In pursuit of excellence

It takes a long time to bring excellence to maturity.

— Publius Syrus 42 B. C.

Pursuing excellence is the ambition of every organism. It is an eternal journey - a journey replete with the rich canvas of experience. People who pursue this journey have all exhibited certain canonical attributes - creativity, motivation, hard work, discipline, determination and dedication. Such people serve as great motivation to individuals and corporations all over the world. We Infoscions, salute these colossi.

Managerial awards for 1995-96

Phaneesh Murthy

For his extraordinary efforts in widening our overseas clientele base.

Rajiv Kuchhal

For his remarkable abilities in assuming and executing responsibilities to the complete satisfaction of one of our important customers.

S. Gopalakrishnan

For significantly raising the contribution of the Technical Support Services group towards realizing Infosys’ aspirations.

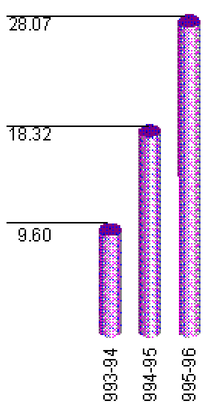
Year at a glance

in millions except for Earnings per share

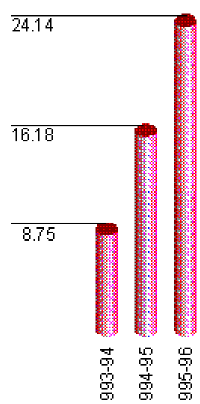
	March 31, 1996		March 31, 1995	
	Rs.	US$	Rs.	US$
For the year				
Total revenue	934.13	28.07	577.04	18.32
Exports	803.39	24.14	509.57	16.18
Operating profit (PBIDT)	339.54	10.20	198.60	6.31
Profit after tax (PAT)	210.09	6.31	133.24	4.23
PBIDT as a percentage of total revenue	36.35%	36.35%	34.41%	34.41%
PAT as a percentage of total revenue	22.49%	22.49%	23.09%	23.09%
Earnings per share	28.94	0.87	18.35 *	0.58
Dividend percentage	50.00%	50.00%	45.00%	45.00%
Dividend amount	36.29	1.09	23.14	0.73
Capital investment	155.55	4.67	252.30	8.01
PAT as a percentage of average net worth	29.53%	29.53%	29.71%	29.71%
At the end of the year				
Total assets	840.99	25.27	687.97	21.84
Fixed assets	366.33	11.01	300.20	9.53
Working capital	411.72	12.37	324.69	10.31
Total debt	42.61	1.28	63.39	2.01
Net worth	798.38	23.98	624.58	19.83
Equity	72.59	2.18	72.59	2.30
Market capitalization	3,556.71	104.61	3,484.20	110.63

* On the enhanced equity

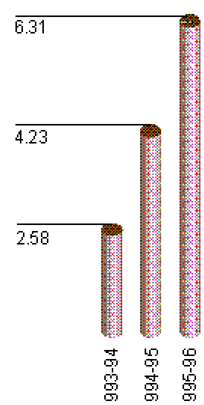
Figures in US$ were arrived at by converting at the average conversion rate, to facilitate comparison.



Total revenue
(US$ in millions)



Exports
(US$ in millions)



Net profit
(US$ in millions)

Dear Shareholder,

We have come to the end of yet another eventful, exciting and successful year. The energetic and enthusiastic band of Infoscions achieved and exceeded every target that they had set for themselves. Sales, exports, domestic product sales, PBIDT and PAT grew from Rs. 57.70 crores, Rs. 50.96 crores, Rs. 4.46 crores, Rs. 19.86 crores and Rs. 13.32 crores respectively in 1994 - 95 to Rs. 93.41 crores, Rs. 80.34 crores, Rs. 8.22 crores, Rs. 33.95 crores and Rs. 21.01 crores respectively in 1995 - 96. Such a growth is impressive particularly in the context of the Infoscion's resolve to replace a significant chunk of business from General Electric with better margin business from a broadly diversified portfolio of customers. There is no better demonstration of the competence, dedication and hard work of the Infoscion than this.

The improved PBIDT gave us an opportunity to enhance our depreciation rates to be in line with the higher rate of obsolescence in technology that has become a reality. Infosys, as usual, has set an industry trend and others are bound to follow.

Java is the hottest technology available today. We are glad to report that Infosys became the first Indian software company to provide a Java-based front end for our bank automation product - BANCS 2000. Thus, the spirit of innovation is alive and kicking at Infosys. INLEGOE (INfosys LEGacy and Open systems Environment) is our architecture for harmonious co-existence of the modern, three-tiered client/server systems with mainframe-based legacy systems. A *Fortune 50* company has used this architecture making Infosys the first Indian software company to market an architectural product.

BANCS 2000 is widely acknowledged as the best bank automation solution for the banking sector in India. The sales trend indicates that this product will have opportunities in other emerging markets as well.

Infosys aims to be a global company. Globalization implies producing where it is best to produce and selling where it is best to sell. The Management Council (MC) took the first step towards operationalizing this principle by approving the establishment of development centers at Mangalore and Pune. The Mangalore center became operational on December 4, 1995 and the Pune center will become operational on June 27, 1996. The Electronics City center was expanded to 140,000 square feet. The Nortel-Infosys development center and the Banking development center were retrofitted to usher in state-of-the-art workplace and technology.

Empowering professionals is an essential requirement for any growing company. Your company has been reorganized in terms of *Strategic Business Units (SBUs)* to encourage autonomy of operation. Our belief is that this new structure will bring to light the next generation of business leaders at Infosys.

We have taken yet another step towards global level transparency by voluntarily providing data according to Form 10-K of the Securities and Exchange Commission of the US.

We have used the "Lev & Schwartz" model to determine the value of the human capital at Infosys. This data is presented on page 93 and the Economic Value Added (EVA) statement is on page 94.

We have become the first Indian company to produce our Annual Report this year on a CD ROM, in addition to the printed version.

Pursuing excellence is the ambition of every organism. We, at Infosys, believe that to pursue excellence relentlessly, an individual must exhibit certain canonical attributes - discipline, determination and dedication. As individuals who celebrate excellence, the members of the Management Council have adopted "In pursuit of excellence" as the theme for this year's Annual Report. We are grateful to five well-known personalities who have become undisputed leaders in their chosen paths

- Ms. Madhuri Dixit in films, Mr. Anil Kumble in sports, the late J.R.D. Tata in industry, Dr. Shivaram Karanth in arts, and Dr. C.K. Prahalad in management research - for showing us what it takes to pursue excellence in their respective spheres.

The Management Council has set a grand vision for Infosys for 2000 AD. We are grateful to four members of the MC who have looked at different aspects of our business in 2000 AD. Mr. Nandan Nilekani looks at succeeding in the software business, Mr. Gopalakrishnan looks at technology, Mr. Sharad Hegde discusses his vision of the customer workplace and Mr. Mohandas Pai examines the investor transparency levels needed for global companies.

Infoscions are men and women of high discipline, integrity, quality, productivity, creativity and commitment. On your behalf, on behalf of the Board of Directors and the Management Council, we place on record our appreciation and gratitude to these high achievers.

Bangalore	N. S. Raghavan	N. R. Narayana Murthy
April 9, 1996	*Joint Managing Director*	*Chairman and Managing Director*

Pursuing excellence in the film industry

It's funny, really, because I do not feel I am at the top. I do not feel I have achieved my personal best yet. When people talk of my success, I still wonder whether they could be speaking of me. There is so much more I can do, and that I want to do. I have not delivered my best performance yet. It is a constant struggle to be better in each film. I am grappling with that feeling always, reaching out to it, trying to use it.

Right now, the film industry is going through a new phase of professionalism. Quality has become the watchword. The world is so competitive that each product has to be of the finest quality or consumers will reject it outright. This discipline, this quality consciousness, is very good for performers like me.

Earlier, I had to work on up to a dozen films each year. Now, I limit myself to five or six. That means I can spend quality time on each shot. It is no longer a rush to move from one set to the other.

My philosophy is simple. Do what you are good at, and success will follow. It is important not to dream too much, otherwise you may not achieve what you want to. And yet, you must have a dream. It is a very paradoxical thing. You have to find a balance between the two.

I take life as it comes. But I am a very focused person. I give my all to the work I do. Perhaps my long years of training in Kathak dance have helped me build my power of concentration.

People ask me, how come you are so normal? I think the credit goes to my family. I am never allowed to think I am doing anything out of the ordinary. Like so many other people, I am a working professional.

In this industry, you are always in the public eye. We are constantly being compared and contrasted with other performers. I try not to let the constant pressure get to me. I live life on my own terms, according to what I feel is right. I don't care what negative things people say or write about me.

Competition is good so long as it is healthy. I think there is more than enough room for all of us in the industry. But, I do try to keep my identity, my image. Whatever I have to do, I do sincerely. I work hard, I put in a long day. That is the best I can do.

Madhuri Dixit

There is unanimity about Madhuri Dixit's position as the top star in the Indian film industry. The HAHK (*Hum Aap ke Hai Kaun*) girl is one artist in the Indian film industry whom every Indian is proud of. She brings tremendous commitment, hard work, creativity and professionalism to every one of her films. In the recent past, there has not been a year without a Madhuri hit.

The road to the top is paved with 3Ds

Discipline, determination and dedication (3Ds) are essential ingredients to reach the top in any field including sports. Talent is a *necessary, but not sufficient,* condition for success in sports. In my opinion, talent constitutes sixty percent and the 3Ds constitute forty percent of the alchemy for success.

As a young boy, my parents emphasized discipline in everyday life. Whether it was studies or sports, regular habits formed my *mantra*. Whether it was a cold morning, hot afternoon or even the engineering examination days, regular cricket practice was a must for me. Discipline is necessary to do exercises regularly and keep oneself fit. Whether I was high on success or low on failure on the previous day, the next morning always meant prompt appearance at the practice session. Cricket is a team sport and discipline in carrying out the captain's strategy can never be exaggerated.

Determination under trying circumstances is what distinguishes a marathon winner from the also-rans. When you have been hit all over the field by a batsman on a rampage, it requires determination to summon up all your guile to outwit him. There are thousands of reasons to throw in the towel when the going is bad, but there is only one reason to go on trundling - *determination*.

Dedication to cricket means long hours at the crease. Dedication means focusing on a few interests in life and pursuing them at the cost of all other interests. Thus, dedication translates into sacrifice. Practising day after day means sacrificing interesting things, like going out with friends, relaxing and entertaining.

In the end, cricket is a mind game and strategy is necessary for success as a bowler at the highest level. Bowling is really a battle of wits between two minds - those of the bowler and the batsman. Cricket is also a team game. You need to constantly discuss with your teammates, out in the middle, on how to dislodge the batsman.

Nobody can reach the top without encouragement from parents, relatives, friends and well-wishers. Bowling in a test match, in a large city like Bangalore, with nearly fifty thousand fans cheering, can be a motivator and will surely push you to surpass yourself. I owe my success to my parents who gave me complete freedom to balance my time between studies and cricket, and encouraged me to perform well. I am indebted to my teammates, friends and fans who wholeheartedly cheered every one of my wickets.

Anil Kumble

A level-headed person with admirable manners, Anil Kumble, 25, became India’s hero when he bamboozled the visiting Englishmen in 1993, and has not looked back since then. With 109 wickets in 21 tests and 103 wickets in 80 one-day internationals, Kumble has became the mainstay of India’s bowling stock. An engineer by profession, Kumble brings a cerebral approach to the art of spin bowling.

The guiding principles of my life

Nothing worthwhile is ever achieved without deep thought and hard work;

One must think for oneself and never accept at their face value slogans and catch phrases to which, unfortunately, our people are too easily susceptible;

One must forever strive for excellence, or even perfection, in any task, however small, and never be satisfied with the second best;

No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people and is achieved by fair and honest means;

Good human relations not only bring great personal rewards but are essential to the success of any enterprise.

Extracted, with permission, from
"Beyond The Last Blue Mountain : the life of J.R.D. Tata"./ R. M. Lala.- Penguin : pp 297-298

J. R. D. Tata

(1904 - 1993)

It is improbable that the world will ever again see the likes of Jehangir Ratanji Dadabhai Tata. A first-rate industrialist who headed the largest industrial group in India, a visionary, an aviator, and a compassionate human being, *Aparo JRD* (‘*Our JRD*’), as he was affectionately called in India, stood for everything that is decent, progressive and honest. A *Bharata Ratna,* he received more honors and awards than any stamp collector has stamps in his album

Internal motivation is what you need to express yourself

Life is my main playing ground. Inspiration comes from various channels for an artist. Motivation comes from developing interest in a thing. Interest comes from observing the beauty of nature - people, mountains, rivers, trees, birds, animals, etc. It comes from articulating your experience.

Success does not come from imitation. Success does not come because of competition. It comes because you create an internal motivation. An artist is like a child, always curious, adventurous and unlimited in imagination. You do not need a *guru* to succeed. Nature is the greatest guru, and those who have interest in keenly observing nature will be able to articulate their experiences in whatever art form they choose. There need not be just one role model and that model may not even be another human being. Sky, earth, stars, animals, birds, children, mother, father, teachers, peers, mythological figures can all serve as role models at different stages of your life.

Creativity is essential, but hard work in converting an idea into reality is also a must. My own work of producing *Bala Prapancha*, the children’s encyclopedia in Kannada, in 1938, required tremendous effort. My friend, the late K. K. Hebbar, was a great painter and I have seen him spend months on each of his masterpieces.

Satisfaction comes from doing things to bring happiness to the lives of people in areas that interest me. Satisfaction often translates into pleasure which is ephemeral. The only real satisfaction comes from knowing that the world is a better place because of some little thing you did or some knowledge or skill that you passed on to others.

Have I lost faith in man? I have lost faith in man as an animal. He is the greatest danger for the entire nature. But, I have not lost faith in man as a creative being, oriented towards the betterment of nature and the organisms around him.

Shivaram Karanth

If any cognoscente is asked to name the most versatile artist in India, the answer would most likely be Dr. Shivaram Karanth. Dr. Karanth, 94, has distinguished himself as a novelist, a popular science writer, journalist, film producer, Yakshagana artist, *et al*. Dr. Karanth has received many honors including the *Gnana Peeth* award, fellowships of the *Bharatiya Sangeeta Academy* and the *Bharatiya Sahitya Academy*, and several honorary doctorates.

Leadership: a journey

I like to think of leadership as a never-ending journey; one can never say one has arrived or rest on one's accomplishments. Leadership, in any walk of life — be it business, academics, or sports — will always be challenged because progress is about challenging existing ideas, practices and standards. Retaining leadership, therefore, is a matter of constant effort, humility and innovation.

Uniqueness does not come from following the crowd. Leaders understand the importance of nonconformity. They tend to be "lonely thinkers". Leaders take responsibility for continued personal excellence and place achievements and failures in perspective — showing great courage in failure and, in equal measure, humility in success. Leadership comes with a major obligation — to share one's knowledge and wealth, and to nurture the growth and development of others.

Leadership forces one to take a broader view of one's role and be concerned with the problems of the less fortunate. This also means that leaders have to accept and come to terms with their own weaknesses, accept that they are but human, and have the ability to laugh at themselves. The temptation to play God is ever-present and this temptation the wise ones avoid.

C. K. Prahalad

Prof. C. K. Prahalad is the Harvey C. Fruehauf Professor of Business Management at the Graduate School of Business Administration, University of Michigan, Ann Arbor, USA. *Businessweek* called him one of the most influential contemporary thinkers of corporate strategy. He is the co-author of *Competing for the Future*, the current bestseller in corporate strategy. He has a DBA from the Harvard Business School. His co-authored, award-winning *Harvard Business Review* articles - *The Core Competence of the Corporation* and *Strategic Intent* - have made seminal contributions to modern corporate strategy.

Succeeding in the software business in 2000 AD

Software companies that have achieved global prominence, all share certain attributes. Any company aspiring for such a leadership position must internalize these attributes, even to have a fair shot at achieving its ambitions.

All software companies with global aspirations must have a sense of mission that permeates everything that they do. It is only when the whole organization is suffused with a sense of supraordinate purpose, that it will release the intellectual energy and passion that is essential for achieving global supremacy. It is only the belief that we can change lives, and leave a mark, that provides sustenance for the long march.

The software business is very similar to political ideology. It is a business of the mind where ideas battle for attention. Concepts fall in and out of favor with the rapidity of nine pins. In fact, the force of some ideas is such that they travel the global information highways with the momentum of a tidal wave, leaving in their wake, the wreckage of previously rock solid companies, and anointing new heirs - companies that were but a gleam in someone's eye just a short time ago. A company with global aspirations has to be a 'thought leader' in its chosen area, defining the agenda and articulating the concepts that engage the minds of its customers. In software, as in no other industry, mindshare precedes marketshare.

The very volatility of the marketplace requires companies to be 'modeless'. Peter Drucker talks about the 'theory of the business', the set of basic assumptions about a company's existence, that serves as an implicit reference point for all its strategies and decisions. The decline of a company starts when its 'theory' is out of step with the external reality. Thus, every great software company constantly retests its core assumptions and has the flexibility to change when it finds that some them are obsolete. They refuse to allow themselves to be encumbered with the burden of outdated shibboleths. Their ability to learn, change course and leverage is far above the norm. Their open culture ensures a high internal velocity of ideas.

All great software companies flourish by creating 'engines' of earnings and growth. This is done by paying as much attention to the execution as to the strategy, creating a franchise that works with clockwork precision, and setting it up in able hands, while the people at the helm look to the future. One earnings engine generates the cash that feeds investment in the next.

Finally, getting to the top - and staying there - requires a tremendous amount of effort. The reason why the software industry is dominated by the young is the sheer energy and stamina that has to be sustained. It is not sufficient to be the best. You have to the be the best and the first. Who remembers the second largest-selling Web browser, or the second largest-selling database product? This need to be the first and the best, whether it is with a product, a service, or mastery over a new technology, permits no space for relaxation and complacence.

It is not easy aiming for the top of the international software industry.

Bangalore
April 9, 1996

Nandan M. Nilekani
Deputy Managing Director
and Head - Marketing

The software factory of the next millennium

The software development process of the next millennium, in my opinion, will be different in many ways. Quality will become a competitive necessity rather than an advantage, as we see it today. Time-to-develop will shrink from the current norm of 12-18 months to 3-6 months. Collaborative development spread across spatially distributed development centers will become common. Development will become much more interactive with heavy participation by the customers, thus necessitating more prototyping than today. The development process itself, will become more reuse-oriented, automation-based and workgroup-based.

The software maintenance process of the next millennium will evolve into more of a science than it is today. Heavier usage of tools, extraction and leverage of business rules, collaborative working, better methods for measuring productivity and quick-response help desks are some of the changes I envisage in this area. There will be a thrust towards re-engineering the legacy systems to client/server systems, with particular emphasis on component reuse technology. Maintenance which has been the most neglected research area in the current decade will become the focus of research attention with better interaction between the industry and the academia.

The canonical attributes of the future software factory will be prompt response, quick learning and adaptability, focus on tools and methods for efficient requirement definition and design, better communication among the staff and with the customers, emphasis on moving towards the creation and use of business objects, and standardized processes and methods of development and maintenance.

Technology will play a seminal role in the software factory of the next century. Intranet will become the vehicle for developing enterprisewide information and reuse repositories. Workgroup computing incorporating e-mail, workflow automation, project planning and monitoring tools, and video conferencing will be the norm. The nodes of such workgroups will be the high-performance PCs that will become the workstation-of-choice for professionals. It will provide an integrated software platform including audio and video communication, metrics data collection tools, Internet and intranet access, visual programming tools, access to object libraries and repositories, configuration management and version control tools, software for connecting to multiple servers, office automation tools, etc. It is still not clear whether all these will reside as client software or can be brought in as software-on-demand applets.

Thanks to collaborative computing technology and the leveraging of time zone differences, the software factories will operate as 7-by-24-hour centers and can be located far away from the users of the software. Domain and methodology expertise will be developed to such an extent that development and maintenance teams spread across different time zones can work in relays to form quick-response, virtual teams. Technology will play a significant role in keeping the software work-in-process synchronized across all the factories. Backup and recovery technology will develop to accommodate collaborative computing. Keeping the environment virus-free will require sophisticated tools.

The network in a software factory that develops software for multiple customers, is a hub connected to the network of these customers. Advanced firewall software systems will have to be in place to prevent security breaches.

