalent value.

9. Unearned revenue

Unearned revenue as on March 31, 1999 consists primarily of advance client billing on fixed-price, fixed-time-frame contracts for which related costs were not yet incurred.

10. Provisions

Provisions for taxation represent estimated income tax liabilities, both in India and abroad, for the years ended March 31, 1999 and 1998. The provisions and the advance tax payments would be set-off upon assessment. The proposed dividend represents the final dividend recommended to the shareholders by the board, and would be paid after the Annual General Meeting, upon approval by the shareholders.

B. Results of operations

1. Income

The company derives its income from software services and the sale of software products. Approximately, 98% of the company's income is derived from export activities. During the year, the income from exports increased by more than 99%. The increase in export income is due to an all-round growth in various segments of the business.

Domestic software income represents the licence fee from the sale of Bancs2000, a banking automation software product. During the year, domestic software income has increased by approximately 29%.

Other income is from investment of surplus funds.

The total income of the company grew by 97% during the year, as compared with 81% during the previous year.

Details of the geographical segmentation and business segmentation of income are provided elsewhere in this report.

2. Expenditure

2.1 Software development expenses

Employee costs constitute around 32% and 36% of total revenue for the years ended March 31, 1999 and 1998. Foreign tour and travel expenses, representing cost of travel abroad for software development and marketing, constituted approximately 11% and 10% of total revenue for the years ended March 31, 1999 and 1998.

The company spent a sum of Rs. 14,86,91,737 and Rs. 8,74,93,506, for the years ended March 31, 1999 and 1998, towards the cost of software packages and tools procured for internal use, to enhance the quality of its services and also to meet the needs of software development for some of its clients. The cost of software packages purchased for own use has increased by approximately 70% during the year, and was around 3% of the total income for the years ended March 31, 1999 and 1998. The company's policy is to charge such purchases to revenue in the year of purchase. The company has also spent a sum of Rs. 1,78,19,890 and Rs. 1,98,37,506 towards software products used in Bancs2000 for the years ended March 31, 1999 and 1998.

A major part of the company's revenue comes from offshore software development. This involves the large-scale use of satellite connectivity in order to be online with clients. A sum of Rs. 9,59,08,515 and Rs. 5,74,16,558 was incurred towards meeting this expenditure for the years ended March 31, 1999 and 1998. This represents approximately 2% of total revenue for the years ended March 31, 1999 and 1998.

During the year, the company provided an amount of Rs. 2,19,18,587 towards post-sales client support. This represents a provision for post-sales obligations of the company in respect of the outstanding fixed-price projects as at the year end.

The company also utilizes outside consultants for part of its software development work. This usage is primarily in the area of Year 2000 conversion projects. During the year, the company spent a sum of Rs. 4,55,97,342 towards such consultancy as compared with Rs. 2,43,42,563 during the previous year.

2.2 Administration and other expenses

The company incurred administration and other expenses at 8.92% of its total revenue during the year, as compared with 11.73% during the previous year.

The rent expenses increased by approximately 39% during the year. Telephone charges increased by 53% due to greater usage. Legal and professional charges represent fees paid for availing various services like tax consultancy, visa processing, US GAAP audit, etc. The office maintenance expenses increased by 27% due to the increased volume of business. The increase in other expenses is primarily due to an increased level of business.

2.3 Provision for contingencies

The majority of the software development work in Infosys is carried out in India. There were concerns across the world of the possible disruption in telecommunication links to the US due to Y2K non-compliance by the telecommunication switches or the satellite systems provided by the service providers. This is a concern for Infosys as well, even though these links are provided by major carrier networks. Such failures may result in disruption of business and may result in financial losses.

Infosys has instituted a contingency plan to meet any possible disruption in client support due to the Y2K impact on the technology and communication infrastructure provided to the company by its vendors. The company has made a provision of Rs. 6.66 crore during fiscal 1999 towards such a contingency plan.

2.4 Provision for investment in subsidiary

The company has provided a sum of Rs. 7,05,95,674 towards its investment in Yantra Corporation during the current year, due to the losses of Yantra exceeding the company's contribution to its equity.

3. Operating profits

During the year, the company earned an operating profit (profit before interest, depreciation and tax) of Rs. 191,74,83,638 representing 37.40% of total revenue as compared with Rs. 88,61,15,418, representing 34.03% of total revenue during the previous year. The increase was due to an increase in per capita revenue productivity, lower growth in administration costs and broadening of the business mix.

4. Interest

The company continued to be debt-free during the year.

5. Depreciation

The company provided a sum of Rs. 35,89,30,078 and Rs. 22,74,82,339 towards depreciation for the years ended March 31, 1999 and 1998. This represents approximately 7% and 9% of total revenue for the years ended March 31, 1999 and 1998. The depreciation for the years ended March 31, 1999 and 1998, includes an amount of Rs. 11,37,41,697 and Rs. 2,86,94,241 towards 100% depreciation on assets costing less than Rs. 5,000 each.

During the year, the company revised the estimate of useful lives of buildings from 28 years / 58 years for software development centers and others to 15 years. Due to this change, the depreciation for the year is higher by Rs. 42,23,419. Moreover, the depreciation charges included an amount of Rs. 30,30,000 towards depreciation provided, in full, on assets acquired for research and development activities.

6. Provision for tax

The company has provided for its tax liability both in India and overseas. The present Indian corporate tax rate is 35%. Export profits are entitled to benefit under two schemes of the Government of India. Under the first scheme, the proportion of the profits of the company attributable to export activities are deductible from the income subject to tax. Under the second scheme, the profits attributable to the operations of the company under the 100% export oriented unit scheme is entitled to a total tax holiday of ten years.

The company has provided a sum of Rs. 4,32,00,000 and Rs. 1,50,50,000 during the years ended March 31, 1999 and 1998, for the tax liability of earlier years, consequent to the finalization of the tax assessments. The additional liability has arisen due to certain disallowances in India which are contested in appeal, and additional payments overseas.

7. Net profit

The net profit of the company from ordinary activities amounted to Rs. 132,91,53,560 and Rs. 60,36,33,079 for the years ended March 31, 1999 and 1998. This represents 25.92% and 23.18% of total revenue for the respective years.

8. Extraordinary income

During the year, the company sold 13,63,637 shares of its preferred stock holding in its subsidiary, Yantra Corporation, at US$ 1.10 per share. The profit of Rs. 2,34,54,103, net of tax, has been disclosed as an "extraordinary income" in the Profit and loss account. This profit of Rs. 2,34,54,103 has been transferred to capital reserve from the Profit and loss account.

9. Foreign exchange differences

An amount of Rs. 2,77,93,084 and Rs. 3,43,20,847 is included in the Profit and Loss Account for the years ended March 31, 1999 and 1998, representing the realized and unrealized exchange gains due to currency fluctuation. This represents 0.54% and 1.32% of total revenue for the years ended March 31, 1999 and 1998.

10. Employees Stock Offer Plan

The company instituted an Employees Stock Offer Plan (ESOP) in 1994 for all eligible employees. Under the plan, warrants are transferred to employees deemed eligible by the advisory board constituted for the purpose. Accordingly, 7,50,000 warrants were issued by the company to the Infosys Technologies Limited Employees Welfare Trust, to be held in trust and transferred to selected employees from time to time. Warrants are issued at Re. 1 each and entitle the holder thereof to apply for and be issued one share of the company at a price of Rs. 100 after a period of five years from the date of issue. The warrants and the shares to be issued thereon are subject to a lock-in period of five years from the date of issue. The warrants expire on September 30, 1999, and are convertible before their expiration.

Under the ESOP scheme, the warrant holders are entitled to convert the warrants before any bonus or rights issue. The company issued bonus shares in the ratio of 1:1 during October 1997 and March 1999. Accordingly, the warrant holders, including the trust and the employees, were given an option to convert their warrants. They were also issued bonus shares being holders of shares as on the record date.

The number of warrants issued and outstanding is given below:

Year ended March 31	No. of employees	Warrants transferred to employees (Net)	Shares issued on conversion of warrants, subject to lock-in	Bonus shares issued on conversion, free from lock-in	No. of employees	Right to shares offered to employees (Net)
1995	76	1,11,100	1,11,100	1,11,100		–
1996	110	1,32,600	1,32,600	1,32,600		–
1997	156	1,06,200	1,06,200	1,06,200		–
1998	348	2,57,200	2,57,200	2,57,200		–
1999	1106	4,07,100	4,07,100	4,07,100	607	1,64,000
Total		10,14,200	10,14,200	10,14,200	607	1,64,000

Employees hold 10,14,200 shares subject to lock-in and 1,64,000 right to shares as at March 31, 1999. 1,744 employees hold shares/right to shares as of March 31, 1999, after discounting the employees who have received shares/right to shares in several years.

Break-up of net warrants/right to shares issued to employees

Year ended March 31	No. of employees	Warrants transferred/ right to shares offered	No. of employees	Warrants/Right to shares forfeited*
1995	106	1,44,100	30	33,000
1996	144	1,58,000	34	25,400
1997	193	1,24,600	37	18,400
1998	382	2,76,800	34	19,600
1999	1,750	5,78,100	37	7,000

*26,500 shares forfeited after the bonus issue are included in the respective years.

Statement of warrants/shares held by ITL Employees Welfare Trust

Warrants originally allotted to ITL Employees Welfare Trust	7,50,000
Less : Net warrants issued to eligible employees before bonus issue in October 1997	3,76,400
Warrants held by the Trust immediately before bonus issue in October 1997 and converted to shares	3,73,600
Add : Bonus shares allotted to the Trust in October 1997	3,73,600
Shares held by the Trust immediately after bonus issue in October 1997	7,47,200
Add : Shares surrendered to the Trust after bonus issue in October 1997	26,500
Less : Net right to shares issued to eligible employees before bonus issue in March 1999	6,64,300
Shares held by the Trust immediately before bonus issue in March 1999	1,09,400
Add : Bonus shares allotted to the Trust in March 1999	1,09,400
Shares held by the Trust immediately after bonus issue in March 1999	2,18,800
Less : Net right to shares issued to eligible employees after bonus issue in March 1999	1,64,000
Shares held by the Trust for future grant, as of March 31, 1999	54,800

11. ADS-linked stock option plans

One of the basic objectives of the ADS issue and the consequent listing in the NASDAQ stock exchange was to institute an ADS-linked stock option plan, to attract the best and the brightest across the world. The necessary resolutions authorizing the board to formulate the scheme have been approved by the shareholders in the Extraordinary General Meeting held on January 6, 1998. Accordingly, your directors had put in place an ADS-linked stock option plan termed as the "1998 stock option plan". The scheme is being administered by a committee of the board. The maximum aggregate number of shares on which options may be issued under the plan is 800,000 shares, equivalent to 1,600,000 ADSs subject to an overall grant value of US$ 50,000,000. The plan is effective for a period of 10 years from the date of its adoption by the board. The exercise price for the ADS-linked stock option shall be determined by the committee of the board and in no case will be less than 90% of the fair market value on the date of grant.

Accordingly, the committee of the board of directors has made a concurrent grant of 2,13,000 options to eligible employees at US$ 34 per option.

12. Reconciliation of Indian and US GAAP financial statements

There are significant differences between the US GAAP and the Indian GAAP financial statements. The material differences arise due to the provision for deferred taxes, consolidation of accounts of subsidiaries and provision for deferred compensation due to the issue of stock options to employees. The reconciliation of profits as per the Indian and the US GAAP financial statements is given below.

Rs. in crore

Profit as per the Indian GAAP financial statements			135.26
Less :	Loss from Yantra Corporation accounted	8.44	
	Amortization of deferred stock compensation expense	15.40	
	Compensation expense arising from stock dividend	54.45	78.29
			56.97
Add :	Provision for investment in Yantra Corporation	7.06	
	Deferred Income tax provision	2.65	
	Provision for contingencies	6.66	16.37
Net income as per the US GAAP financial statements			73.34

Loss from Yantra Corporation

The Indian GAAP does not require consolidation of financial statements of subsidiaries with the parent company. However, the US GAAP mandates for consolidating the financial statements of subsidiaries with the parent company for reporting purposes. The consolidated financial statements for the year includes the results of the company's formerly majority-owned subsidiary, Yantra Corporation, up to October 20, 1998. The consolidated financial statements of Infosys for fiscal 1999 includes a net loss of Rs. 8.44 crore of Yantra.

Provision for investments in Yantra Corporation

The losses incurred by Yantra Corporation exceed the contribution made by Infosys to the capital of Yantra Corporation. As a result, a provision of Rs. 7.06 crore has been made in the financial statements as per Indian GAAP.

Amortization of deferred stock compensation

The Indian GAAP does not mandate a company to recognize and amortize amounts relating to the deferred stock compensation arising on issue of stock options to employees. However, the Accounting Principles Board Opinion No. 25 of the US GAAP requires that deferred stock compensation arising on issue of stock options to employees resulting from the difference between the exercise price and the fair value as determined by the quoted market prices of the common stock underlying the warrants on the grant date, be accounted for.

In complying with this requirement, Infosys has charged to revenue Rs. 15.40 crore during fiscal 1999 as deferred stock compensation.

Compensation arising from stock dividend

In fiscal 1999, the company declared a bonus issue of one equity share for each equity share outstanding to all its shareholders. The additional equity shares issued to ESOP participants as a result of the bonus issue were not subject to vesting. Consequently, the company recognized an accelerated compensation charge amounting to Rs. 54.45 crore.

Deferred Income tax provision

US GAAP mandates that the tax element arising on timing differences in amortizing various Assets and Liabilities as per the tax books and financial statements be accounted as deferred taxation and appropriate treatment be made in the income statement. There is no such requirement under the Indian GAAP.

C. Outlook: Issues and risks

These have been discussed in detail elsewhere in this report.

Statement of cash flows for the year ended March 31

in Rs.

	1999	1998
Cash flows from operations		
Profit before tax	155,85,53,560	65,86,33,079
Other Income	(3,67,00,927)	(1,59,78,985)
Depreciation, depletion and amortization	35,89,30,078	22,74,82,339
Decrease (increase) in sundry debtors	(44,63,39,758)	(21,79,58,733)
Decrease (increase) in inventories	–	4,10,878
Decrease (increase) in loans and advances	(15,32,76,222)	(10,50,83,628)
Increase (decrease) in current liabilities and provisions	40,48,24,214	7,31,15,335
Provision for investment in subsidiary	7,05,95,674	–
Income taxes paid	(16,79,23,184)	(4,28,37,122)
Net cash from operations	158,86,63,435	57,77,83,163
Cash flows from financing		
Cash received from issuance of share capital (less expenses of issuance)	279,53,13,985	7,49,00,000
Dividends paid (including Dividend tax)	(10,20,36,824)	(4,66,09,004)
Net cash from financing	269,32,77,161	2,82,90,996
Cash flows from investing		
Income from investments	3,67,00,927	1,58,69,826
Proceeds of sale of investments (net of tax)	6,06,20,029	–
Proceeds of sale of fixed assets	2,39,716	3,01,097
Purchase of fixed assets	(71,67,91,924)	(34,40,97,344)
Investment in subsidiary	–	(5,45,10,000)
Other long-term investments	(75,38,109)	–
Net cash from investing	(62,67,69,361)	(38,24,36,421)
Total increase (decrease) in cash and equivalents during the year	365,51,71,235	22,36,37,738
Cash and equivalents at the beginning of the year	51,14,19,709	28,77,81,971
Cash and equivalents at the end of the year	416,65,90,944	51,14,19,709

This is the Cash Flow Statement referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

Susim M. Datta
Director

Deepak M. Satwalekar
Director

Ramesh Vangal
Director

Prof. Marti G. Subrahmanyam
Director

N. S. Raghavan
Jt. Managing Director

S. Gopalakrishnan
Dy. Managing Director

Bangalore
April 9, 1999

K. Dinesh
Director

S. D. Shibulal
Director

T. V. Mohandas Pai
Senior Vice President (Finance & Administration)

V. Viswanathan
Company Secretary

Statement of cash flows for the year ended March 31

in Rs.

	1999	1998
Reconciliation of Balance sheet items with cash flow items		
1. Loans and advances		
As per Balance sheet	68,35,96,522	39,18,00,686
Less : Deposits with financial institution / body corporate, included in cash equivalents	(11,61,07,945)	(7,27,63,986)
Advance income taxes considered separately	(19,10,80,222)	(9,59,04,567)
Balance considered for preparing the cash flow statement	37,64,08,355	22,31,32,133
2. Additions to fixed assets		
As per Balance sheet	64,11,69,396	34,13,26,052
Add : Closing capital work-in-progress	14,88,35,800	7,32,13,272
Less : Opening capital work-in progress	(7,32,13,272)	(7,04,41,980)
Balance considered for preparing the cash flow statement	71,67,91,924	34,40,97,344
3. Cash and cash equivalents		
As per Balance sheet	405,04,82,999	43,86,55,723
Add : Deposits with financial institution/ body corporate (as per 1 above)	11,61,07,945	7,27,63,986
Balance considered for preparing the cash flow statement	416,65,90,944	51,14,19,709
4. Income taxes paid		
As per Profit and Loss account	22,94,00,000	5,67,57,386
Add : Decrease (increase) in balance in provision for taxes account	(15,66,52,471)	1,89,94,983
Add : Increase (decrease) in balance in advance income tax account	9,51,75,655	(3,29,15,247)
Balance considered for preparing the cash flow statement	16,79,23,184	4,28,37,122
5. Other income		
As per Profit and Loss account	3,84,71,833	2,70,83,794
Less : Income from operating activities	(17,70,906)	(1,11,04,809)
Balance considered for preparing the cash flow statement	3,67,00,927	1,59,78,985
6. Current liabilities and provisions		
As per Balance sheet	84,96,64,378	25,70,41,198
Less : Provision for taxation considered separately	(23,13,57,488)	(7,47,05,017)
Provision for dividend considered separately	(8,10,32,734)	(5,27,17,738)
Provision for dividend tax considered separately	(81,03,273)	(52,71,774)
Balance considered for preparing the cash flow statement	52,91,70,883	12,43,46,669

This is the Cash Flow Statement referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu *Partner*	N. R. Narayana Murthy *Chairman and Chief Executive Officer*	Nandan M. Nilekani *Managing Director, President and Chief Operating Officer*	Susim M. Datta *Director*	Deepak M. Satwalekar *Director*
	Ramesh Vangal *Director*	Prof. Marti G. Subrahmanyam *Director*	N. S. Raghavan *Jt. Managing Director*	S. Gopalakrishnan *Dy. Managing Director*
Bangalore April 9, 1999	K. Dinesh *Director*	S. D. Shibulal *Director*	T. V. Mohandas Pai *Senior Vice President (Finance & Administration)*	V. Viswanathan *Company Secretary*

Balance sheet abstract and company's general business profile

Registration details

Registration No.	13115
State Code	08
Balance Sheet Date	31.03.1999
	in Rs.

Capital raised during the year

Public issue*	1,03,50,000
Rights issue	–
Bonus issue	16,01,72,000
Private placement	–

Position of mobilization and deployment of funds

Total liabilities	574,43,11,248
Total assets	574,43,11,248

Sources of funds

Paid-up capital	33,06,95,500
Reserves and surplus	541,36,15,748
Secured loans	–
Unsecured loans	–

Application of funds

Net fixed assets	100,71,59,211
Investments	75,48,469
Net current assets	472,96,03,568
Miscellaneous expenditure	–
Accumulated losses	–

Performance of company

Turnover	512,73,83,501
Total expenditure	356,88,29,941
Profit/Loss before tax	155,85,53,560
Extraordinary Income	2,34,54,103
Profit/Loss after tax	135,26,07,663
Earnings per share from ordinary activities	40.19
Earnings per share including extraordinary income	40.90
Dividend rate (%) – pro rata	75

Generic names of principal products/services of the company

Item code no. (ITC code)	85249009.10
Product description	Computer software

*Not offered to public in India, issued pursuant to a registration statement filed with Securities and Exchange Commission, USA., for the company's ADS issue.

	N. R. Narayana Murthy *Chairman and Chief Executive Officer*	Nandan M. Nilekani *Managing Director, President and Chief Operating Officer*	Susim M. Datta *Director*	Deepak M. Satwalekar *Director*
	Ramesh Vangal *Director*	Prof. Marti G. Subrahmanyam *Director*	N. S. Raghavan *Jt. Managing Director*	S. Gopalakrishnan *Dy. Managing Director*
Bangalore April 9, 1999	K. Dinesh *Director*	S. D. Shibulal *Director*	T. V. Mohandas Pai *Senior Vice President (Finance & Administration)*	V. Viswanathan *Company Secretary*

Statement pursuant to Section 212 of the Companies Act, 1956, relating to subsidiary company

1.	Name of the subsidiary	:	Yantra Corporation
2.	Financial year ended	:	March 31, 1999
3.	Holding company's interest	:	100% in common stock 12.73% in Series A Convertible Preferred Stock
4.	Shares held by the holding company in the subsidiary	:	75,00,000 nos. of common stock at US$ 0.20 each, fully paid, par value US$ 0.01 each, amounting to US$ 1,500,000 (Rs. 5,32,51,600) 6,36,363 nos. of Series A Convertible Preferred Stock at US$ 0.75 each, fully paid, par value US$ 0.01 each, amounting to US$ 477,272.25 (Rs. 1,73,44,074)
5.	The net aggregate of profits or losses for the current financial year of the subsidiary so far as it concerns the members of the holding company		
	a. dealt with or provided for in the accounts of the holding company	:	Nil
	b. not dealt with or provided for in the accounts of the holding company	:	Loss: US$ 4,991,441 (Rs. 21,03,39,324)
6.	The net aggregate of profits or losses for previous financial years of the subsidiary so far as it concerns the members of the holding company		
	a. dealt with or provided for in the accounts of the holding company	:	Nil
	b. not dealt with or provided for in the accounts of the holding company	:	Loss: US$ 2,195,016 (Rs. 9,24,97,974)

Note:

The company has provided a sum of Rs. 7,05,95,674 towards its investment in Yantra Corporation during the current year, as the losses of Yantra exceeded the company's contribution to its equity.

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Nandan M. Nilekani
Managing Director/ President and Chief Operating Officer

Susim M. Datta
Director

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Bangalore
April 9, 1999

K. Dinesh
Director

S. D. Shibulal
Director

T. V. Mohandas Pai
Senior Vice President (Finance & Administration)

V. Viswanathan
Company Secretary

Yantra Corporation

(a subsidiary of Infosys Technologies Limited under the Companies Act, 1956)

Financial statements
for the year ended March 31, 1999

Registered office

1209, Orange Street,
City of Wilmington,
New Castle County,
Delaware 19801, USA

Board of directors

Donald W. Feddersen .... Chairman
Gopalakrishnan S. .... Director
Devdutt Yellurkar ...... Chief Executive Officer
Phaneesh Murthy .... Director
Izhar Armony .... Director
Douglas P. Smith .... Director

Auditors

KPMG Peat Marwick LLP

Letter to the shareholders

Dear shareholder,

Fiscal 1999 marked the completion of Yantra's third year of operation. Our product offering – an integrated supply chain execution solution (warehouse and transportation management) – is being well received by the clients and industry analysts. Additionally, our product is also identified as a key component of an Enterprise E-Commerce strategy. With the focus of E-Commerce applications shifting from web-based ordering to robust order fulfillment, we expect the demand for integrated Supply Chain Execution systems to grow even more.

Financing: Yantra secured its second round of financing from Charles River Ventures and Hambrecht & Quist. Consequently, we added new board members with experience in the Enterprise Software market. We would, once again, like to place on record the invaluable mentoring provided by the current and past board members and observers.

Sales & Marketing: In fiscal year 1999, Yantra's revenues more than tripled to $4.4 million with the addition of several key clients such as Motorola, Cutler-Hammer and Texas Instruments. In this fiscal year, we were awarded "Partner of the Year" by Oracle. Our relationship with Oracle Corporation has been mutually beneficial and the two companies have launched several new joint marketing initiatives. Yantra also formed an Alliance with Vastera, a complementary supply chain execution software provider.

Services: We worked diligently to ensure that all of our client installations were very successful and referenceable. Based on our experience in the field, we refined our robust implementation methodology, toolkit and a comprehensive training program that has enabled us to scale our services organization. We further scaled our services operations by successfully partnering with AnswerThink Consulting, a professional services company, to jointly deliver client implementations and training.

Product: We released version 5.0 of our Supply Chain Execution suite which is available on UNIX (HP, IBM and SUN) as well as on NT server platforms. We are in the process of migrating all our existing clients to our latest version. We continue our strong relationship with Infosys and have increased the staffing in our Bangalore-based software development center.

In summary, fiscal 1999 was a year in which we completed all our goals for the "Gain Momentum" phase and launched the "Acceleration" phase of our company's lifecycle. We have built a strong management team and are confident that we will emerge as a leader in our market. With the talent and commitment of every Yantrik, we are confident that we will achieve the goals we have set for this coming year.

Thank you for your continued support.

Acton, Massachusetts
April 6, 1999

Devdutt Yellurkar
Chief Executive Officer

Independent auditors' report

Board of Directors and Stockholders of
Yantra Corporation:

We have audited the accompanying balance sheet of Yantra Corporation as of March 31, 1999, and the related statements of operations, stockholders' equity and cash flows for the year 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yantra Corporation at March 31, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

Boston, Massachusetts, USA
April 6, 1999

KPMG Peat Marwick LLP

Yantra Corporation
Balance sheet as at

	March 31, 1999 in US$	in Rs.*
Assets		
CURRENT		
Cash and cash equivalents	3,208,098	13,51,89,250
Accounts receivable (Note 3)	1,120,007	4,71,97,095
Prepaid expenses	94,866	39,97,653
Total current assets	4,422,971	18,63,83,998
PROPERTY AND EQUIPMENT, NET (NOTE 2)	777,079	3,27,46,109
OTHER ASSETS		
Capitalized software, net of accumulated amortization of $ 747,623 (Rs. 3,15,04,833) (Note 4)	252,377	1,06,35,167
Other Assets	179,052	75,45,251
Total assets	5,631,479	23,73,10,525
Liabilities and stockholders' equity		
LIABILITIES		
Accounts payable (Note 4)	403,347	1,69,97,043
Accrued Expenses (Note 4)	408,549	1,72,16,255
Deferred Revenue	852,169	3,59,10,401
Total Current Liabilities	1,664,065	7,01,23,699
COMMITMENTS (NOTES 5, 6 AND 7)		
STOCKHOLDERS' EQUITY (NOTES 6)		
Series A Convertible Preferred Stock, $.01 par value, 5,000,000 shares authorized, issued and outstanding	4,037,647	17,01,46,445
Series B Convertible Preferred Stock, $.01 par value, 4,800,000 shares authorized, issued and outstanding	6,168,198	25,99,27,864
Series B-1 Convertible Preferred Stock, $.01 par value, 810,811 shares authorized, none issued and outstanding	–	–
Common stock, $.01 par value, 25,000,000 shares authorized, 7,500,000 shares issued and outstanding	75,000	31,60,500
Additional paid-in capital	1,433,108	6,03,91,170
Accumulated deficit	(7,746,539)	(32,64,39,153)
Total stockholders' equity	3,967,414	16,71,86,826
Total liabilities and stockholders' equity	5,631,479	23,73,10,525

See accompanying notes to financial statements.

* The Rupee equivalent of US dollar amounts for the year 1999 has been arrived at by converting at the closing exchange rate of US$ 1 = Rs. 42.14. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212 (8) of the Companies Act, 1956, vide their letter no. 47/03/98-CL:III, dated November 20, 1998.

Yantra Corporation
Statement of operations

Year ended March 31, 1999	in US$	in Rs.*
Net revenue (Note 1)	4,419,479	18,62,36,845
Cost of revenue (Note 4)	3,013,020	12,69,68,663
Gross profit	1,406,459	5,92,68,182
Operating expenses (Note 4)		
Research and development	2,164,105	9,11,95,385
Selling and Marketing	2,854,780	12,03,00,429
General and administrative	1,559,424	6,57,14,127
Total operating expenses	6,578,309	27,72,09,941
Loss from operations	(5,171,850)	(21,79,41,759)
Other Income (net)	180,409	76,02,435
Net Loss	(4,991,441)	(21,03,39,324)

See accompanying notes to financial statements.

Statement of stockholders' equity

Year ended March 31, 1999	Series A Preferred Stock		Series B Preferred Stock		Common stock		Additional Paid-in capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, April 1, 1998									
In $	5,000,000	3,812,647	–	–	7,500,000	75,000	1,425,000	(2,307,517)	3,005,130
In Indian rupees		16,06,64,945		–		31,60,500	6,00,49,500	(9,72,38,766)	12,66,36,178
Issuance of Series B Convertible Preferred Stock, net of issuance costs of $ 53,978 (Rs. 22,74,633)									
In $	–	–	4,800,000	5,945,617	–	–	–	–	5,945,617
In Indian rupees		–		25,05,48,300		–	–	–	25,05,48,300
Accrued dividends on Series A Convertible Preferred Stock									
In $	–	225,000	–	–	–	–	–	(225,000)	–
In Indian rupees		94,81,500		–		–	–	(94,81,500)	–
Accrued dividends on Series B Convertible Preferred Stock									
In $	–	–	–	222,581	–	–	–	(222,581)	–
In Indian rupees		–		93,79,563		–	–	(93,79,563)	–
Issuance of Series B-1 warrants									
In $	–	–	–	–	–	–	8,108	–	8,108
In Indian rupees		–		–		–	3,41,671	–	3,41,671
Net loss									
In $	–	–	–	–	–	–	–	(4,991,441)	(4,991,441)
In Indian rupees		–		–		–	–	(21,03,39,324)	(21,03,39,324)
Balance, March 31, 1999									
In $	5,000,000	4,037,647	4,800,000	6,168,198	7,500,000	75,000	1,433,108	(7,746,539)	3,967,414
In Indian rupees		17,01,46,445		25,99,27,863		31,60,500	6,03,91,171	(32,64,39,153)	16,71,86,826

See accompanying notes to financial statements.

Yantra Corporation
Statement of cash flows

Year ended March 31, 1999	in US$	in Rs.*
Cash flows from operating activities		
NET LOSS	(4,991,441)	(21,03,39,324)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Depreciation and amortization	495,083	2,08,62,798
Loss on disposal of fixed assets	12,063	5,08,335
Changes in operating assets and liabilities		
Accounts receivable	(796,460)	(3,35,62,824)
Prepaid expenses	(41,153)	(17,34,187)
Other assets	(175,000)	(73,74,500)
Accounts payable		
Trade	310,311	1,30,76,506
Affiliate	(188,501)	(79,43,432)
Accrued expenses	305,770	1,28,85,148
Deferred revenue	568,401	2,39,52,418
Net cash used by operating activities	(4,500,927)	(18,96,69,062)
Cash flows from investing activities		
Purchases of property and equipment	(710,072)	(2,99,22,434)
Net cash used by investing activities	(710,072)	(2,99,22,434)
Cash flows from financing activities		
Net proceeds from issuance of Series B Convertible Preferred Stock	5,945,617	25,05,48,300
Proceeds from issuance of warrants	8,108	3,41,672
Net cash provided by financing activities	5,953,725	25,08,89,972
Increase in cash and cash equivalents	742,726	3,12,98,476
Cash and cash equivalents, beginning of year	2,465,372	10,38,90,776
Cash and cash equivalents, end of year	3,208,098	13,51,89,252

Supplemental disclosure of noncash financial activities

The company accrued dividends related to the Series A Convertible Preferred Stock in the amount of $ 225,000 (Rs. 94,81,500) for the year ended March 31, 1999. The company accrued dividends related to the Series B Convertible Preferred Stock in the amount of $ 222,581 (Rs. 93,79,563) for the year ended March 31, 1999.

See accompanying notes to financial statements.

Yantra Corporation
Notes to financial statements

1. Business

Yantra Corporation (the "company") is a Delaware corporation which develops, markets and supports supply chain execution software products. The company's primary product, WMS*Yantra, is an integrated warehouse and transportation management system designed for companies requiring complex pick/pack/ship distribution. The company was a majority-owned subsidiary of Infosys Technologies Limited ("Infosys") until October 1998, at which time Infosys reduced its ownership below 50%.

2. Summary of significant accounting policies

a. Revenue recognition

Prior to April 1, 1998, revenues from software product licences to clients were generally recognized when the product was shipped, provided no significant obligations remain and collectibility is probable, in accordance with SOP 91-1, *Software Revenue Recognition*. Effective April 1, 1998, Yantra adopted the provisions of SOP 97-2, *Software Revenue Recognition*. For transactions on or after April 1, 1998, revenues from software product licences to clients are generally recognized when: (i) a signed noncancelable software licence agreement exists, (ii) delivery has occurred, (iii) the licence fee is fixed or determinable, and (iv) collectibility is probable. Revenues from software product licence agreements which have significant customization and modifications of the software product are deferred and recognized using the percentage of completion method. There was no material change to Yantra's accounting for revenue as a result of SOP 97-2.

Professional service and maintenance revenue includes software maintenance and other professional service revenues, primarily from implementation, consulting and training. Revenues from professional services are recognized as the services are performed, collectibility is probable and such revenues are contractually non-refundable. Revenues from software maintenance are deferred and recognized ratably over the term of each maintenance agreement, typically twelve months. Amounts collected prior to satisfying the above revenue recognition criteria are classified as deferred revenues.

b. Capitalized software development costs

The company capitalizes software development costs in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* ("SFAS 86"). Software development costs not qualifying for capitalization are expensed as period expenses. Capitalized costs are amortized on an individual product basis, based on the greater amount computed by using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product, or (b) straight-line amortization using the estimated useful lives. The company evaluates the estimated net realizable value of each software product at each balance sheet date and records write-downs to net realizable value for any products for which the net book value is in excess of net realizable value.

c. Cash and cash equivalents

The company considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

d. Property and equipment

Property and equipment are recorded at cost. Repairs and maintenance which do not extend the useful life of an asset are expensed as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Classification	Years
Furniture and fixtures	6
Computer equipment	3

e. Impairment of long-lived assets

In accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*, the company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that the carrying amount of an asset cannot be fully recovered, an impairment loss is recognized.

f. Stock-based compensation

In accordance with Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), the company measures compensation cost in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB Opinion No. 25"). As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price of the stock option. The company provides pro forma disclosures of net loss as if the fair value provisions of SFAS 123 had been applied.

g. Income taxes

The company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

h. Use of estimates

Management of the company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities, including certain estimates regarding the recoverability of capitalized software development costs, to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

2. Property and equipment

Property and equipment consisted of the following at March 31, 1999:

	in US$	in Rs.
Furniture and fixtures	171,078	72,09,227
Computer equipment	833,698	3,51,32,034
	1,004,776	4,23,41,261
Less accumulated depreciation	227,697	95,95,152
	777,079	3,27,46,109

3. Accounts receivable

Included in accounts receivable are $ 512,712 (Rs. 2,16,05,684) that were unbilled at March 31, 1999. Unbilled amounts related primarily to professional services rendered on a time and materials basis for which invoices have not yet been issued.

4. Related parties

During 1996, Infosys (the former "Parent company") transferred all rights, title and interest in and to a product known as Eagle (now known as "WMS*Yantra"), to the company in exchange for 5,000,000 shares of the company's common stock. The transfer of technology was recorded at its book value of $ 1,000,000 as the transfer occurred between entities under common control.

The company entered into an Agreement for a software center (the "Agreement") beginning November 1, 1995 with its former Parent company.

The former Parent runs a Software Center (the "Center") in Bangalore, India to provide professional services for Yantra and other clients. The Center is completely managed and staffed by the former Parent and is located within the Infosys software-development facility.

The following services are available from the Center:

- Product Development, Enhancement, Upgrades, Version Control, etc.
- Product Support, including Beeper Support Operations
- Implementation and Implementation Consulting
- Documentation
- Training Services

The company pays the Former Parent a flat rate per person per month for the number of people committed to the Center. The cost incurred under this contract for the year ended March 31, 1999 was $ 1,953,899 (Rs. 8,23,37,304) and is included in the accompanying statement of operations under the following captions:

	in US$	in Rs.
Cost of revenues	926,879	3,90,58,681
Research and development	942,138	3,97,01,695
General and administrative	84,880	35,76,843

At March 31, 1999, amounts due to the related-party supplier amounted to $ 38,752 (Rs. 16,33,009) included in accounts payable and $ 198,940 (Rs. 83,83,332) included in accrued expenses.

5. Commitments

The company leases its office space under an operating lease which expires on December 31, 2004. Total rent expense for the year ended March 31, 1999 was $ 159,714 (Rs. 67,30,348).

The schedule of minimum future rental payments is as follows:

Year ended March 31,	in US$	in Rs.
2000	470,638	1,98,32,685
2001	642,670	2,70,82,114
2002	642,670	2,70,82,114
2003	676,334	2,85,00,715
2004	679,394	2,86,29,663
Thereafter	509,546	2,14,72,268
Total minimum lease payments	3,621,252	15,25,99,559

6. Stockholders' equity

a. Common stock and preferred stock

In September 1995, the board of directors authorized 3,000,000 shares of common stock. In September 1997, the board of directors amended its certificate of incorporation to authorize two classes of stock to be designated "common stock" and "Series A Convertible Preferred Stock" ("Series A Preferred Stock"). Under the amended certificate, the company is authorized to issue 25,000,000 shares of common stock and 5,000,000 shares of Series A Preferred Stock. In August 1998, the board of directors further amended its certificate of incorporation to authorize the company to issue 4,800,000 shares of Series B Convertible Preferred Stock ("Series B Preferred Stock") and 810,811 shares of Series B-1 Convertible Preferred Stock ("Series B-1 Convertible Preferred Stock").

Each series of Preferred Stock is fully participating, redeemable and convertible at any time initially into one common share. Each series of Preferred Stock votes on an as-if converted basis with the common stock. The holders of each series of Preferred Stock shall be entitled to receive cumulative dividends at the per share rate of 6% per annum, when and if declared by the board of directors.

The holders of the shares of Preferred Stock have liquidation preference over the holders of common stock, and shall receive an amount per share equal to the original issue price plus all unpaid accrued dividends.

Beginning September 29, 2004, the holders of the Preferred Stock, voting together as a class and representing at least sixty percent of the shares then outstanding, may require the company to redeem their shares annually over a three-year period. The Series A Preferred Stock may be redeemed at $.75 per share plus any declared but unpaid dividends. The Series B Preferred Stock may be redeemed at $ 1.25 per share plus any declared but unpaid dividends.

At March 31, 1999, the company had 5,000,000 shares of Series A Preferred Stock outstanding from issuances during fiscal year 1998. In August 1998, the company issued 4,800,000 shares of Series B Preferred Stock at a price of $ 1.25 per share for proceeds of $ 5,945,617 (Rs. 25,05,48,300), net of issuance costs of $ 53,978 (Rs. 22,74,633).

b. Warrants

In August 1998, in connection with the Series B Preferred Stock issuance, the company issued warrants for the purchase of 810,811 shares of Series B-1 Preferred Stock at $ 1.48 per share. The warrants are exercisable through August 2005.

c. The 1997 stock plan

Effective September 29, 1997, the board of directors and stockholders approved the company's 1997 Stock Plan (the "Plan"). The maximum number of shares of common stock that may be subject to outstanding awards, determined immediately after the grant of any award, may not exceed 4,000,000 shares, as amended. The Plan provides for the issuance of up to 4,000,000 stock options, as defined in the Plan. Stock options granted under the Plan will allow eligible participants to purchase the company's common stock at a price determined by the company's board of directors on the date of grant. The purchase price per share of Incentive Stock Options ("ISOs") shall not be less than 100% (110% in the case of ISOs granted to a greater-than-10% shareholder) of the fair-market value of the company's common stock on the date of grant. The Plan also allows for the issuance of options which do not qualify as ISOs ("Non-Qualified Options").

Stock option activity is as follows:

	Shares	Exercise price per share
Outstanding at April 1, 1998	700,000	$.10
Granted during fiscal 1999	1,632,400	.35
Forfeited during fiscal 1999	(77,500)	.35
Outstanding at March 31, 1999	2,225,000	$.35
Weighted-average remaining contractual life	9.0 years	
Exercisable at March 31, 1999	646,138	
Shares available for grant at March 31, 1999	1,745,000	

The per-share weighted-average fair value of stock options granted during fiscal 1999 was $.08 on the date of grant, using the minimum value option-pricing model with the following weighted-average assumptions:

- No expected dividend yield
- Risk-free interest rate of 5.75%; and
- An expected life of five years

The company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options issued to employees during the year ended March 31, 1999.

Had the company determined compensation cost based on the fair value at the grant date for its stock under SFAS No. 123, the company's net loss would have been increased to the pro forma amount indicated below for the year ended March 31, 1999:

Net loss:	in US$	in Rs.
As reported	(4,991,441)	(21,03,39,324)
Pro forma	(5,037,242)	(21,22,69,378)

7. Income taxes

At March 31, 1999, the company had available approximately $ 6,379,000 (Rs. 26,88,11,060) of federal net operating loss (NOL) carryforwards and $ 6,319,000 (Rs. 26,62,82,660) of state NOL carryforwards, which are available to offset future federal and state taxable income. The federal and state net operating loss carryforwards expire at various dates through 2019 and 2004, respectively. These federal and state NOL carryforwards are subject to limitation in their utilization based on changes in the company's ownership under Internal Revenue Code, Section 382.

Temporary differences which give rise to a significant portion of the deferred tax assets and liabilities are NOL carryforwards, noted above, and tax depreciation in excess of financial statement amounts. At March 31, 1999, the company had a net deferred tax asset of $ 2,574,000 (Rs. 10,84,68,360). A full valuation allowance was established against the net deferred tax asset based on management's belief that it is more likely than not that this asset will not be realized.

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Yantra Corporation

(a subsidiary of Infosys Technologies Limited under the Companies Act, 1956)

Financial statements

for the three months ended March 31, 1998
and the year ended December 31, 1997

Registered office

1209, Orange Street,
City of Wilmington,
New Castle County,
Delaware 19801, USA

Board of directors

Donald W. Feddersen	Chairman
Devdutt Yellurkar	Chief Executive Officer
Bill Draper	Director
Gopalakrishnan S.	Director
Phaneesh Murthy	Director

Auditors

BDO Seidman, LLP
Accountants and Consultants

Independent auditors' report

To the Board of Directors and Stockholder of
Yantra Corporation
Acton, Massachusetts

We have audited the accompanying balance sheets of Yantra Corporation (a subsidiary of Infosys Technologies Limited) as of March 31, 1998 and December 31, 1997, and the related statements of loss, stockholder's equity (deficit) and cash flows for the three months ended March 31, 1998 and the year ended December 31, 1997. 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 generally accepted auditing standards. 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 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 Yantra Corporation at March 31, 1998 and December 31, 1997, and the results of its operations and its cash flows for the periods then ended in conformity with generally accepted accounting principles.

BDO Seidman, LLP

Boston, Massachusetts
April 3, 1998

BDO Seidman, LLP

Yantra Corporation
Balance sheets as at

	March 31, 1998 in US$	March 31, 1998 in Rs.*	December 31, 1997 in US$	December 31, 1997 in Rs.*
ASSETS				
Current				
Cash and cash equivalents	2,465,372	9,73,32,887	3,301,005	12,93,99,396
Accounts receivable	323,547	1,27,73,636	86,089	33,74,689
Prepaid expenses	53,714	21,20,629	65,369	25,62,465
Total current assets	2,842,633	11,22,27,152	3,452,463	13,53,36,550
Property and equipment, net (Note 2)	243,196	96,01,378	172,947	67,79,522
Other assets				
Organizational costs, net of accumulated amortization of $ 4,329 (Rs. 1,70,909) and $ 2,235 (Rs. 87,612), respectively	4,052	1,59,973	4,471	1,75,263
Software license, net of accumulated amortization of $ 416,666 (Rs. 1,64,49,974) and $ 333,333 (Rs. 1,30,66,654) (Note 3)	583,334	2,30,30,026	666,667	2,61,33,347
Total assets	3,673,215	14,50,18,529	4,296,548	16,84,24,682
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Liabilities				
Accounts payable – Trade	54,284	21,43,132	115,120	45,12,704
– Affiliate (Note 3)	227,253	89,71,948	312,385	1,22,45,492
Accrued expenses	102,779	40,57,715	42,212	16,54,710
Deferred revenue	283,768	1,12,03,161	43,534	17,06,533
Total liabilities	668,084	2,63,75,956	513,251	2,01,19,439
Series A Convertible Preferred Stock, $0.01 par value; 5,000,000 shares authorized and outstanding (Note 5)	3,812,647	15,05,23,305	3,756,397	14,72,50,763
Commitments (Notes 4, 5 and 6)				
Stockholders' equity (Notes 3 and 6):				
Common stock, $ 0.01 par value; 20,000,000 shares authorized; 7,500,000 shares outstanding	75,000	29,61,000	75,000	29,40,000
Additional paid-in capital	1,425,000	5,62,59,000	1,425,000	5,58,60,000
Accumulated deficit	(2,307,516)	(9,11,00,732)	(1,473,100)	(5,77,45,520)
Total stockholders' equity (deficit)	(807,516)	(3,18,80,732)	26,900	10,54,480
Total liabilities and stockholders' equity (deficit)	3,673,215	14,50,18,529	4,296,548	16,84,24,682

See accompanying notes to financial statements.

* The Rupee equivalent of US dollar amounts for the three months ended March 31, 1998 and the year ended December 31, 1997 have been arrived at by converting at the closing exchange rate of US$ 1 = Rs. 39.48 and US$ 1 = Rs. 39.20 respectively. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956, vide their letter no. 47/3/98-CL:III, dated November 20, 1998.

Yantra Corporation
Statements of Loss

	For the three months ended March 31, 1998 in US$	in Rs.*	For the year ended December 31, 1997 in US$	in Rs.*
Net revenues (Note 1)	245,489	96,91,906	1,419,845	5,56,57,924
Cost of revenues (Note 3)	216,281	85,38,774	617,316	2,41,98,787
Gross profit	29,208	11,53,132	802,529	3,14,59,137
Operating expenses (Note 3)				
Research and development	331,999	1,31,07,321	907,557	3,55,76,234
Selling expense	242,553	95,75,992	274,868	1,07,74,826
General and administrative	155,351	61,33,257	480,659	1,88,41,833
Depreciation and amortization	104,466	41,24,318	372,539	1,46,03,529
Total operating expenses	834,369	3,29,40,888	2,035,623	7,97,96,422
Loss from operations	(805,161)	(3,17,87,756)	(1,233,094)	(4,83,37,285)
Other income, net	26,995	10,65,763	42,154	16,52,437
Net loss	(778,166)	(3,07,21,993)	(1,190,940)	(4,66,84,848)

See accompanying notes to financial statements.

Statement of Stockholders' Equity (Deficit)

	Common stock Shares	Amount	Additional Paid-in capital	Accumulated Deficit	Total
Balance, December 31, 1996					
(amount in US$)	7,500,000	75,000	1,425,000	(225,910)	1,274,090
(amount in Rs.)		26,92,500	5,11,57,500	(81,10,169)	4,57,39,831
Net loss for the year					
(amount in US$)	–	–	–	(1,190,940)	(1,190,940)
(amount in Rs.)		–	–	(4,66,84,848)	(4,66,84,848)
Accrued dividends on Series A Convertible Preferred Stock					
(amount in US$)	–	–	–	(56,250)	(56,250)
(amount in Rs.)		–	–	(22,05,000)	(22,05,000)
Balance, December 31, 1997					
(amount in US$)	7,500,000	75,000	1,425,000	(1,473,100)	26,900
(amount in Rs.)		29,40,000	5,58,60,000	(5,77,45,520)	10,54,480
Net loss for the period					
(amount in US$)	–	–	–	(778,166)	(778,166)
(amount in Rs.)		–	–	(3,07,21,994)	(3,07,21,994)
Accrued dividends on Series A Convertible Preferred Stock					
(amount in US$)	–	–	–	(56,250)	(56,250)
(amount in Rs.)		–	–	(22,20,750)	(22,20,750)
Balance, March 31, 1998					
(amount in US$)	7,500,000	75,000	1,425,000	(2,307,516)	(807,516)
(amount in Rs.)		29,61,000	5,62,59,000	(9,11,00,732)	(3,18,80,732)

See accompanying notes to financial statements.

