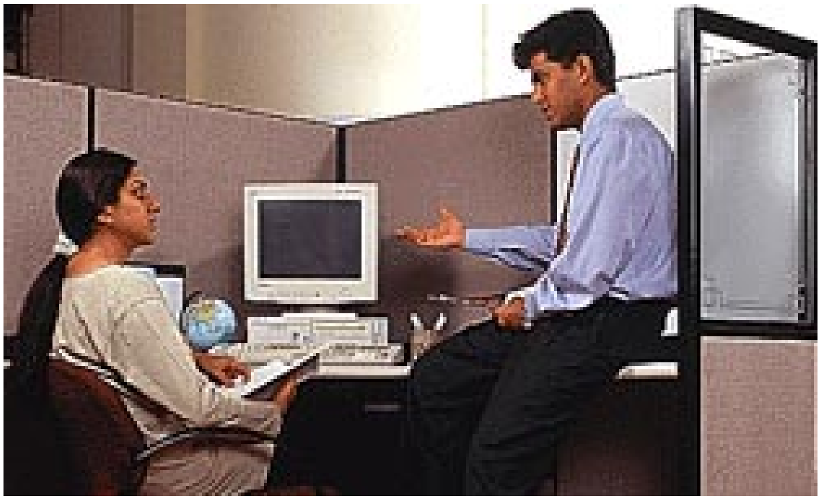
Infosys software at work

Imagination is the beginning of creation. You imagine what you desire; you will what you imagine; and at last you create what you will.

George Bernard Shaw



A key factor in determining the development index of a nation is its expenditure on Information Technology as a percentage of GDP. In recent times, expenditure on software has exceeded that on hardware. Leading-edge corporations in advanced economies have realized the power of software in gaining a competitive edge in the marketplace and have built high-performance systems to enhance customer satisfaction. Infoscions have been imaginative in generating new ideas and executing these ideas flawlessly to bring value to our customers. This year, we highlight a few of the several hundred application systems that Infoscions have built to assist our customers become leaders in their marketplace.

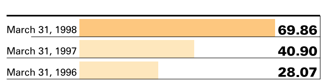
Contents

The year at a glance

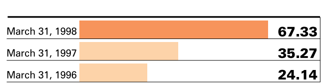
in millions except for earnings per share

	March 31, 1998 Rs.	March 31, 1998 US$	March 31, 1997 Rs.	March 31, 1997 US$
For the year				
Total revenue	2,603.66	69.86	1,438.08	40.90
Exports	2,509.38	67.33	1,252.82	35.27
Operating profit (PBIDT)	886.12	23.78	500.58	14.09
Profit after tax (PAT) from ordinary activities	603.63	16.20	336.81	9.48
PBIDT as a percentage of total revenue	34.03%	34.03%	34.81%	34.81%
PAT as a percentage of total revenue	23.18%	23.18%	23.42%	23.42%
Earnings per share	37.69	1.01	21.03	0.59
Dividend percentage	60.00%	60.00%	55.00%	55.00%
Dividend amount	70.29	1.89	39.92	1.13
Capital investment	344.10	9.23	273.10	7.73
PAT as a percentage of average net worth	42.24%	42.24%	34.96%	34.96%
At the end of the year				
Total assets	1,729.57	43.81	1,128.36	31.47
Fixed assets (net)	649.54	16.45	533.11	14.87
Working capital	972.26	24.63	541.98	15.11
Total debt	-	-	-	-
Net worth	1,729.57	43.81	1,128.36	31.47
Equity	160.17	4.06	72.60	2.02
Market capitalization	29,634.22	750.61	7,310.42	203.86

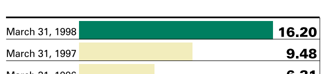
Figures in US$ were arrived at by converting Rupee figures at the average conversion rate for all revenue items, and at closing rate for all Balance Sheet items, to facilitate comparison. The above figures have no relation with US dollar figures shown under US GAAP financial statements and is given for information purposes only.



Total revenue
US$ in millions



Exports
US$ in millions



Net profit
US$ in millions

1 The Quality team

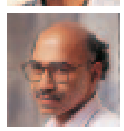
K. Dinesh

Dr. Pankaj Jalote

S. Raghavan

M. R. Bhashyam



2 SEI Level 4 assessment team

NEFOR 2.0 team

Dr. P. Balasubramanian

Ajay Dubey

Satish Bableshwar

K. N. Shivakumar



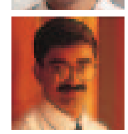

NTLTRNTY team

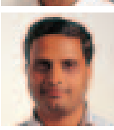
Srinath Batni

Rajiv Kuchhal

N. S. Nagaraj





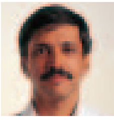
NYNEXPR team

Dr. P. Balasubramanian

U. B. Pravin Rao

Shinju Damodaran

V. R. Renganathan


APLEPCS team

Vasudeva L. Rao

Ramesh Adkoli

Rajiv Ojha

3 NYNEX team

U. B. Pravin Rao

Basab Pradhan


Board of Directors

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

Dear Shareholder,

Another successful year has come to an end. The highly-motivated and customer-oriented band of Infoscions achieved and exceeded every target they had set for themselves. The gross revenues, exports, PBIDT and PAT grew from Rs. 143.81 crore, Rs. 125.28 crore, Rs. 50.06 crore and Rs. 33.68 crore respectively in 1996-97, to Rs. 260.37 crore, Rs. 250.94 crore, Rs. 88.61 crore and Rs. 60.36 crore respectively in 1997-98. However, due to the sluggish domestic economy, domestic sales of BANCS 2000 dipped from Rs. 13.34 crore in 1996-97 to Rs. 6.70 crore in 1997-98. Achieving such overall growth without impacting quality, delivery schedule and cost is a rare phenomenon. Every Infoscion deserves your thanks.

Infosys operates in the global market. Crafting of globalization strategies in marketing, sales, development, quality, productivity, finance and human resources development requires that Infosys harness the best corporate and academic brains across the globe. Hence, we have expanded the board of directors and co-opted Mr. Susim M. Datta, former Chairman, Hindustan Lever Ltd.; Mr. Deepak M. Satwalekar, Managing Director, HDFC; Mr. Ramesh Vangal, President, Seagram (Asia-Pacific); and Prof. Marti G. Subrahmanyam, Charles E. Merrill Professor of Finance, Economics and International Business, Leonard N. Stern School of Business, New York University, New York, USA. These are extraordinary individuals and we have no doubt you will be pleased with this decision. They have joined the board as additional directors and their appointment will be placed before you for approval at the ensuing Annual General Meeting.

Globalization implies producing where it is most cost-effective to produce, and selling where it is most profitable to sell, transcending national boundaries. On the one hand, globalization in offshore software development requires moving closer to customers to enhance their comfort level. On the other hand, it requires taking our software development centers beyond the shores of India to other competitive economies. These twin objectives translate to attracting the best and the brightest professionals from highly talent-competitive markets across the globe. Such a strategy requires instituting attractive Employee Stock Offer Plans (ESOPs) in a global currency.

Grow or perish has become a much-accepted adage these days. While there is considerable opportunity to leverage the current model for growth, your Company will have to be open to non-organic growth by acquisitions. In fact, one of the factors that have contributed to the success of market leaders is their agility in acquiring companies, businesses and products, and leveraging them for growth.

These initiatives require listing on a global exchange in a leading country like the US. Hence, the Board of Directors convened an Extraordinary General Meeting on January 6, 1998, at Bangalore, to obtain approval for a Level III listing of American Depository Receipts (ADRs) of Infosys on a well-known US stock exchange. Necessary applications have been made to the Government of India. We expect the listing process to be completed during 1998.

The Quality and Productivity group at Infosys led the effort to gain Infosys an entry into the select band of companies worldwide who have achieved Level 4 of the Capability Maturity Model (CMM) of the Software Engineering Institute (SEI) at Carnegie Mellon University, USA. The assessment covered *Fixed-price Software Development*, *Maintenance* and *Re-engineering* processes which contribute around 90% of our revenue. On behalf of all of you, we congratulate Mr. K. Dinesh, Dr. Pankaj Jalote and other Infoscions involved in this effort.

BANCS 2000, the Infosys offering for complete banking automation, received the CSI-WIPRO award for the *Best Packaged Application* in December 1997, at the SEARCC '97 conference in Delhi.

For the second year in succession, your Company has received the *Silver Shield* from the Institute of Chartered Accountants of India for the *Best-Presented-Accounts*, amongst the entries received from non-financial, private sector companies for the year 1995-96.

The readers of *AsiaMoney* magazine, for a second time, voted Infosys the best in *Strategy and Management* among the listed companies in India, and among the best in Asia.

The product WMSYantra is now poised for mounting an intense sales effort. Since every start-up needs multiple rounds of funding, it was decided to invest further in Yantra and also to bring in venture capital experts to help Yantra take off. In September 1997, Infosys subscribed to 2 million Convertible Preferred Stock in Yantra, our subsidiary, at US$ 0.75 per share. On the same day, Infosys invited Mr. Donald W. Feddersen, a well-known venture capitalist, to subscribe to 0.533 million Convertible Preferred Stock at US$ 0.75 a share, and Draper International LLC to subscribe to 2.467 million Convertible Preferred Stock at US$ 0.75 a share. Our belief is that these venture capitalists will add to the quality of the board and also help bring in high-quality management staff to Yantra.

Decentralized development of software at Infosys received a further fillip with the commissioning of the *Infosys Towers* facility at J. P. Nagar, Bangalore. This state-of-the-art facility can accommodate up to 550 Infoscions. In addition, the Company has acquired 25.95 acres of land for a new facility at Electronics City, Bangalore, adjoining the existing facility. The work on this new, 360,000-sq.ft. facility - named *Infosys Park* - was started on January 2, 1998. The work is expected to be completed in December 1999. When completed, this facility will provide workspace and recreation facilities for about 1800 Infoscions.

Infoscions are committed to making a difference to the society around them. Thanks to their desire that the Company contribute towards social causes, your Company had initiated three social programs last year, namely, *Catch them Young, Train the Trainer* and *Reach the Rural*. We are glad to report continued satisfactory progress in these programs during this year.

These are times of intense competition. Being market leaders, our customers have realized the seminal role that software plays in providing them competitive advantage in the marketplace. Infosys has partnered with these wise corporations in developing and installing hundreds of *heart-beat* information systems. Thus, the Management Council has chosen *Infosys Software at Work* as the theme for this year's Annual Report. We are grateful to four Infoscions - Mr. Narayan Iyer, Mr. G. Ganesh, Mr. N. S. Nagaraj and Mr. P. Rangarajan - for authoring articles on the contribution of Infosys to our customers.

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

Bangalore
April 10, 1998

N. S. Raghavan
Joint Managing Director

N. R. Narayana Murthy
Chairman and Managing Director

ETOILE - The central logistics software for Groupe Salomon

Groupe Salomon is a world leader in sports equipment, owning several popular brands including *Taylor Made* golf equipment and *Mavic* bicycles, besides Salomon winter sports equipment. Headquartered at Annecy, France, with subsidiaries in 16 countries worldwide, Salomon has a revenue of about F Fr 5 billion.

Being a customer-focused company in the business of highly-innovative products, Salomon has concentrated on creating a very powerful information technology platform. They have effectively leveraged this platform to improve customer satisfaction. As part of this grand strategy, Infosys has become the preferred-provider of software services to Salomon. This is a high-synergy partnership, with Infosys constantly trying to improve value delivered to Salomon, and Salomon making appropriate process changes to derive greater value from Infosys-produced software.

Infosys has built and maintained ETOILE, the kernel of Salomon's commercial software infrastructure. ETOILE is the core system for their international operations. This is a mission-critical system that drives the manufacturing, purchasing and accounting processes. ETOILE handles the master scheduling of production, based on forecast and orders, and feeds them to factories. The system dictates what to ship, when to ship and where to ship. It also provides inter-country and inter-subsidiary invoicing, besides interfacing with all major software systems in Salomon. Infosys spent over 12 person-years constructing and installing ETOILE.

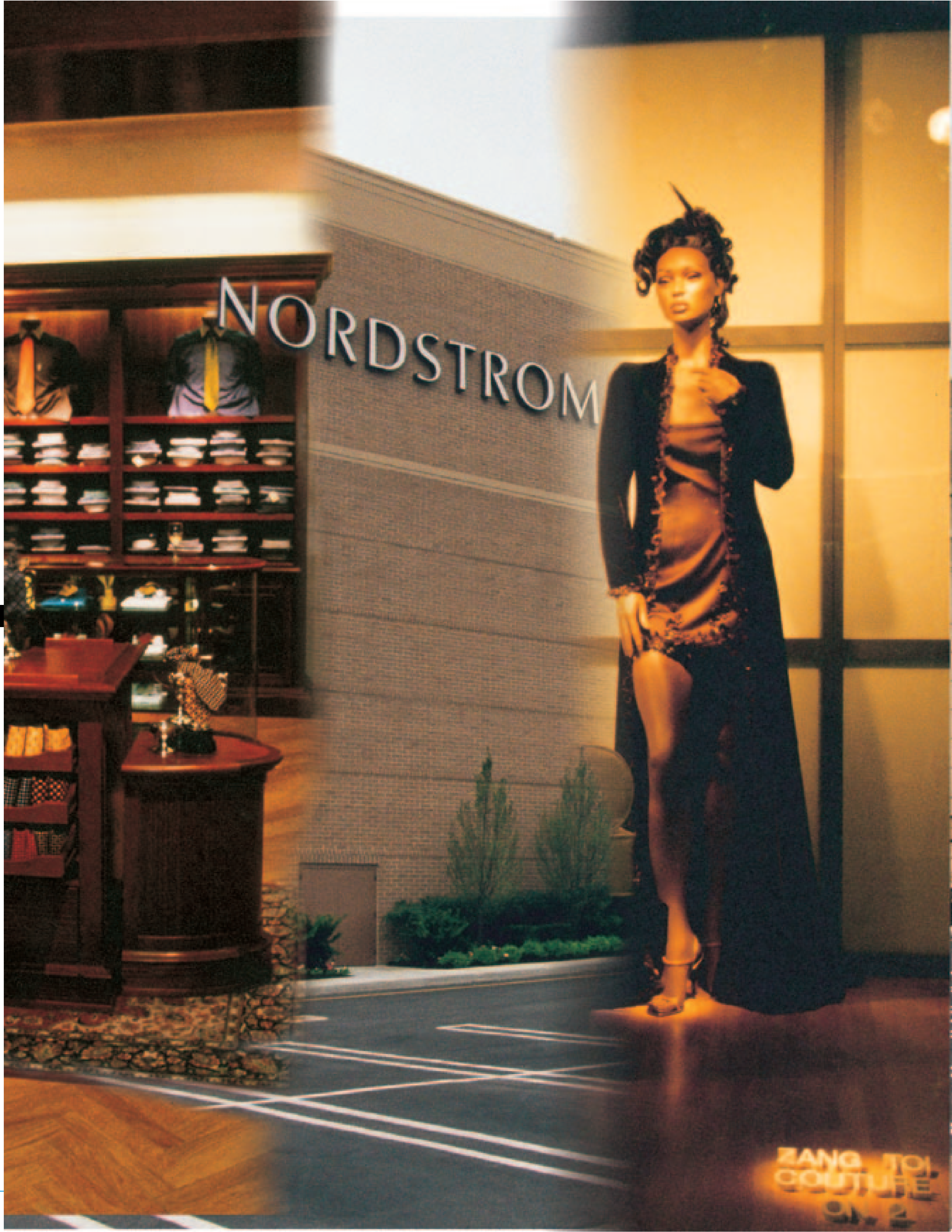
Having set the goal of getting the best value from India-developed software, Salomon has succeeded eminently in the ETOILE project. This success has spurred other Infosys-developed-and-assisted software initiatives at Salomon. Infosys has also designed, implemented and maintained the *Product Data Management System* for Salomon, helped Salomon adapt their warehouse systems to ETOILE, and assisted in enhancing their warehouse processes.

Consequently, when Salomon decided to install *Oracle Financials* as a standard in all their subsidiaries, they naturally turned to Infosys to provide technical and implementation support on a worldwide basis.

The result, predictably, has been to move the goal post continually in order to strive for higher productivity. By constantly evaluating and improving processes, the two teams - *Salomon MIS* and *Infosys* - have ensured that projects are executed better, faster and with higher value-for-money. Salomon's ambitious growth plans find a quality source of IT support in the India-based software development team of Infosys.

Narayan Iyer

Narayan Iyer
Senior Systems Analyst


NORDSTROM
ZANG TOI
COUTURE

Merchandising - At the heart of Nordstrom's success

Nordstrom is a name well-known to the discerning buyer. It is a leading fashion specialty retailer in the US offering a wide variety of quality clothing, shoes and accessories for men, women and children. Nordstrom is in its 97th year of business and operates 65 full-line stores throughout the United States. It is the Rolls Royce of the fashion retailing sector. The Nordstrom stores are best known for their world-class goods and customer service. Nordstrom has won several accolades for the quality of its customer service and merchandise.

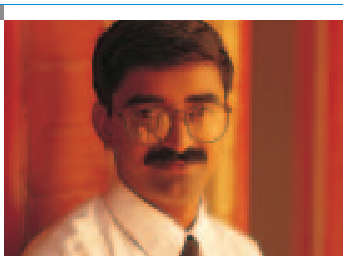
The success of a customer-oriented company like Nordstrom depends heavily on merchandising - the ability to forecast and plan what to buy, based on fashion trends, and then placing orders on various items with the manufacturers. Merchandising is also crucial to the profitability of the company since any incorrect choice of goods ends up as long-term inventory in the stores. Thus, merchandisers are critical to the function. Typically, these buyers have been promoted from within, and have had a store-sales background. To ensure that these buyers take timely and informed decisions with better data, Nordstrom decided, in 1995, to enhance the modules of its merchandising system. The company then turned to Infosys for help on the technology side of this re-engineering effort.

We developed this system using our well-known on-site-offshore model, performing highly-interactive tasks like requirements definition and analysis at the customer site, and executing the coding and testing tasks offshore. Project leaders and analysts from Infosys interfaced with Nordstrom business analysts to define the requirements of the system. End-users were also brought into the loop by giving them presentations and getting a formal sign-off. The system comprises various modules - Planning and Forecasting, Sales Analysis, Replenishment Algorithm and Markdown Analysis. This system is a core business application for Nordstrom. Buyers at Nordstrom rely on this system extensively to help them make their day-to-day decisions. Having accurate information at their fingertips is critical to Nordstrom's competitiveness and success in the marketplace.

Ganesh G.
Project Manager


ADEPT Family
NORTEL Wireless ADEPT

ADEPT - A boon for the wireless operators



Nortel is a world leader in telecom equipment manufacturing. The company achieved revenues of US$ 15.45 billion in 1997. Nortel designs, builds and integrates a world of dynamically-evolving information, entertainment and communication networks. The focus is on creating value through communications solutions for an expanding range of customer service providers, public and private enterprises, consumers and communities.

Infosys has been associated with Nortel for more than five years. We have been involved in developing ADEPT - a solution for customers of Nortel's *Wireless Networks* line of business.

Managing a network and planning for future growth are just two of the many daily challenges faced by wireless operators today. They have to match system capacity, deployment and performance to the dynamic needs of their subscribers. ADEPT, a Nortel product, brings precision, automation and speed to system capacity analysis and planning. It offers operators an innovative solution to eliminate guesswork from the decision-making process.

ADEPT software works with the Nortel DMS-MTX™ system to provide wireless operators the critical information required to monitor network performance, identify traffic trends, and plan for orderly system growth.

Infosys has been the architect of ADEPT. The full development life cycle, starting from requirement analysis to rapid reaction warranty, was executed by an Infosys-Nortel OSDC (Offshore Software Development Center) team in Bangalore. Long-term product support is also expected to be provided from Bangalore. The product was built using cutting-edge, object-oriented technology.

The Infosys team has successfully created re-usable components and a framework for network performance management. This effort will bring huge savings in the future development of software, using TDMA, GSM and CDMA wireless technologies.

Infosys has won an *Award of Excellence for Quality* from Nortel, for the work done on ADEPT.

Nagaraj N.S.
Project Manager

The ICICI Banking Corporation Limited (ICICI Bank) was founded in June 1994, by the Industrial Credit and Investment Corporation of India Limited - the leading industrial finance institution in the country. Today, the bank has a network of 29 branches across 19 cities in India. A banking performance survey conducted in December 1997, by the Financial Express-BRIS, ranked them the "Fourth Best" amongst all banks in India. The bank's vision of "Making Banking a Pleasure" emphasizes the laser focus of the employees on customer satisfaction.

Like any progressive global bank, ICICI Bank understands the power of information technology in introducing innovative solutions aimed at enhancing customer satisfaction. The bank's global search for the best software platform to support 21st century banking practices resulted in the selection of BANCS 2000, offered by Infosys.

BANCS 2000 provides an integrated retail and corporate banking platform, incorporating the best contemporary banking practices and technology. It is built on a business-open, customer-centric architecture to support portability, scalability and flexibility. The extensive, user-friendly parameterization features of the package have helped the bank rapidly launch an array of financial products to meet the needs of different customer segments. With BANCS 2000, the bank achieved a dramatic improvement in front-office customer service and back-office processing. Their employee-productivity, measured in terms of business per employee at the bank, is among the highest in the Indian banking industry.

The easy interface of BANCS 2000 to delivery channels like ATMs and the Internet, has made banking time- and location-independent. ICICI Bank has pioneered banking through the Internet using BankAway, the remote-banking super-platform from Infosys. Customers can now bank from their homes and offices anywhere in the world, in a secure environment.

ICICI Bank chose to go with BANCS 2000 not just for the breadth of functionality and technology benefits it offers, but also for the top-quality support provided by Infosys. A dedicated support team with Help-Desk facility and a network of support centers, ensures that banking operations are available to customers round-the-clock.

P. Rangarajan

Rangarajan P.
Product Manager

The Management Council

Narayana Murthy N. R.
Chairman, Management Council

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

Ashwani K. Khurana
Senior Vice President and
Head - Banking Business Unit (BBU) Sales and Support

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

Dinesh K.
Head - Quality & Productivity and MIS

Gopalakrishnan S.
Head - Customer Delivery and Technology

Nandan M. Nilekani
Head - Marketing & Sales and BBU

Phaneesh Murthy
Senior Vice President and Head - Worldwide Sales

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

Prahlad D. N.
Senior Vice President and
Head - New Initiatives

Raghavan N. S.
Head - Human Resources, Education & Research

Sharad K. Hegde
Senior Vice President and
Head - Strategic Business Unit-4
and BBU Development

Shibulal S. D.
Head - Strategic Business Units 1 and 5

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

Yegneshwar S. Dr.
Associate Vice President and
Head - Education and Research

Mohandas Pai T. V., Prabhu M. S. S., Gopalakrishnan S., Balasubramanian P., Dinesh K., Narayana Murthy N. R., Yegneshwar S., Shibulal S. D.

Audit Committee

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

Compensation Committee

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

Nominations Committee

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

The Board of Directors

Narayana Murthy N. R.
Chairman and Managing Director

Susim M. Datta
Director

Deepak M. Satwalekar
Director

Ramesh Vangal
Director

Prof. Marti G. Subrahmanyam
Director

Raghavan N. S.
Joint Managing Director

Nandan M. Nilekani
Deputy Managing Director

Gopalakrishnan S.
Deputy Managing Director

Dinesh K.
Director

Shibulal S. D.
Director

The Infosys Foundation was promoted by Infosys as a not-for-profit trust. It commenced its activities after obtaining recognition under section 80-G of the Income Tax Act, 1961.

The trustees are:

1. Shri N. S. Raghavan
2. Smt. Sudha N. Murty
3. Shri G. R. Nayak

The trustees decided that initially the available funds would be applied to the following categories of social causes:

- Aged persons, destitutes and the handicapped
- Underprivileged in the rural areas
- Economically poor but academically brilliant students
- Health care for the poor
- Promoting Indian arts and culture

As of today, Infosys is operating mainly out of five states and therefore it was decided to initiate its activities in these states. During the year, Infosys Foundation received Rs. 30 lakhs out of the committed contribution of Rs. 40 lakhs from Infosys Technologies Limited and has utilized Rs. 27.17 lakhs towards 159 social causes.

Bangalore	N. S. Raghavan	Sudha N. Murty	G. R. Nayak
April 10, 1998	Trustee	Trustee	Trustee

Directors' report

To the Members,

Your directors are pleased to present their report on the business and operations of your Company for the year ended March 31, 1998.

Financial results

*Rs. in crores **

Year ended March 31	1998	1997
Gross revenues	260.37	143.81
Operating profit (PBIDT)	88.61	50.06
Interest	-	0.61
Depreciation	22.75	10.52
Profit before tax from ordinary activities	65.86	38.93
Provision for tax	5.50	5.25
Profit after tax from ordinary activities	60.36	33.68
Extraordinary income	-	3.59
Net profit	60.36	37.27
Appropriation		
Interim dividend paid	1.76	1.09
Dividend recommended - final	5.27	2.90
Total dividend	7.03	3.99
Tax on distributed profits	0.70	0.29
Transferred to capital reserve	-	3.59
Transferred to general reserve	52.63	29.40

* Rs. One crore is equal to Rs. 10 million.

Results of operations

Your Company continued its rapid growth during this year as well. The gross revenue has grown from Rs. 143.81 crore, in the previous year to Rs. 260.37 crore during the current year, registering a growth rate of 81.05%. The operating profit has grown to Rs. 88.61 crore from Rs. 50.06 crore in the previous year, registering a growth rate of 77%. The provision for depreciation was increased to Rs. 22.75 crore from Rs. 10.52 crore, an increase of 116.25%, with a large part of computer equipment being depreciated over a period of two years. The provision for income tax has reduced, as a percentage of gross revenue, to 2.11% from 3.65%, due to the tax benefits of the 100% Export Oriented Unit (EOU) scheme. Profit after tax, from ordinary activities, has increased to Rs. 60.36 crore from Rs. 33.68 crore, an increase of 79.22%. Last year, there was an extraordinary income of Rs. 3.59 crore due to the sale of the product Eagle (WMSYantra) to Yantra Corporation.

Dividend

An interim dividend of Rs. 1.50 per share (15%), pro rata, was paid in December 1997. Your directors, now, recommend a final dividend of Rs. 4.50 per share (45%), pro rata, making in all, a total dividend of Rs. 6.00 per share (60%), pro rata, for the current year. The total amount of dividend for the current year is Rs. 7.03 crore as against Rs. 3.99 crore for the previous year. The dividend is payable, pro rata, on the bonus shares and the shares arising from the conversion of warrants under the Employees Stock Offer Plan (ESOP). In terms of the Income Tax Act 1961, the receipt of dividend is tax-free in the hands of the shareholders. The tax on distributed profits, payable by the Company, increased to Rs. 0.70 crore from Rs. 0.29 crore.

Increase in share capital

During the year, the issued, subscribed and paid-up capital increased by Rs. 8,75,76,000 consequent to the issue of 7,49,000 shares of Rs. 10 each, fully paid, to employees of your Company and the Employees Welfare Trust under the ESOP, and a bonus issue of 80,08,600 shares in the ratio of 1:1 to the members, as of the record date. The share premium also increased by Rs. 6,74,10,000, upon receipt of Rs. 90 per share towards the shares issued under the ESOP. Of the total paid-up capital of Rs. 16,01,72,000, Rs. 12,92,69,000 (81% of the paid-up capital), has been issued as bonus shares.

Proposed ADR (American Depository Receipts) issue

In December 1997, your Company announced its plans for an ADR issue. Survival requires sustaining the growth and margins of your Company in a highly-competitive global market. There is also a need to bridge the service gap between the premium players in the overseas markets and your Company. The purpose of the ADR issue is to list your Company's stocks on a global stock exchange, to issue stock options in convertible currency for attracting global talent, and for creating a currency for acquisitions.

The plan is to float an ADR issue up to US$ 75 million, to issue stock options leading to an issue of ADR up to US$ 50 million, and to enable the Company to acquire a software business through stock-swap leading to an issue of ADR up to US$ 50 million. While the stock options may vest over a period of 7 to 10 years, the acquisition may take place over a period of 3 to 5 years. The Company has also requested the Government of India to provide two-way fungibility for the underlying shares for its ADR programs, and also to allow the conversion of part of the domestic holdings of FIIs/NRIs/OCBs into ADRs. The Company has submitted an application to the Ministry of Finance, Government of India, during December 1997, and is awaiting its approval. The timing of the issue is dependent on government approval.

Exports

The software export market continued to be buoyant during the year. Exports from India grew rapidly and the country's status as a quality software exporter was enhanced. The world demand for software also showed a double-digit growth. Your Company's software export revenue grew by 100.30% to Rs. 250.94 crore from Rs. 125.28 crore. Forty Five new customers were added during the year. New markets in Japan and Europe were opened up. Your Company continues to emphasize its focus on offshore software development, maintenance and products. During the year, there were two new installations of BANCS 2000 in Asia. Your Company enhanced its service offerings by adding Engineering Services and Internet Consulting to its existing portfolio. Your Company is now contemplating entering the ERP implementation area.

Branding of services

Branding (previously called Productizing) involves: creating tools and reusability components for enhancing the quality and productivity of each service, preparing training material for quick enabling of programmers and analysts, and producing marketing and sales collateral for efficiency in selling. *In2000®* (Infosys' solution for the millennium problem) is the first service that Infosys has branded. *In2000®* has performed well in the marketplace. As per our strategy, the Company plans to limit the contribution of revenue from *In2000®* to 25% of the total revenue.

Domestic market

The domestic market for banking has become sluggish due to the slowing down of the economy, as well as due to the consolidation of the Information Technology (IT) initiatives that our customers took during 1996-97. There were 276 installations (across 13 banks) of BANCS 2000, in India, as on March 31, 1998. The revenue from BANCS 2000 during 1997-98 dipped by 49.74% over the previous year. Your directors hope that this trend will be reversed in the future.