At Infosys, several of these technological components are already in place and there is a technology plan to equip ourselves with all the components by the turn of the century.

Bangalore
April 9, 1996

S. Gopalakrishnan
Deputy Managing Director
and Head - Technical Support Services

IT at the customer workplace in 2000 AD

Computing is not about computers anymore. It is about living. As we interconnect ourselves on the *information superhighway*, we are inventing new ways of conducting ‘transactions’, often eliminating the requirement of physical proximity. Distributed, affordable, powerful and networked microprocessors are affecting the way we socialize, entertain, educate, conduct business, consume and pay for services. The digital revolution has provided a clear path for achieving a highly scalable model for organizations, especially those who are in the ‘*bits business’* like finance, insurance and publishing. Some of the technologies that will make the customer of 2000 AD different from the customer of today are :

- Easily affordable ‘network-ready’ technology will enable customers of the next millennium to order products and services from their homes or offices. Some of the innovative delivery platforms in the offing are multimedia Internet appliances, interactive video-on-demand, automated service delivery kiosks, video phones and smart-card devices.

- Intelligent agents which are net-aware will be used to independently perform a number of information-gathering and interfacing functions. Workflow, groupware, document-processing, and collaborative computing technologies will help businesses to quickly form and reform virtual work-teams to complete specific tasks. Interoperability of components and objects will give the end-users more flexibility in building applets or complete task-steps using best-of-breed products. Hence, organizations will tend to be flatter and leaner with everybody in the organization being able to access the information required, using electronic devices of their choice.

- The business logic, rules and data of an organization will be objectized, warehoused and deployed on heterogeneous servers across the organization using a highly maintainable, controllable and scalable computing infrastructure. The MIS departments will probably shrink. Development and maintenance of software, and facilities management will be subcontracted to application specialists, system integrators, facilities-providers and expert software assemblers.

Recognizing these trends, we, at Infosys, are working on a number of fronts to help our customers adapt to these changes. The Management Council at Infosys recognizes that technology is a key component of our strategy, and that leadership in technology is mandatory for us to remain the vendor-of-choice for our customers. Hence, we have formed the Technology Advancement Unit (TAU). The TAU is responsible for scanning and quick assimilation of new technologies, and for developing methods and tools for customers to seamlessly transition to contemporary applications. TAU’s products and services also act as shock absorbers for customers, insulating them from the vicissitudes of technology changes and advancements.

To sum up, the information industry is becoming the business of *bits*. Any organization that can create and deliver *bits*, in a human-friendly format, has a play. Infosys is gearing up for this challenge so that we can be a major player in the global IT industry.

Bangalore
April 9, 1996

Sharad K. Hegde
Senior Vice President
and Head - Technology Advancement Unit

Corporate transparency expectations of investors in 2000 AD

Transparency is a measure of the closeness of fit between the knowledge level of the *management* and of the *shareholders-at-large (investors)* regarding the past, the current and the future states of the fundamental parameters of a company. As the investors and the company management are placed in an unequal bargaining position regarding the issue of information, legislation all over the world has sought to enforce a minimum disclosure policy for companies. However, transparency is a reflection of the mindset of the management. Those managements that accept the inalienable rights of the shareholders as the true owners of the company, and of their own role as trustees on behalf of these shareholders, generally strive for higher transparency levels, than those that do not. Commitment to values, ethical business conduct and a distinction between personal and corporate funds are basic requirements for transparency. Transparency enhances the legitimacy of business. Thus, dedication in adhering to transparency, in my opinion, transcends the legislative dictates and is clearly an issue in the realm of ethics.

As we enter the next millennium, I find that investors all over the world are becoming wiser about the evaluation of the fortunes of a company. Today, the bandwidth and frequency of information dissemination are high for assessing hi-tech companies whose fortunes are determined by rapid technological innovations. In an era where adaptability to rapidly-changing customer preferences, technology and business practices is the major success factor, archaic notions of business secrets and threat of information leak to competitors will become obsolete. Thus, the willingness to share information with shareholders will enhance investor interest and provide a sharper competitive edge in attracting investments into a company.

The seminal issues that will bring about a change in the composition and depth of corporate information disclosure in the next millennium are :

- Fitness and agility of the organization, both at the strategic and the operational levels, to respond quickly to changes in the marketplace will become the primary factor in investment decisions. The investors will no more be satisfied with bland accounting figures. They will want the updated view of the *strategy trajectile* and the *innovation force* of the company. The clarity in communicating these parameters will be a challenge.

- Thanks to the opening up of economies the world over and the onset of globalization, the investors will have a wider choice of stock markets and not be limited to a specific region. Thus, there will emerge a universal standard for the Generally Accepted Accounting Principles (GAAP) so that an investor in Japan can compare the performance of a company in USA with another in Indonesia, in a specific field. The quality of earnings would assume importance with a move towards cash-accounting, accelerated amortization of assets and a more liquid balance sheet.

- Models for valuing brand equity, human capital and intellectual property will move from the academic and research institutes to annual reports. These models will become the major determinants in evaluating knowledge-asset companies.

- As globalization spreads, and the interaction between the developed and the emerging economies increase, models for evaluating commitments to social and environmental causes, and to probity in international transactions will appear in the annual reports.

Thanks to the advances in technology, I expect to see multimedia annual reports on CD ROM and on the Internet become *de rigueur*.

We, at Infosys, are striving to achieve all these objectives.

Bangalore
April 9, 1996

T. V. Mohandas Pai
Senior Vice President - Finance and Administration

The Board of Directors

Narayana Murthy N. R.
Chairman and Managing Director

Raghavan N. S.
Joint Managing Director

Nandan M. Nilekani
Deputy Managing Director

Gopalakrishnan S.
Deputy Managing Director

Dinesh K.
Director

Nayak G. R.
Director

The Management Council

Narayana Murthy N. R.
Chairman, Management Council

Nayak G. R.
Head - Finance and Administration and Secretary, Management Council

Ashwani Kumar Khurana
Executive Director and Head - Domestic Marketing

Balasubramanian P. Dr.
Senior Vice President and Head - Strategic Business Unit - 02

Dinesh K.
Head - Business Group - 2

Gopalakrishnan S.
Head - Technical Support Services

Mohandas Pai T. V.
Senior Vice President - Finance and Administration

Nandan M. Nilekani
Head - Marketing

Phaneesh Murthy
Vice President and Head - Worldwide Sales

Prahlad D. N.
Senior Vice President and Head - Strategic Business Unit - 01

Raghavan N. S.
Head - Business Group - 1 and HRD

Sharad K. Hegde
Senior Vice President and Head - Technology Advancement Unit

Srinath Batni
Associate Vice President and Head - Strategic Business Unit - 03

Yegneshwar S. Dr.
Senior Manager and Head - Education and Research

The Audit Committee

Prahlad D. N.	-	Chairman
Sharad K. Hegde	-	Member
Balasubramanian P. Dr.	-	Member
Srinath Batni	-	Member

Directors' report

To the Members,

Your directors have pleasure in presenting their report on the business and operations of the company for the year ended March 31, 1996.

Financial results

Rs. in crores

Year ending March 31,	1996	1995
Gross revenue	93.41	57.70
Operating profit (PBIDT)	33.95	19.86
Interest	-	-
Depreciation	8.63	4.60
Profit before tax	25.32	15.26
Provision for tax	4.31	1.94
Profit after tax	21.01	13.32
Appropriation		
Interim dividend paid	1.09	0.77
Dividend recommended - final	2.54	1.54
Total dividend	3.63	2.31
Transferred to general reserve	17.38	11.01

* Rs. one crore is equal to Rs. ten million.

Results of operations

Your company continued its impressive performance this year as well. The company's gross revenue has grown from Rs. 57.70 crores in 1994-95 to Rs. 93.41 crores during the current year, registering a growth rate of 62%. The operating profit has grown faster than the growth in gross revenues to Rs. 33.95 crores from Rs. 19.86 crores in the previous year, registering a growth rate of 71%.

Your company made certain changes during the year in its accounting policies pertaining to the depreciation of computer equipment, leave compensation to employees and the carrying cost of current investments. Due to these changes there was an extra charge of Rs. 7.70 crores to the revenue account. It is gratifying to note that even after such conservative accounting, the profit-after-tax (PAT) has grown to Rs. 21.01 crores, resulting in a growth of 58% over the PAT for 1994-95.

Dividend

An interim dividend of Rs. 1.50 per share (subject to deduction of tax at source) was paid in December, 1995. Your directors now recommend a final dividend of Rs. 3.50 per share (subject to deduction of tax at source) making, in all, a total dividend of Rs. 5.00 per share for the year ended March 31, 1996. The total amount of dividend for the current year is considerably higher at Rs. 3.63 crores as against Rs. 2.31 crores for the previous year.

Organizational restructuring

Empowerment of professionals is a key part of our growth strategy. To enhance the autonomy of operations and also to be prepared for the ensuing years of growth, your directors reorganized the company in terms of *Strategic Business Units (SBUs).* Such a structure is likely to accelerate the emergence of a large number of business leaders in the company.

Exports

The export revenue grew from Rs. 50.96 crores in 1994-95 to Rs. 80.34 crores this year, registering a growth rate of 58%. Your company continues to emphasize its focus on offshore software development and products. INLEGOE (INfosys LEGacy and Open systems Environment - an architectural product) has been used successfully in several software development projects. BANCS 2000 was installed in Kenya, thereby, opening up the export market for the banking products group. Your company plans to explore the East Asian markets during the coming year.

General Electric and Infosys

The software sourcing agreement between General Electric and Infosys was not renewed due to differences in expectation of the commercial terms between the two parties. The transitioning of the on-going maintenance tasks to other vendors of GE is being completed by Infosys to the full satisfaction of GE. Your directors are happy to state that despite this transition, your company exceeded its targets in export revenue and profit margin. Your directors thank GE for their support to Infosys in the past. Infosys will continue to show full commitment to GE during the remaining part of the winding-up period.

In2000

We are approaching the next millennium. Most of the software developed in the world so far cannot handle dates beyond December 31, 1999. This lacuna has created a software refurbishing opportunity worth several hundreds of billions of dollars. Your company created a new service offering, *In2000,* aimed at solving the millennium date problem. The customer response to this service has been very encouraging.

Overseas branches

Today, your company has sales offices at Boston, Cincinnati, San Francisco, New York and Dallas. The headquarters for the North American operations is located at Boston. It is expected that two more sales offices will become operational during the year 1996-97. Mr. Devdutt Yellurkar, Senior Vice President and Head of the American operations moved over as head of Yantra Corporation, a wholly-owned subsidiary, incorporated in the USA, and his position has been taken over by Mr. Phaneesh Murthy, Branch Manager of the West Coast sales office at San Francisco. Mr. Phaneesh Murthy has already shown excellent performance as the head of the American operations.

In addition to the sales office located at Maastricht, your company proposes to open a second office in Europe.

The necessary RBI approvals for these proposed sales offices are in place.

Domestic market

The BANCS 2000 software has performed exceedingly well in the domestic market. The unprecedented reception that it has received from the new, highly competitive private banks has reinforced the premier position of BANCS 2000 in the Indian market. The revenue from BANCS 2000 increased by more than 100% over the last year, and your directors are optimistic that this trend in growth will continue in the future.

Deferment of GAMANA

The field trial abroad of GAMANA has shown that the market expects a very low-cost, motor control solution based on digital signal processing. This requires substantial, additional R&D effort. In view of other, more promising research initiatives, your directors decided to put this research project on the back burner. Your directors assure you that this will not have any impact on the future sales targets since GAMANA revenues were not considered in any of our revenue projections. The board thanks Analog Devices for their contribution in this effort.

New development centers and infrastructure

A globalized company produces where it is most cost effective to produce and sells where it is most profitable to sell. Infosys is such a company. The Infosys strategy is to attract professional talent by establishing development centers at the most promising places in different parts of the globe. As a first step, your company has established a development center at Mangalore, India. The Mangalore center strength is expected to go up to 250 professionals. The proposed center at Pune will become operational by the end of June 1996 and is expected to employ about 500 professionals.

The Electronics City facility was expanded to 140,000 square feet. The Nortel-Infosys development center and the Banking division were retrofitted with state-of-the-art infrastructure and technology. The Mangalore and the Nortel-Infosys development centers have been connected by high-speed data communication lines to the Electronics City facility at Bangalore.

Quality

Quality improvement at Infosys is a continuous process and the ISO 9001/TickIT is not an end in itself. Work towards Level 4 of the Capability Maturity Model of the Software Engineering Institute of Carnegie Mellon University, Pittsburgh, USA, is in full progress.

Accounting policies

Your company is committed to the highest level of transparency and the accounting policies adopted by your company follow the best standards, set globally. During the year, your directors made three major changes in the accounting policies pertaining to the depreciation of computer equipment, leave compensation to employees and provisioning for any decline in the carrying cost of investments.

a. Depreciation policy

Infosys operates in an environment of rapid technological changes. The company must have a realistic depreciation policy to provide enough finance for timely replacement of technology critical to our operations. In view of this, your directors have decided to change the useful life of computer systems and associated peripherals, for charging depreciation, to a band of 2-5 years from the earlier period of 6 years. The provision for depreciation was higher by Rs. 4.31 crores during the year owing to this change in the depreciation policy.

b. Leave compensation to employees

Infosys employees are eligible for certain leave benefits. Delivering software on time is the basic philosophy at Infosys. Given the dynamic changes in customer requirements, most often, such aggressive time targets force our employees to cancel any leave that they intended to take during the year. Thus, at the end of the year, accumulated leave balance in the leave account of several of our employees is a reality.

During the year, the company decided to recognize its obligation to provide leave compensation benefits on an accrual basis, rather than recording them on a cash basis. Due to this change, the salaries are higher by Rs. 1.11 crore and the profits lower by the same amount.

c. Investment policy

The surplus funds of the company were hitherto invested in a portfolio of securities and assets after an analysis of risks and returns. In order to further minimize risks, your company decided, during the year, to confine such investments to short-term instruments and inter-corporate deposits with financially sound companies. Your company has made a provision of Rs. 2.28 crores to cover any likelihood of decline in the value of the investments made during the previous year.

Due to the above changes, the profit for the year is lower by Rs. 7.70 crores on a comparable basis.

Rupee devaluation

During the latter part of the year, the Indian rupee depreciated heavily against the US dollar and several other hard currencies. Your company earned an additional amount of Rs. 3.56 crores in gross revenues, during the year, owing to such changes in the exchange rate and added to its profit before tax a sum of Rs. 2.26 crores.

Transparency in reporting

Last year, your company had voluntarily recast its Balance Sheet to be in substantial compliance with the US GAAP. In their quest to move towards higher levels of transparency, your directors, on a voluntary basis, have decided to provide the information mandated in Form 10-K by the Securities and Exchange Commission of USA. This data, however, is not audited.

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 ignored by accountants. For a technology-intensive industry such as software, human resource is the main capital and all other tangible assets are secondary. An attempt has been made by your directors, during the year, to measure the value of the human capital of your company and report the same as additional information, to the shareholders.

Employees Stock Offer Plan (ESOP)

The Employee Stock Offer Plan, initiated last year by your company, has been a great success. Several key employees are now covered by this scheme. This year, 1,58,000 warrants were awarded to 144 employees.

Software Sourcing Company (SSC)

During the year, your directors initiated the necessary steps to relinquish your company's interest in Software Sourcing Company (SSC), a joint venture with Kurt Salmon Associates, USA. Necessary approvals from the Indian statutory authorities are still awaited.

Subsidiary in USA

Based on your approval, your company established Yantra Corporation, a wholly-owned subsidiary in the US, on September 22, 1995. Your company invested an amount of US$ 500,000 in the equity of the subsidiary during the year. The subsidiary signed its first contract with a major consumer electronic equipment manufacturer in the US for the installation of EAGLE, Infosys' warehouse management package.

Transfer of EAGLE to subsidiary

In order to enhance the comfort level of Yantra customers, your company has decided to transfer the rights of ownership in EAGLE to Yantra. The finance department of your company developed a model to determine the fair price for EAGLE, and recommended a price of US$ 1.0 million to be paid by Yantra to your company in the form of 5.0 million common shares (par value of US$ 0.01 per share) at US$ 0.20 per share. Your directors confirm that the consideration is fair and is based on the future earning potential of the product. The necessary approvals from the Reserve Bank of India and other statutory authorities are awaited

Social contribution

During the year, your company contributed an amount of Rs. 6.93 lakhs to the Traffic Police, Bangalore to regulate traffic on Hosur Road and donated Rs. 2.0 lakhs to Seva Sadan, an orphanage in Bangalore. This is a token of your company's commitment to the social causes of our milieu.

Fixed deposits

The 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 retires by rotation in the forthcoming Annual General Meeting and is eligible for reappointment. He offers himself for reappointment.

Mr. G. R. Nayak has been appointed as an Additional Director and as a wholetime Director of the company with effect from March 4, 1996. Mr. G. R. Nayak, a member of the Management Council of the company, has over 40 years of experience in finance and administration functions. The necessary resolutions for obtaining the approval of the members have been incorporated in the notice of the forthcoming Annual General Meeting.

Auditor

The auditor, Mr. A. M. Bhatkal, retires at the forthcoming Annual General Meeting and has confirmed his eligibility and willingness to accept the office, if reappointed.

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.

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

The particulars as prescribed under sub-section (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.

Acknowledgments

Your directors thank the customers, 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, cooperation and support, have enabled the company to achieve phenomenal growth during the year.

Your directors thank the Government of India, particularly the Department of Electronics, the Customs department, Software Technology Park, Bangalore, Ministry of Commerce, RBI, VSNL, the state government and other governmental agencies for their support during the year, and look forward to their continued support.

On behalf of the Board of Directors

Bangalore	N. R. Narayana Murthy
April 9, 1996	*Chairman and Managing Director*

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 the company involve only low energy consumption. Adequate measures have, however, been taken to reduce energy consumption.

2. Technology absorption

Research and Development (R and D)

R and D is very crucial to the success of an enterprise operating in the world market. R and D in software development is a key instrument in retaining margins in these days of lingering recession and aggressive competition.

a. Specific areas for R and D at Infosys

The research work on productivity in offshore software development and on employee motivation, started in 1993-94, continued through 1995-96 and has shown encouraging results.

b. Benefits derived as a result of the above R and D

Improvement of productivity leads to cost reduction for customers, better margin for Infosys and better employee morale due to fewer working hours per day. Better employee morale leads to higher retention of employees.

c. Future plan of action

Continuation of research in productivity and employee motivation will be supplemented by work in the areas of object-oriented multimedia systems, metrics and requirement specifications.

d. Expenditure on R and D

	Rs. in crores
Revenue expenditure	2.61
Capital expenditure	0.57
Total R and D expenditure	3.18
R and D expenditure as a percentage of total revenue	3.40%

Technology absorption, adaptation and innovation

The Technology Advancement Unit has made further improvements and enhancements to Version 1.0 of INLEGOE, the Infosys architecture for the harmonious co-existence of legacy systems with client/server systems based on graphical user interface, object orientation, broadband networks and distributed databases. This seminal work is expected to be an effective instrument in your company's quest for market leadership in the client/server area.

The use of CASE tools has become very popular with most project teams at Infosys.

3. Foreign exchange earnings and outgo

	Rs. in crores
Foreign exchange earnings	74.46
Foreign exchange outgo (including capital goods and imported software packages)	33.34

On behalf of the Board of Directors

Bangalore
April 9, 1996

N. R. Narayana Murthy
Chairman and Managing Director

Management statement

The financial statements are in full conformity with the requirements of the Companies Act, 1956 and the Generally Accepted Accounting Principles (GAAP) of India. These financial statements have also been reformatted to comply with the requirements of GAAP of the US and the SEC disclosure norms. The management of Infosys Technologies Limited 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 company's established policies and procedures have been followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls.

These financial statements have been audited by Mr. A. M. Bhatkal, Chartered Accountant, the independent auditor.

The Audit Committee, at Infosys Technologies Limited, meets periodically with the Board of Directors, the internal auditors and the independent auditor 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, Mr. A. M. Bhatkal and the internal auditors have full and free access to members of the Audit Committee, to discuss any matter of substance.