Yantra Corporation
Statements of Cash Flows

	For the three months ended March 31, 1998 in US$	in Rs.*	For the year ended December 31, 1997 in US$	in Rs.*
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	(778,166)	(3,07,21,994)	(1,190,940)	(4,66,84,848)
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation and amortization	104,466	41,24,318	372,539	1,46,03,529
Changes in operating assets and liabilities				
Accounts receivable	(237,458)	(93,74,842)	52,527	20,59,058
Prepaid expenses	11,655	4,60,139	(49,879)	(19,55,257)
Accounts payable – Trade	(60,836)	(24,01,805)	98,241	38,51,047
Accounts payable – Affiliate	(85,132)	(33,61,011)	120,649	47,29,441
Accrued expenses	60,567	23,91,185	15,624	6,12,461
Deferred revenue	240,234	94,84,438	11,659	4,57,033
Net cash used by operating activities	(744,670)	(293,99,572)	(569,580)	(2,23,27,536)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(90,963)	(35,91,219)	(144,335)	(56,57,932)
Net cash used by investing activities	(90,963)	(35,91,219)	(144,335)	(56,57,932)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of Series A Convertible Preferred Stock	–	–	3,700,147	14,50,45,762
Net cash provided by financing activities	–	–	3,700,147	14,50,45,762
Increase (decrease) in cash and cash equivalents	(835,633)	(3,29,90,791)	2,986,232	11,70,60,294
Cash and cash equivalents, beginning of year	3,301,005	13,03,23,677	314,773	1,23,39,102
Cash and cash equivalents, end of year	2,465,372	9,73,32,886	3,301,005	12,93,99,396
SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION				
Cash paid during the year for				
Interest	–	–	27	1,058

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCIAL ACTIVITIES:

The company accrued dividends related to the Series A Convertible Preferred Stock in the amount of $56,250 (Rs. 22,05,000) for both the three months ended March 31, 1998 and the period of issuance (September 29, 1997) to December 31, 1997.

See accompanying notes to financial statements.

Yantra Corporation
Notes to Financial Statements

1. Summary of Accounting Policies

Business operations

Yantra Corporation (the "company") is a Delaware Corporation formed for the purposes of developing, providing and implementing support for software products. The company is a subsidiary of Infosys Technologies Limited, an Indian corporation.

Assumptions and estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires company's management to make estimates and assumptions that affect the reported accounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

In 1998 the company adopted Statement of Position 92-2 "Software Revenue Recognition" ("SOP 97-2"). This statement provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions as follows:

- If an arrangement to deliver software or software system requires significant production, modification, or customization of software, the entire arrangement should be accounted for in conformity with Accounting Research Bulletin No. 45 "Long-Term Construction-Type Contracts", and Statement of Position 81-1 "Accounting for the Performance of Construction-Type and Certain Production-Type Contracts".
- If an arrangement to deliver software or software system *does not* require significant production, modification, or customization of software, revenue is recognized when the following criteria are met; 1) persuasive evidence of an arrangement exists, ii) delivery has occurred, iii) the vendor's fee is fixed or determinable, iv) collectibility is probable.
- Software arrangements may provide licenses for multiple software deliverables such as, additional software products, upgrades/ enhancements, post contract customer service, or services, which are termed multiple elements. A number of the elements may be described in the arrangement as being a when-and-if-available basis. When-and-if available deliverables is considered to be an element of the arrangement, revenue must be allocated to the when-and-if available deliverable and are deferred until the when-and-if available deliverable is delivered.

Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Stock options

The company has adopted the provisions of the Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 allows the company to account for its stock-based employee compensation plans based upon either a fair-value-based method or the intrinsic value method previously allowed. The company uses the intrinsic value method of accounting for stock-based employee compensation plans. The company is required to disclose the pro forma net income or loss in the notes to the financial statements using the fair-value-based method. Transactions in which non-employee services are received in exchange for the issuance of stock options are accounted for based on the fair value of the services received or the fair value of the stock options issued, whichever is more reliably measurable.

Significant sales and concentration of risk

In the three months ended March 31, 1998 and the year ended December 31, 1997, the company derived revenue from a single client totaling approximately $181,000 (Rs. 71,45,880) or 74% and $1,226,000 (Rs. 4,80,59,200) or 86% of total revenues, respectively. The company's accounts receivable are from clients in various industries. Although collateral is not required, the company provides for estimated reserves for potential credit losses, and such losses have not exceeded management's expectation.

Property and equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Classification	Years
Furniture and fixtures	6
Computers	3

Organization costs

Organization costs are being amortized over 60 months using the straight-line method.

License

The value assigned to the company's software license (see Note 3) is being amortized using the straight-line method over the estimated economic life of 3 years. The company reviews at each balance sheet date the value of its software license for impairment. The company's valuation is principally based on the ongoing value of the related product and its estimated future cash flows.

Income taxes

The company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred tax assets or liabilities are computed based on the differences between the financial statement and the income tax basis of assets and liabilities using the enacted tax rates. The company records a valuation allowance against deferred tax assets unless it is more likely than not that such assets will be realized in future periods. Deferred income tax expenses or credits are based on changes in the assets or liabilities from period to period.

2. Property and equipment

Property and equipment consist of the following:

	March 31, 1998		December 31, 1997	
	in US$	in Rs.	in US$	in Rs.
Furniture and fixtures	92,398	36,47,873	75,686	29,66,891
Computers	226,339	89,35,864	152,094	59,62,085
	318,737	1,25,83,737	227,780	89,28,976
Less accumulated depreciation	(75,541)	(29,82,359)	(54,833)	(21,49,454)
Net property and equipment	243,196	96,01,378	172,947	67,79,522

3. Related parties

During 1996 Infosys Technologies Limited (the "Parent Company") transferred all the rights, title and interest in and to the product Eagle (known as "WMSYantra"), to the company in exchange for 5,000,000 shares of the company's common stock. Management assigned a value of $1,000,000 to the software license based on its estimate of market value. Management determined the estimated market value based on the product's discounted future cash flows.

The company entered into an Agreement for a software center (the "Agreement") beginning November 1, 1995 with its parent Infosys Technologies Limited, an Indian corporation.

The Parent Company set up a Software Center (the "Center") in Infosys, Bangalore to cater to Yantra's exclusive needs. The Center is completely managed and staffed by the Parent Company and is located within the Infosys Software development facility. The Center has a number of employees trained in Yantra's practices and standards who work exclusively on Yantra's products and projects. The Center will be viewed as an extension to Yantra's product development facility and all prioritization of work is done by Yantra.

The following services are available from the Center:

- Product Development, Enhancement, Upgrades, Version Control, etc.
- Product Support, including Beeper Support Operations
- Implementation and Implementation Consulting
- Documentation
- Training Services

The company pays the Parent Company a flat rate per person per month for the number of people committed to the Center. The cost incurred under this contract for the three months ended March 31, 1998 and the year ended December 31, 1997 was $541,284 (Rs. 2,13,69,892) and $1,475,862 (Rs. 5,78,53,790) respectively, and is included in the accompanying statements of operations under the following captions:

	For the three months ended March 31, 1998		For the year ended December 31, 1997	
	in US$	in Rs.	in US$	in Rs.
Cost of revenues	214,111	84,53,102	617,316	2,41,98,787
Research and development	309,173	1,22,06,150	849,546	3,33,02,203
General and administrative	18,000	7,10,640	9,000	3,52,800

For the three months ended March 31, 1998 and the year ended December 31, 1997, the company purchased approximately 95% and 84% respectively, of its services from a related party. At December 31, 1997 and 1996, amounts due to the related party supplier amounted to $227,253 (Rs. 89,08,318) and $312,385 (Rs. 1,12,14,622), respectively.

4. Commitments

The company leases its operating facilities under an operating lease which expires on October 14, 1998. Total rent expense for the year ended March 31, 1998 and for the year ended December 31, 1997 was $21,740 (Rs. 8,58,295) and $61,039 (Rs. 23,92,729), respectively.

5. Series A Convertible Preferred Stock

On September 29, 1997 the company sold 5,000,000 shares of Series A Convertible Preferred Stock $.01 par value for $3,750,000 in cash, less related offering costs of $49,853. Under the company's Amendment of the Certificate of Incorporation, the holders of the Series A Convertible Preferred shares shall be entitled to the following rights, privileges and restrictions:

Dividends

In the event a dividend is declared for the common stock of the company, then the holders of the Series A Convertible Preferred Stock shall be entitled to receive in addition to any accrued dividends, dividends at the same rate as dividends paid with respect to the common stock (treating each share of Series A Convertible

Preferred Stock as being equal to the number of shares of common stock into which each share of Series A Convertible Preferred Stock is then convertible).

The holders of the Series A Convertible Preferred Stock are entitled to dividends at 6% per annum in $.75, being the original issued price. At March 31, 1998, accrued dividends amounted to $112,500 (Rs. 44,41,500). There were no dividends paid during 1998 and 1997.

Right to convert

The company's Series A Preferred Stock may, at the option of the holder, be converted at any time into common stock, at a conversion rate as defined in the company's Amendment of the Certificate of Incorporation.

All outstanding shares of Series A Convertible Preferred Stock shall be converted automatically into shares of common stock in the event of an initial public offering with aggregate gross proceeds of at least $10,000,000.

Mandatory redemption

On or after September 29, 2004, the company shall, at the written election of holders of at least 75% of the then outstanding shares of Series A Convertible Preferred Stock, be required to redeem the outstanding shares at a price of $.75 per share plus any accrued dividends.

6. Stock options

Effective September 29, 1997, the company implemented the 1997 Stock Plan (the "Plan"). The Plan provides for the issuance of up to 2,500,000 stock options, as defined in the Plan. Stock options granted under the Plan will allow eligible participants to purchase the company's common stock at a price determined by the company's Board of Directors on the date of grant. The purchase price per share of Incentive Stock Options ("ISOs"), as defined under Internal Revenue Code Section 422(b), shall not be less than 100% (110%, in the case of ISOs granted to a greater-than-10% shareholder) of the fair market value of the company's common stock on the date of grant. The Plan also allows for the issuance of options which do not qualify as ISOs ("Non-Qualified Options").

On September 29, 1997, the company granted certain officers of the company options to purchase a maximum of 700,000 shares of its common stock, $.01 par value, at the price of $.10 per share. Shares of common stock issuable under these options vest as follows:

December 31	Non-Qualified Stock options	Incentive Stock options
1997	10,000	60,000
1998	15,000	90,000
1999	20,000	120,000
2000	25,000	150,000
2001	30,000	180,000
	100,000	600,000

The above options expire on September 29, 2007. At March 31, 1998, no options were exercised.

The company accounts for its stock-based compensation using the intrinsic value method. Accordingly, no compensation cost has been recognized for its stock options issued to employees during the periods ended March 31, 1998 and December 31, 1997. Vesting of the above options may accelerate upon certain events, as defined in the Plan. The compensation cost related to the company's 70,000 vested employee stock options at December 31, 1997, based on the fair value of the options at the grant date, was determined not to be material to the company's results of operations or financial position as of March 31, 1998 and December 31, 1997.

7. Income taxes

The Company has a net operating loss carryforward for US Federal and State tax purposes of approximately \$2,190,000 (Rs. 8,58,48,000) as of December 31, 1997, which is available to offset future taxable income. The net operating loss carryforward expires at various dates through 2011. The deferred tax asset related to such carryforward benefit was approximately \$854,000 (Rs. 3,37,15,920) and \$558,000 (Rs. 2,18,73,600) at March 31, 1998 and December 31, 1997, respectively. The Company has established a valuation allowance equal in amount to the deferred tax asset, as there is uncertainty about the realizability of the deferred tax assets.

8. Reclassifications

Certain previously reported amounts have been reclassified to conform to the 1998 presentation.

Independent Auditors' Report on Supplemental Material

Our audits of the basic financial statements included in the preceding section of this report were performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

BDO Seidman, LLP

Boston, Massachusetts
April 3, 1998

BDO Seidman, LLP

Schedules of General and Administrative Expenses

	For the three months ended March 31, 1998		For the year ended December 31, 1997	
	in US$	in Rs.*	in US$	in Rs.*
Audit fee	30,459	12,02,521	4,125	1,61,700
Travel, entertainment and vehicle expenses	24,965	9,85,618	63,362	24,83,790
Professional salaries	23,998	9,47,441	90,000	35,28,000
Rent	19,670	7,76,572	33,172	13,00,342
Legal and professional	14,505	5,72,657	59,219	23,21,385
Excise tax	8,511	3,36,014	7,829	3,06,897
Telephone	8,081	3,19,038	13,131	5,14,735
Office salaries	6,338	2,50,224	17,750	6,95,800
Payroll taxes	4,913	1,93,965	10,456	4,09,875
Office supplies and expenses	4,363	1,72,251	6,502	2,54,878
Outside services	3,698	1,45,997	92,320	36,18,944
Insurance	1,931	76,236	9,152	3,58,758
Repairs and maintenance	1,876	74,064	6,332	2,48,214
Postage and delivery	1,157	45,678	10,202	3,99,918
Equipment rental	431	17,016	3,020	1,18,384
Utilities	197	7,778	704	27,597
Payroll processing	180	7,106	374	14,661
License	59	2,329	5,644	2,21,245
Bank service charges and filing fees	19	750	5,434	2,13,013
Computer expenses	–	–	22,380	8,77,296
Dues and subscriptions	–	–	7,880	3,08,896
Printing	–	–	6,526	2,55,819
Other operating expenses	–	–	3,461	1,35,671
Fines and penalties	–	–	1,091	42,767
Contributions	–	–	300	11,760
Interest expense	–	–	293	11,486
Total general and administrative expenses	155,351	61,33,255	480,659	1,88,41,831

See Independent Auditors' Report on Supplemental Material.

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Financial statements for the year ended March 31,1999

prepared in accordance with
United States Generally Accepted Accounting Principles (US GAAP)

Learning without thought is labor lost;
thought without learning is perilous.

Confucious
(551 – 479 B. C.)

Summary of consolidated financial data

Five-year data

In thousands, except per equity share data

	1999	1998	1997	1996	1995
			(Audited)		(Unaudited)
Statement of operations [1,2]					
Revenue	$ 120,955	$ 68,330	$ 39,586	$ 26,607	$ 18,105
Cost of revenue	65,331	40,157	22,615	15,638	10,606
Gross profit	55,624	28,173	16,971	10,969	7,499
Operating expenses:					
Selling, general and administrative expenses	16,199	13,225	7,010	4,350	3,344
Amortization of deferred stock compensation expense	3,646	1,520	768	361	46
Compensation arising from stock split	12,906	1,047	–	–	–
Total operating expenses	32,751	15,792	7,778	4,711	3,390
Operating Income	22,873	12,381	9,193	6,258	4,109
Equity in loss of deconsolidated subsidiary	(2,086)	–	–	–	–
Other income, net	1,537	801	769	1,460	747
Income before income taxes	22,324	13,182	9,962	7,718	4,856
Provision for income taxes	4,877	770	1,320	894	893
Subsidiary preferred stock dividends	–	68	–	–	–
Net income	$ 17,446	$ 12,344	$ 8,642	$ 6,824	$ 3,963
Earnings per equity share [1,3]					
Basic	$ 0.57	$ 0.41	$ 0.30	$ 0.24	$ 0.14
Diluted	$ 0.57	$ 0.41	$ 0.29	$ 0.23	$ 0.14
Equity shares used in computing earnings per equity share: [1,3]					
Basic	30,689	29,788	29,036	29,034	28,292
Diluted	30,754	30,404	29,704	29,284	28,376
Cash dividend per equity share [4]	$ 0.18	$ 0.07	$ 0.04	$ 0.04	$ 0.04
Balance sheet data:					
Cash and cash equivalents	$ 98,875	$ 15,419	$ 8,320	$ 7,769	$ 8,046
Total assets	153,658	48,782	32,923	27,261	23,051
Total long-term debt	–	–	–	526	1,398
Total shareholders' equity	$ 139,610	$ 41,146	$ 30,640	$ 23,925	$ 19,668

1. The information presented above reflects the company's 2-for-1 stock split by means of a stock dividend announced on December 20, 1998.
2. The accounts of Yantra Corporation, an erstwhile subsidiary, were consolidated with the financial statements of the company prior to April 1, 1998 and have been accounted for by the equity method in fiscal 1999.
3. The earnings per share calculations for fiscal year 1999, includes 1,035,000 equity shares (representing 2,070,000 ADSs) issued during March 1999.
4. The dividends are declared in Indian rupees as a percentage to the par value of shares. Amounts presented have been translated into US dollars and are indicative. The dividends are paid pro rata from the date of holding of shares.

Management's discussion and analysis of financial condition and results of operations

Investors are cautioned that this discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words "anticipate", "believe", "estimate", "intend", "will" and "expect" and other similar expressions as they relate to the company or its business are intended to identify such forward-looking statements. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading "Risk Factors" in the Prospectus filed with the SEC, as well as the factors discussed elsewhere in the Form 20-F, included in this report. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. The following discussion and analysis should be read in conjunction with the company's financial statements included herein and the notes thereto.

1. Overview

Infosys is an India-based IT services company formed in 1981 that utilizes an extensive offshore infrastructure to provide managed software solutions to clients worldwide. The company's services include custom software development, maintenance (including Year 2000 conversion) and re-engineering services as well as dedicated Offshore Software Development Centers (OSDC) for certain clients. From fiscal 1995 through fiscal 1999, total revenue increased from $ 18.1 million to $ 120.96 million, the number of the company's software professionals worldwide increased from approximately 585 to approximately 3,160, and the number of its India-based software development centers increased from two to eleven.

The company's revenues are generated principally from software services provided on either a fixed-price, fixed-time frame or a time-and-materials basis. Revenues from services provided on a time-and-materials basis are recognized in the month that services are provided and related costs are incurred. Revenues from services provided on a fixed-price, fixed-time frame basis are recognized upon the achievement of specified milestones identified in the related contracts, in accordance with the percentage of completion method. Cost of completion estimates are subject to periodic revisions. Although the company has revised its project completion estimates from time to time, such revisions have not, to date, had a material adverse effect on the company's operating results or financial condition. Since the company bears the risk of cost overruns and inflation with respect to its fixed-price, fixed-time frame projects, the company's operating results could be adversely affected by inaccurate estimates of contract completion costs and dates, including wage inflation rates and currency exchange rates that may affect cost projections. The company also develops and markets certain software products, including banking software that is licensed primarily to clients in Asia and Africa. Such software products represented 3.2% of total revenue in fiscal 1999. The company derived 82.0% of its total revenue from North America, 9.3% from Europe, 1.7% from India and 7.0% from ROW in fiscal 1999.

In fiscal 1999 and fiscal 1998, the company derived 19.8% and 23.3% of its total revenue, respectively, from Year 2000 conversion projects. The company expects that Year 2000 conversion projects will decline substantially during fiscal 2000. In line with its risk management policies, the company has consistently limited its dependence on Year 2000 conversion projects, and has only accepted such projects where there are opportunities to create long-term relationships with its clients. The company expects that the decline in Year 2000 conversion projects will be adequately made up by other projects from these and other clients, and that the decline in Year 2000 conversion projects will not have a material adverse effect upon the company's business, financial condition and results of operations. However, there can be no assurance that: the company will be successful in generating additional business from its Year 2000 clients for other services; the company will be successful in replacing Year 2000 conversion projects with other projects as the Year 2000 business declines; or the margins from any such future projects will be comparable to those obtained from Year 2000 conversion projects.

Cost of revenue consists, primarily, of salary and other compensation expenses, depreciation, data communications expenses, computer maintenance, cost of software for internal use, certain pre-opening expenses for new software development centers, and foreign travel expenses. The company depreciates personal computers and servers over two years and mainframe computers over three years. Third party software is expensed in the period in which it is acquired.

The company assumes full project management responsibility for each project that it undertakes. Approximately 80% of the work on a project is performed at the company's facilities in India, and the balance of the work is performed at the client site. The proportions of work performed at company facilities and at client sites varies from quarter to quarter. The company charges higher rates and incurs higher compensation expenses for work performed at the client site. Services performed at a client site typically generate higher revenues per capita, but at a lower gross margin, than the same quantum of services performed at company facilities in India. As a result, total revenue, cost of revenue and gross profit in absolute terms, and as a percentage of revenue, fluctuate from quarter to quarter based on the proportions of work performed offshore at company facilities and at client sites.

Revenue and gross profit are also affected by employee utilization rates. Utilization rates depend, among other factors, on the number of employees enrolled for in-house training programs, particularly the 14-week training course provided to new employees. Since a large percentage of new hires begin their training in the second quarter, utilization rates have historically been lower in the second and third quarters of a fiscal year.

Selling, general and administrative expenses consist primarily of expenses relating to salary and other compensation, travel, marketing, telecommunications, management, finance, administration and rentals.

Other income includes interest income and income from the sale of special import licenses. Under current export-import policy, exports by Indian companies generate credits for the exporter called "special import licenses". These credits can be sold and also used for the import of goods included on a "restricted list" maintained by the Government of India. The value of these special import licenses has declined over time, as the restricted list has been shortened. The company's general policy is to sell such special import licenses in the period in which it receives such credits.

2. Results of operations

2.1 Fiscal year ended March 31, 1999 compared to fiscal year ended March 31, 1998

Revenue. Total revenue was $ 120.96 million for fiscal 1999, representing an increase of 77.1% over total revenue of $ 68.3 million for fiscal 1998. Revenue continued to increase in all segments of the company's services. Custom software development, re-engineering, maintenance and software development through OSDCs formed a majority of the company's revenues. The increase in revenue was attributable, in part, to a substantial increase in business from certain existing clients and from certain new clients, particularly in the manufacturing and financial services industries. Revenue growth was also attributable to an increase in Year 2000 conversion projects, which represented 19.8% of total revenue for fiscal 1999 as compared to 23.3% of total revenue for fiscal 1998. Net sales of Bancs2000 and other products represented 3.2% of total revenue for fiscal 1999 as compared to 5.4% for fiscal 1998. Revenue from services represented 96.8% of total revenue for fiscal 1999 as compared to 94.6% for fiscal 1998. Revenue from fixed-price, fixed-time frame contracts and from time-and-materials contracts represented 36.0% and 64.0%, respectively, of total revenue for fiscal 1999 as compared to 35.8% and 64.2%, respectively, for fiscal 1998. Revenue from North America and Europe represented 82.0% and 9.3%, respectively, of total revenue for fiscal 1999 as compared to 82.3% and 9.0%, respectively, for fiscal 1998.

Cost of Revenue. Cost of revenue was $ 65.3 million for fiscal 1999, representing an increase of 62.7% over the cost of revenue of $ 40.2 million for fiscal 1998. The cost of revenue represented 54.0% and 58.8% of total revenues for fiscal 1999 and 1998. This marginal decrease in costs as a percentage of total revenue was attributable to a favorable business mix and a decrease in depreciation and software expenses, which represented 10.0% of total revenues in fiscal 1999 as compared to 12.5% of total revenue for fiscal 1998. The decrease was partially offset by an increase in compensation rates. The cost of revenue for services represented 53.4%

and 58.9% of revenues for services for fiscal 1999 and 1998. Cost of revenue for product sales represented 75.8% and 57.2% of revenues for product sales for fiscal 1999 and 1998.

Gross Profit. As a result of the foregoing, the gross profit was $ 55.6 million for fiscal 1999, representing an increase of 97.4% over the gross profit of $ 28.2 million for fiscal 1998. This increase was attributable to a favorable business mix and a decrease in depreciation and software expenses as a percentage of total revenue due to improved infrastructure utilization. As a percentage of total revenue, the gross profit increased to 46.0% for fiscal 1999 from 41.2% for fiscal 1998. The gross profit from the sales of Bancs2000 and other products was $ 0.9 million for fiscal 1999, a decrease of 47.1% from the gross profit of $ 1.7 million for fiscal 1998. The gross profit from services was $ 54.7 million for fiscal 1999, an increase of 107.2% over the gross profit of $ 26.4 million for fiscal 1998. As a percentage of product revenue, the gross profit from product sales decreased to 24.2% for fiscal 1999 from 42.8% for fiscal 1998. As a percentage of service revenues, the gross profit from services increased to 46.6% for fiscal 1999 from 41.1% for fiscal 1998.

Selling, General and Administrative expenses. Selling, general and administrative (SGA) expenses were $ 16.2 million for fiscal 1999, an increase of 22.5% over selling, general and administrative expenses of $ 13.2 million for fiscal 1998. Selling, general and administrative expenses were 13.4% and 19.4% of total revenue for fiscal 1999 and 1998. This decrease in SGA expense as a percentage of revenues was a result of the company's ability to increase revenues in 1999 without a proportionate increase in management, finance, administrative, and occupancy costs. Salaries for support staff represented 4.4% of total revenue for fiscal 1999, while rent and office maintenance represented 2.5% of total revenue for fiscal 1999 as compared to 5.5% and 3.6%, respectively, for fiscal 1998.

Amortization of Deferred Stock Compensation Expense. Amortization of deferred stock compensation expense was $ 16.6 million for fiscal 1999, an increase of 544.9% over amortization of deferred stock compensation expense of $ 2.6 million for fiscal 1998. Compensation expense increased for new grants of stock purchase rights in part because of the rising market price of the equity shares. The increase in deferred stock compensation expense also reflects the continued amortization of compensation expense from stock purchase rights granted in prior periods.

In the third quarter of fiscal 1998, the company recognized a non-cash compensation expense of $ 1.6 million. Charges were higher in that quarter because additional equity shares were issued to participants in the Employee Stock Option Plan (ESOP) as part of the company's 1997 stock dividend. Since these additional equity shares were not subject to vesting, the non-cash compensation expense for such shares was accelerated in one quarter rather than amortized over the remaining vesting period. In the fourth quarter of fiscal 1999, the company recognized a non-cash compensation expense of $ 14.1 million, including an accelerated charge of $ 12.9 million as part of the company's 1998 stock dividend. As in fiscal 1998, the equity shares issued to ESOP participants in connection with the stock dividend were not subject to vesting. As a result, one-half of the deferred stock compensation expense that would have been amortized over the remaining vesting periods for the equity shares issued under the ESOP was accelerated in the fourth quarter of fiscal 1999.

Operating Income. The operating income was $ 22.9 million for fiscal 1999, an increase of 84.7% over the operating income of $ 12.4 million for fiscal 1998. As a percentage of revenues, operating income increased to 18.9% for fiscal 1999 from 18.0% for fiscal 1998. Excluding the amortization of deferred stock compensation expense, the operating margin is 32.6% for fiscal 1999 as compared to 21.8% for fiscal 1998.

Other Income. Other income was $ 1.54 million for fiscal 1999 as compared to $ 0.80 million for fiscal 1998. This increase in other income was due to an increase in interest income resulting from the investment of a larger cash balance, partly arising out of proceeds of the ADS issue during March 1999, and from the sale of Yantra preferred stock, offset in part by a decrease in income from the sale of special import licenses during fiscal 1999, as compared to fiscal 1998.

Provision for Income Taxes. Provision for income taxes was $ 4.9 million for fiscal 1999 as compared to $ 0.8 million for fiscal 1998. The company's effective tax rate increased to 21.8% for fiscal 1999 as compared to 5.8% for fiscal 1998. The effective tax rate increased due to an increase in amortization of deferred stock compenstation expense which reduced the pretax income substantially, and an increase in foreign tax liabilities offset, in part, by a decrease in Indian tax liability resulting from a higher proportion of the company's operations qualifying for Indian tax exemptions applicable to designated Software Technology Parks.

Net Income. The net income was $ 17.4 million for fiscal 1999, an increase of 41.3% over the net income of $ 12.4 million for fiscal 1998. As a percentage of total revenue, the net income decreased to 14.4% for fiscal 1999 from 18.1% for fiscal 1998.

2.2 Fiscal year ended March 31, 1998 compared to fiscal year ended March 31, 1997

Revenue. Total revenue was $ 68.3 million for fiscal 1998, representing an increase of 72.6% over total revenue of $ 39.6 million for fiscal 1997. This increase was attributable in part to significant increases in revenues from Year 2000 conversion projects, which represented 23.3% of total revenue for fiscal 1998 as compared to 7.5% of total revenue for fiscal 1997. The revenue growth in fiscal 1998 included a substantial increase in revenues from existing clients, particularly in the retailing industry, as well as revenues from new clients, particularly in the financial services and telecommunications industries. This increase was partially offset by a reduction in sales of the Bancs2000 product resulting from a slowdown of computerization activities by Indian banks. Net sales of Bancs2000 and other products represented 5.4% of total revenue for fiscal 1998 as compared to 12.7% for fiscal 1997. Revenues from services represented 94.6% of total revenue for fiscal 1998 as compared to 87.3% for fiscal 1997. Revenues from fixed-price, fixed-time frame contracts and from time-and-materials contracts represented 35.8% and 64.2%, respectively, of total revenue for fiscal 1998 as compared to 37.0% and 63.0%, respectively, for fiscal 1997. North America and Europe represented 82.3% and 9.0%, respectively, of total revenue for fiscal 1998 as compared to 78.5% and 8.2%, respectively, for fiscal 1997.

Cost of Revenues. Cost of revenues was $ 40.2 million for fiscal 1998, representing an increase of 77.6% over cost of revenues of $ 22.6 million for fiscal 1997. Cost of revenues represented 58.8% and 57.1% of total revenue for fiscal 1998 and 1997, respectively. This marginal increase as a percentage of revenues is attributable to an increase in depreciation and software expenses, which represented 12.5% of total revenues for fiscal 1998 as compared to 10.4% for fiscal 1997. The increase was partially offset by a favorable business mix, especially in certain fixed-price, fixed-time frame services. Cost of revenues for services represented 58.9% and 57.1% of total revenue for services for fiscal 1998 and 1997, respectively. Cost of revenues for product sales represented 57.2% and 57.3% of total revenue for product sales for fiscal 1998 and 1997, respectively.

Gross Profit. As a result of the foregoing, gross profit was $ 28.2 million for fiscal 1998, representing an increase of 66.0% over gross profit of $ 17.0 million for fiscal 1997. As a percentage of total revenue, gross profit decreased to 41.2% for fiscal 1998 from 42.9% for fiscal 1997. Gross profit from sales of Bancs2000 and other products was $ 1.7 million for fiscal 1998, a decrease of 22.7% from gross profit of $ 2.2 million for fiscal 1997. Gross profit from services was $ 26.4 million for fiscal 1998, an increase of 78.4% over gross profit of $ 14.8 million for fiscal 1997. As a percentage of product revenues, gross profit from product sales increased to 42.8% for fiscal 1998 from 42.7% for fiscal 1997. As a percentage of service revenues, gross profit from services decreased to 41.1% for fiscal 1998 from 42.9% for fiscal 1997.

Selling, General and Administrative expenses. Selling, general and administrative expenses were $ 13.2 million for fiscal 1998, an increase of 88.7% over selling, general and administrative expenses of $ 7.0 million for fiscal 1997. Selling, general and administrative expenses were 19.4% and 17.7% of total revenue for fiscal 1998 and 1997, respectively. This increase as a percentage of revenues was a result of an increase in salaries for administrative and support staff and an increase in rent and other expenses as the company expanded the number of sales offices and offshore software development facilities. Salaries for support staff represented 5.5% of total revenue and rent and office maintenance represented 3.6% of total revenue for fiscal 1998 as compared to 4.7% and 2.9%, respectively, for fiscal 1997.

Amortization of Deferred Stock Compensation Expense. Amortization of deferred stock compensation expense was $ 2.6 million for fiscal 1998, an increase of 234.2% over amortization of deferred stock compensation expense of $ 768,000 for fiscal 1997. The expense recorded in fiscal 1998 included a charge of $ 1.6 million recognized in the third quarter of the year. Compensation expense was higher in that quarter because equity shares issued to participants in the ESOP in connection with the company's 1997 stock dividend were not subject to vesting, and accordingly, the compensation expense related to such shares was recognized in one quarter rather than being amortized over five years. Amortization of deferred stock compensation expense was 3.8% of revenues in fiscal 1998 as compared to 1.9% of revenues in fiscal 1997.

Operating Income. As a result of the foregoing, operating income was $ 12.4 million for fiscal 1998, an increase of 34.7% over operating income of $ 9.2 million for fiscal 1997. As a percentage of total revenue, operating income decreased to 18.0% for fiscal 1998 from 23.3% for fiscal 1997. Excluding the amortization of deferred stock compensation expense, the operating margin would have been 21.8% for fiscal 1998 as compared to 25.2% for fiscal 1997.

Other Income. Other income was $ 801,000 for fiscal 1998 as compared to $ 769,000 for fiscal 1997 as a result of an increase in interest income.

Provision for Income Taxes. Provision for income taxes was $ 770,000 for fiscal 1998 as compared to $ 1.3 million for fiscal 1997. The company's effective tax rate decreased to 5.8% for fiscal 1998 as compared to 13.3% for fiscal 1997. The effective tax rate declined as a higher proportion of the company's operations qualified for Indian tax exemptions applicable to designated Software Technology Parks.

Net Income. As a result of the foregoing, net income was $ 12.4 million for fiscal 1998, an increase of 43.6% over net income of $ 8.6 million for fiscal 1997. As a percentage of total revenue, net income decreased to 18.1% for fiscal 1998 from 21.9% for fiscal 1997.

2.3 Liquidity and capital resources

The growth of the company has been financed largely from cash generated from operations and, to a lesser extent, from the proceeds of equity issues and borrowings. In 1993, the company raised approximately $ 4.4 million in gross aggregate proceeds from its intial public offering of equity shares on Indian stock exchanges. In 1994, the company raised an additional $ 7.7 million through private placements of its equity shares with foreign institutional investors. As on March 31, 1999, the company had $ 98.9 million in cash and cash equivalents, $ 110.6 million in working capital and no outstanding bank borrowings. As on March 31, 1999, the company also had an aggregate facility of $ 1.2 million in working capital line of credit from two commercial banks.

Net cash provided by operating activities was $ 40.9 million, $ 17.2 million and $ 9.4 million in fiscal 1999, 1998 and 1997, respectively. Net cash provided by operations consisted primarily of net income offset, in part, by an increase in accounts receivable. In recent years, accounts receivable have increased at a rate faster than sales. Accounts receivable as a percentage of total revenue, represented 16.6%, 15.0% and 12.6%, for fiscal 1999, 1998 and 1997, respectively. Further, the average days outstanding of accounts receivable has increased in the 31-60, 61-90 and greater than 90 day aging periods and decreased in the 0-30 day aging period. The company believes that this is due to an increase in proportion of revenue from large companies, who tend to have better cash management practices than smaller companies. The company does not expect significant additional increases in the average-days-outstanding of its accounts receivable. The company's policy on accounts receivable includes a periodic review of all such outstandings. The company reviews, among other things, the age, amount, and quality of each account receivable; the relationship with, size of, and history of the client; and the quality of service delivered by the company for the client to determine the classification of an account receivable. Should the review so demand, the company will classify the accounts into secured and unsecured (doubtful) accounts. The company makes provisions for all accounts receivable classified as unsecured or doubtful and for all accounts receivable that are outstanding more than 180 days.

Prepaid expenses and other current assets increased by $ 2.0 million, $ 0.9 million and $ 1.2 million during fiscal 1999, 1998 and 1997, respectively. The increase in fiscal 1997 was primarily due to an increase in rental deposits for the new software development centers. The increases during fiscal 1999 and 1998 were primarily due to loans to employees, which increased by $ 1.1 million and $ 0.5 million.

Unearned revenue as on March 31, 1998 consists primarily of advance client billings on fixed-price, fixed-time frame contracts for which related costs were not yet incurred.

Net cash used in investing activities was $ 17.0 million, $ 8.4 million and $ 4.6 million in fiscal 1999, 1998 and 1997, respectively. Net cash used in investing activities in fiscal 1997 consisted primarily of $ 7.2 million for property, plant and equipment offset by sales of equity investments in other companies and in mutual funds. Net cash used in investing activities in fiscal 1999 and 1998 consisted primarily of $ 16.1 million and $ 7.9 million, respectively, for property, plant and equipment.

Publicly-traded Indian companies customarily pay dividends. For fiscal 1999, the company declared a dividend of $ 3.2 million, which was paid partly in fiscal 1999. For fiscal 1998, the company declared a dividend of $ 1.5 million, which was paid partly in fiscal 1998 and partly in fiscal 1999. For fiscal 1997, the company declared a dividend of $ 1.1 million, which was paid partly in fiscal 1997 and partly in fiscal 1998.

As on March 31, 1999, the company had contractual commitments for capital expenditure of $ 5.9 million. The company has not yet made contractual commitments for the majority of its budgeted capital expenditure.

2.4 Reconciliation between the US and the Indian GAAP

There are material differences between the financial statements prepared as per the Indian and the US GAAP. The material differences arise due to provision for deferred taxes, accounting for stock-based compensation and valuation of short-term investments, which are marked to market and adjusted against retained earnings, and consolidation of accounts of subsidiary, as required by US GAAP. The Indian GAAP does not require provision for deferred taxes, amortization of deferred stock compensation, consolidation of accounts of subsidiaries and only requires a provision for diminution in the value of current investments.

Reconciliation of net income

	1999	1998	1997
Net profit as per Indian GAAP (excluding extraordinary income)	$ 32,207,070	$ 16,041,966	$ 9,390,263
Adjustments:			
Translation difference in depreciation	–	–	(58,855)
Deferred tax	625,427	707,553	249,220
Net income of subsidiary included on consolidation	(2,085,887)	(1,563,718)	(170,700)
Provision for retirement benefits to employees	–	(275,000)	–
Employee stock-based compensation plan charge under APB Opinion no. 25	(3,645,576)	(1,046,874)	(767,926)
Compensation arising from stock split	(12,906,962)	(1,519,739)	–
Provision for loss – Yantra Corporation	1,675,060	–	–
Provision for contingency	1,576,956	–	–
Net income as per US GAAP	$ 17,446,088	$ 12,344,188	$ 8,642,002

3 Risk factors

3.1 Management of growth

The company has experienced significant growth in recent periods. The company's revenues in fiscal 1999 grew 77.1% over fiscal 1998. As of March 31, 1999, the company employed approximately 3,160 software professionals worldwide with 11 software development facilities in India as compared to approximately 2,190 with nine facilities as of March 31, 1998 and 1,410 with seven facilities as of March 31, 1997. In fiscal 1998, the company approved major expansions to its existing facilities and the building of new facilities. The company's growth is expected to place significant demands on its management and other resources and will require it to continue to develop and improve its operational, financial and other internal controls, both in India and elsewhere. In particular, continued growth increases the challenges involved in: recruiting and retaining sufficient skilled technical, marketing and management personnel; providing adequate training and supervision to maintain the company's high quality standards; and preserving the company's culture and values and its entrepreneurial environment. The company's inability to manage its growth effectively could have a material adverse effect on the quality of the company's services and projects, its ability to attract clients as well as skilled personnel, its business prospects, and its results of operations and financial condition.

3.2 Potential fluctuations in future operating results

Historically, the company's operating results have fluctuated, and may continue to fluctuate in future, depending on a number of factors, including: the size, timing and profitability of significant projects; the proportion of services that are performed at client sites rather than at the company's offshore facilities; the accuracy of estimates of resources and time required to complete ongoing projects, particularly projects performed under fixed-price, fixed-time frame contracts; a change in the mix of services provided to its clients or in the relative proportion of services and product revenues; the timing of tax holidays and other Government of India incentives; the effect of seasonal hiring patterns and the time required to train and productively utilize new employees; the size and timing of facilities expansion; unanticipated increases in wage rates; the company's success in expanding its sales and marketing programs; currency exchange rate fluctuations and other general economic factors. A high percentage of the company's operating expenses, particularly personnel and facilities, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number and timing of the company's projects or in employee utilization rates may cause significant variations in operating results in any particular quarter. The company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, it is possible that in some future quarter the company's operating results may be below the expectations of public market analysts and investors. In such event, the market price of the equity shares and ADSs are likely to be materially adversely affected.

3.3 Risks related to investments in Indian securities

The company is incorporated in India, and substantially all of its assets and a substantial majority of its employees are located in India. Consequently, the company's performance may be affected by changes in exchange rates and controls, interest rates, Government of India policies, including taxation policy, as well as political, social and economic developments affecting India.

Political and Economic Environment. During the past decade and particularly since 1991, the Government of India has pursued policies of economic liberalization, including significant relaxations of restrictions on the private sector. Nevertheless, the role of the Indian central and state Governments in the Indian economy as producers, consumers and regulators has remained significant. Additionally, since 1996, the Government of India has changed three times. The current Government of India, formed in March 1998, has announced policies and taken initiatives that support the continuation of the economic liberalization policies pursued by previous governments and has, in addition, set up a special IT task force to promote the IT industry. However, the speed of economic liberalization could change, and specific laws and policies affecting IT companies, foreign investment, currency exchange rates and other matters affecting investment in the company's securities could change as well. Further, there can be no assurance that the liberalization policies will continue in the future. A significant change in the Government of India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and the company's business in particular. On May 13, 1998, the United States imposed economic sanctions against India in response to India's testing of nuclear devices. While these sanctions imposed on India have not had a material impact on the company to date, there can be no assurance that additional economic sanctions of this nature will not be imposed, or that such sanctions will not have a material adverse effect on the company's business. Furthermore, financial turmoil in certain Asian countries, Russia and elsewhere in the world has affected market prices in the world's securities markets, including the United States and Indian markets. Continued or increased financial downturns in these countries could cause further decreases in securities prices on the United States and Indian exchanges, including the market prices of the company's equity shares and its ADSs. South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries. Events of this nature in the future could influence the Indian economy and could have a material adverse effect on the market for securities of Indian companies and on the business of the company.

Government of India Incentives and Regulation. The company benefits from a variety of incentives given to software firms in India, such as relief from import duties on hardware, a tax exemption for income derived from software exports, and tax holidays and infrastructure support for companies, such as Infosys, operating in specially designated "Software Technology Parks". There can be no assurance that these incentives will continue in future. Further, there is a risk that changes in tax rates or laws affecting foreign investment, currency exchange rates or other regulations will render the Government of India's regulatory scheme less favorable to the company and could adversely affect the market price of the company's equity shares and its ADSs. Should the regulations and incentives promulgated by the Government of India become less favorable to the company, the company's results of operations and financial condition could be adversely affected.

Restrictions on Foreign Investment. Foreign investment in Indian securities is generally regulated by the Foreign Exchange Regulation Act, 1973. In certain emerging markets, including India, Global Depositary Shares and ADSs may trade at a discount or premium, as the case may be, to the underlying shares, in part because of restrictions on foreign ownership of the underlying shares. In addition, under current Indian laws and regulations, the Depositary cannot accept deposits of outstanding equity shares and issue ADRs evidencing ADSs representing such equity shares. Therefore, a holder of ADSs who surrenders ADSs and withdraws equity shares is not permitted subsequently to deposit such equity shares and obtain ADSs nor would a holder to whom such equity shares are transferred be permitted to deposit such equity shares. This inability to convert equity shares into ADSs increases the probability that the price of the ADSs will not trade on par with the price of the equity shares as quoted on the Indian stock exchanges. Holders who seek to sell in India any equity shares withdrawn from the depositary facility and to convert the rupee proceeds from such sale into foreign currency and repatriate such foreign currency from India will have to obtain RBI approval for each such transaction. Further, under current Indian regulations and practice, the approval of the RBI is required for the sale of equity shares underlying ADSs by a non-resident of India to a resident of India as well as for renunciation of rights to a resident of India. There can be no assurance that any such approval can be obtained.

Exchange Rate Fluctuations. The exchange rate between the rupee and the US dollar has changed substantially in recent years and may fluctuate substantially in the future. During the four-year period from March 31, 1995 through March 31, 1999, the value of the rupee against the US dollar declined by 35.2%. For fiscal 1999 and fiscal 1998, the company's US dollar-denominated revenues represented 88.1% and 90.0%, respectively, of total revenue. The company expects that a majority of its revenues will continue to be generated in US dollars for the foreseeable future and that a significant portion of the company's expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in rupees. Consequently, the company's results of operations will be adversely affected to the extent the rupee appreciates against the US dollar. The company has sought to reduce the effect of exchange rate fluctuations on operating results by periodically purchasing foreign exchange forward contracts to cover a portion of outstanding accounts receivable. For the first three quarters of fiscal 1999, the company purchased foreign exchange forward contracts worth an aggregate notional amount of $5.5 million. As of March 31, 1999, the company had no such forward contracts outstanding. These contracts typically mature within three months, must be settled on the day of maturity and may be canceled subject to the payment of any gains or losses in the difference between the contract exchange rate and market exchange rate on the date of cancellation. The company uses these instruments only as a hedging mechanism and not for speculative purposes. There can be no assurance that the company will purchase contracts adequate to insulate itself from foreign exchange currency risks or that any such contracts will perform adequately as a hedging mechanism. Depreciation of the rupee will result in foreign currency translation losses. For example, for fiscal 1998 and fiscal 1999, the company's foreign currency translation losses were approximately $3.5 million and $2.1million, respectively. Fluctuations in the exchange rate between the rupee and the US dollar also will affect the US dollar conversion by the Depositary of any cash dividends paid in rupees on the equity shares represented by the ADSs. In addition, fluctuations in the exchange rate between the Indian rupee and the US dollar will affect the US dollar equivalent of the Indian rupee price of equity shares on the Indian Stock Exchanges and, as a result, are likely to affect the market prices of the ADSs in the United States, and vice versa. Such fluctuations will also affect the dollar value of the proceeds a holder would receive upon the sale in India of any equity shares withdrawn from the Depositary under the Depositary Agreement. There can be no assurance that holders will be able to convert rupee proceeds into US dollars or any other currency or with respect to the rate at which any such conversion could occur.

3.4 Substantial investment in new facilities

As of March 31, 1999, the company had contractual commitments of $5.9 million for capital expenditure and has budgeted for significant infrastructural expansion in the near future. Since such an expansion will significantly increase the company's fixed costs, the company's results of operations will be materially adversely affected if the company is unable to grow its business proportionately. Although the company has successfully developed new facilities in the past, there can be no assurance that the company will not encounter cost overruns or project delays in connection with any or all of the new facilities. Furthermore, there can be no assurance that future financing for additional facilities, whether within India or elsewhere, would be available on attractive terms or at all.

3.5 Restrictions on US immigration

The company's professionals who work on-site at client facilities in the United States on temporary and extended assignments are typically required to obtain visas. As of March 31, 1999, substantially all of the company's personnel in the United States were working pursuant to H-1B visas (300 persons) or L-1 visas (125 persons). Although there is no limit to new L-1 petitions, there is a limit to the number of new H-1B petitions that the United States Immigration and Naturalization Service may approve in any government fiscal year. In years in which this limit is reached, the company may be unable to obtain the H-1B visas necessary to bring its critical Indian IT professionals to the United States on an extended basis. This limit was reached in May 1998 for the US government's fiscal year ending September 30, 1998. While the company anticipated that such limit would be reached prior to the end of the US government's fiscal year and made efforts to plan accordingly, there can be no assurance that the company will continue to be able to obtain a sufficient number of H-1B visas. Changes in existing US immigration laws that make it more difficult for the company to obtain H-1B and L-1 visas could impair the company's ability to compete for and provide services to clients and could have a material adverse effect on the company's results of operations and financial condition.