Overseas branches

Marketing efforts were enhanced by the opening of new sales offices at Tokyo, Japan; Toronto, Canada; and Atlanta and Detroit in the US. In addition, the San Francisco, Bridgewater, Chicago and Los Angeles offices have been strengthened. During the coming year, additional sales offices are expected to be opened in the US and in Europe. Expansion of the overseas marketing network will enable the opening of new markets and widening of the customer base. As at the year-end, your Company has 12 marketing offices overseas. Your Company has enhanced its presence in Japan, which is expected to be a major market in future.

Organizational changes

A new strategic business unit – SBU 7 – was added during the year to focus on Engineering Services. The unit will start delivery of its services during 1998-99. Further, another new strategic business unit – SBU 8 – was carved out of an existing SBU to form the NORTEL-Infosys Development Center.

New development centers and infrastructure

Decentralized development of software by your Company received a further fillip with the commissioning of the *Infosys Towers* facility at J. P. Nagar, Bangalore. This state-of-the-art facility can accommodate up to 550 Infoscions. In addition, your Company has acquired 25.95 acres of land for a new facility at Electronics City, Bangalore, adjoining the existing facility. The construction of this new 360,000-sq.ft. facility – named *Infosys Park* – was started on January 2, 1998, on

10 acres of land. The work is expected to be completed in December 1999. This will provide workspace and recreation facilities for about 1800 Infoscions. The expansion of the facility at Pune was completed.

Space for a new facility at Chennai has been identified, and expansion at Bhubaneswar has also been initiated. The capital expenditure incurred by your Company during the year was Rs. 34.41 crore, as against Rs. 27.31 crore last year.

Quality

The Quality and Productivity group led the effort to make your Company reach Level 4 of the Capability Maturity Model (CMM) of the Software Engineering Institute (SEI) at Carnegie Mellon University, USA – an achievement it shares with remarkably few companies across the world. The assessment covered *Fixed-price Software Development*, *Maintenance* and *Re-engineering* processes which contribute around 90% of the revenue. This quality initiative will bring better customer recognition and improve productivity in future years.

Awards

Your directors are happy to report on the several accolades that have been bestowed on your Company during the year.

1. For the second year in succession, your Company received the *Silver Shield* from the Institute of Chartered Accountants of India for the *Best-Presented-Accounts*, amongst the entries received from non-financial, private sector companies, for the year 1995-96.
2. The readers of *AsiaMoney* magazine, once again, voted Infosys the best in *Strategy and Management* from among the listed companies in India, and among the best in Asia, for the year 1996-97.
3. BANCS 2000 received the CSI-WIPRO award for the *Best-Packaged-Application*, in December 1997, at the SEARCC '97 Conference in Delhi.
4. The World Economic Forum selected Infosys as one of India's most remarkable and rapidly growing entrepreneurial companies in November 1997.
5. A Certificate of Merit, was received from the Ministry of Commerce, Government of India, for meritorious performance in the field of exports during 1995-96.
6. A special award for "Innovation of new products in computer software and related services during 1995-96" was given by the Electronics and Computer Software Export Promotion Council, Delhi (sponsored by the Ministry of Commerce, Government of India).
7. The Bangalore Stock Exchange rated your Company as the *Best Regional Company* for all-round quality management, and as a company which gives top priority to shareholder interests. Your Company is the first to receive this award.

Audited quarterly reports

Frequent dissemination of information reduces uncertainty, increases the confidence level of the investors, and helps sustain a continuous dialogue between the Company and its investors. As a company which benchmarks itself against the best companies around the globe, your directors have released audited quarterly reports from this year onwards. This is another step towards providing timely information to the members.

Audited US GAAP accounts

During previous years, your Company had voluntarily recast its balance sheet in compliance with US GAAP and also provided, on a voluntary basis, the information mandated in Form 10-K by the Securities and Exchange Commission of the US. Your directors are pleased to submit the audited accounts of your Company under US GAAP for 1996-97 and 1997-98. A statement reconciling the accounting differences between the Indian GAAP and US GAAP is also submitted for study. The major differences are – a charge for employee compensation arising out of stock options (due to pricing differences between the market price and the price of grant, as on the date of the grant) as mandated under US GAAP, and the losses of Yantra being absorbed in your Company's balance sheet due to consolidation.

Brand valuation and human resource accounting

It is increasingly accepted that modern business success is largely dependent on intangible assets. The quantum of value added to a business is becoming a function of the intangible assets in the business. In previous years, your Company had valued its most valuable asset – its human resources. Last year, it also made an attempt to value another of its significant, intangible assets – the "Infosys" brand. The necessary information about human resource accounting and brand valuation was provided as additional information to the shareholders. This practice is continued this year also.

Report on corporate governance

In India, the Confederation of Indian Industry (CII) has taken the initiative to improve corporate governance by publishing a code for corporate governance. For several years now, your Company has been complying with most recommendations of the Code. Your Company supports this initiative, and believes that this will considerably improve corporate governance and investor protection. Your directors have enclosed a report on the recommendations of the CII Code, and the practices followed by your Company. Internationally, the Cadbury Committee report on Corporate Governance has received wide acclaim. Your directors have provided a report on *Compliance with the Code of Best Practices* prescribed by the Cadbury Committee in the UK.

Financial statements conforming to the GAAP of the countries of our global investors

As part of an endeavor to reach out to global investors, your Company has provided financial statements in the language and the GAAP (Generally Accepted Accounting Principles) of six countries – Australia, Canada, France, Germany, Japan and the United Kingdom. These financial statements are unaudited, and provided only as additional information to shareholders. The Company assumes no responsibility for any direct, indirect or consequential losses incurred by any investors who use these reports for their investment decisions in Infosys.

Scoresheet of intangible assets

The stock price of a company is a function of the market's valuation of its future earnings potential. This evaluation includes both tangible and intangible assets of the company. The differential between the market value of a company and its book value can be converted into goodwill when the company is acquired. Thus, the market provides a value to the off-balance sheet assets of the company – that is, those assets which are invisible or which are not accounted for in the traditional financial statements. The intangible assets of a company include its brand, products, the ability to attract, develop and nurture a cadre of competent professionals, and its ability to attract and retain marqué clients. An attempt has been made to define the various categories of intangible assets of the Company, and a scoresheet has been prepared.

Answers to frequently asked questions

Investors frequently request information on several issues. Your Company has compiled a list of frequently-asked questions and provided answers.

Dematerialization of shares and liquidity

Your Company was the first to make a one-time payment of Rs. 44,43,000 to the National Securities Depository Limited (NSDL). Consequently, your Company's shareholders are exempted from the payment of custodial fees to the depository participants or the NSDL on their holding in your Company. Your Company hopes that this initiative will enthuse shareholders to dematerialize their holding in the Company. The Bombay Stock Exchange (BSE) has permitted trading of your Company's shares in the A group. This move is expected to increase the liquidity of the Company's shares.

Employees Stock Offer Plan (ESOP)

The Employees Stock Offer Plan, initiated in 1994-95, has been a great success. Several key employees are now covered by this scheme. This year, 2,69,600 warrants were awarded to 366 employees. Subsequently, the bonus issue provided the warrant holders an opportunity to convert their warrants into shares. Currently, 484 employees have been covered by the ESOP. They hold 7,32,200 shares and a right to 2,69,600 shares. The Employees Welfare Trust has, as of March 31, 1998, 4,87,900 shares for future grants under ESOP.

Yantra Corporation

Your Company had made an investment of US$ 0.50 million in Yantra Corporation, its subsidiary, during 1995. A second round of financing was deemed essential since the product, WMSYantra (earlier known as Eagle), became ready for an intense sales effort. In addition to enhancing the financial resources of Yantra, your directors found it necessary to strengthen the board and the management team. The second round of financing brought US$ 3.75 million at US$ 0.75 a share in Convertible Preferred Stock, as against the earlier issue of common stock at US$ 0.20 a share. Your Company subscribed to 2 million Convertible Preferred Stock, at US$ 0.75 per share. Mr. Donald W. Feddersen, a well-known venture capitalist, subscribed to 0.533 million Convertible Preferred Stock at US$ 0.75 per share. Draper International LLC subscribed to 2.467 million Convertible Preferred Stock at US$ 0.75 per share. Your directors believe that these venture capitalists will add value to the Yantra board. During the calendar year 1997, Yantra reported revenues of US$ 1.42 million and a loss of US$ 1.19 million. R & D expenditure constituted US$ 0.91 million of this loss. Amortization of the cost of WMSYantra amounting to US$ 0.33 million is the other major part of the loss. Yantra is expected to report higher revenues during 1998. In keeping with your Company's accounting policy (to provide only for loss on investments in a subsidiary, other than temporary), no provision has been made for the loss incurred by the subsidiary in your Company's accounts. However, adequate provisions will be made in the future, should it be deemed necessary.

JASDIC

JASDIC Park Company is an Indo-Japanese consortium founded by Mr. Kenichi Ohmae, the well-known management strategist and author, along with a few Japanese companies and three Indian companies, including your Company. The aim of JASDIC is to provide high-quality software services from India to the Japanese market. This is in line with your Company's strategy to diversify its geographic customer base. Your directors believe that this initiative will help in entering the Japanese market. Your Company will be making an investment of ¥ 24,000,000 in the equity of JASDIC in the coming year.

Overseas subsidiaries

Your directors obtained your approval in 1996 for setting up wholly-owned subsidiaries in USA, Europe and the Asia-Pacific. Your directors are evaluating various proposals to identify operations which meet and align with the overall corporate vision of your Company. From time to time, your directors will evaluate the possibilities of investing in overseas software start-ups, through the proposed subsidiaries.

Investments

Currently, the surplus funds of your Company are invested only in bank deposits, short-term instruments and inter-corporate deposits of financially sound companies with a high credit rating.

Social contribution

To further your Company's commitment to the social causes of our milieu, *Infosys Foundation* was promoted by your Company as a *not-for-profit* trust. The focus of this foundation is to help organizations devoted to the destitutes, disadvantaged people, spastics and senior citizens, and to further the cause of education and similar activities of social importance. A sum of Rs. 40 lakhs was committed to the foundation during 1997-98, and a sum of Rs. 27.17 lakhs was utilized by the Foundation towards various social causes. The report of the Foundation appears in this report. On your behalf, your directors thank the honorary trustees for sparing their valuable time and energy for the foundation activities.

Your Company initiated three social programs last year – *Catch them Young*, *Train the Trainer* and *Reach the Rural.* We are glad to report satisfactory progress in these programs.

This year, your Company donated Rs. 7,32,720 towards installing traffic signals at Bannerghatta Circle, Bangalore. Personal computers were donated to academic institutions (National Law School of India University and Kendriya Vidyalaya). Monetary contributions were made to scientific societies.

Fixed deposits

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

Directors

According to the terms of Article 122 of the Articles of Association, Mr. K. Dinesh retires by rotation in the forthcoming Annual General Meeting, and being eligible, offers himself for reappointment.

Your directors have expanded the Board and co-opted Mr. Susim M. Datta, former Chairman, Hindustan Lever Ltd.; Mr. Deepak M. Satwalekar, Managing Director, HDFC; and Mr. Ramesh Vangal, President, Seagram (Asia-Pacific), as additional directors, in October 1997. Your directors have also co-opted Dr. Marti Subrahmanyam, Charles E. Merrill Professor of Finance, Economics and International Business, Leonard N. Stern School of Business, New York University, as an additional director.

Their appointment as Directors requires the approval of members in the forthcoming Annual General Meeting. The necessary resolutions for obtaining the approval of the members have been incorporated in the notice of the forthcoming Annual General Meeting.

Auditors

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

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

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

Particulars of employees

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

Acknowledgments

Your directors thank the 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, co-operation and support, have enabled the Company to achieve rapid 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 Department of Telecommunications, the state government, and other governmental agencies for their support during the year, and look forward to their continued support.

For and on behalf of the Board of Directors

Bangalore
April 10, 1998

N. R. Narayana Murthy
Chairman and Managing Director

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

1. Conservation of energy

The operations of your Company are not energy intensive. Adequate measures have, however, been taken to reduce energy consumption by using energy-efficient computer terminals and by the purchase of energy-efficient equipment of latest technology. Your Company has replaced the existing incandescent lamps with CFL fittings and is shifting to the use of Electronic Ballast to reduce the power consumption of fluorescent tubes. Your Company evaluates, on an ongoing basis, new technologies and techniques to make the infrastructure more energy efficient. Investments will be made on a continuous basis to reduce energy consumption. Air conditioners are used only when required and air-conditioned areas have been treated with heat-resistant material to reduce heat absorption. The impact of these measures have been to enhance energy efficiency. As energy cost forms a very small part of total costs, the impact on costs is not material.

2. Research and Development (R & D)

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

a. Specific areas for R & D at Infosys

Your Company continues to undertake research in the following areas:

- General software engineering – This includes the development and refinement of methodologies, tools and techniques, implementation of metrics, improvement in the estimation process, and the adoption of new technologies. These will improve the quality and productivity on an ongoing basis.
- Branded services – Branding (previously called Productizing) involves: creating tools and reusability components for enhancing the quality and productivity of each service, preparing training material for quick enabling of programmers and analysts, and producing marketing and sales collateral for efficiency in selling.
- New technologies – Technology is changing constantly and businesses need to leverage the latest technologies for creating competitive advantages. Your Company will continue to research these technologies, absorb them for internal use and create services, which can then help customers be successful.
- New products – Your Company will continue to improve the existing products, and introduce new products.
- Management techniques – Your Company has pioneered the use of several leading-edge management principles in the software industry in India, and will continue to innovate in these areas.

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

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

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

BankAway has been successfully installed in a bank in India. This product is expected to be sold in India and overseas.

c. Future plan of action

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

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

Rs. in crores

	1998	1997
Revenue expenditure	4.63	4.40
Capital expenditure	0.71	3.03
Total R & D expenditure	5.34	7.43
R & D expenditure as a percentage of total revenue	2.05%	5.17%

3. Technology absorption, adaptation and innovation

Your Company continues to use the latest technologies for improving the productivity and quality of its services and products. On the infrastructure side, your Company has continued to invest in the latest servers and workstations. An IBM mainframe system has been purchased to develop tools, for use in customer projects, and to train employees in mainframe software technology. Investment has been made in several UNIX and Windows NT servers using the latest hardware technologies. Pentium II chips form the computing infrastructure standard for all PC workstations bought this year.

On the networking side, the backbone bandwidth has been increased in the Electronics City facility to improve throughput. Several satellite data communication links have been added to improve the connectivity between Infosys development centers and its customers. The implementation of *Unicenter/TNG* System Management Software will help to manage the network and systems better, in the future.

The e-mail system is being enhanced to increase the reliability of the mail system. Workflow will be used to enhance the productivity of business and software development processes.

Use of Integrated Development Environment program analysis tools and testing will improve the quality of the deliverables as well as the productivity of the employees.

Your Company has derived the following benefits from the above:

The technology infrastructure has remained state-of-the-art and your Company is able to provide a highly productive work environment to the employees. This has resulted in better quality and productivity. Customer and employee satisfaction has gone up.

Customers expect your Company to use the latest technology in software development. Your Company is able to transfer the knowledge gained from such use to customers and to the systems developed for them.

Employees have been exposed to new technologies. This enables your Company to motivate existing employees and to attract new employees.

4. Foreign exchange earnings and outgo

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

Your Company has always had a predominant export focus. In 1997-98, 96.38% of the revenues came from exports. Your Company has, over the years, built up a substantial direct marketing network all over the world. The marketing offices are in North America, Europe and Asia, and are staffed with sales and marketing people, who directly sell your Company's products and services to large, international customers. The export thrust of your Company will continue in the future. In 1997-98, your Company opened additional offices in the US, Canada and Japan. In addition to the customers in Africa, Nepal and Sri Lanka, the Banking Business Unit added customers in Indonesia.

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

The long-term goal of your Company is to be a highly-respected name in the global market for its products and services, and to continue to get a predominant portion of its revenues from exports.

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

Rs. in crores

	1998	1997
Foreign exchange earnings	226.04	114.03
Foreign exchange outgo	98.65	56.17
(including capital goods and imported software packages)		

For and on behalf of the Board of Directors

Bangalore
April 10, 1998

N. R. Narayana Murthy
Chairman and Managing Director

Annexure to the Directors' report

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, and forming part of the Directors' Report for the year ended March 31, 1998

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - *Designation*
1. *	Abhijit V. Ghaskadbi	Assistant Project Manager	B.E.	31	26.12.1997	9	78,041.00	Tata Engineering & Locomotive Co. Ltd. - *Program Manager*
2.	Ajay Dubey	Associate Vice President	B.Tech. (IITK)	40	07.06.1993	16	6,12,131.00	ANZ Bank, New Zealand - *Technical Team Leader*
3.	Anandaraman V.	Assistant Project Manager	B.E.	27	27.07.1992	5	3,15,162.00	-
4.	Ananth Vaidyanathan	Assistant Project Manager	B.E.	29	16.01.1992	6	3,35,114.00	Tata Electric Company, Bombay - *Graduate Engineer Trainee*
5. *	Anuradha D. M.	Domain Expert - Banking	B.Sc.	34	01.07.1996	12	1,90,156.00	Times Bank - *Officer*
6.	Aseem Purohit	Regional Manager	MMS	30	17.06.1996	8	3,44,230.00	Dataline & Research Tech. India Ltd. - *Territory Manager*
7.	Asha Suky Thomas	Project Manager	B.Tech. (IITM)	32	01.01.1988	10	4,14,227.00	-
8.	Ashok V. Arunachalam	Senior Manager - CCS	B.Tech., MS (New Jersey)	35	17.08.1993	9	4,59,662.00	New Jersey Inst. of Technology - *Teaching Assistant*
9.	Ashwani Kumar Khurana	Senior Vice President	B.Tech. (IITD)	47	01.02.1994	25	8,35,289.00	Infosys Digital Systems Pvt. Ltd. - *Managing Director*
10.	Ashwathnarayana Shastry S. S.	Assistant Project Manager	M.E.	30	24.02.1992	6	3,26,627.00	-
11.	Aveejeet Palit	Associate Project Manager	B.E.(Hon.), M.Sc.	31	31.12.1996	7	3,11,804.00	Complete Business Solution Inc., USA - *Software Engineer*
12. *	Babuji S.	Senior Project Manager	B.E.	48	17.12.1997	24	1,25,715.00	Mahindra British Telecom Ltd. - *Chief Manager*
13.	Balakrishnan P. V.	Assistant Project Manager	B.Tech.	26	27.07.1992	5	3,03,316.00	-
14.	Balakrishnan V.	Manager - Finance	B.Sc., ACA, ACS, AICWA	33	02.09.1991	13	4,61,443.00	AMCO Batteries Ltd. - *Senior Accounts Executive*
15. *	Balashankar	Associate Project Manager	B.E.	42	17.12.1997	17	94,891.00	Bharat Electronics Ltd. - *Manager*
16.	Balasubramanian P. Dr.	Senior Vice President	M.Tech. (IITM), Ph.D (Purdue)	48	01.10.1995	25	9,09,464.00	Hitek Software Systems Ltd. - *Technical Director*
17.	Bhandi R. G.	Associate Vice President	B.E., M.Tech. (IITK)	37	07.07.1988	14	6,64,995.00	Wipro Infotech Ltd. - *Systems Engineer*
18.	Bharati Balaji	Assistant Project Manager	B.Sc.(Hon.), MMS	37	07.08.1996	15	3,01,431.00	PCS - *Senior Software Specialist*
19.	Bhashyam M. R.	Manager - Quality	M.E.	47	07.07.1995	24	5,07,617.00	Aeronautical Development Agency - *Scientist*
20.	Bhaskar Ghosh	Project Manager	B.Sc., MBA	38	03.02.1997	16	3,79,919.00	Philips India Ltd. - *Area Marketing Manager*
21. *	Bhavesh J. Parekh	Associate Product Manager	B.Sc., MBA	34	13.02.1995	12	2,52,917.00	Tata Consultancy Services - *Systems Analyst*
22.	Bhoopalan P. Y.	Assistant Manager - Corporate Planning	B.Tech. (IITBHU), PGDM (IIMB)	28	10.04.1995	5	3,21,165.00	Titan Industries Ltd. - *Executive (Project)*
23. *	Bibhu R. Pattanayak	Senior Project Manager	M.Tech. (IITM)	40	11.08.1997	15	2,94,377.00	Universal Card, USA - *Project Manager*
24.	Biju Abraham N.	Assistant Project Manager	M.Tech.	29	22.06.1992	5	3,10,494.00	-
25.	Binod H. R.	Senior Manager - Customer Support	B.E.	35	02.08.1993	12	4,42,448.00	Motor Industries Company Ltd. - *Senior Engineer (Technical Sales)*
26.	Chandramouli J.	Project Manager	B.E.	30	15.06.1988	10	4,44,104.00	-
27.	Dakshinamurthy Kommu S. V.	Assistant Project Manager	M.Tech.	30	06.07.1994	7	3,28,908.00	Digital Equipment (I) Ltd. - *Software Specialist*
28.	Deepak N. Hoshing	Project Manager	B.Tech. (IITB)	35	10.10.1996	12	4,19,934.00	Unisys Distributor in Dubai - *Senior Systems Analyst*
29.	Deepak Padaki	Assistant Project Manager	B.E.	27	10.08.1992	5	3,15,162.00	-
30.	Dheeshjith V. G.	Senior Project Manager	B.Sc., M.E. (IISc)	34	14.09.1987	10	4,58,547.00	-
31.	Dinesh K.	Director	M.Sc.	43	01.09.1981	22	8,82,215.00	Patni Computer Systems Pvt. Ltd. - *Senior Software Engineer*
32.	Dinesh R.	Associate Project Manager	B.E.	29	01.10.1990	7	3,06,641.00	-
33. *	Eapen Suresh Mathen	Associate Project Manager	B.E.	34	02.09.1996	11	2,32,055.00	Bharat Forge Ltd. - *Manager Systems*
34.	Elangovan K.	Associate Project Manager	B.E.	28	23.07.1990	7	3,23,778.00	-

Annexure to the Directors' report

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - *Designation*
35. *	Eswaran Kalyanaraman	Project Manager	M.Com.	41	13.05.1996	20	3,00,068.00	Citicorp Information Technology (I) Ltd. - *Consultant*
36.	Ganapathi Adiga N.	Manager - Personnel & Administration	BA, MSW	42	01.02.1994	14	3,59,165.00	Infosys Digital Systems Pvt. Ltd. - *Asst. Manager (Personnel)*
37.	Gautam Parija	Manager - Facilities & Administration	B.E., MBA	39	27.03.1997	17	3,63,760.00	OSEDC Ltd. - *Deputy General Manager*
38.	Geetha G.	Associate Project Manager	B.E.	32	01.12.1995	10	3,62,531.00	ITI Ltd. - *Senior Engineer*
39.	Geetha Kannan	Corporate Marketing Manager	B.Com., MBA	33	01.04.1993	9	3,66,112.00	NIIT Ltd. - *Business Manager*
40.	Gopalakrishnan S.	Deputy Managing Director	M.Tech. (IITM)	42	18.10.1994	18	8,97,669.00	Sofware Sourcing Company, Atlanta, USA - *Vice President (Technical)*
41. *	Guru Anand K. C.	Project Manager	B.E., MBA	39	08.08.1997	14	2,15,306.00	Axes Technologies India Pvt. Ltd. - *Coordinating Manager*
42.	Haragopal M.	Project Manager	B.Sc., LL.B, PGDM	35	08.12.1993	11	3,87,913.00	Canara Bank - *Officer*
43. *	Hariharan V.	Assistant Manager - Quality	B.E.	30	20.05.1994	6	1,34,169.00	BPL Ltd. - *Senior Software Engineer*
44.	Ishwar C. Halalli	Project Manager	B.E., M.Tech.	35	19.01.1996	11	3,84,127.00	C-DOT - *Program Manager*
45.	Jackson Mathew	Associate Manager	B.A.	35	16.08.1985	12	3,31,574.00	-
46. *	Jayant Rao	Banking Specialist	B.Sc., MBA	30	29.12.1997	4	77,386.00	Standard Chartered Bank - *Corporate Dealer*
47.	Jitendra J. Killedar	Assistant Project Manager	AMIE, PDCA	30	01.11.1996	10	3,22,858.00	Global Environmental Engineering Ltd. - *Manager (IT)*
48.	Joydeep Mukherjee	Assistant Project Manager	B.Tech.	29	22.06.1992	5	3,03,219.00	-
49.	Kanakaraj K. P.	Assistant Project Manager	B.E.	26	15.02.1993	5	3,07,638.00	Bajaj Auto Ltd. - *Graduate Trainee Engineer*
50. *	Kannan Iyer	Project Manager	B.Sc.	36	01.10.1997	15	1,84,074.00	Ramco Systems - *Technical Manager*
51.	Krishnamoorthy A. S.	Associate Vice President	B.Tech. (IITM), M.Sc.	36	10.01.1986	14	5,59,645.00	Urban Transport Dev. Corp., Canada - *Research Assistant*
52.	Krishnamurthy T. S.	Project Manager	B.E.(Hon.)	35	26.10.1987	13	4,96,243.00	Zenith Electro Systems Pvt. Ltd. - *Software Executive*
53. *	Krishnan S.	Associate Manager - IT	B.Com., ACA, AICWA	30	15.09.1997	7	1,81,335.00	Bennett, Coleman & Co. Ltd. - *Senior Business Correspondent*
54.	Lakshmanan G.	Assistant Project Manager	M.E.	31	02.01.1995	8	3,27,558.00	Larsen & Toubro Ltd. - *Executive*
55. *	Latha K.	Associate Project Manager	B.Sc., MA	34	22.08.1997	9	1,97,327.00	Riyam Computer Service - *Project Leader*
56. *	Lilly Vasanthini	Associate Project Manager	B.E., PGDM	35	28.05.1997	12	2,75,377.00	C-DOT - *Program Manager*
57.	M. Ramakrishnan	Assistant Manager - Quality	B.Sc., CAIIB	41	04.09.1996	16	3,05,930.00	Canara Bank - *Officer*
58.	M. Sridhar	Senior Creative Designer - Multimedia	B.Com.	31	26.08.1996	8	3,03,855.00	PCL - Mindware - *Project Leader*
59.	Madhu Janardan	Assistant Project Manager	B.Sc., MCA	30	18.09.1996	7	3,30,540.00	Tata Unisys Ltd. - *Senior Lead Analyst*
60.	Madhusudhanan A. R.	Assistant Project Manager	B.E., MS (IITM)	29	17.10.1994	8	3,35,635.00	Larson & Toubro Ltd. - *Software Engineer*
61.	Mahendra K. Pingale	Assistant Project Manager	B.Tech. (IITB), PGD (NCST)	30	28.03.1994	7	3,24,120.00	CMC Ltd. - *Associate IT Engineer*
62.	Mahesh Sankaran	Associate Project Manager	B.Tech.(Hon.) (IIT Kharagpur)	30	22.06.1989	8	3,44,325.00	-
63.	Mallya P. D.	Associate Vice President	M.Tech. (IITM)	43	15.12.1986	20	4,80,767.00	Infosys Digital Systems Pvt. Ltd. - *Associate Vice President*
64. *	Mani R. V. S.	Development Center Manager	B.Tech. MS	45	22.11.1996	19	1,22,098.00	Hindustan CIBA-GEIGY Ltd. - *Head (IT)*
65.	Manish Tandon	Financial Analyst & Marketing Support Manager	B.Tech., PGDM (IIMB)	29	02.12.1996	6	3,09,471.00	Milestone Gears Pvt. Ltd. - *Director& CEO (Projects)*
66.	Manohar Moorthy	Assistant Project Manager	B.Tech. (IITK)	27	22.06.1992	5	3,15,504.00	-
67.	Manohara N.	Associate Project Manager	B.E.	29	22.07.1991	6	3,19,916.00	Larsen & Toubro Ltd. - *Software Engineer Trainee*
68.	Manoj Kumar K.	Associate Project Manager	B.Tech. (IITM)	30	01.08.1990	8	3,75,766.00	Computer Electronics Pvt. Ltd. - *Trainee Engineer*
69. *	Md. Zaheer Hussain	Assistant Manager - HRD	BA, MSW	32	24.04.1995	7	1,16,532.00	Naseoh, Bangalore - *Placement Officer*
70.	Meera G. Rajeevan	Assistant Manager - Quality	B.Tech., PGDPIM	30	07.08.1995	6	3,18,844.00	Sristuti Operation - *Guest Lecturer*