The Audit Committee for 1995-96 was :

Prahlad D. N.	-	Chairman
Sharad K. Hegde	-	Member
Balasubramanian P. Dr.	-	Member
Srinath Batni	-	Member

Bangalore
April 9, 1996

N. R. Narayana Murthy
Chairman and Managing Director

Auditor's report

To

The shareholders,

Infosys Technologies Limited

I have audited the attached Balance Sheet of Infosys Technologies Limited, Bangalore, as at March 31, 1996 and the Profit and Loss Account of the company for the year ended on that date annexed thereto and report that in accordance with the provisions of section 227 of the Companies Act, 1956 :

1. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit.

2. In my opinion, proper books of accounts, as required by law, have been kept by the company so far as appears from my examination of those books.

3. The said Balance Sheet and Profit and Loss Account are in agreement with the books of account.

4. In my opinion, and to the best of my information and according to the explanations given to me, the said accounts read together with the notes thereon, give the information as required by the Companies Act, 1956, in the manner so required, and give a true and fair view :

    a) in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 1996, and

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

The required report, under the Manufacturing and Other Companies (Auditor's report) Order, 1988, is annexed herewith.

Bangalore
April 9, 1996

A. M. Bhatkal
Chartered Accountant

Annexure to Auditor's report

As required by the Manufacturing and Other Companies (Auditor's report) Order, 1988, issued by the Central Government under section 227(4A) of the Companies Act, 1956, and in terms of the information and explanations given to me and on the basis of such checks as I considered appropriate, I report as under:

1. The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets. These fixed assets have been physically verified by the management and, in my opinion, the program of verification carried out is reasonable with regard to the size of the company and the nature of its assets and no discrepancies have been noticed on such verification.
2. None of the fixed assets of the company have been revalued during the year.
3. a. During the year, the principal activity of the company has been that of development and production of computer software for its clients. Stocks of computer stationery, ribbons, floppies, magnetic tapes and disks, required for this activity, have been physically verified by the management at reasonable intervals during the period. Stocks of imported software, a commodity that the company trades in, have also been physically verified by the management at reasonable intervals during the year.

   b. As explained to me, the procedures for physical verification of the above referred stocks followed by the management are, in my opinion, reasonable and adequate in relation to the size of the company.

   c. No material discrepancies were noticed on physical verification of stocks as compared to book records and the same have been properly dealt with in the books of accounts.

   d. On the basis of my examination of the stock records, I am of the opinion that the valuation of stock is fair and proper and is in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
4. The company has not accepted any loan from companies, firms or other parties listed in the register maintained under sections 301 and 370(I-C) of the Companies Act, 1956.
5. The parties (including employees) to whom loans or advances in the nature of loans have been given by the company are repaying the principal amounts as stipulated and are also regular in payment of interest, where applicable.
6. In my opinion and according to the information and explanations given to me, there are adequate internal control procedures commensurate with the size of the company and the nature of its business, with regard to the purchase of components, plant and machinery, equipment and other assets.
7. During the year, the company has not purchased any stores or components exceeding Rs. 50,000 in value for each type thereof, from subsidiaries, firms, or companies, or other parties in which the directors are interested, as listed in the register maintained under section 301 of the Companies Act, 1956.
8. As explained to me, there have been no unserviceable and damaged materials during the year.
9. The company has not accepted any deposits from the public.
10. I have been given to understand that the operations in which the company is engaged do not result in any realizable scrap or by-product.
11. In my opinion, the company's present internal audit system is commensurate with its size and nature of business.

12. The Central Government has not prescribed maintenance of cost records under section 209(1)(d) of the Companies Act, 1956, for the products of the company.

13. According to the records of the company, the Provident Fund and the Employees State Insurance dues, wherever applicable, have been regularly deposited during the year with the appropriate authorities.

14. According to the information and explanations given to me, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding as at March 31, 1996, for a period of more than six months from the date they became payable.

15. According to the information and explanations given to me and on the basis of books and records of the company examined by me, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practices.

16. The company does not fall within the purview of clause(O) of section 3(1) of the Sick Industrial Companies (Special Provisions) Act, 1985.

17. In respect of the trading activities, there were no damaged goods in the possession of the company at the end of the year.

18. In respect of services rendered :

    a. The nature of service rendered is such that it does not involve consumption of material and stores.

    b. The company has a reasonable system of allocating man-hours utilized to the relative jobs, commensurate with its size and nature of its business.

    c. In my opinion, there is a reasonable system of authorization at proper levels and the related system of internal control is commensurate with the size of the company and nature of its business, on allocation of manpower to jobs.

Bangalore
April 9, 1996

A. M. Bhatkal
Chartered Accountant

Balance Sheet as at March 31,

in Rs.

	Schedule	1996	1995
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	7,25,87,500	7,25,87,500
Reserves and surplus	2	72,57,93,728	55,19,92,211
LOAN FUNDS			
Secured loans	3	4,26,06,235	-
Unsecured loans	4	-	6,33,91,171
		84,09,87,463	68,79,70,882
APPLICATION OF FUNDS			
FIXED ASSETS	5		
Gross block		46,85,74,921	25,32,01,097
Less : Depreciation		14,66,06,677	6,14,51,082
Net block		32,19,68,244	19,17,50,015
Add : Capital work-in-progress		4,43,65,797	10,84,48,296
		36,63,34,041	30,01,98,311
INVESTMENTS	6	6,29,36,812	6,30,78,049
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	7	16,97,058	17,19,138
Sundry debtors	8	11,24,96,905	7,30,91,260
Cash and bank balances	9	13,25,22,822	5,79,43,078
Loans and advances	10	29,49,38,681	25,23,34,937
		54,16,55,466	38,50,88,413
Less : Current liabilities	11	4,51,13,756	1,79,66,525
Provisions	12	8,48,25,100	4,24,27,366
NET CURRENT ASSETS		41,17,16,610	32,46,94,522
		84,09,87,463	68,79,70,882
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	16		

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 my
report of even date.

A. M. Bhatkal *Chartered Accountant*	N. R. Narayana Murthy *Chairman and Managing Director*	N. S. Raghavan *Jt. Managing Director*	Nandan M. Nilekani *Dy. Managing Director*	S. Gopalakrishnan *Dy. Managing Director*
Bangalore April 9, 1996	K. Dinesh *Director*	G. R. Nayak *Director*	T. V. Mohandas Pai *Sr. Vice-President (Finance and Admn.)*	V. Viswanathan *Company Secretary*

Profit and Loss Account for the year ending March 31,

in Rs.

	Schedule	1996	1995
INCOME			
Software development charges			
Overseas		80,33,94,508	50,95,72,010
Domestic		6,52,00,690	3,32,29,573
Sale of imported software packages		1,69,54,164	1,13,92,775
Other income	13	4,85,84,343	2,28,48,504
		93,41,33,705	57,70,42,862
EXPENDITURE			
Cost of imported software packages sold		87,36,350	76,99,783
Software development expenses	14	47,86,26,063	31,04,23,591
Administration and other expenses	15	8,44,75,124	6,03,22,361
Provision for investments		2,27,60,000	-
		59,45,97,537	37,84,45,735
Operating profit (PBIDT)		33,95,36,168	19,85,97,127
Interest		-	-
Depreciation		8,63,41,651	4,59,52,861
Profit before tax		25,31,94,517	15,26,44,266
Provision for tax		4,31,00,000	1,94,00,000
Profit after tax		21,00,94,517	13,32,44,266
AMOUNT AVAILABLE FOR APPROPRIATION		21,00,94,517	13,32,44,266
Dividend (Subject to deduction of tax at source)			
Interim		1,08,87,900	77,11,948
Final (proposed)		2,54,05,100	1,54,27,366
Amount transferred to general reserve		17,38,01,517	11,01,04,952
		21,00,94,517	13,32,44,266
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	16		

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 my report of even date.

A. M. Bhatkal
Chartered Accountant

N. R. Narayana Murthy
Chairman and Managing Director

N. S. Raghavan
Jt. Managing Director

Nandan M. Nilekani
Dy. Managing Director

S. Gopalakrishnan
Dy. Managing Director

Bangalore
April 9, 1996

K. Dinesh
Director

G. R. Nayak
Director

T. V. Mohandas Pai
Sr. Vice-President (Finance and Admn.)

V. Viswanathan
Company Secretary

Schedules to the Balance Sheet as at March 31,

in Rs.

	1996	1995
SHARE CAPITAL		
AUTHORIZED		
1,00,00,000 equity shares of Rs. 10 each.	10,00,00,000	10,00,00,000
ISSUED, SUBSCRIBED AND PAID UP		
72,58,600 equity shares of Rs. 10 each fully paid up. (Of the above, 49,18,300 equity shares of Rs. 10 each fully paid up have been issued as bonus shares by capitalization of general reserve)	7,25,86,000	7,25,86,000
Add : Forfeited shares	1,500	1,500
	7,25,87,500	7,25,87,500
RESERVES AND SURPLUS		
Share premium account as per last Balance Sheet	34,74,51,460	12,55,46,500
Add : Received during the year		
On calls in arrears	-	78,500
On issue of shares	-	24,42,00,000
	34,74,51,460	36,98,25,000
Less : Preliminary and public issue expenses written off	-	2,23,73,540
	34,74,51,460	34,74,51,460
Investment allowance reserve (utilized) as per last Balance Sheet	9,55,800	9,55,800
	9,55,800	9,55,800
General reserve as per last Balance Sheet	20,35,84,951	12,69,97,999
Less : Capitalized for issue of bonus shares	-	3,35,18,000
	20,35,84,951	9,34,79,999
Add : Transferred during the year from Profit and Loss Account	17,38,01,517	11,01,04,952
	37,73,86,468	20,35,84,951
	72,57,93,728	55,19,92,211
SECURED LOANS		
From Housing Development Finance Corporation Ltd. towards purchase of staff quarters. Secured by equitable mortgage by deposit of title deeds of staff quarters. (Amount due within a year is Rs. 2,47,12,426/- Previous year - Rs. 1,93,70,205)	4,26,06,235	-
	4,26,06,235	-
UNSECURED LOANS		
From Housing Development Finance Corporation Ltd. towards purchase of staff quarters	-	6,33,91,171
	-	6,33,91,171

Schedules to the Balance Sheet as at March 31,

Fixed assets

		GROSS BLOCK				DEPRECIATION				NET BLOCK	
SL. NO.	ASSETS	COST AS ON 1.4.95	ADDITIONS DURING THE YEAR	DEDUCTION DURING THE YEAR	COST AS ON 31.3.96	AS ON 1.4.95	FOR THE YEAR	DEDUCTION DURING THE YEAR	AS ON 31.3.96	AS ON 31.3.96	AS ON 31.3.95
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1.	Land-leasehold	48,51,170	-	-	48,51,170	-	-	-	-	48,51,170	48,51,170
2.	Building	4,57,15,014	12,17,74,416	-	16,74,89,430	10,41,712	18,74,752	-	29,16,464	16,45,72,966	4,46,73,302
3.	Plant and Machinery	3,73,48,134	1,91,46,687	1,72,250	5,63,22,571	89,93,910	80,72,726	70,320	1,69,96,316	3,93,26,255	2,83,54,224
4.	Computer systems	13,83,37,404	6,25,14,542	10,50,121	19,98,01,825	3,11,78,631	7,08,81,288	6,99,393	10,13,60,526	9,84,41,299	10,71,58,773
5.	Furniture and fixtures	2,24,34,036	1,61,95,481	-	3,86,29,517	1,96,08,363	52,45,646	-	2,48,54,009	1,37,75,508	28,25,673
6.	Vehicles	45,15,339	-	30,34,931	14,80,408	6,28,466	2,67,239	4,16,343	4,79,362	10,01,046	38,86,873
		25,32,01,097	21,96,31,126	42,57,302	46,85,74,921	6,14,51,082	8,63,41,651	11,86,056	14,66,06,677	32,19,68,244	19,17,50,015
	Previous year	8,27,37,879	17,61,22,667	56,59,449	25,32,01,097	1,99,05,613	4,59,52,861	44,07,392	6,14,51,082	19,17,50,015	6,28,32,266

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.

INVESTMENTS - at cost

	No of Units/ Debentures/ Shares	1996	1995
TRADE (UNQUOTED)			
Long-term investments			
Software Sourcing Company, Atlanta, USA, a partnership with Kurt Salmon Associates, USA (50% in the capital amounting to US$ 78,819)		13,30,016	13,30,016
Wholly-owned subsidiary - Yantra Corporation a company incorporated in the USA (25,00,000 shares at US$ 0.20 each, fully paid, par value US$ 0.01 each)		1,73,51,600	-
Software Services Support Education Center Ltd.	1	10	-
The Saraswat Co-operative Bank Ltd.	1,035	10,350	10,350
		1,86,91,976	13,40,366
NON-TRADE (QUOTED)			
Current Investments			
Mutual funds			
The Alliance '95 Fund	2,50,000	24,37,500	-
Centurion Quantum Growth Fund 1993	2,00,000	20,00,000	20,00,000
Morgan Stanley Mutual Fund	5,00,500	43,51,350	43,51,350
		87,88,850	63,51,350
Debentures			
The Simbhaoli Sugar Mills Ltd.	5,500	2,75,000	-
Shaw Wallace Gelatines Ltd.	1,600	48,000	-
Torrent Pharmaceuticals Ltd.	300	22,500	22,500
Bharat Earth Movers Ltd.	5,100	1,53,000	1,53,000
		4,98,500	1,75,500
Equity shares			
Absolute Aromatics Ltd.	18,000	11,70,000	-
Bal Pharma Ltd.	6,200	1,86,000	-
Binani Zinc Ltd. (partly paid)	20,550	19,57,500	-
Escorts Financial Services Ltd.	9,300	5,58,000	-
Ganesh Benzoplast Ltd.	4,600	4,83,000	-
Hindustan Petroleum Corporation Ltd.	22,200	75,48,000	-
Hindustan Petroleum Corporation Ltd. (warrants)	22,200	-	-
Indian Dyestuff Industries Ltd.	19,200	14,40,000	-
Jain Plastics & Chemicals Ltd.	3,900	3,70,500	-
Sterlite Communications Ltd.	2,900	2,90,000	-
Twentyfirst Century Mgmt. Services Ltd.	37,300	22,38,000	-
WS Telesystems Limited	4,100	1,64,000	-
Industrial Development Bank of India	9,800	12,74,000	-
Jindal Photo Films Ltd.	1,400	2,73,000	-
Lloyds Metals & Engineers Ltd.	14,900	22,35,000	-
Noel Agritech Ltd.	15,500	1,55,000	-
Peerless Shipping & Oilfield Services Ltd.	56,300	22,52,000	-
Pressman Ltd.	7,800	4,29,000	-
Samtel Electron Devices Ltd.	17,200	15,48,000	-

INVESTMENTS - at cost (contd.)

The Simbhaoli Sugar Mills Ltd.	5,500	2,20,000	-
Sree Uma Parameswari Mills Ltd.	5,100	3,57,000	-
Sterling Guaranty & Finance Ltd.	10,100	1,51,500	-
CRB Capital Markets Ltd.	51,000	51,00,000	-
Dai-Ichi Karkaria Ltd.	16,800	16,80,000	-
Dewas Metal Sections Ltd.	36,600	10,98,000	-
Sri Nachammai Cotton Mills Ltd.	3,400	2,38,000	2,38,000
Thambbi Modern Spinning Mills Ltd.	3,100	1,55,000	1,55,000
Dugar Housing Development Finance India Ltd.	3,700	37,000	37,000
Punjab Communications Ltd.	200	50,000	50,000
Onward Technologies Ltd.	1,300	65,000	65,000
Punjab Woolcombers Ltd.	1,200	1,08,000	1,08,000
Kongarar Textiles Ltd.	2,600	1,17,000	1,17,000
Indo-Dutch Proteins Ltd.	11,900	1,19,000	1,19,000
Kandagiri Spinning Mills Ltd.	5,000	2,50,000	2,50,000
DCM Financial Services Ltd.	13,300	2,66,000	2,70,000
Mafatlal Finance Company Ltd.	11,100	5,55,000	2,77,500
The Sri Ganapathy Mills Company Ltd.	3,000	2,70,000	3,15,000
Oriental Bank of Commerce	2,400	1,44,000	3,24,000
Recon Ltd.	3,400	3,40,000	3,40,000
Sambandam Spinning Mills Ltd.	7,000	3,50,000	3,50,000
Samrat Ashoka Exports Ltd.	1,000	60,000	3,72,000
GIC Housing Finance Ltd.	8,200	4,10,000	4,10,000
Hindustan Organic Chemicals Ltd.	8,300	4,15,000	4,15,000
LML Ltd.	8,500	11,07,391	11,07,365
Reliance Chemotex Industries Ltd.	33,850	11,84,750	11,84,750
Reliance Capital Ltd.	19,600	27,44,000	13,72,000
India Lease Development Ltd.	50,000	15,00,000	15,00,000
HB Portfolio Leasing Ltd.	24,600	15,99,000	15,99,000
Mardia Steel Ltd.	45,100	22,55,000	22,55,000
The Morarjee Goculdas Spinning & Weaving Co. Ltd.	11,600	30,16,000	30,16,000
Cholamandalam Investment & Finance Co. Ltd.	33,450	33,45,000	33,45,000
The Lakshmi Vilas Bank Ltd.	6,790	9,77,265	10,26,338
Bharat Earth Movers Ltd.	5,100	8,41,500	8,41,500
Suashish Diamonds Ltd.	3,300	6,43,500	6,43,500
Cals Ltd.	20,000	5,90,580	5,90,580
Akai Impex Ltd.	8,300	4,98,000	4,98,000
The Sandesh Ltd.	2,100	2,10,000	3,10,000
Centum Electronics Ltd.	7,300	73,000	73,000
Stiefel Und Schuh (India) Ltd.	600	6,000	53,000
Motul Mafatlal Lubricants Ltd.	-	-	6,000
Balaji Distilleries Ltd.	-	-	7,000
Software Solution Integrated Ltd.	-	-	29,000
Shilp Gravures Ltd.	-	-	38,000
Credence Sound & Vision Ltd.	-	-	48,000
Herren Drugs & Pharmaceuticals Ltd.	-	-	75,000
Surana Telecom Ltd.	-	-	90,000
Tatia Intimate Exports Ltd.	-	-	93,000
Shaw Wallace Gelatines Ltd.	-	-	96,000
Kalpataru Power Transmission Ltd.	-	-	1,19,000
Sun Pharmaceutical Industries Ltd.	-	-	1,50,000

INVESTMENTS - at cost (contd.)

KJ International Ltd.	-	-	1,57,500
Prime Securities Ltd.	-	-	1,71,700
Shreyas Shipping Ltd.	-	-	2,14,000
Jai Corp. Ltd.	-	-	2,97,000
Bright Brothers Ltd.	-	-	3,25,000
Atlas Gears Ltd.	-	-	69,000
Ecoplast Ltd.	-	-	3,96,000
IFB Securities Ltd.	-	-	40,000
		5,77,17,486	2,60,48,733

NON-TRADE (UNQUOTED)

Current Investments

Mutual Funds

Unit Trust of India	-	2,91,62,100
	-	2,91,62,100
	8,56,96,812	6,30,78,049
Less : Provision for diminution in the value of investments	2,27,60,000	-
	6,29,36,812	6,30,78,049

Aggregate of quoted investments	- cost	6,70,04,836	3,25,75,583
	- market value	4,42,49,055	3,14,44,200
Aggregate of unquoted investments	- cost	1,73,61,960	2,91,72,450

INVENTORIES

(at lower of historic cost or net realizable value, as certified by a director of the company)		
Stock of imported software packages	16,97,058	17,19,138
	16,97,058	17,19,138

SUNDRY DEBTORS

Debts outstanding for a period exceeding six months.		
Unsecured, considered good	16,47,132	4,72,627
Considered doubtful	-	6,64,694
Other debts-unsecured, considered good	11,08,49,773	7,26,18,633
	11,24,96,905	7,37,55,954
Less : Provision for doubtful debts	-	6,64,694
	11,24,96,905	7,30,91,260

Schedules to the Balance Sheet as at March 31,

in Rs.