3.6 Risks related to international operations

While to date all of the company's software development facilities are located in India, the company intends to develop new software development facilities in other regions, including potentially Southeast Asia, Latin America and Europe. The company has not yet made substantial contractual commitments to develop such new software development facilities, and there can be no assurance that the company will not significantly alter or reduce its proposed expansion plans. The company's lack of experience with facilities outside of India subject the company to further risk with regard to foreign regulation and overseas facilities management. Increasing the number of software development facilities and the scope of operations outside of India subjects the company to a number of risks, including, among other things, difficulties relating to administering its business globally, managing foreign operations, currency exchange rate fluctuations, restrictions against the repatriation of earnings, export requirements and restrictions, and multiple and possibly overlapping tax structures. Such developments could have a material adverse effect on the company's business, results of operations and financial condition.

3.7 Dependence on skilled personnel; risks of wage inflation

The company's ability to execute project engagements and to obtain new clients depends, in large part, on its ability to attract, train, motivate and retain highly skilled IT professionals, particularly project managers, software engineers and other senior technical personnel. An inability to hire and retain additional qualified personnel will impair the company's ability to bid for or obtain new projects and to continue to expand its business. The company believes that there is significant competition for IT professionals with the skills necessary to perform the services offered by the company. There can be no assurance that the company will be able to assimilate and manage new IT professionals effectively. Any increase in the attrition rates experienced by the company, particularly the rate of attrition of experienced software engineers and project managers, would adversely affect the company's results of operations and financial condition. There can be no assurance that the company will be successful in recruiting and retaining a sufficient number of replacement IT professionals with the requisite skills to replace those IT professionals who leave. Further, there can be no assurance that the company will be able to redeploy and retrain its IT professionals to keep pace with continuing changes in IT, evolving standards and changing client preferences. Historically, the company's wage costs in India have been significantly lower than wage costs in the United States for comparably skilled IT professionals. However, wage costs in India are presently increasing at a faster rate than those in the United States. In the long-term, wage increases may have an adverse effect on the company's profit margins unless the company is able to continue increasing the efficiency and productivity of its professionals.

3.8 Client concentration

The company has derived, and believes that it will continue to derive, a significant portion of its revenues from a limited number of large corporate clients. For fiscal 1998 and fiscal 1999, the company's largest client accounted for 10.5% and 6.4%, respectively, of the company's total revenue and its five largest clients accounted for 35.1% and 28.4%, respectively, of the company's total revenue. The volume of work performed for specific clients is likely to vary from year to year, particularly since the company is usually not the exclusive outside service provider for its clients. Thus, a major client in one year may not provide the same level of revenues in a subsequent year. The loss of any large client could have a material adverse effect on the company's results of operations and financial condition. Since many of the contracted projects are critical to the operations of its clients' businesses, any failure to meet client expectations could result in a cancellation or non-renewal of a contract. However, there are a number of factors other than the company's performance that could cause the loss of a client and that may not be predictable. For example, in 1995, the company chose to reduce significantly the services provided to its then-largest client rather than accept the price reductions and increased company resources sought by the client. In other circumstances, the company reduced significantly the services provided to its client when the client either changed its outsourcing strategy by moving more work in-house and reducing the number of its vendors, or replaced its existing software with packaged software supported by the licensor. There can be no assurance that the same circumstances may not arise in future.

3.9 Fixed-price, fixed-time frame contracts

As a core element of its business strategy, the company continues to offer a significant portion of its services on a fixed-price, fixed-time frame basis, rather than on a time-and-materials basis. Although the company uses specified software engineering processes and its past project experience to reduce the risks associated with estimating, planning and performing fixed-price, fixed-time frame projects, the company bears the risk of cost overruns, completion delays and wage inflation in connection with these projects. The company's failure to estimate accurately the resources and time required for a project, future rates of wage inflation and currency exchange rates or its failure to complete its contractual obligations within the time frame committed could have a material adverse effect on the company's results of operations and financial condition.

3.10 Infrastructure and potential disruption in telecommunications

A significant element of the company's business strategy is to continue to leverage its various software development centers in Bangalore, Bhubaneshwar, Chennai, Mangalore and Pune, India and to expand the number of such centers in India as well as outside India. The company believes that the use of a strategically located network of software development centers will provide the company with cost advantages, the ability to attract highly skilled personnel in various regions, the ability to service clients on a regional and global basis, and the ability to provide 24-hour service to its clients. Pursuant to its service delivery model, the company must maintain active voice and data communication between its main offices in Bangalore, the offices of its clients, and its other software development facilities. Although the company maintains redundant software development facilities and satellite communications links, any significant loss of the company's ability to transmit voice and data through satellite and telephone communications would have a material adverse effect on the company's results of operations and financial condition.

3.11 Expected decrease in demand for Year 2000 services

Year 2000 conversion projects represented 23.3% and 19.8% of the company's total revenue for fiscal 1998 and fiscal 1999, respectively. The company expects that Year 2000 conversion projects will continue to represent a material portion of the company's business in fiscal 2000. The high demand for these time-sensitive projects results in pricing and margins that are favorable to the company. The company believes that demand for Year 2000 conversion services will begin to diminish rapidly after fiscal 1999 as many Year 2000 conversion solutions are implemented and tested. There can be no assurance that the company will be successful in generating additional business from its Year 2000 clients for other services, that the company will be successful in replacing Year 2000 conversion projects with other projects as the Year 2000 business declines or that margins from any such future projects will be comparable to those obtained from Year 2000 conversion projects. There is an additional risk that the company may be unable to retrain and redeploy IT professionals who are currently assigned to Year 2000 conversion projects involving legacy computer systems after such projects are completed. Furthermore, as Year 2000 conversion projects are completed, there is a likelihood of increased competition for other types of projects from firms formerly dependent on Year 2000 business.

3.12 Competition

The market for IT services is highly competitive. Competitors include IT services companies, large international accounting firms and their consulting affiliates, systems consulting and integration firms, temporary employment agencies, other technology companies and client in-house MIS departments. Competitors include international firms as well as national, regional and local firms located in the United States, Europe and India. The company expects that future competition will increasingly include firms with operations in other countries, potentially including countries with lower personnel costs than those prevailing in India. Historically, one of the company's key competitive advantages has been a cost advantage relative to service providers in the United States and Europe. Since wage costs in India are presently increasing at a faster rate than those in the United States, the company's ability to compete effectively will become increasingly dependent on its reputation, the quality of its services, and its expertise in specific markets. Many of the company's competitors have significantly greater financial, technical and marketing resources and generate greater revenue than the company, and there can be no assurance that the company will be able to compete successfully with such competitors and will not lose existing clients to such competitors. The company believes that its ability to compete also depends in part on a number of factors outside its control, including the ability of its competitors to attract, train, motivate and retain highly skilled IT professionals, the price at which its competitors offer comparable services, and the extent of its competitors' responsiveness to client needs.

3.13 Dependence on key personnel

The company's success depends to a significant degree upon continued contributions of members of the company's senior management and other key research and development and sales and marketing personnel. The company generally does not enter into employment agreements with its senior management and other key personnel that provide for substantial restrictions on such persons leaving the company. The loss of any of such persons could have a material adverse effect on the company's business, financial condition and results of operations.

3.14 Potential liability to clients; risk of exceeding insurance coverage

Many of the company's contracts involve projects that are critical to the operations of its clients' businesses and provide benefits that may be difficult to quantify. Any failure in a client's system could result in a claim for substantial damages against the company, regardless of the company's responsibility for such failure. Although the company attempts to limit its contractual liability for damages arising from negligent acts, errors, mistakes or omissions in rendering its services, there can be no assurance the limitations of liability set forth in its service contracts will be enforceable in all instances or will otherwise protect the company from liability for damages. The company maintains general liability insurance coverage, including coverage for errors or omissions; however, there can be no assurance that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against the company that exceed available insurance coverage or changes in the company's insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect the company's results of operations and financial condition.

3.15 Risks associated with possible acquisitions

The company intends to evaluate potential acquisitions and strategic investments on an ongoing basis. As of the date, however, the company has no understanding, commitment or agreement with respect to any material future acquisition or investment. Since the company has not made any acquisitions in the past, there can be no assurance that the company will be able to identify suitable acquisition candidates available for sale at reasonable prices, consummate any acquisition, or successfully integrate any acquired business into the company's operations. Further, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel and clients, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the company's results of operations and financial condition. Under Indian law, except in certain limited circumstances, the company may not make any acquisition of, or investment in, a non-Indian company without RBI and, in most cases, Government of India approval. Even if the company does encounter an attractive acquisition candidate, there can be no assurance that RBI and, if required, Government of India approval can be obtained.

3.16 Risks related to software product sales

In fiscal 1999, the company derived 3.2% of its total revenue from the sale of software products. The development of the company's software products requires significant investments. The markets for the company's primary software product are competitive and currently located in developing countries, and there can be no assurance that such a product will continue to be commercially successful. In addition, there can be no assurance that any new products developed by the company will be commercially successful or that the costs of developing such new products will be recouped. A decrease in the company's product revenues or margins could adversely affect the company's results of operations and financial condition. Additionally, software product revenues typically occur in periods subsequent to the periods in which the costs are incurred for development of such products. There can be no assurance that such delayed revenues will not cause periodic fluctuations of the company's results of operations and financial condition.

3.17 Restrictions on exercise of preemptive rights by ADS holders

Under the Indian Companies Act, 1956 (the "Indian Companies Act"), a company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless such preemptive rights have been waived by three-fourths of the company's shareholders. US holders of ADSs may be unable to exercise preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. The company's decision to file a registration statement will depend on the costs and potential liabilities associated with any such registration statement as well as the perceived benefits of enabling the holders of ADSs to exercise their preemptive rights and any other factors the company considers appropriate at the time. No assurance can be given that the company would file a registration statement under these circumstances. If the company issues any such securities in future, such securities may be issued to the Depositary, which may sell such securities for the benefit of the holders of the ADSs. There can be no assurance as to the value, if any, the Depositary would receive upon the sale of such securities. To the extent that holders of ADSs are unable to exercise preemptive rights granted in respect of the equity shares represented by their ADSs, their proportional interests in the company would be reduced.

3.18 Intellectual property rights

The company relies upon a combination of non-disclosure and other contractual arrangements and copyright, trade secrets and trademark laws to protect its proprietary rights. Ownership of software and associate deliverables created for clients is generally retained by or assigned to the client, and the company does not retain an interest in such software and deliverables. The company also develops foundation and application software products, or software "tools", which are licensed to clients and remain the property of the company. The company has obtained registration of INFOSYS as a trademark in India but not in the United States, and does not have any patents or registered copyrights in the United States. The company currently requires its IT professionals to enter into non-disclosure and assignment of rights agreements to limit use of, access to, and distribution of its proprietary information. There can be no assurance that the steps taken by the company in this regard will be adequate to deter misappropriation of proprietary information or that the company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights.

Although the company believes that its services and products do not infringe upon the intellectual property rights of others, there can be no assurance that such a claim will not be asserted against the company in future. Assertion of such claims against the company could result in litigation, and there can be no assurance that the company would be able to prevail in such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party on commercially reasonable terms. There can be no assurance that the company will be able to protect such licenses from infringement or misuse, or prevent infringement claims against the company in connection with its licensing efforts. The company expects that the risk of infringement claims against the company will increase if more of the company's competitors are able to obtain patents for software products and processes. Any such claims, regardless of their outcome, could result in substantial cost to the company and divert management's attention from the company's operations. Any infringement claim or litigation against the company could, therefore, have a material adverse effect on the company's results of operations and financial condition.

3.19 Control by principal shareholders, officers and directors; anti-takeover provisions

The company's officers and directors, together with members of their immediate families, in the aggregate, beneficially own approximately 31.2% of the company's issued equity shares. As a result, such persons, acting together, will likely still have the ability to exercise significant control over most matters requiring approval by the shareholders of the company, including the election and removal of directors and significant corporate transactions. Such control by the company's officers and directors could delay, defer or prevent a change in control of the company, impede a merger, consolidation, takeover or other business combination involving the company, or discourage a potential acquiror from making a tender offer or otherwise attempting to obtain control of the company.

The Indian Companies Act and the company's Articles of Association (the "Articles") require that: (i) at least two-thirds of the company's directors shall serve for a specified term and shall be subject to re-election by the company's shareholders at the expiration of such terms; and (ii) at least one-third of the company's directors who are subject to re-election shall be up for re-election at each annual meeting of the company's shareholders. In addition, the company's Articles provide that Mr. N. R. Narayana Murthy, one of the company's principal founders and its Chairman of the Board and Chief Executive Officer, shall serve as the company's Chairman of the Board and shall not be subject to re-election as long as he and his relatives, own at least 5% of the company's outstanding equity securities. Furthermore, any amendment to the company's Articles would require the affirmative vote of three-fourths of the company's shareholders. Finally, foreign investment in Indian companies is highly regulated. These provisions could delay, defer or prevent a change in control of the company, impede a business combination involving the company or discourage a potential acquiror from attempting to obtain control of the company.

3.20 Year 2000 compliance

Many existing computer systems, software applications and other control devices use only two digits to identify a year in the date field, without considering the impact of the upcoming change in the century. Others do not correctly process "leap year" dates. As a result, such systems and applications could fail or create erroneous results unless modified so that they can correctly process data related to the year 2000 and beyond. While the company has evaluated each of its IT services and software products and believes that each is substantially Year 2000 compliant, there can be no assurance that the company's IT services and products are or will ultimately be Year 2000 compliant. The company relies on its systems, computer applications and devices to operate and monitor all major aspects of its business, including financial systems (such as general ledger, accounts payable and payroll), customer services, infrastructure, materials requirement planning, master project scheduling, networks and telecommunications systems. Although the company has converted its financial applications software to programs certified by the suppliers as Year 2000 compliant and is currently in the process of modifying and upgrading all other affected systems, there can be no assurance that such modifications and upgrades will be completed in a timely manner at reasonable costs, or that such modifications and upgrades will be able to anticipate all of the problems resulting from the actual impact of the year 2000. The company relies directly and indirectly on systems utilized by its suppliers for telecommunications, utilities, electronic hardware and software applications. Although the company maintains redundant software facilities and satellite communications links, any significant loss of the company's ability to transmit voice and data through satellite and telephone communications would have a material adverse effect on the company's business, results of operations and financial condition. Any failure of these third party suppliers to resolve their Year 2000 problems in a timely manner could disrupt the company's operations, which could have a material adverse effect on the company's business, results of operations and financial condition.

Report of management

The management is responsible for preparing the company's financial statements and related information that appears in this annual report. The management believes that the financial statements fairly reflect the form and substance of transactions, and reasonably present the company's financial condition and results of operations in conformity with United States Generally Accepted Accounting Principles. The management has included, in the company's financial statements, amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The company maintains a system of internal procedures and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded.

KPMG Peat Marwick audits the company's financial statements in accordance with the generally accepted auditing standards and provides an objective, independent review of the company's internal controls and the fairness of its reported financial condition and results of operations.

The board of directors of Infosys has appointed an audit committee composed of outside directors. The committee meets with the management, internal auditors, and the independent auditors to review internal accounting controls and accounting, auditing, and financial reporting matters.

T. V. Mohandas Pai

Bangalore
April 9, 1999

T. V. Mohandas Pai
Senior Vice President
(Finance & Administration)
and Chief Financial Officer

Nandan M. Nilekani
Managing Director, President
and Chief Operating Officer

N. R. Narayana Murthy
Chairman
and Chief Executive Officer

Independent auditors' report

To the Board of Directors and Stockholders
Infosys Technologies Limited

We have audited the accompanying balance sheets of Infosys Technologies Limited (the company) as of March 31, 1999 and 1998, and the related statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended March 31, 1999. 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 generally accepted auditing standards. 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 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 Infosys Technologies Limited as of March 31, 1999 and 1998, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 1999, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1.3 in the accompanying notes to the financial statements, the accounts of Infosys Technologies Limited's wholly owned subsidiary, Yantra Corporation, which were consolidated with the financial statements of the Company prior to April 1, 1998, have been accounted for by the equity method in fiscal 1999.

KPMG Peat Marwick

Bangalore, India
April 9, 1999

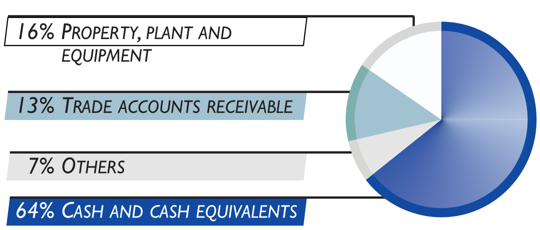
KPMG Peat Marwick

Balance Sheets as of March 31

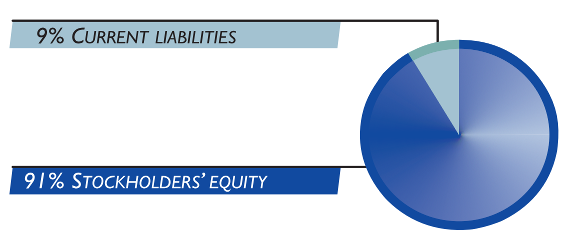
	1999	1998
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 98,874,963	$ 15,419,265
Trade accounts receivable, net of allowances	20,056,678	10,263,084
Prepaid expenses and other current assets	5,735,323	3,751,289
Prepaid income taxes	–	536,969
Total current assets	124,666,964	29,970,607
Property, plant and equipment – net	23,900,313	16,695,503
Deferred tax assets	1,715,375	1,089,948
Investments	177,938	362
Other assets	3,197,006	1,025,605
Total assets	$ 153,657,596	$ 48,782,025
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 75,305	$ 149,086
Client deposits	18,520	190,173
Other accrued liabilities	8,399,800	4,979,306
Income taxes payable	955,797	–
Unearned revenue	4,598,612	–
Total current liabilities	14,048,034	5,318,565
Preferred stock of subsidiary	–	2,317,500
STOCKHOLDERS' EQUITY		
Equity shares, $ 0.32 par value; 50,000,000 shares authorized as of 1999 and 1998; Issued and outstanding – 33,069,400 and 32,034,400 as of 1999 and 1998	8,592,137	4,545,811
Additional paid-in-capital	120,849,511	24,415,920
Accumulated other comprehensive income	(9,100,662)	(7,042,229)
Deferred compensation – Employee Stock Offer Plan	(21,686,799)	(7,831,445)
Loan to trust	–	(936,365)
Retained earnings	40,955,375	27,994,268
Total stockholders' equity	139,609,562	41,145,960
Total liabilities and stockholders' equity	$ 153,657,596	$ 48,782,025

See accompanying notes to financial statements.

ASSETS 1999



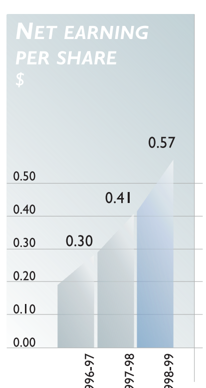
LIABILITIES AND STOCKHOLDERS' EQUITY 1999

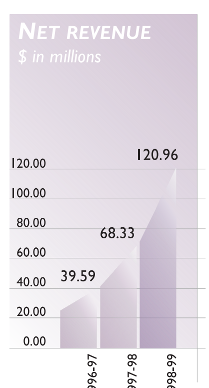


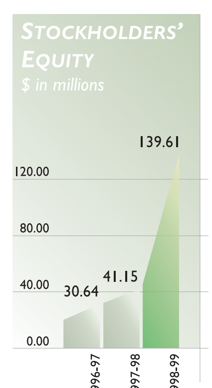
Statements of Income for the years ended March 31

	1999	1998	1997
REVENUE			
Revenue	$ 120,955,226	$ 68,329,961	$ 39,585,919
Cost of revenue	65,331,006	40,156,509	22,615,070
Gross profit	55,624,220	28,173,452	16,970,849
OPERATING EXPENSES			
Selling, general and administrative expenses	16,199,055	13,225,492	7,010,211
Amortization of deferred stock compensation expense	3,645,576	1,046,874	767,926
Compensation arising from stock split	12,906,962	1,519,739	–
Total operating expenses	32,751,593	15,792,105	7,778,137
Operating income	22,872,627	12,381,347	9,192,712
Equity in loss of deconsolidated subsidiary	(2,085,887)	–	–
Other income, net	1,536,998	800,799	769,560
Income before income taxes	22,323,738	13,182,146	9,962,272
Provision for income taxes	4,877,650	770,458	1,320,270
Preferred stock dividends	–	67,500	–
Net income	$ 17,446,088	$ 12,344,188	$ 8,642,002
EARNINGS PER EQUITY SHARE			
Basic	$ 0.57	$ 0.41	$ 0.30
Diluted	$ 0.57	$ 0.41	$ 0.29
Weighted equity shares used in computing earnings per equity share			
Basic	30,689,425	29,787,144	29,036,394
Diluted	30,753,690	30,403,904	29,704,060

See accompanying notes to financial statements.







Statements of Stockholders' Equity

in $

	Equity shares		Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred compensation - Employee Stock Offer Plan	Loan to trust	Retained earnings	Total stockholders' equity
	Shares	Par value							
Balance as of March 31, 1996	29,034,400	$2,309,991	$13,687,140		$(1,990,696)	$(2,253,044)	–	$12,171,165	$23,924,556
Cash dividends declared	–	–	–		–	–	–	(1,131,427)	(1,131,427)
Common stock issued upon exercise of warrants	4,000	279	2,510		–	–	(24,502)	–	(21,713)
Compensation related to stock option grants	–	–	2,022,597		–	(2,022,597)	–	–	–
Amortization of compensation related to stock option grants	–	–	–		–	767,926	–	–	767,926
Comprehensive income									
Net income	–	–	–	$8,642,002	–	–	–	8,642,002	8,642,002
Other comprehensive income									
Translation adjustment	–	–	–	(1,902,597)	–	–	–	–	(1,902,597)
Unrealized gain on investments - net	–	–	–	361,482	–	–	–	–	361,482
Other comprehensive income	–	–	–	(1,541,115)	(1,541,115)	–	–	–	–
Comprehensive income	–	–	–	$7,100,887	–	–	–	–	–
Balance as of March 31, 1997	29,038,400	2,310,270	15,712,247	–	(3,531,811)	(3,507,715)	(24,502)	19,681,740	30,640,229
Stock split	–	2,028,521	–		–	–	–	(2,028,521)	–
Cash dividends declared	–	–	–		–	–	–	(2,003,139)	(2,003,139)
Common stock issued upon exercise of warrants	2,996,000	207,020	1,813,330		–	–	(911,863)	–	1,108,487
Compensation related to stock option grants	–	–	6,890,343		–	(6,890,343)	–	–	–
Amortization of compensation related to stock option grants	–	–	–		–	2,566,613	–	–	2,566,613
Comprehensive income									
Net income	–	–	–	$12,344,188	–	–	–	12,344,188	12,344,188
Other comprehensive income									
Translation adjustment	–	–	–	(3,510,418)	(3,510,418)	–	–	–	(3,510,418)
Comprehensive income	–	–	–	$8,833,770	–	–	–	–	–
Balance as of March 31, 1998	32,034,400	4,545,811	24,415,920	–	(7,042,229)	(7,831,445)	(936,365)	27,994,268	41,145,960

Statements of Stockholders' Equity (contd.)

	Equity shares		Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred compensation – Employee Stock Offer Plan	Loan to trust	Retained earnings	Total stockholders' equity
	Shares	Par value							
Balance as of March 31, 1998	32,034,400	$4,545,811	$24,415,920	–	$(7,042,229)	$(7,831,445)	$(936,365)	$27,994,268	$41,145,960
Stock split	–	3,800,949	–		–	–	–	(3,800,949)	–
Cash dividends declared	–	–	–		–	–	–	(3,152,863)	(3,152,863)
Common stock issued	1,035,000	245,377	66,025,699		–	–	–	–	66,271,076
Compensation related to stock option grants	–	–	30,407,892		–	(30,407,892)	–	–	–
Amortization of compensation related to stock option grants	–	–	–		–	16,552,538	–	–	16,552,538
Comprehensive income									
Net income	–	–	–	$ 17,446,088	–	–	–	17,446,088	17,446,088
Other comprehensive income									
Translation adjustment	-	–	–	(2,058,433)	(2,058,433)	–	–	–	(2,058,433)
Comprehensive income	-	–	–	$ 15,387,655	–	–	–	–	–
Adjustment on deconsolidation of subsidiary	-	–	–		–	–	–	2,468,831	2,468,831
Repayment on loan to trust	-	–	–		–	–	936,365	–	936,365
Balance as of March 31, 1999	33,069,400	$8,592,137	$120,849,511	–	$(9,100,662)	$(21,686,799)	–	$40,955,375	$139,609,562

See accompanying notes to financial statements.

Statements of Cash Flows for the years ended March 31

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 17,446,088	$ 12,344,188	$ 8,642,002
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on sale of property, plant and equipment	–	(2,929)	–
Depreciation	8,521,009	6,121,650	3,034,984
Deferred tax benefit	(625,427)	(707,553)	(249,220)
Gain on sale of investment in deconsolidated subsidiary	(620,958)	–	–
Loss on sale of short-term investments	–	–	374,380
Amortization of deferred stock compensation expense	16,552,538	2,566,613	767,926
Loss relating to deconsolidated subsidiary	2,085,887	–	–
Subsidiary preferred stock dividend	–	67,500	–
Changes in assets and liabilities			
Accounts receivable	(10,113,425)	(5,268,477)	(1,534,731)
Inventories	–	11,458	40,022
Prepaid expenses and other current assets	(2,035,203)	(924,783)	(1,200,316)
Prepaid income taxes	1,492,766	446,890	(591,147)
Accounts payable	(24,459)	23,507	62,203
Client deposits	(171,653)	(6,537)	(65,304)
Unearned revenue	4,598,612	–	–
Other accrued liabilities	3,015,104	2,482,653	134,397
Net cash provided by operating activities	40,120,879	17,154,180	9,415,196
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on property, plant and equipment	(16,123,557)	(7,891,441)	(7,201,749)
Proceeds from sale of property, plant and equipment	5,704	8,079	33,453
Loans to employees	(2,181,715)	(552,526)	(418,790)
Proceeds from sale of investment in deconsolidated subsidiary	1,500,000	–	–
Proceeds from sale of investments in affiliates	–	–	78,819
Proceeds from sale of short-term investments	–	–	2,859,420
Purchase of investments in affiliates	(177,576)	–	–
Net cash used in investing activities	(16,977,144)	(8,435,888)	(4,648,847)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term borrowings	–	–	(1,253,125)
Net proceeds from issuance of equity shares	66,271,076	2,020,350	2,789
Net proceeds from issuance of preferred stock by subsidiary	–	2,250,000	–
Payment of cash dividends	(2,371,673)	(1,467,427)	(1,062,475)
Loan to trust	936,365	(911,863)	–
Net cash provided by (used in) financing activities	64,835,768	1,891,060	(2,312,811)
Effect of exchange rate changes on cash	(2,058,433)	(3,510,418)	(1,902,597)
Effect of deconsolidation on cash	(2,465,372)	–	–
Net increase in cash and cash equivalents during the year	83,455,698	7,098,934	550,941
Cash and cash equivalents at the beginning of the year	15,419,265	8,320,331	7,769,390
Cash and cash equivalents at the end of the year	$ 98,874,963	$ 15,419,265	$ 8,320,331
Supplementary information:			
Cash paid for interest	–	–	$ 172,268
Cash paid for taxes	$ 3,364,318	$ 323,568	$ 1,856,548

See accompanying notes to financial statements.

Notes to financial statements

1. Significant accounting policies

1.1 The company

Infosys Technologies Limited (the "company") is one of India's leading information technology ("IT") services companies. Infosys utilizes an extensive offshore infrastructure to provide managed software solutions to clients worldwide. Headquartered in Bangalore, India, the company has 11 state-of-the-art offshore software development facilities located throughout India that enable it to provide high quality, cost-effective services to clients in a resource-constrained environment. The company's services, which are offered on either a fixed-price, fixed-time frame or a time-and-materials basis, include custom software development, maintenance (including Year 2000 conversion) and re-engineering services as well as dedicated offshore software development centers for certain clients. In addition, the company develops and markets certain software products.

1.2 Basis of preparation of financial statements

The accompanying financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). All amounts are stated in US dollars.

1.3 Principles of consolidation

The financial statements of the company were consolidated with the accounts of its wholly owned subsidiary, Yantra Corporation ("Yantra") during fiscal 1997 and 1998. On October 20, 1998, the company's voting control of Yantra declined to approximately 47%. Accordingly, the company has followed the equity method of accounting for Yantra in fiscal 1999.

The company continues to own all the outstanding common shares of Yantra but has no financial obligations or commitments to Yantra and does not intend to provide Yantra with financial support. Accordingly, no losses subsequent to October 20, 1998 have been recognized by the company. The excess of the company's previously recognized losses over the basis of its investments in Yantra as of October 20, 1998 have been credited to retained earnings.

Yantra was incorporated in the United States in fiscal 1996 for the development of software products in the retail and distribution areas. All inter-company transactions between the company and Yantra have been eliminated.

1.4 Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of expected contract costs to be incurred to complete software development, allowance for doubtful accounts, future obligations under employee benefit plans and useful lives of property, plant and equipment. Actual results could differ from those estimates.

1.5 Revenue recognition

The company derives its revenues primarily from software services and from the licensing of software products. Revenue with respect to time-and-material contracts is recognized as related costs are incurred. Revenue from fixed-price, fixed-time frame contracts is recognized upon the achievement of specified milestones identified in the related contracts, in accordance with the percentage of completion method. Selling, general and administrative expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. The company provides its clients with a three-month warranty for corrections of errors and telephone support for all its fixed-price, fixed-time frame contracts. Costs associated with such services are accrued at the time the related revenue is recorded.

Revenue from licensing of software products is recognized upon shipment of products and fulfillment of acceptance terms, if any, provided that no significant vendor obligations remain and the collection of the related receivable is probable. When the company receives advance payments for software products, such payments are reported as client deposits until all conditions for revenue recognition are met. Maintenance revenue arising due to the sale of software products is deferred and recognized ratably over the term of the agreement, generally 12 months. Revenue from client training, support, and other services arising due to the sale of software products is recognized as the service is performed.

1.6 Cash and cash equivalents

The company considers all highly liquid investments with a remaining maturity at the date of purchase/ investment of three months or less to be cash equivalents. Cash and cash equivalents consist of cash, cash on deposit with banks, marketable securities and deposits with corporations.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost. The company computes depreciation for all property, plant and equipment using the straight-line method. The estimated useful lives of assets are as follows:

Buildings	15 years
Furniture and fixtures	5 years
Computer equipment	2-5 years
Plant and equipment	5 years
Vehicles	5 years

The cost of software purchased for use in software development and services is charged to the cost of revenues at the time of acquisition. The third party software expense in fiscal 1999, 1998, and 1997 was $ 3,538,590, $ 2,381,626, and $ 1,102,733, respectively.

Deposits paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under Capital work-in-progress.

1.8 Impairment of long-lived assets

The company evaluates the recoverability of its long-lived assets and certain identifiable intangibles, if any, whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceed the fair value of the assets. Assets to be disposed are reported at the lower of the carrying value or the fair value less cost to sell.

1.9 Research and development

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is achieved. Software product development costs incurred subsequent to the achievement of technological feasibility have not been significant and have been expensed as incurred.

1.10 Foreign currency translation

The accompanying financial statements are reported in US dollars. The functional currency of the company is the Indian rupee. The translation of the Indian rupee into US dollars is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date, and for revenue and expense accounts using a monthly simple average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as *other comprehensive income*, a separate component of stockholders' equity. The method for translating expenses of overseas operations depends upon the funds used. If the payment is made from a rupee denominated bank account, the exchange rate prevailing on the date of the payment would apply. If the payment is made from a foreign currency, i.e., non-rupee denominated account, the translation into rupees is performed at the average monthly exchange rate.

1.11 Foreign currency transactions

The company enters into foreign exchange forward contracts to limit the effect of exchange rate changes on its foreign currency receivables. Gains and losses on these contracts are recognized as income or expense in the statements of income as incurred, over the life of the contract.

1.12 Earnings per share

On January 1, 1998, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". In accordance with SFAS No. 128, the basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for options and warrants, except where the results would be anti-dilutive.

1.13 Income taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred tax assets and liabilities is recognized as income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is uncertain.

1.14 Fair value of financial instruments

The carrying amounts reflected in the balance sheets for cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short maturities of these instruments.

1.15 Concentration of risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash equivalents and trade receivables. The company's cash resources are invested with corporations, financial institutions and banks with high investment grade credit ratings. Limitations have been established by the company as to the maximum amount of cash that may be invested with any such single entity. To reduce its credit risk, the company performs ongoing credit evaluations of clients.

1.16 Retirement benefits to employees

1.16.1 Gratuity

In accordance with the Indian law, the company provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering all employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee's salary and the years of employment with the company. Until March 31, 1997, the company contributed each year to a gratuity fund maintained by the Life Insurance Corporation of India based upon actuarial valuations. No additional contributions were required to be made by the company in excess of the unpaid contributions to the plan.

Effective April 1, 1997, the company established the Infosys Technologies Limited Employees' Group Gratuity Fund Trust (the "Gratuity Fund Trust"). Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which the company makes contributions to the Gratuity Fund Trust. Trustees administer the contributions made to the Gratuity Fund Trust. The funds contributed to the Gratuity Fund Trust are invested in specific securities as mandated by the law and generally consist of federal and state government bonds and the debt instruments of government-owned corporations.

1.16.2 Superannuation

Apart from being covered under the Gratuity Plan described above, the senior officers of the company are also participants in a defined contribution benefit plan maintained by the company. The plan is termed the superannuation plan to which the company makes monthly contributions based on a specified percentage of each covered employee's salary. The company has no further obligations under the plan beyond its monthly contributions.

1.16.3 Provident Fund

In addition to the above benefits, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to 12% of the covered employee's salary. Until July 1996, the company contributed to the employees' provident fund maintained by the Government of India. Effective August 1996, the company established a provident fund trust to which a part of the contributions are made each month. The remainder of the contributions are made to the Government's provident fund. The company has no further obligations under the plan beyond its monthly contributions.

1.17 Investments

Investments where the company controls between 20% and 50% of the voting interest, are accounted for using the equity method. Investment securities in which the company controls less than 20% voting interest are currently classified as "available-for-sale" securities.

Investment securities designated as "available-for-sale" are carried at fair value based on quoted market prices, with unrealized gains and losses, net of deferred income taxes, reported as a separate component of stockholders' equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in the statements of income. The cost of securities sold is based on the specific identification method. Interest and dividend on securities classified as "available-for-sale" are included in interest income.

1.18 Stock-based compensation

The company uses the intrinsic value-based method of Accounting Principles Board ("APB") Opinion No. 25 to account for its employee stock-based compensation plan. The company has therefore adopted the pro forma disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation".

2. Notes to financial statements

2.1 Cash and cash equivalents

The cost and fair values for cash and cash equivalents as of March 31, 1999 and 1998 are as follows:

	Cost and fair value
1999	
Cash and cash equivalents	
Cash and bank deposits	$ 96,119,672
Deposits with corporations	2,755,291
	$ 98,874,963
1998	
Cash and cash equivalents	
Cash and bank deposits	$ 13,576,206
Deposits with corporations	1,843,059
	$ 15,419,265

2.2 Accounts receivable

The accounts receivable, as of March 31, 1999, amounted to \$ 20,056,678, net of allowance for doubtful accounts of \$ 301,930. The accounts receivable, as of March 31, 1998, amounted to \$ 10,263,084, net of allowance for doubtful accounts of \$ 393,799. The age profile is as given below.

in %

Period in days	1999	1998
0 – 30	58.8	61.5
31 – 60	24.5	29.4
61 – 90	10.8	6.3
More than 90	5.9	2.8
	100.0	100.0

2.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	1999	1998
Rent deposits	\$ 1,403,445	\$ 1,364,372
Deposits with government organizations	172,386	53,675
Loans to employees	1,983,319	895,971
Prepaid expenses	2,120,036	434,999
Other deposits	56,137	1,002,272
	\$ 5,735,323	\$ 3,751,289

Other deposits represent advance payments to vendors for the supply of goods and rendering of services. Deposits with government organizations relate principally to leased telephone lines and electricity supplies.

2.4 Property, plant and equipment – net

Property, plant and equipment consist of the following:

	1999	1998
Land	\$ 2,580,924	\$ 1,215,973
Buildings	6,831,097	4,903,049
Furniture and fixtures	4,966,929	3,331,759
Computer equipment	18,290,126	12,499,330
Plant and machinery	7,375,578	4,955,100
Vehicles	41,684	44,493
Capital work-in-progress	3,531,936	1,854,440
	43,618,274	28,804,144
Accumulated depreciation	(19,717,961)	(12,108,641)
	\$ 23,900,313	\$ 16,695,503

Depreciation expense amounted to \$ 8,521,009, \$ 6,121,650 and \$ 3,034,984 for fiscal years 1999, 1998 and 1997 respectively.

2.5 Other assets

Other assets mainly represent the non-current portion of loans to employees.

2.6 Related parties

The company grants loans to employees for acquiring assets such as property and cars. Such loans are repayable over fixed periods ranging from 1 to 100 months. The rates at which the loans have been made to employees vary between 0% to 4%. No loans have been made to employees in connection with equity issues. The loans are generally secured by the assets acquired by the employees. As of March 31, 1999 and 1998, amounts receivable from officers amounting to $ 265,669 and $ 227,242, are included in prepaid expenses and other current assets and other assets in the accompanying balance sheets.

The required repayments of loans by employees are as detailed below.

	1999	1998
1999	–	$ 895,971
2000	$ 1,983,319	294,215
2001	953,440	241,304
2002	755,672	147,898
2003	528,918	104,415
2004	394,854	–
Thereafter	564,122	237,773
Total	$ 5,180,325	$ 1,921,576

The estimated fair value amounts of the related party receivables at the balance sheet date, amounts to $ 4,858,797 and $ 1,653,373 as of March 31, 1999 and 1998. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgement is required to develop the estimates of fair value. Thus, the estimates provided herein are not necessarily indicative of the amounts that the company could realize in the market.

2.7 Other accrued liabilities

	1999	1998
Accrued compensation to staff	$ 3,116,559	$ 1,853,974
Accrued dividends	2,146,039	1,364,849
Provision for post sales client support	829,964	311,799
Others	2,307,238	1,448,684
	$ 8,399,800	$ 4,979,306

Accrued dividends represent dividends recommended and proposed by the board of directors, subject to the approval of the shareholders.

2.8 Employee post-retirement benefits

2.8.1 Gratuity benefits

The following table sets forth the funded status of the plan, and the amounts recognized in the company's balance sheets as of March 31, 1999 and 1998.

	1999	1998
Change in benefit obligation		
Projected Benefit Obligations (PBO) at the beginning of the year	$ 1,804,504	$ 1,356,650
Effect of changes in assumptions used	7,370,968	–
Service cost	657,328	330,318
Interest cost	906,157	189,931
Benefits paid	(73,983)	(72,395)
Effect of exchange rate changes	(113,905)	–
PBO at the end of the year	$ 10,551,069	$ 1,804,504

	1999	1998
Change in plan assets		
Fair value of plan assets at the beginning of the year	$ 680,499	$ 301,232
Effect of exchange rate changes	(48,977)	–
Actual return on plan assets	179,004	41,892
Employer contributions	1,760,792	409,770
Benefits paid	(73,983)	(72,395)
Plan assets at the end of the year	$ 2,497,335	$ 680,499
Funded status	$ (8,053,734)	$ (1,124,005)
Excess of actual over estimated return on plan assets	(41,723)	(129,192)
Unrecognized actuarial gain	–	(7,219)
Unrecognized transitional obligation	830,826	985,058
Unrecognized actuarial cost	7,252,766	–
Net amount recognized	$ 11,865	$ (275,358)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	$ (11,865)	$ 275,358

Net gratuity cost for fiscal 1999 and 1998 included the following components:

	1999	1998
Service cost	$ 657,328	$ 330,318
Interest cost	906,157	189,931
Expected return on assets	(143,038)	(49,111)
Amortization	63,910	70,361
Net gratuity cost	$ 1,484,357	$ 541,499

The assumptions used in accounting for the Gratuity Plan in fiscal 1999 and 1998 are set out below.

	1999	1998
Discount rate	10%	14%
Rate of increase in compensation levels	12%	7.5%
Rate of return on plan assets	10%	12%

As the assumed rates used above have a significant effect on the amounts reported, the company has assessed these rates as compared with prevalent industry standards and its projected long-term plans of growth.

In fiscal 1997, the company contributed $ 161,606 to the gratuity plan managed by the Life Insurance Corporation of India.

2.8.2 Superannuation benefits

The company contributed $ 145,051, $ 99,206 and $ 64,695 to the superannuation plan in fiscal 1999, 1998 and 1997, respectively.

2.8.3 Provident fund benefits

In addition, the company contributed $ 812,117, $ 537,663 and $ 237,833 to the provident fund plan in fiscal 1999, 1998 and 1997, respectively.

2.9 Preferred stock of subsidiary

In September 1997, the company's subsidiary, Yantra, sold 5,000,000 shares of Series A Convertible Preferred Stock, par value $ 0.01 per share ("Series A Convertible Preferred") at $ 0.75 per share for $ 3,750,000 in cash. The related offering costs of $ 49,853 were offset against the proceeds of the issue. Of these, 2,000,000 shares were issued to the company and 3,000,000 shares were issued to third party investors. The preferred stock issued to the company is eliminated upon consolidation. Preferred stock issued to third party investors is reported in the balance sheet as preferred stock of subsidiary.

In August 1998, Yantra sold 4,800,000 shares of Series B Convertible Preferred Stock, par value $ 0.01 per share ("Series B Convertible Preferred") at $ 1.25 per share for $ 6,000,000 in cash to venture capitalists. The related offering costs of $ 44,416 were offset against the proceeds of the issue. In connection with this sale, Yantra issued warrants to purchase 810,811 shares of Series B-1 Convertible Preferred Stock, par value $ 0.01 per share ("Series B-1 Convertible Preferred"), at $ 0.01 per share for $ 8,108 in cash. Such warrants are immediately exercisable and expire in seven years. The exercise price of the warrants is based upon the then current market price of the Series B-1 Convertible Preferred at the time of exercise.

The holders of Series A Convertible Preferred are entitled to the following rights, privileges and restrictions:

Holders of Series A Convertible Preferred vote with holders of common stock on an as-converted basis, except as otherwise required by Delaware law. The Series A Convertible Preferred are convertible into common stock at a 1:1 ratio (subject to certain adjustments): (i) automatically in the event of an initial public offering with gross proceeds of $ 10,000,000 or more; or (ii) at any time at the holder's option. The holders of Series A Convertible Preferred are entitled to a 6% cumulative dividend ($ 0.045 per share) and to receive additional dividends at the same rate of dividends, if any, declared and paid on the common stock, calculated on an as-converted basis. Upon a liquidation or sale of Yantra, holders of the Series A Convertible Preferred are entitled to a liquidation preference of $ 0.75 per share plus accrued and unpaid dividends; and any remaining assets will be distributed to holders of the common stock. The Series A Convertible Preferred is redeemable at the election of holders of 75% of the outstanding shares of Series A Convertible Preferred at any time after September 29, 2004 at a redemption price of $ 0.75 per share plus accrued but unpaid dividends.

The holders of Series B and B-1 Convertible Preferred are entitled to similar rights, privileges and restrictions as that of Series A Convertible Preferred.

In October 1998, Infosys sold 1,363,637 shares of Series A Convertible Preferred in Yantra, having a cost basis of $ 879,042 to a third party investor for $ 1,500,000 thereby recognizing a gain of $ 620,958 and reducing its voting interest in Yantra to approximately 47%. The company presently accounts for Yantra by the equity method. De-consolidation of Yantra has resulted in a credit to the company's retained earnings of an amount of $ 2,468,831 representing the excess of Yantra's losses previously recognized by the company, amounting to $ 4,445,903, over the company's residual investment basis in Yantra amounting to $ 1,977,072. The net assets and liabilities of Yantra as of March 31, 1998 and October 20, 1998 (unaudited) respectively, are presented below:

	October 20, 1998 (unaudited)	March 31, 1998
Preferred stock (net of Infosys' holdings)	$ 9,485,228	$ 2,317,500
Current liabilities	1,288,913	325,947
Total liabilities	10,774,141	2,643,447
Current assets	7,422,303	2,836,372
Property, plant and equipment	491,044	243,196
Other assets	391,963	10,314
Total assets	$ 8,305,310	$ 3,089,882
Net (Assets)/Liabilities	$ 2,468,831	$ (446,435)

2.10 Stockholders' equity

The company has only one class of capital stock referred to herein as equity shares. In fiscal 1999 and 1998, the board of directors authorized a two-for-one stock split of the company's equity shares effected in the form of a stock dividend. All references in the financial statements to number of shares, per share amounts and market prices of the company's equity shares have been retroactively restated to reflect the increased number of shares outstanding resulting from the stock split.

2.11 Equity shares

Voting

Each holder of equity shares is entitled to one vote per share.

Dividends

Should the company declare and pay dividends, such dividends will be paid in Indian Rupees and is paid pro rata from the date of holding such shares.

Indian law mandates that any dividend be declared out of distributable profits only after the transfer of up to 10% of net income computed in accordance with current regulations to a general reserve. Also, the remittance of dividends outside India is governed by Indian law on foreign exchange. Such dividend payments are also subject to applicable withholding taxes. The company declared a cash dividend of $ 3,152,863, $ 2,003,139 and $ 1,131,427 for fiscal 1999, 1998 and 1997, respectively.

Liquidation

In the event of any liquidation of the company, the holders of common stock shall be entitled to receive all of the remaining assets of the company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of shares of equity shares held by the shareholders.

Stock options

There are no voting, dividend or liquidation rights to the holders of warrants issued under the company's stock option plan.

2.12 Other income, net

Other income, net, consists of the following:

	1999	1998	1997
Interest income and others	$ 916,040	$ 526,508	$ 1,035,749
Gain on sale of investment in subsidiary	620,958	–	–
Income from sale of special import licenses	–	274,291	280,459
Interest expense	–	–	(172,268)
Realized loss on sale of investments	–	–	(374,380)
	$ 1,536,998	$ 800,799	$ 769,560

2.13 Operating leases

The company has various operating leases for office buildings that are renewable on a periodic basis at its option. Rental expense for operating leases for fiscal years 1999, 1998 and 1997 were $ 1,770,413, $ 1,432,447 and $ 679,705, respectively. The operating leases are can be cancelled at the company's option.

2.14 Research and development

Selling, general and administrative expenses in the accompanying statements of income include research and development expenses of $ 2,819,326, $ 1,777,703 and $ 2,092,368, for fiscal years 1999, 1998 and 1997, respectively.

2.15 Employees Stock Offer Plan

1994 Employees Stock Offer Plan. In September 1994, the company established the Employees Stock Offer Plan ("ESOP") which provides for the issuance of 3,000,000 warrants (as adjusted for the stock split effective June 1997 and December 1998) to eligible employees. The warrants were issued to an employee welfare trust (the "Trust") at Re.1 each. The warrants were purchased by the Trust using the proceeds of a loan obtained from the company. The Trust holds the warrants and transfers them to eligible employees. The warrants are transferred to employees at Re.1 each and each warrant entitles the holder to purchase one of the company's equity shares at a price of Indian Rs.100 per share. The warrants and the equity shares received upon the exercise of warrants are subject to a five-year aggregate vesting period from the date of issue of warrants to employees. The warrants expire upon the earlier of five years from the date of issue or September 1999. The fair market value of each warrant is the market price of the underlying equity shares on the date of the grant.