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - *Designation*
71. *	Merwin Fernandes	Senior Manager - Sales & Marketing	B.Com.	38	06.08.1997	16	3,16,410.00	Systems Software Associates India - *Regional Accounts Manager*
72.	Mohan M. M.	Senior Manager - HRD	B.Com., PGDBM	52	11.07.1992	28	4,48,353.00	Motor Industries Company Ltd. - *Assistant Officer (HRD)*
73.	Mohandas Pai T. V.	Senior Vice President - F&A	B.Com., LL.B, FCA	39	17.10.1994	18	8,38,010.00	Prakash Leasing Ltd. - *Executive Director*
74.	Murali K. S.	Assistant Manager - HRD	B.Sc., PGDBM	36	18.04.1994	14	3,35,265.00	The Mysore Kirloskar Ltd. - *Officer Administration*
75. *	Murali Srinivas C.	Associate Manager - Customer Support	B.E.	31	05.01.1995	7	1,18,911.00	Indian Air Force - *Maintenance Engineer*
76. *	Muralidhar K.	Assistant Project Manager	B.E.	28	16.01.1992	5	1,30,984.00	-
77.	Muralidharan K.	Assistant Project Manager	B.Tech.	31	19.06.1995	9	3,44,814.00	C-DOT - *Engineer*
78.	Muralikrishna K.	Associate Project Manager	B.Sc.	34	01.12.1984	13	4,17,679.00	-
79.	Nagaraj N. S.	Assistant Project Manager	B.E.	28	22.06.1992	5	3,10,794.00	-
80.	Nagaraj R. N.	Senior Manager - Customer Support	M.A., LL.B	43	06.03.1995	22	4,32,696.00	State Bank of Hyderabad - *Manager (Credit)*
81.	Nagarajan S.	Assistant Project Manager	B.E.	28	10.02.1992	6	3,31,639.00	-
82.	Nandakumar K. R.	Assistant Project Manager	B.Tech. (IITM)	29	23.07.1990	7	3,31,261.00	-
83.	Nandakumar N.	Associate Manager - E&R	B.Sc.	39	02.12.1996	17	3,12,464.00	Mastek Ltd. - *Manager (Training)*
84.	Nandan M. Nilekani	Deputy Managing Director	B.Tech. (IITB)	42	01.09.1981	20	8,41,475.00	Patni Computer Systems Pvt. Ltd. - *Assistant Project Manager*
85.	Narayana Murthy N. R.	Chairman & Managing Director	M.Tech. (IITK)	51	01.04.1982	29	9,03,748.00	Patni Computer Systems Pvt. Ltd. - *Head (Software Group)*
86.	Narendran K.	Associate Project Manager	B.Sc.	31	08.03.1993	10	3,78,083.00	PSI Data Systems Ltd. - *Senior Software Engineer*
87. *	Naresh D Mello	Assistant Project Manager	B.Sc.	28	10.01.1992	5	1,72,189.00	-
88.	Naresh Kumar K.	Assistant Project Manager	B.E.	29	17.12.1990	10	3,30,528.00	Infosys Digital Systems Pvt. Ltd. - *Hardware Engineer*
89.	Neeraja Shetty	Assistant Project Manager	B.E., M.Tech.	31	02.01.1995	7	3,08,772.00	National Center for Software Technology - *Staff Scientist*
90.	Nithyanand Y.	Assistant Project Manager	B.E.	29	05.02.1996	8	3,25,518.00	Larsen & Toubro Ltd. - *Senior Executive Software*
91.	Nitin Govind Kulkarni	Assistant Project Manager	B.E., M.Tech.	31	20.05.1996	6	3,23,115.00	Siemens Informations Systems Ltd. - *Senior Systems Engineer*
92.	Padmanabhan D.	Senior Project Manager	B.Sc.	35	02.11.1992	14	4,92,025.00	PSI Data Systems Ltd. - *Product Support Manager*
93.	Pankaj Jalote Dr.	Vice President	B.Tech. (IITK), M.Sc., Ph.D (Univ. of Illinois, Urbana)	38	01.08.1996	13	6,26,739.00	IIT, Kanpur - *Professor*
94.	Parameswar Y.	Head Switching Group	B.E., M.Tech. (IITK)	42	14.10.1996	18	4,71,327.00	C-DOT - *Divisional Manager*
95.	Prabhakara H. R.	Associate Project Manager	M.Tech. (IITB), AMIE	37	04.03.1996	13	3,66,297.00	ITI Ltd. - *Senior Engineer*
96. *	Prabhu M. S. S. Dr.	Senior Vice President	B.E., Ph.D (IISc)	50	01.08.1997	24	5,29,516.00	Tata Consultancy Services - *Vice President*
97.	Pradeep Prabhu	Associate Product Manager	B.Com.	29	04.11.1991	7	3,09,594.00	Vishesh Technology - *Dealer Development Manager*
98.	Prahlad D. N.	Senior Vice President	B.E. (IISc)	42	01.04.1989	15	10,34,180.00	Datacons Pvt. Ltd. - *Project Leader*
99.	Prasad D. Auty	Assistant Project Manager	B.E., M.Tech. (IITB)	31	01.11.1996	8	3,70,072.00	Citicorp Overseas Software Ltd. - *Consultant*
100.	Prasad Subramanian C. S.	Assistant Project Manager	M.Sc.	27	01.03.1994	5	3,12,888.00	CMC Ltd. - *Assistant IT Engineer*
101.	Prasad T. K. S. S.	Associate Manager - HRD	B.Tech., PGD (PM&IR) (XLRI)	28	18.01.1995	5	3,63,120.00	Asian Paints (I) Ltd. - *Personnel Executive*
102.	Prashant V. Mahajan	Assistant Manager - E&R	B.E., MS (Univ.of Massachusetts), Ph.D (Univ. of Massachusetts)	33	26.09.1996	6	3,08,515.00	Tata Engineering & Locomotive Co. Ltd. - *Senior Engineer*
103.	Pravin Rao U. B.	Senior Project Manager	B.E.	36	04.08.1986	12	4,87,593.00	Indian Institute of Science - *Programmer Trainee*
104. *	Priti J. Rao	Senior Project Manager	M.Sc. (IITB)	38	02.07.1997	15	3,40,231.00	Larsen & Toubro Ltd. - *Systems Manager*
105. *	Radhakrishnan V.	Project Manager	B.Sc., MMS	38	04.06.1996	17	1,01,516.00	Gulf Agency Company - *Project Manager*
106.	Raghavan N. S.	Joint Managing Director	B.E.	54	01.09.1981	34	8,57,584.00	Patni Computer Systems Pvt. Ltd. - *Assistant Manager*

Annexure to the Directors' report

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - *Designation*
107.	Raghavan S.	Senior Project Manager	B.E.	36	16.04.1987	14	4,98,138.00	Bharat Heavy Electricals Ltd. - *Maintenance Engineer*
108.	Raghavendra Varma	Assistant Project Manager	B.Tech.	27	22.06.1992	5	3,07,317.00	-
109.	Rajan N. V.	Associate Vice President - HRD	B.Sc., PGDPM (XLRI)	39	20.01.1997	15	4,95,491.00	Maxworth Home Ltd. - *Associate Vice President (HRD & Legal)*
110.	Rajasekaran K. S.	Manager - Business Development (Banking)	M.Sc.	39	08.11.1983	14	4,78,217.00	Voores High School - *Teacher*
111. *	Rajashekhar M. S.	Assistant Project Manager	B.E., MS	34	05.01.1998	11	50,290.00	BIET College - *Lecturer*
112.	Rajiv Kuchhal	Senior Project Manager	B.Tech. (IITD)	32	05.02.1990	11	5,31,608.00	Telecommunications Consultants (I) Ltd. - *Assistant Manager*
113.	Rajiv R.	Assistant Project Manager	B.E.(Hon.)	28	17.06.1991	6	3,46,041.00	Continental Device (I) Ltd. - *Trainee*
114.	Rajiv V. Pande	Assistant Project Manager	B.E.	37	03.06.1996	15	3,20,942.00	Intrix Systems Pvt. Ltd. - *Project Manager*
115.	Rakesh Singh	Associate Regional Sales Manager	BA, PGDSM (NIIT)	31	15.05.1996	8	3,31,381.00	Integra Micro Systems Pvt. Ltd. - *Marketing Manager (South)*
116.	Ram Mohan Bharadwaj	Assistant Manager - E&R	M.Sc., M.Tech. (IITM)	38	18.12.1995	15	3,08,037.00	Electronics Commission - *Scientific Assistant*
117.	Ramaa Sivaram	Project Manager	B.Tech. (IITM)	39	27.01.1997	16	4,44,691.00	ITC Ltd. - *Systems Manager*
118.	Ramachandran K.	Associate Project Manager	B.Tech. (IITM), PGDM (IIMB)	35	10.05.1993	10	3,38,563.00	Canbank Financial Services Ltd. - *Project Executive*
119.	Ramadas Kamath U.	Manager - Accounts & Administration	BBM, ACA	37	01.07.1994	13	4,61,443.00	Manipal Printers & Publishers Ltd. - *Accountant*
120.	Ramakrishna Kalluri	Associate Project Manager	B.Tech. (IITM)	29	22.07.1990	7	3,70,715.00	-
121.	Ramamurthy P.	Assistant Project Manager	M.E.	30	04.09.1992	6	3,12,615.00	National Infomatics Center - *Systems Analyst*
122.	Raman M. D.	Senior Officer - Budget-Follow Up	B.Com.	49	16.06.1990	31	3,06,810.00	International Computers Indian Manufacturers Ltd. - *Executive Confidential Secretary*
123. *	Ramanamurthy M. S.	Associate Project Manager	B.E., M.Tech. (IITM)	32	08.10.1997	10	1,61,920.00	Tata Consultancy Services- *Assistant Consultant*
124. *	Ramanand Jha	Project Manager	B.Tech., PGDBM (XLRI)	40	05.02.1997	16	1,43,940.00	The Tata Iron & Steel Company Ltd. - *Manager*
125.	Ramesh H. P.	Assistant Project Manager	B.E.	29	01.10.1990	7	3,26,685.00	-
126.	Ramesh S.	Associate Manager - HRD	B.Tech., PGD (PM&IR) (XLRI)	30	18.09.1996	14	3,53,779.00	VST Industries Ltd. - *Personnel Executive*
127.	Ramkumar Ramaswamy Dr.	Assistant Manager - E&R	M.Sc., Ph.D (IIMC)	31	02.12.1993	4	3,49,277.00	
128.	Rangarajan P	Product Manager	M.Sc.Tech.	29	21.08.1996	8	3,40,096.00	Wipro Infotech Ltd. - *Manager (E&R)*
129.	Rangarathnam S.	Technical Specialist	B.Sc., B.E.	44	15.02.1993	19	3,53,139.00	Consultant
130.	Rao B. M.	Manager - Communication Design Group	GCD	59	12.04.1993	30	4,37,254.00	Office Management Services - *Proprietor*
131.	Ravi C.	Senior Project Manager	B.E.	32	02.05.1988	10	4,85,442.00	-
132. *	Ravi Ganesh	Assistant Project Manager	M.Sc.	29	26.10.1994	6	2,84,014.00	NIIT Ltd. - *System Executive*
133.	Ravi Kiran	Associate Marketing Manager	B.E.	34	15.02.1996	10	3,68,665.00	Asea Brown Boveri Ltd.
134.	Ravi Rao A.	Assistant Project Manager	B.E.	29	21.03.1992	6	3,17,544.00	Larsen & Toubro Ltd. - *Graduate Engineer Trainee*
135.	Renganathan V. R.	Associate Project Manager	B.E.	28	18.06.1990	7	3,32,958.00	-
136. *	Sachin B. Sadekar	Assistant Project Manager	B.Tech.	27	22.06.1992	5	1,84,547.00	-
137.	Sajan Verghis Mathew	Associate Project Manager	B.E.	32	21.07.1991	9	3,81,182.00	Radio Craft Pvt. Ltd. - *Programmer*
138.	Samson David	Assistant Project Manager	B.E.	29	15.03.1992	7	3,16,942.00	Voltas Ltd. - *Service Engineer*
139. *	Sanjay Mohapatra	Assistant Project Manager	B.Sc., MBA, M.Tech.	32	01.11.1997	9	1,27,042.00	Price Water House Associates Pvt. Ltd. - *Senior Consultant*
140. *	Sanjeev Joshi	Manager - Commercial and Special Projects	B.E.	36	01.02.1994	13	1,73,067.00	Infosys Digital Systems Pvt. Ltd.- *Manager (Mktg.)*

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - *Designation*
141.	Sanjeev Kapoor	Assistant Project Manager	B.Tech. (IITK)	28	22.06.1992	5	3,02,069.00	-
142. *	Sanjeev V. R	Senior Project Manager	B.E., PGDM	40	12.02.1998	16	57,994.00	C-DOT - *Divisional Manager*
143.	Satish G. Bableshwar	Project Manager	B.E.	31	22.07.1988	10	4,43,592.00	-
144. *	Saumyasanta Chaudhuri	Project Manager	B.Tech. (IITK), M.E.	43	30.01.1998	21	69,278.00	International Computers (I) Ltd. - *Senior Manager*
145.	Savio D Souza	Assistant Project Manager	B.Sc., MCA	28	23.06.1992	5	3,33,206.00	-
146.	Seethalakshmi Ravishankar	Assistant Manager	B.Com., ACA	29	14.09.1994	5	3,36,221.00	A F Ferguson & Co. - *Assistant Manager*
147.	Sesha Sayanam M. A. R.	Associate Project Manager	M.Tech.	32	18.06.1990	7	3,28,456.00	Bharath Dynamics Ltd. - *Hardware Engineer Trainee*
148.	Seshan P.	Senior Project Manager	B.E.(Hon.)	36	01.06.1993	14	4,61,582.00	Infosys Manufacturing Systems Pvt. Ltd. - *Assistant Project Manager*
149. *	Seshu M.	Assistant Project Manager	B.E., M.Tech.	30	21.10.1991	7	2,53,169.00	Shyam Communications - *Design Engineer*
150.	Shantaram J.	Associate Manager - International Mktg.	B.E., PGDBM (XLRI)	29	23.11.1994	6	3,12,501.00	Consolidated Distilleries Ltd. - *Management Trainee*
151.	Sharad K. Hegde	Senior Vice President	B.Tech. (IITM), PGDIE (NITTIE)	40	01.07.1983	17	8,89,498.00	Patni Computer Systems Pvt. Ltd. - *Software Engineer Trainee*
152. *	Sheppard B. Lyngdoh	Assistant Project Manager	B.Tech. (IITM), PGDM (IIMC)	29	01.12.1997	5	1,01,228.00	Tata Consultancy Services - *Senior Systems Analyst*
153.	Sheshadri B. C.	Business Analyst - Insurance	B.Sc., LLB, MBA	34	05.06.1996	12	3,46,334.00	The Oriental Insurance Company Ltd. - *Branch Manager*
154.	Shibulal S. D.	Director	M.Sc., MS (Boston Univ.)	43	10.01.1997	22	7,74,925.00	Sun Micro Systems - *Senior IR Manager*
155.	Shishir Saksena	Assistant Project Manager	B.Tech. (IITK)	30	28.11.1991	6	3,15,504.00	-
156.	Shivaprasad K. G.	Senior Project Manager	B.Sc.(Hon.), M.Sc.	42	10.06.1996	21	4,96,305.00	Oman Computer Services - *Software Development Manager*
157. *	Siva Kumar N. S.	Regional Manager	B.Com.	30	14.04.1997	9	3,30,424.00	JK Technosoft - *Country Manager*
158.	Sivakumar R.	Assistant Project Manager	B.E.	27	17.06.1991	8	3,12,348.00	Infosys Digital Systems Pvt. Ltd. - *Hardware Engineer*
159. *	Sreenivas Gunturi	Senior Project Manager	B.E., M.Tech. (IIT Kharagpur)	36	18.02.1998	13	52,022.00	IBM Global Services - *Deputy General Manager*
160.	Sridhara N. R.	Associate Manager - Quality	M.Sc.	42	01.01.1984	17	3,98,003.00	Bangalore Telephones - *Technical Assistant*
161.	Srinath Batni	Vice President	M.E. (IISc)	43	15.06.1992	20	7,56,410.00	PSI Bull Ltd. - *Senior Manager (Marketing Technical Support)*
162.	Srinivas Sastry N.	Associate Project Manager	B.E., PGDM (IIMA)	32	01.06.1992	11	3,79,887.00	Tata Consultancy Services - *Systems Analyst*
163.	Srinivas T.	Assistant Project Manager	B.E.	28	23.03.1992	6	3,02,199.00	PSI Data Systems Ltd. - *Software Engineer*
164.	Srinivasan V.	Project Manager	B.Tech. (IITD)	36	03.03.1997	12	4,26,886.00	Deutsche Software - *Assistant Systems Manager*
165.	Srivathsa P. S.	Associate Manager - HRD	B.Sc.(Hon.), PGD(PM&IR)(XLRI)	35	09.03.1994	13	3,89,105.00	State Bank of Hyderabad - *Cashier-Cum-Clerk*
166.	Subbaraya Sastry M.	Senior Project Manager	B.Tech., PGDBM (IIMB)	39	13.05.1995	15	4,57,087.00	Verifone India Pvt. Ltd.- *Manager (MIS)*
167.	Subhash B. Dhar	Project Manager	B.E., PGDBM (IIMB)	31	24.02.1997	8	3,26,689.00	Ravi Database Consultants Pvt. Ltd. - *Vice President*
168.	Subrahmanya S. V.	Assistant Manager - E&R	B.E., M.Tech. (IIT Kharagpur)	36	08.10.1996	9	3,50,423.00	Ashok Leyland Information Technology Ltd. - *Assistant Project Manager*
169.	Subramanian K.	Associate Project Manager	M.Sc.	38	22.04.1996	14	3,65,209.00	Mastek Ltd. - Assistant Project Manager
170.	Subramanyam G. V.	Senior Project Manager	B.E.	31	15.06.1988	10	4,47,056.00	-
171.	Sudha Kumar	Manager - Corporate Planning	B.E., PGDBM (IIMB)	33	14.03.1994	7	4,25,404.00	A F Ferguson & Company - *Consultant*
172.	Sudheer K.	Associate Vice President	B.Tech. (IITM)	37	14.11.1986	13	5,66,922.00	Indian Organic Chemicals Ltd. - *Programmer Analyst*
173.	Sudir Babu N. P.	Associate Manager - Customer Support	B.Sc., PGDBM	31	21.02.1995	10	3,00,171.00	Brilliant Computer Centre - *Corporate Manager (Operations)*
174.	Sunanda Vijayaraghavan	Assistant Project Manager	B.Tech.	34	03.01.1996	14	3,14,474.00	MICO/Bosch - *Senior Member*
175.	Sundar Raman K.	Assistant Project Manager	B.Tech.	38	22.01.1996	12	3,38,481.00	Indian Organic Chemicals Ltd. - *Deputy Manager*
176.	Suneel K.	Senior Project Manager	B.E.	34	01.05.1988	12	4,25,224.00	Software Division of SICGIL - *Software Engineer*
177.	Suresh Kamath K.	Assistant Manager - Accounts	B.Com.	35	26.11.1987	15	3,77,399.00	Sukruta Agencies - *Accounts Assistant*

Annexure to the Directors' report

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - *Designation*
178.	Surya Prakash K.	Associate Project Manager	B.E.	29	23.07.1990	8	3,21,245.00	-
179.	Tapan Chandra Munshi	Assistant Project Manager	M.E.	32	01.12.1993	6	3,18,213.00	Uptron India Ltd. - *Software Engineer*
180.	Uday Bhaskarwar	Assistant Project Manager	B.Tech. (ITBHU)	27	22.06.1992	5	3,00,813.00	-
181.	Umesh Malhotra	Associate Project Manager	B.Tech. (IITM)	29	23.07.1990	7	3,24,903.00	-
182.	Uttara Nerurkar	Assistant Project Manager	B.Tech. (IITK)	33	18.06.1993	10	3,10,475.00	Hinditron Informatics Ltd. - *Applications Engineer*
183.	Vaishali V. Khandekar	Assistant Project Manager	B.Sc., MCA	30	31.05.1994	6	3,18,165.00	Yojana Systems Pvt. Ltd. - *Senior Software Engineer*
184.	Vasudeva Rao L.	Associate Vice President	B.E.	36	01.08.1994	13	5,82,763.00	Software Sourcing Company, Atlanta, USA - *Project Manager*
185.	Vasudevan V. R.	Associate Project Manager	B.Tech. (IITM)	30	23.07.1990	7	3,34,590.00	-
186.	Venkataramanan T. S.	Project Manager	B.E.	33	27.11.1993	12	4,03,084.00	Tata Engineering & Locomotive Company - *Senior Systems Officer*
187.	Venkateswara P. Reddy Dr.	Associate Manager - E&R	M.Sc. (BITS, Pilani), M.Sc. (IISc) Ph.D (Univ. of London)	36	02.01.1997	5	3,18,974.00	University of Hyderabad - *Lecturer*
188.	Vijay Kumar Bhakta	Associate Manager - Banking Business Unit	B.Sc.	41	27.05.1992	17	3,59,163.00	NIIT Ltd. - *Assistant Adminstrative Officer*
189.	Vijay Kumar C.	Senior Manager - Corporate Support Services	B.E.	36	03.11.1987	17	4,84,776.00	Self employed
190.	Vijay Sai P.	Associate Project Manager	M.Tech.(IITK)	32	16.04.1990	7	3,25,715.00	-
191.	Vinay Rao S.	Associate Project Manager	B.Tech. (IITD)	31	02.08.1993	7	3,33,054.00	Contech (I) Pvt. Ltd. - *Senior Software Engineer*
192.	Vinit N. Kaushik	Assistant Project Manager	B.Tech. (IITBHU), M.Sc. (Univ. of Calgary, Canada)	31	24.05.1994	11	3,66,720.00	Bell Northern Research Ltd., Canada - *Member of Scientific Staff*
193.	Vishnu G. Bhat	Assistant Project Manager	B.E.	29	15.02.1993	7	3,06,963.00	IR Tech Services - *Service Engineer*
194. *	Vishwanath G. N.	Assistant Project Manager	B.E., M.Tech.	32	29.12.1997	8	78,876.00	C-DOT - *Project Manager*
195. *	Vishwanathan R.	Assistant Project Manager	B.Tech.	29	25.06.1990	7	1,25,009.00	-
196.	Visveswaran C. R.	Assistant Project Manager	B.Sc.	33	24.03.1997	11	3,28,260.00	Apple Credit Corporation Ltd. - *Assistant Manager (MIS)*
197.	Viswanathan V.	Company Secretary	M.Com., LL.B, ACS	41	01.07.1991	17	3,20,391.00	Manaylux Papers & Boards Pvt. Ltd. - *Company Secretary*
198.	Vivek	Assistant Project Manager	B.Tech. (IITK)	29	01.07.1991	6	3,35,127.00	-
199.	Vivekanand P. Kochikar Dr.	Associate Manager - E&R	B.Tech. (IITB), M.Tech. (IISc), Ph.D (IITM)	34	02.05.1994	5	3,51,489.00	HMT Ltd. - *Engineer*
200.	Yegneshwar S. Dr.	Associate Vice President	B.E.(Hon.), Ph.D (IITB)	37	06.04.1993	10	5,18,919.00	IIM, 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

N. R. Narayana Murthy
Chairman and Managing Director

Bangalore
April 10, 1998

Report on Corporate Governance

> "Corporate Governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis-à-vis its claimants – in particular, its shareholders, creditors, the State and employees. There is a global consensus about the objective of "good" corporate governance – maximizing long-term shareholder value. Since shareholders are residual claimants, this objective follows from a premise that, in well performing capital and financial markets, whatever maximizes shareholder value must necessarily maximize corporate value, and best satisfy the claims of creditors, employees and the State."
>
> – *Desirable Corporate Governance - A Code* : Confederation of Indian Industry (CII)

CII has taken the initiative to improve corporate governance by publishing a code of Corporate Governance. Your Company has been complying with most recommendations of the Code, for several years. Your Company supports this initiative and believes that this will considerably improve investor protection and governance. Your directors have thought it fit to submit a report on the matters mentioned in the Code, and the practices followed by your Company.

Corporate Governance

The CII Committee on corporate governance has made 17 specific recommendations. Your Company complies with all these recommendations except for the following:

1. The Chairman is also the Managing Director of the Company. CII has recommended that in such companies where the Chairman is also the Managing Director, at least 50% of the Board should be represented by non-executive directors. Non-executive directors constitute 40% of the Board strength at present. Three non-executive directors were co-opted in October 1997, and a fourth, on April 10, 1998.
2. CII has recommended that no single person should hold directorship in more than 10 companies. Two non-executive directors hold directorship in more than 10 companies.
3. CII has recommended that non-executive directors be entitled to stock options, so as to enable them to bring-in long-term value to the shareholders. Currently, non-executive directors are not entitled to stock options.

Board of Directors

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

The Board of Directors had met eight times during the year with a clearly defined agenda for each meeting.

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

Non-executive directors constitute 40% of the Board at present as against the 50% recommended by CII. The non-executive directors are accomplished professionals in the corporate and academic worlds.

Recommendation 3 – No single person should hold directorships in more than 10 companies. This ceiling excludes directorships in subsidiaries (where the group has over 50% equity stake) or associate companies (where the group has over 25% but no more than 50% equity stake).

Except for two of the external directors, none of the other directors hold directorship in more than 10 companies.

Recommendation 4 – For non-executive directors to play an important role in maximizing long-term shareholder value, they need to become active participants in boards, not passive advisors; have clearly defined responsibilities within the board; and know how to read a balance sheet, profit and loss account, cash flow statements and financial ratios and have some knowledge of various company laws. This, of course, excludes those who are invited to join boards as experts in other fields such as science and technology. Sufficient sitting fees should be paid to non-executive directors to induce serious effort by them.

Infosys co-opted three non-executive directors on its Board in October 1997, and one more on April 10, 1998. The non-executive directors play an active role in all the Board meetings. The number of Board meetings held during the year ended March 31, 1998, after the non-executive directors were co-opted, and the number attended by the non-executive directors during the year, is given overleaf:

Director	No. of Meetings held	No. of Meetings attended
Susim M. Datta	4	4
Deepak M. Satwalekar	4	2
Ramesh Vangal	4	2

The non-executive directors are paid a sitting fee of Rs. 2,000 per meeting and Rs. 2,000 for each meeting of a Board committee.

Recommendation 5 – To secure better effort from non-executive directors, companies should pay a commission over and above the sitting fees for the use of the professional inputs. An appropriate mix of commission and stock option should be considered to align a non-executive director towards keeping an eye on short-term profits as well as longer-term shareholder value.

The non-executive directors are eligible for a commission up to 0.50% of the net profits of the Company. During the financial year 1997-98, the total commission payable to three of the non-executive directors amounted to Rs. 9 lakhs. However, they are not eligible for any stock options.

Recommendation 6 – While re-appointing members of the board, companies should give the attendance record of the concerned directors. As a general practice, one should not re-appoint any non-executive director who has not had the time to attend even one half of the meetings.

The information on the number of meetings held and attended by directors eligible for re-appointment is provided in the resolutions being placed before the shareholders for approval.

Key information

Recommendation 7 – In the interest of good governance, certain key information must be placed before the board, and must form part of the agenda papers.

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

Audit committee

Recommendation 8 – Listed companies with either a turnover of over Rs. 100 crore or a paid-up capital of Rs. 20 crore, whichever is less, should set up Audit Committees within two years. Audit Committees should consist of at least three members, all drawn from a company's non-executive directors, who should have adequate knowledge of finance, accounts and basic elements of company law.

The Audit committee consists of three non-executive directors with Mr. Deepak M. Satwalekar, as Chairman of the committee. The committee deals with accounting matters, financial reporting and internal controls. The committee meets at least twice a year and reviews the internal auditors' and statutory auditors' report. The committee also monitors proposed changes in the accounting policy, reviews the internal audit functions, and discusses the accounting implications of major transactions.

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

1. The safeguarding of assets against unauthorized use or disposition; and
2. The maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

Disclosures

Recommendation 9 – Under "Additional Shareholder's Information", listed public companies should give data on high and low monthly averages of share prices in all the Stock Exchanges where the company is listed for the reporting year; statement on value added; and greater detail on business segments or divisions.

The information on high and low monthly averages of share prices in all the stock exchanges where the Company is listed is provided on page 121, the value added statement is provided on page 130 and the segmental information of revenue is provided on pages 139-140. This information was provided even in earlier years.

Recommendation 10 – Consolidation of group accounts should be optional and subject to the financial institutions allowing companies to leverage on the basis of the group's assets and the income tax department using the group concept in assessing corporate income tax.

The unaudited consolidated financial statement of Infosys and its subsidiary, Yantra Corporation is provided on pages 147-148 of this report. The consolidated financial statements as per US GAAP is provided on pages 77-106 of this report.

Recommendation 11 – Major Indian Stock Exchanges should gradually insist upon a compliance certificate, signed by the CEO and CFO.

The management statement on the integrity and preparation of the financial statements is provided on page 38 of this report.

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

Infosys provides financial information prepared in compliance with US GAAP, and the same is provided on pages 77-106 of this report.

Capital market issues

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

Not applicable.

Creditors' rights

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

Not applicable.

Recommendation 15 – In case of debt issues, the quality of information given to the Indian investing public should be at par with those disclosed in developed countries.

Not applicable.

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

Not applicable.

Recommendation 17 – Reduction in the number of companies where there are nominee directors.

Not applicable.

Bangalore
April 10, 1998

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 Generally Accepted Accounting Principles (GAAP) in India. 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 Bharat S Raut & Co., Chartered Accountants, the independent auditors.

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

The Audit Committee for 1997-98 was:

Deepak M. Satwalekar, *Chairman*

Susim M. Datta, *Member*

Ramesh Vangal, *Member*

Bangalore
April 10, 1998

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

N. R. Narayana Murthy
Chairman and Managing Director

Auditors' report

To
The Members,
Infosys Technologies Limited

We have audited the attached Balance Sheet of Infosys Technologies Limited (the Company) as at March 31, 1998 and the Profit and Loss Account of the Company for the year ended on that date, annexed thereto, and report that:

1. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

2. Further to our comments in the Annexure referred to in paragraph (1) above:
   (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

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

   (c) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;

   (d) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:

      (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 1998; and

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

3. We have also examined the attached Cash Flow Statement of the Company for the year ended March 31, 1998. The Statement has been prepared by the Company in accordance with the requirements of Clause 32 of the listing agreements entered into with the Stock Exchanges.

for Bharat S Raut & Co.
Chartered Accountants

R. Ramu

Bangalore
April 10, 1998

Ravi Ramu
Partner

Annexure to the Auditors' report

The Annexure referred to in paragraph 1 of the auditors' report to the members of Infosys Technologies Limited (the Company) for the year ended March 31, 1998. We report that:

Internal Controls

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

Fixed Assets

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

Inventories

6. Inventories of imported software in which the Company trades have been physically verified by Management. In our opinion, the frequency of verification is reasonable.
7. The procedures for the physical verification of inventories followed by Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
8. No discrepancies were identified on the physical verification of inventories as compared to the book records.
9. On the basis of our examination of inventories, we are of the opinion that their valuation is fair and proper, in accordance with normally accepted accounting principles and is on the same basis as in the previous year.
10. The Company has a regular procedure for the determination of obsolete or unserviceable traded software.
11. In our opinion and according to the information and explanations given to us, the activities of the Company are such that no realisable by-products or scrap is generated.
12. We are informed by Management that the Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956, for any of the products of the Company.