	1996	1995
CASH AND BANK BALANCES		
Cash on hand	2,26,892	59,790
Balances with scheduled banks - in current accounts	3,31,53,515	3,91,67,689
- in deposit accounts	6,88,32,541	26,05,350
Balances with non-scheduled banks - in current accounts		
Bank of New York, New York, USA	4,20,672	-
Bay Bank, Burlington, USA	-	16,11,514
Bank of Boston, Boston, USA	2,80,77,975	1,21,93,882
Fifth Third Bank, Cincinnati, USA	4,83,617	5,02,987
ABN Amro Bank, Heerlen, Netherlands	5,01,508	10,32,861
Bank of America, Milpitas, USA	8,26,102	7,69,005
	13,25,22,822	5,79,43,078
Maximum balance held during the year :		
Bank of New York, New York, USA	10,70,109	-
Bay Bank, Burlington, USA	49,65,729	30,55,744
Bank of Boston, Boston, USA	3,36,96,659	2,33,27,799
Fifth Third Bank, Cincinnati, USA	11,56,715	9,51,866
ABN Amro Bank, Heerlen, Netherlands	15,71,780	18,14,663
Bank of America, Milpitas, USA	15,09,285	10,28,934
LOANS AND ADVANCES		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	2,30,03,996	1,13,16,244
Advance income tax	7,27,72,193	3,19,86,563
Deposit with companies	12,25,00,000	8,50,00,000
Loans to employees	1,59,57,955	85,84,391
Bills receivable	1,71,20,461	93,79,423
Other advances	4,35,84,076	10,60,68,316
	29,49,38,681	25,23,34,937
CURRENT LIABILITIES		
Sundry creditors - for goods	21,52,071	21,05,878
- for accrued salaries and benefits	1,89,78,453	59,26,544
- for other liabilities	1,46,33,554	88,40,282
Advances received from clients	89,08,492	9,02,239
Unclaimed dividend	4,41,186	1,91,582
	4,51,13,756	1,79,66,525
PROVISIONS		
Provision for taxation	5,94,20,000	2,70,00,000
Proposed dividend	2,54,05,100	1,54,27,366
	8,48,25,100	4,24,27,366

Schedules to the Profit and Loss Account for the year ending March 31,

in Rs.

	1996	1995
OTHER INCOME		
Income from Investments		
Trade: Long-term investments		
Share of profit (loss) from the partnership,		
Software Sourcing Company, USA	-	(27,22,945)
Non-trade: Current investments		
Dividends and interest	53,29,922	40,20,773
Interest received on deposits with banks and others	3,65,61,187	1,29,66,587
Tax deducted at source Rs. 81,62,670		
(previous year Rs. 29,03,299)		
Profit on sale of investments	15,67,876	25,44,060
Refund of foreign exchange conservation tax	-	56,22,622
Sale of special import licenses	40,81,698	-
Miscellaneous income	10,43,660	4,17,407
	4,85,84,343	2,28,48,504
SOFTWARE DEVELOPMENT EXPENSES		
Salaries and bonus including overseas staff expenses	32,02,69,250	20,72,79,931
Staff welfare	1,39,03,438	1,06,36,456
Contribution to provident and other funds	99,41,929	41,55,925
Foreign tour and travel	6,88,85,656	4,80,45,279
Consumables	29,80,677	39,81,238
Cost of software packages		
- for own use	2,91,59,814	1,40,27,353
- for domestic software development	1,79,98,677	99,38,750
Computer maintenance	54,31,248	38,29,745
Communication expenses	1,00,55,374	85,28,914
	47,86,26,063	31,04,23,591
ADMINISTRATION AND OTHER EXPENSES		
Travelling and conveyance	1,62,18,214	1,33,16,673
Rent	62,40,279	45,03,051
Telephone and telex	82,84,347	63,82,067
Legal and professional charges	1,31,50,081	82,35,706
Printing and stationery	69,89,257	44,88,473
Advertisements	40,63,458	26,22,147
Office maintenance	64,96,121	19,44,595
Repairs to building	26,24,982	5,61,104
Repairs to plant	2,91,033	1,88,560
Power and fuel	38,94,684	26,66,258
Insurance charges	18,65,119	12,90,502
Rates and taxes	9,11,101	6,42,870
Donations	7,25,000	78,142
Auditor's remuneration - audit fees	72,000	45,000
- tax audit	36,000	31,000
- out-of-pocket expenses	1,35,000	1,16,000
Bad debts written off	5,94,887	2,98,268
Provision for bad and doubtful debts	-	6,64,694
Bank charges and commission	14,47,780	8,54,447
Miscellaneous expenses	1,04,35,781	1,13,92,804
	8,44,75,124	6,03,22,361

Schedules to the Balance Sheet and Profit and Loss Account

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Significant accounting policies

Basis for preparation of financial statements

The financial statements have been 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 accrual basis.

Revenue recognition

Revenue from software development is recognized based on software developed and billed to the clients as per the terms of specific contracts. Revenue from the sale of software products is recognized when the sale has been completed with the passing of title. 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.

Expenditure

Expenses are accounted on accrual basis and provision is made for all known losses and liabilities. Expenses incurred on development of software are charged to revenue in the same year.

Fixed assets

Fixed assets are stated at cost of acquisition minus the 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, attributable to fixed assets.

Depreciation

Depreciation on fixed assets is provided using the straight-line method, based on the useful life 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 life for various fixed assets is given below.

Building	- Software center	28 years
	- Others	58 years
Furniture and fixtures		6 years
Computer equipment		2-5 years
Plant and machinery		6 years
Vehicles		6 years

Inventories

Inventories are valued at the lower of historic cost or 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.

Retirement benefits to employees

The company's liability towards retirement benefits in the form of provident fund, gratuity and superannuation is fully funded and charged to revenue expenditure. The company contributes to the employees' provident fund maintained under the Employees Provident Fund Scheme run by the Central Government. The company has a gratuity fund, maintained by the Life Insurance Corporation of India (LIC), to which contributions are made every year, based upon actuarial valuation. The company also contributes to a superannuation fund, maintained by the LIC, for its managerial staff, also based upon actuarial valuation.

Research and development

Revenue expenditure on research and development is charged off in the year during which it is incurred. Fixed assets purchased for research and development purposes are capitalized and depreciated as per the company's policy.

Foreign currency transactions

In the case of sales made to clients outside India, income is accounted on the basis of a standard exchange rate. Adjustments are made for any change in sales proceeds on conversion into Indian currency upon actual receipt. Expenditure in foreign currency is accounted at the conversion rate prevalent when such expenditure is incurred. In the case of overseas offices, such expenditure is translated at the rate prevalent at the end of the month of expenditure. In the case of current assets and current liabilities of overseas offices, the exchange rate prevalent at the year end is taken for purposes of translation and accounting in the books. Any overall gain or loss upon such conversion is recognized in the same period. Fixed assets purchased at overseas offices are accounted on the basis of actual cost incurred, at the exchange rate prevalent at the time of purchase. Depreciation is charged as per the company's policy.

Investments

Investments are classified into current investments and long-term investments. Current investments are carried at lower of cost or 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 investment is carried at the original rupee cost.

Income tax

Provision is made for income tax on a yearly basis, under the tax-payable method, based on 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.

Changes in accounting policies

Depreciation

The company has been providing depreciation based on the useful life of the assets as estimated by the management from time to time. The software industry is a high-tech industry where technology changes very rapidly. The computer equipment procured for developing software is subject to rapid obsolescence and due to changes in technology the rate of redundancy is high. The advantage of shifting to a new technology outweighs the cost of procurement. Further, the cost of computer hardware has seen a rapid decline due to increase in volumes and commoditization. In view of this, the management decided to change the useful life of computer equipment to a band of 2-5 years from the earlier period of 6 years. The product life cycle is about 18 months for computers and based on the time of the product life cycle at which the computer equipment is procured, the useful life of the same will be determined by the management, within the said band.

Due to this revision, the provision for depreciation is higher by Rs. 4,31,25,978.

Leave compensation to employees

Employee compensation forms a substantial part of the cost of software development Employees are eligible for leave encashment as part of their compensation. During the year, the company has decided to recognize its obligation to provide leave compensation benefits on accrual basis rather than recording them on a cash basis. Due to this change, the salaries are higher by Rs. 1,11,08,002.

Investments

During the year, the company has changed its accounting policy so as to value its current investments at the lower of cost or fair value and has accordingly provided a sum of Rs. 2,27,60,000 to cover the decline in the carrying cost.

Due to the above changes, the profit for the year is lower by Rs. 7,69,93,980 as compared to the previous year.

Notes on accounts

Previous year's figures : The previous year's figures have been recast/restated, where necessary.

Contingent liabilities

a. Estimated amount of contracts remaining to be executed on capital account and not provided for is Rs. 2,95,50,060. The amount of such contracts for the previous year was Rs. 2,33,03,707.

b. The company has given counter guarantees for Rs. 66,03,201 to various banks in respect of guarantees given by the said banks in favor of various government authorities. The counter guarantees outstanding during the previous year amounted to Rs. 77,10,103.

c. Claims against the company, not acknowledged as debts, amounted to Rs. 78,87,891. The claims for the previous year was Rs. 31,38,183.

d. The uncalled liability on partly-paid shares amounted to Rs. 27,69,000. The corresponding figure for the previous year was Rs. 16,49,500.

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. 45,55,784. For the previous year, this amounted to Rs. 2,35,88,399.

Interest on loans

The company paid a sum of Rs. 75,55,542 (previous year - Rs. 23,72,917) as interest towards the amount borrowed from the Housing Development Finance Corporation Limited, for construction of quarters for its staff. The interest paid has been capitalized and added to the *Cost of buildings*.

Employees Stock Offer Plan (ESOP)

The company instituted an Employees Stock Offer Plan for all eligible employees. Under the plan, warrants are issued 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. The warrants are issued at Re. 1 each and entitles the holder thereof to apply for and be issued one share of the company at a price of Rs. 100 after a period of 5 years from the date of issue. The warrants and the shares to be issued thereon are subject to a lock-in period of 5 years from the date of issue of the warrants. During the year, 1,58,000 warrants (previous year - 1,44,100 warrants) were transferred to the eligible employees by the trust. The warrants expire on September 30, 1999. The amount received on issue of warrants, amounting to Rs. 7,50,000, has been included under *Current liabilities*.

Income tax provision

Provision for income tax includes Rs. 68,80,000 towards tax liability for earlier years.

Software Sourcing Company

The company had invested in Software Sourcing Company, a joint venture with Kurt Salmon Associates, USA. The company holds 50% of the partnership interest in the joint venture. The investment in the joint venture was made out of the revenue derived from the joint venture, over many years. During the year, the management decided to relinquish its stake in the joint venture. Necessary statutory approvals are awaited.

Registration of lease hold land

The registration of lease hold land at Electronics City, Bangalore is in the process of completion.

Quantitative details

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

in Rs.

	1996	1995
Managerial remuneration		
The managerial remuneration paid to the Managing Director and other wholetime directors during the last two years was :		
Salary	19,56,856	17,13,194
Contribution to provident fund and other funds	5,83,339	5,10,703
Perquisites	25,44,778	15,45,879
Imports on CIF basis		
Capital goods	5,65,38,346	7,78,71,348
Imported software packages	87,45,315	59,71,741
Expenditure in foreign currency		
Travel expenses	7,26,77,187	4,14,22,752
Professional charges	65,09,918	60,22,883
Other expenditure incurred overseas for software development	18,89,81,075	12,46,07,391

Earnings in foreign exchange

Income from software development charges	74,46,12,288	46,02,20,780

Particulars in respect of traded items (imported software packages)

	Qty	Rs.	Qty	Rs.
Opening stock	282	17,19,138	803	34,47,179
Purchases	2,678	87,45,315	963	59,71,741
Closing stock	307	16,97,058	282	17,19,138
Turnover	2,653	87,67,395	1,484	76,99,782

Statement of cash flows for the year ending March 31,

in Rs.

	1996	1995	1994
Cash flows from operation			
Profit before tax	25,31,94,517	15,26,44,266	8,85,19,432
Other income	(4,85,84,343)	(2,28,48,504)	(1,18,62,191)
Depreciation, depletion and amortization	8,63,41,651	4,59,52,861	80,87,580
Provision for investments	2,27,60,000	-	-
Decrease (increase) in investments	(52,67,156)	(2,94,66,550)	(3,22,71,130)
Charge of intangible assets	-	-	16,35,411
Decrease (increase) in sundry debtors	(3,94,05,645)	(2,97,60,515)	(2,21,15,586)
Decrease (increase) in inventories	22,080	27,71,698	(23,15,288)
Decrease (increase) in loans and advances	(7,27,71,164)	(2,33,14,948)	53,61,391
Increase (decrease) in sundry creditors	6,95,44,965	2,80,57,226	51,09,548
Income taxes	(4,31,00,000)	(1,94,00,000)	(76,00,000)
Net cash from operations	22,27,34,905	10,46,35,534	3,25,49,167
Cash flows from financing			
Cash received from issuance of share capital (net)	-	24,23,36,500	13,06,17,000
Proceeds of long-term borrowing (net)	(2,07,84,936)	6,33,91,171	(39,92,488)
Dividends paid	(3,62,93,000)	(2,31,39,314)	(1,17,32,350)
Preliminary expenses	-	(1,80,000)	(1,01,85,167)
Net cash from financing	(5,70,77,936)	28,24,08,357	10,47,06,995
Cash flows from investing			
Income from investments	4,34,58,985	1,68,08,475	1,12,55,937
Proceeds of sale of fixed assets	30,71,249	14,71,751	1,39,278
Purchase of fixed assets	(15,55,48,627)	(25,23,04,640)	(7,12,71,354)
Other income	51,25,358	58,20,334	5,22,459
Decrease (increase) in investments	(1,73,51,610)	41,73,750	(41,13,612)
Net cash from investing	(12,12,44,645)	(22,40,30,330)	(6,34,67,292)
Total increase (decrease) in cash and equivalents during the year	4,44,12,324	16,30,13,561	7,37,88,870
Cash and equivalents at the beginning of the year	25,34,18,271	9,04,04,710	1,66,15,840
Cash and equivalents at the end of the year	29,78,30,595	25,34,18,271	9,04,04,710

Certified that the above statement is in accordance with the requirement prescribed by SEBI.

For and on behalf of the Board

Bangalore
April 9, 1996

A. M. Bhatkal
Chartered Accountant

N. R. Narayana Murthy
Chairman and Managing Director

Statement of cash flows for the year ending March 31,

in Rs.

	1996	1995	1994
Reconciliation of Balance Sheet items with cash flow items			
1. LOANS AND ADVANCES			
As per Balance Sheet - Schedule 10	29,49,38,681	25,23,34,937	9,35,44,796
Less : Deposits with companies and others, included in cash equivalents	16,53,07,773	19,54,75,193	6,00,00,000
Balance considered for preparing the Cash flow statement	12,96,30,908	5,68,59,744	3,35,44,796
2. INVESTMENTS			
As per Balance Sheet - Schedule 6	8,56,86,812	6,30,78,049	3,77,85,246
Less : Investments considered for operating activity	6,70,04,836	6,17,37,680	3,22,71,130
Balance considered as long-term Investments	1,86,81,976	13,40,369	55,14,116
3. ADDITIONS TO FIXED ASSETS			
As per Balance Sheet - Schedule 5	21,96,31,126	17,61,22,667	3,90,05,031
Add : Closing capital work-in-progress	4,43,65,797	10,84,48,296	3,22,66,323
Less : Opening capital work-in progress	10,84,48,296	3,22,66,323	-
Balance considered for preparing the Cash flow statement	15,55,48,627	25,23,04,640	7,12,71,354
4. CASH AND CASH EQUIVALENTS			
As per Balance Sheet - Schedule 9	13,25,22,822	5,79,43,078	3,04,04,710
Deposits with companies and others (as per 1 above)	16,53,07,773	19,54,75,193	6,00,00,000
Cash and equivalents considered for preparing the Cash flow statement	29,78,30,595	25,34,18,271	9,04,04,710
5. OTHER INCOME			
Other income as per Schedule 13	51,25,358	60,39,729	5,22,459
Less : Profit on sale of assets	-	2,19,395	-
Balance considered for preparing the Cash flow statement	51,25,358	58,20,334	5,22,459

Certified that the above statement is in accordance with the requirement prescribed by SEBI.

For and on behalf of the Board

Bangalore
April 9, 1996

A. M. Bhatkal
Chartered Accountant

N. R. Narayana Murthy
Chairman and Managing Director

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	:	December 31, 1995
3.	Holding company's interest	:	100%
4.	Shares held by the holding company in the subsidiary	:	25,00,000 nos. of common shares at US$ 0.20 each, fully paid, par value US$ 0.01 each amounting to Rs. 1,73,51,600
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$ 62,311 (Rs. 21,75,900)
5.	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	:	Not applicable
	b. not dealt with or provided for in the accounts of the holding company	:	Not applicable

Statement pursuant to section 212(5) of the Companies Act, 1956, relating to subsidiary company

1. There has been no change in the holding company's interest in the subsidiary between the end of the financial year of the subsidiary and that of the holding company.
2. There has been no material change which has occurred in respect of the following in the case of the subsidiary, between the end of the financial year of the subsidiary and that of the holding company:
   a. Fixed assets of the subsidiary
   b. Investments of the subsidiary
   c. Moneys lent by the subsidiary
   d. Moneys borrowed by the subsidiary for any purpose other than that of meeting current liabilities.

Annexure to 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, 1996

Sl. No.		Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment/ Designation
1.		Ashwani Kumar Khurana	Executive Director	B.Tech. (IITD)	45	1.02.1994	23	5,58,481.00	Infosys Digital Systems Pvt. Ltd. *Managing Director*
2.		Ajay Dubey	Associate Vice President	B.Tech. (IITK)	38	7.06.1993	14	4,58,831.00	ANZ Bank, New Zealand *Technical Team Leader*
3.	*	Anant Pandit	Project Manager	B.E.	31	1.02.1990	8	3,19,640.00	Logiciel *Software Developer*
4.	*	Atul Mathur	Associate Project Manager	B.Tech. Computer Science (REC - Warangal)	30	1.02.1996	7	54,982.00	Sprint Intl. Corp. USA *Senior User Liaison & Business Development Manager*
5.	*	Balasubramanian P.	Senior Vice President	M.Tech. (IITM), Ph.D	46	1.10.1995	23	3,45,750.00	HITEK S/W Engineers Ltd. *Technical Director*
6.		Bhandi R. G.	Associate Vice President	B.E., M.Tech. (IITK)	35	7.07.1988	12	4,70,026.00	Wipro Infotech Ltd. *Systems Engineer*
7.		Binod H. R.	Manager - BBU	B.E.	33	2.08.1993	10	3,22,810.00	Motor Industries Company Ltd. *Sr. Engr. - Technl. Sales*
8.	*	Bhashyam M. R.	Manager - Quality	M.E.	45	7.07.1995	22	2,56,039.00	Aeronautical Development Agency *Scientist*
9.	*	Chandrasekhar C. K.	Senior System Analyst	Dip. in Mech. Engg.	39	10.11.1988	14	99,110.00	Triveni Engineering Works Ltd. *Service Engineer*
10.		Dheeshjith V. G.	Project Manager	M.E. (IISc)	32	14.09.1987	8	3,12,813.00	-
11.		Dinesh K.	Director	M.Sc.	42	1.09.1981	20	9,20,100.00	Patni Computer Systems Pvt. Ltd. *Senior Software Engineer*
12.		Ganesh Baliga M.	Senior Manager - E&R	M.Tech. (IITM)	36	3.12.1992	12	3,64,803.00	Bhoruka Steel Ltd. *Assistant Manager - Systems*
13.		Gopalakrishnan S.	Deputy Managing Director	M.Tech. (IITM)	40	18.10.1994	16	7,28,246.00	Software Sourcing Company, Atlanta, USA *Vice President - Technical*
14.		Haragopal M.	Associate Project Manager	B.Sc., LLB, PGDM	33	8.12.1993	9	3,45,386.00	Canara Bank *Officer*
15.		Harsha H. M.	Project Manager	B.E., AICWA	32	1.08.1986	10	3,32,710.00	-
16.	*	Hema Ravichandar	Associate Vice President - HRD	B.A., PGDM (IIMA)	35	15.05.1992	12	3,83,858.00	Motor Industries Company Ltd. *Deputy Manager - HRD*
17.	*	Ian Hasan	Associate Vice President - HRD	B.A. (Hon.), PGDIR&W (XLRI)	41	1.03.1996	17	40,475.00	Digital Equipment (India) Ltd. *Corporate Manager - HRD*
18.		Kanthimathinathan S.	Associate Vice President - Finance Systems	B.Tech. (IITM), PGDBM (IIMB)	43	18.05.1990	19	3,98,665.00	PSI Data Systems Ltd. *Industry Manager - Banking*
19.	*	Kishore Kumar Das	Assistant Project Manager	B.Tech. (IT Bhu)	27	4.06.1990	5	79,843.00	-