In 1997, in anticipation of a share dividend to be declared by the company, the Trust exercised all warrants held by it and converted them into equity shares with the proceeds of a loan obtained from the company. In connection with the warrant exercise and the share dividend, on an adjusted basis, 1,505,600 equity shares were issued to employees of the company who exercised stock purchase rights and 1,494,400 equity shares were issued to the Trust for future issuance to employees pursuant to the ESOP. Following such exercise, there were no longer any rights to purchase equity shares from the company in connection with the ESOP. Only equity shares held by the Trust remained for future issues to employees, subject to vesting provisions. The equity shares acquired upon the exercise of the warrants vests 100% upon the completion of five years of service. The warrant holders were entitled to exercise early, but the shares received are subject to the five year vesting period. As of March 31, 1999, the company's outstanding equity shares included 218,800 shares held by the Trust of which 164,000 were allotted to employees, subject to vesting provisions and have been included in the calculation of diluted earnings per share. The 54,800 equity shares reserved for future grants have not been considered outstanding in the diluted earnings per share calculations. The warrants allotted and the underlying equity shares are not subject to any repurchase obligations by the company.

The company has elected to use the intrinsic value-based method of APB Opinion No. 25 to account for its employee stock-based compensation plan. During the years ended March 31, 1999, 1998 and 1997, the company recorded deferred compensation of $ 30,407,892, $ 6,890,343 and $ 2,002,597, respectively, for the difference, on the grant date, between the exercise price and the fair value as determined by quoted market prices of the common stock underlying the warrants. The deferred compensation is amortized on a straight-line basis over the vesting period of the warrants/equity shares.

In fiscal 1998, the company declared a stock split of two equity shares for each equity share outstanding in the form of a stock dividend to all its shareholders including participants in the ESOP. Under the terms of the ESOP, the additional equity shares issued to ESOP participants as a result of the stock dividend were not subject to vesting. Consequently, the amortization of deferred stock compensation of $ 1,519,739 relating to these shares was accelerated at the time of the stock dividend. Similarly, in fiscal 1999, the company declared a stock split of two equity shares for each equity share outstanding to all its shareholders including participants in the ESOP in the form of a stock dividend and consequently recognized an accelerated compensation charge at the time of the stock dividend amounting to $ 12,906,962.

1998 Employees Stock Offer Plan. The company's 1998 stock offer plan provides for the grant of non-statutory stock options and incentive stock options to employees of the company. The establishment of the 1998 plan was approved by the board of directors in December 1997 and by the shareholders in January 1998. The Government of India has approved the 1998 plan, subject to a limit of $ 50 million on the aggregate market value of the equity shares reserved pursuant to the 1998 plan. Accordingly, the total equity shares reserved for issuance may be reduced by the board of directors from time to time to comply with the Government of India's $ 50 million limit. A total of 800,000 equity shares are currently reserved for issuance pursuant to the 1998 plan. Unless terminated sooner, the 1998 plan will terminate automatically in January 2008. All options under the 1998 plan will be exercisable for equity shares represented by American Depositary Shares (ADSs). The 1998 plan may be administered by the board of directors or a committee of the board. Options to acquire an aggregate of 106,500 equity shares were granted at an exercise price equal to the Initial Public Offering (IPO) issue price concurrent with the company's IPO in the United States.

The company has adopted the pro forma disclosure provisions of SFAS No. 123. Had compensation cost for the company's stock-based compensation plan been determined in a manner consistent with the fair value approach described in SFAS No. 123, the company's net income and basic earnings per share as reported would have been reduced to the pro forma amounts indicated below:

		1999	1998	1997
Net income	As reported	$ 17,446,088	$ 12, 344,188	$ 8,642,002
	Adjusted pro forma	16,964,703	12,067,107	8,488,121
Basic earnings per share	As reported	0.57	0.41	0.30
	Adjusted pro forma	$ 0.55	$ 0.41	$ 0.29

The fair value of each warrant is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	1999	1998	1997
Dividend yield %	0.1%	0.1%	0.1%
Expected life	5 years	5 years	5 years
Risk free interest rates	10.8%	10.8%	10.8%
Volatility	90.0%	90.0%	90.0%

Activity in the warrants/equity shares held by the 1994 and 1998 Employees Stock Offer Plan during the periods is as follows:

	1999		1998		1997	
	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price
1994 Option plan:						
Outstanding at the beginning of the year	518,600		1,501,600		1,024,400	
Granted	992,200	$ 1.18	553,600	$ 0.69	498,400	$ 0.71
Forfeited	(18,200)	$ 1.18	(35,000)	$ 0.69	(17,200)	$ 0.71
Exercised	(1,328,600)		(1,501,600)		(4,000)	–
Outstanding at the end of the year	164,000		518,600	–	1,501,600	
Exercisable at the end of the year			–		–	
Weighted-average fair value of grants during the year at less than market		$ 36.85		$ 7.33		$ 4.78
1998 Option plan:						
Outstanding at the beginning of the year	–		–		–	
Granted	106,500	$ 68.00	–	–	–	–
Forfeited	–	–	–	–	–	–
Exercised	–		–		–	–
Outstanding at the end of the year	106,500		–	–	–	
Exercisable at the end of the year			–		–	
Weighted-average fair value of grants during the year		$ 68.00		–		–

The following table summarizes information about stock options outstanding as of March 31, 1999:

	Outstanding			Exercisable	
Range of exercise Price	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of shares arising out of options	Weighted average exercise price
$ 0.69–$ 68.00	270,500	3.63 years	$ 27.69	270,500	$ 27.69

2.16 Income taxes

The provision for income taxes was composed of:

	1999	1998	1997
Current taxes			
Domestic taxes	$ 777,351	$ 803,116	$ 1,269,490
Foreign taxes	4,725,726	674,895	300,000
	5,503,077	1,478,011	1,569,490
Deferred taxes			
Domestic taxes	(625,427)	(707,553)	(249,220)
Foreign taxes	–	–	–
	(625,427)	(707,553)	(249,220)
Aggregate taxes	$ 4,877,650	$ 770,458	$ 1,320,270

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the financial statement items that created these differences are:

	1999	1998	1997
Deferred tax assets:			
Property, plant and equipment	$ 2,315,375	$ 1,089,948	$ 382,395
Net operating loss in Yantra	–	558,000	94,000
	2,315,375	1,647,948	476,395
Less : Valuation allowance	(600,000)	(558,000)	(94,000)
Net deferred tax assets	$ 1,715,375	$ 1,089,948	$ 382,395

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the company will realize the benefits of those deductible differences, net of the existing valuation differences at March 31, 1999. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The difference in net deferred tax expense (benefit) during fiscal years 1999, 1998 and 1997 has been allocated as follows:

	1999	1998	1997
Deferred tax expense/ (benefit) allocated to:			
Continuing operations	$ (625,427)	$ (707,553)	$ (249,220)
Stockholders' equity –			
Unrealized gain on investment	–	–	307,473
	$ (625,427)	$ (707,553)	$ 58,253

	1999	1998	1997
Net income before taxes	$ 22,323,738	$ 13,182,146	$ 9,962,272
Enacted tax rates in India	35.0%	35.0%	43.0%
Computed expected tax expense	7,813,308	4,613,751	4,283,777
Less : Tax effect due to non-taxable			
export income	(7,680,942)	(4,493,920)	(3,816,452)
Others	19,558	(355,821)	277,594
Effect of tax rate change	–	(71,143)	(28,738)
Effect of prior period tax adjustments	–	402,696	304,089
Provision for Indian income tax	151,924	95,563	1,020,270
Effect of tax on foreign income	3,701,898	674,895	300,000
Effect of prior period foreign tax adjustments	1,023,828	–	–
Total current taxes	$ 4,877,650	$ 770,458	$ 1,320,270

The provision for foreign taxes is due to income taxes payable overseas, principally in the United States.

At present, in India, profits from export activities are deductible from taxable income. Further, most of the company's operations come from “100% export oriented units”, which are entitled to a tax holiday for a period of ten years from the date of commencement of operations.

2.17 Earnings per share

The following is a reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share:

	1999	1998	1997
Basic earnings per equity share – weighted average number of common shares outstanding	30,689,425	29,787,144	29,036,394
Effect of dilutive common equivalent shares – stock options outstanding	64,265	616,760	667,666
Diluted earnings per equity share – weighted average number of common shares and common equivalent shares outstanding	30,753,690	30,403,904	29,704,060

2.18 Lines of credit

The company has a line of credit from its bankers for its working capital requirement of $ 1,200,000, bearing interest at prime lending rates as applicable from time to time. As of March 31, 1999, the prime lending rate for all its bankers was 13.5%. This facility is secured by inventories and accounts receivable. The line of credit contains certain financial covenants and restrictions on indebtedness and is renewable every 12 months. As of March 31, 1999, the company had no balance outstanding under this facility.

2.19 Financial instruments

Foreign exchange forward contracts

The company enters into foreign exchange forward contracts to offset the foreign currency risk arising from the accounts receivable denominated in currencies other than the Indian rupee, primarily the US dollar.

The counterparty to the company's foreign currency forward contracts is generally a bank. The company considers that risks or economic consequences of non-performance by the counterparty are not material.

There were no significant foreign exchange gains and losses for the years 1999, 1998 and 1997. The table, below, summarizes - by currency - the contractual amounts of the company's open foreign exchange forward contracts as of March 31, 1999, 1998 and 1997. The “sell” amounts represent the Indian rupee equivalent of contracts to sell foreign currencies.

Year-end	Type of contract	Currency	Contract amount
1999	Sell	US dollars	–
1998	Sell	US dollars	$ 3,800,000
1997	Sell	US dollars	$ 2,400,000

All the above contracts mature within a period of one year. The fair value of the foreign currency contracts as of March 31, 1998 and 1997 was $ 3,716,000 and $ 2,434,000 respectively.

2.20 Segment reporting

2.20.1 Revenue by geographic area

	1999	1998	1997
North America	$ 99,203,989	$ 56,211,753	$ 31,057,917
Europe	11,302,791	6,179,621	3,256,502
India	2,051,492	1,799,368	3,921,741
Rest of the world	8,396,954	4,139,219	1,349,759
	$ 120,955,226	$ 68,329,961	$ 39,585,919

2.20.2 Significant clients

One client accounted for 10.5% and 15.1% of the total revenue in 1998 and 1997. As of March 31, 1999, the accounts receivable from that client was $ 1,133,189. The largest client accounted for 6.4% of the total revenue in 1999. As of March 31, 1999, the accounts receivable from this client was $ 1,726,880.

2.21 Year 2000

Certain organizations anticipate that they will experience operational difficulties at the beginning of the Year 2000 as a result of operational computer programs using two digits rather than four to define the applicable year. The company's plan for the Year 2000 calls for: compliance verification with external vendors supplying the company software; verifying compliance by the in-house engineering and manufacturing software tools; verifying compliance by the software for the company's products for the Year 2000; and communication with significant suppliers to determine the readiness of these third parties for compliance with the Year 2000 problem.

Any Year 2000 compliance problems of the company or of its clients or of suppliers can have a material adverse effect on the company's business, financial condition and on the results of the company's operations. During the past three years, the company completed an effort to upgrade its financial systems to well-known commercial products that, according to their suppliers, are Year 2000 compliant. The company has received confirmations from its primary suppliers indicating that they are either Year 2000 compliant or have plans in place to ensure readiness. As part of the company's assessment, the company is evaluating the level of validation required of the third parties to ensure their Year 2000 readiness.

To date, the company has not encountered any material Year 2000 issues concerning its computer programs. The company plans to complete its Year 2000 research and testing by early 1999. All costs associated with carrying out the company's plan for the Year 2000 problem are being expensed as incurred. The costs associated with preparation for the Year 2000 remediation are not expected to have a material adverse effect on the company's business, financial condition and the results of operations. Nevertheless, there is an uncertainty concerning the potential costs and effects associated with any Year 2000 compliance.

2.22 Commitments and contingencies

The company has various letters of credit outstanding to different vendors totaling $ 948,583 as of March 31, 1997. The letters of credit are generally established for the import of hardware, software and other capital items.

The company has outstanding performance guarantees for various statutory purposes totaling $ 760,329, $ 438,429 and $ 556,393 as of March 31, 1999, 1998 and 1997 respectively. These guarantees are generally provided to governmental agencies.

2.23 Litigation

The company is subject to legal proceedings and claims which have arisen in the ordinary course of its business. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial position of the company.

2.24 Recent accounting pronouncements

The American Institute of Certified Public Accountants recently issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 requires that certain costs related to the development of software for internal-use be capitalized or amortized over the estimated useful life of the software. SOP 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998. The company estimates that all software acquired for internal use has a relatively short useful life, usually less than a year. The company, therefore, currently charges, to income, the cost of acquiring such software, entirely at the time of acquisition. The company does not believe that adopting the provisions of SOP 98-1 will have a significant impact on its financial statements.

2.25 Quarterly financial data (unaudited)

in $

Quarter ended		June 30	September 30	December 31	March 31	Total
Fiscal 1999:						
Net revenue		23,665,088	28,237,129	33,041,304	36,011,705	120,955,226
Operating income		6,049,541	8,181,651	10,810,441	(2,169,006)	22,872,627
Net income		4,775,766	6,159,382	9,581,679	(3,070,739)	17,446,088
Earnings per share:						
Basic		0.16	0.20	0.31	(0.10)	0.57
Diluted		0.16	0.20	0.31	(0.10)	0.57
Equity share price	– high	29.50	31.92	34.92	81.46	81.46
	– low	22.32	25.51	26.06	34.69	22.32
Fiscal 1998:						
Net revenue		12,791,408	16,849,466	18,771,524	19,917,563	68,329,961
Operating income		2,528,415	3,545,491	2,845,120	3,462,321	12,381,347
Net income		2,170,029	3,634,370	2,709,337	3,830,452	12,344,188
Earnings per share:						
Basic		0.07	0.13	0.09	0.12	0.41
Diluted		0.07	0.13	0.09	0.12	0.41
Equity share price	– high	13.35	22.07	20.32	23.12	23.12
	– low	7.07	13.30	14.24	13.67	7.07
Fiscal 1997:						
Net revenue		7,442,914	9,515,206	10,326,195	12,301,604	39,585,919
Operating income		1,123,276	2,600,252	2,091,089	3,378,095	9,192,712
Net income		1,020,570	2,389,326	2,263,700	2,968,406	8,642,002
Earnings per share:						
Basic		0.04	0.08	0.08	0.10	0.30
Diluted		0.03	0.08	0.08	0.10	0.29
Equity share price	– high	5.07	5.00	5.32	8.20	8.20
	– low	3.33	4.42	4.44	5.33	3.33

- The third quarter of fiscal 1998 and the fourth quarter of fiscal 1999 includes charges of $ 1.52 million and $ 12.91 million respectively due to compensation charges arising out of stock split.
- Changes in estimates in the fourth quarter of fiscal 1999 includes a charge of $ 1.0 million ($ 0.03 per share) resulting from a change in the effective income tax rate for the period.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

(Mark One)

☐ Registration statement pursuant to section 12(b) or (g) of the Securities Exchange Act of 1934

☒ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended March 31, 1999

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition period from ______to ________

Commission File Number 333-72195

INFOSYS TECHNOLOGIES LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

Bangalore, Karnataka, India
(Jurisdiction of incorporation or organization)

Electronics City, Hosur Road,
Bangalore, Karnataka
India 561 229
+91-80-852-0261
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	Not Applicable

Securities registered pursuant to Section 12(g) of the Act:

American Depositary Shares,
each represented by one-half of one Equity Share, par value Rs. 10 per share.
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
Not Applicable
(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 33,069,400 Equity Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes .... No ....x...........

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 .... Item 18 ....x...........

Currency of Presentation and Certain Defined Terms

Unless the context otherwise requires, references herein to the "company" or to "Infosys" are to Infosys Technologies Limited, a limited liability company organized under the laws of the Republic of India. References to "U.S." or "United States" are to the United States of America, its territories and its possessions. References to "India" are to the Republic of India. Yantra Corporation, a Delaware Corporation ("Yantra"), in which the company holds a minority interest, is considered a subsidiary of the company for purposes of Indian GAAP. "Infosys" is registered Indian trademark of the company. All other trademarks or tradenames used in this Annual Report on Form 20-F ("Annual Report") are the property of their respective owners.

In this Annual Report, references to "$" or "Dollars" or "U.S. Dollars" are to the legal currency of the United States and references to "Rs" or "Rupees" or "Indian Rupees"" are to the legal currency of India. The company's financial statements are presented in Indian Rupees and translated into U.S. Dollars and are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). References to "Indian GAAP" are to Indian generally accepted accounting principles. Except as otherwise specified, financial information is presented in Dollars. References to a particular "fiscal" year are to the company's fiscal year ended March 31 of such year.

Unless otherwise specified herein, financial information has been converted into Dollars at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank (the "Noon Buying Rate") on March 31, 1999, which was Rs. 42.35 per $1.00. For the convenience of the reader, this Annual Report contains translations of certain Indian rupee amounts into U.S. Dollars which should not be construed as a representation that such Indian Rupee or U.S. Dollar amounts referred to herein could have been, or could be, converted to U.S. Dollars or Indian Rupees, as the case may be, at any particular rate, the rates stated below, or at all. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. For historical information regarding rates of exchange between Indian rupees and U.S. Dollars, see "Selected Financial Data—Exchange Rates."

Forward-Looking Statements May Prove Inaccurate

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE HEREOF. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN THE COMPANY'S PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") FROM TIME TO TIME.

Part I

Item 1. Description of Business

1.1 Company Overview

The company, one of India's leading information technology ("IT") services companies, utilizes an extensive non-U.S. based ("offshore") infrastructure to provide managed software solutions to clients worldwide. Headquartered in Bangalore, India, the company has eleven state-of-the-art offshore software development facilities located throughout India that enable it to provide high quality, cost-effective services to clients in a resource-constrained environment. The company's services, which may be offered on a fixed-price, fixed-time frame or time-and-materials basis, include custom software development, maintenance (including Year 2000 conversion) and re-engineering services as well as dedicated offshore software development centers ("OSDCs") for certain clients. In each of its service offerings, the company assumes full project management responsibility in order to strengthen client relationships, offer higher value-added services and enhance its profitability. In addition, the company develops and markets certain company-owned software products. As a result of its extensive network of offshore software development facilities, its quality systems, its disciplined processes and its significant investment in people, the company has built a platform from which it has been able to achieve significant growth to date.

The company's initial public offering ("IPO") was in February 1993 on the Bangalore Stock Exchange and raised approximately $4.4 million in gross aggregate proceeds. To further fund its capital programs, Infosys raised approximately $7.7 million in gross aggregate proceeds in a private placement of shares in October 1994. These shares were purchased by foreign institutional investors, mutual funds as well as Indian domestic financial institutions and corporations. Most recently, in order to partially fund the expansion of its existing Indian facilities and telecommunication infrastructure in Bangalore, Bhubaneswar, Chennai, Mangalore and Pune and to develop new facilities, the company raised approximately $70.38 million in gross aggregate proceeds through its initial U.S. public offering of American Depositary Shares ("ADSs") on March 11, 1999.

Through its worldwide sales headquarters in Fremont, California and sixteen other sales offices located in the United States, Canada, the United Kingdom, Germany, Japan and India, the company markets its services to large IT-intensive businesses. During fiscal 1999, the company derived 82.0% of its revenues from North America, 9.3% from Europe and 1.7% from India. While the company derives its revenues primarily from the United States, Infosys maintains a diversified client base, with its largest client representing 6.4% of fiscal 1999 revenues. As of March 31, 1999, the company had approximately 115 clients. This diversified client base is comprised primarily of Fortune 500 companies and other multinational companies. As a result of its commitment to quality and client service, the company enjoys a high level of repeat business. For fiscal 1999 and 1998, existing clients from the previous fiscal year generated 90.0% and 83.1%, respectively, of the company's revenues.

The company was incorporated in 1981 by seven founders who shared a vision to build a world-class IT services organization based on a deeply-held value system, leadership-by-example, and continuous innovation. Six of these original founders have remained with the company, and, together with other members of the company's management council, have pursued their vision by focusing on certain key strategies including: (i) pursuing a world-class operating model; (ii) investing heavily in human resources; (iii) focusing on managed software solutions; (iv) capitalizing on a well established offshore development model; (v) maintaining a disciplined focus on business and client mix; and (vi) pursuing growth opportunities. In recognition of its efforts, the company was voted "Best Managed Company" in India by *Asiamoney* in each of the last three years, was selected as "Company of the Year" by *The Economic Times Awards for Corporate Excellence* and was awarded the Silver Shield in each of the last three years by the *Institute of Chartered Accountants of India* as the Indian company with the best presentation of financial statements by a non-financial company. Management believes that this reputation for leadership and innovation and the recognition it has received has been and will continue to be a key competitive advantage, particularly in attracting and retaining the highest quality IT professionals.

1.2 Subsidiaries and Joint Ventures

The company also holds a minority interest in Yantra and is a joint venture member of the JASDIC Park Company ("JASDIC") which is an Indo-Japanese consortium founded by Kenichi Ohmae. Yantra's primary objectives are to develop, sell and support software products in the retail and distribution areas. When Infosys established Yantra, it transferred the intellectual property rights in Eagle (now known as WMSYantra), a software solution for warehouse management, to Yantra, for shares of common stock of Yantra. Subsequently, in September 1997, Yantra raised working capital funds from the company and U.S. venture capitalists through a private placement of its convertible preferred stock. In the Fall of 1998, the company sold 1,363,637 shares of Yantra's preferred stock it held to a U.S. venture capital fund based in Boston. As a result of this sale, the company reduced its interest in Yantra to less than one-half of the voting stock of Yantra and therefore, as of October 20, 1998, does not recognize Yantra's performance in the company's financial statements.

JASDIC was formed as a consortium of several Japanese companies and three Indian companies, including Infosys. JASDIC's primary objectives are to provide high-quality software services from India to the Japanese market. During fiscal 1999, the company invested 24 million Yen in JASDIC with the purpose of promoting the company's strategy of diversifying its geographic customer base.

1.3 Industry Overview

In today's increasingly competitive business environment, companies have become dependent on IT not only for efficiency in day-to-day operations, but also as a strategic tool for re-engineering business processes, restructuring organizations and for reacting quickly to competitive, regulatory and technological changes. For these reasons, IT capabilities are particularly critical in certain vertical markets like financial services, utilities and telecommunications that are undergoing rapid deregulation and globalization. As corporations have become increasingly reliant on their IT systems, the technological challenge of managing such systems has increased. IT departments must not only implement new systems based on technologies such as Internet and client/server systems, but maintain and update legacy systems to work with the latest software and hardware, to expand functionality, to recognize and process dates that begin in the year 2000 and to handle other developments such as the conversion to Eurocurrency.

As businesses have become more dependent on IT, corporate budgets for IT services have grown dramatically. Dataquest has estimated that the worldwide market for IT consulting, development, integration and outsourcing will increase to $291 billion by 2001 from $177 billion in 1998. The need to outsource is particularly acute for companies whose IT staffs lack the requisite skill set and project management capabilities to implement new technologies, yet are reluctant to work solely with outdated technology. As a result, such companies seek third-party IT service providers to implement new technology and support existing legacy systems. Additionally, in many cases, businesses are being forced to outsource IT projects due to the difficulty and expense of recruiting and training sufficient IT staff in a resource-constrained environment. Outsourcing enables businesses to minimize the risks and reduce the time-to-completion of large IT projects by shifting some or all of their IT responsibilities to capable service organizations. In addition to this trend towards outsourcing, the IT services industry has also benefited recently from a significant demand for Year 2000 conversion services.

Simultaneously with this significant increase in demand for IT services, the supply of qualified IT professionals has decreased in most developed countries, particularly the United States, Western Europe and Japan. According to the United States Department of Education, the number of bachelor degrees in computer science awarded annually at U.S. universities fell by 41.7% from 41,889 in 1986 to 24,404 in 1995. One result of this downward trend is a growing shortage of IT professionals in the United States; the Information Technology Association of America reports that the number of unfilled positions for IT professionals was 346,000 in January 1998 in U.S. companies with more than 100 employees. Furthermore, the United States Department of Commerce has estimated that between 1994 and 2005, U.S. companies will require more than one million new IT professionals to fill the newly created positions and to replace workers who are retiring or are otherwise leaving the IT sector.

This shortage of IT professionals, along with recent advances in telecommunications and the growing acceptance of telecommuting, has led to the globalization of the market for IT services. It is now well accepted that remote offshore software development and maintenance is possible if the offshore facilities implement world-class physical and technological infrastructure, proven quality processes, project management methodologies and data communications infrastructure to provide video conferencing, the Internet, e-mail and remote computer access. By outsourcing software development and maintenance projects to offshore IT service providers, establishing overseas facilities or joint venturing with foreign partners, companies have been able to access skilled IT professionals in lower cost environments with a large population of English-speaking technical talent.

India: A Source for Software Services. According to a survey of U.S. software service vendors conducted by the World Bank, India is the leading offshore destination for companies seeking to outsource software development or IT projects. India's National Association of Software and Service Companies ("NASSCOM") estimates that India's export revenue from software, including software services, was approximately $1.8 billion in fiscal 1998 and will reach $4.0 billion by fiscal 2000, contributing to total Indian software industry revenues of approximately $5.9 billion by fiscal 2000.

There are three key factors contributing to this rapid growth of India's software market. First, India has a large, skilled labor pool that is available at a relatively low labor cost. With over four million engineers, India ranks second only to the United States as the country with the largest population of English-speaking technical personnel. According to NASSCOM, the number of software professionals employed by the Indian software industry has grown from approximately 56,000 in fiscal 1990 to approximately 200,000 in fiscal 1998. In addition, India has more than 1,800 engineering colleges and technical institutes to produce approximately 68,000 graduates annually in IT. This sizable pool of IT talent in India is available to companies worldwide. According to Software Productivity

Research, the average annual wage for software professionals in India is approximately 15% of the average U.S. rate. Although wages in India are rising faster than in the United States, the labor rate differential is anticipated to remain a competitive advantage for Indian companies in the foreseeable future.

A second key factor driving the Indian software market is the capability of Indian IT firms to produce high quality software deliverables. A NASSCOM analysis of international quality standards of the top 300 Indian software companies showed that 109 had already acquired ISO 9000 or SEI certification, with an additional 76 anticipated to acquire such certification by December 1999. These capabilities have led to the recognition of India's IT talent by companies worldwide. To take advantage of India's high quality IT services at attractive prices, companies worldwide have outsourced their software services needs to India unrestrained by distances or transportation limitations that often handicap Indian manufacturing firms. In fact, the 10 to 12 hour time difference between India and its largest market, the United States, allows work to be carried on by Indian teams on a 24-hour basis, shortening cycle times and improving productivity and service quality.

The final factor driving the Indian software market is the recognition by the successive Indian governments in recent times of the importance of the IT sector in the Indian economy. In 1991, the Government of India introduced a number of measures to liberalize the economy and address the economic difficulties that India had been facing. These measures included policies to stimulate investment in infrastructure industries and the growing Indian software industry. This commitment to the software sector has been and continues to be pursued by each successive government since 1991. For example, the most recent Government of India established the National Task Force on Information Technology in April 1998 with a mandate to make recommendations that detail policies designed to increase India's IT exports. In addition, software firms benefit from a variety of incentives, such as relief from import duties on hardware, a tax deduction for income derived from software exports, and infrastructure support for companies operating in Software Technology Parks.

1.4 Strategy

1.4.1 Business Strategy

The company's vision is to become a globally respected corporation providing best-of-breed solutions employing best-in-class professionals. In order to achieve this goal, the company focuses on the following key elements of its business strategy:

Pursue World Class Operating Model. The management believes that one of the most critical factors to the company's success has been its commitment to pursue high quality standards in all aspects of its business, including deliverables to the customers, human resource management, investor relations, planning, finance, physical and technological infrastructure, sales and marketing. In its services and operations, the company achieves quality through rigorous adherence to highly evolved processes, including a detailed approach to planning and execution, multi-level testing and careful tracking and analysis of quality control. The company is certified under the ISO 9001 and TickIT quality standards. In addition, the company has been certified at Level IV of the Capability Maturity Model, a software-specific quality management model developed by the Software Engineering Institute at Carnegie Mellon University. This model defines five levels of process maturity for a software organization. Certification to Level IV has been achieved by only 2% of the more than 1,000 software companies assessed under the Capability Maturity Model. Infosys also adheres to high quality standards in its investor relations. For example, the company was one of the first public Indian companies to adopt U.S. GAAP reporting in fiscal 1995 and quarterly-audited Indian financial statements in fiscal 1998.

Invest Heavily in Human Resources. The company believes that its continued success will depend upon its ability to recruit, train, deploy and retain highly talented IT professionals. Even as the field of software engineering has been attracting the best and brightest Indian students, management believes the company has become, for Indian engineering graduates, one of the most sought after employers. The company focuses its recruiting efforts on the top 20% of the students from the engineering departments of Indian universities and uses a series of tests and interviews to identify the best applicants. In an effort to attract the most highly qualified candidates, the company has spent significant resources in creating a quality work environment. For example, its main facility in Bangalore, which spans five acres, encompasses not only 160,000 sq. ft. of office space but also 150,000 sq. ft. of landscaping, a cafeteria, outdoor sitting area, library and gymnasium as well as tennis, volleyball and basketball courts. Through this campus-like environment, the company fosters a collegial atmosphere and informal culture, which is further promoted by its "open door" operating philosophy where communication and ideas flow freely irrespective of title or tenure. The company also offers its IT professionals challenging assignments, competitive salaries and benefits and one of the first stock option plans adopted by a public Indian company. In addition, the company invests heavily in training, including 14-week training sessions for newly recruited IT professionals as well as a variety of two-week continuing education courses in technology and management skills conducted by a 33-person faculty. As a result of this high level of investment in its people, management believes that the company has become one of the most attractive employers for Indian software professionals and that its attrition rate is significantly below the industry average.

Focus on Managed Software Solutions. Since its inception, the company has dedicated itself to providing managed software solutions, many of which are offered on a fixed-price, fixed-time frame basis. By taking full project management responsibility in every project, the company provides its clients high quality, cost-effective solutions with low risk. Such services offer the company the opportunity to build client confidence with the potential benefit of enhanced margins. Management believes that by demonstrating the ability to manage and successfully execute large projects, the company is better positioned to become a long-term partner to its clients for all of their software needs. In addition, by retaining project management responsibility, the company accumulates significant industry expertise and continues to develop and refine its software development tools and proprietary methodologies.

Capitalize on a Well-Established Offshore Development Model. As one of the pioneers of the offshore software development model, the company has made significant investments in its infrastructure and has developed the advanced processes and expertise necessary to manage and successfully execute projects in multiple locations with seamless integration. The company has high levels of project management skills and rigid controls as evidenced by its Level IV Capability Maturity Model certification. This commitment to quality allows the company to successfully execute approximately 80% of its project work in India while maintaining a high level of client satisfaction. These capabilities not only provide significant cost advantages but also shorten the time to deliver a solution to the client. With significant investments in offshore software development facilities, plans to expand significantly its available facilities and plans to hire additional IT professionals, the company believes that it is well-positioned to serve clients globally in a resource-constrained environment.

Maintain Disciplined Focus on Business and Client Mix. The company provides a wide range of software services and maintains a disciplined focus on its business mix in an effort to avoid service or client concentration. Beginning in fiscal 1996, the company aggressively sought to minimize its client concentration and to accept as clients only those that met strict guidelines for overall revenue potential and profitability. For fiscal 1999 and fiscal 1998, the company's largest client accounted for 6.4% and 10.5%, respectively, of revenues and its five largest clients accounted for 28.4% and 35.1%, respectively, of revenues. Similarly, the company has endeavored to maintain a balance among its service offerings despite certain trends in the marketplace, in particular, Year 2000 remediation services. This balance is key to ensuring that the technology skill sets of the company's IT professionals remain diversified. Such diversification is critical in not only providing the company the flexibility to adapt to changing market conditions but also attracting and retaining highly skilled professionals who seek the opportunity to continue to learn new technologies.

1.4.2 Growth Strategy

From fiscal 1994 to fiscal 1999, the company experienced compounded annual revenue and net income growth rates of 66% and 46%, respectively, and grew from approximately 480 IT professionals to approximately 3,160. The following are the key elements of the company's growth strategy:

Broaden Service Offerings. To meet all of its clients' IT needs, the company strives to offer a comprehensive range of services by continuously evaluating new and emerging technologies. As a full-service provider, the company believes that it can increase its revenues from existing clients as well as attract new clients. Toward this end, the company has opportunistically expanded its services beyond its core development, maintenance and re-engineering services. For example, the company has recently begun initiatives to develop practices focused on packaged applications implementation, e-commerce and Internet/intranet services. Management believes that these services will increasingly become a significant part of the company's portfolio of services.

Increase Business with Existing Clients. In fiscal 1999, the company provided software services for more than 115 clients in the United States, Europe and Japan. A key objective of the company's growth strategy is to expand the nature and scope of its engagements with existing clients by both increasing the volume of its projects and expanding the breadth of services offered. Establishing broad, long-term relationships potentially increases the quality and efficiency of the company's service to a particular client since each project performed for a client increases the company's understanding of the client's systems, requirements and business practices. For the same reason, establishing broad, long-term relationships with a client also reduces the company's marketing costs, increases the client's reliance on the company and creates barriers to entry for competitors. The company seeks to foster such relationships by delivering high quality services on time and on budget and, over the course of a relationship, by increasing the integration of its services with the client's internal IT operations. To date, this approach has been highly effective. Despite the company's high rate of growth during the last few years, over 80% of the revenues in fiscal 1999 and 1998 were generated from companies who were clients in the prior fiscal year.

Develop New Clients. The company pursues several new client development strategies. First, the company offers a broad array of managed software solutions that provide an initial entry into a new client. Second, Infosys believes that it can leverage the industry-specific expertise it has developed in key vertical markets (financial services, manufacturing and distribution, retail, telecommunications and technology) to further develop its portfolio of clients in these targeted markets. This vertical market orientation continues to help Infosys design and develop re-usable software tools and processes which have specific applications to clients in these markets and which can improve the company's efficiency and productivity. Finally, the company intends to expand its global sales and marketing infrastructure by hiring new sales and marketing personnel, opening additional regional sales offices and increasing its marketing expenditures. Infosys currently maintains sales and marketing offices in 17 locations and intends to add new offices in North America and Europe. The management believes that increasing the company's geographic presence will enhance its ability to establish and support new client relationships.

Increase Revenue per IT Professional. To increase its revenue per IT professional, the company continually focuses on building expertise in vertical markets, refining its software development tools and methodologies, and storing and disseminating institutional knowledge in order to improve efficiency and productivity. Additionally, to enhance productivity per IT professional, Infosys continually monitors client accounts for profitability and seeks to select new clients and maintain relationships with existing clients that maximize the company's long-term profit margins. The company's policy is to decline or discontinue projects that do not offer the potential to meet the company's profit margin targets. Finally, the company is seeking to increase the proportion of projects that are undertaken on a fixed-price, fixed-time frame rather than a time-and-materials basis. The management believes that effectively structured fixed-price, fixed-time frame projects benefit the client by reducing the client's risk, while offering the company the potential benefit of enhanced margins for projects that are performed efficiently.

Expand and Diversify Base of IT Professionals. Management believes that a critical element of the company's growth trategy is its ability to increase its base of IT professionals. To address this issue, the company plans to build new software development facilities in locations where it can access local pools of talent as well as increase the number of professionals employed at its existing locations. In addition, the company is looking to other fields of expertise, such as business school graduates and accountants, for recruiting. Accordingly, the company has approved plans to expand its facilities in Bangalore, Bhubaneswar, Chennai, Mangalore, Pune and elsewhere. The company is also contemplating addition of facilities in the United States, Europe and Asia.

Pursue Selective Strategic Acquisitions. The company believes that pursuing selective acquisitions of IT services and software applications firms could potentially expand the company's technical expertise, facilitate expansion into new vertical markets and increase the client base. Although no acquisitions are currently being contemplated, the company anticipates that it will seek to identify and acquire companies that have well-developed applications in vertical markets, extensive client bases or proprietary technical expertise and would otherwise complement the company's business.

1.4.3 The Infosys Offshore Development Model

The Indian offshore development model was initiated in the mid-1980's as a method of dividing software project activities between a service provider's offshore software development facility and a client's on-site location. This model contains many features that are attractive to IT consumers who are primarily located in the United States, Europe and Japan, including: (i) access to a large pool of highly skilled, English-speaking IT professionals; (ii) relatively low labor costs of IT professionals offshore; (iii) the ability to provide high quality IT services at internationally recognized standards; (iv) the capability to work on specific projects on a 24-hour basis by exploiting time zone differences between India and client sites; and (v) the ability to accelerate the delivery time of larger projects by parallel processing different phases of a project's development. While some U.S. and European companies have commenced their own operations in India, most large corporations have opted to form strategic alliances with local Indian IT companies to reduce the risks and start-up costs of operations in India.

As one of the pioneers of the offshore development model, Infosys has a long history of successfully executing projects between its clients' sites in North America, Europe and Asia and the company's offshore software development facilities in India. In a typical software development or re-engineering assignment, the company assigns a small team of two to five IT professionals to visit a client's site and determine the scope and requirements of the project. Once the initial specifications of the engagement have been established, the project managers return to India to supervise a much larger team of 10 to 50 IT professionals dedicated to the development of the required software or system. A small team remains at the client's site to track changes in scope and address new requirements as the project progresses. The client's systems are then linked via satellite to the company's facilities enabling simultaneous processing in as many as four offshore software development facilities. Once the development stage of the assignment is completed and tested in India, a team returns to the client's site to install the newly developed software or system and ensure its functionality. At this phase of the engagement, the company will often enter into an ongoing agreement to provide the client with comprehensive maintenance services from one of its offshore software development facilities. In contrast to development projects, a typical maintenance assignment requires a larger team of 10 to 20 IT professionals to travel to the client's site to gain a thorough understanding of all aspects of the client's system. The majority of the maintenance team subsequently returns to the offshore software development facility, where it assumes full responsibility for day-to-day maintenance of the client's system, while coordinating with a few maintenance professionals who remain stationed at the client's site. By pursuing this model, the company completes approximately 80% of its project work at its offshore software development facilities in India.

The company's project management techniques, risk management processes and quality control measures enable the company to complete projects seamlessly across multiple locations with a high level of client satisfaction. Certified under ISO 9001, TickIT and at Level IV of the Capability Maturity Model, the company rigorously adheres to highly evolved processes. These processes govern all aspects of the software product life cycle, from requirements to testing and maintenance. The company seeks to prevent defects through its quality program, which includes obtaining early sign off on acceptance test scripts, project specifications and design documents, assigning software quality advisors to help each team set up appropriate processes for each project and adhering to a multi-level testing strategy. Defects are documented, measured, tracked and analyzed, and feedback is provided to the project manager. The company compiles metrics for not only defect density and size, but also actual effort as compared to project estimates, adherence to schedule and productivity. Frequent internal and external audits are conducted to assure compliance with procedures. All of these procedures have been continuously refined throughout the company's history of providing its clients with offshore software development services.

In addition to the processes and methodologies necessary to successfully execute the offshore model, the company has invested significant resources in its infrastructure to ensure uninterrupted service to its clients. The company has invested in redundant infrastructure with "warm" backup sites and redundant telecommunication capabilities with alternate routings to provide its clients with high service levels. Additionally, the company utilizes two telecommunications carriers in India and has installed in its principal facilities multiple international satellite links connecting with network hubs in Fremont, California and in Dedham, Massachusetts. A different ocean cable connecting Europe and the United States serves each of these hubs. Moreover, the company has installed wireless links among its facilities in Bangalore and intends to install wireless links among its other Indian facilities by the end of 1999.

1.5 Service Offerings and Products

The company's services include software development, maintenance and re-engineering services as well as dedicated OSDCs for certain clients. In each of its service offerings the company assumes full project management responsibility for each project it undertakes rather than providing supplemental personnel to work under a client's supervision. In addition to its IT services, the company as well as its minority-owned subsidiary, Yantra, also develop and market certain packaged applications software.

1.5.1 Software Development

The company provides turnkey software development, typically pursuant to fixed-price, fixed-time frame contracts. The projects vary in size and may involve the development of new applications or new functions for existing software applications. Each development project typically involves all aspects of the software development process, including definition, prototyping, design, pilots, programming, testing, installation and maintenance. In the early stage of a development project, Infosys personnel often work at a client's site to help determine project definition and to estimate the scope and cost of the project. Infosys then performs design review, software programming, program testing, module testing, integration and volume testing, primarily at its own facilities in India. For example, for a telecommunications client facing deregulation and subsequent declining market share, the company partnered with a specialty marketing firm to design and implement a customer rewards program. Infosys was able to work with both the marketing firm and the client to complete this project within six months, ensuring the system's technical proficiency and enabling the client to reverse the trend of declining market share.

1.5.2 Software Maintenance

The company provides maintenance services for large legacy software systems. Maintenance services include minor and major modifications and enhancements (including Year 2000 and Eurocurrency conversion) and production support. Such systems are either mainframe-based or client/server and are typically essential to a client's business, though over time they become progressively more difficult and costly for the client's internal IT department to maintain. By outsourcing the maintenance responsibilities to Infosys, clients can control costs and free their IT departments for other work. The company's IT professionals take an engineering approach to software maintenance, focusing on the long-term functionality and stability of the client's overall system and attempting to avoid problems stemming from “quick-fix” solutions. The company performs most of the maintenance work at its own facilities using satellite-based links to the client's system. In addition, the company maintains a small team at the client's facility to coordinate support functions. Infosys was a pioneer in managing time-zone differences between India and the United States to provide near 24-hour maintenance services. As an example, the IT department of a large retailer with inadequate and inflexible systems was overburdened by both building new systems and maintaining the current legacy infrastructure. The company was able to assume maintenance responsibilities for these systems in a short time frame and reduce maintenance costs to the client by utilizing its offshore facilities.

1.5.3 Software Re-Engineering

The company's re-engineering services assist clients in migrating to new technologies while extending the life cycle of existing systems that are rich in functionality. Projects include re-engineering software to migrate applications from mainframe to client/server architectures, to extend existing applications to the Internet, to migrate from existing operating systems to UNIX or Windows NT or to update from a non-relational to a relational database technology. For companies with extensive proprietary software applications, implementing such technologies may require rewriting and testing millions of lines of software code. As with its other services, the company has developed proven methodologies that govern the planning, execution and testing of the software re-engineering process. For instance, for a nationwide manufacturer and distributor experiencing operating inefficiency with a legacy system installed in its two call centers, the company re-engineered the system to run in a distributed processing environment with front-end Internet browser-based capabilities allowing 24-hour Internet access to the client's distribution systems. As a result, the client was able to consolidate its call center workforce into one location and reduce its workforce by over 50%.

1.5.4 Dedicated Offshore Software Development Centers

The company has pioneered the concept of dedicated OSDCs in which a software development team that is dedicated to a single client uses technology, tools, processes and methodologies unique to that client. Each dedicated OSDC is located at a company facility in India and is staffed and managed by the company. Once the project priorities are established by the client, the company, in conjunction with the client's IT department, manages the execution of the project. By focusing on a single client over an extended time frame, the dedicated OSDC team gains a deeper understanding of the client's business and technology and can begin to function as a virtual extension of the client's software team.

1.5.5 New Services

The company is also focussed in certain new service areas such as (i) Internet consulting, which includes developing applications for Internet/intranet solutions and e-commerce solutions; (ii) Euro conversion, which assists clients in making their systems Euro compliant; and (iii) engineering services, which include software product design. For example, the company recently developed an integrated e-commerce online shopping site for one of its U.S. clients, which included four different systems and gave the company complete cycle responsibility for the project.

1.5.6 Software Products

In addition to the IT services described above, the company develops and markets certain proprietary software applications. BANCS 2000 is an on-line, retail and corporate banking system that offers rich functionality, scalability and flexibility for automation of banking operations. This product is used by banks in emerging markets that seek to implement state-of-the-art banking technology and achieve high levels of client service. BANCS 2000 has been installed at more than 420 bank branches in India, Sri Lanka, Nepal, Indonesia and Tanzania. Through Yantra, the company also develops and markets WMSYantra, an open systems software package for warehouse management.

1.6 Markets and Sales Revenue

The company markets its services primarily to large IT-intensive organizations in North America, Europe and Japan. The company focuses on certain market segments, including financial services, manufacturing and distribution, retail, telecommunications and technology. The company provides a wide range of IT services and maintains a disciplined focus on its business mix in an effort to avoid service or client concentration. Beginning in fiscal 1996, the company aggressively sought to minimize its client concentration and to accept as clients only those that met strict guidelines for overall revenue potential and profitability. For fiscal 1997, fiscal 1998 and fiscal 1999, the company's largest client accounted for 15.6%, 10.5% and 6.4%, respectively, of revenues. Revenues for the last three fiscal years by geographic area are as follows:

Year ended March 31,	1999	1998	1997
North America	$ 99,203,989	$56,211,753	$31,057,917
Europe	11,302,791	6,179,621	3,256,502
India	2,051,492	1,799,368	3,921,741
Rest of the world	8,396,954	4,139,219	1,349,759
	$120,955,226	$68,329,961	$39,585,919

1.7 Sales and Marketing

The company sells and markets its services and products from 17 sales offices located in five countries. In the United States, the company presently has sales offices located in Atlanta, Boston, Chicago, Dallas, Detroit, Fremont, Los Angeles, New York and Seattle. Additionally, the company's international sales offices are located in Canada, Germany, India, Japan and the United Kingdom. With its global sales headquarters in Fremont, California and its corporate marketing group in Bangalore, India, the company's sales and marketing efforts are targeted toward IT-intensive organizations in North America, Europe and Japan. As of March 31, 1999, the company had 29 sales and marketing employees outside of India. To continue this focus on countries with sophisticated IT services needs, the company intends to expand its global sales and marketing infrastructure by opening additional regional sales and marketing offices in North America and Europe. In addition, the company has partnered with Teksels S.A., a Swiss firm, to assist its efforts in Switzerland.

From its offices located around the world, the company's sales professionals contact prospective clients in developed markets and position the company as a leading IT services provider with operations in India. In many cases, potential clients in their search for offshore IT services providers submit a request for proposal from the leading Indian software firms, including the company. The company's superior management team, quality of work, competence of its IT professionals, and competitive prices are often cited as reasons for the award of competitive contracts. In addition, the company's impressive client references and endorsements as well as its willingness to participate in trade shows and speaking engagements, have helped the company to generate greater awareness for its services. The company believes that its NASDAQ listing and its profile as a public company in the United States will further enhance its corporate marketing efforts.

The company has focused its sales and marketing efforts on expanding the scope and depth of its relationships with existing clients. Although initially the company may only provide one service to a client, the company seeks to convince the client to expand and diversify the type of services the client outsources to the company. As a result, the company strengthens its relationships with its clients by closely integrating its services with its clients' IT operations. The success of this targeted strategy is reflected in the company's high "repeat" rate of business. Over 80% of the company's revenues in each of the last three fiscal years have been generated from pre-existing clients.

In marketing certain services, the company has pursued a "branded services" strategy. For example, the company markets its Year 2000 conversion services under the brand name "In2000®" so as to highlight the well-developed tool set and proprietary methodology used to deliver these services. By establishing branded services, the company's objective is to enhance the credibility and facilitate the marketing of such services. These brand names also enable the company to market its services to new clients who may already recognize the brand name.

1.8 Research and Development

The company has committed and expects to continue to commit in the future, a material portion of resources to research and development. Research and development efforts are focused on development and refinement of methodologies, tools and techniques, implementation of metrics, improvement in estimation process, and the adoption of new technologies. The company's research and development expenses for fiscal years 1999, 1998 and 1997 were \$2.8 million, \$1.8 million and \$2.1 million, respectively which represents approximately 2.3%, 2.6% and 5.3% of total revenues, respectively.