Loans and advances

13. The parties to whom loans or advances in the nature of loans have been given by the Company are regular in repaying the principal amounts as stipulated and interest where applicable. In a case where the repayments have not been as stipulated, Management has taken adequate follow up action.

14. The Company has not taken any loans, secured or unsecured from companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, or from companies under the same management as defined under Section 370(1B) of the Companies Act, 1956, the rate of interest and other terms and conditions of which are, prima facie, prejudicial to the interests of the Company.

15. The Company has not granted any loans, secured or unsecured to companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, or to companies under the same management as defined under Section 370(1B) of the Companies Act, 1956, the rate of interest and other terms and conditions of which are, prima facie, prejudicial to the interests of the Company.

Related parties

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

Fixed Deposits

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

Staff Welfare

18. Provident Fund and the Employees' State Insurance dues have been regularly deposited during the year with the appropriate authorities.

19. On the basis of the examination of the books of account carried out by us in accordance with generally accepted auditing practices and according to the information and explanations given to us, no personal expenses of employees or directors have been charged to the profit and loss account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

Taxation

20. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty which are outstanding as at March 31, 1998, for a period of more than six months from the dates that they became payable.

Others

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

for Bharat S Raut & Co.
Chartered Accountants

R. Ramu

Bangalore
April 10, 1998

Ravi Ramu
Partner

Balance Sheet as at March 31

in Rs.

	Schedule	1998	1997
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	16,01,73,500	7,25,97,500
Reserves and surplus	2	156,93,99,419	105,57,63,097
		172,95,72,919	112,83,60,597
APPLICATION OF FUNDS			
FIXED ASSETS	3		
Gross block		105,13,90,563	71,29,16,621
Less : Depreciation		47,50,66,754	25,02,44,587
Net block		57,63,23,809	46,26,72,034
Add : Capital work-in-progress		7,32,13,272	7,04,41,980
		64,95,37,081	53,31,14,014
INVESTMENTS	4	10,77,71,960	5,32,61,960
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	5	-	4,10,878
Sundry debtors	6	39,88,48,667	18,08,89,934
Cash and bank balances	7	43,86,55,723	15,02,35,621
Loans and advances	8	39,18,00,686	38,44,14,669
		122,93,05,076	71,59,51,102
Less : Current liabilities	9	11,20,36,854	5,12,31,334
Provisions	10	14,50,04,344	12,27,35,145
NET CURRENT ASSETS		97,22,63,878	54,19,84,623
		172,95,72,919	112,83,60,597
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	14		

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

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

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

N. R. Narayana Murthy
Chairman and Managing Director

Susim M. Datta
Director

Deepak M. Satwalekar
Director

N. S. Raghavan
Jt. Managing Director

Nandan M. Nilekani
Dy. Managing Director

S. Gopalakrishnan
Dy. Managing Director

K. Dinesh
Director

S. D. Shibulal
Director

Bangalore
April 10, 1998

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

V. Viswanathan
Company Secretary

Profit and Loss Account for the year ended March 31

in Rs.

	Schedule	1998	1997
INCOME			
Software development services and products			
Overseas		250,93,75,443	125,28,18,659
Domestic		6,70,33,205	13,33,74,035
Sale of imported software packages		1,64,840	59,53,940
Other income	11	2,70,83,794	4,59,30,153
		260,36,57,282	143,80,76,787
EXPENDITURE			
Cost of imported software packages sold		1,30,429	37,14,984
Software development expenses	12	141,20,17,617	76,35,57,398
Administration and other expenses	13	30,53,93,818	15,70,33,835
Loss on sale of investments/Provision for investments		-	1,31,92,752
		171,75,41,864	93,74,98,969
Operating profit (PBIDT)		88,61,15,418	50,05,77,818
Interest		-	61,09,715
Depreciation		22,74,82,339	10,51,64,884
Profit before tax		65,86,33,079	38,93,03,219
Provision for tax - earlier years		1,50,50,000	1,08,00,805
- current year		3,99,50,000	4,16,96,485
Profit after tax from ordinary activities		60,36,33,079	33,68,05,929
Extraordinary income		-	3,59,00,000
Net profit		60,36,33,079	37,27,05,929
AMOUNT AVAILABLE FOR APPROPRIATION		60,36,33,079	37,27,05,929
Dividend			
Interim		1,75,73,859	1,08,87,900
Final (proposed)		5,27,17,738	2,90,35,145
Dividend tax		70,29,160	29,03,515
Amount transferred - capital reserve		-	3,59,00,000
- general reserve		52,63,12,322	29,39,79,369
		60,36,33,079	37,27,05,929
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	14		

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

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

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

N. R. Narayana Murthy
Chairman and Managing Director

Susim M. Datta
Director

Deepak M. Satwalekar
Director

N. S. Raghavan
Jt. Managing Director

Nandan M. Nilekani
Dy. Managing Director

S. Gopalakrishnan
Dy. Managing Director

K. Dinesh
Director

S. D. Shibulal
Director

Bangalore
April 10, 1998

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

V. Viswanathan
Company Secretary

in Rs.

	1998	1997
1. SHARE CAPITAL		
AUTHORIZED		
3,00,00,000 (1,00,00,000) equity shares of Rs. 10 each.	30,00,00,000	10,00,00,000
ISSUED, SUBSCRIBED AND PAID UP		
1,60,17,200 (72,59,600) equity shares of Rs. 10 each fully paid up.	16,01,72,000	7,25,96,000
[Of the above, 1,29,26,900 (49,18,300) equity shares of Rs. 10 each fully paid up have been issued as bonus shares by capitalization of general reserve]		
Add : Forfeited shares	1,500	1,500
	16,01,73,500	7,25,97,500
2. RESERVES AND SURPLUS		
Capital reserve as per last Balance Sheet	3,59,00,000	3,59,00,000
Share premium account as per last Balance Sheet	34,75,41,460	34,74,51,460
Add : Received during the year on conversion of warrants	6,74,10,000	90,000
	41,49,51,460	34,75,41,460
Investment allowance reserve (utilized) as per last Balance Sheet	6,65,000	9,55,800
Less : Transferred to general reserve	6,65,000	2,90,800
	-	6,65,000
General reserve as per last Balance Sheet	67,16,56,637	37,73,86,468
Less : Capitalized for issue of bonus shares	8,00,86,000	-
	59,15,70,637	37,73,86,468
Add : Transferred during the year from investment allowance reserve (utilized)	6,65,000	2,90,800
Add : Transferred from Profit and Loss Account	52,63,12,322	29,39,79,369
	111,85,47,959	67,16,56,637
	156,93,99,419	105,57,63,097

3. FIXED ASSETS

in Rs.

	Gross block				Depreciation				Net block	
Assets	Cost as at 1.4.97	Additions during the year	Deductions during the year	Cost as at 31.3.98	As at 1.4.97	For the year	Deductions during the year	As at 31.3.98	As at 31.3.98	As at 31.3.97
Land - free-hold	1,89,83,650	-	-	1,89,83,650	-	-	-	-	1,89,83,650	1,89,83,650
Land - lease-hold	47,13,590	2,43,09,390	-	2,90,22,980	-	-	-	-	2,90,22,980	47,13,590
Buildings	18,51,43,391	85,02,888	73,904	19,35,72,375	70,76,134	42,89,434	3,222	1,13,62,346	18,22,10,029	17,80,67,257
Plant and machinery	11,23,66,837	8,33,94,837	1,34,328	19,56,27,346	3,18,89,364	3,95,25,455	1,14,762	7,13,00,057	12,43,27,289	8,04,77,473
Computer equipment	31,15,85,075	17,50,02,584	20,49,955	48,45,37,704	17,64,09,903	14,99,35,869	20,49,955	32,42,95,817	16,02,41,887	13,51,75,172
Furniture and fixtures	7,88,56,266	4,92,47,973	2,14,301	12,78,89,938	3,44,08,666	3,35,85,449	1,65,452	6,78,28,663	6,00,61,275	4,44,47,600
Vehicles	12,67,812	8,68,380	3,79,622	17,56,570	4,60,520	1,46,132	3,26,781	2,79,871	14,76,699	8,07,292
Total	71,29,16,621	34,13,26,052	28,52,110	105,13,90,563	25,02,44,587	22,74,82,339	26,60,172	47,50,66,754	57,63,23,809	46,26,72,034
Previous year	46,85,74,921	24,70,28,211	26,86,511	71,29,16,621	14,66,06,677	10,51,64,884	15,26,974	25,02,44,587	46,26,72,034	

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.

		1998	1997
4. INVESTMENTS			
TRADE (UNQUOTED) – at cost Long-term investments	No. of shares		
Yantra Corporation, a subsidiary company incorporated in the USA –			
Common stock at US$ 0.20 each fully paid par value US$ 0.01 each	75,00,000	5,32,51,600	5,32,51,600
Series A Convertible Preferred Stock at US$ 0.75 each fully paid par value US$ 0.01 each	20,00,000	5,45,10,000	-
		10,77,61,600	5,32,51,600
Software Services Support Education Center Ltd.	1	10	10
The Saraswat Co-operative Bank Ltd.	1,035	10,350	10,350
		10,77,71,960	5,32,61,960

	1998	1997
5. INVENTORIES		
Stock of software packages	–	4,10,878
	–	4,10,878

	1998	1997
6. SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months.		
Unsecured – considered good	–	1,37,21,193
– considered doubtful	1,52,12,216	60,51,160
Other debts		
Unsecured – considered good*	39,88,48,667	16,71,68,741
	41,40,60,883	18,69,41,094
Less : Provision for doubtful debts	1,52,12,216	60,51,160
	39,88,48,667	18,08,89,934
* Due by subsidiary - Yantra Corporation	62,89,036	52,09,782

in Rs.

	1998	1997

7. CASH AND BANK BALANCES

	1998	1997
Cash on hand	5,30,077	3,71,793
Balances with scheduled banks		
– in current accounts	10,60,52,806	7,61,80,212
– in deposit accounts in Indian rupees	42,06,643	13,80,788
– certificates of deposit in Indian rupees	15,52,06,706	–
– in deposit accounts in foreign currency	5,20,55,249	–
Balances with non-scheduled banks – in current accounts		
ABN Amro Bank, Heerlen, Netherlands	10,72,838	2,69,688
Bank of America, Milpitas, USA	11,07,73,736	2,61,51,379
Bank of America, Los Angeles, USA	3,53,326	1,20,314
Bank of Boston, Boston, USA	45,81,111	4,41,11,215
Bank of New York, New York, USA	–	4,55,479
Barclays Bank, London, UK	4,58,195	1,18,568
First Chicago Bank, Chicago, USA	88,850	6,97,786
Hongkong Bank of Canada, Toronto, Canada	8,87,116	–
Nations Bank, Dallas, USA	5,98,598	3,78,399
Summit Bank, Bridgewater, USA	17,46,627	–
Sanwa Bank, Tokyo, Japan	43,845	–
	43,86,55,723	15,02,35,621

	1998	1997
Maximum balance held during the year		
ABN Amro Bank, Heerlen, Netherlands	28,77,014	23,09,854
Bank of America, Milpitas, USA	14,99,74,560	2,61,51,379
Bank of America, Los Angeles, USA	16,31,113	5,50,160
Bank of Boston, Boston, USA	5,50,09,836	9,54,01,211
Bank of New York, New York, USA	18,32,600	14,71,366
Barclays Bank, London, UK	24,05,326	9,10,642
First Chicago Bank, Chicago, USA	24,23,279	13,15,990
Hongkong Bank of Canada, Toronto, Canada	8,87,116	–
Nations Bank, Dallas, USA	12,94,793	9,55,534
Summit Bank, Bridgewater, USA	17,96,076	–
Sanwa Bank, Tokyo, Japan	13,28,328	–

in Rs.

	1998	1997
8. LOANS AND ADVANCES		
Unsecured, considered good		
Advances recoverable in cash or in kind or for value to be received	5,21,21,294	3,24,73,113
Advance income tax	9,59,04,567	12,88,19,814
Loans and advances to employees *	7,54,56,651	3,18,48,790
Other advances	4,16,88,775	1,00,06,040
Rent and maintenance deposit	5,38,65,413	4,37,20,562
Deposits with companies	7,27,63,986	13,75,46,350
	39,18,00,686	38,44,14,669
Unsecured, considered doubtful		
Deposits with companies	70,10,039	-
	39,88,10,725	38,44,14,669
Less : Provision for doubtful loans and advances	70,10,039	-
	39,18,00,686	38,44,14,669
* Due by non-director officers of the Company	89,71,524	33,41,983
Maximum amount due at any time during the year	1,07,49,219	40,97,109
9. CURRENT LIABILITIES		
Sundry creditors - for goods	39,38,682	39,23,181
- for accrued salaries and benefits	6,23,37,905	2,83,36,413
- for other liabilities	3,70,85,711	1,18,47,519
Advances received from clients	50,56,601	64,26,520
Deferred revenue	24,51,442	-
Unclaimed dividend	11,66,513	6,97,701
	11,20,36,854	5,12,31,334
10. PROVISIONS		
Provision for taxation	7,99,76,791	9,37,00,000
Proposed dividend	5,27,17,738	2,90,35,145
Provision for post-sales customer support	1,23,09,815	-
	14,50,04,344	12,27,35,145

Schedules to the Profit and Loss Account for the year ended March 31

in Rs.

	1998	1997
11. OTHER INCOME		
Income from investments		
Non-trade - Current investments		
dividends and interest	76,576	9,23,782
Interest received on deposits with banks and others	1,57,93,250	3,38,56,746
Tax deducted at source Rs. 17,60,067 (Rs. 63,45,868)		
Profit on sale of assets	1,09,159	-
Sale of special import licenses	1,01,26,872	99,82,153
Miscellaneous income	9,77,937	11,67,472
	2,70,83,794	4,59,30,153
12. SOFTWARE DEVELOPMENT EXPENSES		
Salaries and bonus including overseas staff expenses	87,45,07,472	48,11,04,148
Staff welfare	2,37,53,531	1,86,48,239
Contribution to provident and other funds	3,90,03,595	1,65,55,699
Foreign tour and travel	25,21,33,000	14,18,94,247
Consumables	58,70,353	49,60,231
Cost of software packages		
- for own use	8,74,93,506	3,91,24,965
- for domestic software development	1,98,37,506	3,42,92,427
Provision for post-sales customer support	1,23,09,815	-
Computer maintenance	1,53,49,718	83,23,927
Communication expenses	5,74,16,558	1,27,18,666
Consultancy charges	2,43,42,563	59,34,849
	141,20,17,617	76,35,57,398
13. ADMINISTRATION AND OTHER EXPENSES		
Travelling and conveyance	2,96,75,343	1,71,19,697
Rent	5,35,80,219	2,41,97,505
Telephone charges	3,37,04,179	1,46,36,037
Legal and professional charges	2,67,63,969	1,55,15,046
Printing and stationery	1,13,49,709	1,07,86,844
Advertisements	1,15,01,922	88,85,080
Office maintenance	2,76,24,915	77,43,618
Repairs to building	65,00,864	75,45,336
Repairs to plant and machinery	45,54,587	20,76,775
Power and fuel	1,67,48,311	75,79,823
Insurance charges	43,57,933	16,26,528
Rates and taxes	1,11,51,246	41,93,982
Donations	52,34,364	13,95,132
Auditors' remuneration - audit fees	9,00,000	1,00,000
- tax audit	-	40,000
- other services	-	1,08,000
- out-of-pocket expenses	30,000	3,06,514
Provision for bad and doubtful debts	1,52,12,216	60,51,160
Provision for doubtful loans and advances	70,10,039	-
Bank charges and commission	29,27,262	36,42,054
Commission charges	10,58,955	4,67,850
Obsolete stock written off	2,26,729	13,05,916
Miscellaneous expenses	3,52,81,056	2,17,10,938
	30,53,93,818	15,70,33,835

14. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

14.1 Significant accounting policies

14.1.1 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 the accruals basis.

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

14.1.2 Revenue recognition

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

14.1.3 Expenditure

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

14.1.4 Fixed assets

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

14.1.5 Capital work-in-progress

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

14.1.6 Depreciation

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

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

14.1.7 Inventories

Inventories are valued at the lower of historic cost and 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.

14.1.8 Retirement benefits to employees

14.1.8a Gratuity

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

Until March 31, 1997, the Company contributed, each year, to a gratuity fund maintained by the Life Insurance Corporation of India, based upon actuarial valuations. No additional contributions were required to be made by the Company in excess of the contributions to the plan.

Effective April 1, 1997, the Company established the Infosys Technologies Limited Employees' Group Gratuity Fund Trust. Liabilities with regard to the gratuity plan are determined by actuarial valuation, based upon which the Company makes contributions to the gratuity fund. Trustees administer the contributions made to the gratuity fund. The funds contributed to the trust are invested in specific designated securities as mandated by statute, and generally comprise central and state government bonds, and debt instruments of government-owned corporations.

14.1.8b Superannuation

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

14.1.8c Provident fund

In addition, all employees receive provident fund benefits through a defined contribution plan in which the employee and employer make monthly contributions, to the plan, of 12% each of the covered employee's salary.

Until July 1996, Infosys contributed to the Employees' Provident Fund maintained by the Government of India. Effective August 1996, the Company has established a Provident Fund Trust to which a part of the contributions are made each month. The remainder of the contributions are made to the Government's provident fund. The Company has no further obligations under the plan beyond its monthly contributions.

14.1.9 Research and development

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

14.1.10 Foreign currency transactions

In the case of sales made to clients outside India, income is accounted on the basis of the exchange rate as on the date of the transaction. Adjustments are made for any variations in the sale proceeds on conversion into Indian currency upon actual receipt. Expenditure in foreign currency is accounted at the conversion rate prevalent when such expenditure is incurred. Where realizations are deposited into, and disbursements made out of, a foreign currency bank account, all transactions during the month are reported at a rate which approximates the actual monthly rate.

In the case of current assets and current liabilities expressed in foreign currency, the exchange rate prevalent at the end of the year is taken for the purposes of translation. Fixed assets purchased at overseas offices are accounted on the basis of the actual cost incurred, at the exchange rate prevalent at the time of purchase. Depreciation is charged as per Company policy. Exchange differences arising on foreign currency transactions are recognized as income or expense in the year in which they arise. In the case of forward contracts, the difference between the forward rate and the exchange rate on the date of the transaction is recognized as income or expense over the life of the contract.

14.1.11 Investments

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

14.1.12 Investment in subsidiary

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

14.1.13 Income tax

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

14.2 Notes on accounts

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

14.2.1 Contingent liabilities

a. The estimated amount of contracts remaining to be executed on capital account, and not provided for, is Rs. 10,95,12,576. The amount of such contracts as at the previous year-end was Rs. 9,95,31,303.

b. The Company has outstanding counter guarantees of Rs. 1,73,09,161 as at March 31, 1998, to various banks, in respect of guarantees given by the said banks in favor of various government authorities. The counter guarantees outstanding, as at the previous year-end were Rs. 1,99,52,251.

c. Claims against the Company, not acknowledged as debts, amounted to Rs. 25,17,576 as at March 31, 1998. Such claims for the previous year-end were Rs. 5,80,623.

d. The Company has no letters of credit outstanding issued to various vendors as at March 31, 1998. The corresponding figure for the previous year was Rs. 3,40,16,200.

14.2.2 Quantitative details

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

14.2.3 Managerial remuneration paid to the Managing Directors and wholetime directors

in Rs.

	1998	1997
Salary	28,92,000	26,10,271
Contribution to Provident Fund and other funds	9,19,944	7,77,726
Perquisites	22,50,981	24,79,801

14.2.4 Managerial remuneration paid to non-wholetime directors

in Rs.

	1998	1997
Commission	9,00,000	-
Sitting fees	22,000	-
Reimbursement of expenses	1,74,138	-

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

in Rs.

Profit as per the Profit and Loss Account			60,36,33,079
Add :			
1.	Wholetime directors remuneration (including perquisites)	60,62,925	
2.	Directors' sitting fees	22,000	
3.	Commission to non-wholetime directors	9,00,000	
4.	Depreciation as per the accounts	22,74,82,339	
5.	Provision for taxation	5,50,00,000	28,94,67,264
			89,31,00,343
Less :			
1.	Depreciation as per Section 350 of the Companies Act, 1956	16,04,87,054	
2.	Provision for bad and doubtful debts	1,52,12,216	
3.	Provision for doubtful loans and advances	70,10,039	
4.	Profit on sale of fixed assets as per Profit and Loss Account	1,09,159	
5.	Loss on sale of fixed assets (net) as per Section 350 of the Companies Act, 1956	4,05,438	18,32,23,906
Net profit on which commission is payable			70,98,76,437
Commission payable to non-wholetime directors @ 0.50% of net profit (remuneration is for the period from October 10, 1997 to March 31, 1998)			16,82,309
Commission approved by the Board			9,00,000

14.2.5 Imports on CIF basis

in Rs.

	1998	1997
Capital goods	15,01,26,347	13,20,37,800
Software packages	4,52,03,814	37,73,864

14.2.6 Expenditure in foreign currency

in Rs.

	1998	1997
Travel expenses	18,54,56,374	8,38,00,143
Professional charges	1,77,59,820	54,71,083
Other expenditure incurred overseas for software development	58,79,49,763	33,66,20,194

14.2.7 Earnings in foreign exchange

in Rs.

	1998	1997
Income from software development services and products on a receipts basis	226,03,94,056	114,03,40,512

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

	1998		1997	
	Qty.	Value (Rs.)	Qty.	Value (Rs.)
Opening stock	118	4,10,878	307	16,97,058
Purchases	-	-	957	37,73,864
Closing stock	-	-	118	4,10,878
Turnover	118	4,10,878	1,146	50,60,044

14.2.9 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. 2,86,94,241. The corresponding figure for the previous year was Rs. 74,88,017.

14.2.10 Post-sales customer support

With effect from July 1, 1997, the Company commenced making a provision for post-sales customer support on fixed-price contracts. The provision for the current year is Rs. 1,23,09,815.

14.2.11 Depreciation

With effect from July 1, 1997, the Company revised the useful life of Furniture and Fixtures, Vehicles, and Plant and Machinery from six years to five years. Due to this change, depreciation for the current year is higher by Rs. 1,08,69,125.

14.2.12 Depreciation on assets purchased for research and development

During the year, the Company fully depreciated assets acquired for research and development, as against the policy followed in earlier years of capitalizing and depreciating the same over the useful life of the assets. Due to this change, depreciation for the current year is higher by Rs. 1,48,44,052.

14.2.13 Annual Technical Services

With effect from July 1, 1997, the Company accounts for revenue from Annual Technical Services on a pro rata basis over the period in which such services are rendered. Consequently, Rs. 24,51,442, the Annual Technical Services for the current year, has been deferred and will be recognized in future.

Due to the revisions noted in paragraphs 14.2.10 to 14.2.13 above, the profit for the current year is lower by Rs. 4,04,74,434 on a comparative basis.

14.2.14 Exchange differences

Income from overseas software development services and products includes net realized and unrealized exchange gains of Rs. 3,43,20,847. The corresponding figure for the previous year was Rs. 1,40,51,456.

14.2.15 Research and development expenditure

Research and development expenses charged to the Profit and Loss Account in both capital and revenue accounts amount to Rs. 7,79,72,734. This includes Rs. 2,45,41,086 being the depreciation charged at 100% in respect of R&D assets acquired during earlier years. The amount for the previous year was Rs. 4,97,01,892.

Overview

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

A Financial condition

1. Share capital

The Company has, at present, only one class of shares. During the year 7,49,000 shares were issued on conversion of warrants issued under the Employees Stock Offer Plan (ESOP) to employees and to the Employees Welfare Trust. During the previous year, the Company issued 1,000 shares to one employee under the ESOP. The said shares have been issued on the payment of Rs. 100 per share (with Rs. 90 per share being the share premium) and are subject to a lock-in period. During October 1997, the Company also issued 80,08,600 shares as bonus shares to its shareholders in the ratio of 1:1 as approved by the shareholders in the Annual General Meeting of the Company held in June 1997.

2. Reserves and surplus

The addition to the share premium account of Rs. 6,74,10,000, during the year, is due to the premium of Rs. 90 per share received upon conversion of 7,49,000 warrants under the ESOP scheme. During the previous year, there was an addition of Rs. 90,000 to the share premium account arising out of the conversion of 1,000 warrants issued under the ESOP scheme. As allowed under the provisions of the Income Tax Act, 1961, a sum of Rs. 6,65,000 and Rs. 2,90,800 has been transferred from the Investment Allowance (Utilized) Reserve to the General Reserve, upon completion of the specified period during the years ended March 31, 1998 and 1997.

During the year, the Company transferred the balance profit of Rs. 52,63,12,322 to the General Reserve, after providing for a dividend payment of Rs. 7,02,91,597 and dividend tax of Rs. 70,29,160. During the previous year, the Company transferred the balance profit of Rs. 29,39,79,369 to the General Reserve, after providing for a dividend payment of Rs. 3,99,23,045 and dividend tax of Rs. 29,03,515. During the previous year, the Company also transferred Rs. 3,59,00,000 to the Capital Reserve, being the profit arising on the sale of the software product Eagle to its subsidiary, Yantra Corporation.

3. Fixed assets

During the year, the Company added Rs. 34,13,26,052 to its gross block, including investment in technology assets of Rs. 17,50,02,584. During the previous year, the Company added Rs. 24,70,28,211 to its gross block, including investment in technology assets of Rs. 11,32,04,870. The capital work-in-progress as on years ended March 31, 1998 and 1997, represents advances paid towards acquisition of fixed assets, and the cost of assets not put to use. During the year, the Company donated computer systems costing Rs. 15,71,400 (book value Nil) to certain educational institutions and the same is disclosed under the heading *Deductions during the year*, under both *Gross block* and *Depreciation*.

Capital expenditure for the year ending March 31, 1999, is estimated at Rs. 150 crore. The Company estimates that it would be able to fund its capital acquisition program from its internal accruals and liquid assets. The Company may also take recourse to borrowings to meet its capital expenditure should it be deemed necessary.

4. Investments

The Company's subsidiary, Yantra Corporation is incorporated in the US. The Company had made an investment of US$ 500,000 (Rs. 1,73,51,600) by a cash remittance, after obtaining the necessary approvals, during the year ended March 31, 1996, towards the issue of 2,500,000 shares of common stock at US$ 0.20 per share with a par value of US$ 0.01 per share. During the year ended March 31, 1997, the Company sold its software product, Eagle, to Yantra Corporation for an amount of US$ 1,000,000 (Rs. 3,59,00,000). The sale was paid for by the issue of 5,000,000 shares of common stock at US$ 0.20 per share with a par value of US$ 0.01 per share. Thus, the cumulative investment by the Company in the capital of Yantra Corporation till the year ended March 31, 1997, was US$ 1,500,000 (Rs. 5,32,51,600).

During the year, the Company invested an amount of US$ 1,500,000 (Rs. 5,45,10,000), towards the issue of 2,000,000 shares of Convertible Preferred Stock in Yantra Corporation at US$ 0.75 per share, by way of cash remittance. Mr. Donald W. Feddersen, a well-known venture capitalist, subscribed to 533,000 shares of Convertible Preferred Stock at US$ 0.75 a share, and Draper International LLC subscribed to 2,467,000 shares of Convertible Preference Stock at US$ 0.75 a share amounting to US$ 2,250,000. In all, the capital of Yantra increased by US$ 3,750,000. The financial statements of the subsidiary are provided on pages 65-76 of this report.

5. Inventories

During the previous years, the Company derived some of its revenues from the trading of software products. The Company's stock of inventory consisted of software products purchased for re-sale. The Company has decided to wind up this division due to the lack of adequate demand for such products. The obsolete stock of such products, amounting to Rs. 2,26,729, have been written off during the year.

6. Sundry debtors

Sundry debtors amount to Rs. 39,88,48,667 (net of provisions for bad and doubtful debts) as at March 31, 1998, as compared with Rs. 18,08,89,934 as at March 31, 1997. These debtors are considered good and realizable, and provision has been made for all debtors outstanding for more than 180 days. The debtors as a percentage of total software revenue is 15.48% for the year ended March 31, 1998, as compared with 13.00% for the year ended March 31, 1997. This amounts to an outstanding of 57 days and 47 days of software revenue for the respective years. The age profile is as given below:

Period in days	March 31, 1998	March 31, 1997
0 - 30	60.88%	68.82%
31 - 60	29.90%	22.86%
61 - 90	6.43%	0.04%
More than 90	2.79%	8.28%
	100.00%	100.00%

7. Cash and bank balances

in Rs.

	March 31, 1998	March 31, 1997
Cash balances	5,30,077	3,71,793
Bank balances in India - current accounts	10,60,52,806	7,61,80,212
- deposit account	15,94,13,349	13,80,788
- EEFC deposit account in US$	5,20,55,249	-
Bank balances - overseas	12,06,04,242	7,23,02,828
	43,86,55,723	15,02,35,621

The bank balances in India include both rupee accounts and foreign currency accounts. They also include Rs. 11,66,513 and Rs. 6,97,701 in the unclaimed dividend account for the years ended March 31, 1998 and 1997. The deposit account represents deposits for short tenures. The Company also has a deposit of US$ 13,18,522 (Rs. 5,20,55,249) in the Exchange Earners Foreign Currency (EEFC) account as at March 31, 1998. The bank balances in overseas accounts are to meet the expenditure of the overseas branches in USA and other countries, and to meet project-related expenditure overseas.

The cash and cash equivalents as at March 31, 1998 and 1997, amounted to Rs. 51,14,19,709 and Rs. 28,77,81,971. This represents approximately 30% and 26% of the total assets as at March 31, 1998 and 1997.