20.	Krishnamoorthy A. S.	Senior Project Manager	B.Tech. (IITM), M.Sc.	34	10.01.1986	12	4,08,441.00	Urban Transport Dev. Corp., Canada *Research Assistant*
21.	Krishnamurthy T. S.	Project Manager	B.E.	33	26.10.1987	11	3,32,152.00	Zenith Electro Systems Pvt. Ltd. *Software Executive*
22.	Mallya P. D.	Associate Vice President	M.Tech. (IITM)	41	15.12.1986	18	3,98,619.00	Bharat Heavy Electricals Ltd. *Senior Department Engineer*
23.	Mohan M. M.	Manager - HRD	B.Com., PGDBM	50	11.07.1992	26	3,16,943.00	Motor Industries Company Ltd. *Assistant Officer - HRD*
24.	Mohandas Pai T. V.	Senior Vice President - Finance & Admn.	B.Com., LLB., FCA	37	17.10.1994	16	5,44,090.00	Prakash Leasing Ltd. *Executive Director*
25.	Nagaraj R.N.	Banking Customer Support Manager	M.A., LLB.	41	6.03.1995	20	3,36,032.00	State Bank of Hyderabad *Manager - Credit*
26.	Nandan M. Nilekani	Deputy Managing Director	B.Tech (IITB)	40	1.09.1981	18	8,28,122.00	Patni Computer Systems Pvt. Ltd. *Assistant Project Manager*
27.	Narayana Murthy N. R.	Chairman and Managing Director	M.Tech (IITK)	50	1.04.1982	27	9,54,330.00	Patni Computer Systems Pvt. Ltd. *Head - Software Group*
28.	Nayak G. R.	Director - Finance & Admn.	B.Com., Dip. in Costing & Personnel Management	59	16.10.1987	40	7,83,885.00	Dubon Project Engineering Pvt. Ltd. *Manager - Finance & Administration*
29.	Padmanabhan D.	Project Manager	B.Sc.	33	2.11.1992	12	3,48,809.00	PSI Data Systems *Product Support Manager*
30.	Prahlad D. N.	Senior Vice President	B.E. (IISc)	40	1.04.1989	13	7,37,118.00	Datacons Pvt. Ltd. *Project Leader*
31.	* Prashanth Alva	Project Manager	B.Tech (IITKG)	29	15.06.1988	7	1,20,891.00	-
32.	Pravin Rao U. B.	Senior Project Manager	B.E.	34	4.08.1986	10	3,92,272.00	Indian Institute of Science *Programmer Trainee*
33.	Raghavan N. S.	Joint Managing Director	B.E.	53	1.09.1981	32	8,88,267.00	Patni Computer Systems Pvt. Ltd. *Assistant Manager*
34.	Raghavan S.	Project Manager	B.E.	34	16.04.1987	12	3,57,363.00	Bharat Heavy Electricals Ltd. *Maintenance Engineer*
35.	Rajasekaran K. S.	Associate Project Manager	M.Sc.	37	8.11.1983	12	3,51,259.00	Teaching
36.	Rajiv Kuchhal	Project Manager	B.Tech. (IITD)	30	5.02.1990	9	3,85,635.00	Telecommunications Consultants (I) Ltd. *Assistant Manager*
37.	Ravi C.	Project Manager	B.E.	30	2.05.1988	8	3,12,556.00	-
38.	Sanjeev Joshi	Manager - Administration	B.E.	33	1.12.1994	11	3,56,553.00	Infosys Digital Systems Pvt. Ltd. *Manager - Marketing*
39.	* Sastry V. A.	Director	M.E. (IISc), Ph.D. (Waterloo)	54	19.02.1992	25	1,25,938.00	Macmet India Pvt. Ltd. *Senior General Manager*
40.	Seshan P.	Project Manager	B.E. (Hon.)	34	1.06.1993	12	3,14,710.00	Infosys Manufacturing Systems Pvt. Ltd. *Assistant Project Manager*
41.	Sharad K. Hegde	Senior Vice President	B.Tech. (IITM), PGDIE (NITIE)	38	1.07.1983	15	6,70,586.00	Patni Computer Systems Pvt. Ltd. *Software Engineer Trainee*
42	* Shrikant S. Pandit	Executive Director	B.Tech. (IITK)	40	1.06.1993	18	4,74,824.00	Ganayantrika Systems Pvt. Ltd. *Managing Director*
43.	Srinath Batni	Associate Vice President	M.E. (IISc)	41	15.06.1992	18	4,58,068.00	PSI Bull Limited *Sr. Manager - Mktg. Technl. Support*

44.	Subramanyam G. V.	Project Manager	B.E.	29	15.06.1988	8	3,01,197.00	-
45.	Sudheer K.	Associate Vice President	B.Tech. (IITM)	35	14.11.1986	11	5,33,170.00	SONATA *Programmer Analyst*
46.	Umesh Singh Sikka	Senior Project Manager	B.Tech. (IITM), PGDBM (XLRI)	38	10.11.1993	15	3,11,182.00	UBICS, Bangalore *Manager - Systems*
47.	Vasudeva Rao L.	Senior Project Manager	B.E.	34	1.08.1994	11	3,46,821.00	Software Sourcing Company - USA *Project Manager*
48.	Vijay Kumar C.	Manager - Technical Resources	B.E.	34	3.11.1987	15	3,32,361.00	Self employed
49.	Yegneshwar S.	Senior Manager - E&R	B.E. (Hon.) Ph.D. (IIMA)	35	6.04.1993	8	3,37,949.00	Indian Institute of Management - Ahmedabad *Assistant Professor*

NOTE : 1. Remuneration comprises basic salary, allowances and taxable value of perquisites.
* 2. Employed for part of the year.
3. None of the employees is related to any Director of the company.

For and on behalf of the Board of Directors

N. R. Narayana Murthy
Chairman and Managing Director

Yantra Corporation

(a wholly-owned subsidiary of Infosys Technologies Limited)

Financial statements as of December 31, 1995
and for the period from
September 22, 1995 (date of inception) to December 31, 1995

Registered office

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

Board of Directors

Raghavan N. S.	-	Chairman
Gopalakrishnan S.	-	Vice Chairman
Devdutt Yellurkar	-	CEO
Dinesh K.	-	Director
Mohandas Pai T. V.	-	Director
Nandan M. Nilekani	-	Director
Prahlad D. N.	-	Director

Auditors

BDO Seidman, LLP
Accountants and Consultants

Dear Shareholder,

The objective of supply chain management is to provide the customer with the required quantity of the requested product, on time, at the lowest cost. In these days of complex business environments, tremendous competition and shrinking margins, an optimal management of the supply chain is a competitive advantage. Infosys, our parent organization, has over the past 10 years, focused on delivering products and services that address the challenges of supply chain management in the consumer products industry. This focused approach has helped us launch EAGLE - a scalable, distribution center management software package, that is designed to help our customers achieve their goals of improved customer service, operational efficiency and profitability. EAGLE leverages the latest technological advances and the best practices in material handling and distribution of consumer products.

Our product development team has initiated the development of Version 1.3 of EAGLE. This version, to be available in August 1996, will incorporate several contemporary business practices in the consumer products industry and technology advances. Thus, EAGLE 1.3 will become the package-of-choice with many new “cannot-do-without” functions. Interoperability with complementary industry standard products will be the focus of technology upgradation. We believe that these development efforts will considerably improve our market position.

Supply chain management software implementations have always had long and expensive cycles. We believe that addressing this issue with a robust methodology for rapid implementation is the key to the success of Yantra. We have used our collective experience to build an implementation methodology, and have designed a tool-kit for rapid implementation. We have also formed a team of implementation engineers who are well-versed in our implementation methodology and have a deep understanding of our target market.

Our customers use our software around the clock. Therefore, providing round-the-clock support to our customers is a competitive necessity. We have a team of engineers in Acton, Massachusetts, USA and in Bangalore, India, dedicated to providing post-implementation support to our customers. We leverage the time difference between our support centers to provide 7-by-24-hour support to our customers around the world.

By re-engineering our product development, implementation and support engines, Yantra is positioned to becoming a force within the application software marketplace. We have developed a strong marketing and sales plan to propel us forward. We are also working at building partnerships to augment our own direct sales efforts.

We believe that the foundation is being laid for an organization that will thrive in a highly competitive marketplace. All this has been possible because of the intelligence, energy, commitment and dedication of the members on the Yantra team. On behalf of the Board of Directors, I place on record our appreciation and gratitude to each and every Yantrik.

Acton, Massachusetts, USA	Devdutt Yellurkar
February 6, 1996	*Chief Executive Officer*

Independent auditors' report

To the Board of Directors and Stockholders of Yantra Corporation

Acton, Massachusetts

We have audited the accompanying Balance Sheet of Yantra Corporation (a wholly-owned subsidiary of Infosys Technologies Limited) as of December 31, 1995, and the related statement of operations, stockholders' equity and cash flows for the period from September 22, 1995 (date of inception) to December 31, 1995. 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 as on December 31, 1995, and the results of its operations and its cash flows for the period from September 22, 1995 (date of inception) to December 31, 1995, in conformity with generally accepted accounting principles.

Boston
February 6, 1996

BDO Seidman, LLP
Accountants and Consultants

Yantra Corporation
Balance Sheet as at December 31,

	in US$
	1995
ASSETS	
Current	
Cash and cash equivalents (Note 1)	389,607
Accounts receivables	25,650
Inventories (Notes 1 and 2)	1,567
Prepaid expenses	41,135
Total current assets	457,959
Property and equipment - net (Notes 1 and 3)	18,284
Organizational costs, net of accumulated amortization of US$ 559	7,822
Total assets	484,065
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities	
Accounts payable	2,598
Accounts payable - affiliate (Note 4)	33,010
Accrued income tax	456
Deferred revenue	10,312
Total liabilities	46,376
Commitments and contingencies (Note 5)	
Stockholders' equity	
Common stock, US$ 0.01 par value; 3,000,000 shares authorized; 2,500,000 shares issued and outstanding	25,000
Additional paid-in capital	475,000
Retained earnings	(62,311)
Total stockholders' equity	437,689
Total liabilities and stockholders' equity	484,065

See accompanying notes to financial statements

Yantra Corporation

Statement of operations for the period from September 22, 1995 (date of inception) to December 31,

	in US$
	1995
Net revenue	25,338
Cost of sales subcontract (Note 4)	33,010
Gross profit	(7,672)
General and administrative expenses	54,183
Operating loss before state income taxes	(61,855)
State income taxes (Note 1)	456
Net loss	(62,311)

See accompanying notes to financial statements

Statement of stockholders' equity as at December 31, 1995

in US$

	Common stock		Additional	Retained	
	Shares (No.)	Amount	paid-in capital	earnings	Total
Issuance of 2,500,000 shares of US$ 0.01 each on September 22, 1995 (date of inception)	2,500,000	25,000	475,000	-	500,000
Net loss	-	-	-	(62,311)	(62,311)
Balance, December 31, 1995	2,500,000	25,000	475,000	(62,311)	437,689

See accompanying notes to financial statements.

Yantra Corporation
Statement of cash flows (Note 1)

in US$

Year ending December 31,	1995
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	(62,311)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation and amortization	3,493
Changes in operating assets and liabilities	
Accounts receivable	(25,650)
Deferred revenue	10,312
Inventories	(1,567)
Prepaid expenses	(41,135)
Accounts payable	2,598
Accounts payable - affiliate	33,010
Accrued income tax	456
Net cash used by operating activities	(80,794)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(21,218)
Payments for organization cost	(8,381)
Net cash used by investing activities	(29,599)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of common stock	500,000
Net cash provided by financing activities	500,000
Increase in cash and cash equivalents	389,607
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	389,607

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 wholly-owned subsidiary of Infosys Technologies Limited, an Indian corporation.

Method of accounting

The company prepares the financial statement and tax returns on the accrual basis of accounting, which is the generally accepted accounting principle.

Assumptions and estimates

The preparation of financial statements is in conformity with the Generally Accepted Accounting Principles (GAAP) and requires the company management to make estimates and assumptions that affect the reported accounts of assets and liabilities, and disclosure of contingent assets and liabilities as on the date of financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Revenue recognition

Revenue from software development is recognized based on software developed and billed to the clients as per the terms of specific contracts. Revenue from the sale of software products is recognized when the sale has been completed with the passing of title.

Cash equivalents

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

Inventories

Inventories are stated at the lower of cost or market price. Cost is determined using the first-in, first-out (FIFO) method.

Property and equipment

Property and equipment is carried 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.

Income taxes

Provision is made for income tax on a yearly basis, under the tax deferral method, based on 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. Any variance between values of assets reported in tax returns and in the financial statements, is accrued as deferred income tax.

2. INVENTORIES

Inventories consist of US$ 1,567 of software purchased for resale.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following :

in US$

As on December 31,	1995
Furniture and fixtures	7,230
Computers	13,988
	21,218
Less : accumulated depreciation	(2,934)
Net property and equipment	18,284

4. RELATED PARTIES

The Company entered into an Agreement for Software Center (the "agreement") beginning November 1, 1995 with its parent Infosys Technologies Limited, an Indian corporation.

It was proposed to set up a Software Center (the "Center"), in Infosys, Bangalore on the First Day of November, 1995, to cater to Yantra's exclusive needs. This center will be completely managed and staffed by Infosys and will be located within the Infosys software development facility. The center will have a number of employees, trained in Yantra's best practices and exposed to Yantra's standards, working exclusively on Yantra's products and projects. This center will be viewed as an extension of Yantra's product development facility and all prioritization of work will be decided by Yantra.

It is anticipated that the following work will be undertaken by the center :

- Product development, enhancement, upgrades and version control, etc.
- Product support including Beeper support operations
- Implementation and implementation consulting
- Documentation
- Training services

Yantra will pay Infosys a flat rate per person per month for the number of people committed. This flat rate will be calculated on the basis of the number of working days per month. The cost incurred under this contract for the period from September 22, 1995 (date of inception) to December 31, 1995 is US$ 33,010.

5. COMMITMENTS AND CONTINGENCIES

The company leases its operating facilities under an operating lease which expires on October 14, 1998. Total rent expense for the period from September 22, 1995 (date of inception) to December 31, 1995 was US$ 2,251. Future non-cancellable operating leases with initial or remaining terms of one year or more consist of the following:

in US$

Year ending December 31,	Operating leases
1996	16,867
1997	17,000
1998	14,667
	48,534

Independent auditors' report on supplemental material

Our audit of the 1995 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 1995 basic financial statements taken as a whole.

Boston

February 6, 1996

BDO Seidman, LLP

Accountants and Consultants

Schedule of general and administrative expenses

	in US$
Period from September 22, 1995 (date of inception) to December 31, 1995	
Outside services	20,550
Office salaries	15,000
Depreciation and amortization	3,493
Travel, entertainment and vehicle expense	3,355
Rent	2,251
Telephone	2,174
Office supplies and expense	1,789
Payroll taxes	1,527
Other operating expenses	988
Insurance	936
Postage and delivery	472
Computer expenses	462
Bank service charges and filing fees	371
Repairs and maintenance	320
Equipment rental	260
Payroll processing	225
Dues and subscriptions	10
Total general and administrative expenses	54,183

Financial Statements

prepared in compliance with the

Generally Accepted Accounting Principles (GAAP) of the US

and the SEC Disclosure norms

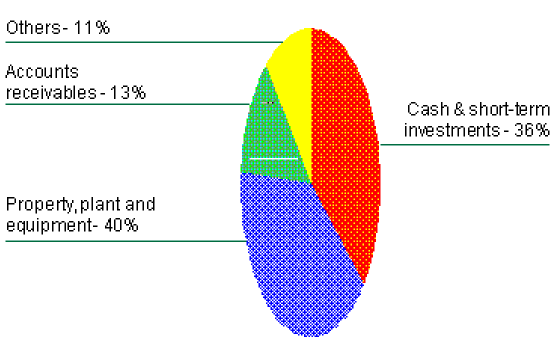
Technology is like a steamroller. If you are not on the steamroller, then you are destined to become part of the road.

— Anonymous

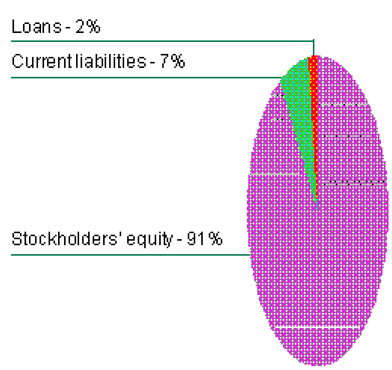
Consolidated Balance Sheet as at March 31,

	1996	1995
		in US$
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	10,080,513	10,116,529
Accounts receivables	3,459,876	2,320,726
Inventories	51,480	54,584
Others	2,351,415	948,079
Total current assets	15,943,284	13,439,918
Property, plant and equipment - net	11,165,018	9,659,422
Other assets	441,104	-
Investments	79,181	79,181
Total assets	27,628,587	23,178,521
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	63,376	66,864
Accrued compensation - employees	558,190	188,174
Current portion of long-term debt	726,836	615,024
Other liabilities	714,204	805,254
Total current liabilities	2,062,606	1,675,316
Deferred income tax	456	309,408
Long-term loans	526,289	1,397,714
STOCKHOLDERS' EQUITY		
Common stock, par value; US$ 0.32	2,309,991	2,309,991
Shares authorized 10,000,000;		
Issued and outstanding 7,258,750		
Additional paid-in-capital	11,524,178	11,524,178
Retained earnings	11,205,067	5,961,914
Total stockholders' equity	25,039,236	19,796,083
Total liabilities and stockholders' equity	27,628,587	23,178,521

The accompanying notes to consolidated financial statements are an integral part of these statements.



Assets - 1996



Liabilities and Stockholders' Equity - 1996

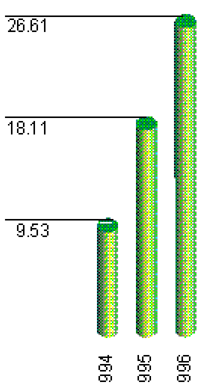
Consolidated Income statement for the year ending March 31,

in US$

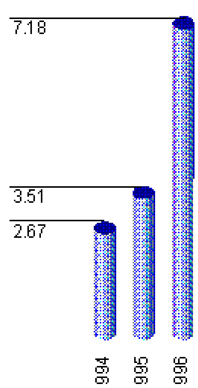
	1996	1995	1994
REVENUES			
Net revenues	26,607,009	18,105,010	9,534,321
Cost of revenues	15,626,609	11,894,029	5,621,428
Gross profit	10,980,400	6,210,981	3,912,893
OPERATING EXPENSES			
Selling, general and administrative	2,642,989	1,970,675	1,314,509
Total operating expenses	2,642,989	1,970,675	1,314,509
Operating income	8,337,411	4,240,306	2,598,384
Non-operating income	1,460,329	746,439	391,362
Interest charges	-	-	(15,321)
Other non-operating expenses	-	-	(53,956)
Income from continuing operations before income tax and accounting changes	9,797,740	4,986,745	2,920,469
Provision for income tax	(1,324,580)	(892,593)	(250,742)
Income from continuing operations before accounting changes	8,473,160	4,094,152	2,669,727
Prior period items	(214,118)	-	-
Cumulative effect of accounting changes (net of tax)	(1,074,552)	(581,720)	-
Net income	7,184,490	3,512,432	2,669,727
Weighted average common stock outstanding	7,258,750	5,305,050 *	3,352,100
EARNINGS PER SHARE			
Earnings before accounting changes	1.16	0.77	0.80
Cumulative effect of accounting changes	(0.15)	(0.11)	-
Prior period items	(0.03)	-	-
Net earnings per share	0.98	0.66	0.80
Fully diluted earnings per share	0.91	0.45	NA
Dividend declared per share	0.15	0.15	0.12

The accompanying notes to consolidated financial statements are an integral part of these statements.

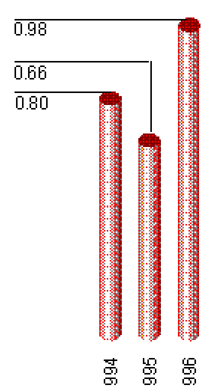
* Includes increase in weighted average stock due to stock split of 1:1.