1.9 Competition

The market for IT services is highly competitive. Competitors include IT services companies, large international accounting firms and their consulting affiliates, systems consulting and integration firms, temporary employment agencies, other technology companies and client in-house MIS departments. Competitors include international firms as well as national, regional and local firms located in the United States, Europe and India. The company expects that future competition will increasingly include firms with operations in other countries, potentially including countries with lower personnel costs than those prevailing in India. Part of the company's competitive advantage has historically been a cost advantage relative to service providers in the United States and Europe. Since wage costs in India are presently increasing at a faster rate than those in the United States, the company's ability to compete effectively will become increasingly dependent on its reputation, the quality of its services and its expertise in specific markets. Many of the company's competitors have significantly greater financial, technical and marketing resources and generate greater revenue than the company, and there can be no assurance that the company will be able to compete successfully with such competitors and will not lose existing clients to such competitors. The company believes that its ability to compete also depends in part on a number of factors outside its control, including the ability of its competitors to attract, train, motivate and retain highly skilled IT professionals, the price at which its competitors offer comparable services and the extent of its competitors' responsiveness to client needs.

1.10 Human Resources

As of March 31, 1999, the company had approximately 3,770 employees, including approximately 3,160 IT professionals, up from approximately 2,605 and approximately 2,200, respectively, as of March 31, 1998. The company invests heavily in its programs to recruit, train and retain qualified employees, and management believes the company has established a reputation as one of the most desirable employers for software engineers in India.

The company focuses its recruiting efforts on the top 20% of students from engineering departments of Indian schools and relies on a rigorous selection process involving a series of tests and interviews to identify the best applicants. Because the company emphasizes flexibility and innovation, applicants are selected on the basis of their ability to learn as well as their academic achievement, conceptual knowledge and their temperament for, and fit with, the company's culture. The company's reputation as a premier employer enables it to select from a large pool of qualified applicants. For example, in fiscal 1999, the company received approximately 74,450 job applications, tested approximately 22,480, interviewed approximately 6,340 and extended job offers to approximately 2,000 of whom approximately 1,550 accepted. The company seeks to attract and motivate IT professionals by offering: an entrepreneurial environment that empowers IT professionals; programs that recognize and reward performance; challenging assignments; a continuous updating of skills; and a culture that emphasizes openness, integrity and respect for the employee. IT professionals receive competitive salaries and benefits and are eligible to participate in the company's stock option plans. In addition, the company spends significant resources on training and continuing education. To conduct training, the company employs a 33-person faculty, including 20 with doctorate or master's degrees. The faculty conducts 14-week training sessions for new recruits and a variety of two-week continuing education courses in technology and management skills.

At any given time, approximately 15% of the company's IT professionals are working on-site at client facilities in the United States and elsewhere while the balance are working off-site in India. On average, approximately 530, 330 and 190 of the company's IT professionals worked on-site in the United States and elsewhere per month in fiscal 1999, fiscal 1998 and fiscal 1997, respectively. On average, approximately 2,630, 1,780 and 1,210 of the company's IT professionals and support staff worked off-site in India per month in fiscal 1999, fiscal 1998 and fiscal 1997.

The company's professionals that work on-site at client facilities in the United States on temporary and extended assignments are typically required to obtain visas. As of March 31, 1999, substantially all of the company's personnel in the United States were working pursuant to H-1B visas (300 persons) or L-1 visas (125 persons). Both H-1B and L-1 visas require that recipients meet certain education requirements; however, only employees who have worked for the company for at least one year are eligible to obtain L-1 visas. The company is generally able to obtain H-1B and L-1 visas within two to four months of applying for such visas, which remain valid for three years. Although there is no limit to new L-1 petitions, there is a limit to the number of new H-1B petitions that the United States Immigration and Naturalization Service may approve in any government fiscal year. In the years in which this limit is reached, the company may be unable to obtain H-1B visas necessary to bring critical Indian IT professionals to the United States on an extended basis. The H-1B limit was reached in May 1998 for the U.S. government's fiscal year ending September 30, 1998. The company planned for the H-1B limit being reached prior to the end of the U.S. government's current fiscal year primarily by forecasting its annual needs for such visas early in the U.S. government's fiscal year and applying for such visas as soon as practicable. In addition, the company utilizes L-1 visas whenever available and redeploys existing H-1B visa holders in order to minimize the number of new H-1B visas needed by the company. While the company anticipated that such limit would be reached prior to the end of the U.S. government's fiscal year and has made efforts to plan accordingly, there can be no assurance that the company will continue to be able to obtain a sufficient number of H-1B visas.

The market for hiring software professionals is highly competitive. Competing employers include multinational corporations that perform software development in India through subsidiaries and joint ventures with Indian companies; a number of well-known Indian IT services and software product companies; and a large number of small and medium regional companies, many with affiliates or parent companies in the United States and Europe.

1.11 Intellectual Property

Ownership of software and associated deliverables created for clients is generally retained by or assigned to the client, and the company does not retain an interest in such software or deliverables. The company also develops software products and software tools which are licensed to clients and remain the property of the company. The company relies upon a combination of non-disclosure and other contractual arrangements and copyright, trade secret and trademark laws to protect its proprietary rights in technology. The company currently requires its IT professionals to enter into non-disclosure and assignment of rights agreements to limit use of, access to and distribution of its proprietary information. The source code for the company's proprietary software is generally protected as trade secrets and as unpublished copyrighted works. The company has obtained registration of INFOSYS as a trademark in India but not in the United States. The company does not have any patents or registered copyrights in the United States. The company generally applies for trademarks and service marks to identify its various service and product offerings.

The laws of India may not, under some circumstances, permit the protection of the company's proprietary rights in the same manner or to the same extent as the laws of the United States. India is a member of the Berne Convention and the Universal Copyright Convention, as revised at Paris (1971), both international treaties. As a member of the Berne Convention, the Government of India has agreed to extend copyright protection under its domestic laws to foreign works, including works created or produced in the United States. The company believes that laws, rules, regulations and treaties in effect in the United States and India are adequate to protect it from misappropriation or unauthorized use of its copyrights. However, there can be no assurance that such laws will not change in ways that may prevent or restrict the protection of the company's proprietary rights. There can be no assurance that the steps taken by the company to protect its proprietary rights will be adequate to deter misappropriation of any of its proprietary information or that the company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights.

Although the company believes that its services and products do not infringe on the intellectual property rights of others, there can be no assurance that such a claim will not be asserted against the company in future. Assertion of such claims against the company could result in litigation, and there is no assurance that the company would prevail in such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party on commercially reasonable terms. There can be no assurance that the company will be able to protect such licenses from infringement or misuse, or prevent infringement claims against the company in connection with its licensing efforts. The company expects that the risk of infringement claims against the company will increase if more of the company's competitors are able to obtain patents for software products and processes. Any such claims, regardless of their outcome, could result in substantial cost to the company and divert management's attention from the company's operations. Any infringement claim or litigation against the company could, therefore, have a material adverse effect on the company's results of operations and financial condition.

Item 2. Description of Property

The company's corporate office consists of 220,000 square feet of land with 150,000 square feet of landscaped area, a 160,000 square feet building with 32 conference rooms and leisure infrastructure, including cafeteria, sports facilities and gymnasium, situated at Electronics City, Bangalore, India. This facility is owned by Infosys. The technological infrastructure at the corporate office includes over a 1,000 networked workstations, several Netware, UNIX and WINDOWS NT servers, systems from HP, IBM, SUN, DEC, COMPAQ, ACER and AST, a video-conferencing facility, and multiple 64 kbps data communication links.

As part of its strategy to provide high quality services to its clients, the company has a detailed facility management plan. First, the company seeks to provide its Indian IT professionals with facilities that are comparable to those used by software companies in the United States and Europe. Second, the company seeks to establish facilities near large sources of technical talent. Third, the company equips its facilities to minimize vulnerability to interruptions in local utility and telecommunication services.

The company acquired the land where its corporate headquarters are located from the State of Karnataka in 1993 and has subsequently acquired parcels for various other offices, pursuant to certain lease cum sale agreements (the "Conditional Purchase Agreements"), which are used by the State of Karnataka to make land available to private companies for specific purposes. Under the Conditional Purchase Agreements, property is sold subject to a long-term (typically 25-year), rental-free lease which transfers ownership to the buyer at the end of the period provided that the buyer uses the land for specified purposes. The Conditional Purchase Agreements require the company to use the various parcels for software development facilities. Typically, the company pays 99% of the purchase price at the time the agreement is signed and pays the remaining 1% when the term is concluded.

The company has its worldwide sales headquarters in Fremont, California and branch sales offices in Atlanta, Bangalore, Boston, Chennai, Chicago, Dallas, Detroit, Frankfurt, London, Los Angeles, Mumbai, New Delhi, New York, Seattle, Tokyo and Toronto. All sales offices, except the Mumbai office, are in leased facilities.

The company plans to expand its facilities to meet its anticipated growth. Currently, the company is planning new facilities in Bangalore, Bhubaneswar, Chennai, Mangalore and Pune to provide an additional 890,000 square feet of office space. The following table sets forth certain information as of March 31, 1999 relating to the company's principal facilities and proposed developments:

Location	Approximate Sq.ft.	Ownership	Type of Facility
Bangalore, India (Plots 45, 46, 97C, 97D and 97E, Hosur Road)	300,000 [1]	Conditional Purchase	Proposed Software Development Facility
Bangalore, India (Plots 4/1, 4/2, 4/3, 4/4, 26/1, 26/2, Hosur Road)	150,000 [2]	Conditional Purchase	Proposed Software Development Facility
Bangalore, India (Plots 44 and 97A, Hosur Road)	160,000 [3]	Conditional Purchase	Corporate Headquarters, Software Development Facility
Bangalore, India (Dickenson Road)	7,000	Owned	Software Development Facility
Bangalore, India (BTM Layout)	11,300	Leased	Software Development Facility
Bangalore, India (Koramangala)	18,700	Leased	Software Development Facility
Bangalore, India (J.P. Nagar, Phase II)	[4]	Owned	Proposed Office Premises
Bangalore, India (J.P. Nagar, Phase III)	59,500	Leased	Software Development Facility
Bangalore, India (Adarsh Gardens)	78,700	Owned	Employee Residence Flats
Bangalore, India (Survey No. 9,Phase II)	[5]	Leased	Proposed Software Development Facility
Mangalore, India	14,100	Leased	Software Development Facility
Mangalore, India	5,100	Owned	Employee Residence Flats
Mumbai, India	1,200	Owned	Sales and Marketing Office
Pune, India	43,700	Leased	Software Development Facility
Pune, India	160,000 [6]	Conditional Purchase	Proposed Software Development Facility
Pune, India	3,300	Owned	Employee Residence Flats
Bhubaneswar, India	52,900	Leased	Software Development Facility
Bhubaneswar, India	150,000 [7]	Leased	Proposed Software Development Facility
Chennai, India	26,600	Leased	Software Development Facility
Chennai, India	23,200	Leased	Software Development Facility
Fremont, California	6,200	Leased	Worldwide Sales Headquarters

1. Total land parcel is 516,404 square feet and proposed facility is 300,000 square feet.
2. Total land parcel is 613,107 square feet and proposed facility is 150.000 square feet.
3. Total land parcel is 220,000 and the square feet and facility is 160,000 square feet.
4. The company has not yet determined the aggregate square feet of the proposed development. The land parcel is approximately 16,500 square feet.
5. The company has not yet determined the aggregate square feet of the proposed development. The land parcel is approximately 87,100 square feet.
6. Total land parcel is 877,244 and the square feet and proposed facility is 160,000 square feet.
7. Total land parcel is 293,333 and the square feet and proposed facility is 150,000 square feet.

Item 3. Legal Proceedings

The company is not currently a party to any material legal proceedings.

Item 4. Control of Registrant

To the best of its knowledge, the company is not owned or controlled directly or indirectly by any government or by any other corporation.

The following table sets forth certain information regarding the beneficial ownership of the equity shares at March 31, 1999 of (i) each person or group known by the company to own beneficially 10% or more of the outstanding equity shares and (ii) the beneficial ownership of all officers and directors as a group, in each case as reported to Infosys by such persons.

Name of Beneficial Owner	Shares [1] Beneficially Owned	Percentage of Equity Shares Beneficially Owned
All directors and officers as a group (25 persons)	10,303,336	31.16%

1. Number of shares and percentage ownership is based on 33,069,400 equity shares outstanding as of March 31, 1999. Beneficial ownership is determined in accordance with rules of the SEC and includes voting and investment power with respect to such shares. Shares subject to options that are currently exercisable or exercisable within 60 days of March 31, 1999 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated below, the company believes that persons named in the table have sole voting and sole investment power with respect to all the shares shown as beneficially owned, subject to community property laws, where applicable. The shares beneficially owned by the directors include the equity shares owned by their family members to which such directors disclaim beneficial ownership.

Item 5. Nature of Trading Market

5.1 General

The company's equity shares are traded on the Mumbai, Bangalore and National Stock Exchanges in India. The company's equity shares are traded in the U.S. on the NASDAQ National Market under the symbol "INFY" in the form of American Depositary Shares ("ADSs") as evidenced by American Depositary Receipts ("ADRs"). Each equity share of the company is represented by two American Depositary shares ("ADSs"). The ADRs evidencing ADSs were issued by the depositary Bankers Trust Company (the "Depositary"), pursuant to a Deposit Agreement dated March 11, 1999 (the "Deposit Agreement").

The number of outstanding equity shares in the company, as of March 31, 1999, was 33,069,400. As of March 31, 1999, there were approximately 2,700 record holders of ADRs evidencing 2,070,000 ADSs (equivalent to 1,035,000 equity shares). As of March 31, 1999, there were 9,526 record holders of the 32,034,400 equity shares listed and traded on the stock exchanges in India.

5.2 Trading Practices and Procedures on the Indian Stock Exchanges

The Stock Exchange, Mumbai ("BSE") and the National Stock Exchange ("NSE") together account for more than 80% of the total trading volume on the Indian stock exchanges. Trading on both of these exchanges is accomplished through on-line execution. These two stock exchanges handle over 100,000 trades per day with volumes in excess of Rs. 20 billion. Trading takes place on a five-day fixed settlement basis on most of the exchanges, including the BSE and NSE. Any outstanding amount at the end of the settlement period is settled by delivery and payment. However, institutional investors are not permitted to "net out' their transactions and must trade on a delivery basis only.

The BSE permits carry forwards of trades in certain securities by non-institutional investors with an associated charge. In addition, orders can be entered with a specified term of validity that may last until the end of the session, day or settlement period. Dealers must specify whether orders are for a proprietary account or for a client. The BSE specifies certain margin requirements for trades executed on the exchange, including margins based on the volume or quantity of exposure that the broker has on the market, as well as mark-to-market margins payable on a daily basis for all outstanding trades. Trading on the BSE takes place from 10:00 a.m. to 3:30 p.m. on all weekdays, except holidays. The NSE does not permit carry forwards of trades. It has separate margin requirements based on the net exposure of the broker on the exchange. The NSE trades from 9:30 a.m. until 4:00 p.m. on weekdays, except holidays. The NSE and BSE have separate online trading systems and separate clearing houses.

The BSE was closed from January 11 through January 13, 1993 due to a riot in Mumbai. It was also closed on March 12, 1993 due to a bomb explosion within the premises of the BSE. From December 14 through December 23, 1993, the BSE was closed due to a broker's strike, and from March 20 through March 22, 1995, the Governing

Board of the BSE closed the market due to a default of one of the broker members. There have been no closures of the Indian stock exchanges in response to "panic" trading or large fluctuations. Most of the Indian stock exchanges do, however, have a specific price band for each security listed. When a price fluctuation exceeds the specified limits of the price band, trading of the security is stopped. Such price volatility controls and the specific price bands are decided by each individual exchange and may differ.

The table below sets forth, for the periods indicated, the high and low closing sales prices for the equity shares on the Stock Exchange, Mumbai and the National Stock Exchange

	The Stock Exchange, Mumbai				National Stock Exchange			
Fiscal Year Ended March 31,	Price per Equity Share[1] (in Rs.)		Price per Equity Share (in $)		Price per Equity Share (in Rs.)		Price per Equity Share (in $)	
	High	Low	High	Low	High	Low	High	Low
1999								
First Quarter	1,253.50	948.38	29.50	22.32	1300.00	921.00	30.59	21.67
Second Quarter	1,375.00	1,088.88	31.92	25.51	1393.00	1074.50	32.34	24.95
Third Quarter	1,486.88	1,104.88	34.92	26.06	1555.00	1070.00	36.55	25.15
Fourth Quarter	3,450.00	1,469.00	81.46	34.69	3457.00	1215.00	81.63	28.69
1998								
First Quarter	478.50	253.25	13.35	7.07	487.50	237.50	13.60	6.63
Second Quarter	798.50	481.06	22.07	13.30	630.00	540.50	17.42	14.94
Third Quarter	798.50	559.50	20.32	14.24	804.50	550.50	20.48	14.01
Fourth Quarter	913.88	540.38	23.12	13.67	940.00	525.00	23.78	13.28
1997								
First Quarter	179.56	117.50	5.07	3.33	180.25	124.75	5.09	3.52
Second Quarter	178.94	158.00	5.00	4.42	180.00	159.00	5.03	4.44
Third Quarter	191.25	157.75	5.32	4.44	192.50	155.25	5.35	4.32
Fourth Quarter	294.06	191.25	8.20	5.33	300.00	197.50	8.36	5.50

1. Data from Stock Exchange, Mumbai as reported by Bloomberg. The prices quoted on Bangalore Stock Exchange may be different.

5.3 Principal United States Trading Market

The American Depositary Shares ("ADSs") commenced trading on the NASDAQ National Market, effective March 11, 1999. The table below sets forth, for the periods indicated, high and low trading prices for the ADSs (each ADS representing one-half of one equity share).

Fiscal Year ended March 31, 1999	Price per ADR in $	
	High	Low
1999		
Fourth Quarter (beginning March 11, 1999)	50.00	37.375

Item 6. Exchange Controls and Other Limitations Affecting Security Holders

Foreign investment in the Indian securities is generally regulated by the Foreign Exchange Regulation Act, 1973 ("FERA"). Under Section 29(1)(b) of FERA, no person or company resident outside India that is not incorporated in India (other than a banking company) can purchase the shares of any company carrying on any trading, commercial or industrial activity in India without the permission of the Reserve Bank of India ("RBI"). Also, under Section 19(1)(d) of FERA, the transfer and issuance of any security of any Indian company to a person resident outside India requires the permission of the RBI. Under Section 19(5) of FERA, no transfer of shares in a company registered in India by a non-resident to a resident of India is valid unless the transfer is confirmed by the RBI upon application filed by the transferor or the transferee. Under guidelines issued by the RBI, the RBI will approve such transfers if such transfer is transacted on an Indian stock exchange through a registered stock broker. Furthermore, the issuance of rights and other distributions of securities to a non-resident also require the prior consent of the RBI.

6.1 General

Shares of Indian companies represented by ADSs may be approved for issuance to foreign investors by the Government of India under the Issue of Foreign Currency Convertible Bonds and Equity Shares (through Depositary Receipt Mechanism) Scheme, 1993 (the "1993 Regulation"), as modified from time to time, promulgated by the Government of India. The 1993 Regulation is distinct from other policies or facilities, as described below, relating to investments in Indian companies by foreign investors. The issuance of ADSs pursuant to the 1993 Regulation also affords to holders of the ADSs the benefits of Section 115AC of the Indian Income Tax Act, 1961 for purposes of the application of Indian tax law.

6.2 Foreign Direct Investment

In July 1991, the Government of India raised the limit on foreign equity holdings in Indian companies from 40% to 51% in certain high priority industries. The RBI gives automatic approval for such foreign equity holdings. The Foreign Investment Promotion Board (the "FIPB"), currently under the Ministry of Industry, was thereafter formed to negotiate with large foreign companies wishing to make long-term investments in India. Foreign equity participation in excess of 51% in such high priority industries or in any other industries up to Rs. six billion is currently allowed only with the approval of the FIPB. Proposals in excess of Rs. six billion require the approval of the Cabinet Committee on Foreign Investment. Proposals involving the public sector and other sensitive areas require the approval of Cabinet Committee on Economic Affairs. These facilities are designed for direct foreign investments by non-residents of India who are not NRIs, OCBs or FIIs (as each term is defined below) ("Foreign Direct Investors"). The Department of Industrial Policy and Promotion, a part of the Ministry of Industry, issued detailed guidelines in January 1997 for consideration of foreign direct investment proposals by the FIPB (the "Guidelines"). Under the Guidelines, sector specific guidelines for foreign direct investment and the levels of permitted equity participation have been established. In January 1998, the RBI issued a notification that foreign ownership of up to 50%, 51% or 74%, depending on the category of industry, would be allowed without prior permission of the RBI. The issues to be considered by the FIPB, and the FIPB's areas of priority in granting approvals are also set out in the Guidelines. The basic objective of the Guidelines is to improve the transparency and objectivity of the FIPB's consideration of proposals. However, because the Guidelines are administrative guidelines and have not been codified as either law or regulations, they are not legally binding with respect to any recommendation made by the FIPB or with respect to any decision taken by the Government of India in cases involving foreign direct investment.

In May 1994, the Government of India announced that purchases by foreign investors of ADSs as evidenced by ADRs and foreign currency convertible bonds of Indian companies will be treated as direct foreign investment in the equity issued by Indian companies for such offerings. Therefore, offerings that involve the issuance of equity that results in Foreign Direct Investors holding more than the stipulated percentage of direct foreign investments (which depends on the category of industry) would require approval from the FIPB. In addition, in connection with offerings of any such securities to foreign investors, approval of the FIPB is required for Indian companies whether or not the stipulated percentage limit would be reached, if the proceeds therefrom are to be used for investment in non-high priority industries. With respect to the activities of the company, FIPB approval is required for any direct foreign investment in the company which exceeds 51% of the total issued share capital of the company.

In July 1997, the Government of India issued guidelines to the effect that foreign investment in preferred shares will be considered as part of the share capital of a company and will be processed through the automatic RBI route or will require the approval of the FIPB, as the case may be. Investments in preferred shares are included as foreign direct investment for the purposes of sectoral caps on foreign equity, if such preferred shares carry a conversion option. If the preferred shares are structured without a conversion option, they would fall outside the foreign direct investment limit but would be treated as debt and would be subject to special Government of India guidelines and approvals.

6.3 Investment by Non-Resident Indians and Overseas Corporate Bodies

A variety of special facilities for making investments in India in shares of Indian companies is available to individuals of Indian nationality or origin residing outside India ("NRIs") and to overseas corporate bodies ("OCBs"), at least 60% owned by such persons. These facilities permit NRIs and OCBs to make portfolio investments in shares and other securities of Indian companies on a basis not generally available to other foreign investors. These facilities are different and distinct from investments by Foreign Direct Investors described above.

6.4 Investment by Foreign Institutional Investors

In September 1992, the Government of India issued guidelines which enable foreign institutional investors ("FIIs"), including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers, to invest in all the securities traded on the primary and secondary markets in India. Under the guidelines, FIIs are required to obtain an initial registration from the Securities and Exchange Board of India ("SEBI") and a general permission from the RBI to engage in transactions regulated under FERA. FIIs must also comply with the provisions of the SEBI Foreign Institutional Investors Regulations, 1995. When it receives the initial registration, the FII also obtains general permission from the RBI to engage in transactions regulated under FERA. Together, the initial registration and the RBI's general permission enable the registered FII to buy (subject to the ownership restrictions discussed below) and sell freely securities issued by Indian companies, to realize capital gains on investments made through the initial amount invested in India, to subscribe or renounce rights offerings for shares, to appoint a domestic custodian for custody of investments held and to repatriate the capital, capital gains, dividends, income received by way of interest and any compensation received towards sale or renunciation of rights offerings of shares.

6.5 Ownership Restrictions

SEBI and RBI regulations restrict investments in Indian companies by FIIs, NRIs and OCBs (collectively, "Foreign Direct Investors"). Under current SEBI regulations applicable to the company, Foreign Direct Investors in aggregate may hold no more than 30% of the company's equity shares, excluding the equity shares underlying the ADSs, and NRIs and OCBs in aggregate may hold no more than 10% of the company's equity shares, excluding the equity shares underlying the ADSs. Furthermore, SEBI regulations provide that no single FII may hold more than 10% of the company's total equity shares and no single NRI or OCB may hold more than 5% of the company's total equity shares.

FIIs may only purchase securities of public Indian companies (other than the ADSs) through a procedure known as a "preferential allotment of shares", which is subject to certain restrictions. These restrictions will not apply to equity shares issued as stock dividends or in connection with rights offerings applicable to the equity shares underlying the ADSs.

There is uncertainty under Indian law about the tax regime applicable to FIIs which hold and trade ADSs. FIIs are urged to consult with their Indian legal and tax advisers about the relationship between the FII guidelines and the ADSs and any equity shares withdrawn upon surrender of ADSs.

More detailed provisions relating to FII investment have been introduced by the SEBI with the introduction of the SEBI Foreign Institutional Investors Regulations, 1995. These provisions relate to the registration of FIIs, their general obligations and responsibilities, and certain investment conditions and restrictions. One such restriction is that the total investment in equity and equity-related instruments should not be less than 70% of the aggregate of all investments of an FII in India. The SEBI has also permitted private placements of shares by listed companies with FIIs, subject to the prior approval of the RBI under FERA. Such private placement must be made at the average of the weekly highs and lows of the closing price over the preceding six months or the preceding two weeks, whichever is higher.

Under the Securities and Exchange Board of India (Substantial Acquisition of shares and Takeovers) Regulations, 1997 approved by the SEBI in January 1997 and promulgated by the Government of India in February 1997 (the "Takeover Code"), which replaced the 1994 Takeover Code (as defined herein), upon the acquisition of more than 5% of the outstanding shares of a public Indian company, a purchaser is required to notify the company and all the stock exchanges on which the shares of the company are listed. Upon the acquisition of 15% or more of such shares or a change in control of the company, the purchaser is required to make an open offer to the other shareholders offering to purchase at least 20% of all the outstanding shares of the company at a minimum offer price as determined pursuant to the rules of the Takeover Code. Upon conversion of ADSs into equity shares, an ADS holder will be subject to the Takeover Code.

Open market purchases of securities of Indian companies in India by Foreign Direct Investors or investments by NRIs, OCBs and FIIs above the ownership levels set forth above require Government of India approval on a case-by-case basis.

6.6 Voting Rights of Deposited Equity Shares Represented by ADSs

Under Indian law, voting of the equity shares is by show of hands unless a poll is demanded by a member or members present in person or by proxy holding at least one-tenth of the total shares entitled to vote on the resolution or by those holding an aggregate paid up capital of at least Rs. 50,000. A proxy may not vote except on a poll.

As soon as practicable after receipt of notice pursuant to the Deposit Agreement of any meeting of holders of equity shares or other deposited securities, the Depositary shall fix a record date for determining the Holders entitled to give instructions for the exercise of voting rights, if any, as provided in the Deposit Agreement and shall mail to the Holders a record notice which shall contain: (i) such information as is contained in such notice of meeting; (ii) a statement that the Holders of record at the close of business on a specified record date will be entitled, subject to any applicable provisions of Indian law and of the Memorandum and Articles of the company governing the deposited securities represented by their respective ADSs evidenced by their respective ADRs; (iii) a brief statement as to the manner in which such instructions may be given including (a) an express indication that the Depositary should demand a poll or instruct the Chairman of the Meeting (the "Chairman") or a person designated by the Chairman to demand a poll in the event that a poll is not otherwise demanded pursuant to Indian law and (b) an express indication that instructions may be given to the Depositary to give a discretionary proxy to a person designated by the company; and (iv) a statement that if the Depositary does not receive instructions from a Holder, such Holder may under certain circumstances be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the company to vote such deposited securities. Upon the written request of a Holder on such record date, received on or before the date established by the Depositary for such purpose, the Depositary shall endeavor, insofar as is practicable and permitted under the applicable provisions of Indian law and of the Memorandum and Articles of the company governing the deposited securities, to vote or cause to be voted the amount of deposited securities represented by such ADSs evidenced by such ADRs in accordance with the instructions set forth in such request. In the event that the Depositary receives express instructions from Holders to demand a poll with respect to any matter to be voted on by Holders, the Depositary may notify the Chairman or a person designated by the Chairman of such instructions and request the Chairman or such designee to demand a poll with respect to such matters and the company agrees that the Chairman or such designee will make their reasonable best efforts to so demand a poll at the meeting at which such matters are to be voted on and to vote such equity shares in accordance with such Holders' instructions; provided, however, that prior to any demand of a poll or request to demand a poll by the Depositary upon the terms set forth herein, the company is required, at its own expense, to use its best efforts to obtain and deliver to the Depositary an opinion of Indian counsel, reasonably satisfactory to the Depositary, stating that such action is in conformity with all applicable laws and regulations and that such demand for a poll by the Depositary or a person designated by the Depositary will not expose the Depositary to any liability to any person. The Depositary shall not have any obligation to demand a poll or request the demand of a poll if the company shall not have delivered to the Depositary the local counsel opinion set forth in this paragraph.

The Depositary agrees not to, and shall ensure that the Custodian and each of their nominees does not vote, attempt to exercise the right to vote, or in any way make use of, for purposes of establishing a quorum or otherwise, the equity shares or other deposited securities represented by the ADSs evidenced by an ADR other than in accordance with such instructions from the Holder or as provided below. The Depositary may not itself exercise any voting discretion over any equity shares. If the Depositary does not receive instructions from any Holder with respect to any of the deposited securities represented by the ADSs evidenced by such Holder's ADRs on or before the date established by the Depositary for such purpose, such Holder shall be deemed, and the Depositary shall deem such Holder, to have instructed the Depositary to give a discretionary proxy to a person designated by the company to vote such deposited securities; provided that: (i) no such discretionary proxy shall be given with respect to any matter as to which the company informs the Depositary (and the company agrees to provide such information as promptly as practicable in writing) that (a) the company does not wish such proxy given, (b) substantial opposition exists or (c) the rights of the holders of equity shares will be adversely affected; and (ii) the Depositary shall not have any obligation to give such discretionary proxy to a person designated by the company if the company shall not have delivered to the Depositary the local counsel opinion and representation letter set forth in the next paragraph.

Prior to each request for the delivery of a discretionary proxy upon the terms set forth herein, the company shall, at its own expense, deliver to the Depositary: (i) an opinion of Indian counsel, reasonably satisfactory to the Depositary, stating that such action is in conformity with all applicable laws and regulations; and (ii) a representation letter from the company (executed by a senior officer of the company) which (a) designates the person to whom any discretionary proxy should be given, (b) confirms that the company wishes such discretionary proxy to be given and (c) certifies that the company has not and shall not request the discretionary proxy to be given as to any matter as to which substantial opposition exists or which may adversely affect the rights of holders of equity shares.

Item 7. Taxation

7.1 Indian Taxation

7.1.1 General

The following summary is based on the provisions of the Income Tax Act, 1961 (the "Indian Tax Act"), including the special tax regime contained in Section 115AC (the "Section 115AC Regime") and the 1993 Regulation. The Indian Tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of the Section 115 AC Regime may be amended or changed by future amendments of the Indian Tax Act.

THE SUMMARY SET FORTH BELOW IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF THE INDIVIDUAL TAX CONSEQUENCES TO NON-RESIDENT HOLDERS UNDER INDIAN LAW FOR THE ACQUISITION, OWNERSHIP AND SALE OF ADSS AND EQUITY SHARES BY NON-RESIDENT HOLDERS. PERSONAL TAX CONSEQUENCES OF AN INVESTMENT MAY VARY FOR INVESTORS IN VARIOUS CIRCUMSTANCES AND POTENTIAL INVESTORS SHOULD THEREFORE CONSULT THEIR OWN TAX ADVISERS ON THE TAX CONSEQUENCES OF SUCH ACQUISITION, OWNERSHIP AND SALE, INCLUDING SPECIFICALLY THE TAX CONSEQUENCES UNDER THE LAW OF THE JURISDICTION OF THEIR RESIDENCE AND ANY TAX TREATY BETWEEN INDIA AND THEIR COUNTRY OF RESIDENCE.

7.1.2 Residence

For purposes of the Indian Tax Act, an individual is considered to be a resident of India during any financial year if he: (i) is in India in that year for a period or periods amounting to 182 days or more; or (ii) is in India in that year for 60 days or more and, in case of a citizen of India or a person of Indian origin, who, being outside India, comes on a visit to India, is in India for more than 182 days effective April 1, 1995 and in each case within the four preceding years has been in India for a period or periods amounting to 365 days or more. A company is resident in India if it is registered in India or the control and the management of its affairs is situated wholly in India.

7.1.3 Taxation of Distributions

Pursuant to the Finance Act, 1997, withholding tax on dividends paid to shareholders no longer applies. Distributions to Non-resident Holders of additional ADSs or equity shares or rights to subscribe for equity shares ("Rights") made with respect to ADSs or equity shares are not subject to Indian tax.

7.1.4 Taxation of Capital Gains

Any gain realized on the sale of ADSs or equity shares by a Non-resident Holder to another Non-resident Holder outside India is not subject to Indian capital gains tax. However, as Rights are not expressly covered by the Indian Income Tax Act, 1961, it is unclear, as to whether capital gain derived from the sale of Rights by a Non-resident Holder (not entitled to an exemption under a tax treaty) to another Non-resident Holder outside India will be subject to Indian capital gains tax. If such Rights are deemed by the Indian tax authorities to be situated within India, the gains realized on the sale of such Rights will be subject to customary Indian taxation as discussed below.

Since the issuance of the ADSs has been approved by the Government of India under the Section 115AC Regime, Non-resident Holders of the ADSs will have the benefit of tax concessions available under the Section 115AC Regime. The Section 115AC Regime provides that if the equity shares are sold on an Indian Stock Exchange against payment in Indian rupees, they will no longer be eligible for such concessional tax treatment. However, the Section 115AC Regime is unclear, as to whether such tax treatment is available to a non-resident who acquires equity shares outside India from a Non-resident Holder of equity shares after receipt of the equity shares upon surrender of the ADSs. If concessional tax treatment is not available, gains realized on the sale of such equity shares will be subject to customary Indian taxation as discussed below.

Subject to any relief provided pursuant to an applicable tax treaty, any gain realized on the sale of equity shares to an Indian resident or inside India generally will be subject to Indian capital gains tax which is to be deducted at the source by the buyer. For the purpose of computing capital gains tax, the cost of acquisition of equity shares received in exchange for ADSs will be determined on the basis of the prevailing price of the shares on any of the Indian stock exchanges on the date that the Depositary gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs. A Non-resident Holder's holding period (for purposes of determining the applicable Indian capital gains tax rate) in respect of equity shares received in exchange for ADSs commences on the date of the notice of the redemption by the Depositary to the Custodian. The Indo-U.S. Treaty does not provide an exemption from the imposition of Indian capital gains tax.

Taxable gain realized on equity shares (calculated in the manner set forth in the prior paragraph) for more than 12 months (long-term gain) is subject to tax at the rate of 10%. Taxable gain realized on equity shares held for 12 months or less (short-term gain) is subject to tax at variable rates with a maximum rate of 48%. The actual rate of tax on short-term gain depends on a number of factors, including the legal status of the Non-resident Holder and the type of income chargeable in India.

7.1.5 Stamp Duty and Transfer Tax

Upon issuance of the equity shares, the company is required to pay a stamp duty of 0.1% per share of the issue price of the underlying equity shares. A transfer of ADSs is not subject to the Indian stamp duty. However, upon the acquisition of equity shares from the Depositary in exchange for ADSs, the holder will be liable for Indian stamp duty at the rate of 0.5% of the market value of the ADSs or equity shares exchanged. A sale of equity shares by a registered holder will also be subject to Indian stamp duty at the rate of 0.5% of the market value of the equity shares on the trade date, although customarily such tax is borne by the transferee.

7.1.6 Gift and Wealth Tax

ADSs held by Non-resident Holders and the underlying equity shares held by the Depositary as a fiduciary and the transfer of ADSs between Non-resident Holders and the Depositary will be exempt from Indian gift tax and Indian wealth tax. Although Indian gift tax was abolished effective October 1, 1998, a gift tax may apply to transfers by way of gift of equity shares or ADSs in the future. Investors are advised to consult their own tax advisers in this context.

7.1.7 Estate Duty

Under current Indian law, there is no estate duty applicable to a Non-resident Holder of ADSs or equity shares.

7.2 United States Federal Taxation

The following is a summary of the material U.S. federal income and estate tax matters that may be relevant with respect to the acquisition, ownership and disposition of equity shares or ADSs. This summary addresses only the U.S. federal income and estate tax considerations of holders that are citizens or residents of the United States, partnerships or corporations created in or under the laws of the United States or any political subdivision thereof or therein, estates, the income of which is subject to U.S. federal income taxation regardless of its source and trusts ("U.S. Holders") or are not U.S. Holders ("Non-U.S. Holders") and that will hold equity shares or ADSs as capital assets. This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, tax-exempt entities, persons that will hold equity shares or ADSs as a position in a "straddle" or as part of a "hedging" or "conversion" transaction for tax purposes, persons that have a "functional currency" other than the U.S. dollar or holders of 10% or more (by voting power or value) of the stock of the company. This summary is based on the tax laws of the United States as in effect and on United States Treasury Regulations in effect (or, in certain cases, proposed), as well as judicial and administrative interpretations thereof available on or before such date and is based in part on representations of the Depositary and the assumption that each obligation in the Depositary Agreement and any related agreement will be performed in accordance with its terms. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

EACH INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR WITH RESPECT TO THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF ACQUIRING, OWNING AND DISPOSING OF EQUITY SHARES OR ADSs.

7.2.1 Ownership of ADSs

For U.S. federal income tax purposes, holders of ADSs will be treated as the owners of equity shares represented by such ADSs.

7.2.2 Dividends

Distributions of cash or property (other than equity shares, if any, distributed pro rata to all shareholders of the company, including holders of ADSs) with respect to equity shares will be includible in income by a U.S. Holder as foreign source dividend income at the time of receipt, which in the case of a U.S. Holder of ADSs generally will be the date of receipt by the Depositary, to the extent such distributions are made from the current or accumulated earnings and profits of the company. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. To the extent, if any, that the amount of any distribution by the company exceeds the company's current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the U.S. Holder's tax basis in the equity shares or ADSs and thereafter as capital gain.

A U.S. Holder will not be eligible for a foreign tax credit against its U.S. federal income tax liability for Indian taxes paid by the company and deemed under Indian law to have been paid by the shareholders of the company, unless it is a U.S. company holding at least 10% of the Indian company paying the dividends.

U.S. Holders should be aware that dividends paid by the company generally will constitute "passive income" for purposes of the foreign tax credit. The Internal Revenue Code applies various limitations on the amount of foreign tax credit that may be available to a U.S. taxpayer. U.S. Holders should consult their own tax advisors with respect to the potential consequences of those limitations.

A Non-U.S. Holder of equity shares or ADSs generally will not be subject to U.S. federal income tax or withholding tax on dividends received on equity shares or ADSs unless such income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States

7.2.3 Sale or Exchange of Equity Shares or ADSs

A U.S. Holder generally will recognize gain or loss on the sale or exchange of equity shares or ADSs equal to the difference between the amount realized on such sale or exchange and the U.S. Holder's tax basis in the equity shares or ADSs, as the case may be. Such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the equity shares or ADSs, as the case may be, were held for more than one year. Gain, if any, recognized by a U.S. Holder generally will be treated as U.S. source passive income for U.S. foreign tax credit purposes.

A Non-U.S. Holder of equity shares or ADSs generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of such equity shares or ADSs unless: (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the U.S.; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale and certain other conditions are met.

If dividends are paid in Indian rupees, the amount of the dividend distribution includible in the income of a U.S. Holder will be in the U.S. dollar value of the payments made in Indian rupees, determined at a spot exchange rate between Indian rupees and U.S. dollars applicable to the date such dividend is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, gain or loss (if any) resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss.

7.2.4 Estate Taxes

An individual shareholder who is a citizen or resident of the United States for U.S. federal estate tax purposes will have the value of the equity shares or ADSs owned by such holder included in his or her gross estate for U.S. federal estate tax purposes. An individual holder who actually pays Indian estate tax with respect to the equity shares will, however, be entitled to credit the amount of such tax against his or her U.S. federal estate tax liability, subject to certain conditions and limitations.

7.2.5 Backup Withholding Tax and Information Reporting Requirements

Under current U.S. Treasury Regulations, dividends paid on equity shares, if any, generally will not be subject to information reporting and generally will not be subject to U.S. backup withholding tax. Information reporting will apply to payments of dividends on, and to proceeds from the sale or redemption of, equity shares or ADSs by a paying agent (including a broker) within the United States to a U.S. Holder (other than an "exempt recipient", including a corporation, a payee that is a Non-U.S. Holder that provides an appropriate certification and certain other persons). In addition, a paying agent within the United States will be required to withhold 31% of any payments of the proceeds from the sale or redemption of equity shares or ADSs within the United States to a holder (other than an "exempt recipient") if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding requirements.

7.2.6 Passive Foreign Investment Company

A non-U.S. corporation will be classified as a passive foreign investment company (a "PFIC") for U.S. Federal income tax purposes if it satisfies either of the following two tests: (i) 75% or more of its gross income for the taxable year is passive income; or (ii) on average for the taxable year (by value or, if the company so elects, by adjusted basis) 50% or more of its assets produce or are held for the production of passive income.

The company does not believe that it satisfies either of the tests for PFIC status. If the company were to be a PFIC for any taxable year, U.S. Holders would be required to either: (i) pay an interest charge together with tax calculated at maximum ordinary income rates on certain "excess distributions" (defined to include gain on a sale or other disposition of equity shares); or (ii) if a Qualified Electing Fund election is made, to include in their taxable income their pro rata share of certain undistributed amounts of the company's income.

Item 8. Selected Financial Data

8.1 Selected Financial Data

This information set forth under the caption "Summary Consolidated Financial Data" on page 110 of the Infosys Annual Report for fiscal 1999 and such information is hereby incorporated herein by reference.

8.2 Exchange Rates

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of the equity shares on the Indian stock exchanges and, as a result, will likely affect the market price of the ADSs in the United States, and vice versa. Such fluctuations will also affect the U.S. dollar conversion by the Depositary of any cash dividends paid in Indian rupees on the equity shares represented by the ADSs. The following table sets forth, for the fiscal years indicated, certain information concerning the exchange rates between Indian rupees and U.S. dollars based on the Noon Buying Rate:

Fiscal Year Ended March 31,	Period End [1]	Average [1, 2]	High	Low
1994 [3]	Rs. 31.37	Rs. 31.52	Rs. 31.75	Rs. 31.37
1995 [3]	31.43	31.38	31.90	31.37
1996	34.35	33.47	38.05	31.36
1997	35.88	35.70	36.85	34.15
1998	39.53	37.37	40.40	35.71
1999	42.35	42.10	43.68	39.25

1. The Noon Buying Rate at each period end and the average rate for each period differed from the exchange rates used in the preparation of the company's consolidated financial statements.
2. Represents the average of the Noon Buying Rate on the last day of each month during the period.
3. From March 1, 1992 through August 19, 1994, the rupee was not permitted to fully float and convert on the current account. Instead, a dual exchange rate mechanism made the rupee partially convertible by permitting conversion of 60% of the foreign exchange received on a trade or revenue account at a market-determined rate and the remaining 40% at the official Government of India rate.

8.3 Dividends

Although the amount varies, it is customary for public companies in India to pay cash dividends. Under Indian law, a corporation pays dividends upon a recommendation by the Board of Directors and approval by a majority of the shareholders, who have the right to decrease but not increase the amount of the dividend recommended by the Board of Directors. Under the Indian Companies Act, dividends may be paid out of profits of a company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years. In the last three fiscal years, the company declared an aggregate of approximately $0.29 per equity share, as adjusted to reflect the company's stock dividend in March 1999, in cash dividends (equivalent to approximately $0.145 per ADS). Although the company has no current intention to discontinue dividend payments, there can be no assurance that any future dividends will be declared or paid or that the amount thereof will not be decreased. Owners of ADSs will be entitled to receive dividends payable in respect of the equity shares represented by such ADSs. The equity shares represented by ADSs will rank pari passu with existing equity shares of the company in respect of dividends. Cash dividends in respect of the equity shares represented by the ADSs will be paid to the Depositary in rupees and except as otherwise described in the Deposit Agreement will be converted by the Depositary into U.S. dollars and distributed, net of Depositary fees and expenses, to the holders of such ADSs.

With respect to equity shares issued by the company during a particular fiscal year (including the equity shares underlying the ADSs issued to the Depositary, dividends declared and paid for such fiscal year generally will be prorated from the date of issuance to the end of such fiscal year. Once a cash dividend is declared, equity shares entitled to prorated dividends are quoted on the Indian stock exchanges at the same price as equity shares entitled to full dividends. However, upon sale of and payment for equity shares entitled to a prorated dividend, the selling broker will deduct the difference between the full dividend and the prorated dividend from the sale price of such shares. Holders of ADSs will only receive dividends prorated from the date of issuance of the underlying equity shares to the end of the fiscal year for which such dividends are declared and paid. As a result, holders of ADSs will receive little or no dividend for fiscal 1999. Until dividends for fiscal 1999 have been paid, this disparity in dividend treatment increases the probability that the price of the ADSs will not trade on par with the price of the equity shares as quoted on the Indian stock exchanges. ADSs withdrawn from the Depositary in exchange for the underlying equity shares will receive proceeds reduced by the difference between the full dividend and the prorated dividend, upon sale of and payment for such equity shares.

The following table sets forth the annual dividends paid per equity share for each of the years indicated.

Year ended March 31,	Dividend paid per equity share [1]	
	Indian Rupee	$
1999	7.50	0.18
1998	6.00	0.07
1997	5.50	0.04
1996	5.00	0.04
1995	4.50	0.04

1. Dividends are payable pro-rata from the date of allotment.

Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations

9.1 This information is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 111 through 124 of the Infosys Annual Report for Fiscal 1999 and such information is hereby incorporated herein by reference.

9.2 In addition the following information, which is not set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 111 through 124 of the Infosys Annual Report for Fiscal 1999 may be read as part of the Management's Discussion and Analysis of Financial Condition of Operations as required by this item.

9.2.1 Investment in Yantra Corporation

Prior to October 20, 1998, the company owned a majority of the voting stock of Yantra which develops and markets an open system software package for warehouse management. As a result, all of Yantra's operating losses through October 20, 1998 were recognized in the company's consolidated financial statements. For fiscal 1998 and fiscal 1999, the Yantra losses recognized in the company's financial statements were $1.6 million and $2.0 million, respectively. On October 20, 1998, the company sold a portion of the Yantra shares held by the company, thereby reducing the company's interest to less than one-half of the voting stock of Yantra. As a result, Yantra's results after October 20, 1998 have not been recognized in the company's financial statements under U.S. GAAP. Yantra's revenues were $1.3 million and $2.0 million for fiscal 1998 and for the period ended October 20, 1998, respectively, while gross profits were $574,000 and $546,000, respectively, for these same periods. Yantra's revenues were 1.9% and 2.3% of the company's revenues for fiscal 1998 and for the period ended October 20, 1998, respectively. Yantra's gross profits were 2.0% and 1.4% of the company's gross profits for these same periods. No minority interest has been recorded because all of the common stock is owned by the company.

9.2.2 Principles of Currency Translation

In fiscal 1999, over 90% of the company's revenues were generated in U.S. dollars and European currencies. A majority of the company's expenses were incurred in rupees, and the balance was incurred in U.S. dollars and European currencies. The functional currency of the company is the Indian rupee. Revenues generated in foreign currencies are translated into Indian rupees using the exchange rate prevailing on the date the revenue is recognized. Expenses of overseas operations incurred in foreign currencies are translated into Indian rupees at either the monthly average exchange rate or the exchange rate on the date the expense is incurred, depending on the source of payment. Assets and liabilities of foreign branches held in foreign currency are translated into Indian rupees at the end of the applicable reporting period. For U.S. GAAP reporting, the financial statements are translated into U.S. dollars using the average monthly exchange rate for revenues and expenses and the period end rate for assets and liabilities. The gains or losses from such translation are reported as other comprehensive income, a separate component of shareholders' equity. The company expects that a majority of its revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of the company's expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in rupees. Consequently, the company's results of operations will be adversely affected to the extent the rupee appreciates against the U.S. dollar.