8. Loans and advances

Advances recoverable in cash or in kind or for value to be received are primarily towards amounts paid in advance for value and services to be received in future. Advance income tax represents payments made towards tax liability for the years ended March 31, 1998 and 1997, and so also refunds due for previous years. The Company's liability towards income tax has been fully provided. Deposits with companies of Rs. 7,27,63,986 represent amounts kept with various companies as inter-corporate deposits. The Company's treasury policy calls for investing only in highly rated companies for short maturities with a limit for individual companies. Loans to employees are made to enable the purchase of assets by employees and to meet any emergency requirements. The loans to employees increased significantly during the year, due to an increase in the number of employees taking such loans, and also due to the introduction of various new loan schemes. Other advances represent a loan to the Employees Welfare Trust, electricity deposits and advances of a similar nature. The Company has taken on lease, several buildings for its software development centers in various cities and also for housing its staff. The deposits paid towards the above are shown under rent and maintenance deposits.

9. Current liabilities

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

10. Provisions

Provisions for taxation represent estimated income tax liabilities, both in India and abroad, for the years ended March 31, 1998 and 1997. The provisions and the advance tax payments would be set-off upon assessment. The proposed dividend represents the final dividend recommended to the shareholders by the Board, and would be paid after the Annual General Meeting, upon approval by the shareholders.

B. Financial review

1. Income

The Company derives its income from software services and the sale of software products.

Approximately, 96% of the Company's income is derived from export activities. During the year, the income from exports increased by more than 100%. The increase in export income is due to all-round growth in various segments of the business.

Domestic software income represents the sale of BANCS 2000, a banking automation software product. During the year, the income from domestic software income has come down by approximately 50% due to a slow-down in computerization by Indian banks.

Other income is from investment of surplus funds and the sale of special import licenses.

The total income of the Company grew by 81% during the year, as compared with 54% during the previous year.

Details of the geographical segmentation and business segmentation of income are provided on pages 139-140 of this report.

2. Expenditure

2.1 Cost of imported software packages sold

The cost of imported software packages sold represents the cost of sales of imported software packages. It is approximately around 79% and 62% of the trading turnover for the years ended March 31, 1998 and 1997.

2.2 Software development expenses

Employee costs constitute around 36% of the total income for the years ended March 31, 1998 and 1997. The foreign tour and travel expenses, representing cost of travel abroad for software development and marketing, constitutes approximately 10% of the total income for the years ended March 31, 1998 and 1997.

The Company spent a sum of Rs. 8,74,93,506 and Rs. 3,91,24,965, towards the cost of software packages and tools procured for internal use, to enhance the quality of its services and also to meet the needs of software development for some of its clients. This has shown an increase of approximately 124% during the year, and is around 3% of the total income during the years ended March 31, 1998 and 1997. The Company's policy is to charge such purchases to revenue in the year of purchase. The Company has also spent a sum of Rs. 1,98,37,506 and Rs. 3,42,92,427 towards software products used in BANCS 2000 during the years ended March 31, 1998 and 1997.

A major part of the Company's revenues comes from offshore software development. This involves the large-scale use of satellite connectivity in order to be online with customers. A sum of Rs. 5,74,16,558 was incurred towards meeting this expenditure. This represents approximately 2% of the total income during the year, as compared to 1% during the previous year. The increase is primarily due to the addition of new data communication lines during the year.

During the year, the Company provided an amount of Rs. 1,23,09,815 towards post-sales customer support. This represents a provision for post-sales obligations of the Company in respect of the outstanding fixed-price projects as at the year end.

The Company also utilizes outside consultants for part of its software development work. This usage is primarily in the area of Year 2000 conversion projects. During the year, the Company spent a sum of Rs. 2,43,42,563 towards such consultancy as compared with Rs. 59,34,849 during the previous year.

2.3 Administration and other expenses

The Company incurred administration and other expenses at 11.73% of its total income during the year, as compared with 10.92% during the previous year. This increase is primarily due to an increased provision of Rs. 1,52,12,216 and Rs. 70,10,039 towards bad and doubtful debts, and loans and advances respectively.

The rent expenses had increased by approximately 121% during the year. This is due to operationalization of the J. P. Nagar (Bangalore), Chennai and Bhubaneswar development centers and expansion of the Pune development center. Telephone charges increased by 130% due to greater usage. Legal and professional charges represent fees paid for availing various services like tax consultancy, visa processing, US GAAP audit, etc., The office maintenance expenses increased by 257% due to the increased volume of business. The increase in other expenses is primarily due to an increased level of business.

3. Operating profits

During the year, the Company earned an operating profit (profit before interest, depreciation and tax) of Rs. 88,61,15,418 representing 34.03% of total revenues as compared with Rs. 50,05,77,818, representing 34.81% of total revenues during the previous year. The marginal reduction in the operating profit is primarily due to the provision for post-sales customer support, increased provision for bad and doubtful debts, and loans and advances. The reduction is also due to increased expenditure arising out of the increased level of business.

4. Interest

The Company was debt free during the year. The Company incurred an expenditure of Rs. 61,09,715 during the previous year towards servicing the costs of the loan borrowed from HDFC. The loan was prepaid during that year and hence, there is no interest expense for the year.

5. Depreciation

The Company provided a sum of Rs. 22,74,82,339 and Rs. 10,51,64,884 towards depreciation for the years ended March 31, 1998 and 1997. This represents approximately 9% and 7% of the total income during the years ended March 31, 1998 and 1997. The depreciation for the year ended March 31, 1998 and 1997, includes an amount of Rs. 2,86,94,241 and Rs. 74,88,017 towards 100% depreciation on assets costing less than Rs. 5,000 each.

During the year, the Company revised the estimated useful lives of furniture and fixtures, vehicles and plant and machinery from 6 years to 5 years. Due to this change, the depreciation for the year is higher by Rs. 1,08,69,125. Moreover, during the year, the Company fully depreciated assets acquired for research and development activities. This resulted in a higher provision for depreciation amounting to Rs. 1,48,44,052.

6. Provision for tax

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

The Company has provided a sum of Rs. 1,50,50,000 and Rs. 1,08,00,805 during the years ended March 31, 1998 and 1997, for the tax liability of earlier years, consequent to the finalization of the tax assessments. The additional liability has arisen due to certain disallowances in India which are contested in appeal, and additional payments overseas.

7. Extraordinary income

During the previous year, the Company sold the software product Eagle (now known as WMSYantra) to its subsidiary, Yantra Corporation, for a consideration of Rs. 3,59,00,000 (US$ 1,000,000). The consideration was received in the form of 5,000,000 shares of common stock of Yantra Corporation, at a price of US$ 0.20 each (par value US$ 0.01 each). The income arising out of the same was disclosed as an "Extraordinary income" in the Profit and Loss Account as it represents income arising on the sale of an asset and is non-recurring in nature. There was no such income during the current year.

8. Net profit

The net profit of the Company from ordinary activities amounted to Rs. 60,36,33,079 and Rs. 33,68,05,929 for the years ended March 31, 1998 and 1997. This represents 23.18% and 23.42% of the total income for the respective years. The marginal reduction in the net profit percentage is primarily due to higher depreciation and other expenses. Extraordinary income, being a non-recurring item, has not been considered for the calculation of the above percentages.

9. Foreign exchange differences

An amount of Rs. 3,43,20,847 and Rs. 1,40,51,456 is included in the Profit and Loss Account during the years ended March 31, 1998 and 1997, representing the realized and unrealized exchange gains due to currency fluctuation. This represents 1.32% and 0.98% of the total income for the years ended March 31, 1998 and 1997.

10. Employees Stock Offer Plan

The Company had instituted an Employees Stock Offer Plan (ESOP) for all eligible employees. Under the plan, warrants are transferred to employees deemed eligible by the advisory board constituted for the purpose. Accordingly, 7,50,000 warrants were issued by the Company to the Infosys Technologies Limited Employees Welfare Trust, to be held in trust and transferred to selected employees from time to time. 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 five years from the date of issue. The warrants and the shares to be issued thereon are subject to a lock-in period of five years from the date of issue. The warrants expire on September 30, 1999, and are convertible before their expiration.

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

The number of warrants issued and outstanding is given below:

Year ended March 31	No. of employees	Warrants transferred to employees (Net)	Shares issued on conversion of warrants, subject to lock-in	Bonus shares issued on conversion, free from lock-in	No. of employees	Right to shares offered to employees (Net)
1995	78	1,13,900	1,13,900	1,13,900		-
1996	113	1,37,400	1,37,400	1,37,400		-
1997	171	1,14,800	1,14,800	1,14,800		-
1998			-	-	366	2,69,600
Total	362	3,66,100	3,66,100	3,66,100	366	2,69,600

Employees hold 3,66,100 shares subject to lock-in and 2,69,600 right to shares as at March 31,1998. 484 employees hold shares/right to shares as of March 31,1998, after discounting the employees who have received shares/right to shares in several years.

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

Year ended March 31	No. of employees	Warrants transferred/ right to shares offered	No. of employees	Warrants/Right to shares forfeited *
1995	106	1,44,100	28	30,200
1996	144	1,58,000	31	20,600
1997	193	1,24,600	22	9,800
1998	382	2,76,800	16	7,200

*10,300 shares forfeited after the bonus issue are included in the respective years.

Statement of warrants/shares held by ITL Employees Welfare Trust

Warrants originally allotted to ITL Employees Welfare Trust	7,50,000
Less : Net warrants issued to eligible employees before bonus issue	3,76,400
Warrants held by the Trust immediately before bonus issue and converted to shares	3,73,600
Add : Bonus shares allotted to the Trust	3,73,600
Add : Shares surrendered to the Trust after bonus issue	10,300
Less : Net right to shares allotted to eligible employees	2,69,600
Shares held by the Trust for future grant, as of March 31, 1998	4,87,900

11. Reconciliation of Indian and US GAAP financial statements

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

Rs. in crores

Profit as per the Indian GAAP financial statements			60.36
Less :	Loss from Yantra Corporation accounted on consolidation in the US GAAP financial statements	5.83	
	Amortization of deferred stock compensation on the issue of stock options to employees	9.67	
	Provision for retirement benefits to employees	1.09	16.59
			43.77
Add :	Deferred income tax provision		2.67
Net income as per the US GAAP financial statements			46.44

Indian GAAP does not require the consolidation of accounts of subsidiaries with the parent company, whereas US GAAP does require such consolidation. Due to this, the net loss of Yantra Corporation for the year ended March 31, 1998, amounting to approximately Rs. 5.83 crore, has been accounted in the Profit and Loss Account prepared as per US GAAP.

Indian GAAP does not mandate a company to recognize and amortize amounts relating to the deferred stock compensation arising on the issue of stock options to employees. However, Accounting Principles Board Opinion No. 25 in the US requires that deferred stock compensation arising on the issue of stock options to employees, resulting from the market price of the shares being higher than the grant price as on the date of grant, be accounted and amortized in the Profit and Loss Account over the vesting period of the options. Accordingly, the Company accounted for an amount of approximately Rs. 9.67 crore due to the amortization of deferred stock compensation on issue of stock options to employees in the financial statements prepared as per US GAAP.

The Statement on Financial Accounting Standards (SFAS) No. 87 in the US provides that retirement benefits to employees be accounted for based on an actuarial valuation, as per the valuation model specified therein. The increased charge due to such valuation as per the US model amounting to approximately Rs. 1.09 crore has been accounted in the Profit and Loss Account prepared as per US GAAP.

It is required under US GAAP that the income taxes due on the differences in the value of various assets and liabilities as per the Income tax books and the financial statements be accounted as deferred taxation and appropriate treatment be accorded in the Profit and Loss Account. There is no such requirement under Indian GAAP. Accordingly, the Company took credit for deferred tax assets amounting to approximately Rs. 2.67 crore in the Profit and Loss Account prepared as per US GAAP.

C. Outlook: Issues and risks

These have been discussed in detail on pages 84-87 of this report.

Statement of cash flows for the year ended March 31

in Rs.

	1998	1997
Cash flows from operations		
Profit before tax and interest	65,86,33,079	39,54,12,934
Other income	(1,59,78,985)	(3,47,80,528)
Depreciation, depletion and amortization	22,74,82,339	10,51,64,884
Decrease (increase) in sundry debtors	(21,79,58,733)	(6,83,93,029)
Decrease (increase) in inventories	4,10,878	12,86,180
Decrease (increase) in loans and advances	(10,50,83,628)	(6,11,89,790)
Increase (decrease) in current liabilities and provisions	7,31,15,335	(1,66,42,422)
Income taxes paid	(4,28,37,122)	(7,71,68,426)
Net cash from operations	57,77,83,163	24,36,89,803
Cash flows from financing		
Cash received from issuance of share capital	7,49,00,000	1,00,000
Proceeds of long-term borrowing	–	(4,26,06,235)
Dividends paid	(4,66,09,004)	(3,62,93,000)
Interest paid	–	(61,09,715)
Net cash from financing	2,82,90,996	(8,49,08,950)
Cash flows from investing		
Income from investments	1,58,69,826	3,47,80,528
Proceeds of sale of fixed assets	3,01,097	11,59,537
Purchase of fixed assets	(34,40,97,344)	(27,31,04,394)
Investment in subsidiary	(5,45,10,000)	–
Decrease (increase) in investments	–	6,83,34,852
Net cash from investing	(38,24,36,421)	(16,88,29,477)
Total increase (decrease) in cash and equivalents during the year	22,36,37,738	(1,00,48,624)
Cash and equivalents at the beginning of the year	28,77,81,971	29,78,30,595
Cash and equivalents at the end of the year	51,14,19,709	28,77,81,971

Note: During the year, ended March 31, 1997 the Company sold the software product Eagle (now known as WMSYantra) to its wholly-owned subsidiary, Yantra Corporation, for a sum of US$ 10,00,000 (Rs. 3,59,00,000) paid for by the issue of 50,00,000 common stock of Yantra Corporation. The same being a non-cash transaction, is not reflected in the cash flow statement.

These are the Cash Flow Statements referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

N. R. Narayana Murthy
Chairman and Managing Director

Susim M. Datta
Director

Deepak M. Satwalekar
Director

N. S. Raghavan
Jt. Managing Director

Nandan M. Nilekani
Dy. Managing Director

S. Gopalakrishnan
Dy. Managing Director

K. Dinesh
Director

S. D. Shibulal
Director

Bangalore
April 10, 1998

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

V. Viswanathan
Company Secretary

Statement of cash flows for the year ended March 31

in Rs.

	1998	1997

Reconciliation of Balance Sheet items with Cash Flow items

1. Loans and advances

	1998	1997
As per Balance Sheet	39,18,00,686	38,44,14,669
Less : Deposits with companies and others, included in cash equivalents	(7,27,63,986)	(13,75,46,350)
Advance income taxes considered separately	(9,59,04,567)	(12,88,19,814)
Balance considered for preparing the Cash Flow Statement	22,31,32,133	11,80,48,505

2. Additions to fixed assets

	1998	1997
As per Balance Sheet	34,13,26,052	24,70,28,211
Add : Closing capital work-in-progress	7,32,13,272	7,04,41,980
Less : Opening capital work-in progress	(7,04,41,980)	(4,43,65,797)
Balance considered for preparing the Cash Flow Statement	34,40,97,344	27,31,04,394

3. Cash and cash equivalents

	1998	1997
As per Balance Sheet	43,86,55,723	15,02,35,621
Add : Deposits with companies and others (as per 1 above)	7,27,63,986	13,75,46,350
Balance considered for preparing the Cash Flow Statement	51,14,19,709	28,77,81,971

4. Income taxes paid

	1998	1997
As per Profit and Loss Account	5,67,57,386	5,54,00,805
Less : Increase in balance in Provision for Taxes account	1,89,94,983	(3,42,80,000)
Add : Increase in balance in Advance Income Tax account	(3,29,15,247)	5,60,47,621
Balance considered for preparing the Cash Flow Statement	4,28,37,122	7,71,68,426

5. Other income

	1998	1997
As per Profit and Loss Account	2,70,83,794	4,59,30,153
Less : Income from Operating Activities	(1,11,04,809)	(1,11,49,625)
Balance considered for preparing the Cash Flow Statement	1,59,78,985	3,47,80,528

6. Current liabilities and provisions

	1998	1997
As per Balance Sheet	25,70,41,198	17,39,66,479
Less : Provision for Taxation considered separately	(7,99,76,791)	(9,37,00,000)
Provision for Dividend considered separately	(5,27,17,738)	(2,90,35,145)
Balance considered for preparing the Cash Flow Statement	12,43,46,669	5,12,31,334

These are the Cash Flow Statements referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

N. R. Narayana Murthy
Chairman and Managing Director

Susim M. Datta
Director

Deepak M. Satwalekar
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N. S. Raghavan
Jt. Managing Director

Nandan M. Nilekani
Dy. Managing Director

S. Gopalakrishnan
Dy. Managing Director

K. Dinesh
Director

S. D. Shibulal
Director

Bangalore
April 10, 1998

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

V. Viswanathan
Company Secretary

Balance sheet abstract and Company's general business profile

Registration details

Registration No.	13115
State Code	08
Balance Sheet Date	31.03.1998

in Rs.

Capital raised during the year

Public issue	-
Rights issue	-
Bonus issue	8,00,86,000
Private placement	-
Preferential offer of shares under ESOP scheme	74,90,000

Position of mobilization and deployment of funds

Total liabilities	172,95,72,919
Total assets	172,95,72,919

Sources of funds

Paid-up capital	16,01,73,500
Reserves and surplus	156,93,99,419
Secured loans	-
Unsecured loans	-

Application of funds

Net fixed assets	64,95,37,081
Investments	10,77,71,960
Net current assets	97,22,63,878
Miscellaneous expenditure	-
Accumulated losses	-

Performance of Company

Turnover	260,36,57,282
Total expenditure	194,50,24,203
Profit/Loss before tax	65,86,33,079
Profit/Loss after tax	60,36,33,079
Earnings per share	37.69
Dividend rate (%) - pro rata	60.00

Generic names of principal products/services of Company

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

N. R. Narayana Murthy
Chairman and Managing Director

Susim M. Datta
Director

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Director

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K. Dinesh
Director

S. D. Shibulal
Director

Bangalore
April 10, 1998

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

V. Viswanathan
Company Secretary

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

1.	Name of the subsidiary	:	Yantra Corporation
2.	Financial year ended	:	December 31, 1997
3.	Holding company's interest	:	100% in common stock 40% in Series A Convertible Preferred Stock
4.	Shares held by the holding company in the subsidiary	:	75,00,000 nos. of common stock at US$ 0.20 each, fully paid, par value US$ 0.01 each, amounting to US$ 1,500,000 (Rs. 5,32,51,600) 20,00,000 nos. of Series A Convertible Preferred Stock at US$ 0.75 each, fully paid, par value US$ 0.01 each, amounting to US$ 1,500,000 (Rs. 5,45,10,000)
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$ 1,190,940 (Rs. 4,66,84,848)
6.	The net aggregate of profits or losses for previous financial years of the subsidiary so far as it concerns the members of the holding company		
	a. dealt with or provided for in the accounts of the holding company	:	Nil
	b. not dealt with or provided for in the accounts of the holding company	:	Loss : US$ 225,910 (Rs. 88,55,672)

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.

	N. R. Narayana Murthy *Chairman and Managing Director*	Susim M. Datta *Director*	Deepak M. Satwalekar *Director*	N. S. Raghavan *Jt. Managing Director*
	Nandan M. Nilekani *Dy. Managing Director*	S. Gopalakrishnan *Dy. Managing Director*	K. Dinesh *Director*	S. D. Shibulal *Director*
Bangalore April 10, 1998	T. V. Mohandas Pai *Senior Vice President* *(Finance and Administration)*	V. Viswanathan *Company Secretary*		

Yantra Corporation

(a subsidiary of Infosys Technologies Limited)

Financial statements

for the year ended December 31, 1997
and December 31, 1996

Registered office

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

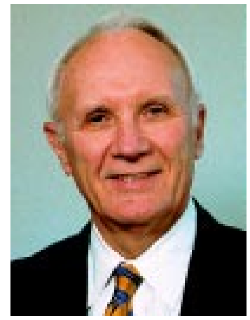
Board of Directors

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

Auditors

BDO Seidman, LLP
Accountants and Consultants

Dear Shareholder,



Devdutt Yellurkar and Donald W. Feddersen

Your Company completed its second full year of operation. In 1997, the market for enterprise software applications saw a continued growth coupled with an increased demand for packaged, "best-of-breed" warehouse and transportation management software. To emerge as a recognized player in this market, we focused our energy on a single goal – gain momentum.

Additional financing and the new board: Infosys Technologies contributed its second round of financing to gain momentum in the marketplace. Concurrently, your Company secured a first round of financing from Mr. Donald W. Feddersen and Draper International. A new, US-centric board has been formed. We would like to place on record, our appreciation of the invaluable help and mentoring provided by the board members.

Sales and Marketing: We have built the foundation of a predictable and scalable sales model. We have brought aboard an excellent sales management team, and designed a repeatable sales process and sales training tool-kit. In the past few months, several customers have chosen WMSYantra as their solution of choice, and we have a healthy sales pipeline. Our approach to partnering with large ERP software companies, like Oracle Corporation, has started yielding several joint opportunities.

Services: Enterprise software package implementations are fairly service intensive. We continue to invest in the services infrastructure required to ensure the highest levels of customer satisfaction. In 1997, we continued our investments in the Acton-based product support center, both in terms of manpower as well as in hardware. Our rapid product implementation methodology is being currently used at several concurrent implementations. Our relationship with Infosys is helping your Company build a rapidly scalable implementation and support force.

Product: In 1997, we increased our WMSYantra product footprint to become an integrated warehouse and transportation management system. Several new add-on tools, such as Dashboard and Extranet, were built and deployed. Functions from the WebYantra development effort, started in 1996, were integrated into our flagship product WMSYantra. Once again, our partnership with Infosys is helping us rapidly build features/functions into our product, at the Bangalore-based software development center.

In summary, 1997 was a year in which we set the momentum phase in motion by building a strong sales and marketing team, and continually enhancing our product suite to meet market demands. The initial results have been extremely encouraging and we are confident that we will emerge as a recognized player in our market. With the talent and commitment of every *Yantrik*, we are confident that we will achieve our goals for 1998.

Thank you for your continued support.

Acton, Massachusetts, USA
February 2, 1998

Devdutt Yellurkar
Chief Executive Officer

Donald W. Feddersen
Chairman

Independent auditors' report

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

We have audited the accompanying balance sheets of Yantra Corporation (a subsidiary of Infosys Technologies Limited) as of December 31, 1997 and 1996, and the related statements of loss, stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yantra Corporation at December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

BDO Seidman, LLP

Boston, Massachusetts
February 2, 1998

BDO Seidman, LLP

Yantra Corporation
Balance Sheets

December 31	1997 in US$	1997 in Rs.*	1996 in US$	1996 in Rs.*
ASSETS				
Current				
Cash and cash equivalents	3,301,005	12,93,99,396	314,773	1,13,00,351
Accounts receivable	86,089	33,74,689	138,616	49,76,314
Prepaid expenses	65,369	25,62,465	15,490	5,56,091
Total current assets	3,452,463	13,53,36,550	468,879	1,68,32,756
Property and equipment - net (Note 2)	172,947	67,79,522	66,142	23,74,498
Other assets				
Organizational costs, net of accumulated amortization of $ 2,235 (Rs. 80,237) and $ 559 (Rs. 19,520), respectively	4,471	1,75,263	6,146	2,20,641
Software license, net of accumulated amortization of $ 333,333 in 1997 (Note 3)	666,667	2,61,33,347	1,000,000	3,59,00,000
Total assets	4,296,548	16,84,24,682	1,541,167	5,53,27,895
LIABILITIES AND STOCKHOLDER'S EQUITY				
Liabilities				
Accounts payable - Trade	115,120	45,12,704	16,879	6,05,956
Accounts payable - Affiliate (Note 3)	312,385	1,22,45,492	191,736	68,83,322
Accrued expenses	42,212	16,54,710	26,587	9,54,473
Deferred revenue	43,534	17,06,533	31,875	11,44,313
Total liabilities	513,251	2,01,19,439	267,077	95,88,064
Series A Convertible Preferred Stock, $0.01 par value; 5,000,000 shares authorized and outstanding (Note 5)	3,756,397	14,72,50,763	-	-
Commitments (Notes 4, 5 and 6)				
Stockholders' equity (Notes 3 and 6):				
Common stock, $ 0.01 par value; 20,000,000 and 15,000,000 shares authorized; 7,500,000 shares outstanding	75,000	29,40,000	75,000	26,92,500
Additional paid-in capital	1,425,000	5,58,60,000	1,425,000	5,11,57,500
Accumulated deficit	(1,473,100)	(5,77,45,520)	(225,910)	(81,10,169)
Total stockholders' equity	26,900	10,54,480	1,274,090	4,57,39,831
Total liabilities and stockholders' equity	4,296,548	16,84,24,682	1,541,167	5,53,27,895

See accompanying notes to financial statements

* The Rupee equivalent of US dollar amounts for the years 1997 and 1996 have been arrived at by converting at the closing exchange rate of US$ 1 = Rs. 39.20 and US$ 1 = Rs. 35.90 respectively. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956, vide their letter no. 47/3/98-CL:III, dated March 20, 1998.

Yantra Corporation
Statements of Loss

December 31	1997 in US$	1997 in Rs.*	1996 in US$	1996 in Rs.*
Net revenues (Note 1)	1,419,845	5,56,57,924	984,687	3,53,50,263
Cost of revenues (Note 3)	617,316	2,41,98,787	403,846	1,44,98,071
Gross profit	802,529	3,14,59,137	580,841	2,08,52,192
Operating expenses (Note 3)				
General and administrative	755,527	2,96,16,659	500,767	1,79,77,535
Research and development	907,557	3,55,76,234	243,153	87,29,193
Depreciation and amortization	372,539	1,46,03,529	16,045	5,76,016
Total operating expenses	2,035,623	7,97,96,422	759,965	2,72,82,744
Loss from operations	(1,233,094)	(4,83,37,285)	(179,124)	(64,30,552)
Other income, net	42,154	16,52,437	15,525	5,57,348
Net loss	(1,190,940)	(4,66,84,848)	(163,599)	(58,73,204)

See accompanying notes to financial statements

Statement of Stockholder's Equity

	Common stock Shares	Common stock Amount	Additional Paid-in capital	Accumulated Deficit	Total
Balance, December 31, 1995	2,500,000	25,000	475,000	(62,311)	437,689
Issuance of 5,000,000 shares (Note 3) (amount in US$)	5,000,000	50,000	950,000	-	1,000,000
Net loss (amount in US$)	-	-	-	(163,599)	(163,599)
Balance, December 31, 1996					
(amount in US$)	7,500,000	75,000	1,425,000	(225,910)	1,274,090
(amount in Rs.)		26,92,500	5,11,57,500	(81,10,169)	4,57,39,831
Net loss (amount in US$)	-	-	-	(1,190,940)	(1,190,940)
Accrued dividends on Series A Convertible Preferred Stock	-	-	-	(56,250)	(56,250)
Balance, December 31, 1997					
(amount in US$)	7,500,000	75,000	1,425,000	(1,473,100)	26,900
(amount in Rs.)	-	29,40,000	5,58,60,000	(5,77,45,520)	10,54,480

See accompanying notes to financial statements.

* The Rupee equivalent of US dollar amounts for the years 1997 and 1996 have been arrived at by converting at the closing exchange rate of US$ 1 = Rs. 39.20 and US$ 1 = Rs. 35.90 respectively. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956, vide their letter no. 47/3/98-CL:III, dated March 20, 1998.

Yantra Corporation
Statements of Cash Flows

December 31	1997 in US$	1997 in Rs.*	1996 in US$	1996 in Rs.*
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	(1,190,940)	(4,66,84,848)	(163,599)	(58,73,204)
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation and amortization	372,539	1,46,03,529	16,045	5,76,016
Changes in operating assets and liabilities				
Accounts receivable	52,527	20,59,058	(112,966)	(40,55,480)
Inventories	-	-	1,567	56,255
Prepaid expenses	(49,879)	(19,55,257)	25,645	9,20,656
Accounts payable - Trade	98,241	38,51,047	14,281	5,12,688
Accounts payable - Affiliate	120,649	47,29,441	158,726	56,98,263
Accrued expenses	13,231	5,18,655	23,680	8,50,112
Accrued income tax	2,393	93,806	2,451	87,991
Deferred revenue	11,659	4,57,033	21,563	7,74,112
Net cash used by operating activities	(569,580)	(2,23,27,536)	(12,607)	(4,52,591)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(144,335)	(56,57,932)	(62,227)	(22,33,949)
Net cash used by investing activities	(144,335)	(56,57,932)	(62,227)	(22,33,949)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of Series A Convertible Preferred Stock	3,700,147	14,50,45,762	-	-
Net cash provided by financing activities	3,700,147	14,50,45,762	-	-
Increase (decrease) in cash and cash equivalents	2,986,232	11,70,60,294	(74,834)	(26,86,540)
Cash and cash equivalents, beginning of year	314,773	1,23,39,102	389,607	1,39,86,891
Cash and cash equivalents, end of year	3,301,005	12,93,99,396	314,773	1,13,00,351
SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION				
Cash paid during the year for				
Interest	27	1,058	-	-
Income taxes	-	-	8,294	2,97,755

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCIAL ACTIVITIES:

During 1997 the Company accrued dividends related to the Series A Convertible Preferred Stock in the amount of $56,250 (Rs. 22,05,000). During 1996, the Company acquired a license in exchange for 5,000,000 shares of its common stock, valued at $1,000,000 (Rs. 3,59,00,000) (see Note 3).

See accompanying notes to financial statements.

* The Rupee equivalent of US dollar amounts for the years 1997 and 1996 have been arrived at by converting at the closing exchange rate of US$ 1 = Rs. 39.20 and US$ 1 = Rs. 35.90 respectively. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956, vide their letter no. 47/3/98-CL:III, dated March 20, 1998.