Net revenues
(US$ in millions)



Net income
(US$ in millions)

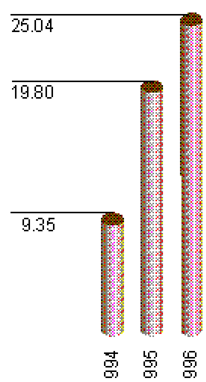


Net earning per share
(US$)

Consolidated statement of stockholders' equity as at March 31,

	1996	1995
		in US$
COMMON STOCK		
Balance, beginning of the year	2,309,991	1,069,287
Increase due to stock splits	-	1,064,232
Common stock issued	-	176,425
Forfeited shares	-	47
Balance, end of the year	2,309,991	2,309,991
ADDITIONAL PAID IN CAPITAL	11,524,178	11,524,178
RETAINED EARNINGS		
Balance, beginning of the year	5,961,914	4,273,288
Net income	7,184,490	3,512,432
Decrease due to stock split	-	(1,064,232)
Dividends paid	(1,068,955)	(755,940)
Unrealized gains (loss) on investments - net	(420,876)	59,394
Translation adjustment	(451,506)	(63,028)
Balance, end of the year	11,205,067	5,961,914
Total stockholders' equity	25,039,236	19,796,083

The accompanying notes to consolidated financial statements are an integral part of these statements.



Stockholders' Equity
(US$ in millions)

Consolidated statement of cash flows for the year ending March 31,

	1996	1995	1994
			in US$
CASH FLOWS FROM OPERATIONS			
Net income before current income taxes	8,900,602	4,146,212	2,920,469
Non-operating income	(1,460,329)	(746,439)	(391,362)
Reconciliation of net income to net cash provided by operating activities			
Depreciation, depletion and amortization	2,679,577	1,501,237	266,829
Current income taxes	(1,716,112)	(633,780)	(250,742)
Charge of intangible assets	-	496,820	53,956
Decrease (increase) in accounts receivables	(1,139,150)	(938,124)	(664,976)
Decrease (increase) in inventories	3,104	88,710	(67,252)
Decrease (increase) in other current assets	(1,403,336)	(361,008)	389,342
Increase (decrease) in current liabilities	387,290	1,126,793	4,229
Deferred tax	(750,056)	309,408	-
Net cash from operations	5,501,590	4,989,829	2,260,493
CASH FLOWS FROM FINANCING			
Net cash received from issuance of common stock	-	7,694,698	4,444,704
Net proceeds of long-term borrowing	(871,425)	1,397,714	-
Dividends paid	(1,068,955)	(755,940)	(387,079)
Intangible assets	-	-	(336,033)
Net cash from financing	(1,940,380)	8,336,472	3,721,592
CASH FLOWS FROM INVESTING			
Decrease (increase) in investments	-	102,742	(126,993)
Non-operating income	1,460,329	739,262	388,598
Proceeds of sale of property, plant and equipment	57,599	48,081	4,595
Purchase of property, plant and equipment	(4,242,772)	(8,010,577)	(2,351,413)
Net cash from investing	(2,724,844)	(7,120,492)	(2,085,213)
Total increase (decrease) in cash and equivalents during the year	836,366	6,205,809	3,896,872
Cash and equivalents at the beginning of the year	10,116,529	3,914,354	580,770
Unrealized gains on short-term investments	(420,876)	59,394	-
Effect of translation difference	(451,506)	(63,028)	(563,288)
Cash and equivalents at the end of the year	10,080,513	10,116,529	3,914,354

Notes to financial statements

SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention in compliance with the Generally Accepted Accounting Principles (GAAP) of the US and SEC disclosure norms. All income and expenditure having a material bearing on the financial statements are recognized on accrual basis.

Principles of consolidation

The financial statements include the accounts of Infosys Technologies Limited and its wholly-owned subsidiary, Yantra Corporation. Significant inter-company transactions and balances have been eliminated.

Revenue recognition

Revenue from software development is recognized based on the software developed and billed to the clients as per the terms of specific contracts. Revenue from the sale of software products is recognized when the sale has been completed with the passing of title. 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.

Expenditure

Expenses are accounted on accrual basis and provisions are made for all known losses and liabilities. Expenses incurred on development of software are charged to revenue expenditure in the same year.

Earnings per share

Earnings per share is computed on the basis of weighted average number of common shares outstanding as on the Balance Sheet date plus the effect of outstanding stock options, computed using the treasury stock method.

Cash and short-term investments

The company considers short-term investments with a maturity of three months or less, on the date of purchase, to be cash equivalents. Short-term investments are readily marketable securities, acquired through the use of temporarily idle cash and are marked to market as on the Balance Sheet date. The resulting gains and losses are accounted in the financial statements.

Property, plant and equipment

Property, plant and equipment are stated at the cost of acquisition minus the accumulated depreciation. Direct costs are capitalized till the assets are ready to be put to use. These costs include financing costs related to specific borrowing attributable to fixed assets.

Depreciation

Depreciation on fixed assets is provided using the straight-line method based on the useful life as estimated by the management. Depreciation is charged on a pro-rata basis for assets purchased/sold during the year. The management's estimate of useful life of various fixed assets is given below.

Building	- Software center	28 years
	- Others	58 years
Furniture and fixtures		6 years
Computer equipment		2-5 years
Plant and machinery		6 years
Vehicles		6 years

Individual assets costing less than US$ 163 are depreciated in full, in the year of purchase.

Inventories

Inventories are stated at the lower of historic cost or 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.

Retirement benefits to employees

The company's liability towards retirement benefits in the form of provident fund, gratuity and superannuation is fully funded and charged to expenditure. The company contributes to the employees' provident fund maintained under the Employees Provident Fund Scheme run by the Indian Government. The company has a gratuity fund, maintained by the Life Insurance Corporation of India (LIC), to which contributions are made every year based upon actuarial valuation. The company also contributes to a superannuation fund, maintained by LIC, for its managerial staff, based upon actuarial valuation.

Research and development

Research and development costs are expensed as incurred.

Foreign currency transactions

In the case of sales made to clients outside India, income is accounted on the basis of a standard exchange rate. Adjustments are made for any change in the sales proceeds on conversion into Indian currency, upon actual receipt. Expenditure in foreign currency is accounted at the conversion rate prevalent when such expenditure is incurred. In the case of overseas offices, such expenditure is translated at the rate prevalent at the end of the month of expenditure. In the case of current assets and current liabilities of overseas offices, as well as receivables and payables denominated in foreign currency, the exchange rate prevalent at the year end is taken for purposes of translation and accounting in the books. Any overall gain or loss upon such conversion is recognized in the same period. Fixed assets purchased at overseas offices are accounted on the basis of actual cost incurred, at the exchange rate prevalent at the time of purchase. Depreciation is charged as per the company's policy.

Foreign currency translation

The company's financial statements are prepared in Indian rupees, the reporting currency. These financial statements have been prepared by translating income and expenditure at the average rate during the year; current assets, current liabilities, long-term loans and stockholders' equity at the year-end rate; fixed assets at the rate prevalent at the time of acquisition and long-term investments at the rate prevalent at the time of investment. Depreciation is calculated on the translated value of the assets, using the useful life of the assets as estimated by the management. The difference arising on translation is disclosed as a part of *Retained earnings*.

Long-term investments

Long-term investments are carried at cost. In case of any decline, other than temporary, in the value of investments, appropriate provision is made to recognize such a decline.

Income tax

Provision is made for income tax on a yearly basis, under the tax-deferral method, based on 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. Certain items of income and expenses are not reported in tax returns and financial statements in the same year. The tax effect of this difference is reported as *Deferred income tax*.

Changes in accounting policies

Depreciation

The company has been providing depreciation based on the useful life of the assets as estimated by the management from time to time. During the year, the company has revised the useful life of computer equipment from 6 years to a band of 2-5 years.

The software industry is a high-tech industry where the technology changes very rapidly. The computer equipment procured for developing software is subject to rapid obsolescence and due to changes in technology, the rate of redundancy is high. The advantage of shifting to a new technology outweighs the cost of procurement. Further, the cost of computer hardware has seen a rapid decline due to increase in volumes and commoditization. In view of this, the management decided to change the useful life of computer equipment to a band of 2-5 years from the earlier period of 6 years. The product life cycle is approximately 18 months for computers. Based on the time of the product life cycle at which the computer equipment is procured, the useful life of the same will be determined by the management, within the said band.

Due to this change, the provision for depreciation is higher by US$ 1,400,297 and the profit lower by the same amount.

Leave compensation to employees

Employees are eligible for certain leave benefits as part of their employment. At the end of the year there would be some accumulated leave balances to their credit.

During the year, the company made full provision for leave compensation to employees as required under FASB statement 43. Due to this change, the salaries are higher by US$ 318,392 and the profit lower by the same amount.

Notes on accounts

Reclassification

Certain items in the financial statements have been reclassified for better presentation.

Consolidation

The financial year end of the wholly-owned subsidiary, Yantra Corporation is December 31, 1995. The consolidated reports are prepared with the subsidiary's audited figures till December 31, 1995, and unaudited figures for the period January to March 1996. All the intra-group items were eliminated on consolidation.

Cash and short-term investments

in US$

	1996	1995
Cash and equivalents		
Cash	2,141,961	1,839,755
Certificates of deposit	2,024,488	-
Cash and equivalents	4,166,449	1,839,755
Short-term investments		
Short-term investments in debentures, units of mutual funds and common stock of other companies	1,301,318	2,070,227
Deposits in limited companies	3,602,941	2,698,841
Short-term advances	1,009,805	3,507,706
Short-term investments	5,914,064	8,276,774
Cash and short-term investments	10,080,513	10,116,529

Unrealized gains on short-term investments

The short-term investments of the company is marked to market, on the Balance Sheet date. The cumulative unrealized loss due to this, amounting to US$ 420,876 (net of deferred tax), has been reduced from the *Retained earnings* and deferred tax asset increased by US$ 358,524. An unrealized gain of US$ 59,394 was added to *Retained earnings* and net deferred tax liability provision of US$ 50,595 was made during the previous year.

Accounts receivable

The accounts receivable is US$ 3.46 million on the Balance Sheet date as against US$ 2.32 million for the previous year. The receivables are considered good and realizable. The level of accounts receivables is normal and is in tune with business trends. The age profile is as given below.

in %

Period in days	1996	1995
0 - 30	65.64	76.19
31 - 60	16.64	15.32
61 - 90	15.62	4.35
More than 90	2.10	4.14
	100.00	100.00

The management believes that the overall condition of accounts receivable is satisfactory. As a measure of asset utilization, receivables, as a percentage of total revenue, is 12.33% for 1996 as compared to 12.31% in 1995.

Inventories

The company's stock of inventory consists of software products purchased for sale. A periodic review is made of slow-moving stock and appropriate provisions are made for anticipated losses, if any.

Other current assets

The other current assets represent advances paid to staff, advances paid to vendors for goods and services, deposits with various government organizations towards provision of telephones, electricity, etc.

Property, plant and equipment

in US$

	1996	1995
Land	167,683	167,683
Building	5,092,550	1,501,729
Computers	6,443,381	4,590,396
Vehicles	49,203	148,351
Plant and machinery	1,809,490	1,235,006
Furniture and fixtures	1,245,028	741,477
Property, plant and equipment - at cost	14,807,335	8,384,642
Less : Accumulated depreciation	4,947,193	2,267,616
Add : Capital work-in-progress	1,304,876	3,542,396
Property, plant and equipment - net	11,165,018	9,659,422

The capital expenditure for 1996-97 is approximately US$ 16.00 million. The company will have adequate cash resources to meet this requirement.

Interest on loans

The company capitalized an amount of US$ 287,772, this being the interest paid on the amount borrowed from the Housing Development Finance Corporation Limited, India, for construction of quarters for its staff. The same is added to Buildings and shown under *Property, plant and equipment* in the Balance Sheet.

Depreciation on assets costing less than US$ 163 each

The company charged depreciation at one hundred percent in respect of assets costing less than US$ 163 each. The depreciation on such assets for the period 1996 and 1995 amounts to US$ 140,732 and US$ 770,611 respectively.

Investments

The company established its wholly-owned subsidiary in USA. The investments for the same, amounting to US$ 500,000, was made by way of cash remittance from India, during the year. This has been netted off on consolidation.

The company's investment consists of investment in Software Sourcing Company, the joint venture with Kurt Salmon Associates, USA. The company holds 50% of the partnership interest in the joint venture. The investment in the joint venture was made out of the revenues derived from the joint venture, over many years. During the year, the management has decided to relinquish its stake in the joint venture. Necessary statutory approvals from authorities in India are awaited for completion of the disinvestment.

Accounts payable

Accounts payable represent the amounts payable to various vendors towards purchase of services and goods in the normal course of business.

Accrued compensation

Accrued compensation represents the compensation payable to the employees and paid subsequent to the Balance Sheet date. It also includes provision for leave compensation to employees.

Other current liabilities

Other current liabilities include dividend payable by the company to its stockholders, amount received in advance from clients, amount received for issue of stock options and other current liabilities.

Long-term borrowings

The company's long-term borrowings consist of amount borrowed from Housing Development Finance Corporation Limited towards purchase of quarters for its staff. The borrowing has a tenure of three years with a coupon rate of 13.50% per annum. The repayment schedule of this borrowing is provided below:

in US$

	1997	1998
Repayment in US$	726,836	526,289

Common stock

The company, has at present, only one class of common stock.

Contingent liabilities

In the normal course of its business, the company entered into various contracts with parties, on capital account. Moreover, there were certain claims against the company which may become due and certain amounts are payable on partly-paid equity held by the company as part of its treasury operations. The contingent liability due to this amounts to US$ 1,170,792 and US$ 1,136,555 for the periods 1996 and 1995 respectively.

Prior period items

Prior period item consists of income taxes paid for earlier years.

Financial instruments

Foreign exchange forward contracts

The company enters into foreign exchange forward contracts to hedge its foreign currency receivables. The gains or losses are recognized in the financial statements. These contracts are entered into in the normal course of business and the company does not hold any trading positions. The company does not use derivative financial instruments for speculative purposes.

in US$

	1996	1995
Total foreign exchange forward contracts outstanding	800,000	450,000

Letters of credit

The company has various letters of credit outstanding, issued to different vendors, amounting to US$ 344,971 and US$ 65,327 for the periods 1996 and 1995 respectively.

Guarantees

The company has outstanding guarantees for various statutory purposes amounting to US$ 194,212 and US$ 244,804 for the periods 1996 and 1995 respectively. These guarantees are in the nature of performance guarantees, and are subject to the risk of performance by the company.

Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of cash investments and receivables. The company's cash resources are invested in a manner so as to enhance yields keeping in mind the safety of such investments and the company's requirements of funds.

The company's cash investments are with reputed publicly traded companies with good credit ratings, financial institutions and banks. Limitations have been established as to the maximum amount of cash that may be invested with any single agency.

Credit risk with respect to trade receivables is limited due to larger customer base and quality of receivables. Accordingly, the company has no significant concentration of credit risk.

With respect to the foreign exchange forward contracts, the company's exposure is on the full amount of the foreign currency receivable on settlement. The company does not expect to incur any losses under these contracts.

Employees Stock Offer Plan (ESOP)

The company instituted an Employees Stock Offer Plan for all eligible employees. Under the plan, warrants will be issued to employees deemed eligible by the Advisory Board constituted for the purpose. Accordingly, 750,000 warrants were issued by the company to the Infosys Technologies Limited Employees Welfare Trust to be held in trust and transferred to the selected employees from time to time. The warrants are issued at US$ 0.03 each, and entitles the holder thereof to apply for and be issued one share of the company at a price of US$ 2.94, after a period of 5 years from the date of issue. The shares vest in the employee fully only 5 years after the date of issue of the warrants. During the year, 158,000 warrants were allotted to eligible employees by the trust. The warrants expire on September 30, 1999.

Related Parties

The company entered into an agreement for software development and support with its wholly owned subsidiary, Yantra Corporation, beginning November 1, 1995. Under this agreement, Infosys will set up an offshore software development center for Yantra Corporation, which will act as an extension of Yantra Corporation's product development facility. Yantra will pay Infosys a flat rate per person per month based on the actual efforts put in by the Infosys employees.

Leases

The company has operating leases for office buildings used by a part of its Delivery Systems and Marketing groups. Rental expense for operating leases for the periods 1996, 1995 and 1994 is US$ 67,665, US$ 67,694 and US$ 9,758 respectively.

Non-operating income

Non-operating income consists of income derived by the company out of its treasury operations.

Income tax

The provision for income tax was composed of : *in US$*

	1996	1995
Current income tax	1,636,112	633,780
Foreign taxes	80,000	-
Deferred tax	(391,532)	258,813
Provision for income taxes	1,324,580	892,593
The deferred tax consists of the following :		
Cumulative effect of the timing differences in capital assets	(391,988)	258,813
Deferred tax for subsidiary	456	-
	(391,532)	258,813

Differences between the Indian statutory and effective tax rates were :

	1996 %	1995 %
Indian statutory rate	46.00	46.00
Tax exempt income	(32.93)	(33.29)
Effective tax rate	13.07	12.71

Research and development expenses

An amount of US$ 955,529 was incurred during the year for research and development expenses and the same is included in *Selling, general and administrative expenses* in the Income statement.

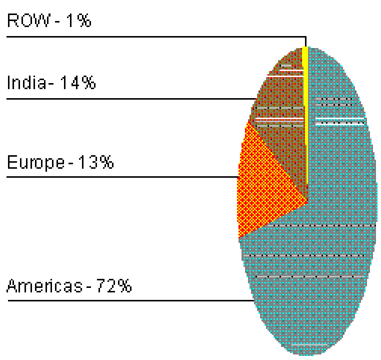
Segment reporting

The geographical segment information given below is on the basis of markets and not on the source of revenue.

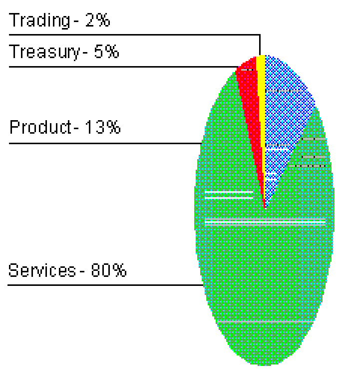
in US$

	1996	1995	1994
By geographical area			
Americas	20,099,240	13,753,779	7,328,507
Europe	3,616,272	2,457,360	1,714,564
Rest of the world (ROW)	423,087	436,102	26,465
India	3,928,739	2,204,208	856,147
Total revenue	28,067,338	18,851,449	9,925,683
By business segments			
Software products	3,699,946	2,406,282	1,297,927
Software services	22,397,623	15,326,536	7,978,800
Software trading	509,440	372,192	257,594
Treasury	1,460,329	746,439	391,362
Total revenue	28,067,338	18,851,449	9,925,683

The assets are not identifiable to particular segments and can be used interchangeably between segments. Hence, the identifiable assets for each segment are not provided.



By geographical area - 1996



By business segment - 1996

The Infosys' management is committed to global levels of transparency and disclosure. An attempt has been made to provide hereunder, the information, as required under Form 10-K filing requirements of the Securities and Exchange Commission of the USA. The management cautions the users that Infosys is not registered with the SEC, nor legally required to file Form 10-K.

United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

(Mark One)

☐ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended March 31, 1996

☐ 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 - Not applicable

Infosys Technologies Limited

(Exact name of registrant as specified in its charter)

State or other jurisdiction of incorporation or organization	Karnataka, India
I.R.S. Employer identification No.	Not applicable
Address of the principal executive office	Electronics City, Hosur Road, Bangalore - 561 229, India.
Registrant's telephone number, including area code	0091 - 80 - 8520261 (100 lines)
Securities registered pursuant to Section 12(b) of the Act	None
Securities registered pursuant to Section 12(g) of the Act	Not applicable. The equity consists of common stock which was issued in accordance with the laws of the Republic of India.

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 - Not applicable, as Infosys is not required to file any such forms with SEC, at present.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐ Yes ☐ No
- Not applicable

The aggregate market value of the common stock held by non-affiliates of the registrant as of March 31, 1996 was US$ 104,611,397.

The number of shares outstanding of the registrant's common stock as of March 31, 1996, was 7,258,750.

Part I

1. Business

General

Infosys Consultants Private Limited (the "Company" or "Infosys") was incorporated in 1981 as a private limited company under The Companies Act, 1956, of India. The name of the company was changed to Infosys Technologies Limited (the "Company" or "Infosys") in 1992 when it became a public limited company.