9.2.3 Income Tax Matters

The company benefits from certain significant tax incentives provided to software firms under the Indian tax laws. These incentives presently include: (i) an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as "Software Technology Parks" (the "STP Tax Holiday"); and (ii) a tax deduction for profits derived from exporting computer software (the "Export Deduction"). Under present law, the Export Deduction remains available after expiration of the STP Tax Holiday. All but one of the company's software development facilities are located in a designated Software Technology Park. The benefits of these tax incentive programs have historically resulted in an effective tax rate for the company well below statutory rates, and the company expects this trend to continue absent a change in policy by the Government of India. There is no assurance that the Government of India will continue to provide these incentives. The company pays corporate income tax in foreign countries on income derived from operations in those countries.

9.2.4 Effects of Inflation

The company's most significant costs are the salaries and related benefits for its employees. Competition in India and the United States for IT professionals with the advanced technological skills necessary to perform the services offered by the company have caused wages to increase at a rate greater than the general rate of inflation. As with other IT service providers, the company must adequately anticipate wage increases and other cost increases, particularly on its long-term contracts. Historically, the company's wage costs in India have been significantly lower than prevailing wage costs in the United States for comparably-skilled employees, although wage costs in India are presently increasing at a faster rate than in the United States. There can be no assurance that the company will be able to recover cost increases through increases in the prices that it charges for its services in the United States.

9.2.5 Year 2000 Compliance

Many existing computer systems, software applications and other control devices use only two digits to identify a year in the date field, without considering the impact of the upcoming change in the century. Others do not correctly process "leap year" dates. As a result, such systems and applications could fail or create erroneous results unless modified so that they can correctly process data related to the year 2000 and beyond. As a result, during the last three years, the company has continued to assess the impact that the Year 2000 problem may have on its operations and has identified the following areas of its business that may be affected:

Client IT Services and Products. The company has evaluated each of its IT services and software products and believes that each is substantially Year 2000 compliant. In making such evaluations, the company has utilized its experience in providing Year 2000 compliance services to its clients.

Internal Infrastructure. The Year 2000 problem could affect the systems, transaction processing, computer applications and devices used by the company to operate and monitor all major aspects of its business, including financial systems (such as general ledger, accounts payable and payroll), customer services, infrastructure, materials requirement planning, master project scheduling, networks and telecommunications systems. The company believes that it has identified the major systems, software applications and related equipment used in connection with its internal operations that must be modified or upgraded in order to minimize the possibility of a material disruption to its business. The company has converted its financial applications software to programs certified by the suppliers as Year 2000 compliant and is currently in the process of modifying and upgrading all other affected systems. The company expects to complete this process by early 1999. All costs associated with carrying out the company's plan for the Year 2000 problem are being expensed as incurred and have not been significant to date. The company believes the total of such costs will not have a material adverse effect on the company's business, results of operations and financial condition.

Third Party Suppliers. The company relies directly and indirectly on systems utilized by its suppliers for telecommunications, utilities, electronic hardware and software applications. Pursuant to its service delivery model, the company must maintain active voice and data communications between its main offices in Bangalore, the offices of its clients and its other software development facilities. Although the company maintains redundant software facilities and satellite communications links, any sustained disruption of the company's ability to transmit voice and data through satellite and telephone communications would have a material adverse effect on the company's business, results of operations and financial condition. To assess supplier Year 2000 readiness, the company has sent two separate questionnaires to a majority of its third party suppliers and believes that it will complete this assessment process by early 1999. While the company expects to resolve any significant Year 2000 problems with its suppliers in a timely manner, there can be no assurance that these suppliers will not encounter delays or unforeseen problems that affect their service to the company. The company currently believes that any required upgrades, modifications or replacements of these third party systems will be fulfilled without cost to the company and will not have a material adverse effect on the company's business, results of operations and financial condition.

Facilities. Systems such as air conditioning and security systems at the company's facilities may also be affected by the Year 2000 problem. The company is currently assessing the potential effects of and costs of upgrading and modifying these systems. The company estimates that the total cost to the company of completing any required upgrades, modifications or replacements of these systems will not have a material adverse effect on the company's business, results of operations and financial condition.

The company is currently developing contingency plans to address the Year 2000 issues that may pose a risk to its operations and expects such plans to be completed by mid-1999. Such plans may include accelerated replacement of affected systems or software, temporary use of redundant or back-up systems or the implementation of manual procedures. The company believes that the most reasonably likely worst case scenario should Infosys not achieve Year 2000 Compliance is the intermittent or temporary disruption in telecommunications, which could cause inefficiencies and delays, particularly, delays in providing support services to clients. To minimize the impact of any potential telecommunications disruptions, the company is also considering temporary measures such as placing additional IT professionals at client sites. In assessing the worst case scenario, the company has taken into account the nature of its operations as well as the availability of its IT professionals to attend to any internal problems that may arise. There can be no assurance that any contingency plans implemented by the company would be adequate to meet the company's needs without materially impacting its operations, that any such plan would be successful or that the company's business, results of operations and financial condition would not be materially adversely affected by the delays and inefficiencies inherent in conducting operations in an alternative manner.

The information above contains forward-looking statements which reflect the current views of the company with respect to Year 2000 compliance of the company's internal systems and third party suppliers, and the related costs and potential impact on the company's financial performance. As indicated above, these assessments may ultimately prove to be inaccurate.

9.2.6 Accounting Pronouncements

The American Institute of Certified Public Accountants recently issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires that certain costs related to the development of internal-use software be capitalized or amortized over the estimated useful life of the software. SOP 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998. The company estimates that all software acquired for internal use has a relatively short useful life, usually less than one year. The company, therefore, currently charges to income the cost of acquiring such software entirely at the time of acquisition. The company does not believe that adopting the provisions of SOP 98-1 will have a significant impact on its consolidated financial statements.

Item 10. Directors and Officers of the Registrant

The directors and executive officers of the company, their respective ages as of March 31, 1999, and their respective positions with the company are as follows:

Name	Age	Position
N. R. Narayana Murthy	52	Chairman and Chief Executive Officer
Nandan M. Nilekani	43	Managing Director, President and Chief Operating Officer
Susim M. Datta [1, 2]	62	Non-Executive Director
Deepak Satwalekar [1, 2]	50	Non-Executive Director
Ramesh Vangal [1, 2]	44	Non-Executive Director
Dr. Marti G. Subrahmanyam [2]	52	Non-Executive Director
Raghavan N. S.	55	Director and Head – Human Resources, Education & Research
Gopalakrishnan S.	43	Director and Head – Customer Delivery & Technology
Dinesh K.	44	Director and Head – Quality, Productivity & MIS
Shibulal S. D.	44	Director and Head – Manufacturing & Distribution and Internet & Intranet Business Units
Ajay Dubey	41	Vice President – Financial Services and Transportation Business Unit
Ashwani K. Khurana	48	Senior Vice President and Head – Marketing, Banking Business Unit
Dr. P. Balasubramanian	49	Senior Vice President and Head – Financial Services and Transportation Business Unit
Girish Vaidya	48	Senior Vice President and Head – Banking Business Unit
Hema Ravichandar	38	Senior Vice President and Head – Human Resources Development
Jan DeSmet	40	Vice President - Consulting Services and Head – Strategic Business Unit-4
T. V. Mohandas Pai	40	Senior Vice President and Head – Finance and Administration
Phaneesh Murthy	35	Senior Vice President and Head – Worldwide Sales
Prabhu M. S. S. Dr.	51	Senior Vice President and Head – Engineering Services Business Unit
Raghavan S.	37	Associate Vice President and Head – Quality & Productivity
Raghupathi G. Bhandi	38	Vice President – Enterprise Resource Planning
Rajiv Kuchhal	33	Associate Vice President and Head – Nortel OSDC Business Unit
Srinath Batni	44	Senior Vice President and Head - Retail and Telecom Business Unit
Vasudeva L. Rao	37	Vice President – Manufacturing and Distribution
Yegneshwar S. Dr.	38	Associate Vice President and Head – Education and Research

1. Member of the Compensation Committee
2. Member of the Audit Committee

N. R. Narayana Murthy has served as Chairman of the Board and Chief Executive Officer of Infosys since 1981, when he founded the company with six software professionals. Mr. Murthy also served as Managing Director of Infosys until February 1999. While at Infosys, from 1992 to 1994, Mr. Murthy also served as the President of National Association of Software and Service Companies ("NASSCOM"). Mr. Murthy is on the Governing Council of the National Information Technology Task Force of India and was voted "IT Man of the Year" for 1996 by Dataquest India. In 1998, Mr. Murthy was awarded the prestigious J.R.D. Tata Corporate Leadership Award. Since August 1998, Mr. Murthy has served as a director of the Industrial Credit and Investment Corporation of India ("ICICI") and since 1998, he has served as a director of Videsh Sanchar Nigam Limited ("VSNL"). He is a Fellow of the All India Management Association ("AIMA") and the Computer Society of India ("CSI"). Mr. Murthy received a B.E. in Electrical Engineering from the University of Mysore and a M.Tech. from the Indian Institute of Technology ("IIT"), Kanpur.

Nandan M. Nilekani is a co-founder of Infosys and has served as a Director since 1981, Head – Marketing and Sales of Infosys since 1987, Head – Banking Business Unit since 1997 and Managing Director, President and Chief Operating Officer since February 1999. From 1981 to 1987, Mr. Nilekani was in the United States managing the marketing and development efforts of Infosys. Mr. Nilekani is a co-founder of NASSCOM and received a B.Tech. in Electrical Engineering from IIT, Mumbai.

Susim M. Datta has served as a Director of Infosys since 1997. He is Chairman of Castrol India Ltd. and IL&FS Venture Corporation Ltd. He is a Director of Philips India Ltd., Tata Trustee Company Ltd. and various other publicly-held corporations in India. From 1990 to 1996, he was Chairman of Hindustan Lever Ltd. and all Unilever Group Companies in India and Nepal. Mr. Datta is a Trustee of the government-sponsored India Brand Equity Fund Trust and a member of the Advisory Board of the Council for Fair Business Practices, Mumbai. He is also Chairman of the Board of Governors of IIM, Bangalore and the Goa Institute of Management. Mr. Datta received a M.Sc. from Calcutta University.

Deepak M. Satwalekar has served as a Director of Infosys since 1997. He has been Managing Director of Housing Development Finance Corporation Ltd. since 1993, and was Deputy Managing Director since 1990. He has been a member of the Managing Committee of the Bombay Chamber of Commerce and Industry from 1996 to 1998. Mr. Satwalekar was also a Member of the Economic Affairs Committee of the Indo-American Chamber of Commerce from 1993 to 1994 and 1996 to 1997. He is a Director of several companies in India and elsewhere. Mr. Satwalekar received a B.Tech. in Mechanical Engineering from IIT, Mumbai and a M.B.A. from the American University.

Dr. Marti G. Subrahmanyam has served as a Director of Infosys since April 1998. He has served as the Charles E. Merrill Professor of Finance and Economics at the Stern School of Business at New York University since 1991 and has been a visiting professor at IIT, Chennai, INSEAD, IIM, Ahmedabad and Manchester Business School, among other academic institutions. Dr. Subrahmanyam has written several books and published numerous articles in the areas of finance and economics. He is a Director of ICICI Limited, Nomura Asset Management Inc. and Deutsche Software India Ltd., a subsidiary of Deutsche Bank AG. Dr. Subrahmanyam received a B.Tech. from IIT, Chennai, a Diploma in Business Administration, from IIM, Ahmedabad and a Ph.D. in Finance and Economics from the Massachusetts Institute of Technology.

Ramesh Vangal has served as a Director of Infosys since 1997. He has served as the President of Seagram Asia Pacific since 1997. From 1994 to 1997, he was a member of the Worldwide Operating Council of PepsiCo and was President of PepsiCo Foods International, Asia Pacific. From 1985 to 1994, he served in various management capacities for PepsiCo. Mr. Vangal received a B.Tech. from IIT, Mumbai and a M.Sc. in Business from the London Business School. He also holds a Certificate Diploma, Accounting and Finance from the Institute of Chartered Accountants, London.

N. S. Raghavan is a co-founder of Infosys and has served as a Director since 1981 Head – Human Resources and Education of Infosys since 1996. From 1981 to 1996, he served in various senior management positions within Infosys. Mr. Raghavan received a B.E. in Electrical Engineering from Andhra University.

S. Gopalakrishnan is a co-founder of Infosys and has served as a Director since 1981 and Head – Client Delivery and Technology of Infosys since 1996. From 1994 and 1996, Mr. Gopalakrishnan was head of Technical Support Services for Infosys. From 1987 to 1994, he was Technical Vice President and managed all projects at the U.S.-based KSA/Infosys, a former joint venture between the company and Kurt Salmon Associates. Prior to that, Mr. Gopalakrishnan was Technical Director of Infosys, responsible for the technical direction of the company. Mr. Gopalakrishnan received a M.Sc. in Physics and an M.Tech. in Computer Science from IIT, Chennai.

K. Dinesh is a co-founder of Infosys and has served as a Director since 1985. He has served as Head – Quality, Productivity and MIS of Infosys since 1996. From 1991 to 1996, Mr. Dinesh served in various project management capacities and was responsible for worldwide software development efforts for Infosys. From 1981 to 1990, he managed projects for Infosys in the United States. Mr. Dinesh received a M.Sc. degree in Mathematics from Bangalore University.

S. D. Shibulal is a co-founder of Infosys and has served as a Director from 1984 to 1991 and since 1997. He has served as Head – Manufacturing, Distribution and Year 2000 Business Unit and Head – Internet and Intranet Business Unit of Infosys since 1997. From 1991 to 1996, Mr. Shibulal was on sabbatical from Infosys and served as Senior Information Resource Manager at Sun Microsystems, Inc. From 1981 to 1991, he worked for Infosys in the United States on projects in the retail and manufacturing industries. Mr. Shibulal received a M.Sc. in Physics from the University of Kerala and a M.S. in Computer Science from Boston University.

Ajay Dubey has served as Vice President – Financial Services and Transportation Business Unit of Infosys since April 1999. From 1995 to 1999, he was an Associate Vice President working in the Financial Services and Transportation Business Unit. He joined the company in 1993 as a Senior project manager. From 1990 to 1993, he served as a Technical Team leader in ANZ Grindlays, New Zealand. Mr. Dubey received a B.Tech. from IIT, Kanpur in 1980.

Ashwani K. Khurana has served as Senior Vice President and Head – Banking Business Unit (Sales and Support) of Infosys since 1994. He joined the company in 1992 as Managing Director of Infosys Digital Systems Pvt. Ltd., formerly a subsidiary of the company. Prior to that, for 14 years, Mr. Khurana was a Regional Manager for WIDIA India Limited, an Indian subsidiary of KRUPP WIDIA of Germany, an industrial product manufacturer. Mr. Khurana received a B.Tech. from IIT, Delhi.

Dr. P. Balasubramanian has served as Senior Vice President and Head – Financial Services and Transportation Business Unit of Infosys since 1995. From 1989 to 1992, Dr. Balasubramanian was Chief Executive Officer and Technical Director of Hitek Software Engineers Limited ("Hitek"), Jamaica, West Indies. From 1992 to 1994, he was a Technical Director of Hitek. From 1986 to 1989, Dr. Balasubramanian was Chief Executive Officer of Cholamandalam Software Limited, Chennai. Dr. Balasubramanian has been invited as guest faculty to several executive training programs in India as well as at the University of West Indies. Dr. Balasubramanian received a B.Tech. and M.Tech from IIT, Chennai and a Ph.D. in Operations Research and Financial Management from Purdue University.

Girish Vaidya has served as Senior Vice President and Head – Banking Business Unit of Infosys since April 1999. Prior to that, Mr. Vaidya was Director and Head – Operations India for ANZ Grindlays with whom he had been since 1975. Mr. Vaidya received a B.E. from S.P College of Engineering, Mumbai in 1973 and an M.B.A from IIM, Calcutta in 1975.

Hema Ravichandar has served as Senior Vice President and Head – Human Resources of Infosys since 1998. From 1996 to 1998, Ms. Ravichandar was an independent consultant. From 1992 to 1995, she served as Head – Human Resources at Infosys. From 1983 to 1992, Ms. Ravichandar was employed by Motor Industries Company Limited as Deputy Manager – Human Resource Development. Ms. Ravichandar received a B.A. in Economics and a post graduate diploma in management from IIM, Ahmedabad.

Jan DeSmet has served as Vice President – Consulting Services and Head – Strategic Business Unit-4 since January 1999. From 1996 to1998, Mr. DeSmet was Senior Principal with Diamond Technology Partners in Chicago. Mr. DeSmet received a M.B.A from the University of Dallas in 1982.

T. V. Mohandas Pai has served as Senior Vice President and Head – Finance and Administration of Infosys since 1996. From 1994 to 1996, he served as Vice President of Finance at Infosys. From 1988 to 1994, Mr. Pai was Executive Director of Prakash Leasing Limited. He was also a member of the Capital Markets Committee of the Institute of Chartered Accountants of India. Mr. Pai received a B.Com. from St. Joseph's College of Commerce, Bangalore and a LL.B. from the University Law College, Bangalore. Mr. Pai is a Fellow Member of the Institute of Chartered Accountants of India.

Phaneesh Murthy has served as Senior Vice President and Head – Worldwide Sales of Infosys since 1996. From 1992 to 1996, Mr. Murthy was a Marketing Manager for Infosys based in the United States. From 1987 to 1992, he worked in sales and marketing for Sonata, a software division of Indian Organic Chemicals Ltd. Mr. Murthy received a B.Tech. in Mechanical Engineering from IIT, Chennai and a post graduate diploma in business administration from IIM, Ahmedabad.

Dr. M. S. S. Prabhu has served as Senior Vice President and Head – Engineering Services Business Unit of Infosys since 1997. From 1994 to 1997, Dr. Prabhu served as head of CAD/CAM group at Tata Consultancy Services. From 1972 to 1994, he served in various capacities for the Indian Satellite Research Organization. Dr. Prabhu received a B.E. in Civil Engineering from Bangalore University and a Ph.D. in Aeronautical Engineering from Indian Institute of Science, Bangalore.

Raghavan S. has served as Associate Vice President and Head – Quality & Productivity since April 1999. From 1987 to 1999 Mr. Raghavan has served in various capacities for the company, starting as a Software Engineer in 1987 upto a Senior project manager in 1999. Mr. Raghavan received a B.E. from Osmania University in 1983.

Raghupathi G. Bhandi has served as Vice President of Infosys since April 1998. From 1995 to 1998, he started and developed the company's first software development facility outside of Bangalore. From 1991 to 1995, Mr. Bhandi worked in the Quality Department of Infosys with attention to ISO 9000 certification. From 1988 to 1991, he was an Assistant Manager on projects in the United States and Europe. Mr. Bhandi received a B.E. from Mysore University and a M.Tech. in Industrial Management and Engineering from IIT, Kanpur.

Rajiv Kuchhal has served as Associate Vice President of Infosys since 1998 and Head—Nortel OSDC Business Unit of Infosys since April 1998. From 1990 to 1998, Mr. Kuchhal served in various capacities for the company, including projects relating to an electronic telex interface and management of the Nortel OSDC before it became a separate business unit. Mr. Kuchhal received a B.Tech. in Electrical and Electronics Engineering from IIT, Delhi.

Srinath Batni has served as Senior Vice President and Head – Retail and Telecommunications Business Unit of Infosys since 1996. After joining Infosys in 1992, Mr. Batni was a Project Manager. From 1990 to 1992, he was Manager of Technical Support for PSI Bull, an Indian software development subsidiary of Bull, S.A., a French company. Mr. Batni received a B.E. in Mechanical Engineering from Mysore University and a M.E. in Mechanical Engineering from the Indian Institute of Science, Bangalore.

Vasudeva L. Rao has served as Vice President of Infosys since April 1998, operating in the distribution and logistics domains of the Manufacturing and Distribution Business Unit. From 1994 to 1996, he was an Associate Vice President working in the Manufacturing and Distribution Unit. From 1991 to 1994, he served as a project manager in the retail industry at Software Sourcing Company, formerly KSA/Infosys. From 1985 to 1991, Mr. Rao was a software engineer for Infosys based in the United States. Mr. Rao received a B.E. in Mechanical Engineering from Bangalore University.

Dr. S. Yegneshwar has served as Associate Vice President and Head –– Education and Research of Infosys since 1996. From 1993 to 1996, Dr. Yegneshwar was a group leader of the Software Engineering group in the Education and Research Department of Infosys. From 1990 to 1993, he was an Assistant Professor of Computers and Information Systems at IIM, Ahmedabad, where he taught courses in software engineering and management to postgraduate and doctoral students. Dr. Yegneshwar received a B.E. in Mechanical Engineering from the Birla Institute of Technology and Science, Pilani and a Ph.D. in Computer Science and Engineering from IIT, Mumbai.

Item 11. Compensation of Directors and Officers

In fiscal 1999, the company's four non-employee directors were paid an aggregate of $ 56,671 (translated at the Noon Buying Rate on March 31, 1999). Directors who are also employees of the company do not receive any additional compensation for their service on the board of directors. Directors are also reimbursed for certain expenses in connection with their attendance at the board and the committee meetings.

The table below, for the officers and directors of the company, sets forth compensation for the fiscal year ended March 31, 1999.

	Annual Compensation Awards		
Name	Salary	Bonus	Other Annual Compensation
Narayana N. R. Murthy	$ 31,178	–	$ 4,905
Nandan M. Nilekani	30,455	–	4,905
Susim M. Datta	–	–	–
Deepak Satwalekar	–	–	–
Ramesh Vangal	–	–	–
Dr. Marti G. Subrahmanyam	–	–	–
Ajay Dubey	18,587	–	2,872
Ashwani K. Khurana	25,311	–	4,011
Balasubramanian P. Dr.	29,589	–	4,606
Dinesh K.	30,226	–	4,905
Girish Vaidya*	5,500	–	891
Gopalakrishnan S.	29,779	–	4,905
Hema Ravichandar*	5,660	–	952
Jan DeSmet*	40,333	–	–
Mohandas Pai T. V.	25,721	–	5,812
Phaneesh Murthy	198,870	–	–
Prabhu M. S. S. Dr.	27,682	–	4,360
Raghavan N. S.	29,527	–	4,905
Raghavan S.	16,650	–	1,743
Raghupathi G. Bhandi	20,568	–	2,995
Rajiv Kuchhal	17,265	–	2,629
Shibulal S. D.	29,058	–	4,905
Srinath Batni	23,126	–	5,268
Vasudeva L. Rao	18,287	–	2,827
Yegneshwar S. Dr.	16,024	–	2,464

* Indicates the Annual Compensation Awards only from commencement of service in the year

Item 12. Options to Purchase Securities from Registrant or Subsidiaries.

12.1 Benefit Plans

1994 Employees Stock Offer Plan. The ESOP was approved by the shareholders on June 25, 1994 and adopted by the Board of Directors on September 15, 1994. The ESOP provides for the grant of rights to purchase equity shares to eligible employees. Each stock purchase right provides the right to acquire one equity share of the company.

The ESOP is administered by an advisory board which consists of three company directors and two independent members. The company has created an employee welfare trust (the "Trust") to hold the equity shares eligible for future issuance and subject to vesting under the ESOP. The advisory board selects eligible full-time employees for the grant of stock purchase rights from the Trust. The advisory board, in its discretion, selects employees based upon various factors, including, without limitation: employee performance, period of service and status in the company. Founders of the company are not eligible to participate in the ESOP.

Stock purchase rights granted under the ESOP are generally non-transferable by the employee. However, if the employee terminates employment by resignation, dismissal or severance, his or her stock purchase rights are canceled and his or her equity shares subject to vesting are transferred back to the Trust. If the employee terminates employment by death or retirement, his or her stock purchase rights and equity shares subject to vesting are transferred to the employee's legal heirs or shall continue to be held by the employee, as the case may be. Each purchase right entitles the holder to purchase one equity share at an exercise price of Rs. 100 (representing $2.36 per equity share at the Noon Buying Rate in effect on March 31, 1999). The stock purchase rights issued under the ESOP are exercisable for a period of five years after the date of issuance of the stock purchase right to the employee from the Trust. Equity shares received by an employee under the ESOP are non-transferable for a period of five years from the date the stock purchase right was issued to the employee. After the expiration of this lock- in period, the employee shall become the absolute owner of the equity shares. If the company declares a stock dividend, the dividend shares distributed to ESOP participants would not be subject to vesting. The ESOP is subject to all applicable laws, rules, regulations and to such approvals by any governmental agencies as may be required.

As of March 31, 1999, the Trust held 54,800 equity shares which are reserved for issuance upon exercise of stock purchase rights to be granted by the Trust in the future.

1998 Stock Option Plan. The company's 1998 Stock Option Plan (the "1998 Plan") provides for the grant of nonstatutory stock options and incentive stock options (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code")), to employees of the company. The establishment of the 1998 Plan was approved by the Board of Directors in December 1997 and by the shareholders in January 1998. The Government of India has approved the 1998 Plan, subject to a $50 million limit on the aggregate market value of the equity shares reserved pursuant to the 1998 Plan. Accordingly, the total equity shares reserved for issuance may be reduced by the Board of Directors from time to time to comply with the Government of India's $50 million limit. A total of 800,000 equity shares are currently reserved for issuance pursuant to the 1998 Plan. Unless terminated sooner, the 1998 Plan will terminate automatically in January 2008. All options under the 1998 Plan will be exercisable for ADSs represented by ADRs.

The 1998 Plan is administered by a committee of the Board (the "Committee"). The Committee has the power to determine the terms of the options granted, including the exercise price, the number of ADSs subject to each option, the exercisability thereof, and the form of consideration payable upon such exercise. In addition, the Committee has the authority to amend, suspend or terminate the 1998 Plan, provided that no such action may affect any ADS previously issued and sold or any option previously granted under the 1998 Plan.

Options granted under the 1998 Plan are not generally transferable by the optionee, and each option is exercisable during the lifetime of the optionee only by such optionee. Options granted under the 1998 Plan must generally be exercised within three months of the end of optionee's status as an employee of the company, but in no event later than the expiration of the option's term. In the event of optionee's termination as a result of death or disability, the vesting and exercisability of the optionee's option will accelerate in full and the option must be exercised within 12 months after such optionee's termination by death or disability, but in no event later than the expiration of the option's term. The exercise price of incentive stock options granted under the 1998 Plan must be at least equal to the fair market value of the ADSs on the date of grant. The exercise price of nonstatutory stock options granted under the 1998 Plan must be at least equal to 90% of the fair market value of the ADSs on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of the company's outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the term of such incentive stock option must not exceed five years. The term of all other options granted under the 1998 Plan may not exceed 10 years.

The 1998 Plan provides that in the event of a merger of the company with or into another corporation, a sale of substantially all of the company's assets or a like transaction involving the company, each option shall be assumed or an equivalent option substituted by the successor corporation. If the outstanding options are not assumed or substituted as described in the preceding sentence, the vesting and exercisability of each option will accelerate in full.

The following table sets forth the options to purchase securities that were outstanding as of March 31, 1999.

Class of Securities	Total Amount of Securities	Exercise price	Expiration dates
Equity shares	40,000	$2.36	March 2005
American Depositary Shares	1,07,000	$34.00	March 2004-2009

The following table sets forth the options to purchase securities held by executive officers and directors that were outstanding as of March 31, 1999.

Name	Average Exercise Price	Option Vesting Date	No. of ADSs/ Equity Shares
Options to Purchase ADSs			
Balasubramanian P.	$ 34.00	March 2003	3,000
Hema Ravichandar	34.00	March 2003	3,000
Jan DeSmet	34.00	March 2003	40,000
Mohandas Pai T. V.	34.00	March 2003	3,000
Phaneesh Murthy	34.00	March 2003	40,000
Prabhu M. S. S.	34.00	March 2003	3,000
Raghupathi G. Bhandi	34.00	March 2003	3,000
Rajiv Kuchhal	34.00	March 2003	3,000
Srinath Batni	34.00	March 2003	3,000
Vasudeva Rao L.	34.00	March 2003	3,000
Yegneshwar S.	34.00	March 2003	3,000
Options to Purchase Equity shares			
Girish Vaidya	$ 2.35	March 2005	8,000
Hema Ravichandar	2.35	March 2005	32,000

Item 13. Interest of Management in Certain Transactions

Yantra Corporation

In December 1996, the company transferred all rights, title and interest in and to the WMSYantra (formerly known as EAGLE) software product to Yantra, then a majority-owned subsidiary of the company. Yantra granted Infosys a non- exclusive right to reproduce, distribute and service the product to the extent necessary to fulfill the company's pre-existing contractual obligations for the product. In consideration for this transaction Infosys received 7,500,000 shares of common stock of Yantra, which had a fair market value at the time of $0.20 per share. In September 1997, the company purchased 2,000,000 shares of Series A Preferred Stock of Yantra at $0.75 per share. Certain of the company's directors or officers are directors of Yantra. As of March 31, 1998, Mr. Phaneesh Murthy, an executive officer of the company, held options to purchase 100,000 shares of common stock of Yantra at an exercise price of $0.10 per share, all of which were granted on September 29, 1997. Other than Mr. Phaneesh Murthy, none of the company's directors or officers beneficially owns any shares or options of Yantra. On October 20, 1998, the company sold 1,363,637 shares of Series A Preferred Stock of Yantra for $1.10 per share to an unaffiliated purchaser. As a result, the company reduced its interest in Yantra to less than one-half of voting stock of Yantra.

Employment Agreements

The company has entered into agreements with its employee directors containing a monthly salary, performance bonus and benefits including vacation, medical reimbursement and pension fund contributions. These agreements are made for a five-year period, but either the company or the employee director may terminate the agreement upon six months notice to the other party.

Loans to Employees

Pursuant to an employee loan program, the company grants loans to employees to acquire certain assets such as property or vehicles. Such loans are made at interest rates ranging from 0% to 4% and are repayable over fixed periods ranging from one to 100 months. The loans generally are secured by the assets acquired by the employees. As of March 31, 1999, there were $5.2 million in loans outstanding to employees, of which $265,669 were loans receivable from executive officers of the company in amounts less than $60,000.

PART II

Item 14. Description of Securities to be Registered

Not applicable.

PART III

Item 15. Defaults upon Senior Securities

Not applicable.

Item 16. Changes in Securities, Changes in Security for Registered Securities and Use of Proceeds

On March 11, 1999 the company completed its initial U.S. public offering (the "U.S. IPO") of 2,070,000 American Depositary Shares representing 1,035,000 equity shares, par value Rs. 10 per share (including the exercise of the underwriters' over-allotment option consisting of 270,000 American Depositary Shares representing 135,000 equity shares) at a public offering price of $34.00 per American Depositary Share pursuant to a registration statement on Form F-1 (file no. 333-72195) filed with the Securities Exchange Commission (the "Registration Statement"). All of the shares registered were sold. NationsBanc Montgomery Securities LLC, BancBoston Robertson Stephens, BT Alex. Brown and Thomas Weisel Partners LLC were on the managing underwriters of the U.S. IPO. Aggregate gross proceeds to the company (prior to deduction of underwriting discounts and commissions and expenses of the offering) were $70,380,000. There were no selling stockholders in the U.S. IPO.

The company paid underwriting discounts and commissions of $3,477,600 and other expenses are estimated to be $1,750,000 in connection with the U.S. IPO. The total expenses to the company are estimated to be $5,227,600 (out of which an amount of $4,112,824 was paid as of March 31, 1999) and the net proceeds to the company in the IPO would be $65,152,400.

From March 10, 1999, the effective date of the Registration Statement, to March 31, 1999, no part of the net proceeds were used for any of the uses of proceeds stated in the Form F-1 Registration Statement and the funds are reserved for general corporate purposes.

PART IV

Item 17. Financial Statements and Supplementary Data

The company has elected to provide financial statements pursuant to Item 18 of Form 20-F.

Item 18. Financial Statements and Supplementary Data

The following financial statements of the company and the auditors' report appearing on pages 126 through 146 of the Infosys Annual Report for Fiscal 1999 are hereby incorporated herein by reference:

- Independent Auditors' Report
- Balance Sheets as of March 31, 1999 and 1998.
- Statements of Income for the years ended March 31, 1999, 1998 and 1997.
- Statements of Shareholders' Equity for the years ended March 31, 1999, 1998 and 1997.
- Statements of Cash Flows for the years ended March 31, 1999, 1998 and 1997.
- Notes to Financial Statements.

The Infosys Annual Report for Fiscal 1999, except for those portions which are expressly incorporated by reference in this filing, is furnished for the information of the Securities and Exchange Commission and is not to be deemed as filed as a part of this Report on Form 20-F.

Item 19. Financial Statements and Exhibits

a. Financial Statements

The following financial statements of the company included in Item 18 of this Report on Form 20-F are hereby incorporated by reference from the Infosys Annual Report for Fiscal 1999, filed as Exhibit 13.1 to this Report on Form 20-F.

- Independent Auditors' Report
- Balance Sheets as of March 31, 1999 and 1998.
- Statements of Income for the years ended March 31, 1999, 1998 and 1997.
- Statements of Shareholders' Equity for the years ended March 31, 1999, 1998 and 1997.
- Statements of Cash Flows for the years ended March 31, 1999, 1998 and 1997.
- Notes to Financial Statements.

b. Exhibits

Exhibit Number	Description of Document
*3.1	Articles of Association of the Registrant, as amended.
*3.2	Memorandum of Association of the Registrant, as amended.
*3.3	Certificate of Incorporation of the Registrant, as currently in effect.
*4.1	Form of Deposit Agreement among the Registrant, Bankers Trust Receipts issued thereunder (including as an exhibit, the form of American Depositary Receipt).
*4.2	Registrant's Specimen Certificate for Equity Shares.
*10.1	Registrant's 1998 Stock Option Plan and form of Option Agreement.
*10.2	Registrant's Employees Stock Offer Plan.
*10.3	Employees Welfare Trust Deed of Registrant Pursuant to Employees Stock Offer Plan.
*10.4	Form of Indemnification Agreement.
13.1	Infosys Annual Report for Fiscal 1999.
23.1	Consent of KPMG Peat Marwick, India, Independent Auditors.
27.1	Financial Data Schedule.

* Incorporated by reference to exhibits filed with the Registrant's Registration Statement on Form F-1 (File No. 333-72195) in the form declared effective on March 10, 1998.

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

for Infosys Technologies Limited

Bangalore May 13, 1999	Nandan M. Nilekani *Managing Director, President and Chief Operating Officer*	N. R. Narayana Murthy *Chairman and Chief Executive Officer*

Shareholder information

- Shareholder information
- Frequently asked questions (FAQ)
- Additional information to shareholders
  - Share performance chart
  - Intangible assets scoresheet
  - Human Resources Accounting and Value-Added statement
  - Brand valuation
  - Balance Sheet (including intangible assets)
  - Economic-Value-Added (EVA) statement
  - Ratio analysis
  - Statutory obligations / segment reporting
- Management structure
- A historical perspective
- Consolidated financial statements of Infosys and its subsidiary
- Infosys Foundation

Shareholder information

1. Dates of book closure	June 4, 1999 to June 12, 1999 (both days inclusive)
2. Date and venue of the annual general meeting	3.00 p.m. on June 12, 1999, at Hotel Taj Residency, No. 41/3, M. G. Road, Bangalore – 560 001.
3. Dividend payment	On or after June 12, 1999, but within the statutory time limit.
4. Listing on stock exchanges in India at	Bangalore Stock Exchange Ltd. Stock Exchange Towers, No. 51, 1st Cross, J.C. Road, Bangalore – 560 027. Tel.: 91-80-299 5234, Fax: 91-80-299 5242 The Stock Exchange, Mumbai Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001. Tel.: 91-22-265 5581, Fax: 91-22-265 8121 National Stock Exchange of India Ltd. Trade World, Senapati Bapat Marg, Lower Parel, Mumbai – 400 013. Tel.: 91-22-497 2950, Fax: 91-22-491 4275 / 85
5. Listing fees	Paid for all the above stock exchanges for 1998-99 and 1999-2000.
6. Listing on stock exchanges outside India	NASDAQ National Market in the United States 33 Whitehall Street, New York, NY-1004-4087 Tel.: 1-212-709-2400, Fax: 1-212-709-2496
7. Registered office	Electronics City, Hosur Road, Bangalore – 561 229, India. Tel.: 91-80-852 0261, Fax: 91-80-852 0362 Homepage: www.itlinfosys.com

8. Stock market data relating to shares listed in India

   a. The company's market capitalization is included in the computation of the BSE-30 Sensitive Index (Sensex), the BSE Dollex and S&P CNX NIFTY Index.

   b. Monthly high and low quotations as well as the volume of shares traded at Mumbai and National Stock Exchanges for 1998-99 are:

	BSE High Rs.	BSE Low Rs.	BSE Volume Nos.	NSE High Rs.	NSE Low Rs.	NSE Volume Nos.
April, 1998	2,458	1,838	11,18,500	2,439	1,842	17,27,100
May	2,535	2,151	12,84,805	2,550	2,150	25,48,100
June	2,624	1,872	15,01,280	2,600	1,870	20,84,000
July	2,678	2,142	17,88,240	2,682	2,149	24,13,400
August	2,798	2,475	14,03,200	2,786	2,465	19,72,900
September	2,610	2,291	13,11,424	2,580	2,291	14,10,400
October	2,470	2,141	15,26,800	2,475	2,140	18,77,600
November	2,467	2,272	6,35,501	2,479	2,273	8,34,300
December	3,079	2,323	14,12,781	3,110	2,319	14,99,334
January, 1999	5,000	2,933	8,69,996	4,998	2,946	7,29,303
February	4,978	2,300*	7,39,438	5,150	2,430*	10,04,597
March	3,499	2,610	28,11,605	3,457	2,600	29,48,453
Total			1,64,03,570			2,10,49,487
% of volume traded to average shares outstanding		1998-99	102.41%#			131.42%#
		1997-98	25.49%			51.67%
		1996-97	7.15%			7.82%

* Ex-bonus price

The number of shares outstanding have been taken to be 1,60,17,200, as the bonus shares were not listed on the stock exchanges as at March 31, 1999.

Note: There was no trading in the shares of Infosys on the Bangalore Stock Exchange during the period May 1998 to March 1999. The last trade on the Bangalore Stock Exchange was on April 24, 1998. The highest share price in April 1998 was Rs. 2,240, while the lowest was Rs. 1,225 with a volume of 2,100 shares.

9. Share transfers in physical form and other communication regarding share certificates, dividends, and change of address, etc., in India may be addressed to

Karvy Consultants Limited
Registrars and Share Transfer Agents
T.K.N. Complex, No. 51/2, Vanivilas Road,
Opp. National College, Basavanagudi,
Bangalore – 560 004.
Tel.: 91-80-662 1184, Fax: 91-80-662 1169
Email: KARVY.BGL@KARVY.sprintrpg.ems.vsnl.net.in

10. Share transfer system

The Securities and Exchange Board of India (SEBI) has mandated that investors should compulsorily trade in dematerialized form in the securities of Infosys from January 4, 1999. Investors are required to open an account with a Depositary Participant to trade in dematerialized form. The list of Depositary Participants are available with the National Securities Depositary Limited (NSDL). A booklet – *An Investor's Guide to Depositaries* is available at www.itlinfosys.com.

Shares sent for physical transfer would be registered and returned within a period of 15 days from the date of receipt, if the documents are clear in all respects. The Share Transfer Committee of the company meets as often as required.

The total number of shares transferred in physical form during the year 1998-99 were 19,79,276 (previous year – 22,22,907). 85.53% of transfers (previous year – 62.05%) were completed within 15 days. Shares in dematerialized form were transferred within 10 days.

Transfer period in days	1998-99 No. of transferees (folios) New	1998-99 No. of transferees (folios) Existing	1998-99 No. of shares	1998-99 %	1997-98 No. of transferees (folios) New	1997-98 No. of transferees (folios) Existing	1997-98 No. of shares	1997-98 %
1 – 10	1,609	152	14,33,242	72.41	279	39	3,91,575	17.62
11 – 15	237	76	2,59,601	13.12	497	67	9,87,647	44.43
16 – 20	291	103	2,26,857	11.46	264	42	7,81,310	35.15
* 21 and above	108	37	59,576	3.01	68	23	62,375	2.80
	2,245	368	19,79,276	100.00	1,108	171	22,22,907	100.00

* Delays beyond 21 days were due to compliance of legal requirements

11. Investors' services – Complaints received during the year

Nature of complaints	1998-99 Received	1998-99 Cleared	1997-98 Received	1997-98 Cleared
1. Non-receipt of share certificates	78	78	82	82
2. Non-receipt of bonus shares	10	10	58	58
3. Letters from Stock Exchanges, SEBI, etc.	1	1	12	12
4. Non-receipt of dividend warrants	44	44	102	102
	133	133	254	254

The company has attended to most of the investors' grievances/correspondence within a period of 10 days from the date of receipt of the same, during the year 1998-99.

12. Legal proceedings

There are some pending cases relating to disputes over title to shares, in which the company is made a party. These cases are however not material in nature.

13. Distribution of shareholding as on March 31

No. of equity shares held	1999				1998			
	No. of share-holders	% of share-holders	No. of shares	% of share-holding	No. of share-holders	% of share-holders	No. of shares	% of share-holding
1 – 100	2,270	23.83	60,666	0.19	792	11.96	73,085	0.46
101 – 200	1,661	17.44	3,25,240	1.02	1,934	29.21	3,69,468	2.31
201 – 500	1,884	19.78	7,43,110	2.32	2,459	37.13	9,24,934	5.77
501 – 1000	2,077	21.80	15,92,225	4.97	759	11.46	5,69,817	3.56
1001 – 5000	1,235	12.96	26,85,624	8.38	469	7.08	8,84,952	5.53
5001 – 10000	154	1.62	11,16,090	3.48	65	0.98	4,80,740	3.00
10001 and above	245	2.57	2,55,11 ,445	79.64	144	2.18	1,27,14,204	79.37
Total	9,526	100.00	3,20,34,400	100.00	6,622	100.00	1,60,17,200	100.00
American Depositary Shares	1*		10,35,000		–		–	
Total	9,527		3,30,69,400					

* Held by beneficial owners outside India.

14. Categories of shareholders as on March 31

Category	1999			1998		
	No. of shareholders	Voting strength (%)	No. of shares held	No. of shareholders	Voting strength (%)	No. of shares held
Individuals	8,923	25.14	83,14,380	6,305	28.41	45,49,823
Companies	323	3.60	11,89,070	152	2.81	4,49,577
FIIs	142	24.79	81,96,512	62	24.45	39,15,700
OCBs and NRIs	47	0.52	1,74,034	27	0.23	37,600
Founders and their families	18	29.69	98,19,600	18	30.96	49,58,900
Mutual Funds, Banks, FIs	73	13.13	43,40,804	58	13.14	21,05,600
American Depositary Shares	1*	3.13	10,35,000	–	–	–
Total	9,527	100.00	3,30,69,400	6,622	100.00	1,60,17,200

* Held by beneficial owners outside India.

15. Shares under lock-in

Details of shares held by employees under the Employee Stock Offer Plan (ESOP) subject to lock-in are given below. These shares are also included in the categories of shareholders given in (14) above.

	No. of shares subject to lock-in as on March 31			
	1999		1998	
Period of lock-in	No. of shares	No. of employees	No. of shares	No. of employees
4-5 years	4,07,100	1,106	–	–
3-4 years	2,57,200	348	1,14,800	171
2-3 years	1,06,200	156	1,37,400	113
1-2 years	1,32,600	110	1,13,900	78
0-1 years	1,11,100	76	–	–

During the year, rights to 1,64,000 shares were awarded to 607 employees, which are subject to a lock-in of 4-5 years as on March 31, 1999. During 1997-98, rights to 2,69,600 shares were awarded to 366 employees. Currently, 1,744 employees are beneficiaries of the ESOP. The ITL Employees Welfare Trust holds, as on March 31, 1999, 54,800 shares for future grants. Shares subject to lock-in held by the employees will be transferred back to the ITL Employees Welfare Trust when such employees leave the services of the company.

16. Dematerialization of shares and liquidity

Your company was the first in India to pay a one-time custodial fee of Rs. 44.43 lakh to National Securities Depositary Limited (NSDL). Consequently, the company's shareholders are exempted from paying to the depositary participants, custodial fee charged by the NSDL on their holding. This payment of one-time custodial fee extends to the issue of bonus shares also. The company hopes that this initiative will enthuse shareholders to dematerialize their holding in the company. Over 77% of the company's shares are now held in electronic form.

A detailed letter explaining the methodology of using the Depositary as well as a booklet – *An Investor's Guide to Depositories* – was sent by the company to all its shareholders during November 1998. Copies of the booklet will be made available to shareholders on request.

The Stock Exchange, Mumbai has permitted trading of your company's shares in the 'A' group. This move is expected to increase the liquidity of your company's shares.

17. Financial calendar (tentative and subject to change)

Annual General Meeting	June 12, 1999
Financial reporting for the first quarter ending June 30, 1999	July 9, 1999
Financial reporting for the second quarter ending September 30, 1999	October 8, 1999
Interim dividend payment (if any)	November 1999
Financial reporting for the third quarter ending December 31, 1999	January 11, 2000
Financial results for the year ending March 31, 2000	April 11, 2000
Annual General Meeting for the year ending March 31, 2000	May 2000

18. Investors' correspondence in India may be addressed to:

Mr. V. Viswanathan,
Company Secretary, Investors' Service Cell,
Infosys Technologies Ltd., Electronics City,
Hosur Road, Bangalore – 561 229, India.
Tel.: 91-80-852 1518, Fax: 91-80-852 0362
(e-mail address: invest@itlinfosys.com)

Any queries relating to the financial statements of the company may be addressed to:

Mr. T. V. Mohandas Pai,
Senior Vice President (F&A),
Infosys Technologies Ltd., Electronics City,
Hosur Road, Bangalore – 561 229, India.
Tel.: 91-80-852 0396, Fax: 91-80-852 0362
(e-mail address: mdpai@itlinfosys.com)

19. Reuters code – INFO.BO (BSE)
– INFO.NS (NSE)

Bloomberg code – INFO IN (BSE)
– NINFO IN (NSE)

20. Stock market data relating to American Depositary Shares (ADSs)

a. ADS listed at — NASDAQ National Market in the United States

b. Ratio of ADS to equity shares — 2 ADS for one equity share

c. ADS symbol — INFY

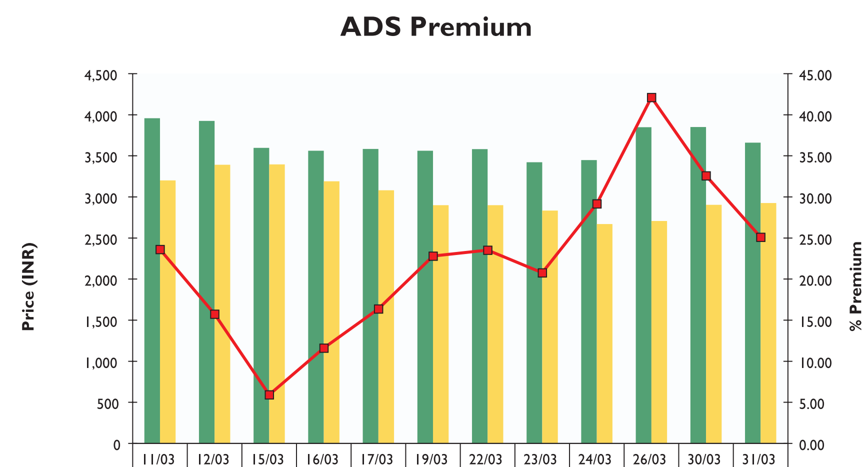
d. The American Depositary Shares issued under the ADS program of the company were listed on the NASDAQ National Market in the United States on March 11, 1999. The monthly high and low quotations as well as the volume of ADSs traded at NASDAQ National Market for 1998-99 are:

	High		Low		Volume
	$	Rs.*	$	Rs.*	Nos
March, 1999	50.00	2,107#	37.375	1,575#	49,13,500
Percentage of volume traded to total float	237.37%				

* Converted as 1 US $ = Rs. 42.14.