Yantra Corporation
Notes to Financial Statements

1. Summary of Accounting Policies

Business operations

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

Assumptions and estimates

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

Revenue recognition

Revenue from software development contracts is recognized based on software developed and billed to the clients according to the terms of specific contracts. Revenue from the sale of software products is recognized when shipped.

Cash equivalents

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

Stock options

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

Significant sales and concentration of risk

In 1997 and 1996, the Company derived revenue from a single customer totaling approximately $1,226,000 (Rs. 4,80,59,200) or 86% and $619,000 (Rs. 2,22,22,100) or 62% of total revenues, respectively. The Company's accounts receivable are from customers in various industries. Although collateral is not required, the Company provides for estimated reserves for potential credit losses, and such losses have not exceeded management's expectation.

Property and equipment

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

Classification	Years
Furniture and fixtures	6
Computers	3

Organization costs

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

License

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

Income taxes

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

2. Property and equipment

Property and equipment consist of the following:

December 31	1997		1996	
	in US$	in Rs.	in US$	in Rs.
Furniture and fixtures	75,486	29,59,051	16,656	5,97,950
Computers	152,294	59,69,925	66,789	23,97,725
	227,780	89,28,976	83,445	29,95,675
Less accumulated depreciation	(54,833)	(21,49,454)	(17,303)	(6,21,177)
Net property and equipment	172,947	67,79,522	66,142	23,74,498

3. Related parties

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

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

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

The following services are available from the Center:

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

The Company pays the Parent Company a flat rate per person per month for the number of people committed to the Center. The cost incurred under this contract for the years ended December 31, 1997 and 1996 was $1,475,862 (Rs. 5,78,53,790) and $648,411 (Rs. 2,32,77,955) and is included in the accompanying statements of operations under the following captions:

Year ended December 31	1997		1996	
	in US$	in Rs.	in US$	in Rs.
Cost of revenues	617,316	2,41,98,787	403,846	1,44,98,071
Research and development	849,546	3,33,02,203	233,565	83,84,984
General and administrative	9,000	3,52,800	11,000	3,94,900

During 1997 and 1996, the Company purchased approximately 84% and 62% respectively, of its services from a related party. At December 31, 1997 and 1996, amounts due to the related party supplier amounted to $312,385 (Rs. 1,22,45,492) and $191,736 (Rs. 68,83,322), respectively.

4. Commitments

The Company leases its operating facilities under an operating lease which expires on October 14, 1998. Total rent expense for the year ended December 31, 1997 and 1996 was $61,039 (Rs. 23,92,729) and $23,785 (Rs. 8,53,882), respectively.

5. Series A Convertible Preferred Stock

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

Dividends

In the event a dividend is declared for the common stock of the Company, then the holders of the Series A Convertible Preferred Stock shall be entitled to receive in addition to any accrued dividends, dividends at the same rate as dividends paid with respect to the common stock (treating each share of Series A Convertible Preferred Stock as being equal to the number of shares of common stock into which each share of Series A Convertible Preferred Stock is then convertible).

The holders of the Series A Convertible Preferred Stock are entitled to dividends at 6% per annum on $.75, being the original issued price. At December 31, 1997, accrued dividends amounted to $56,250 (Rs. 22,05,000). There were no dividends paid during 1997.

Right to convert

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

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

Mandatory redemption

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

6. Stock options

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

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

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

The above options expire on September 29, 2007. At December 31, 1997, no options were exercised.

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

7. Income taxes

The Company has a net operating loss carryforward for U.S. Federal and State tax purposes of approximately $1,416,000 (Rs. 5,55,07,200) as of December 31, 1997, which is available to offset future taxable income. The net operating loss carryforward expires at various dates through 2011. The deferred tax asset related to such carryforward benefit was approximately $558,000 (Rs. 2,18,73,600) and $94,000 (Rs. 33,74,600) at December 31, 1997 and 1996, respectively. The Company has established a valuation allowance equal in amount to the deferred tax asset, as there is uncertainty about the realizability of the deferred tax assets.

Note

The Rupee equivalent of US dollar amounts for the years 1997 and 1996 have been arrived at by converting at the closing exchange rate of US$ 1 = Rs. 39.20 and US$ 1 = Rs. 35.90 respectively. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956, vide their letter no. 47/3/98-CL:III, dated March 20, 1998.

Independent Auditors' Report on Supplemental Material

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

BDO Seidman, LLP

Boston, Massachusetts
February 2, 1998

BDO Seidman, LLP

Schedule of General and Administrative Expenses

December 31	1997 in US$	1997 in Rs.*	1996 in US$	1996 in Rs.*
Professional salaries	165,605	64,91,716	128,360	46,08,124
Travel, entertainment and vehicle expense	116,589	45,70,289	73,182	26,27,233
Outside services	92,320	36,18,944	92,345	33,15,185
Advertising	64,711	25,36,671	14,799	5,31,284
Rent	61,039	23,92,729	23,785	8,53,881
Legal and professional	59,219	23,21,385	28,689	10,29,935
Software support	24,884	9,75,453	-	-
Telephone	24,161	9,47,111	14,609	5,24,463
Computer expenses	22,380	8,77,296	1,836	65,912
Payroll taxes	19,240	7,54,208	9,431	3,38,573
Office salaries	17,750	6,95,800	6,250	2,24,375
Office supplies and expense	11,963	4,68,950	4,385	1,57,422
Postage and delivery	10,202	3,99,918	7,142	2,56,398
Insurance	9,152	3,58,758	8,361	3,00,160
Dues and subscriptions	7,880	3,08,896	2,802	1,00,592
Excise tax	7,829	3,06,897	6,841	2,45,592
Printing	6,526	2,55,819	5,744	2,06,210
Repairs and maintenance	6,332	2,48,214	3,824	1,37,282
License	5,644	2,21,245	-	-
Bank service charges and filing fees	5,434	2,13,013	1,220	43,798
Audit fee	4,125	1,61,700	-	-
Other operating expenses	3,461	1,35,671	3,845	1,38,036
Equipment rental	3,020	1,18,384	4,645	1,66,755
Education - training	2,984	1,16,973	1,339	48,070
Fines and penalties	1,091	42,767	-	-
Utilities	704	27,597	145	5,206
Payroll processing	689	27,009	762	27,356
Contributions	300	11,760	200	7,180
Interest expense	293	11,486	-	-
Reseller sublicense fees	-	-	50,715	18,20,669
Reseller inventory expense	-	-	2,367	84,975
Reseller support fees	-	-	3,144	1,12,870
Total general and administrative expenses	755,527	2,96,16,659	500,767	1,79,77,536

See independent auditors' report on supplemental material.

* The Rupee equivalent of US dollar amounts for the years 1997 and 1996 have been arrived at by converting at the closing exchange rate of US$ 1 = Rs. 39.20 and US$ 1 = Rs. 35.90 respectively. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956, vide their letter no. 47/3/98-CL:III, dated March 20, 1998.

Financial Information
Three Years Ended March 31, 1998
prepared in accordance with
United States Generally Accepted Accounting Principles (US GAAP)

Anything that won't sell, I don't want to invent.
Its sale is proof of utility, and utility is success.
Thomas A. Edison

Five-year data

in $

	1998	1997	1996	1995	1994
		(Audited)		(Unaudited)	
Statement of operations					
Revenues	68,329,961	39,585,919	26,607,009	18,105,010	9,534,321
Cost of revenues	40,156,509	22,615,070	15,637,577	10,605,732	5,621,428
Gross profit	28,173,452	16,970,849	10,969,432	7,499,278	3,912,893
Selling, general and administrative expenses	13,225,492	7,010,211	4,350,710	3,343,873	1,314,509
Amortization of deferred stock compensation	2,566,613	767,926	360,853	45,884	-
Operating expenses	15,792,105	7,778,137	4,711,563	3,389,757	1,314,509
Operating income	12,381,347	9,192,712	6,257,869	4,109,521	2,598,384
Other income, net	800,799	769,560	1,460,329	746,439	322,085
Income before provision for income taxes	13,182,146	9,962,272	7,718,198	4,855,960	2,920,469
Provision for income taxes	770,458	1,320,270	894,561	892,593	250,742
Dividends on preferred stock	67,500	-	-	-	-
Net income	12,344,188	8,642,002	6,823,637	3,963,367	2,669,727
Weighted shares used in computing basic earnings per share*	15,266,148	14,518,197	14,517,200	10,610,100	6,704,200
Earnings per share*	0.81	0.60	0.47	0.37	0.40
Balance Sheet data					
Working capital	25,588,406	14,878,033	12,875,376	11,764,602	5,478,799
Cash and cash equivalents	15,419,265	8,320,331	7,769,390	8,046,302	2,884,643
Total assets	49,718,390	32,947,961	27,261,119	23,050,717	9,400,229
Stockholders' equity	42,082,325	30,664,731	23,924,556	19,668,279	8,851,707

* Weighted shares and Earnings per share have been restated to reflect a two-for-one stock-split in October 1997.

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

In addition to the historical information contained herein, the following discussion includes forward-looking statements which involve risks and uncertainties, including, but not limited to, risks inherent in the Company's growth strategy, acquisition risks, dependence on certain clients, dependence on availability of qualified technical consultants and other factors discussed.

1. Overview

Infosys is an IT services company based in India, that provides managed software solutions to clients worldwide. The Company's services, which may be offered on a fixed-price or time-and-material basis, include custom development, maintenance (including Year 2000 conversion), and re-engineering services as well as full-service outsourcing centers for some of its clients. The Company was formed in 1981. The Company had its IPO in 1993 and is currently listed on the Bangalore, Bombay and National Stock Exchanges in India.

Over 90% of revenues are generated from services. Revenues from services provided on a fixed-price basis are recognized using the percentage of completion method. Revenues from services provided on a time-and-material basis are recognized as related costs are incurred. Under the percentage of completion method, the Company estimates the percentage of completion of each project at the end of each financial reporting period. Estimates are subject to adjustment as a project progresses. The cumulative impact of any revision in estimates is reflected in the financial reporting period in which the estimate becomes known. Although, from time to time, the Company has revised its work completion estimates, such revisions have not had a material adverse effect on the Company's operating results or financial condition. The Company also develops and markets certain software products, including banking software sold primarily in Asia and Africa. Revenues from the licensing of software products have been less than 10% of the total revenues in each period.

Cost of revenues consists primarily of salary and other compensation costs, depreciation and *other expenses*. Other expenses include cost of overseas travel, telecommunication expenses, computer hardware maintenance and software purchases. The Company depreciates computer equipment over a useful life of 2-5 years, and software in the year of purchase.

The Company assumes full project management responsibility for each project that it undertakes. Substantial work on each project is performed at the Company's facilities in India and the balance of the work is performed at the client site. The proportion of work performed at the Company facilities and at client sites varies from quarter to quarter. The Company charges higher consulting rates and incurs higher compensation costs for work performed at the client site. A fixed amount of services performed at a customer site typically generates higher gross margin dollars but a lower gross margin percentage than the same amount of services performed at the Company's facilities. As a result, revenues, cost of revenues and gross margin (in absolute terms and as a percentage of revenues) fluctuate from quarter to quarter, based on the proportion of work performed at the Company's facilities and at client sites.

Selling, general and administrative expenses consist primarily of salary and other compensation costs of support staff, rent, maintenance expenses, legal and professional charges and the like.

Under the current Export-Import policy announced by the Government of India, exporters are entitled to special import licenses, under different categories. These licenses can be sold in the market and the holder of such licenses is allowed to import goods included in the "restricted list" of items prescribed under the Export-Import Policy. Non-operating income includes sales proceeds of such special import licenses. It also includes interest income derived from the deployment of surplus funds. The Company's treasury policy is to invest the surplus funds in liquid money market instruments and deposits of short-term tenures with high ratings. There is a specified exposure limit for individual companies.

The current Indian tax rate is 35%. The Company operates its development centers under two tax concession schemes of the Government of India. Under the first scheme, the proportion of the profits of the Company attributable to export activities, are deductible from total taxable profit. Most development centers operate under this scheme. However, a few of the Company's development centers come under the second scheme – *100% export oriented units*, which are entitled to a tax holiday during any consecutive five years in a block of eight years from the date of commencement of operations.

Income taxes are accounted for by the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities, in the financial statements, and their respective tax bases and carryforward of operating loss, if any. The provision for income tax also includes provisions for taxes payable overseas.

The Company has a subsidiary, Yantra Corporation, which develops and markets software products in the area of warehouse management.

2. Results of operations

The results of operations were derived from the consolidated financial statements of the Company, which are prepared as per the requirements of US GAAP.

The attached audited financial statements have been prepared by the management, applying such judgment as to estimates, as deemed necessary. The responsibility for the objectivity and integrity of the financial statements rests solely with the management.

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

Revenues: Revenues for fiscal 1998 were $ 68.33 million, a 73% increase over $ 39.59 million for fiscal 1997. The growth in revenues was due to the growth in all but one segment of the Company's software services, reflecting both an increase in the number and size of client projects, and increases in the pricing of Company services.

Revenue from products was $ 4.01 million in fiscal 1998, down 20% from $ 5.03 million for fiscal 1997. The decrease is primarily due to lesser sales of BANCS 2000 product on account of a slow-down of computerization activities of Indian banks during the current fiscal.

The revenues from branded services, which include the Year 2000 conversion projects, were approximately 26% of the total revenues for fiscal 1998 compared with 8% for fiscal 1997. Revenues from Year 2000 conversion projects were approximately 23% of total revenues for fiscal 1998 compared with 7.50% for fiscal 1997.

Revenues from the Americas increased by 81% to $ 56.21 million in fiscal 1998 from $ 31.06 million in fiscal 1997. Revenues from Europe increased by 90% to $ 6.18 million in fiscal 1998 from $ 3.26 million in fiscal 1997. Thus, the Americas continued to be a major market for the Company with approximately 82% of its revenues for fiscal 1998 coming from that market.

Cost of revenues: Cost of revenues for fiscal 1998 was $ 40.16 million, a 77% increase over $ 22.62 million for fiscal 1997. The increase was primarily due to higher employee compensation and increased depreciation. The expenditure on employee compensation was higher due to an increased number of software professionals (2,216 at fiscal year-end 1998, compared with 1,406 at fiscal year-end 1997) and higher per capita compensation.

Depreciation for fiscal 1998 was $ 6.12 million, a 102% increase over $ 3.03 million for fiscal 1997. The Company depreciates computer equipment over a period of 2-5 years, with the majority of such equipment being depreciated over two years. In addition to the above, certain fixed assets belonging to the category of furniture and fixtures, computer equipment, and plant and equipment (having an estimated useful life of one year or less), are depreciated fully in the year of purchase.

The cost of software systems and utilities, purchased for software development, is charged to revenue in the year of purchase. The cost of such software, procured for own use and charged to revenue during fiscal 1998, amounted to $ 2.38 million, a 116% increase over $ 1.10 million for fiscal 1997.

The increase in *other expenses* resulted primarily from higher spending due to the expansion of operations. This category of expenses is expected to increase further with the expansion of Company facilities planned for fiscal 1999.

Gross profit: The gross profit for fiscal 1998 was $ 28.17 million, a 66% increase over $ 16.97 million for fiscal 1997. Gross profit was 41% of revenues for fiscal 1998, compared with 43% for fiscal 1997.

Selling, general and administrative expenses: Selling, general and administrative expenses for fiscal 1998 were $ 13.23 million, a 89% increase over $ 7.01 million for fiscal 1997. The increase was primarily due to the expansion of the Company's operations, including the number of employees and facilities.

The compensation cost of support staff for fiscal 1998 increased to $ 3.75 million, a 102% increase over $ 1.86 million for fiscal 1997. The increase was primarily due to an increase in the number of employees, and also increases in compensation per capita.

The rental expenses for fiscal 1998 were $ 1.43 million, a 113% increase over $ 0.67 million for fiscal 1997. The office maintenance expenses for fiscal 1998 increased to $ 1.03 million, a 110% increase over $ 0.49 million for fiscal 1997. The increase in other selling, general and administrative expenses is primarily due to enhanced business operations.

Amortization of deferred stock compensation: In November 1994, the Company established an Employees Stock Offer Plan (ESOP) and issued 750,000 warrants to the Employees Welfare Trust to enable the trust to hold and transfer the warrants to eligible employees under the ESOP. The warrants are issued at US dollar equivalent of Re. 1 each which entitles the holder to purchase one share of the Company's common stock at a price of US dollar equivalent of Rs. 100 per share. The warrants are exercisable after the lapse of one year from the date of issue. The warrants and the shares of common stock received upon the exercise of warrants are subject to a five-year vesting period from the date of issue of warrants. The warrants expire on the earlier of the following two dates – September 30, 1999 or the expiry date of five-year period from the date of issue. The warrants can be converted into shares before the date of expiry subject to the five-year vesting period.

The ESOP was approved by the stockholders at the Annual General Meeting held in June 1994. At the time the ESOP was created, Indian companies were allowed to issue shares and warrants on a preferential basis at discounted prices. However, the Securities and Exchange Board of India (SEBI) issued guidelines in August 1994, that the pricing of any further preferential offer of stocks is to be based on the average of the high and low market prices, as quoted on a stock exchange during the six-month period prior to the allotment date. This guideline precludes the Company from changing any part of the ESOP, including the exercise price of the warrants, as issued on a preferential basis, before the effective date of this guideline, had to be completed on the original terms.

Indian GAAP does not require the Company to account for deferred compensation arising from the issue of stock options to employees at a price lesser than the market price at the date of the grant. However, under US GAAP, APB Opinion No. 25 mandates that the difference between the market price and the grant price, as on the date of grant, be amortized over the vesting period.

The Company sought a clarification from the Securities Exchange Commission (SEC) on this issue, stating that due to regulatory requirements the Company was unable to change the grant price and hence, only the difference between the exercise price and the grant price as on the date the warrants were transferred to the Employees Welfare Trust should be accounted as deferred stock compensation. The SEC advised that the Company should comply with APB Opinion No. 25, despite Indian regulations, for the purpose of complying with US GAAP. Therefore, the Company took a charge in its income statements for the fiscal years 1998, 1997, 1996 and 1995 in respect of the amortization of deferred stock compensation.

The Company has elected to use the intrinsic value based method of APB Opinion No. 25 to account for its employee stock based compensation plan. The Company has recorded deferred compensation of $ 6.89 million and $ 2.02 million for fiscal 1998 and 1997. The deferred compensation amount is the difference between the exercise price and the fair value as determined by quoted market prices of the common stock underlying the warrants, on the grant date, for the transferred warrants. The deferred compensation is being amortized on a straight-line basis over the vesting period of the warrants. The amortized amounts for fiscal 1998 and 1997 are $ 2.57 million and $ 0.77 million.

The Company's net income and net income per share, excluding the amortization of deferred stock compensation are shown in the table below:

in $

For fiscal year		1998	1997
Net income	As reported	12,411,688	8,642,002
	Adjusted net income	14,978,301	9,409,928
Net income per share	As reported	0.81	0.60
	Adjusted net income per share	0.98	0.65

Income from operations: Operating income for fiscal 1998 was $ 12.38 million, an increase of 35% over $ 9.19 million for fiscal 1997. The increase in operating income resulted primarily from the increase in revenues.

Other income. Other income for fiscal 1998 was $ 0.80 million, an increase of 4% over $ 0.77 million for fiscal 1997. The growth in o]ther income is lower primarily due to reduction in interest income.

Provision for income taxes: The provision for income taxes was $ 0.77 million in fiscal 1998, a reduction of 42% over $ 1.32 million in fiscal 1997. The effective tax rate for fiscal 1998 is 5.84% compared with 13.25% for fiscal 1997. The decrease in the provision for income taxes is primarily due to higher deferred tax credits available to the Company in fiscal 1998.

Net income: Net income for fiscal 1998 was $ 12.41 million, an increase of 44% over $ 8.64 million for fiscal 1997 and was 18% of revenues for fiscal 1998 as compared with 22% for fiscal 1997.

2.2 Fiscal year ended March 31, 1997 compared to fiscal year ended March 31, 1996

Revenues: Revenues for fiscal 1997 were $ 39.59 million, a 49% increase over $ 26.61 million for fiscal 1996. The growth in revenues was due to the growth in all sectors of the Company's software services, including primarily software maintenance services, reflecting both an increase in the number and size of client projects and increases in the pricing of Company services.

Revenue from products was $ 5.03 million in fiscal 1997, an increase of over 86% ($ 2.71 million for fiscal 1996). The increase was primarily due to increased sales of BANCS 2000 product due to an increased thrust on computerization by banks in India.

The revenues from branded services, which include the Year 2000 conversion projects were approximately 8% of total revenues for fiscal 1997. Such revenues were insignificant during fiscal 1996. Revenues from Year 2000 conversion projects were approximately 7.50% of total revenues for fiscal 1997. The Year 2000 conversion projects revenues were quite insignificant during fiscal 1996. The increase in revenues from branded services was primarily driven by growth in Year 2000 projects.

Revenues from the Americas increased by 54% to $ 31.06 million in fiscal 1997 from $ 20.22 million in fiscal 1996. Revenues from Europe increased by 13% to $ 3.26 million in fiscal 1997 from $ 2.88 million in fiscal 1996. Thus, the Americas continued to be a major market for the Company with approximately 78% of its revenues for fiscal 1997 coming from that market.

Cost of revenues: Cost of revenues for fiscal 1997 was $ 22.62 million, a 45% increase over $ 15.64 million for fiscal 1996. The increase was primarily due to higher employee compensation and increased depreciation. The expenditure on employee compensation was higher due to an increased number of software professionals (1,406 at fiscal year-end 1997 compared with 969 at fiscal year-end 1996), and higher per capita compensation.

Depreciation for fiscal 1997 was $ 3.03 million, a 13% increase over $ 2.68 million for fiscal 1996. The Company depreciates computer equipment over a period of 2-5 years, with the majority of such equipment being depreciated over two years. In addition to the above, certain fixed assets belonging to the category of furniture and fixtures, computer equipment and plant and equipment (having an estimated useful life of one year or less) are depreciated fully in the year of purchase.

The cost of software systems and utilities, purchased for software development, is charged to revenue in the year of purchase. The cost of such software, procured for own use and charged to revenue during fiscal 1997, amounted to $ 1.10 million, a 26% increase over $ 0.87 million for fiscal 1996.

The increase in other expenses resulted primarily from higher spending due to the expansion of operations.

Gross profit: The gross profit for fiscal 1997 was $ 16.97 million, a 55% increase over $ 10.97 million for fiscal 1996. Gross profit was 43% of revenues for fiscal 1997, compared with 41% for fiscal 1996.

Selling, general and administrative expenses: Selling, general and administrative expenses for fiscal 1998 were $ 7.01 million, a 61% increase over $ 4.35 million for fiscal 1996. The increase was primarily due to the expansion of the Company's operations, including the number of employees and facilities.

The compensation cost of support staff for fiscal 1997 increased to $ 1.86 million, a 9% increase over $ 1.71 million for fiscal 1996. The increase was primarily due to an increase in the number of employees and also an increase in compensation costs.

The rental expenses for fiscal 1997 were $ 0.67 million, a 253% increase over $ 0.19 million for fiscal 1996. The office maintenance expenses for fiscal 1998 increased to $ 0.49 million, a 75% increase over $ 0.28 million for fiscal 1997. The increase in other selling, general and administrative expenses is primarily due to enhanced business operations.

Amortization of deferred stock compensation: In November 1994, the Company established an Employees Stock Offer Plan (ESOP) and issued 750,000 warrants to the Employees Welfare Trust to enable the trust to hold and transfer the warrants to eligible employees under the ESOP. The warrants are issued at US dollar equivalent of Re. 1 each which entitles the holder to purchase one share of the Company's common stock at a price of US dollar equivalent of Rs. 100 per share. The warrants are exercisable after the lapse of one year from the date of issue. The warrants and the shares of common stock received upon the exercise of warrants are subject to a five-year vesting period from the date of issue of warrants. The warrants expire on the earlier of the following two dates – September 30, 1999 or the expiry date of five-year period from the date of issue. The warrants can be converted into shares before the date of expiry subject to the five-year vesting period.

The ESOP was approved by the stockholders at the Annual General Meeting held in June 1994. At the time the ESOP was created, Indian companies were allowed to issue shares and warrants on a preferential basis at discounted prices. However, the Securities and Exchange Board of India (SEBI) issued guidelines in August 1994, that the pricing of any further preferential offer of stocks is to be based on the average of the high and low market price, as quoted on a stock exchange during the six-month period prior to the allotment date. This guideline precludes the Company from changing any part of the ESOP, including the exercise price of the warrants, as an issue on a preferential basis before the effective date of this guideline had to be completed on the original terms.

Indian GAAP does not require the Company to account for deferred compensation arising from the issue of stock options to employees at a price lesser than the market price at the date of the grant. However, under US GAAP, APB Opinion No. 25 mandates that the difference between the market price and the grant price, as on the date of grant, be amortized over the vesting period.

The Company sought a clarification from the Securities Exchange Commission (SEC) on this issue, stating that due to regulatory requirements the Company was unable to change the grant price and hence, only the difference between the exercise price and the grant price as on the date that the warrants were transferred to the Employees Welfare Trust were to be accounted as deferred stock compensation. The SEC advised that the Company should comply with APB Opinion No. 25 wholly, despite Indian regulations, for the purpose of complying with US GAAP. Therefore, the Company took a charge in the income statements for the fiscal years 1998, 1997, 1996 and 1995 in respect of the amortization of deferred stock compensation.

The Company has elected to use the intrinsic value based method of APB Opinion No. 25 to account for its employee stock based compensation plan. The Company has recorded deferred compensation of $ 2.02 million and $ 1.28 million for fiscal 1997 and 1996. The deferred compensation amount is the difference between the exercise price and the fair value as determined by quoted market prices of the common stock underlying the warrants, on the grant date, for the transferred warrants. The deferred compensation is being amortized on a straight-line basis over the vesting period of the warrants. The amortized amounts for fiscal 1997 and 1996 are $ 0.77 million and $ 0.36 million.

The Company's net income and net income per share, excluding the amortization of deferred stock compensation are shown in the table below:

in $

For the year ended March 31		1997	1996
Net income	As reported	8,642,002	6,823,637
	Adjusted net income	9,409,928	7,184,490
Net income per share	As reported	0.60	0.47
	Adjusted net income per share	0.65	0.49

Income from operations: Operating income for fiscal 1997 was $ 9.19 million, an increase of 47% over $ 6.26 million for fiscal 1996. The increase in operating income resulted primarily from the increase in revenues.

Other income: Other income for fiscal 1997 was $ 0.77 million, a decrease of 47% from $ 1.46 million for fiscal 1996. The decrease in Other income is primarily due to decrease in interest expenses of $ 0.17 million and loss on sale of investments of $ 0.37 million incurred during fiscal 1997.

Provision for income taxes: The provision for income taxes was $ 1.32 million in fiscal 1997, an increase of 48% over $ 0.89 million in fiscal 1996. The effective tax rate for fiscal 1997 is 13.25% as compared to 11.59% for fiscal 1996.

Net income: Net income for fiscal 1997 was $ 8.64 million, an increase of 27% over $ 6.82 million for fiscal 1996 and was 22% of revenues for fiscal 1997 as compared with 26% for fiscal 1996.

2.3 Liquidity and capital resources

Right from inception, the Company has financed its operations primarily through cash generated from operations. Debt has been used for bridge-financing only when absolutely necessary. At fiscal year-end 1998, the Company had $ 15.42 million in cash and cash equivalents.

Net cash provided by operating activities was $ 16.24 million, $ 9.42 million and $ 8.14 million in fiscal 1998, 1997 and 1996. Net cash provided by operations consisted primarily of net income, offset in part by changes in operating assets and liabilities.

Net cash used in investing activities was $ 8.44 million, $ 4.65 million and $ 5.42 million in fiscal 1998, 1997 and 1996. Out of these amounts, the Company spent $ 7.89 million, $ 7.20 million and $ 4.00 million in fiscal 1998, 1997 and 1996 in purchasing property, plant and equipment, on investments in subsidiaries and affiliates, and on loans given to employees.

Generally, publicly-traded Indian companies pay dividends. The Company declared a dividend of $ 2.00 million, $ 1.13 million and $ 1.07 million in fiscal 1998, 1997 and 1996.

The Company has a $ 1.38 million line of credit from two commercial banks. At fiscal year-end 1998, the Company had a current ratio of 5.81 to 1. CRISIL, India's premier credit rating agency, has awarded a rating of P1+ to the Company's commercial paper. This is the highest rating awarded by CRISIL for commercial papers. CRISIL has also awarded a rating of AA to the Company's non-convertible debentures. However, the Company has not issued any commercial paper or non-convertible debentures.

The Company plans to spend up to $ 38 million as capital expenditure during fiscal 1999. This amount will be spent for expanding its existing physical and technological infrastructure.

2.4 Reconciliation between US GAAP and Indian GAAP

Infosys is registered in India and is required to comply with Indian GAAP and provisions of the Indian Companies Act. Infosys has voluntarily decided to present financial statements in accordance with US GAAP. There are material differences between US and Indian GAAP financial statements, due to differences in the accounting principles of the two countries.

US GAAP requires that provisions be made for deferred taxes, amortization of stock-based compensation, valuation of short-term investments (which are marked to market and adjusted against retained earnings), and the consolidation of the accounts of subsidiaries. Indian GAAP does not require a provision for deferred taxes, amortization of deferred stock compensation or consolidation of the accounts of subsidiaries. It only requires a provision for the diminution in the value of current investments.

2.4.1 Reconciliation of net income

in $

	1998	1997	1996
Net income as per Indian GAAP (excluding extraordinary income)	16,041,966	9,390,263	6,290,255
Adjustments			
Provision for investments	-	-	681,437
Translation difference in depreciation	-	(58,855)	(151,424)
Deferred tax	707,553	249,220	391,988
Net loss of subsidiary included on consolidation	(1,563,718)	(170,700)	(27,766)
Provision for retirement benefits to employees	(275,000)	-	-
Employee stock-based compensation plan charge under APB Opinion No. 25	(2,566,613)	(767,926)	(360,853)
Net income as per US GAAP	12,344,188	8,642,002	6,823,637

2.5 Outlook: issues and risks

Except for fulfilling the mandatory requirements of the Initial Public Offer (IPO) and private placement, 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.