The vision of Infosys is to become a leading supplier of software products and services in the global market. The business strategy is focused on establishing offshore software development centers in cost competitive economies; competing on quality and productivity and not just on cost, in the domain of fixed-price, turnkey projects and maintenance of software; and moving up the value chain by leveraging intellectual property rather than per-hour productivity, thus entering into products, systems integration and IT consulting. Infosys derives its revenues from software services and products. Today, Infosys operates in USA, Europe, Japan, the Far East, Africa and the Indian subcontinent.

Towards the end of 1992, liberalization had taken firm roots in India and the Indian software industry saw the entry of several well-known international software and IT houses. This meant the possibility of a shakeout. Further, it was clear by then that the only scalable model for Indian software houses would be to establish world-class software factories with state-of-the-art technology and software development processes, methods and tools. Thus, this period saw a transition from capital-light, on-site oriented activities to capital-heavy, India-based software development centers. Infosys was one of the first software companies to recognize this trend and formulate a business plan to establish a large software factory to address the needs of international clients. This activity required considerable capital and Infosys decided to have its IPO (Initial Public Offer) in February, 1993, for funding this project. The scope of this project was expanded based on the positive response received from existing and potential clients of Infosys. Subsequently, to further fund its capital programs, Infosys had a private placement of shares in October, 1994, and these shares were subscribed by Foreign Institutional Investors, mutual funds, domestic financial institutions, etc. There was no participation from the public till the initial public offer in 1993.

Today, Infosys derives its major revenue from export. The primary activity is the execution of fixed-price, turnkey software projects and maintenance of software.

Infosys started Software Sourcing Company (SSC), as a joint venture with Kurt Salmon Associates (KSA), a leading management consultancy company in USA, in 1987. This was intended to provide a one-stop shop for the delivery of software life cycle services for the consumer products industry. To increase the revenue contribution from products, Infosys established, in 1995, Yantra Corporation, a wholly-owned subsidiary in USA. Yantra's objectives are to develop, sell and support software products in the retail and distribution areas through product development, sales and support. Since the Infosys board foresaw the possibility of conflict of interest between Yantra and SSC, it decided to relinquish its stake in the joint venture in favor of the joint venture partner, KSA and is awaiting the final approval from the statutory authorities in India to complete the disinvestment.

Infosys also plans to transfer the intellectual property rights in EAGLE, the Infosys software product solution for warehouse management, to Yantra for a consideration of US$ 1,000,000. This amount will be received in the form of common stock of the subsidiary. This transfer is subject to necessary approvals from the Reserve Bank of India and other statutory authorities.

Software development being a pollution-free industry is not subject to any environmental regulations in India.

The company is divided into five main groups: Delivery Systems, Marketing, Technical Advancement Unit (TAU), Technical Support Services (TSS), Human Resources Development (HRD), Corporate Planning, and Finance and Administration (F&A).

The Delivery Systems group is responsible for software development and maintenance of software for the customers, as well as for operating Offshore Software Development Centers (OSDCs) for the customers. The group is organized into four Strategic Business Units (SBUs) each with focused application domain(s), as well as service offering(s). The application domains are distribution and retailing, banking, financial services and insurance, telecommunications and manufacturing. The service offerings are client/server re-engineering of legacy systems based on INLEGOE (INfosys LEGacy and Open systems Environment) architecture, *In2000* (the Infosys solution to accommodate dates of the next millennium in customer software), turnkey, fixed-price projects and maintenance of software systems for customers and operation of OSDCs for customers.

The Marketing group handles both export and domestic sales, and marketing functions. There are five sales offices in the USA and one in Europe. The worldwide sales activity is coordinated from the US headquarters. The corporate marketing sales group has the responsibility of providing marketing support to sales staff as well as handling all potential customers who visit the corporate headquarters at Bangalore, India. The banking products group markets BANCS 2000, the Infosys solution to bank automation in India and the emerging world.

The Technology Advancement Unit (TAU) tracks, evaluates, develops and assimilates new technologies, tools and methodologies. It also provides consultancy to our customers in the area of vanguard technology.

The Technical Support Services (TSS) group includes quality and productivity, education and research, computer and communication services, documentation, and internal MIS subgroups. The quality subgroup evaluates new models of quality like Capability Maturity Model (CMM), conducts pilot exercises in implementing such models and then transfers the process knowledge to the Delivery Systems group for mass implementation. The productivity subgroup develops metrics and productivity benchmarks for measuring the productivity of professionals for different activities of the life cycle. The education and research subgroup handles the training needs of the company. Employee productivity and motivation are the focus areas of research for this subgroup. The computers and communications subgroup is responsible for planning, purchasing, installing and maintaining all computer hardware, software and communications equipment for the company. The documentation subgroup produces all corporate, business and technical documentation and publicity material for the company. The MIS subgroup develops and maintains all software required internally by Infosys.

The Human Resource Development (HRD) group forecasts the human resource needs of the company and recruits the employees. They also have the responsibility for innovation in development, appraisal and retention schemes for the employees of the company.

The Corporate Planning group has framed the Infosys vision and conducts the annual strategy sessions. They are also responsible for producing the business plan for any new initiative at Infosys. They update the five-year enterprise model for any financial implication.

The Finance and Administration group includes corporate finance, facilities and general administration subgroups. The corporate finance subgroup is responsible for financial aspects of the operations, financial planning, financing and treasury functions of Infosys. The facilities subgroup takes up construction and maintenance of the various Infosys office facilities. The general administration subgroup is responsible for personnel-related functions.

Infosys service offerings and products

Last year Infosys derived 80% of its revenue from bespoke software development, and 13% from software products. Infosys has three service offerings in the area of software project and sells and supports three in-house developed products. The service offerings are :

Fixed-price, turnkey projects

In this model, a user organization sends out a Request For Proposal (RFP) and asks the vendor to bid a fixed price for the entire task which generally comprises the full software development life cycle. Activities like requirement definition, customer sign-off on that, design presentation, installation and rapid-reaction warranty are performed at the customer site. Design reviews, programming, code walkthrough, program testing, module testing, integration testing and volume testing are performed at the development center. The objective in this model is to maximize the value added by the development centers in low-cost economies.

Maintenance of software

In this model, the vendor accepts complete responsibility for maintaining a suite of software on behalf of the customer. The maintenance opportunity worldwide is at least US$ 75 to US$ 90 billion dollars. This is also a win-win model for the client and the vendor since the client staff can transition to new development while the vendor staff functions as a virtual maintenance facility for the customer. This model is an ideal candidate for transitioning to the low-cost economies since maintenance is an area for cost reduction. Infosys was the pioneer in leveraging the time zone difference between India and USA/Europe/Japan to provide 24-hour productivity in the maintenance of software for the international customers. Such time zone differences also allow the customer team and the vendor team to run relays in maintaining the software. Generally, the customer and the vendor work on a productivity standard (expressed as the number of function points a programmer/analyst/project leader can handle in a month) to create a fixed-price, turnkey framework for this activity.

Offshore Software Development Centers

Infosys has popularized the concept of Offshore Software Development Centers (OSDCs). An OSDC is a dedicated, software development team at Infosys using the technology, tools, processes and methodologies unique to a customer. This results in bringing economies of scale and maximizing the residual business knowledge of the customer's business. Thus, an OSDC operates like a virtual extension of the customer's software team. OSDC is an ideal model for extending the size of a customer's software team at reduced costs and increased productivity.

In2000

Most of the currently running software systems cannot handle dates beyond December 31, 1999. *In2000* is the Infosys solution to handle this problem. Infosys has developed a methodology and a suite of tools to effect the remedial re-engineering task with high productivity and quality. The current estimate for the worldwide market opportunity for handling the next millennium software problem is about US$ 300 billion. Infosys has already started working with several customers in this area.

Infosys offers three business application packages - EAGLE, DMAP and BANCS 2000.

EAGLE - This is an on-line, flexible and scalable warehouse management system designed to run on open systems, with interfaces to state-of-the-art warehouse equipment. This package has already been installed at several locations in the US and Europe. The Intellectual Property Rights (IPR) of this package is being transferred to Yantra for US$ 1,000,000 to be paid in the form of common stocks in Yantra.

DMAP (Distribution Management Application Package) - This package handles the complete MIS requirements of the country distributor of a consumer product. It integrates sales forecasting, customer service, purchasing, inventory management, warehousing, sales management and receivables. The package has over 600 programs and runs on IBM AS/400. This package is currently installed at several customer sites in Europe.

BANCS 2000 - This is an on-line, retail and corporate banking system that offers rich functionality, portability, scalability, and flexibility for complete automation of banking operations. This package has been successfully installed at more than 120 branches in India and Kenya.

Product development

Today, most Indian software houses leverage per-hour productivity rather than IPR-based productivity. Per-hour productivity is not the best method for rapidly moving up the value chain. The Management Council of Infosys recognized this problem and mounted a program to enhance the contribution from products (IPR-based productivity) to total sales from the current 13% to 40% by March 31, 2000.

The probability of success of Indian companies to leverage sales of off-the-shelf, office automation type of products is low since the success of such products is heavily marketing- and sales-oriented, an area where India does not as yet have a competitive advantage. Thus, Infosys believes that the best route for the success of Indian software companies is to leverage the competitive advantages of India in software development and support activities. This implies that Indian software companies should acquire a critical mass of domain knowledge and leverage such knowledge to develop large application products in niche application areas. This is exactly what Infosys has done in the past (EAGLE, DMAP and BANCS 2000). Infosys has initiated plans to develop more products.

During the financial year ending March 31, 1996, the company spent US$ 955,529 on product research and development activities. This represents around 3.40% of the total revenues during the year. The corresponding spending on research and development activities for the previous two fiscal years were 3.50% and 5.00% respectively.

Trademark

Infosys has applied for registering INFOSYS as a trademark in India. The company has also applied for registering ITL INFOSYS as a trademark in USA, and has initiated steps to register the trademark of its products.

Marketing channels

The company generates its sales from the following channels: the company's sales offices around the world, strategic sales partners and the corporate sales subgroup at Bangalore, India.

The worldwide sales headquarters is located at Boston, USA. The branch sales offices are located at San Francisco, Cincinnati, New York, Dallas and Boston in USA and at Maastricht in Europe. During the coming year, Infosys proposes to open two more branch offices in USA and one more in Europe.

Today, sales from Switzerland are handled by our strategic partner - Teksels S. A. In future, there are plans to leverage this channel for other territories also.

The corporate sales subgroup is responsible for starting the dialogue with such potential customers who come to Bangalore, India, for short-listing potential vendors. At the appropriate time, the customer contacts are passed on to the relevant branch office.

Customers

Infosys has an array of *Fortune 500* companies on its customer list. These customers are spread widely across application, geographical and technology areas, so that Infosys has a stable revenue stream and is not affected by recession, changes in geopolitical equations, changes in customer preferences, etc.

Competition

Infosys is primarily in bespoke software development and maintenance. The competition to Infosys comes from Indian software companies, and from local software and consulting companies. Infosys believes that high learnability, constant innovation, focus on customer satisfaction, retention of employees, leveraging technology and continuous improvement of quality and productivity are necessary to survive and succeed in the highly competitive export market. Infosys believes that a company must be in the international band of quality and productivity before it can use cost as a competitive advantage. Thus, in the area of software products and services, Infosys has successfully competed with well-known software/consulting companies in USA, France, Switzerland, UK and Canada. However, it must be noted that Infosys operates in a high technology area, prone to rapid changes in the portfolio of players.

The Indian software industry is export-focused and there are essentially three categories of software export companies. They are :

- Top-tier Indian companies which have financial strength, established international market presence, investment in state-of-the-art technology and have become the company-of-choice for potential customers and employees. Infosys belongs to this category. The Indian competition to Infosys comes mainly from this category of companies.
- Captive units of multinational companies whose objective is to provide a cost-competitive development center to the parent. The Indian operations of MOTOROLA and Texas Instruments are two examples of this model.
- Upcoming and promising Indian software companies that will become well-known in the years to come.

In the area of products in India, BANCS 2000 has become the package-of-choice for bank automation. However, there is tremendous competition from multinational software companies in this area.

Employees

The company had 1172 employees on its rolls on March 31, 1996. Of this, 876 were revenue-earning software engineers, 81 were software engineer-trainees, the rest being the marketing, sales and support staff. Infosys intends to recruit another 350 employees in the coming year. The success of Infosys is highly dependent on its ability to recruit, enable, empower and retain its employees. The company has, so far, been successful in recruiting and retaining qualified employees. The company will continue to provide top priority to this task.

Today, the company operates in an area of rapid changes in customer business practices, preferences and technology. For companies like Infosys, the only constant factor is change. Thus, the emphasis in recruitment at Infosys is more on learnability than on experience. In addition to India’s first Employee Stock Offer Plan (ESOP), the company provides competitive salaries, good working environment, latest technology to work with, full independence in operations, informal culture and continuous training. All these translate to high retention of employees.

2. Properties

The company’s corporate office consists of 200,000 sq. ft. of land with 150,000 sq. ft. of landscaped area, a 140,000 sq. ft. office with 32 conference rooms and leisure infrastructure including sports facilities, gymnasium, etc., situated in Bangalore, India. This facility is owned by Infosys. The technological infrastructure at the corporate office includes over a thousand networked workstations, several netware, UNIX and Windows NT servers, systems from HP, IBM, SUN, DEC, COMPAQ and AST, video conferencing facility and multiple 64 Kbps data communication links. A large part of the delivery systems group, corporate sales and marketing, and the corporate support services are located in this building.

The company has taken, on lease, two premises in Bangalore, India, measuring 11,251 sq. ft. and 18,436 sq. ft., which are used for software development by the strategic business units. The company has also taken on lease, a premise each at Mangalore, India and Pune, India, measuring 7,067 sq. ft. and 26,810 sq. ft. respectively. These premises are used by the Delivery Systems group for software development.

The company also owns 6,696 sq. ft. of office area situated in the heart of Bangalore, India, and 1,160 sq. ft. of area located in South Bombay, India. Both these facilities are used by the domestic marketing subgroup and the banking business unit. The company also has a rented premise measuring 2,500 sq. ft. at New Delhi, India, which is used by the domestic marketing subgroup. The marketing offices at various locations in USA and Europe are rented.

3. Legal proceedings

There are no legal proceedings pending against the company.

4. Submission of matters to a vote of security holders

The necessary information is included in the notice of Annual General Meeting to shareholders.

Part II

5. Market for registrant's common stock and related stockholder matters

The company's common stock is traded on the Bombay, Bangalore and National Stock Exchanges in India. As of March 31, 1996, there were 6,909 shareholders as per the records of the company. The company has paid cash dividends amounting to US$ 1,068,955 to the shareholders this year. The corresponding figure for last year was US$ 755,940.

Quarterly financial and market information (unaudited)

in US$

Quarter ending,	June 30	Sept. 30	Dec. 31	Mar. 31	Total
1995-96					
Net revenues	5,994,424	5,628,202	7,995,684	6,988,699	26,607,009
Operating income	1,741,605	1,153,430	3,074,712	2,367,664	8,337,411
Net income	1,672,857	1,149,032	2,534,945	1,827,656	7,184,490
Earnings per share	0.23	0.16	0.35	0.24	0.98
Common stock price per share					
High	15	14	14	15	15
Low	13	12	10	11	10
1994-95					
Net revenues	3,615,794	3,901,029	4,890,050	5,698,137	18,105,010
Operating income	584,749	310,136	1,603,216	1,742,205	4,240,306
Net income	974,263	829,486	1,112,848	595,835	3,512,432
Earnings per share	0.18	0.16	0.21	0.11	0.66
Common stock price per share					
High	27	40	19	17	40
Low	19	19	15	13	13
1993-94					
Net revenues	1,797,953	2,568,299	2,595,176	2,572,893	9,534,321
Operating income	386,588	575,025	822,143	814,628	2,598,384
Net income	497,996	695,532	1,169,798	306,401	2,669,727
Earnings per share	0.15	0.21	0.35	0.09	0.80
Common stock price per share					
High	5	8	14	19	19
Low	5	7	13	16	5

6. Selected financial data

Financial Highlights

in US$

Year ending March 31,	1992	1993	1994	1995	1996
Net revenues	3,450,181	5,232,967	9,534,321	18,105,010	26,607,009
Net income	895,299	1,298,582	2,669,727	3,512,432	7,184,490
Earnings per share	0.98	0.68	0.80	0.66	0.98
Return on net revenues (%)	26	25	28	19	27
Cash and short-term investments	662,165	580,770	3,914,354	10,116,529	10,080,513
Total assets	2,504,280	3,731,997	9,897,050	23,178,521	27,628,587
Stockholders' equity	1,519,379	2,505,670	9,348,527	19,796,083	25,039,236

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

FINANCIAL REVIEW

Overview

The financial statements have been prepared in compliance with the Generally Accepted Accounting Principles (GAAP) of the US and the SEC disclosure norms for listed companies. The company's stocks are listed only in India. Thus, this information is provided on a voluntary basis. The company's financial statements have been audited in India as per the applicable Indian laws. The financial statements, given here, are based on the audited accounts and have been prepared by the management using the available information, and applying such judgements to estimates, as deemed necessary. The responsibility for the objectivity and integrity of the financial statements rests solely with the management.

Revenue

Year ending March 31,	1996	Change	1995	Change	1994
Net revenues in US$	26,607,009	47%	18,105,010	90%	9,534,321

The growth in revenue has been less during the year due to a larger base and the effect of a depreciation in the value of the Indian rupee. However, the growth is consistent with the industry average.

Cost of revenues

Year ending March 31,	1996	Change	1995	Change	1994
Cost of revenues in US$	15,626,609	31%	11,894,029	111%	5,621,428
Cost as a percentage of revenues	59%		66%		59%

Cost as a percentage of revenues was 59% in 1996 as against 66% during 1995. Cost of revenue has shown a declining trend due to the benefits of the economies of scale.

Operating expenses

Year ending March 31,	1996	Change	1995	Change	1994
Operating expenses in US$	2,642,989	34%	1,970,675	50%	1,314,509
Operating expenses as a percentage of revenues	10%		11%		14%

The operating expenses as a percentage of revenues have shown a declining trend due to strict cost control and the benefits of economies of scale.

Non-operating income

Year ending March 31,	1996	Change	1995	Change	1994
Non-operating income in US$	1,460,329	96%	746,439	91%	391,362

The primary component of non-operating income is the income derived from deployment of short-term surplus funds.

Provision for income tax

Year ending March 31,	1996	Change	1995	Change	1994
Provision for income tax in US$	1,324,580	48%	892,593	256%	250,742

The normal Indian corporate income tax rate is 46%. In India, income from exports enjoy exemption from income tax. However, income from local sales and non-operating income is subject to normal income tax rates.

Net income and earnings per share

Year ending March 31,	1996	Change	1995	Change	1994
Net income in US$	7,184,490	105%	3,512,432	32%	2,669,727
Earnings per share in US$	0.98		0.66		0.80
Percentage of net income to revenues	27%		19%		28%

The earnings per share during 1995 is lower due to the increase in common stock on account of the stock split of 1:1, further issue of common stock and the effect of accounting changes.

FINANCIAL CONDITION

Cash and cash equivalents of the company totalled US$ 10.08 million on March 31, 1996. The portfolio is predominantly deployed in inter-corporate deposits, short-term loans against securities and deposits with banks. The investments are so structured as to minimize risk and also facilitate rapid recovery in the event of immediate cash needs.

During the previous year, Infosys invested some of its short-term surpluses in equities of other companies. The investments were made after evaluating the risk and return involved in the investment. But, due to market conditions the investments had partly lost their value. Most of the investments were made in companies with a proven track record. These investments were marked to market as at the year end.

The long-term debt of the company was borrowed from the Housing Development Finance Corporation Limited for constructing staff quarters. The debt will be fully repaid by 1998.

The company has credit lines worth US$ 1.58 million available from its bankers for working capital requirements. The company has also received a “P1+” rating for its commercial paper and an “AA” rating for its non-convertible debenture issue program, from CRISIL, India’s premier credit rating agency.

Cash generated from operations has been sufficient historically to fund all Infosys’ investments in R&D activities and facilities expansion. As Infosys grows, investments will continue to be made in R&D for existing and advanced areas of technology. Infosys’ cash will also be used to acquire technology and to fund ventures and other strategic opportunities. Additions to property, plant and equipment are expected to continue, including facilities and computer systems for R&D, sales and marketing, support and administrative staff.