2 ADS = 1 equity share

e. American Depositary Shares premium to the shares traded on the Indian Stock Exchanges



	11/03	12/03	15/03	16/03	17/03	19/03	22/03	23/03	24/03	26/03	30/03	31/03
ADS Price*	3957.1	3925.8	3596.3	3561.6	3584.4	3561.6	3581.9	3422.9	3449.0	3847.8	3850.5	3659.5
Share Price	3201.0	3392.0	3395.0	3191.0	3080.0	2900.0	2900.0	2834.0	2670.0	2707.5	2904.5	2925.0
% Premium	23.62	15.74	5.93	11.61	16.38	22.81	23.52	20.78	29.18	42.12	32.57	25.11

* 2 ADS = 1 equity share

(Source: Bloomberg)

f. Investor correspondence in the US may be addressed to

P. R. Ganapathy
Investor Relations Officer
Infosys Technologies Limited
42808 Christy Street, Suite 203
Fremont CA 94538, USA.
Tel.: 1-510-770-3400 Ext. 412, Mobile: 1-510-872-4412,
Fax: 1-510-770-9469, E-mail: prganapathy@itlinfosys.com

g. Name and address of the Depositary Bank

Bankers Trust Company
Corporate Trust and Agency Services
4 Albany Street
New York, NY 10006, USA.
Tel.: 1-212-250-8500, Fax: 1-212-250-5644.

Bankers Trust Company
702, Dalamal House
Jamnalal Bajaj Marg, Nariman Point
Mumbai – 400 021, India.
Tel.: 91-22-284 3593, Fax: 91-22-284 3652.

i. Name and address of the Custodian in India

ICICI Limited
Mistry Bhavan, 1 Floor
Sir Dinshaw Vacha Road
122, Backbay Reclamation
Mumbai – 400 020, India.
Tel.: 91-22-204 4370, Fax: 91-22-204 4237.

j. ADS-linked stock options
During the year 213,000 options corresponding to 106,500 equity shares were granted to 36 employees both in India and abroad at the ADS issue price of US$ 34 per ADS.

Frequently asked questions

1. What is an American Depositary Share ("ADS")?
   Ans: An ADS is a negotiable certificate evidencing ownership of an outstanding class of stock in a non-US company. ADSs are created when ordinary shares are delivered to a custodian bank in the domestic market, which then instructs a depositary bank in the US to issue ADSs based on a predetermined ratio. ADSs are SEC registered securities and may trade freely, just like any other security, either on an exchange or in the over-the-counter market.

2. What is the difference between an ADS and a GDR?
   Ans: ADSs and GDRs (Global Depositary Receipts) are the same in their functionality – they both evidence ownership of foreign securities deposited with a custodian bank. ADSs represent securities that are listed in the United States, while GDRs represent securities listed outside of the United States, typically in London.

3. Do the ADSs have voting rights?
   Ans: Yes. In the event of a matter submitted to the holders of ordinary shares for a vote, the ADS holders on record as at a particular date will be allowed to instruct the depositary bank to exercise the vote in respect of the equity shares representing the ADS held by them.

4. Where and in which year was Infosys incorporated?
   Ans: Infosys was incorporated at Mumbai, in the state of Maharashtra, in India on July 2, 1981.

5. Are the ADSs entitled to cash dividends?
   Ans: Yes, whenever dividends are paid to ordinary shareholders. Cash dividends to ADS holders are declared in local currency and paid in dollars (based on the prevailing exchange rate) by the depositary bank, net of the depositary's fees and expenses. The dividends are paid on a pro rata basis.

6. When did Infosys have its initial public offer (IPO) and what was the initial listing price? Was there any follow-on offering?
   Ans: Infosys made an initial public offer in February 1993 and was listed on stock exchanges in India in June 1993. Trading opened at Rs. 145 per share compared to an IPO price of Rs. 95 per share. In October 1994, Infosys made a private placement of 5,50,000 shares at Rs. 450 each to Foreign Institutional Investors (FIIs), Financial Institutions (FIs) and Corporates. During March 1999, Infosys issued 2,070,000 ADSs (equivalent to 10,35,000 equity shares) at US$ 34 per ADS under the American Depositary Shares Program and the same were listed on the NASDAQ National Market.

7. Which are the stock exchanges where Infosys shares are listed and traded?
   Ans: Shares of Infosys are listed and traded in India on the Bangalore Stock Exchange, The Stock Exchange, Mumbai, and the National Stock Exchange. The ADSs of Infosys are traded on the NASDAQ National Market in the US.

8. What is the Reuters code and Bloomberg code for Infosys stock?
   Ans:

Exchange	Reuters code	Bloomberg code
The Stock Exchange, Mumbai	INFO.BO	INFO IN
National Stock Exchange	INFO.NS	NINFO IN

9. What is the Infosys ADS ratio?
   Ans: Each Infosys ADS represents one-half of one ordinary equity share of Infosys.

10. What is the symbol for Infosys ADS and where is it traded ?
    Ans: The symbol is "INFY" and the same is traded on the NASDAQ National Market in the US.

11. When is the next earnings release? What is the fiscal year of Infosys?

Ans: The tentative dates of earnings releases are given below. The earnings release date will also be posted on our homepage – www.itlinfosys.com, after announcement to the stock exchanges.

Quarter	Earnings release date (tentative and subject to change)
First quarter ending June 30, 1999	July 9, 1999
Second quarter ending September 30, 1999	October 8, 1999
Third quarter ending December 31, 1999	January 11, 2000
Year ending March 31, 2000	April 11, 2000

The fiscal year of the company is a period of 12 months starting April 1, every year.

12. What is the employee strength of Infosys?

Ans: As of March 31, 1999, Infosys employs 3,766 people, as compared to 2,605 on March 31, 1998, on a full-time basis.

The distribution of the employees is:

	1999		1998	
Software development including trainees	3,158	83.86%	2,186	83.92%
Support services	608	16.14%	419	16.08%
Total	3,766	100.00%	2,605	100.00%

The gender classification of employees is:

Male	3212	85.29%	2,228	85.53%
Female	554	14.71%	377	14.47%
Total	3,766	100.00%	2,605	100.00%

The age profile of employees is:

	1999		1998	
Between 20 and 25 years	1,955	52%	1,040	40%
Between 26 and 30 years	1,286	34%	1,200	46%
Between 31 and 40 years	448	12%	308	12%
Between 41 and 50 years	68	2%	50	2%
Between 51 and 60 years	9	–	7	–
Total	3,766	100.00%	2,605	100.00%

13. Does Infosys issue quarterly reports?

Ans: Yes. Infosys issues audited quarterly reports conforming to the Indian GAAP and unaudited quarterly reports conforming to the US GAAP and the same are mailed to all shareholders.

14. How do I transfer my shares in India or change my address with the transfer agent?

Ans: To transfer shares in physical form, you have to write to the company's registrars: Karvy Consultants Limited, Registrars and Share Transfer Agents, T.K.N. Complex, No. 51/2, Vanivilas Road, Opp. National College, Basavanagudi, Bangalore – 560 004, India. Tel.: 91-80-662 1184, Fax: 91-80-662 1169, Email: KARVY.BGL@KARVY.sprintrpg.ems.vsnl.net.in or write to

Mr. V. Viswanathan (viswav@itlinfosys.com), Company Secretary, Infosys Technologies Ltd.,
Electronics City, Hosur Road, Bangalore – 561 229, India.
Tel.: 91-80-852 1518, Fax: 91-80-852 0362.

You can also address your queries to the e-mail id: invest@itlinfosys.com

Transfer of shares in electronic form are effected through your depositary participant.

General correspondence regarding shares may be addressed to the company's registrars, Karvy Consultants Limited, or to Mr. V. Viswanathan, Company Secretary.

15. Who are the depositary and custodian for the ADS program?

Ans: Depositary — Bankers Trust Company
Corporate Trust Office
4 Albany Street, New York
NY 10006, USA.
Tel.: 1-510-970-3400.

Custodian — ICICI Limited,
Mistry Bhavan, 1 Floor
Sir Dinshaw Vacha Road
122, Backbay Reclamation
Mumbai – 400 020, India.
Tel.: 91-22-204 4370, Fax: 91-22-204 4237.

16. What is the history of bonus issues (equivalent to stock split in the form of stock dividend) at Infosys?

Ans:

Year	1986	1989	1991	1992	1994	1997	1999
Bonus issue ratio	1:1	1:1	1:1	1:1	1:1	1:1	1:1
Stock split ratio	2 for 1	2 for 1	2 for 1	2 for 1	2 for 1	2 for 1	2 for 1

17. How many software development centers does Infosys have?
Ans: Infosys has 11 development centers in India, of which six are in Bangalore, and one each in Bhubaneswar, Mangalore, Pune and two in Chennai.

18. How many marketing offices are there outside India?
Ans: There are 13 marketing offices outside India, of which 9 are located in USA, and one each in the UK, Germany, Canada and Japan.

19. What are *branded services*? Are they going to increase the margins of Infosys?
Ans: *Branded services* are services that have unique methodologies, tool sets, processes, training material, sales collateral and knowledge base. They facilitate high reusability of the company's knowledge base, improve productivity, make selling easier and bring better value-for-money to our clients. A good example of a branded service is *In2000*®, Infosys' solution to the millennium problem.

20. What percentage of Infosys revenue is derived from Year 2000?
Ans: In fiscal 1999, *In2000*® contributed 20% to revenues.

21. What are the new service offerings from Infosys?
Ans: The new areas that Infosys is addressing are engineering services, Euro conversion, ERP implementation and Internet and e-commerce consulting.

22. What was the employee strength and revenue growth since 1993, when the company went for an IPO?
Ans: The employee strength and revenue growth since 1993 have been:

As per US GAAP

Fiscal year ended March 31	Total no. of employees	Net revenues in US$	Growth %	Net income in US$	Growth %
1994	573	9,534,321	82	2,669,727	106
1995	903	18,105,010	90	3,963,367*	48
1996	1,172	26,607,009	47	6,823,637*	72
1997	1,705	39,585,919	49	8,642,002*	27
1998	2,605	68,329,961	73	12,344,188*	43
1999	3,766	120,955,226	77	17,446,088*	41

* After amortization of deferred stock compensation amounting to US$ 16,552,538, US$ 2,566,613, US$ 767,926, US$ 360,853 and US$ 45,884 for fiscal years 1999, 1998, 1997, 1996 and 1995, respectively.

As per Indian GAAP

Fiscal year ended March 31	Total no. of employees	Revenue Rs. in lakhs	Growth %	PAT* Rs. in lakhs	Growth %
1994	573	30,08.47	110	8,09.19	131
1995	903	57,70.43	92	13,32.44	65
1996	1,172	93,41.34	62	21,00.94	58
1997	1,705	143,80.77	54	33,68.06	60
1998	2,605	260,36.57	81	60,36.33	79
1999	3,766	512,73.84	97	132,91.54	120

* From ordinary activities

23. Does Infosys pay a dividend? What is the dividend payment policy of Infosys?
Ans: Currently, Infosys pays dividend to its shareholders. The current dividend policy is to distribute up to 20% of the PAT as dividend. The board of directors reviews the dividend policy periodically.

24. How do I contact Infosys by telephone, mail or in person?
Ans: Members of the press can contact the following Infosys' personnel for any information.

N. R. Narayana Murthy,
Chairman and Chief Executive Officer Tel: 91-80-852 0363/ 852 0399

Nandan M. Nilekani,
Managing Director, President and Chief Operating Officer Tel: 91-80-852 0351

T. V. Mohandas Pai,
Senior Vice President (Finance & Administration) Tel: 91-80-852 0396

The Infosys corporate mailing address is:
Infosys Technologies Limited, Electronics City, Hosur Road, Bangalore – 561 229, India.
Tel.: 91-80-852 0261, Fax: 91-80-852 0362

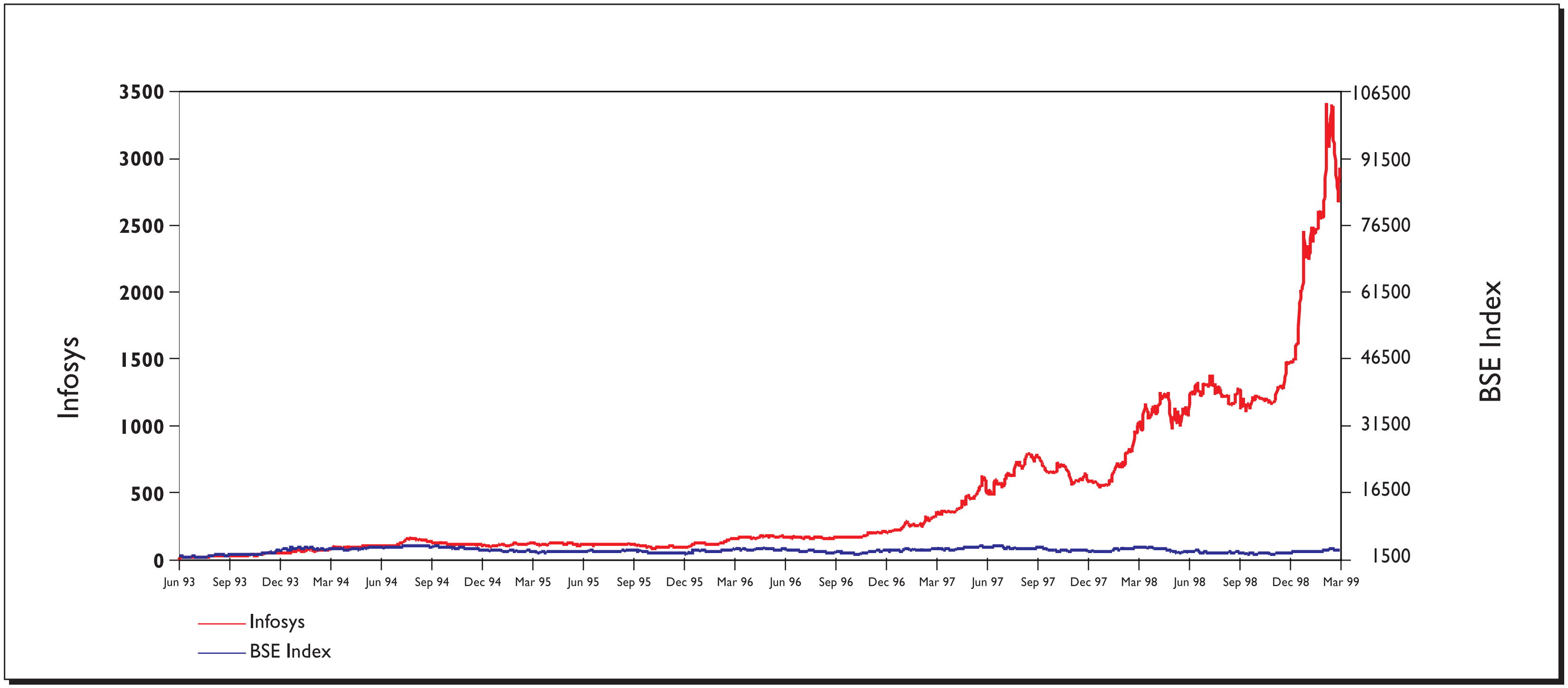
For direct correspondence, the general electronic address is infosys@itlinfosys.com.

25. Is there any investor relations contact in the US?
Ans: Mr. P. R. Ganapathy, Investor Relations Officer, is based at our Fremont office and will be available at the following address to answer any queries from investors.

Infosys Technologies Limited
42808 Christy Street, Suite 203
Fremont CA 94538, USA.
Tel.: 1-510-770-3400 Ext. 412, Mobile: 1-510-872-4412,
Fax: 1-510-770-9469, E-mail: prganapathy@itlinfosys.com

Additional information to shareholders
Share performance chart

Infosys management consistently cautions that the stock price performance shown in the graph below should not be considered indicative of potential future stock price performance.



The share price has been adjusted for three bonus issues of 1:1 during October 1994, October 1997 and March 1999

Additional information to shareholders (contd.)

Intangible assets scoresheet

A knowledge-intensive company leverages know-how, innovation and reputation for success in the marketplace. Hence, these attributes should be measured and improved, year after year, to achieve the best performance. The profitability of a knowledge firm depends on its ability to leverage the learnability of its professionals, and in enhancing the re-usability of their knowledge and expertise.

The stock price of a company is the result of the market's valuation of the future earnings and growth potential of the company. Thus, the market provides a value to the off-balance-sheet assets of the company – that is, those assets which are invisible or which are not accounted for in the traditional financial statements. The intangible assets of a company include its brand, products and the ability to attract, develop and nurture a cadre of competent professionals, and the ability to attract and retain marqué clients.

Today's discerning investors take a critical look at the financial and non-financial parameters that determine the long-term success of a company. These new non-financial parameters challenge the usefulness of evaluating companies solely on the traditional measures, as they appear in the financial reports of a company. Thus, the intangible assets of the company have been receiving considerable attention from corporate leaders.

The intangible assets of a company can be classified into four major categories – Human Resources, Intellectual Property Assets, Internal Assets and External Assets.

Human resources

Human resources represent the collective expertise, innovation, leadership, entrepreneurial and managerial skills endowed in the employees of an organization.

Intellectual property assets

Intellectual property assets include know-how, copyright, patent, products and tools that are owned by a corporation. These assets are valued based on their commercial potential. A corporation derives its revenues by licensing these assets to outside users.

Internal assets

Internal assets are systems, technologies, methodologies, processes and tools that are specific to the organization. These assets give the organization a unique advantage over its competitors in the marketplace. These assets are not licensed to outsiders. Examples of *internal assets* include methodologies for assessing risk, methodologies for managing projects, risk policies, and communication systems.

External assets

External assets are the *market-related* intangibles that enhance the fitness of an organization for succeeding in the marketplace. Examples are customer loyalty (reflected by the repeat business of the company) and brand value.

The Score sheet

Infosys published models for valuing the two most valuable, intangible assets of the company – *Human Resources* and the *Infosys Brand*. Last year, an attempt was made to publish data on some of the internal and external assets of Infosys. The score sheet published was broadly adopted from the *Intangible asset score sheet* provided in the book titled *The New Organizational Wealth* written by Karl Erik Sveiby and published by Berrett-Koehler Publishers Inc., San Francisco. We believe such representation of intangible assets provides a tool to our investors for evaluating the market-worthiness of a company.

The Infosys management cautions investors that these data are provided *only as additional information* to investors. Using such reports for predicting the future of Infosys, or any other company, is risky. The Infosys management is not responsible for any direct, indirect or consequential losses suffered by any person using these data.

The Infosys Intangible Assets Scoresheet

			Knowledge Capital					
Our clients (External structure)			Our organization (Internal structure)			Our people (Competence)		
	1998-99	1997-98		1998-99	1997-98		1998-99	1997-98
Growth/Renewal								
Revenue growth over previous year (%)	97	81	IT investment/ value added (%)	11.71	14.12	Education index of all staff	10,731	7,326
Percentage of revenue from image-enhancing clients	49	46	R&D/ value added (%)	2.62	2.88			
Percentage of revenue from exports	98	96	Total investment in organization/ value added (%)	19.16	18.52			
No. of new clients added during the year	39	45						
Efficiency								
Sales/Client (Rs. in lakhs)	407	243	Average proportion of support staff (%)	14.90	17.10	Value added per software engineer (Rs. in lakhs)	13.69	10.67
			Sales per support staff (Rs. in lakhs)	107	72	Value added per employee (Rs. in lakhs)	11.65	8.84
Stability								
Repeat-business revenue/ total revenue (%)	90	83	Average age of support staff (Years)	30.88	31.15	Average age of all employees (Years)	26.14	26.56
Sales from the five largest clients/total revenue (%)	28	35						
Sales from the ten largest clients/total revenue (%)	44	50						

The figures above are based on Indian GAAP financial statements.

Notes:

- Marqué or image-enhancing clients are those who enhance the company's market-worthiness. These are *Fortune 500* clients, and are reference clients for Infosys.
- Sales per client is calculated by dividing total revenue, excluding other income, by the total number of clients.
- Repeat-business revenue is the revenue during current year from those clients who contributed to the revenue of the company during the previous year also.
- Value-Added is the revenue of the company minus payment to all outside resources. The Value-Added statement is provided elsewhere in this report.
- IT investment includes investment in hardware and software for the company.
- Total investment in the organization is investment in the fixed assets of the company.
- Average proportion of support staff is the average number of support staff to average total staff strength of the company during the year.
- Sales per support staff is Infosys revenue divided by the average number of support staff during the year.
- Education index is shown as at the year-end, with primary education calculated as 1, secondary education as 2, and tertiary education as 3.

Clients

The growth in revenue is 97% this year, compared to 81%, in the previous year. The most valuable intangible asset of Infosys is its client base. Marqués clients or image-enhancing clients contributed around 49% of revenue this year as compared to 46% in the previous year. They reduce our marketing costs.

The high percentage – 90% – of revenue from repeat orders during the current year is an indication of the satisfaction and loyalty of the clients. The top 5 and 10 clients contributed around 28% and 44% respectively, of the company's revenue during the current year as compared with 35% and 50% respectively, during the previous year. The company's strategy is to increase its client base, and reduce the risk of depending on a few large clients. During 1998-99, the company added 39 new clients.

Organization

During the current year, Infosys invested around 11.71% of the value-added on its IT infrastructure and 2.62% of the value-added on R & D activities. However, due to increased value addition by Infosys employees during the current year, the investment on IT and R & D has decreased in percentage terms.

A young, fast-growing organization requires efficiency in the area of support services. The sales per support staff, as well as the proportion of support staff to the total organizational staff, have shown improvements over the previous year.

The average age of the support employees is 30.88 years, as against the previous year average age of 31.15 years. This parameter is an indicator of the stability of support staff.

People

Infosys is in a people-oriented business. The education index of employees has gone up substantially to 10,731 from 7,326. This reflects the quality of employees at Infosys. The value-added per software engineer and the value-added per employee show an increasing trend. Moreover, the efficiency of the support staff has increased, as seen by the reduction in the proportion of support staff to total staff. The average age of employees is 26.14 years as against the previous year average age of 26.56 years.

Human Resources Accounting

The dichotomy in accounting between human and non-human capital is fundamental. The latter is recognized as an asset and is therefore recorded in the books and reported in the financial statements, whereas, the former is totally ignored by accountants. The definition of wealth as a source of income inevitably leads to the recognition of human capital as one of several forms of wealth such as money, securities and physical capital.

The *Lev & Schwartz* model has been used by Infosys to compute the value of the human resources as at March 31, 1999. The evaluation is based on the present value of the future earnings of the employees and on the following assumptions:

1. Employee compensation includes all direct and indirect benefits earned both in India and abroad.
2. The incremental earnings based on group/age have been considered.
3. The future earnings have been discounted at 25.32% (previous year – 26.95%), this rate being the cost of capital for Infosys. Beta has been assumed at 1.48 based on average beta for software stocks in the US.

As of March 31	1999		1998	
	No. of employees	Value of human resources (Rs. in lakhs)	No. of employees	Value of human resources (Rs. in lakhs)
Production	2,854	769,84.25	1,755	397,31.09
Support- Technical*	389	71,68.97	472	59,67.22
- Others	523	104,16.52	378	52,02.38
	3,766	945,69.74	2,605	509,00.69

* Note: Support - technical includes trainees, employees in R&D activities and support personnel allocated to production.

	1999	1998
Number of employees	3,766	2,605
Value of human resources	945,69.74	509,00.69
Total revenue	512,73.84	260,36.57
Software revenue	508,89.12	257,65.73
Employee cost	166,05.64	93,72.65
Value-added	374,11.49	185,79.12
Net profits excluding extraordinary income	132,91.54	60,36.33
Total revenue/Human resources value (ratio)	0.54	0.51
Total software revenue/Human resources value (ratio)	0.54	0.51
Value-added/Human resources value (ratio)	0.40	0.37
Value of human resources per employee	25.11	19.54
Employee cost/Human resources value (%)	17.56%	18.41%
Return on human resources value (%)	14.05%	11.86%

Value-Added statement

Rs. in lakhs

Year ending March 31	1999	1998
Total revenue	512,73.84	260,36.57
Less : Cost of imported software packages sold	–	1.30
Software development expenses (other than employee costs and provision for post-sales client support)	93,26.92	46,24.43
Administration expenses (other than provisions)	45,35.43	28,31.72
Subtotal	13 8,62.35	74,57.45
Total value-added	374,11.49	185,79.12
Applied to meet		
Employee costs	166,05.64	93,72.65
Income tax	22,94.00	5,50.00
Provision for post-sales client support	2,19.19	1,23.10
Provision for bad and doubtful debts and doubtful loans and advances	39.87	2,22.22
Provision for investment in subsidiary	7,05.96	–
Provision for contingencies	6,66.00	–
Dividends (including Dividend tax)	13,31.83	7,73.21
Retained in business	155,49.00	75,37.94
	374,11.49	185,79.12

The figures above are based on Indian GAAP financial statements.

Additional information to shareholders (contd.)

Brand valuation

The strength of the invisible

A balance sheet discloses the financial position of a company. The financial position of an enterprise is influenced by the economic resources it controls, its financial structure, liquidity and solvency, and its capacity to adapt to changes in the environment. However, it is becoming increasingly clear that intangible assets have a significant role in defining the growth of a hi-tech company. So quite often the search for the added value invariably leads us back to understanding, evaluating and enhancing the intangible assets of the business.

From time to time, Infosys has used various models for evaluating assets off the balance sheet to bring certain advances in financial reporting from the realm of research to the notice of the shareholders. Such an exercise also helps the Infosys management in understanding the components that make up goodwill. The aim of such modeling is to lead the debate on the balance sheet of the next millennium. The Infosys management cautions the investors that these models are still the subject of debate among researchers, and using such models and data in predicting the future of Infosys, or any other company, is risky, and that the Infosys management is not responsible for any direct, indirect or consequential losses suffered by any person using these models or data.

Valuing the brand

A brand is much more than a trademark or a logo. It is a *Trustmark* – a promise of quality and authenticity that clients can rely on. Brand equity is the value addition provided to a product or company by its brand name. It is the financial premium that a buyer is willing to pay for the brand over a generic or less worthy brand. Brand equity is not created overnight. It is the result of relentless pursuit of quality in manufacturing, selling, service, advertising and marketing. It is the integral of client experiences in dealing with the company and its services over a sustained period.

Corporate brands and service brands are often perceived to be interchangeable. Both types of brands aim at the enhancement of confidence and the reduction of uncertainty in the quality of what the company offers. Therefore, companies rely heavily on the image and personality they create for their brands, to communicate these qualities to the marketplace.

The task of measuring brand value is a complex one. Several models are available for accomplishing this. The most widely used one is the brand-earnings-multiple model. There are several variants of this model. For example, the *Financial World* magazine has used a variant of this model in the July 1996 issue and valued the *Microsoft* brand at US$ 5.63 billion, while the market capitalization of the company was around US$ 60 billion on the date of brand valuation.

Goodwill is a nebulous accounting concept that is defined as the premium paid to tangible assets of a company. It is an umbrella concept that transcends components like brand equity and human resources, and is the result of many corporate attributes including core competency, market leadership, copyrights, trademarks, brands, superior earning power, excellence in management, outstanding work-force, competition, longevity and so on.

The management has adapted the generic *brand-earnings-multiple* model (given in the article on *Valuation of Trademarks and Brand Names* by *Michael Birkin* in the book *Brand Valuation*, edited by *John Murphy* and published by *Business Books Limited*, *London*) to value its corporate brand – *Infosys*. The methodology followed for valuing the brand is as given below:

1. Determine brand earnings

   To do this,

   - Determine brand profits by eliminating the non-brand profits from the total profits of the company
   - Restate the historical profits at present-day values
   - Provide for the remuneration of capital to be used for purposes other than promotion of the brand
   - Adjust for taxes.

2. Determine the brand-strength or brand-earning multiple

Brand-strength multiple is a function of a multitude of factors like leadership, stability, market, internationality, trend, support and protection. These factors have been evaluated on a scale of 1 to 100, internally by the Infosys management, based on the information available within the company.

3. Compute the brand value by multiplying the brand earnings with the multiple derived in step 2 above.

The computation is as follows *in Rs.*

	1998-99	1997-98	1996-97
PBIT	155,85,53,560	65,86,33,079	39,54,12,934
Less: non-brand income	3,46,24,650	2,43,75,414	4,13,37,138
Adjusted profit	152,39,28,910	63,42,57,665	35,40,75,796
Inflation compound factor at 8%	1.000	1.087	1.181
Present value of profits for the brand	152,39,28,910	68,94,38,082	41,81,63,515
Weightage factor	3	2	1
Weighted profits	457,17,86,731	137,88,76,163	41,81,63,515
Three-year average weighted profits	106,14,71,068		
Remuneration of capital (5% of average capital employed)	12,27,08,050		
Brand-related profits	93,87,63,018		
Tax at 35%	32,85,67,056		
Brand earnings	61,01,95,962		
Multiple-applied	28.30		
Brand value	1726,90,00,000		

Assumptions

1. Total revenue excluding the other income after adjusting for cost of earning such income is brand revenue, since this is an exercise to determine the brand value of Infosys as a company and not for any of its products or services.
2. Inflation is assumed at 8% per annum.
3. 5% of the average capital employed is used for purposes other than promotion of the brand.
4. Tax rate is at 35%.
5. The earnings multiple is based on the ranking of Infosys against the industry average based on certain parameters (exercise undertaken internally and based on available information).
6. The figures above are based on Indian GAAP financial statements.

Thus, it is interesting to note that while Infosys has a market capitalization of Rs. 9,672.80 crore as on March 31, 1999, the value of the “Infosys” brand alone is estimated at Rs. 1,726.90 crore.

Additional information to shareholders (contd.)

Balance sheet (including intangible assets) as at March 31, 1999

	in Rs.
SOURCES OF FUNDS	
SHAREHOLDERS' FUNDS	
Share capital	33,06,95,500
Reserves and surplus	
Share premium account	319,99,15,445
Capital reserves	2672,59,74,000
Other reserves	221,37,00,303
	3247,02,85,248
APPLICATION OF FUNDS	
FIXED ASSETS	
Tangible assets – at cost	168,92,38,345
Less : Depreciation	83,09,14,934
Net block	85,83,23,411
Add : Capital work-in-progress	14,88,35,800
	100,71,59,211
Intangible assets	
Brand equity	1726,90,00,000
Human resources	945,69,74,000
INVESTMENTS	75,48,469
CURRENT ASSETS, LOANS AND ADVANCES	
Accounts receivable	84,51,88,425
Cash and bank balances	405,04,82,999
Loans and advances	68,35,96,522
	557,92,67,946
Less : Current liabilities	42,83,42,481
Provisions	42,13,21,897
Net current assets	472,96,03,568
	3247,02,85,248

Notes:

1. This balance sheet is provided for the purpose of information only. The management accepts no responsibility for any direct, indirect or consequential losses or damages suffered by any person relying on the same.
2. Capital reserves include the value of “Infosys” brand and human resources.
3. The figures above are based on Indian GAAP financial statements.

Economic-Value-Added (EVA) statement

Economic-Value-Added, measures the profitability of a company after taking into account the cost of all capital including equity. It is the post-tax return on capital employed (adjusted for the tax shield on debt) minus the cost of capital employed. It is those companies which earn higher returns than cost of capital, that create value. Those companies which earn lower returns than cost of capital are destroyers of shareholder value.

Economic-Value-Added analysis

Year ending March 31	1999	1998	1997	1996
1. Average capital employed (Rs. in lakhs)	245,41.61	142,89.67	98,46.75	76,44.80
2. Average debt/Total capital (%)	–	–	2.16	6.93
3. Beta variant	1.48	1.48	1.48	1.48
4. Risk-free debt cost (%)	12.00	12.15	13.60	14.00
5. Market premium	9.00	10.00	10.00	10.00
6. Cost of equity (%)	25.32	26.95	28.40	28.80
7. Cost of debt (post tax) (%)	–	–	7.70	7.70
8. Weighted Average Cost of Capital (WACC) (%)	25.32	26.95	27.97	27.36
9. PAT as a percentage of average capital employed (%)	54.16	42.24	33.91	27.48
10. Economic-Value-Added (EVA) (*Rs. in lakhs*)				
Operating profit				
(PBT excluding extraordinary income)	155,85.54	65,86.33	38,93.03	25,32.00
Less : Tax	22,94.00	5,50.00	5,54.00	4,31.00
Less : Cost of capital	62,13.94	38,51.07	27,54.34	20,91.59
Economic Value Added	70,77.60	21,85.26	5,84.69	9.41
11. Enterprise Value (Rs. in lakhs)				
Market value of equity	9672,79.95	2963,42.20	731,04.17	355,67.10
Less : Cash and cash equivalents	416,65.91	51,14.20	28,77.82	29,78.31
Add : Debt	–	–	–	4,26.06
Enterprise value	9256,14.04	2912,28.00	702,26.35	330,14.85
12. Ratios				
EVA as a percentage of average capital employed (%)	28.84	15.29	5.94	0.12
Enterprise value / average capital employed	37.72	20.38	7.13	4.32

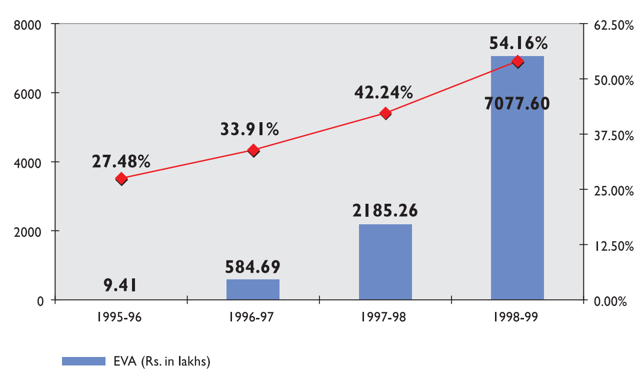
Notes:

1. The cost of equity is calculated by using the following formula:

   Return on risk-free investment + $\dfrac{\text{expected risk premium on equity investment}}{\text{adjusted for the average beta variant for software stocks in the US.}}$

2. The figures above are based on Indian GAAP financial statements.

Relationship between PAT as a percentage of average capital employed and Economic-Value-Added (EVA)



Additional information to shareholders (contd.)

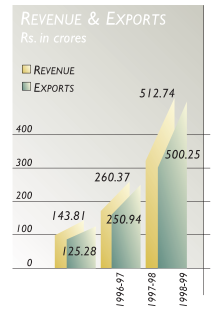
Ratio analysis for the year ended March 31

	1999	1998	1997
Ratios – Financial performance			
Export revenue / Total revenue (%)	97.57	96.38	87.12
Domestic revenue / Total revenue (%)	1.68	2.57	9.27
Other income / Total revenue (%)	0.75	1.04	3.19
Employee costs / Total revenue (%)	32.39	36.00	35.90
Administration expenses / Total revenue (%)	8.92	11.73	10.92
Operating expenses / Total revenue (%)	62.60	65.97	64.27
Interest / Total revenue (%)	0.00	0.00	0.42
Depreciation / Total revenue (%)	7.00	8.74	7.31
Tax / Total revenue (%)	4.47	2.11	3.65
Tax / PBT (%)	14.72	8.35	13.48
EBIDTA / Total revenue (%)	37.40	34.03	34.81
PAT from ordinary activities / Total revenue (%)	25.92	23.18	23.42
PAT from ordinary activities / Average net worth (%) **	54.16	42.24	34.96
ROCE (PBIT / Average capital employed) (%) **	63.51	46.09	40.16
Return on invested capital (%)	86.30	57.64	47.27
Capital output ratio **	2.09	1.82	1.46
Value-added / Total revenue (%)	72.96	71.36	69.55
Enterprise-value / Total revenue	18.06	11.19	4.88
Ratios – Balance sheet			
Debt-Equity ratio	0.00	0.00	0.00
Debtors revenue (Days)	61	57	47
Current ratio	6.57	4.78	4.12
Cash and equivalents / Total assets (%)	72.51	29.57	25.50
Cash and equivalents / Total revenue (%)	81.26	19.64	20.01
Depreciation for the year / Average gross block (%)	26.19	25.79	17.80
Technology investment / Total revenue (%)	8.55	10.08	10.59
Ratios – Growth			
Growth in export revenue (%)	99.35	100.30	55.94
Growth in total revenue (%)	96.93	81.05	53.95
Operating expenses growth (%)	86.89	83.20	63.94
Operating profit growth (%)	116.39	77.02	47.43
Net profit (from ordinary activities) growth (%)	120.19	79.22	60.31
Per-share data			
Earnings per share (Rs.) (excluding extraordinary income)*	40.19	18.25	10.18
Earnings per share (Rs.) (including extraordinary income)*	40.90	18.25	11.27
Cash earnings per share (Rs.) (excluding extraordinary income)*	51.05	25.13	13.36
Cash earnings per share (Rs.) (including extraordinary income)*	51.76	25.13	13.36
Dividend (%)	75.00	60.00	55.00
Dividend per share (Rs.)	7.50	6.00	5.50
Book value (Rs.)*	174.00	52.00	34.00
Dividend payout (%)	10.02	12.81	12.72
Price / Earnings, end of year	72.77	49.09	47.89
Price / Cash earnings, end of year	57.30	35.66	36.49
Price / Book value, end of year	16.87	17.13	14.29
Price / Total revenue, end of year	18.90	11.38	11.22
EPS growth (%)	120.22	79.22	60.31
PE / EPS growth	0.61	0.62	0.79
Dividend / Adjusted public offer price (%)	63.00	51.00	46.00
Market price / Adjusted public offer price (%)	24632.00	7790.00	2120.00

Note: The ratio calculations are based on Indian GAAP.

* On diluted basis
** ADS issue proceeds considered on a pro rata basis.

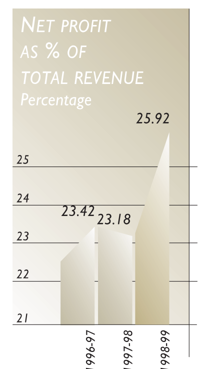
Ratio analysis



Ratio analysis is amongst the best tools available to analyze the financial performance of a company. It allows inter-company and intra-company comparison and analysis. Ratios also provide a bird's eye view of the financial condition of the company. The ratios analyzed are based on Indian GAAP.

Financial performance

Exports have grown by 99% during the year, as against 100% in the previous year. Export revenue is from various parts of the globe and is well segmented. Segmental analysis of the revenue is provided elsewhere in this report. During the year ended March 31, 1999, exports constituted 98% of total revenue as compared to 96% during the previous year. USA continued to be a major market. Domestic revenue was 2% of total revenue as compared to 3% during the previous year. Total revenue increased by approximately 97% as compared to 81% during the previous year.



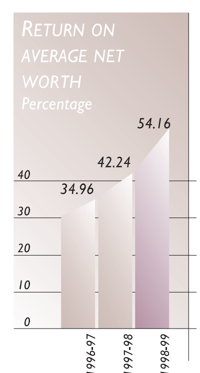
Manpower costs were approximately 32% of total revenue as against 36% during the previous year. Administration expenses were approximately 9% and 12% during the years ended March 31, 1999 and 1998.

Depreciation was at 7% of total revenue as compared to 9% during the previous year. Depreciation to average gross block was at 26% for the years ended March 31, 1999 and 1998 signifying the accelerated depreciation on technology assets.

Income tax expense was approximately 5% of total revenue as compared to 2% during the previous year. Income tax expense includes a provision of Rs. 4.32 crore for earlier years.

Profit after tax from ordinary activities was 26% of total revenue as against 23% during the previous year.

Balance sheet analysis



The key ratios affecting the performance of the company's financial condition are discussed below:

1. Return on average net worth

Return on average net worth is 54% as against 42% during the previous year. This increase was primarily due to the productive use of assets and higher profits.

As the company is maintaining around 73% of its assets in liquid funds, where the returns are less, the above figures need further analysis. If the average liquid assets are adjusted against the average net worth and revenue earned from liquid assets after tax are adjusted against net profit, return on invested capital stands at 86% as compared to 58% during the previous year.

2. Debt-equity ratio

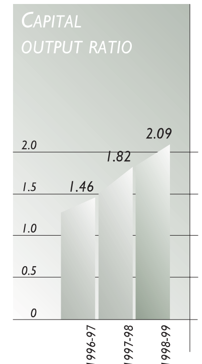
The company funds its short-term and long-term cash requirements primarily out of internal accruals. As on March 31, 1999, the company remained debt-free.

3. Current ratio

Current ratio is 6.57 as compared to 4.78 as on March 31, 1998.

4. Capital output ratio

Capital output ratio is 2.09 compared to 1.82 for the previous year. This increase is due to productive use of assets and higher profits.

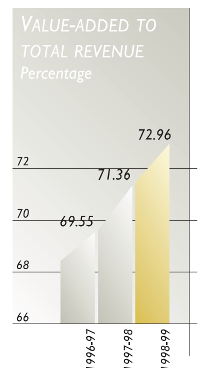


5. Value-added to total revenue

Value-added to total revenue is 73% compared to 71% for the previous year. This is primarily due to higher margins.

6. Enterprise-value to total revenue

Enterprise-value to total revenue is 18 times as compared to 11 times in the previous year.

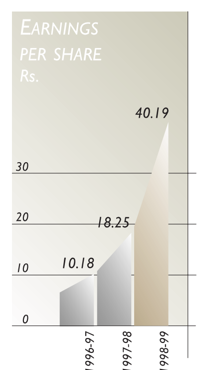


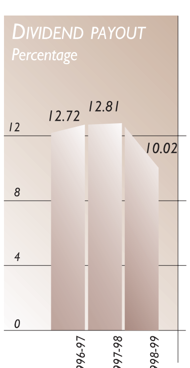
Per-share data

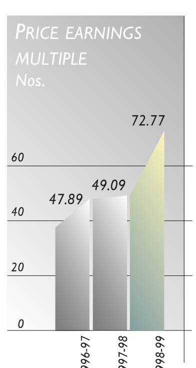
Earnings per share (EPS) is Rs. 40.19 compared to Rs. 18.25 for the previous year. EPS for the years 1999, 1998 and 1997, is calculated after adjusting for the 1:1 bonus issues during the current year and also in the previous year. Cash earnings per share is Rs. 51.05 compared to Rs. 25.13 during the previous year. This is due to higher cash generation due to higher value addition. Book value per share has also increased to Rs. 174 as against Rs. 52 on March 31, 1998. Dividend payout ratio for the years ended March 31, 1999 and 1998, was 10% and 13%.

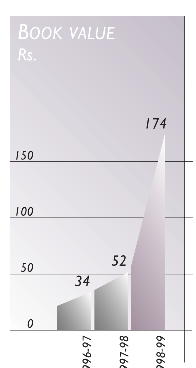
The P/E to EPS growth was approximately 0.61 compared to 0.62 for the previous year. This represents the valuation of the company in comparison to its growth in earnings.

Appreciation in the Infosys share price (adjusted for bonus issues in 1994, 1997 and 1999), over the public issue price, is more than 24632%. Since the public issue, the market capitalization of the company has grown to Rs. 9673 crore, as on March 31, 1999, from the public issue valuation of Rs. 31.84 crore during February 1993.









Statutory obligations

The company has established Software Technology Parks - 100% export-oriented units – for the development of software at Electronics City, Koramangala, J. P. Nagar and Manipal Center at Bangalore as well as at Mangalore, Pune, Chennai and Bhubaneswar (all in India). Certain capital items purchased for these centers are eligible for 100% customs and excise duty exemption, subject to fulfillment of stipulated export obligations, namely, one and a half time the value of duty-free imports of capital goods, or duty-free purchase of goods subject to excise, over a period of 4 years and one and a half times the wage bill, on a yearly basis.

The non-fulfillment of export obligations may result in penalties as stipulated by the Government which may have an impact on future profitability. The chart showing the export obligation, and the export obligation fulfilled by the company, on a global basis, for all its STP units together, is given here under:

in Rs.

Year ended March 31	Export obligation	Export obligation fulfilled	Excess/ (shortfall)	Cumulative excess/ (shortfall)
1993	11,07,019	28,25,575	17,18,556	17,18,556
1994	2,69,45,277	8,04,57,379	5,35,12,102	5,52,30,658
1995	7,70,12,146	15,63,56,751	7,93,44,605	13,45,75,263
1996	28,42,90,379	47,64,44,106	19,21,53,727	32,67,28,990
1997	39,67,03,285	68,93,56,837	29,26,53,552	61,93,82,542
1998	73,55,63,113	142,41,27,171	68,85,64,058	130,79,46,600
1999	124,97,81,528	305,51,10,194	180,53,28,666	311,32,75,266
	277,14,02,747	588,46,78,013	311,32,75,266	

The total customs duty exempted on both computer software and hardware imported by the company since 1993 amounts to Rs. 38.17 crore.

The company has fulfilled its export obligations on a global basis for all its operations under the Software Technology Park Scheme (STP). However, in case of STPs operationalized during the year, the export obligation will be met in the future years. On a forward basis, the company's management is confident of fulfilling all its export obligations.

Taxation

The economic reforms program of the Government has enhanced the velocity of business for companies in India. Being one of the signatories to the World Trade Organization, India is committed to reducing the import tariff levels, thereby exposing the Indian entrepreneurs to global competition. The present Indian corporate tax rate is 35%. The export profits are entitled to benefits under two schemes of the Government. Under the first scheme, the profits of the company attributable to export activities are deductible from the total taxable income. Under the second scheme, the profits attributable to operations of the company under the 100% export-oriented unit scheme are entitled to a tax holiday during the first ten years, starting from the date of commencement of operations. Presently, the company is entitled to benefits under both the schemes.

The government may reduce or eliminate the tax exemptions provided to Indian exporters in the near future. This may result in the export profits of the company being fully taxed, and may adversely affect the post-tax profits of the company in the future. This is expected to be tackled by increasing the per capita revenue productivity and moving up the value chain. On a full-tax-paid basis, without any duty concessions on equipment, hardware and software, the company's post-tax profits for the relevant years would be as under.

in Rs.

Year ended March 31	1999	1998	1997
Profit before tax (excluding extraordinary items)	155,85,53,560	65,86,33,079	38,93,03,219
Less – Duty waiver on software purchases	–	–	11,19,799
Additional depreciation to be provided on duty waiver for computer equipment	8,43,54,215	6,60,77,136	5,02,49,353
Reduction in other income	1,52,47,181	98,21,728	2,22,26,527
Adjusted profit before tax	145,89,52,164	58,27,34,215	31,57,07,540
Less – Income tax on full tax basis	63,07,51,956	24,53,97,021	15,49,11,118
Adjusted profit after tax	82,82,00,208	33,73,37,194	16,07,96,422
Adjusted Earnings Per Share [1]	25.04	10.20	4.86

1. The Earnings per share for earlier years has been restated to reflect the 1:1 bonus issue in March 1999.
2. The figures above are based on Indian GAAP financial statements.

   However, it may be noted that this is only an academic exercise. The company has provided for income tax in full in the respective years and there is no carried-forward liability on this account.

Segment reporting

The geographical segment information given below is on the basis of markets and not on the source of revenue.