2.5.1 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 investment priorities and rapidly enabling its staff to meet the new demand. The Company has acquired expertise on various technical platforms to meet the dynamic changes in technology.

2.5.2 Prices

Infosys has been able to increase its average per capita revenue productivity by more than 12% in fiscal 1998 over the previous year. However, the prices that the Company is able to obtain for its products/services in future may decrease from historic levels, depending upon the 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 where Infosys derives its revenues. This differential in inflation has the potential to create pressure on the margins of the Company. The strategy of the Company for protecting the margins is to enhance the productivity of its employees and to move up the value chain by increasing the contribution to sales from branded services and products. The Company has initiated an action plan to achieve both these objectives.

2.5.3 Opportunities and risks including those resulting from key trends

The following key trends are likely to influence the business of Infosys:

1. *The Year 2000 problem* (addressed by *In2000®*) has become a major revenue opportunity. Infosys is well positioned to use this opportunity. However, Infosys does not intend the *In2000®* practice to contribute more than 25% of the total sales revenue since Infosys' strategy is not to depend on one product or service, or on one market (which will disappear by 2000 AD) or deployment of all its manpower in one area which is not seen by employees as an emerging technology area. The emphasis on the Year 2000 problem is also reducing budget allocation for new software development by customers, but this reduction does not seem to be material to Infosys.
2. *Euroconversion* is another major software conversion opportunity for Indian software companies. This arises due to the European Commission requirement that all enterprises in member countries report their financial transactions in one currency – the ECU. This conversion activity is expected to be completed by 2002 AD and will result in the spending of over $ 20 billion as per current estimates.
3. *Fierce competition, eroding margins, emergence of promising software and hardware technology* have compelled user organizations worldwide to re-engineer their IT systems (besides the allocation of funds to solve the year 2000 problem). This has resulted in 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 Indian software companies.
4. *Consequent to the emergence of India as the country-of-choice for bespoke software development and maintenance*, the number of North American and European companies wanting to work with Indian software companies has increased substantially in the last three years. Of late, several Japanese companies have shown interest in Indian software companies. This implies greater opportunity for Indian software companies.
5. *The commoditization of our service offerings,* as a consequence of price-based competition by major players in the segment, 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.
6. *A tremendous competition for skilled resources* has resulted in unsustainable salary increases. New models of compensation must be used. Productivity must be enhanced.
7. *The move towards more interactive methods of software development* may result 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.
8. *The emergence of lower-cost competitors* like China, which in our opinion, are still a long way from becoming serious competitors 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
9. *The fast emerging Internet* has become the most important paradigm shift of the decade. It has the potential to both change the way we do our business, as well as the way our customers conduct their business. In addition, the Internet computing model is likely to be the new model of application software development. We need to keep abreast and ahead of this phenomenon.
10. *Many end-user companies favor a move towards products* and look for software products that meet their needs, rather than customized development projects. This could potentially shrink the market for new software development opportunities. We have to respond by offering products as a way to hedge this trend. We are also trying to overcome this trend by offering package implementation services for major ERP software packages.

2.5.4 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 depreciated, by 6% to 7%, against the US dollar during fiscal 1998. The Reserve Bank of India intervened proactively, both in the forward market and the spot market, to keep the Indian exchange rate at a manageable level. Predicting the future exchange rate of the Indian rupee against the US dollar is a difficult task. This depends largely on the macroeconomic 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 fluctuations is reduced.

2.5.5 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 complied with US GAAP requirements. The Company has also complied with the accounting standards promulgated by the Institute of Chartered Accountants of India.

2.5.6 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.

2.5.7 Statutory obligations

The Company has established Software Technology Parks (STPs) – 100% export-oriented units – for the development of software at Electronics City, Koramangala, Infosys Towers, BTM Layout and Manipal Center at Bangalore, as well as, at Mangalore, Pune, Chennai and Bhubaneswar (all these development centers are in India). Certain capital items purchased for these centers are eligible for 100% customs and excise duty exemption, subject to fulfillment of stipulated export obligations, namely, one and a half times the value of duty-free imports of capital goods or duty-free purchase of goods subject to excise, over a period of four years, and one and a half times the wage bill, on a yearly basis. The non-fulfillment of export obligations may result in penalties as stipulated by the Government. This may have an impact on future profitability.

2.5.8 Marketing investments

New investments will be made in sales and marketing initiatives to have a wide portfolio of customers from different geographical regions, application areas and technologies. These investments may have an impact on future profitability. However, these investments will reduce risks in business.

2.5.9 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 the US market.

2.5.10 Customers

Infosys derives more than 10% of its revenue from one of its customers. This may cause a pressure on the margins, since such customers may demand reduction in prices based on volumes.

The Company has initiated plans to broad-base its revenues by creating a large portfolio of customers, application areas, technologies and geographical regions, to minimize the risk of dependency on only a few customers. The Company policy is to add several new customers every year, and to develop them into million-dollar customers. During the year, the Company added 45 new customers, of which 6 are BANCS 2000 customers.

2.5.11 Multiple locations

Infosys believes in 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. The Company has already established software development centers at various states in India, and it is quite likely that such development centers may come up in other business-attractive economies, in the future. This implies that the Company must have a plan to handle all issues arising out of operating in different Indian states, countries and cultures.

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 synergy between the organizational aspirations and the distinctive advantages of such variations in cultures.

2.5.12 Taxation

The economic reforms program of the Government of India has enhanced the velocity of business for companies in India. Being one of the signatories to the World Trade Organization, India is committed to reducing the import tariff levels, thereby exposing the Indian entrepreneurs to global competition.

At present, the export profits are deductible from income subject to tax in India. The government may reduce or eliminate the tax exemptions provided to Indian exporters in the near future. This may result in the export profits of the Company being fully taxed, and may adversely affect the post-tax profits of the Company in the future. This is expected to be tackled by increasing the per capita revenue productivity and moving up the value chain. This is possible by increasing the contribution to revenue from products and branded services.

2.5.13 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 material 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.

2.5.14 Contractual obligations

In the course of business, the Company enters into contracts with different customers and is obliged to perform and act according to the contractual terms and regulations. Failure to fulfill the contractual obligations arising out of such contracts may expose the Company to financial and other risks.

The Company has taken sufficient measures to cover all of its contractual risks and does not foresee any major liability due to its non-fulfillment of any contractual terms and conditions.

2.5.15 Human resources

The success of Infosys is dependent on its ability to recruit, enable, empower and retain its employees. The higher than normal retention of employees at Infosys has been possible due to the HR practices being followed by the Company, like employee stock options, providing competitive salaries, congenial working environment, latest technology, full independence in operations, informal culture and continuous training. However, the Company may not be able to retain employees in future due to increased opportunities available to software engineers and their increased expectations.

The Company is committed to continue its best HR practices and is confident of attracting, recruiting and retaining the best and the brightest for its operations.

2.5.16 Focusing on products

The software product business is a high-growth and high-risk business. The Infosys product strategy is to acquire domain knowledge by working with *Fortune 500* companies and leverage such knowledge to develop large, application products in niche application areas.

Report of Management

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

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

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

The Infosys Technologies Limited Board of Directors has an Audit Committee composed of external directors. The Committee meets with the management, internal auditors, and the independent auditors to review internal accounting controls and accounting, auditing and financial reporting matters.

Bangalore	T. V. Mohandas Pai	N. R. Narayana Murthy
April 10, 1998	*Senior Vice President, Finance & Administration: Chief Financial Officer*	*Chairman and Managing Director: Chief Executive Officer*

Independent auditors' report

To the Board of Directors and Stockholders

Infosys Technologies Limited

We have audited the accompanying consolidated balance sheets of Infosys Technologies Limited and its subsidiary as of March 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended March 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Infosys Technologies Limited and its subsidiary as of March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1998, in conformity with accounting principles generally accepted in the United States.

KPMG Peat Marwick

April 10, 1998

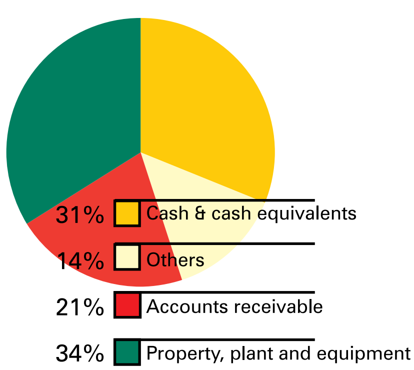
KPMG Peat Marwick
Bangalore, India

Consolidated Balance Sheets as at March 31

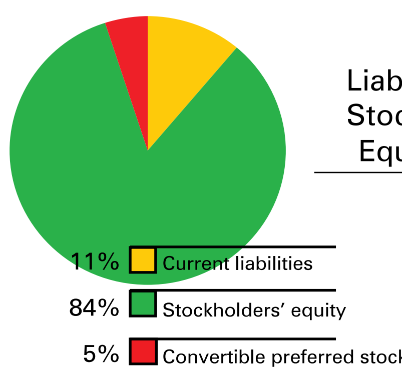
		in $
	1998	1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	15,419,265	8,320,331
Accounts receivable, net of allowances	10,263,084	4,994,607
Inventories	-	11,458
Prepaid expenses and other current assets	4,687,654	2,851,008
Prepaid income taxes	536,969	983,859
Total current assets	30,906,972	17,161,263
Property, plant and equipment - net	16,695,503	14,930,862
Deferred tax assets	1,089,948	382,395
Investments	362	362
Other assets	1,025,605	473,079
Total assets	49,718,390	32,947,961
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	149,086	125,579
Customer deposits	190,173	196,710
Other accrued liabilities	4,979,306	1,960,941
Total current liabilities	5,318,565	2,283,230
Non-current liabilities	-	-
Total liabilities	5,318,565	2,283,230
CONVERTIBLE PREFERRED STOCK	2,317,500	-
STOCKHOLDERS' EQUITY		
Common stock, $ 0.32 par value; 30,000,000 shares authorized as of 1998 and 1997; Issued and outstanding shares - 16,017,200 and 14,519,200 as of 1998 and 1997	4,545,811	2,310,270
Additional paid-in capital	24,415,920	15,712,247
Unrealized loss on investments - net	-	-
Cumulative translation adjustment	(7,042,229)	(3,531,811)
Deferred compensation - Employee Stock Offer Plan	(7,831,445)	(3,507,715)
Retained earnings	27,994,268	19,681,740
Total stockholders' equity	42,082,325	30,664,731
Total liabilities and stockholders' equity	49,718,390	32,947,961

See the accompanying notes to consolidated financial statements.

Assets - 1998



Liabilities and Stockholders' Equity - 1998



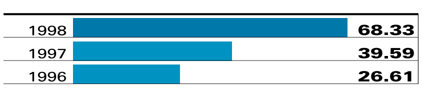
Consolidated Income Statements for the years ended March 31

in $

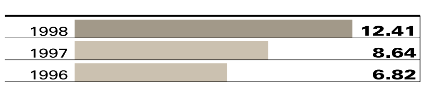
	1998	1997	1996
REVENUES			
Net revenues	68,329,961	39,585,919	26,607,009
Cost of revenues	40,156,509	22,615,070	15,637,577
Gross profit	28,173,452	16,970,849	10,969,432
OPERATING EXPENSES			
Selling, general and administrative	13,225,492	7,010,211	4,350,710
Amortization of deferred stock compensation	2,566,613	767,926	360,853
Total operating expenses	15,792,105	7,778,137	4,711,563
Operating income	12,381,347	9,192,712	6,257,869
Other income (net)	800,799	769,560	1,460,329
Income from operations before income taxes	13,182,146	9,962,272	7,718,198
Income taxes	(770,458)	(1,320,270)	(894,561)
Net income	12,411,688	8,642,002	6,823,637
Preferred stock dividends	67,500	-	-
Net income available to common shareholders	12,344,188	8,642,002	6,823,637
EARNINGS PER SHARE*			
Basic earnings per share	0.81	0.60	0.47
Weighted shares used in computing basic earnings per share	15,266,148	14,518,197	14,517,200
Diluted earnings per share	0.79	0.58	0.47
Weighted shares used in computing diluted earnings per share	15,662,619	14,852,030	14,641,757

See the accompanying notes to consolidated financial statements.

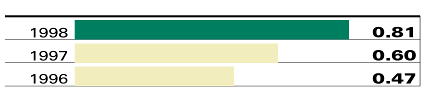
* Weighted shares and Earnings per share have been restated to reflect a two-for-one stock-split in October 1997.



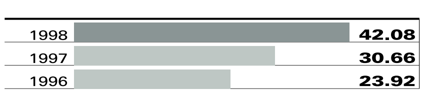
Net revenue
$ in millions



Net income
$ in millions



Net earning per share
$



Stockholders' Equity
$ in millions

Consolidated Statements of Stockholders' Equity

in $

	Common stock		Additional paid-in capital	Unrealized gain (loss) on investments - net	Cumulative translation adjustment	Deferred compensation - Employee Stock Offer Plan	Retained earnings	Total stockholders' equity
	Shares	Par value						
Balance as of March 31, 1995	14,517,200	2,309,991	12,403,865	59,394	(190,832)	(1,330,622)	6,416,483	19,668,279
Net income	-	-	-	-	-	-	6,823,637	6,823,637
Cash dividends declared	-	-	-	-	-	-	(1,068,955)	(1,068,955)
Compensation related to stock option grants	-	-	1,283,275	-	-	(1,283,275)	-	-
Amortization of compensation related to stock option grants	-	-	-	-	-	360,853	-	360,853
Translation adjustment	-	-	-	-	(1,438,382)	-	-	(1,438,382)
Unrealized loss on investments	-	-	-	(420,876)	-	-	-	(420,876)
Balance as of March 31, 1996	14,517,200	2,309,991	13,687,140	(361,482)	(1,629,214)	(2,253,044)	12,171,165	23,924,556
Net income	-	-	-	-	-	-	8,642,002	8,642,002
Cash dividends declared	-	-	-	-	-	-	(1,131,427)	(1,131,427)
Common stock issued upon exercise of warrants	2,000	279	2,510	-	-	-	-	2,789
Compensation related to stock option grants	-	-	2,022,597	-	-	(2,022,597)	-	-
Amortization of compensation related to stock option grants	-	-	-	-	-	767,926	-	767,926
Translation adjustment	-	-	-	-	(1,902,597)	-	-	(1,902,597)
Unrealized gain on investments - net	-	-	-	361,482	-	-	-	361,482
Balance as of March 31, 1997	14,519,200	2,310,270	15,712,247	-	(3,531,811)	(3,507,715)	19,681,740	30,664,731
Increase due to stock-split	-	2,028,521	-	-	-	-	(2,028,521)	-
Net income	-	-	-	-	-	-	12,344,188	12,344,188
Cash dividends declared	-	-	-	-	-	-	(2,003,139)	(2,003,139)
Common stock issued upon exercise of warrants	1,498,000	207,020	1,813,330	-	-	-	-	2,020,350
Compensation related to stock option grants	-	-	6,890,343	-	-	(6,890,343)	-	-
Amortization of compensation related to stock option grants	-	-	-	-	-	2,566,613	-	2,566,613
Translation adjustment	-	-	-	-	(3,510,418)	-	-	(3,510,418)
Balance as of March 31, 1998	16,017,200	4,545,811	24,415,920	-	(7,042,229)	(7,831,445)	27,994,268	42,082,325

See the accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows for the years ended March 31

in $

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	12,411,688	8,642,002	6,823,637
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on sale of property, plant and equipment	(2,929)	-	-
Depreciation	6,121,650	3,034,984	2,679,577
Deferred tax benefit	(707,553)	(249,220)	(391,532)
(Gain)/Loss on sale of short-term investments	-	374,380	-
Amortization of deferred stock compensation	2,566,613	767,926	360,853
Changes in assets and liabilities			
Accounts receivable	(5,268,477)	(1,534,731)	(1,139,150)
Inventories	11,458	40,022	3,104
Prepaid expenses and other current assets	(1,836,646)	(1,200,316)	(718,442)
Prepaid income taxes	446,890	(591,147)	(234,383)
Accounts payable	23,507	62,203	(3,488)
Customer deposits	(6,537)	(65,304)	233,367
Other accrued liabilities	2,482,653	134,397	528,544
Net cash provided by operating activities	16,242,317	9,415,196	8,142,087
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on property, plant and equipment	(7,891,441)	(7,201,749)	(4,003,108)
Proceeds from sale of property, plant and equipment	8,079	33,453	57,599
Loans to employees	(552,526)	(418,790)	(196,789)
Proceeds from sale of investments in affiliates	-	78,819	-
Purchases of short-term investments	-	-	(1,274,018)
Proceeds from sale of short-term investments	-	2,859,420	-
Net cash used in investing activities	(8,435,888)	(4,648,847)	(5,416,316)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term borrowings	-	(1,253,125)	(759,613)
Net proceeds from issuance of common stock	2,020,350	2,789	-
Net proceeds from issuance of convertible preferred stock	2,250,000	-	-
Payment of cash dividends	(1,467,427)	(1,062,475)	(804,688)
Net cash provided by (used in) financing activities	2,802,923	(2,312,811)	(1,564,301)
Effect of exchange rate changes on cash	(3,510,418)	(1,902,597)	(1,438,382)
Net increase/(decrease) in cash and cash equivalents during the year	7,098,934	550,941	(276,912)
Cash and cash equivalents at the beginning of the year	8,320,331	7,769,390	8,046,302
Cash and cash equivalents at the end of the year	15,419,265	8,320,331	7,769,390
Supplementary information			
Cash paid towards interest	-	(172,268)	(217,650)
Cash paid towards taxes	(323,568)	(1,856,548)	(1,306,358)

1. Significant accounting policies

1.1 The Company

Infosys and its subsidiary Yantra Corporation (Yantra) are collectively called the "Company" or "Infosys". Infosys specializes in customized software development and software maintenance, while Yantra specializes in developing, selling and supporting their own products.

The business strategy is focused on:

- Establishing offshore software development centers in cost-competitive economies.
- Competing on quality and productivity rather than just on cost in the domain of fixed-price, turnkey projects and maintenance of software.
- Moving up the value chain by branding of specialized services.

Yantra concentrates on software products for retail and distribution areas.

Infosys operates in USA, Europe, Japan, the Far East, Africa and the Indian subcontinent.

The Company generates its sales from the following channels: the Company's sales offices around the world, strategic sales partners and the Corporate Marketing group at Bangalore, India.

1.2 Basis of preparation of financial statements

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

1.3 Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, Yantra Corporation. Yantra Corporation, a Delaware Corporation, was formed in fiscal 1996 for developing software products in the retail and distribution areas. All inter-company transactions have been eliminated in consolidation.

1.4 Use of estimates

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

1.5 Revenue recognition

The Company derives its revenues primarily from software services and also from the licensing of software products. Revenue with respect to time-and-material contracts is recognized as related costs are incurred. Revenue with respect to fixed-fee contracts is recognized on a percentage of completion basis and measured using contract milestones achieved. As at year-end 1998 and 1997, revenue recognized approximates billings. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates.

Revenue from licensing of software products is recognized upon shipment of products and fulfillment of acceptance terms, if any, provided that no significant vendor obligations remain and the collection of the related receivable is probable. When the Company receives advance payments for software products, such payments are reported as customer deposits until all conditions for revenue recognition are met.

Maintenance revenue arising due to sale of software products is deferred and recognized ratably over the term of the agreement. Revenue from customer training, support, and other services arising due to the sale of software products is recognized as the service is performed.

Revenue from the sale of Special Import Licenses is recognized when the licenses are actually sold.

1.6 Cash, cash equivalents and short-term investments

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

The management determines the appropriate classification of investment securities at the time of purchase and re-evaluates such designation as of each balance sheet date. As at year-end 1998 and 1997, all investment securities were designated as "available-for-sale". Available-for-sale securities are carried at fair value based on quoted market prices, with unrealized gains and losses, net of deferred income taxes, reported as a separate component of stockholders' equity.

Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in the consolidated statements of income. The cost of securities sold is based on the specific identification method. Interest and dividend on securities classified as available-for-sale are included in interest income.

1.7 Inventories

Inventories consisting of software products purchased for resale are stated at the lower of cost (determined on a first-in, first-out basis) and market. A periodic review is made of slow-moving stock and appropriate provisions are made for anticipated losses, if any.

1.8 Property, plant and equipment

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

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

In addition to the above, certain fixed assets belonging to the categories of furniture and fixtures, computer equipment and plant and equipment having an estimated useful life of one year or less, are depreciated entirely in the year of purchase.

Deposits paid towards the acquisition of property, plant and equipment outstanding at the year-end and the cost of property, plant and equipment not put to use before the year-end are disclosed under *Capital work-in-progress*.

1.9 Impairment of long-lived assets and long-lived assets to be disposed of

The Company evaluates the recoverability of its long-lived assets and certain identifiable intangibles, if any, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed are reported at the lower of the carrying amount and fair value less cost to sell.

1.10 Research and development

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

1.11 Foreign currency translation

The functional currency of the Company is the Indian rupee. The functional currency of the Company's subsidiary, Yantra Corporation, is the United States dollar. The translation of the accounts of Yantra Corporation to Indian rupees for the purposes of consolidation, is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date, and for revenues and expense accounts using a monthly simple average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as cumulative translation adjustment, a separate component of stockholders' equity.

The accompanying consolidated financial statements are reported in US dollars. The translation of the Indian rupee into US dollars is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date, and for revenues and expense accounts using a monthly simple average exchange rate for the respective periods. The gains or losses resulting from the translation of assets and liabilities are reported as cumulative translation adjustment, a separate component of stockholders' equity.

1.12 Foreign currency transactions

The Company enters into foreign exchange forward contracts to limit the effect of exchange rate changes on its foreign currency receivables. Gains and losses on these contracts are recognized in the consolidated statements of income as incurred.

1.13 Earnings per share

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

1.14 Income taxes

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

1.15 Fair value of financial instruments

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

1.16 Concentration of risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, short-term investments and trade receivables. The Company's cash resources are invested with corporations, financial institutions and banks with high investment grade credit ratings. Limitations have been established by the Company as to the maximum amount of cash that may be invested with any such single entity.

Credit risk with respect to trade receivables is limited due to a large customer base. To reduce its credit risk, the Company performs ongoing credit evaluations of customers.

1.17 Retirement benefits to employees

1.17.1 Gratuity

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

Until March 31, 1997, the Company contributed each year to a gratuity fund maintained by the Life Insurance Corporation of India based upon actuarial valuations. No additional contributions were required to be made by the Company in excess of the unpaid contributions to the plan.

Effective April 1, 1997, the Company established the Infosys Technologies Limited Employees' Group Gratuity Fund Trust. Liabilities with regards to the gratuity plan are determined by actuarial valuation, based upon which the Company makes contributions to the gratuity fund. Trustees administer the contributions made to the gratuity fund. The funds contributed to the trust are invested in specific securities as mandated by statute and generally comprise federal and state government bonds and the debt instruments of government-owned corporations. The employees are required to become members of the trust in order to receive gratuity on retirement/severance.

1.17.2 Superannuation

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

1.17.3 Provident Fund

In addition to the above benefits, all employees receive provident fund benefits through a defined contribution plan in which both the employee and employer make monthly contributions to the plan, of 12% each of the covered employee's salary.

Until July 1996, Infosys contributed to the employees' provident fund maintained by the Government of India. Effective August 1996, the Company established a Provident Fund Trust to which a part of the contributions are made each month. The remainder of the contributions are made to the Government's provident fund. The Company has no further obligations under the plan beyond its monthly contributions.

1.18 Investments

Investments in affiliates, where the Company controls between 20% and 50% of the voting interest, are accounted for using the equity method. In the event of any decline, other than temporary, in the value of investments, an appropriate provision is made to recognize such a decline. Investments of less than a 20% voting interest are accounted for at cost and necessary provisions are made for any decline, other than temporary, in the value of such investments.

1.19 Stock-based compensation

The Company uses the intrinsic value-based method of APB Opinion No. 25 to account for its employee stock-based compensation plan. The Company has also adopted the pro forma disclosure provisions of SFAS No. 123.

2. Notes to consolidated financial statements

2.1 Cash and cash equivalents

The cost, gross unrealized holding gains, gross unrealized holding losses, and fair values for cash and cash equivalents as at year-end 1998 and 1997, are as follows:

in $

	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
1998				
Cash and cash equivalents				
Cash and bank deposits	13,576,206	-	-	13,576,206
Deposits in corporations	1,843,059	-	-	1,843,059
	15,419,265	-	-	15,419,265
1997				
Cash and cash equivalents				
Cash and bank deposits	4,484,684	-	-	4,494,684
Deposits in corporations	3,835,647	-	-	3,835,647
	8,320,331	-	-	8,320,331

2.2 Accounts receivable

The accounts receivable for 1998 and 1997 amount to $ 10,263,084, net of allowance for doubtful accounts of $ 393,799 for 1998 and $ 4,994,607, net of allowance for doubtful accounts of $ 169,976 for 1997. The age profile is as given below.

in %

Period in days	1998	1997
0 - 30	61.49	69.55
31 - 60	29.43	22.04
61 - 90	6.33	0.04
More than 90	2.75	8.37
	100.00	100.00

Accounts receivable, as a percentage of net revenue for 1998 and 1997, amount to 15.02% and 12.62%.

2.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following: *in $*

	1998	1997
Rent deposits	1,364,372	1,219,201
Other deposits	1,055,947	678,484
Loans to employees	895,971	415,063
Prepaid expenses	1,371,364	538,260
	4,687,654	2,851,008

Other deposits represent amounts paid in advance to vendors for goods and services and deposits with various government organizations.

2.4 Property, plant and equipment - net

Property, plant and equipment consist of the following: *in $*

	1998	1997
Land	1,215,973	660,827
Buildings	4,903,049	5,162,950
Furniture and fixtures	3,331,759	2,220,551
Computer equipment	12,499,330	8,755,719
Plant and equipment	4,955,100	3,133,487
Vehicles	44,493	35,354
Capital work-in-progress	1,854,440	1,964,361
	28,804,144	21,933,249
Accumulated depreciation	(12,108,641)	(7,002,387)
	16,695,503	14,930,862

Depreciation expense amounted to $ 6,121,650, $ 3,034,984 and $ 2,679,577 for the years 1998, 1997 and 1996.

2.5 Other assets

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

2.6 Related parties

The Company grants loans to employees for acquiring assets such as property, motor cars, etc. Such loans were provided at concessional interest rates and are repayable over fixed periods ranging from 1 to 100 months. The loans generally are secured by the assets acquired by the employees. As at year-end 1998 and 1997, amounts receivable from officers were $ 227,242 and $ 68,019 and are included in prepaid expenses, and other current assets and other assets in the accompanying consolidated balance sheets.

The future recoveries of loans to employees are as detailed below. *in $*

	1998	1997
1998	-	415,063
1999	895,971	114,797
2000	294,215	101,541
2001	241,304	84,459
2002	147,898	63,060
2003	104,415	NA
Thereafter	237,773	109,222
Total	1,921,576	888,142

The estimated fair value amounts of the relative party receivables at the balance sheet date, amounted to $ 1,653,373 and $ 761,495 as of 1998 and 1997. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgement is required to develop the estimates of fair value, thus, the estimates provided herein are not necessarily indicative of the amounts that the Company could realize in the market.

2.7 Other accrued liabilities

in $

	1998	1997
Accrued compensation to staff	1,853,974	790,196
Unclaimed dividends	1,364,849	829,137
Others	1,760,483	341,608
	4,979,306	1,960,941

2.8 Employee post-retirement benefits

2.8.1 Gratuity benefits

With regard to the Infosys Technologies Limited Employees' Group Gratuity Fund Trust (Trust), the following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheet at year-end 1998:

in $

1998	
Change in benefit obligation	
Projected Benefit Obligations (PBO) at April 1, 1997	1,356,651
Service cost	330,318
Interest cost	189,931
Benefits paid	(72,396)
PBO at March 31, 1998	1,804,504
Change in plan assets	
Fair value of plan assets at April 1, 1997	301,232
Actual return on plan assets	41,892
Employer contributions	409,770
Benefits paid	(72,395)
Plan assets at March 31, 1998	680,499
Funded status	(1,124,005)
Excess of actual over-estimated return on plan assets	(129,192)
Unrecognized actuarial gain	(7,219)
Unrecognized transition obligation	985,058
Net amount recognized	(275,358)
Amounts recognized in the statement of financial position consist of:	
Prepaid benefit cost	(275,358)

All the assets of the plan are owned by the Trust and comprise debt owned or guaranteed by the Government of India, state governments or government-owned corporations. By statute, the plan is required to maintain its investments only in such securities.

Net gratuity cost for 1998 included the following components: *in $*

	1998
Service cost	330,318
Interest cost	189,931
Expected return on assets	(49,111)
Amortization	70,361
Net gratuity cost	541,499

Assumptions used in accounting for the gratuity plan as of year-end 1998, were a discount rate of 14%, a long-term sustainable rate for the increase in compensation levels of 7.5%, and an expected long-term rate of return on assets of 12%. As the assumed rates used above have a significant effect on the amounts reported, the Company has assessed these rates as comparable with prevalent industry standards and its projected long-term plans of growth.

Contributions to the gratuity plan managed by the Life Insurance Corporation of India in 1997 and 1996 were $ 161,606 and $ 114,903.

2.8.2 Superannuation benefits

Infosys contributed $ 99,206, $ 64,695 and $ 39,408 in 1998, 1997 and 1996, to the superannuation plan.

2.8.3 Provident fund benefits

In addition, the Company contributed $ 537,663, $ 237,833 and $ 144,785 in 1998, 1997 and 1996, to the provident fund plan.