The company intends to fund all its capital requirements out of its own internal generation and adhere to debt as a short-term, bridging mechanism only. The management of Infosys believes that the existing cash and cash equivalents together with funds generated from operations will be sufficient to meet operating requirements in 1997.

During the year, the company declared a total dividend of US$ 1.07 million. The company will pay the dividend out of its cash surpluses after meeting its capital requirements.

Reconciliation between the US and Indian GAAP

Infosys is registered in India and as such, needs to comply with Indian GAAP and provisions of the Indian Companies Act. Infosys has voluntarily decided to present its financial statement based on US GAAP. There are material differences between the two financial statements due to differences in accounting.

The material differences arise due to provision for deferred taxes and valuation of short-term investments, which are marked to market, and adjusted against retained earnings and consolidation of accounts of subsidiaries, which are required by US GAAP. Indian GAAP does not require provision for deferred taxes, consolidation of accounts of subsidiaries and only requires a provision for diminution in the value of current investments.

Reconciliation of net income *in US$*

	1996	1995

Net profit as per Indian GAAP	6,290,255	4,352,965
Adjustments		
Cost of raising common stock	-	(485,905)
Provision for investments	681,437	-
Translation difference in depreciation	(151,424)	(95,815)
Deferred tax	391,988	(258,813)
Net income of subsidiary included on consolidation	(27,766)	-
Net income profit as per US GAAP	7,184,490	3,512,432

OUTLOOK : ISSUES AND RISKS

Except for fulfilling the mandatory requirements of IPO in the past, Infosys does not provide a forecast of future financial performance. The management is optimistic about its long-term growth prospects and the following issues and risks should be considered in evaluating its growth outlook.

Rapid technological change

The computer software industry is characterized by rapid technological change and uncertainty in the success of new products.

Infosys is committed to adapting to new technologies quickly by redefining its investment priorities and rapidly enabling its staff to meet the new demand. The company has created expertise on various technical platforms to meet dynamic changes in technology.

Prices

The future prices that the company is able to obtain for its products/services may decrease from historic levels depending upon market and other factors. The long-term inflation in India is expected to be slightly more than 8%, whereas it is substantially lower in countries from where Infosys derives its revenue. This differential in inflation has the potential to create pressure on the margins of the company. The strategy of the company to protect the margins is to enhance the productivity of the professionals and to move up the value chain by increasing the contribution to sales from products. The company has initiated an action plan to achieve both these objectives.

Foreign exchange revenues

A large percentage of the company's revenues is in currencies other than the Indian rupee. As a result, the company's revenues are subject to foreign exchange rate fluctuations. The Indian rupee remained steady against the US dollar during most of 1995 due to the proactive intervention of the Reserve Bank of India. However, the Indian rupee started depreciating heavily (by 15% to 17%) against the US dollar in the latter part of 1995 due to excessive demand for the US dollar. Predicting the future exchange rate of the Indian rupee against the dollar is a difficult task. A lot depends on the macro-economic policies of the government of India. The company covers part of the risk due to exchange rate fluctuations through forward contract covers. Since a significant portion of the operating cost of the company is paid for directly in foreign exchange from its bank accounts abroad, the risk due to exchange rate fluctuation is reduced.

Accounting standards

Accounting standards promulgated by the Financial Accounting Standards Board change periodically. These changes may have an impact on the company's future reported earnings. Infosys has substantially complied with the US GAAP requirements. It has also fully complied with all the accounting standards promulgated by the Institute of Chartered Accountants of India.

Growth rates

The company has grown rapidly in the recent past. The growth rate in future may be less than that achieved earlier. Operating expenses may grow faster than the growth in operating income. Operating expenses are subjected to strict control to retain margins.

Statutory obligations

The company has established a Software Technology Park - a 100% exported-oriented unit - for the development of software at Electronics City, Bangalore, India. All capital items purchased for this center are eligible for 100% customs duty exemption, subject to fulfillment of stipulated export obligations. The non-fulfillment of export obligations may result in penalties as stipulated by the Government which may have an impact on future profitability. The management is of the opinion that the company has completely fulfilled its export obligations as on the Balance Sheet date and is confident of fulfilling its export obligations in future.

Marketing investments

New investments will be made in sales and marketing to have a large portfolio of customers, geographical regions and technologies. This will reduce risks in business prospects.

Country of business

Infosys derives a substantial part of its revenue from USA. Changes in the governmental regulations in USA may adversely affect the business of Infosys. Infosys has envisaged a corporate strategy of increasing its share of business from European, Japanese and other markets, thereby reducing its predominant dependency on USA. The company's goal is to reduce the contribution to the revenue, from USA, from the current 72% to 50%, by the year 2000.

Clients

Infosys derives more than 10% of its overseas revenue from a few of its customers. This may put pressure on the margins since these customers may demand reduction in prices based on volumes.

General Electric is one such customer and Infosys was unable to reach an agreement on the commercial terms with them, and hence decided to part ways. The management of Infosys decided to show its full commitment to General Electric during the winding-up period. Infosys has initiated a plan to broadbase its revenues from a large portfolio of customers, technologies and geographical regions to minimize the impact of any such winding-up of relationships. The company policy is to add a few pilot projects each year and develop them into million-dollar customers. Last year, the company added 19 new customers.

Multiple locations

Infosys is a globalized company producing where it is most cost effective to produce and selling where it is most profitable to sell. A key requirement for setting up a development center is the availability of skilled professionals at competitive salaries. Thus, Infosys has already established development centers at Bangalore and Mangalore and will soon start operations at Pune. All three locations are in India. It is quite likely that Infosys will establish development centers in other low-cost economies in the coming years. Such a decision implies that the company must have a plan to handle all issues arising out of operating in different states, countries, cultures and work ethics.

The management is committed to providing a uniform work environment and being flexible to the cultural needs of the employees in different states and countries. The management is confident that such cultural variations can be used for the benefit of the organization by creating synergies between the organizational aspirations and the distinctive advantages of such variations.

Taxation

At present, the export profits are not taxable in India. The economic reforms program of the new government in India has enhanced the velocity of business for companies in India. Being one of the signatories of the World Trade Organization, India is committed to reducing the import tariff levels and slowly removing the subsidies enjoyed by the Indian companies, thereby exposing the Indian entrepreneurs to global competition.

The government may reduce or eliminate the tax subsidies 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. Infosys is committed to retaining the profit-after-tax at 20% of sales. This is expected to be achieved by increasing the per capita revenue productivity and moving up the value chain. This is possible by increasing the contribution to revenue from products and business consulting.

Litigation

Litigation regarding intellectual property rights, patents and copyrights is increasing in the software industry. In addition, there are other general corporate legal risks. To date, the company has no litigation pending against it in any court in India or abroad. The company has formulated a comprehensive risk policy to protect itself against any future litigation.

FORWARD-LOOKING INFORMATION

Opportunities and risks including those resulting from key trends

There are six key trends that are likely to affect the business of Infosys.

1. *Fierce competition, eroding margins, emergence of promising software and hardware technology* have compelled user organizations worldwide to re-engineer their IT systems. This has resulted in tremendous backlogs in software development. Such backlogs offer a big opportunity for Indian software companies. Most user organizations have moved part of their IT staff from maintenance tasks to development tasks. Thus, the maintenance opportunity has also increased for the Indian software companies.
2. *Emergence of India as the country-of-choice for bespoke software development and maintenance*. Consequently, the number of North American and European companies wanting to work with Indian software companies has increased by five times in the last two years. Of late, several Japanese companies have shown an interest in India. This implies greater opportunity for the Indian software companies.
3. *The commoditization of our service offerings* as a consequence of price-based competition by major players in the segment. This will result in eroded margins and inability of the Indian software companies to invest in updating their infrastructure and technology. The Indian software companies must constantly innovate to retain their competitive advantage.
4. *Tremendous competition for skilled resources* resulting in unsustainable salary increases. New models of compensation must be used. Productivity must be enhanced.
5. *Move towards more interactive methods of software development* have resulted in reduced opportunities for India-based software development. Methodologies and tools which enhance interaction between the customer and the India-based development staff must be employed to provide better customer service.
6. *Emergence of lower-cost competitors* like China. In our opinion, China is still a long way from becoming a serious competitor due to their inadequacy in English. Critical mass of data to substantiate the perception that China is less expensive than India in software development is still not available.

8. Financial statements and supplementary data

9. Changes in and disagreements with accountants on accounting and financial disclosures

None.

Part III

10. Directors and executive officers of the registrant

Executive officers as of March 31, 1996

Name	Age	Position with the company
Narayana Murthy N. R.	50	Chairman and Managing Director
Nayak G. R.	59	Director
Ashwani Kumar Khurana	45	Executive Director
Balasubramanian P. Dr.	46	Senior Vice President
Dinesh.K.	42	Director
Gopalakrishnan S.	40	Deputy Managing Director
Mohandas Pai T. V.	37	Senior Vice President
Nandan M. Nilekani	40	Deputy Managing Director
Phaneesh Murthy	32	Vice President
Prahlad D. N.	40	Senior Vice President
Raghavan N. S.	53	Joint Managing Director
Sharad K. Hegde	38	Senior Vice President
Srinath Batni	41	Associate Vice President
Yegneshwar S. Dr.	35	Senior Manager

11. Executive compensation

This information is provided on pages 52, 53 and 54 of the Annual Report.

12. Certain relationships and related transactions

This information is provided in Notes to accounts on page 75.

Part IV

13. Exhibits, financial statement schedules and reports on Form 8-K

Not applicable.

Signatures

Infosys has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Bangalore, State of Karnataka, India on April 9, 1996.

Infosys Technologies Limited

N. R. Narayana Murthy
Chairman and Managing Director

Selected five-year financial data

in US$

Year ending March 31,	1992	1993	1994	1995	1996
For the year					
Revenues	3,450,181	5,232,967	9,534,321	18,105,010	26,607,009
Cost of revenues	2,407,955	3,061,787	5,621,428	11,894,029	15,626,609
Selling, general and administrative expenses	344,491	785,064	1,314,509	1,970,675	2,642,989
Operating income	697,735	1,386,116	2,598,384	4,240,306	8,337,411
Interest charges	18,036	36,184	15,321	-	-
Non-operating income	318,833	72,224	391,362	746,439	1,460,329
Non-operating expenses	526	443	53,956	-	-
Income before taxes	998,007	1,421,713	2,920,469	4,986,745	9,797,740
Provision for taxes	102,708	123,131	250,742	892,593	1,324,580
Prior period items	-	-	-	-	214,118
Cumulative effect of changes in accounting	-	-	-	581,720	1,074,552
Net income	895,299	1,298,582	2,669,727	3,512,432	7,184,490
At the year end					
Working capital	1,394,733	1,806,558	5,478,798	11,764,602	13,880,678
Total assets	2,504,280	3,731,997	9,897,050	23,178,521	27,628,587
Stockholders' equity	1,519,379	2,505,670	9,348,527	19,796,083	25,039,236
Common stock data					
Earnings per share	0.98	0.68	0.80	0.66	0.98
Cash and short-term investments per share	0.73	0.30	1.16	1.91	1.39
Weighted average common stock outstanding	912,750	1,912,767	3,352,100	5,305,050	7,258,750
Key ratios					
Current ratio	3.82	4.32	10.99	8.02	7.73
Return on revenues	26 %	25 %	28 %	19 %	27%
Return on average total assets	37 %	42 %	39 %	21 %	28%

Figures have been regrouped wherever necessary.

Shareholders' information

1. Dates of book closure : May 16, 1996 to May 25, 1996 (both days inclusive)

2. Date and venue of the annual general meeting : At 3.00 p. m. on May 25, 1996,
at Hotel Taj Residency,
41/3, M.G. Road,
Bangalore - 560 001

3. Dividend payment : On or after May 26, 1996, but within the statutory time limit.

4. Listing on stock exchanges at : Bangalore, Bombay and National Stock Exchanges

5. Stock market data

   a. The Stock market data of the company is included in the computation of the BSE 200 Index and the BSE Dollex Index.

   b. High and low quotations of shares at Bangalore, Bombay and National Stock Exchanges are:

in Rs.

	Bangalore		Bombay		NSE	
1995-96	Highest	Lowest	Highest	Lowest	Highest	Lowest
April	520.00	450.00	540.00	450.00	522.50	425.00
May	510.00	425.00	530.00	420.00	521.50	420.00
June	506.00	475.00	532.00	470.00	535.00	475.00
July	476.00	421.00	480.00	410.00	475.00	410.00
August	435.00	450.00	483.00	435.00	476.00	435.00
September	465.00	445.00	476.00	450.00	465.00	455.00
October	465.00	460.00	500.00	435.00	510.00	433.00
November	460.00	355.00	445.00	357.00	452.00	362.00
December	400.00	360.20	410.00	372.00	415.00	377.00
January	405.00	390.00	410.00	387.50	407.90	385.50
February	515.00	410.00	525.00	400.00	520.00	400.00
March	495.00	450.00	525.00	468.00	503.95	460.00

6. Share transfers and other communication regarding change of address, dividends, share certificates, etc., may be addressed to : Karvy Consultants Limited
Registrars and Share Transfer Agents
No. 145/9, Girija Towers, 6th A-C Main, 30th Cross,
Jayanagar 4th Block, Bangalore - 560 011.

7. Share transfer system

   Share transfers 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 meets twice in a week.

   The total number of shares transferred during the year 1995-96 was 11,34,065. 87.02% of transfers were completed within 15 days.

Transfer period in days	No. of shares	Percentage
1 - 10	6,96,734	61.44 %
11 - 15	2,90,146	25.58 %
* 16 - 20	1,47,185	12.98 %
	11,34,065	100.00 %

*The delay beyond 15 days is due to the shifting of office premises of Karvy Consultants and due to the book closure for the annual general meeting.

8. Investors' services

Complaints received during the year 1995-96

Nature of complaints	No. of complaints received	No. of complaints cleared
1. Non-receipt of share certificates	68	68
2. Non-receipt of bonus shares	24	24
3. Letters from Stock Exchange, SEBI, Advocate letters, etc.	10	10
4. Non-receipt of dividend warrant	48	48
	150	150

The company has attended to most of the investors' grievances/correspondence within a period of 10 days from the date of receipt of complaint, during the year 1995-96.

9. Distribution of shareholding as on March 31, 1996

No. of equity shares held	No. of shareholders	Percentage of shareholders	No. of shares	Percentage of shareholdings
1 - 100	1,807	26.15	1,77,466	2.44
101 - 200	3,701	53.57	7,40,070	10.20
201 - 500	871	12.61	3,37,366	4.65
501 - 1000	282	4.08	2,09,878	2.89
1001 - 5000	158	2.29	3,48,836	4.81
5001 - 10000	18	0.26	1,44,200	1.99
10001 and above	72	1.04	53,00,784	73.02
	6,909	100.00	72,58,600	100.00

10. Categories of shareholders as on March 31, 1996

Category	No. of shareholders	Voting strength (percentage)	No. of shares held
Individuals	6,715	28.20	20,47,300
Promoters/Directors and their families	19	34.91	25,33,700
Companies	107	3.08	2,23,300
FIIs	25	22.36	16,23,000
IFI/Mutual fund/Bank/NRI	43	11.45	8,31,300
	6,909	100.00	72,58,600
Previous year	6,526	100.00	72,58,600

11. Investors' complaints may be addressed to : Mr. V. Viswanathan, Company Secretary, Investors' Service Cell, Infosys Technologies Ltd., Electronics City, Hosur Road, Bangalore 561 229, India.

12. Registered Office : Electronics City, Hosur Road, Bangalore - 561 229, India.

Additional information to shareholders

Performance graph

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.

Additional information to shareholders (contd.)

Infosys believes in global levels of disclosure and transparent accounting policies, which meet investor needs. This year, the management has decided to provide information on Human Resources Accounting, Value Added and Economic Value Added statements as additional disclosures to the shareholders of Infosys.

Human Resources Accounting

The dichotomy in accounting between human and non-human capital is fundamental, the latter is recognized as an asset and therefore is 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 basis of the computing the same is as follows :

The human resources accounting is based on the "Lev & Schwartz" model.

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 is considered.
3. The future earnings has been discounted at the cost of capital of 27.36%.

As of March 31, 1996	No. of employees (Nos.)	Value of human resources (Rs. in lakhs)
Production	957	16,169.93
Support - Technical	42	1,283.56
- Others	173	1,232.48
	1,172	18,685.97

Value of human resources	18,685.97
Total earnings	9,341.34
Value added	7,064.12
Ratio of :	
Total earnings/Human resources	0.50
Value added/ Human resources	0.38

Value added statement

Rs. in lakhs

Year ending March 31,	1996	1995
Total income	9,341.34	5,770.43
Less : Cost of imported software packages sold	87.36	77.00
Software development expenses	1,345.11	883.52
Administration expenses	844.75	603.22
Sub-total	2,277.22	1,563.74
Total value added	7,064.12	4,206.69
Applied to meet:		
Personnel costs	3,441.15	2,220.72
Income tax	431.00	194.00
Provision for investments	227.60	-
Dividends	362.93	231.39
Retained in business	2,601.44	1,560.58
Total	7,064.12	4,206.69

Economic Value Added (EVA) statement

Economic Value Added is the after-tax operating profit, a widely-used measure, less the cost of capital, which is calculated by applying the cost of capital to the average capital employed in the business.

Economic Value Added analysis

Rs. in lakhs

Year ending March 31,	1994	1995	1996
Operating profit	885.19	1,526.44	2,532.00
Less : Taxes	76.00	194.00	431.00
Less: Cost of capital	488.88	1,313.66	2,091.59
EVA	320.31	18.78	9.41

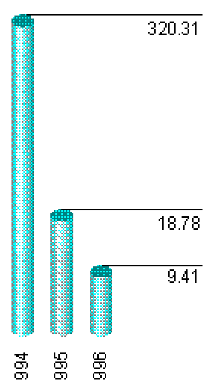
Notes

1 The EVA has been calculated by reducing the cost of average capital employed in the business from the after-tax operating profits of the company.

2 The cost of capital is the weighted average cost of both equity and debt and is reckoned at 27.36%.

3 The cost of equity is calculated using the following formula:
Return on risk free investment + expected risk premium on equity investment adjusted for the beta variant of Infosys.

4. The cost of debt is taken at net of taxes.



Economic Value Added
(Rs. in lakhs)

A historical perspective

Rs. in lakhs except Per share data, Other information and ratios

Particulars	1981-82	1991-92	1992-93	1993-94	1994-95	1995-96
Revenue account						
Revenue	11.63	946.40	1,433.46	3,008.47	5,770.43	9,341.34
Operating profit (PBIDT)	-	279.80	430.12	970.71	1,985.97	3,395.36
Financial charges	-	4.53	9.78	4.64	-	-
Depreciation	-	24.67	36.19	80.88	459.53	863.42
Provision for taxation	-	25.79	33.27	76.00	194.00	431.00
Profit after tax	3.78	224.81	350.88	809.19	1,332.44	2,100.95
Return on average net worth (%)	96.88	59.54	38.19	39.61	29.71	29.53
Capital account						
Share capital	0.10	180.10	197.61	335.11	725.88	725.88
Reserves and surplus	3.78	296.07	674.47	2,535.00	5,519.92	7,257.94
Loan funds	-	50.88	39.92	-	633.91	426.06
Gross block	0.02	381.61	438.92	827.38	2,532.01	4,685.75
Capital investment	0.02	76.00	177.52	712.71	2,523.05	1,555.49
Net current assets	6.27	347.12	1,068.62	1,394.34	3,246.95	4,117.17
Debt - Equity ratio	-	0.11	0.05	-	0.10	0.05
Market capitalization	-	-	-	19,101.50	34,842.00	35,567.10
Per share data						
Earnings (Rs.)	377.77	12.48	17.76	24.15	18.35*	28.94
Dividend (%)	-	20	30	35	45	50
Book value (Rs.)	383.10	26.38	44.08	81.26	86.04*	110.00
Other information						
Number of shareholders	7	61	925	6,033	6,526	6,909
Credit ratings from CRISIL						
Commercial paper program	-	-	-	-	“P1+”	“P1+”
Non-convertible debenture issue	-	-	-	-	“AA”	“AA”

Note : Rs. one lakh equals one hundred thousand.

* After bonus issue of 1:1

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HongKong Bank

Bank of Boston

Company Secretary

V. Viswanathan

Auditor

A. M. Bhatkal
Chartered Accountant