By geographical area

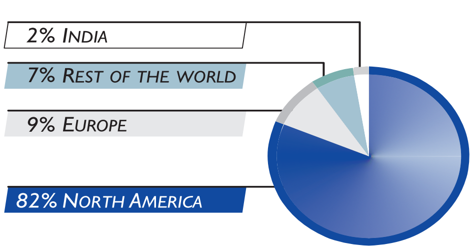
Rs. in lakhs

	1999	%	1998	%	1997	%
Revenue						
North America	417,39.11	82	212,24.46	81	108,91.73	76
Europe	47,53.03	9	23,17.20	9	11,56.94	8
Rest of the world	35,33.27	7	15,52.10	6	2,27.80	1
India	12,48.43	2	9,42.81	4	21,04.30	15
	512,73.83	100	260,36.57	100	143,80.77	100

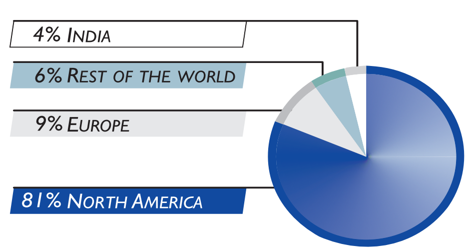
The figures above are based on Indian GAAP financial statements.

Approximately 82% of Infosys revenue comes from North America, which includes USA and Canada, and the remaining from Europe and other markets. Revenue from North America increased by 97% during the year, compared with the previous year. Revenue from the European markets have increased by 105% compared to the previous year. However, as a percentage of total revenue, the contribution from European markets has remained

BY GEOGRAPHICAL AREA 1999



BY GEOGRAPHICAL AREA 1998



constant at 9% compared with the previous year. Revenue from India represented 2% of the total revenue compared with 4% of the total revenue during the previous year. Revenue from the rest of the world has grown from 6% of the total revenue for the previous year to around 7% of the total revenue for the current year.

The dependence on a single market for substantial part of the revenue is prone to risk. Infosys has a de-risking strategy to increase its share of business from the European, Japanese and other markets, thereby, reducing its predominant dependence on the American market.

By business segments

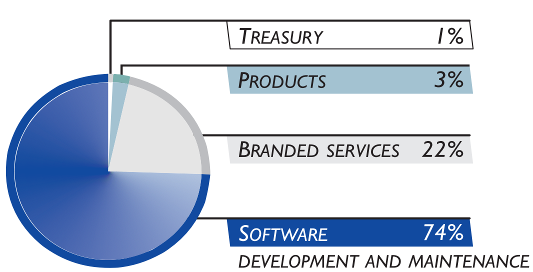
Rs. in lakhs

	1999	%	1998	%	1997	%
Revenue						
Branded services	113,21.57	22	66,46.09	26	11,45.32	8
Products	14,44.89	3	10,45.62	4	16,45.46	11
Software development and maintenance	381,22.66	74	180,74.03	69	111,30.69	78
Treasury	3,84.71	1	2,70.83	1	4,59.30	3
	512,73.83	100	260,36.57	100	143,80.77	100

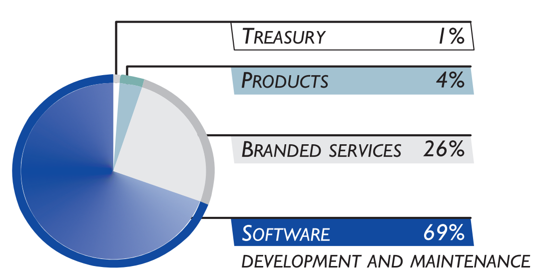
Today, a major part of the company's revenue comes from software development and maintenance services. Revenue from branded services is around 22% of the total revenue, compared to around 26% of the total revenue during the previous year. The company's policy is not to depend on any single business segment for a large part of its business. In line with this de-risking strategy, the company has limited its revenue from Year 2000 service to 25% of the total revenue for a given year. During the year, the contribution from Year 2000 projects is around 20%. Revenue from products were approximately around 3% of the total revenue compared to 4% during the previous year. Revenue from software development and maintenance have shown substantial growth at more than 111% compared with the previous year.

The figures above are based on Indian GAAP financial statements.

BY BUSINESS SEGMENT 1999



BY BUSINESS SEGMENT 1998



Management structure

N. R. Narayana Murthy
Chairman and Chief Executive Officer

- **Sukumar S.** – Acting Head – Corporate Planning

Nandan M. Nilekani
Managing Director, President and Chief Operating Officer

- **S. Gopalakrishnan** – Deputy Managing Director and Head – Customer Delivery and Technology
  - **S. D. Shibulal** – Director and Head – SBU-1 & SBU-5
    - L.Vasudeva Rao – Vice President
    - Bhaskar Ghosh – Senior Project Manager and Head – Bhubaneswar center
    - K. Narendran – Project Manager and Head – Mangalore center
  - **P. Balasubramanian** – Senior Vice President and Head – SBU-2
    - Ajay Dubey – Vice President and Head – Pune center
    - U. B. Pravin Rao – Associate Vice President
    - K. G. Shivaprasad – Associate Vice President
  - **Srinath Batni** – Senior Vice President and Head – SBU-3
    - A. S. Krishnamurthy – Associate Vice President
    - Srinivas Gunturi – Senior Project Manager and Head – Chennai center
  - **Jan DeSmet** – Vice President (Consulting Services) and Head – SBU-4
  - **M. S. S. Prabhu** – Senior Vice President and Head – SBU-7
  - **Rajiv Kuchhal** – Associate Vice President and Head – SBU-8
  - **Raghupathi G. Bhandi** – Vice President and Head – SBU-9
  - **P. D. Mallya** – Associate Vice President – Networking Services
  - **Grp.Capt. Deepak Sinha** – Senior Manager – Computers & Communication Division
- **K. Dinesh** – Director and Head – Quality, Productivity and MIS
  - **S. Raghavan** – Associate Vice President and Head – Quality & Productivity
    - M. R. Bhashyam – Senior Manager (SEPG & SQA)
  - **M. Subbaraya Sastry** – Associate Vice President – Management Information Systems
    - J. Sivashankar – Senior Manager (MIS)
- **N. S. Raghavan** – Joint Managing Director and Head – Human Resources and Education
  - **Hema Ravichandar** – Senior Vice President and Head – Human Resource Development
    - M. M. Mohan – Senior Manager
  - **S. Yegneshwar** – Associate Vice President and Head – Education and Research
- **T. V. Mohandas Pai** – Senior Vice President and Head – Finance and Administration
  - **Col. C.V. Krishna** – Advisor – Infrastructure
  - **C. Vijay Kumar** – Senior Manager – Infrastructure Development
  - **H. R. Binod** – Senior Manager – Commercial
  - **V. Balakrishnan** – Senior Manager – Finance
  - **U. Ramadas Kamath** – Senior Manager – Accounts and Administration
  - **V. Viswanathan** – Company Secretary
  - **P. R. Ganapathy** – Investor Relations Officer
- **Girish G. Vaidya** – Senior Vice President – Head – Banking Business Unit (BBU) – SBU-6
  - **Ashwani K. Khurana** – Senior Vice President and Head – BBU-Sales & Support **
  - **Sharad K. Hegde** – Senior Vice President and Head – BBU Architecture
  - **K. Sudheer** – Associate Vice President – Product Management Group
- **Phaneesh Murthy** – Senior Vice President and Head – Worldwide Sales *
  - Basab Pradhan – Regional Manager
  - P. R. Sobha Meera – Regional Manager
  - **Rohan W. Joshi** – Senior Manager – Corporate Business Development Support
  - **Sudha Kumar** – Senior Manager – Corporate Marketing
  - *** – Communication Design Group

SBU – Strategic Business Unit
*   – Logistics (including on-site) & Sales
** – Sales (Domestic & International Sales)
*** – Currently handled by Mr. B.M. Rao – Advisor (CDG)

A historical perspective

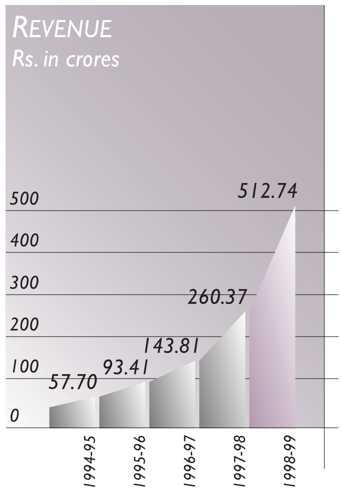
Rs. in lakhs except Per share data, Other information and ratios

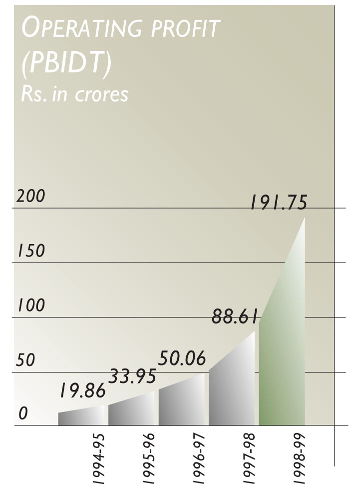
Particulars	1981-82	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
For the year							
Revenue	11.63	30,08.47	57,70.43	93,41.34	143,80.77	260,36.57	512,73.83
Operating profit (PBIDT)	–	9,70.71	19,85.97	33,95.36	50,05.78	88,61.15	191,74.84
Interest	–	4.64	–	–	61.09	–	–
Depreciation	–	80.88	4,59.53	8,63.42	10,51.64	22,74.82	35,89.30
Provision for taxation	–	76.00	1,94.00	4,31.00	5,24.97	5,50.00	22,94.00
Profit after tax from ordinary activities	3.78	8,09.19	13,32.44	21,00.94	33,68.06	60,36.33	132,91.54
Dividend	–	1,17.32	2,31.39	3,62.93	3,99.23	7,02.92	12,10.76
Return on average net worth (%)	96.88	39.61	29.71	29.53	34.96	42.24	54.16
Return on average capital employed (PBIT/ average capital employed) (%)	96.88	43.14	31.79	33.12	40.16	46.09	63.51
As at the end of the year							
Share capital	0.10	3,35.11	7,25.88	7,25.88	7,25.98	16,01.74	33,06.96
Reserves and surplus	3.78	25,35.00	55,19.92	72,57.94	105,57.63	156,93.99	541,36.16
Loan funds	–	–	6,33.91	4,26.06	–	–	–
Gross block	0.02	8,27.38	25,32.01	46,85.75	71,29.16	105,13.91	168,92.38
Capital investment	0.02	7,12.71	25,23.05	15,55.49	27,31.04	34,40.97	71,67.92
Net current assets	6.27	13,94.34	32,46.95	41,17.17	54,19.85	97,22.64	472,96.04
Debt - Equity ratio	–	–	0.10	0.05	–	–	–
Market capitalization	–	191,01.50	348,42.00	355,67.10	731,04.17	2963,42.23	9672,80.00
Per share data							
Earnings from ordinary activities (Rs.) *	377.77	2.45	4.03	6.35	10.18	18.25	40.19
Dividend per share (Rs.)	–	3.50	4.50	5.00	5.50	6.00	7.50
Book value (Rs.) *	383.10	9.00	19.00	24.00	34.00	52.00	174.00
Other information							
Number of shareholders	7	6,033	6,526	6,909	6,414	6,622	9,527
Credit rating from CRISIL							
Commercial paper	–	–	"P1+"	"P1+"	"PI +"	"PI +"	"PI +"
Non-convertible debentures	–	–	"AA"	"AA"	"AA"	"AA"	"AA"

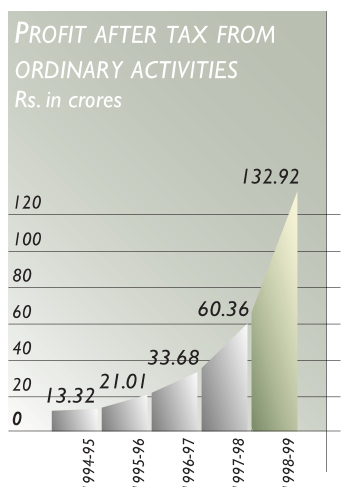
Note: The above figures are based on Indian GAAP.
One lakh equals one hundred thousand.

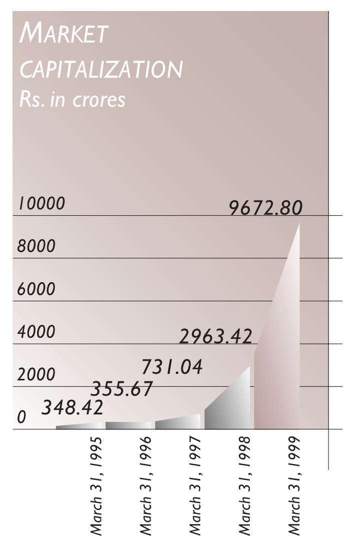
* On a fully diluted basis and adjusted for bonus issue of 1:1 during 1994-95, 1997-98 and 1998-99.

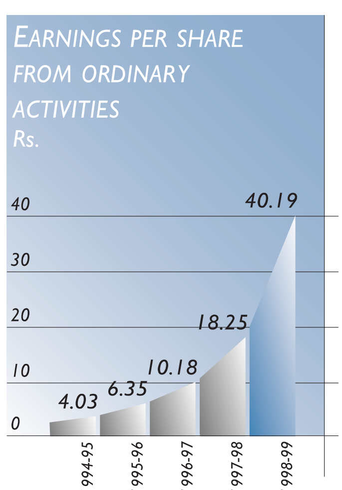
A historical perspective (Contd.)

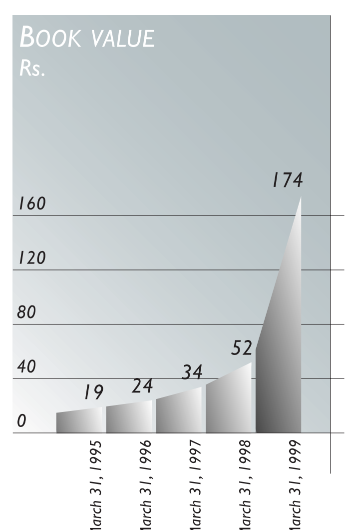












Consolidated financial statements of Infosys and its subsidiary

Infosys has a subsidiary, Yantra Corporation, incorporated in the USA. The financial statements of Infosys are prepared as per the requirements of the Companies Act, 1956 and Indian GAAP. The financial statements of Yantra Corporation are prepared as per US GAAP. The economic interest of Infosys in Yantra is below 50% and hence, has ceased to be consolidated under US GAAP. However, under the Companies Act Yantra remains a subsidiary of Infosys.

In order to enable investors to evaluate the consolidated operations of Infosys and its subsidiary, an attempt has been made to provide a consolidated Balance sheet and Profit and loss account under Indian GAAP. These statements are unaudited.

Consolidated Balance sheets as at March 31 (Unaudited)

in Rs.

	1999	1998
SOURCES OF FUNDS		
SHAREHOLDERS' FUNDS		
Share capital	33,06,95,500	16,01,73,500
Reserves and surplus	528,49,55,367	147,63,35,548
Convertible preferred stock	35,18,12,040	8,42,17,950
	596,74,62,907	172,07,26,998
APPLICATION OF FUNDS		
FIXED ASSETS		
Gross block less depreciation	89,10,69,520	58,59,25,187
Add: Capital work-in-progress	14,88,35,800	7,32,13,272
	103,99,05,320	65,91,38,459
INVESTMENTS	75,48,469	10,360
CURRENT ASSETS, LOANS AND ADVANCES		
Inventories	–	–
Sundry debtors	88,17,07,918	40,51,86,549
Cash and bank balances	430,17,80,194	53,59,88,610
Loans and advances	58,71,34,755	39,42,28,035
	577,06,22,867	133,54,03,194
Less: Current liabilities and provisions	85,06,13,749	27,38,25,015
NET CURRENT ASSETS	492,00,09,118	106,15,78,179
	596,74,62,907	172,07,26,998

Consolidated financial statements of Infosys and its subsidiary

Consolidated profit and loss accounts for the year ended March 31 (Unaudited)

in Rs.

	1999	1998
INCOME		
Software development services and products	519,65,98,978	256,21,18,473
Sale of imported software packages	–	1,64,840
Other income	4,60,56,232	2,95,89,158
	524,26,55,210	259,18,72,471
EXPENDITURE		
Cost of imported software packages sold	–	1,30,429
Software development expenses	245,85,70,417	141,20,94,728
Administration and other expenses	91,84,32,371	34,71,65,549
	337,70,02,788	175,93,90,706
Operating profit (PBIDT)	186,56,52,422	83,24,81,765
Interest	–	–
Depreciation	37,97,43,368	22,94,02,937
Profit before tax	148,59,09,054	60,30,78,828
Provision for tax	22,94,00,000	5,52,09,905
Profit after tax from ordinary activities	125,65,09,054	54,78,68,923
Extraordinary income	2,34,54,103	–
Net profit	127,99,63,157	54,78,68,923
Dividend on preferred stock	1,76,12,434	25,15,725
Amount available for appropriation	126,23,50,723	54,53,53,198
Dividend		
Interim	4,00,43,011	1,75,73,859
Final	8,10,32,734	5,27,17,738
Dividend tax	1,21,07,574	70,29,160
Amount transferred to – capital reserve	2,34,54,103	–
– revenue reserve	110,57,13,301	46,80,32,441

Notes:

1. Infosys' financial statements are prepared in Indian rupees, the reporting currency. The financial statements of Yantra Corporation, the subsidiary, are prepared in United States dollars, its reporting currency. The above consolidated financial statements are prepared by translating the financial statements of Yantra corporation to Indian rupees by converting the revenue and expenditure at average rate during the year; current assets, current liabilities, fixed assets, long-term borrowings at year-end rate; and accretions to stockholders' equity at average rate during the year. The difference arising on translation is shown under Reserves and surplus. All inter-company transactions have been netted off on consolidation.

2. Exchange rates used:

	1999	1998
Average exchange rate	1 $ = Rs. 42.04	1 $ = Rs. 37.27
Year-end exchange rate	1 $ = Rs. 42.14	1 $ = Rs. 39.48

3. Reconciliation between Indian GAAP and the above consolidated Profit and loss account: *in Rs.*

		1999	1998
Net profit of Infosys as per Indian GAAP		135,26,07,663	60,36,33,079
Less:	Loss of Yantra Corporation	(22,74,52,614)	(5,82,79,881)
Add:	Provision for contingencies	6,66,00,000	–
	Provision for investment in subsidiary	7,05,95,674	–
Net profit as per the above consolidated Financial statements		126,23,50,723	54,53,53,198

Infosys Foundation

One of the core values of Infosys is a strong sense of social responsibility. It is a commitment to help people, and communities, a commitment to enhance the living conditions of the rural population and a commitment to improve education.

In 1997, Infosys created the "Infosys Foundation" as a not-for-profit trust to which it plans to contribute every year a part of certain sum. The Infosys Foundation focuses on the rural poor, the underprivileged in rural areas, health care for the poor, education and promotion of Indian arts and culture.

The following are some of the projects undertaken/accomplished by the Infosys Foundation during the year.

1. Social causes for the rural poor and the underprivileged

A 2000 square feet hostel is being constructed at Kalahandi, a backward area near Behrampur, Orissa, India, for orphans of poor tribal parentage. This area has witnessed base deprivation and is one of the poorest areas in India.

2. Health care for the poor

A 50-bed female ward has been constructed at Kanchipuram Cancer Hospital, Tamil Nadu, India, at a cost of Rs. 15 lakhs.

A 20-bed children's ward was constructed at Bellary, Karnataka, India, to help children suffering from brain fever at a total cost of Rs. 12.60 lakhs.

Two ventilators costing Rs. 11.15 lakhs were donated to the District Hospital, Bijapur and Cheluvamba Hospital, Mysore in Karnataka, India, for use in the female wards to provide artificial respiration to critical cases.

A medical ambulance van and other help was provided to adivasi/tribal people at B. R. Hills, Karnataka at a total cost of Rs. 8 lakhs.

3. Education

Classrooms are under construction in tribal areas near Pune, Maharashtra, India, and a hall for orphans is under construction at Shedgeri near Ankola, Karwar District, Karnataka, India, at a total project cost of Rs. 1.70 lakhs.

A project to distribute books to schools at a total project cost of Rs. 10 lakhs is currently under execution. Around 1,000 schools have benefited from the project.

Construction of the "Infosys Science center" at Hosur village, near Gauribidanur, Karnataka, India, at a cost of Rs. 15 lakhs is underway

4. Promoting Indian arts and culture

"Kumaravyasa Gamaka" cassettes were distributed along with a tape recorder to various communities in Karnataka, India, to promote Indian ancient music at a total project cost of Rs. 0.55 lakhs.

Expenditure:

Particulars	For the year	Since inception
Contribution from Infosys	Rs. 1,36,00,000	Rs. 1,76,10,501
Amount utilized	Rs. 1,46,20,348	Rs. 1,73,37,592
No. of social causes	323	483

Bangalore
April 9, 1999

G. R. Nayak
Trustee

Sudha N. Murty
Trustee

N. S. Raghavan
Trustee

Financial statements prepared in substantial compliance with GAAP requirements of various countries

Thanks to the opening of the financial sectors in most nations and the integration of the world economy, investors today have a wide choice of capital markets to invest in across the globe. Thus, the global investor must have access to information about the performance of any company, in any market that he/she chooses to invest. Advances in technology provide desktop access to all companies that have a desire to source capital from the global capital pool. However, differences in language, accounting practices and reporting in various countries make the performance evaluation of the investee-company rather investor-unfriendly.

The strength of a global company is its ability to access capital at the lowest cost from investors globally. Companies that are successful in sourcing global capital are very global-investor-friendly. Such companies study the needs of the global investors and publish the company's financial information in a language and form which is understood by investors in their language and as per their standards. In the process, financial statistics may have to be restated and financial terminology may need to be translated. In a globalized world, financial information of such successful corporations moves rapidly across national boundaries. Indeed, a key issue in international financial analysis is the restatement and translation of financial reports that describe operations conducted in one environment, but which are the subject of review and analysis in another.

As an investor-friendly company committed to high quality of disclosure to our global investors, we have voluntarily reformatted our financial statements to be in substantial compliance with the local GAAP requirements of 6 countries, besides that of USA (which information appears separately elsewhere). We have also translated the financial reports into the national language of these countries (where applicable). The countries are – Australia, Canada, France, Germany, the United Kingdom and Japan. These reports are unaudited.

These unaudited *Consolidated Profit and Loss Accounts* and *Balance Sheets* have been prepared by converting the various financial parameters reported in the audited *Income Statement of Infosys* (according to the Indian GAAP) including consolidating the subsidiary's financial information, into respective currencies. In addition, adjustments have been made for differences in accounting principles and in formats, between India and these countries, if any.

In the event of a conflict in interpretation, the audited Indian version of the financial statements should be considered. The Infosys management cautions the investors that these reports are provided only as additional information to our global investors. Using such reports for predicting the future of Infosys, or any other company, is risky. The Infosys management is not responsible for any direct, indirect or consequential losses suffered by any person using these financial statements or data.

Financial statements prepared in substantial compliance with GAAP requirements of various countries – Australia

Financial statements prepared in substantial compliance with Australian GAAP (Unaudited):

Balance sheet

Infosys Technologies Limited as at March 31 *Australian dollars*

	1999	1998
CURRENT ASSETS		
Cash	156,462,296	23,458,674
Receivables	31,738,206	15,614,126
Investments	–	–
Other	7,563,247	7,745,524
TOTAL CURRENT ASSETS	195,763,749	46,818,324
NON-CURRENT ASSETS		
Receivables	–	–
Investments	2,934,440	399
Property, plant and equipment	37,820,474	25,400,326
Intangibles	–	–
Other	7,773,479	3,218,576
TOTAL NON-CURRENT ASSETS	48,528,393	28,619,301
TOTAL ASSETS	244,292,142	75,437,625
CURRENT LIABILITIES		
Trade creditors	119,165	226,818
Unearned revenues	7,276,962	–
Provisions	13,321,368	7,243,249
TOTAL CURRENT LIABILITIES	20,717,495	7,470,067
NON-CURRENT LIABILITIES		
Borrowings	–	–
Provisions	–	–
TOTAL NON-CURRENT LIABILITIES	–	–
TOTAL LIABILITIES	20,717,495	7,470,067
NET ASSETS	223,574,647	67,967,558
SHAREHOLDERS' EQUITY		
Share capital	12,987,854	6,444,416
Reserves	210,586,793	58,285,237
Retained profits	–	–
Shareholders' equity attributable to members of the company	223,574,647	64,729,653
Convertible preferred stock	–	3,237,905
TOTAL SHAREHOLDERS' EQUITY	223,574,647	67,967,558

Financial statements prepared in substantial compliance with GAAP requirements of various countries – Australia

Financial statements prepared in substantial compliance with Australian GAAP (Unaudited):

Profit and loss account

Infosys Technologies Limited for the year ended March 31 *Australian dollars*

	1999	1998
Operating revenue	196,753,013	99,649,076
Operating profit before abnormal items and Income tax	65,070,961	23,186,422
Abnormal items	1,007,448	–
Operating profit before income tax	66,078,409	23,186,422
Income tax expense/ (benefit) attributable to		
Operating profit	7,787,615	995,442
Abnormal items	–	–
Income tax expense/ (benefit) for the year	7,787,615	995,442
Operating profit after income tax	58,290,794	22,190,980
Outside equity interests in operating profit after income tax	3,364,954	–
Operating profit after income tax attributable to members of Infosys Technologies Limited	54,925,840	22,190,980
Dividend on preferred stock	–	96,721
Retained profits at the beginning of the financial year	–	–
Aggregate of amounts transferred from reserves	–	–
Total available for appropriation	54,925,840	22,094,259
Dividends provided for or paid	5,110,641	2,972,732
Aggregate of amounts transferred to reserves	49,815,199	19,121,527
Retained profits at the end of the financial year	–	–
Basic earnings per share	1.90	0.74
Diluted earnings per share	1.90	0.73

Notes:

1. The company's financial statements are prepared in Indian rupees, the reporting currency. These financial statements have been prepared by translating revenue and expenditure at average rate during the year; current assets, current liabilities, Property, plant and equipment, long-term borrowings at year-end rate; and accretions to stockholders' equity at an average rate for the year. The difference arising on translation is shown under Reserves.

2. Exchange rates used:

Exchange rates used:	1999	1998
Average exchange rate used	1 AUD = Rs. 26.06	1 AUD = Rs. 26.01
Closing exchange rate used	1 AUD = Rs. 26.63	1 AUD = Rs. 25.95

3. Reconciliation between the Indian GAAP and the Australian GAAP statements: *Australian dollars*

	1999	1998
Net income as per Indian GAAP in Rs.	1,352,607,663	603,633,079
Net income as per Indian GAAP in Aus $	51,903,594	23,207,730
Less : Net income of subsidiary included on consolidation	(3,364,954)	(2,240,671)
Add : Provision for deferred taxes	1,122,592	1,127,200
Provision for contingencies	2,555,641	–
Provision for investment in subsidiary	2,708,967	–
Net income as per Australian GAAP	54,925,840	22,094,259

Financial statements prepared in substantial compliance with GAAP requirements of various countries – Canada

Financial statements prepared in substantial compliance with Canadian GAAP (Unaudited)

Balance sheet

Canadian dollars

March 31	1999	1998
ASSETS		
Current assets		
Cash and cash equivalents	150,854,125	21,858,262
Accounts receivable	30,600,595	14,548,889
Inventories	–	–
Prepaid expenses and other assets	7,292,153	7,217,105
	188,746,873	43,624,256
Property, plant and equipment	36,464,852	23,667,449
Investments	2,829,259	372
Deferred taxes	2,617,158	1,545,104
Other assets	4,877,691	1,453,892
	235,535,833	70,291,073
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	114,894	211,343
Accrued liabilities	12,815,626	6,567,530
Current portion of long-term obligations	–	–
Advances received from clients	28,257	181,566
Unearned revenue	7,016,129	–
	19,974,906	6,960,439
Long-term obligations	–	–
	19,974,906	6,960,439
Minority interest	–	3,023,984
Share capital		
Common shares - 33,069,400 outstanding (1998 - 32,034,400 outstanding)	12,361,388	6,223,087
Additional paid-in capital	117,349,958	17,099,275
Accumulated foreign currency translation adjustment	(4,624,266)	(5,193,113)
Retained earnings	90,473,847	42,177,401
	235,535,833	70,291,073

Financial statements prepared in substantial compliance with GAAP requirements of various countries – Canada

Financial statements prepared in substantial compliance with Canadian GAAP (Unaudited)

Statement of earnings and retained earnings

Canadian dollars

Year ended March 31	1999	1998
Sales	183,186,165	91,969,968
Cost of sales	99,014,126	53,870,425
Gross margin	84,172,039	38,099,543
EXPENSES		
Selling, general and administration expenses	24,514,825	17,514,845
Income from operations	59,657,214	20,584,698
Equity in loss of deconsolidated subsidiary	3,156,612	–
Interest and other income	2,329,947	1,062,066
Interest expense	–	–
Earnings before income taxes	58,830,549	21,646,764
Provision for income taxes	7,305,444	929,341
Dividend on preferred stock	–	90,299
Net earnings	51,525,105	20,627,124
Cash dividend declared	4,794,216	2,775,332
	46,730,889	17,851,792
Retained earnings, beginning of the year	42,177,401	27,577,641
Adjustment on deconsolidation of subsidiary	7,331,288	–
Capitalization of profits	(5,765,731)	(3,252,032)
Retained earnings, end of the year	90,473,847	42,177,401
EARNINGS PER SHARE		
Net earnings		
Basic	1.68	0.73
Fully diluted	1.68	0.68
Weighted average number of shares		
Basic	30,689,425	29,787,144
Fully diluted	30,753,690	30,403,904

Notes:

1. The company's financial statements are prepared in Indian rupees, the reporting currency. These financial statements have been prepared by translating revenue and expenditure at an average rate for the year; current assets, current liabilities, Property, plant and equipment, long-term borrowings at year-end rate; and accretions to stockholders' equity at an average rate for the year. The difference arising on translation is shown under Accumulated foreign currency translation adjustment.

2. Exchange rate used:

Average exchange rate used	1 CAD = Rs. 27.78	1 CAD = Rs. 27.86
Closing exchange rate used	1 CAD = Rs. 27.62	1 CAD = Rs. 27.85

3. Reconciliation between the Indian GAAP and the Canadian GAAP statements:

Net income as per Indian GAAP in Rs.	1,352,607,663	603,633,079
Net income as per Indian GAAP in Canadian dollars	48,689,981	21,666,658
Less : Net income/ (loss) of subsidiary included on consolidation	(3,156,612)	(2,091,884)
Add : Provision for deferred taxes	1,053,087	1,052,350
Provision for contingencies	2,397,408	–
Provision for investment in subsidiary	2,541,241	–
Net earnings as per Canadian GAAP	51,525,105	20,627,124

Financial statements prepared in substantial compliance with GAAP requirements of various countries - France

Etats financiers préparés selon les principes comptables français (non vérifiés)

Compte de résultat

FRF

	1999	1998
Produits d'exploitation		
Vente de marchandises achetées	–	25,918
Production vendues (biens et services)	709,750,581	402,848,816
Montant net du chiffres d'affaires	709,750,581	402,874,734
Production stockée	–	–
Production immobilisée	–	–
Subventions d'exploitation	–	–
Reprises sur amortissements, provisions et transfert de charges	–	–
Autres produits	–	–
Total des produits d'exploitation (I)	709,750,581	402,874,734
Charges d'exploitation		
Achat de marchandises	2,485,340	20,508
Variation de stocks des biens achetés	–	–
Achat de matières premières et autres approvisionnements	–	–
Variations de stocks de matières premières et approvisionnements	–	–
Autres achats et charges externes	–	–
Salaires et traitements	231,598,931	147,368,647
Dotations aux amortissements et aux provisions	–	–
Sur immobilisations : Dotation aux amortissements	50,059,983	36,069,644
Sur immobilisations : Dotations aux provisions	–	–
Sur actif circulant : Dotations aux provisions	–	–
Pour risques et charges: dotation sur provisions	–	–
Autres charges	194,465,826	129,244,604
Total des charges d'exploitation (II)	478,610,080	312,703,403
Résultat d'exploitation (I-II)	231,140,501	90,171,331
Quotes-parts de résultat sur opérations faites en commun :		
Bénéfice attribué ou perte transférée (III)	–	–
Perte attribuée ou bénéfices transférés (IV)	–	–
Produits financières		
De participations	–	–
D'autres valeurs mobilières	–	–
Intérêts et produits similaires	5,365,668	4,652,383
Reprises sur provisions et transfert de charges	–	–
Différences positives de change	–	–
Produits nets sur cessions de valeurs immobilières de placements	–	–
Total des produits financiers (V)	5,365,668	4,652,383
Charges financières		
Dotations aux amortissements et aux provisions	–	–
Intérêt et charges similaires	–	–
Différences négatives de change	–	–
Charges nettes sur cessions de valeurs mobilières de placements	–	–
Total des charges financières (VI)	–	–
Résultat financier (V-VI)	5,365,668	4,652,383
Résultat courant avant impôts (I-II + III-IV + V-VI)	236,506,169	94,823,714

		FRF
	1999	1998
Produits exceptionnels		
Sur opérations de gestion	3,661,660	–
Sue opérations en capital	–	–
Reprises sur provisions et transfert de charges	–	–
Total des produits exceptionnels (VII)	3,661,660	–
Charges exceptionnelles		
Sur opérations de gestion	–	–
Sur opérations en capital	–	–
Dotations aux amortissements et aux provisions	–	–
Total des charges exceptionnelles (VIII)	–	–
Résultat exceptionnel (VII-VIII)	3,661,660	–
Participation des salariés aux fruits de l'expansion (IX)	–	–
Impôt sur les bénéfices (X)	28,304,776	4,070,982
Total des produits (I + III + V + VII)	718,777,909	407,527,117
Total des charges (II + IV + VI + VII + IX + X)	506,914,856	316,774,385
Dividendes préciputaires	–	395,554
Participation à la perte de filiale déconsolidées	12,230,222	–
Bénéfice ou perte	199,632,831	90,357,178

Notes:

1. Conversion en monnaie étrangère

Les états financiers de la société sont préparés en roupies indiennes. Ces états financiers ont été préparés par la conversion des revenues et des dépenses au taux moyen mensuel pendant l'année; les actif et passif circulants, les immobilisations, le matériel, les emprunts à long terme et accroissements des fonds propres sont calculés au taux à la fin de l'année et les placements à long terme sont calculés selon le taux au moment du placement. La différence provenant des conversions se trouve sous la rubrique *Reserves.*

2. Taux de change utilisé

Taux moyen de change utilisé	1 FRF= Rs. 7.17	1 FRF=Rs. 6.36
Taux de change de clôture utilisé	1 FRF= Rs. 6.84	1 FRF=Rs. 6.36

3. Rapprochement entre les états financiers établis selon les principes comptables indiens et français

		FRF
	1999	1998
Résultat net selon les principes comptables indiens en Rs.	1,352,607,663	603,633,079
Résultat net selon les principes comptables indiens en FFR	188,648,210	94,910,861
Soustraction du revenu net de la filiale inclus en consolidation en FFR	(12,230,222)	(9,163,504)
Addition des provisions pour impôts différés en FFR	4,080,162	4,609,821
Addition des provisions pour imprévus en FFR	9,288,701	–
Addition des provisions pour placements à la filiale en FFR	9,845,980	–
Résultat net selon les principes comptables français en FFR	199,632,831	90,357,178

Financial statements prepared in substantial compliance with GAAP requirements of various countries – France

Etats financiers préparés selon les principes comptables français (non vérifiés)

Bilan le 31 mars, *FRF*

Actif	1999 Brut	1999 Amortissements ou Provisions	1999 Net	1998 Net
Actif immobilisé				
Immobilisations incorporelles				
Frais d'établissements	–	–	–	–
Frais de recherche et de développement	–	–	–	–
Fonds comercial	–	–	–	–
Autres	–	–	–	–
Avance et acomptes	–	–	–	
	–	–	–	–
Immobilisations corporelles				
Terrains	15,900,607	–	15,900,607	7,548,212
Constructions	42,085,151	3,424,382	38,660,769	28,649,376
Installations techniques, matériel	158,121,754	95,839,885	62,281,869	45,746,950
Autres	30,857,157	22,214,524	8,642,633	10,182,063
Immobilisations corporelles en cours	21,759,620	–	21,759,620	11,511,521
Avances et acomptes				
	268,724,289	121,478,791	147,245,498	103,638,122
Immobilisations financières				
Placements évalués selon la participation	–	–	–	–
Autres participations	–	–	–	–
Créances rattachées à des participations	–	–	–	–
Autres titres immobilisés	11,424,582	–	11,424,582	1,629
Prêts	–	–	–	–
Autres	–	–	–	–
	11,424,582	–	11,424,582	1,629
Total de l'actif (I)	280,148,871	121,478,791	158,670,080	103,639,751
Actif circulant				
Stocks et en-cours				
Matières premières et autres				
Approvisionnements	–	–	–	–
En cours de production (biens)	–	–	–	–
En cours de production (services)	–	–	–	–
Produits intermédiaires et finis	–	–	–	–
Marchandises	–	–	–	–
	–	–	–	–
Prêts aux employés	31,915,040	–	31,915,040	11,928,278
Créances				
Créances clients et comptes rattachés	–	–	–	–
Autres	125,425,698	1,860,139	123,565,559	63,708,577
Capital souscrit-appelé, non versél	–	–	–	–
Valeurs immobilières de placement	–	–	–	–
Disponibilités	609,150,723	–	609,150,723	95,715,817
	734,576,421	1,860,139	732,716,282	159,424,394
Charges constatées d'avance	17,226,932	–	17,226,932	26,041,417
Total d'actif circulant (II)	783,718,393	1,860,139	781,858,254	197,394,089
Impôts et taxes à répartir sur plusieurs exercices (III)	10,568,116	–	10,568,116	6,765,905
Primes de remboursement des obligations (IV)	–	–	–	–
Ecart de conversion actif (V)	–	–	–	–
Total Général (I + II + III + IV + V)	1,074,435,380	123,338,930	951,096,450	307,799,745

FRF

Passif	1999	1998
Capitaux propres		
Capital social	49,242,804	25,460,098
Primes d'émission (de fusion, d'apport)	454,696,785	66,277,819
Ecart de réevaluation		
Réserves (bénéfices non distribués)		
Réserve légale		
Réserve statuaires		
Réserves réglementées	–	103,216
Autres	430,296,053	194,538,806
Report à nouveau	–	–
Résultat de l'exercice (Bénéfice ou perte)	–	–
Subventions d'investissement	–	–
Provisions réglementées	–	–
Total des capitaux propres (I)	934,235,642	286,379,939
Autres capitaux propres		
Bénéfice provenant de participation subordonnée	–	–
Avances et acomptes conditionnels	–	–
Total des autres capitaux propres	–	–
Intérêts minoritaires	–	–
Provisions		
Provision pour risques	–	–
Provisions pour charges	–	–
Total des provisions (II)	–	–
Dettes		
Dettes financières		
Emprunts obligatoires convertibles	–	–
Autres emprunts obligatoires	–	–
Emprunts et dettes auprès d'établissements de crédit	–	–
Emprunts et dettes financiers divers	–	–
Avances et acomptes reçus sur commande en cours	28,445,313	795,063
Dettes d'exploitation		
Dettes fournisseurs et comptes rattachés	463,942	925,458
Dettes ficcales et sociales	–	–
Autres dettes		
Dettes sur immobilisations et comptes Rattachés	–	–
Autres dettes	51,749,648	28,758,759
Produits constatés d'avance	–	–
Total des dettes (III)	80,658,902	30,479,280
Intérêt minoritaire	–	13,283,588
Ecart de conversion passif (IV)	(63,798,094)	(22,343,062)
Total Général (I + II + III + IV)	951,096,450	307,799,745

Financial statements prepared in substantial compliance with GAAP requirements of various countries – Germany

Nach den allgemeingültigen Buchführungsmethoden (GAAP) erfaßter Finanzbericht (ungeprüft):

Bilanz 31. März

Zahlen in DM

	1999	1998
AKTIVA		
Immaterielle Werte	–	–
Reale Aktiva	43,468,244	30,945,468
Finanzielle Aktiva	3,372,643	486
Feste Anlagen	46,840,887	30,945,954
Inventare	–	–
Außenstände	36,477,705	19,022,843
Andere Forderungen und vermischte Aktiva	8,692,674	9,436,449
Marktbare/verkaufbare Wertschriften und Scheine	–	–
Flüssige Mittel	179,826,972	28,579,934
Umlaufvermögen	224,997,351	57,039,226
Vorbezahlte Ausgaben und Steuerrückstellung	8,934,300	3,921,223
Aktiva Gesamt	280,772,538	91,906,403
STAMMAKTIEN UND VERBINDLICHKEITEN		
Zeichnungskapital	14,552,189	7,488,313
Kapitalreserven	134,643,284	19,276,094
Einkünftereserven	107,765,806	52,087,248
Stammaktien	256,961,279	78,851,655
Einlösbare Vorzugsaktien	–	3,953,894
Gewinnbeteiligungsscheine (Nominale/Namensscheine)	–	–
Rückstellungen/Vorbehalte für Rente	–	–
andere Vorbehalte und Verbindlichkeiten	15,276,979	8,587,122
Vorbehalte und Verbindlichkeiten	15,276,979	8,587,122
Geschäftsschulden	136,960	276,334
Andere Verbindlichkeiten	33,683	237,398
Passiva	170,643	513,732
Transitorische Passiva	8,363,637	–
Passiva Gesamt	280,772,538	91,906,403

Financial statements prepared in substantial compliance with GAAP requirements of various countries – Germany

Nach den allgemeingültigen Buchführungsmethoden (GAAP) erfaßter Finanzbericht (ungeprüft):

Gewinn und verlustrechnung

für das geschäftsjahr beendet am 31. März *Zahlen in DM*

	1999	1998
Nettoverkäufe	210,808,271	120,069,509
Verkaufskosten	113,944,176	70,329,431
Bruttogewinn	96,864,095	49,740,078
Verkaufs-, Verwaltungskosten und allgemeine Kosten	28,211,344	22,866,148
Andere Betriebseinkommen	–	–
Andere Betriebskosten	–	–
Betriebsgewinn	68,652,751	26,873,930
Finanzartikel	1,593,697	1,386,558
Ergebnisse der gewöhnlichen Aktivitäten	70,246,448	28,260,488
Außerordentliches Einkommen	1,087,577	–
Einkommen vor der Steuerung	71,334,025	28,260,488
Einkommenssteuer	8,407,011	1,213,282
Dividende zu Vorzugsaktien	–	117,888
Eigenkapital in Verlust der dekonsolidierten Tochtergesellschaft	3,632,589	–
Nettoeinkommen	59,294,425	26,929,318
Zuordnung zu Reserven für Einkünfte	53,777,303	23,306,040
Dividenden an Aktienbesitzer	5,517,121	3,623,278
Nicht zugeordnetes Gewinn	–	–

Anmerkungen:

1. Fremdwährungumsetzung/-konvertierung

Die Rechnung der Firma wird in indische Rupien dargestellt, welche die Währung für Berichte ist. Diese Finanzauszüge werden nach der Umsetzung der Einkünfte und Ausgaben um den durchschnittlichen Satz während des Jahres, bereitgestellt. Umlaufvermögen, kurzfristige Verbindlichkeiten, Eigentum, Werke und Anlagen, langfristige Verpflichtungen und Ablagerungen an den Stammaktien zum Zinssatz, der am Jahresende besteht und langfristige Anlagen zum Zinssatz, der zur Zeit des Investitions besteht. Der Unterschied nach der Umsetzung wird unter Reserven gezeigt.

2. Verwendete wechselkurse

	1999	1998
Durchschnittswechselkurs	1 DM = Rs. 24.14	1 DM = Rs. 21.34
Schlußwechselkurs	1 DM = Rs. 23.17	1 DM = Rs. 21.30

3. Beilegung zwischen indischen GAAP und deutschen GAAP Auszüge *Zahlen in DM*

	1999	1998
Nettoeinkommen nach indischen GAAP in Rupien	1,352,607,663	603,633,079
Nettoeinkommen nach indischen GAAP in DM	56,031,800	28,286,461
Abzüglich: Nettoeinkommen/ (Verlust) der Tochtergesellschaft eingeschlossen Konsolidierung	(3,632,589)	(2,731,016)
Hinzufügen: Vorbehalte für Steuerrückstellung	1,211,879	1,373,874
Hinzufügen: Vorbehalte für ungewisse künftige Ereignisse	2,758,907	–
Hinzufügen: Vorbehalte für Investition in Tochtergesellschaft	2,924,428	–
Gewinn des Geschäftsjahres nach dem deutschen GAAP	59,294,425	26,929,319

Financial statements prepared in substantial compliance with GAAP requirements of various countries – United Kingdom

Financial statements prepared in substantial compliance with the UK GAAP (Unaudited):

Balance sheet as at March 31

	1999	£ 1998
Fixed assets		
Tangible fixed assets	14,907,626	9,991,488
Investments	1,156,663	157
	16,064,289	9,991,645
Current assets		
Stocks	–	–
Debtors	12,510,190	6,141,982
Cash at bank and in hand	61,672,453	9,227,719
Others - advances and prepayments	2,981,191	3,046,785
Deferred tax asset	1,069,951	652,284
	78,233,785	19,068,770
Creditors – amounts falling due within a year		
Creditors	46,971	89,221
Dividend	1,338,573	816,799
Provisions and other liabilities	6,780,631	2,032,410
	8,166,175	2,938,430
Net current assets	70,067,610	16,130,340
Loans and advances more than one year	1,994,106	613,777
Total assets less current liabilities	88,126,005	26,735,762
Capital and reserves		
Called-up share capital	5,248,820	2,792,793
Share premium account	48,127,222	8,015,397
Retained profits	34,749,963	14,650,962
Equity shareholders' funds	88,126,005	25,459,152
Convertible preferred stock	–	1,276,610
	88,126,005	26,735,762

Financial statements prepared in substantial compliance with GAAP requirements of various countries – United Kingdom

Financial statements prepared in substantial compliance with the UK GAAP (Unaudited):

Profit and loss account for the years ended March 31

£

	1999	1998
Turnover	73,295,573	38,793,086
Operating expenses	49,425,814	30,110,426
Operating profit	23,869,759	8,682,660
Interest receivable	554,110	447,981
Interest payable	–	–
Net interest (payable)/receivable	554,110	447,981
Profit on ordinary activities before taxation and exceptional items	24,423,869	9,130,641
Exceptional items	378,138	–
Profit on ordinary activities before taxation	24,802,007	9,130,641
Taxation on profit on ordinary activities	2,923,019	391,998
Profit on ordinary activities after taxation	21,878,988	8,738,643
Dividend on preferred stock	–	38,088
Equity in loss of deconsolidated subsidiary	1,263,009	–
Profit for the financial year	20,615,979	8,700,555
Dividends	1,918,239	1,170,640
Retained profits for the financial year	18,697,740	7,529,915
Earnings per ordinary share:		
Undiluted	0.67	0.29
Diluted	0.67	0.29

Notes:

1. The company's financial statements are prepared in Indian rupees, the reporting currency. These financial statements have been prepared by translating revenue and expenditure at an average rate for the year; current assets, current liabilities, Property, plant and equipment, long-term borrowings at year-end rate; and accretions to stockholders' equity at an average rate for the year. The difference arising on translation is shown under Retained profits.

2. Exchange rates used:

	1999	1998
Average exchange rate used	1£ = Rs. 69.43	1£ = Rs. 66.05
Closing exchange rate used	1£ = Rs. 67.56	1£ = Rs. 65.97

3. Reconciliation between the Indian GAAP and the UK GAAP statements:

£

	1999	1998
Net income as per Indian GAAP in Rs.	1,352,607,663	603,633,079
Net income as per Indian GAAP in £	19,481,603	9,139,032
Less : Net income of subsidiary included on consolidation	(1,263,009)	(882,360)
Add : provision for deferred taxes	421,356	443,883
provision for contingencies	959,240	–
provision for investment in subsidiary	1,016,789	–
Profit for the financial year as per the UK GAAP	20,615,979	8,700,555

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