2.9 Convertible preferred stock

The convertible preferred stock consists of the following: *in $*

	1998	1997
Capital stock – 3,000,000 preferred stock at $ 0.75 each;		
par value $ 0.01 each	30,000	-
Additional paid-in capital	2,220,000	-
Dividend on preferred stock	67,500	-
	2,317,500	-

On September 29, 1997, the Company sold 5,000,000 shares of Series A Convertible Preferred Stock in its subsidiary, Yantra Corporation (with a par value of $ 0.01), at $ 0.75 each, for $ 3,750,000 in cash. The related offering costs of $ 49,853 were offset against the proceeds of the issue. Of these, 3,000,000 shares were issued to outsiders and is disclosed as convertible preferred stock. The Series A Convertible Preferred shares are entitled to the following rights, privileges and restrictions:

Voting

Holders of Series A Convertible Preferred Stock shall vote together with all other classes and series of stock of Yantra Corporation, as a single class on all actions to be taken by the stockholders' of the Corporation. Each share of Series A Convertible Preferred Stock shall entitle the holders thereof to such number of votes per share on each such action as shall equal the number of shares of common stock into which each share of Series A Convertible Preferred Stock is then convertible.

Dividends

In the event a dividend is declared for the common stock of the subsidiary, the holders of the Series A Convertible Preferred Stock shall be entitled to receive, in addition to any accrued dividends, dividends at the same rate as dividends paid with respect to the common stock (treating each share of Series A Convertible Preferred Stock as being equal to the number of shares of common stock into which each share of Series A Convertible Preferred Stock is then convertible).

The holders of the Series A Convertible Preferred Stock are entitled to dividends at 6% per annum on $ 0.75, the original issue price. At year-end 1998, accrued dividends amounted to $ 67,500. There were no dividends paid during 1997.

Right to convert

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

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

Mandatory redemption

On or after September 29, 2004, the subsidiary shall, at the written election of holders of at least 75% percent of the then outstanding shares of Series A Convertible Preferred Stock, be required to redeem the outstanding shares at a price of $ 0.75 per share plus any accrued dividends.

Liquidation

Upon liquidation, the holders of Series A Convertible Preferred Stock shall be paid $ 0.75 per share, plus, in the case of each share an amount equal to all accruing dividends unpaid thereon, whether declared or not, and any other dividends declared but unpaid thereon, computed to the date of payment. Common stock in Yantra Corporation shall rank on liquidation junior to Series A Convertible Preferred Stock.

2.10 Stockholders' equity

The Company presently has only one class of common stock. Common stock issued for cash in connection with the Company's private placement with institutions was net of issuance costs of $ 235,387 in the year 1995. Common stock issued during 1997 was due to conversion of warrants issued under the Employees Stock Offer Plan.

In fiscal 1998, the Board of Directors authorized a two-for-one stock-split of the Company's common stock effected in the form of a stock dividend. All references in the consolidated financial statements to number of shares, per share amounts and market prices of the Company's common stock have been retroactively restated to reflect the increased number of common shares outstanding resulting from the stock-split.

2.11 Common stock

Voting

Each holder of common stock shall have one vote in respect of each share held by him or her in the records of the Company for all matters submitted to a vote.

Dividends

Should the Company declare and pay dividends, such dividends will be paid in Indian rupees.

Indian statutes mandate that dividends be declared out of distributable profits only after the transfer of up to 10% of net income computed in accordance with current regulations to a general reserve.

Also, the remittance of dividends outside India is governed by Indian statutes on foreign exchange. Such dividend payments are also subject to applicable withholding taxes.

The Company declared an amount of $ 2,003,139, $ 1,131,427 and $ 1,068,955 as cash dividends for the years 1998, 1997 and 1996.

Liquidation

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

2.12 Stock options

There are no voting, dividend or liquidation rights to the holders of stock option warrants.

2.13 Other income, net

Other income, net, consists of the following: *in $*

	1998	1997	1996
Interest income and others	526,508	1,035,749	1,337,643
Income from sale of special import licenses	274,291	280,459	122,686
Interest expenses	-	(172,268)	-
Realized loss on sale of investments	-	(374,380)	-
	800,799	769,560	1,460,329

2.14 Operating leases

The Company has various operating leases for office buildings that are renewable on a periodic basis at its option. Rental expense for operating leases for the years 1998, 1997 and 1996 is $ 1,432,447, $ 679,705 and $ 186,165. The operating leases are cancelable at the Company's option.

2.15 Research and development

Selling, general and administrative expenses in the accompanying consolidated statements of income include research and development expenses of $ 1,777,703, $ 2,092,368 and $ 955,529 for the years 1998, 1997 and 1996.

2.16 Employees Stock Offer Plan

In November 1994, the Company established an Employees Stock Offer Plan (ESOP) which provides for the issuance of 750,000 warrants to eligible employees. The said warrants are issued to an employee welfare trust which holds the warrants and transfers them to eligible employees from time to time. The warrants are transferred to employees at Indian Rupee 1 each and each warrant entitles the holder to purchase one share of the Company's common stock at a price of Indian Rupees 100 per share. The warrants and the shares of common stock received upon the exercise of warrants are subject to a five-year aggregate vesting period from the date of issue of warrants to employees. The warrants expire upon the earlier of five years from the date of issue or September 1999.

The Company has elected to use the intrinsic value-based method of APB Opinion No. 25 to account for its employee stock-based compensation plan. During 1998, 1997 and 1996, the Company recorded deferred compensation of $ 6,890,343, $ 2,022,597 and $ 1,283,275 for the difference at the grant date between the exercise price and the fair value as determined by quoted market prices of the common stock underlying the warrants. The deferred compensation is being amortized pro rata on a straight-line basis over the vesting period of the warrants.

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

in $

		1998	1997	1996
Net income	As reported	12, 411,688	8,642,002	6,823,637
	Adjusted pro forma	12,134,607	8,488,121	6,584,901
Net income per share	As reported	0.81	0.60	0.47
	Adjusted pro forma	0.79	0.58	0.45

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

	1998	1997	1996
Dividend yield %	0.10%	0.10%	0.10%
Expected life	5 years	5 years	5 years
Risk-free interest rates	10.80%	10.80%	10.80%
Volatility	90.00%	90.00%	90.00%

Stock option activity during the periods is as follows:

	1998		1997		1996	
	Shares arising out of options	Weighted-average Exercise price ($)	Shares arising out of options	Weighted-average Exercise price ($)	Shares arising out of options	Weighted-average Exercise price ($)
Granted	276,800	1.38	249,200	1.41	316,000	1.50
Forfeited	(17,500)	1.38	(8,600)	1.41	(38,800)	1.50
Exercised	(750,800)	-	(2,000)	-	-	-
Options exercisable at end of year	259,300		750,800		512,200	
Weighted-average fair value of options granted during the year at less than market		14.65		9.55		4.78

The following table summarizes information about stock options outstanding as of 1998:

	Outstanding			Exercisable	
Range of Exercise price ($)	Number of Shares arising out of options	Weighted-average Remaining Contractual Life	Weighted-average Exercise price ($)	Number of Shares arising out of options	Weighted-average Exercise price ($)
1.38 - 1.50	259,300	3.13 years	1.43	259,300	1.43

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

Under the above Plan, on September 29, 1997, Yantra granted certain officers options to purchase a maximum of 700,000 shares of its common stock, $ 0.01 par value, at the price of $ 0.10 per share. Shares of common stock issuable under these options vest as follows:

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

The above options expire on September 29, 2007. At year-end 1998, no options were exercised.

Yantra Corporation accounts for its stock-based compensation using the intrinsic value method. Accordingly, no compensation cost has been recognized for its stock options issued to employees during 1998. Vesting of the above options may accelerate upon certain events, as defined in the Plan. The compensation cost related to the Corporation's employee stock options is computed at the date of grant based on the fair market value determined by Yantra Corporation.

2.17 Income taxes

The provision for income taxes was composed of: *in $*

	1998	1997	1996
Current taxes			
Domestic taxes	803,116	1,269,490	1,206,093
Foreign taxes	674,895	300,000	80,000
	1,478,011	1,569,490	1,286,093
Deferred taxes			
Domestic taxes	(707,553)	(249,220)	(391,988)
Foreign taxes	-	-	456
	(707,553)	(249,220)	(391,532)
Aggregate taxes	770,458	1,320,270	894,561

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

in $

	1998	1997	1996
Deferred tax assets			
Property, plant and equipment	1,089,948	382,395	133,175
Cash, Cash equivalents and short-term investments	-	-	307,929
Net operating loss in Yantra	558,000	94,000	-
	1,647,948	476,395	441,104
Less : Valuation allowance	558,000	94,000	-
	1,089,948	382,395	441,104
Deferred tax liabilities			
Foreign taxes	-	-	456
	-	-	456
Net deferred tax assets/(liabilities)	1,089,948	382,395	440,648

The difference in net deferred tax assets/(liabilities) during the years 1998, 1997 and 1996 has been allocated as follows:

in $

	1998	1997	1996
Deferred tax expense/(benefit) allocated to			
Continuing operations	707,553	249,220	391,532
Shareholders equity	-	(307,473)	358,524
	707,553	(58,253)	750,056

Indian tax authorities have assessed additional income taxes relating to disallowances of certain costs and other issues, for various years. This matter is currently under various levels of appeal. The Company is unable to predict the final resolution of such matters. Provision exists at year-end 1998, for all such additional demands.

The provision for income tax differed from amounts computed by applying the enacted tax rates to income before income taxes as a result of the following:

in $

	1998	1997	1996
Net income before taxes	13,182,146	9,962,272	7,718,198
Enacted tax rates in India	35.00%	43.00%	46.00%
Computed expected tax expense	4,613,751	4,283,777	3,550,371
Less : Tax effect due to non-taxable export income	(4,493,920)	(3,816,452)	(3,221,241)
Others	(355,821)	277,594	271,313
Effect of tax rate change	(71,143)	(28,738)	-
Effect of prior period tax adjustments	402,696	304,089	214,118
Provision for Indian income tax	95,563	1,020,270	814,561
Effect of tax on foreign income	674,895	300,000	80,000
Total current taxes	770,458	1,320,270	894,561

The provision for foreign taxes is on account of income taxes payable overseas.

At present, in India, profits from export activities are deductible from taxable income. Further, most of the Company's operations come from "100% export-oriented units", which are entitled to a tax holiday during any consecutive five years in a block of eight years from the date of commencement of operations.

2.18 Earnings per share

The following is a reconciliation of the shares used in the computation of basic and diluted EPS:

	1998	1997	1996
Basic EPS - weighted average number of common shares outstanding	15,266,148	14,518,197	14,517,200
Effect of dilutive common equivalent shares - stock options outstanding	396,471	333,833	124,557
Diluted EPS - weighted average number of common shares and common equivalent shares outstanding	15,662,619	14,852,030	14,641,757

2.19 Lines of credit

The Company has lines of credit from its bankers for its working capital requirement of $ 1,380,000, bearing interest at prime lending rates as applicable from time to time. At year-end 1998, the prime lending rate was 13.5%. This facility is secured by inventories and accounts receivable. The line of credit contains certain financial covenants and restrictions on indebtedness and is renewable every 12 months. As of year-end 1998, the Company had no balance outstanding under this facility.

2.20 Financial instruments

Foreign exchange forward contracts

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

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

There were no significant foreign exchange gains and losses for the years 1998, 1997 and 1996.

The table below summarizes by currency the contractual amounts of the Company's open foreign exchange forward contracts as of year-end 1998 and 1997. The "sell" amounts represent the Indian rupee equivalent of contracts to sell foreign currencies.

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

All the above contracts mature within a period of one year and the fair value of the instruments as at year-end 1998 and 1997 exceeds their respective contract values.

2.21 Segment reporting

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

2.21.1 By geographical area

in $

	1998	1997	1996
Net revenues			
Americas	56,211,753	31,057,917	20,223,422
Europe	6,179,621	3,256,502	2,879,434
Rest of the world	4,139,219	1,349,759	1,044,654
India	1,799,368	3,921,741	2,459,499
	68,329,961	39,585,919	26,607,009
Operating income			
Americas	9,548,302	7,666,367	5,174,174
Europe	1,538,247	576,531	801,428
Rest of the world	1,211,750	155,248	174,338
India	83,048	794,566	107,929
	12,381,347	9,192,712	6,257,869

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

2.21.2 Significant customers

One customer accounted for approximately 10% and 15% of revenues in 1998 and 1996 while another customer accounted for approximately 21% of revenues in 1996. At the year-end, the accounts receivable from the two customers were $ 1,033,061 in 1998 and $ 767,719 in 1997 for the former and $ 122,379 in 1998 and $ 465,480 in 1997 for the latter customer.

2.22 Recent accounting pronouncements

The Financial Accounting Standards Board (FASB) recently issued SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for reporting and displaying comprehensive income and its components in financial statements. It does not, however, require a specific format, but requires the Company to display an amount representing total comprehensive income for the period in its financial statements. The Company is in the process of determining the preferred format. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997.

The FASB also recently issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports. SFAS No. 131 is effective for financial statements for fiscal years beginning after December 15, 1997. The Company has determined that it will report revenues from various geographical segments such as the Americas, Europe, India and the Rest of the World.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-2, "Software Revenue Recognition". SOP 97-2 establishes standards relating to the recognition of all aspects of software revenue. SOP 97-2 is effective for transactions entered into in fiscal years beginning after December 15, 1997, and will require the Company to modify certain aspects of its revenue recognition policies. Based on the Company's initial assessment, it is unlikely that SOP 97-2 will have any material impact on its consolidated results of operations. The Company will adopt SOP 97-2 for its fiscal year 1999.

2.23 Year 2000

The Company has evaluated the Year 2000 impact with regard to its computer systems. The financial impact to enable compliance with Year 2000 is not likely to be material.

2.24 Commitments and contingencies

The Company has various letters of credit outstanding to different vendors totalling $ 948,583 as at year-end 1997. The letters of credit are generally established for the import of hardware, software and other capital items.

The Company has outstanding performance guarantees for various statutory purposes totalling $ 438,429, $ 556,393 and $194,212 for the year-ends 1998, 1997 and 1996. These guarantees are generally provided to governmental agencies.

2.25 Litigation

The Company is subject to legal proceedings and claims, which have arisen, in the ordinary course of its business. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial condition of the Company.

The Infosys' management is committed to global levels of transparency and disclosure. In pursuance of this, an attempt has been made to provide voluntarily, hereunder, the information, as required under 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 as on date, nor legally required to file Form 10-K and this is provided for information purposes only.

United States
Securities and Exchange Commission

Washington, DC 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, 1998

☐ 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*
IRS 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	*91-80-8520261*
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, 1998 was $ 750 million.

The number of shares outstanding of the registrant's common stock as of March 31, 1998, was 16,017,200.

Part I

Item 1. Business

1.1 General

Infosys Consultants Private Limited (the "Company" or "Infosys") was incorporated in 1981 as a private limited company under The Companies Act, 1956, of the Republic 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.

Infosys Technologies Limited (called the "Company" or "Infosys"), is a software services company specializing in customized software development and software maintenance. The Company derives a small percentage of its revenue from BANCS 2000, a software product that automates banking operations in emerging markets.

The vision of Infosys is to be a globally-respected software corporation providing best-of-breed solutions employing best-in-class professionals. Its business strategy is focused on:

- Establishing offshore software development centers in cost-competitive economies.
- Competing on quality and productivity rather than just on cost in the domain of fixed-price, turnkey projects and maintenance of software.
- Moving up the value chain by branding of specialized services.

Today, Infosys operates in USA, Canada, 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 companies. This meant the possibility of a shakeout. Further, it was clear by then, that the only scalable model for the Indian software houses would be to establish world-class software factories with state-of-the-art technology, software development processes, methods and tools. Thus, this period saw a transition from capital-light, on-site activities to capital-heavy, India-based software development centers. Infosys was one of the software companies to recognize this trend early, and to formulate a business plan to establish a large software factory to address the needs of international clients. This activity required considerable capital and Infosys had its Initial Public Offer (IPO) in February 1993, for funding this project. The scope of this project was expanded based on the positive response received from the 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 to by Foreign Institutional Investors, Mutual Funds, Domestic Financial Institutions and Corporates.

1.2 Infosys service offerings and products

During fiscal year 1997-98, Infosys derived 54% of its revenue from customized software development; 15% from software maintenance; 23% from *In2000*® (the first of our branded services), 3% from branded services other than *In2000*®, and 4% from BANCS 2000, our product for the automation of banks in emerging markets.

1.2.1 Infosys service offerings

The Company is planning to offer services in the area of Engineering, Euroconversion, ERP package implementation and application migration. Currently, Infosys has several service offerings and these are:

1.2.1.a 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 and the associated customer sign-off, design presentation, installation and rapid-reaction warranty are performed at the customer site. Design review, programming, code walkthrough, program testing, module testing, integration testing and volume testing are performed at the development center. The objective of this model is to maximize the value added by the development centers in cost-competitive economies.

1.2.1.b 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 $ 75 to $ 90 billion dollars (Source: NASSCOM). This is 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 cost competitive economies, since maintenance is an area for cost reduction. Infosys was the pioneer in leveraging the time-zone difference between India and USA to provide a near-24-hour productivity in the maintenance of software for US 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 software professional can maintain in a month) to create a fixed-price, turnkey framework for this activity.

1.2.1.c 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 knowledge of the customer's business. Thus, an OSDC operates like a virtual extension of the customer's software team. An OSDC is an ideal model for extending the size of a customer's software team at reduced costs and increased productivity.

1.2.1.d Branded services

Branding (previously called Productizing) involves: creating tools and reusability components for enhancing the quality and productivity of each service, preparing training material for quick enabling of programmers and analysts, and producing marketing and sales collateral for efficiency in selling. *In2000*® is the first service that Infosys has branded.

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 correcting this software problem is about $ 300 billion (Source: Gartner Group). Infosys is already working with several customers in this area.

1.2.1.e Internet, intranet and electronic commerce services

Internet and intranet technologies are expected to become major opportunities in the coming years. Hence, Infosys has started a focused initiative in these areas. A strategic business unit is dedicated to this emerging opportunity area. The revenue from this activity is not significant at this stage but is expected to grow.

1.2.2 Product development

Today, most Indian software houses leverage per-hour productivity rather than Intellectual-Property-Rights (IPR)-based productivity. The per-hour productivity syndrome refers to bidding for a project based on the number of hours required to complete the project. This is limited by the number of professional-hours available in the company, and the revenue is directly proportional to the number of professionals employed in the company. Increase in revenue comes with the concomitant problems of growth. On the other hand, IPR-based productivity relies on developing and selling products. Here, the revenue comes from the sale of licenses to users, and is therefore, not directly related to the number of development professionals employed. The average, per capita revenue-productivity from products is higher than that from projects (per-hour productivity). The probability of success of Indian companies leveraging 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 any competitive advantage. India's competitive advantages lie 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. Hence, Infosys has chosen the banking area and developed BANCS 2000.

1.2.2. a BANCS 2000

This is an on-line, retail and corporate banking system that offers rich functionality, portability, scalability, and flexibility for the complete automation of banking operations. This package has been successfully installed at 276 bank branches in India, Nepal, Sri Lanka and the African continent. An internet banking application, called BankAway, has been added to the BANCS 2000 suite. The revenue from BANCS 2000, at this stage, is 4% of the total revenue.

1.2.3 R & D investment

During fiscal 1998, the Company spent $ 1,777,703 on research and development activities. This represents around 2.60% of the total revenue during the year. The corresponding spending on research and development activities for the previous two fiscal years were 5.17% and 3.40%.

1.2.4 Segmental analysis of revenue

The segmental analysis of revenue is provided on page 105 of this report.

1.3 Trademark

Infosys has applied for registering INFOSYS as a trademark in India. The Company has also applied for registering ITLINFOSYS as a trademark in USA, and has initiated steps to register BANCS 2000 and BankAway.

1.4 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 Marketing group at Bangalore, India.

The worldwide sales headquarters is located at Fremont, California, USA. The branch sales offices are located at Atlanta, Boston, Bridgewater, Chicago, Dallas, Detroit and Los Angeles in USA, at Maastricht in the Netherlands, London in the United Kingdom, Tokyo in Japan and Toronto in Canada. During the coming year, Infosys proposes to open additional sales offices in the US and in Europe. Infosys is also a partner in JASDIC Park Company – a Japanese consortium of a few Japanese companies and three Indian software companies founded by Mr. Kenichi Ohmae, the former head of *Mckinsey and Company* in Japan.

Today, sales in Switzerland are handled by our strategic partner – *Teksels S. A.*

The Corporate Marketing group is responsible for starting the dialogue with prospective 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.

1.5 Joint ventures and subsidiaries

1.5.1 Yantra Corporation

To increase the revenue contribution from products, Infosys established, in 1995, Yantra Corporation, a subsidiary, in USA. Yantra's objectives are to develop, sell and support software products in the retail and distribution areas.

Infosys had transferred the intellectual property rights in Eagle (now known as WMSYantra), the software product solution for warehouse management, to Yantra, for a consideration of \$ 1,000,000. This amount was received in the form of 5,000,000 shares of common stock at \$ 0.20 per share of the subsidiary.

In September 1997, Infosys subscribed to 2 million Convertible Preferred Stock in Yantra at \$ 0.75 per share. On the same day, Infosys invited Mr. Donald W. Feddersen, a well-known venture capitalist to subscribe to 0.533 million shares of Convertible Preferred Stock at \$ 0.75 a share, and Draper International LLC to subscribe to 2.467 million shares of Convertible Preferred Stock at \$ 0.75 a share. Our belief is that these venture capitalists will add to the quality of the Board.

1.5.2 KSA-Infosys

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 full software life cycle services for the consumer products industry.

Since the Infosys board foresaw the possibility of conflict of interest between Yantra and SSC, the Company decided to relinquish its stake in the joint venture in favor of the joint venture partner, KSA. The Company has received necessary statutory approvals and the Infosys interest in SSC was sold to KSA in fiscal 1997.

1.6 Environmental matters

The software industry in India is required to comply with certain environmental regulations at certain locations. The Company has obtained the necessary approvals.

1.7 Functional groups within the Company

The Company is divided into ten functional groups – Delivery Systems, International Marketing and Sales, Banking Business Unit, Quality and Productivity, Education and Research, Computer Communications Division, Management Information Systems, Human Resources Development, Corporate Planning and Finance and Administration. The management tree is provided on page 120 of this report.

1.7.1 The Delivery Systems group

The Delivery Systems group is responsible for software development and maintenance, as well as for operating Offshore Software Development Centers (OSDCs) for our customers. The group is organized into eight Strategic Business Units (SBUs).

1.7.1.a Strategic Business Units (SBU)

The SBU structure has been adopted to decentralize operations for quick response to customers, to focus on developing domain expertise, and to develop the next generation of business leaders.

The following table describes the focus areas of each SBU:

SBU1	Manufacturing, Distribution, OTR, *In2000*® champion
SBU2	Banking, Finance and Insurance
SBU3	Retailing, Telecommunication, OSDC champion
SBU4	Technology Advancement Unit
SBU5	Internet and intranet consulting
SBU6	Banking Business Unit (responsible for BANCS 2000)
SBU7	Engineering Services
SBU8	NORTEL-Infosys Development Group

1.7.1.b Multi-locational development centers

A vast country like India has a sizable pool of professionals in almost every region. Hence, Infosys has established new development centers at Mangalore and Chennai (South India), Pune (Western India) and Bhubaneswar (Eastern India), in addition to the five existing development centers at Bangalore. Infosys has started the construction of *Infosys Park*, a 360,000 sq.ft. development center adjacent to our existing Electronics City development center. When completed, this facility will accommodate 1,800 software professionals and the necessary support staff.

1.7.2 International Marketing and Sales group

This group handles export sales and marketing functions. There are eight sales offices in USA, two in Europe, and one each in Japan and Canada. Infosys is also part of JASDIC Park Company, a consortium started by Mr. Kenichi Ohmae, the former head of *McKinsey and Company* in Japan. The worldwide sales activity is coordinated from the US headquarters in Fremont, California. Corporate marketing 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 Marketing Support subgroup provides systems support to sales and marketing staff. The Communication Design subgroup is also a part of the Corporate Marketing group and produces all corporate, business and technical documentation, and publicity material for the Company

1.7.3 Banking Business Unit

This group develops, sells and supports software products on a worldwide basis in the banking area. BANCS 2000, the Infosys solution to bank automation in India and the emerging market, has become the premier product in its genre.

1.7.4 Quality and Productivity group

Infosys received immediate certification to ISO 9001 in 1993, and was re-certified during 1996. In December 1997, Infosys joined a select band of software companies in the world that have been assessed as conforming to Level 4 of the Capability Maturity Model (CMM) propounded by the Software Engineering Institute at Carnegie Mellon University, USA. The Quality subgroup evaluates new models of quality, 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 software life cycle.

1.7.5 Education and Research group

The Education and Research group handles the training needs of the Company. Software engineering and employee productivity are the focus areas of research.

1.7.6 Computer and Communications Division

The Computer Communications Division is responsible for planning, purchasing, installing and maintaining the technology infrastructure including computer hardware, software and communications equipment for the Company.

1.7.7 Management Information Systems group

The MIS group develops and maintains the management information systems required internally by Infosys. This group also handles selection, purchase, installation, training and updating activities for all software packages bought from outside.

1.7.8 Human Resources Development group

The Human Resource Development group forecasts the human resource needs of the Company and recruits the required manpower. They are also responsible for innovation in development, appraisal and retention schemes for the employees of the Company.

1.7.9 Corporate Planning group

The Corporate Planning group has framed the Infosys vision and conducts the annual strategy sessions. This group is also responsible for producing the business plan for any new initiative at Infosys. They update the five-year enterprise model for any financial implication due to new policies. They also produce simulation models and handle *What-if* analyses.

1.7.10 Finance and Administration group

The Finance and Administration group includes Corporate Finance, Facilities and General Administration subgroups. The Corporate Finance subgroup is responsible for the financial aspects of operations – financial planning, finance, investment and treasury functions. The Facilities subgroup takes up construction and maintenance of the various Infosys facilities. The General Administration subgroup is responsible for handling administrative and personnel-related functions.

1.8 Customers

Infosys has an array of *Fortune 500* companies on its customer list. The aim of the Company is to have a portfolio of customers spread widely across application, geographical and technology areas so that Infosys has a stable revenue stream and is not affected by recession and changes in geopolitical equations, customer preferences and technology. However, the major market for software service vendors will continue to be the US, which is expected to contribute about 70% to 80% of Infosys' revenues in the near future.

There is only one customer contributing more than 10% (10.49%) and four other customers contributing more than 5% (7.50%, 5.84%, 5.81% and 5.42%) of revenues. In all, there are over 105 active customers.

1.9 Competition

Infosys is an IT services company based in India, utilizing an extensive offshore infrastructure to provide managed software solutions to clients worldwide. The major revenues come from customized software development and maintenance. A small part of the revenue comes from BANCS 2000, the Company's product for banking automation in emerging markets. The competition to Infosys comes from Indian software companies, and from local software and IT services companies in the countries that Infosys operates in. 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. It also believes that a company must operate within the international bandwidth of quality and productivity before it can use cost as a competitive advantage. Infosys has successfully competed with well-known software/ consulting companies in USA, France, Switzerland, the UK and Canada.

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

- Top-tier Indian companies with financial strength, established international market presence, and investment in state-of-the-art technology. These companies have become attractive to 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.
- Emerging 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 competition from multinational software companies in this area.

1.10 Employees

The Company had 2,605 employees as at March 31, 1998. Of this, 2,186 were software engineers including trainees, and the remaining 419 constituted the marketing, sales and support staff. Infosys intends to recruit another 1,000 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 largely 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 on recruitment is more on learnability than on experience. In addition to India's largest Employee Stock Offer Plan (ESOP), the Company provides competitive salaries, a congenial working environment, latest technology, full independence in operations, informal culture and continuous training. All these translate to high retention of employees.

Item 2. Properties

The Company's corporate office consists of 220,000 sq.ft. of land with 150,000 sq.ft. of landscaped area, a 160,000 sq.ft. office with 32 conference rooms and leisure infrastructure, including cafeteria, sports facilities and gymnasium, situated at Electronics City, Bangalore, India. This facility is owned by Infosys. The technological infrastructure at the corporate office includes over a 1,000 networked workstations, several Netware, UNIX and WINDOWS NT servers, systems from HP, IBM, SUN, DEC, COMPAQ, ACER and AST, videoconferencing facility, and multiple 64 kbps data communication links. A part of the Delivery Systems group, International Sales and Marketing, and the corporate support services are located in this building.

The Company has taken, on lease, three premises in Bangalore, India, measuring 59,485 sq.ft., 11,251 sq.ft. and 18,733 sq.ft., which are used for software development by strategic business units. The Company has also taken on lease, a premise each at Mangalore, Pune and Bhubaneswar (all in India), measuring 14,134 sq.ft., 43,715 sq.ft., and 20,600 sq.ft. respectively. These premises are used for software development. The Company has taken on lease, two premises at Chennai (earlier called "Madras", located in southern India), measuring 26,626 sq.ft and 23,167 sq.ft which are used for software development.

The Company owns 6,966 sq.ft. of office space situated in the business district of Bangalore, India, and this is used by the Internet Consulting group. The Company owns an area of 1,160 sq.ft. of office space in South Mumbai (earlier called "Bombay"), India, and rents a premise measuring 2,500 sq.ft. at New Delhi, India, both of which are used by the Banking Business Unit. The worldwide sales headquarters at Fremont, USA, and sales offices at various locations in USA and Europe are rented.

The total area of operational space available for the Company is around 338,337 sq.ft.

The Company also owns land at Bhubaneswar and various locations in Bangalore, India measuring 1,439,344 sq.ft. which can be used for its future expansion activities.

Item 3. Legal proceedings

There are no material legal proceedings pending against the Company or any of its directors in the ordinary course of business.

Item 4. Submission of matters to a vote of security holders

The necessary information is included in the notice for the Annual General Meeting.

Part II

Item 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, 1998, there were 6,622 shareholders as per the records of the Company. This year, the Company paid/ will pay cash dividends amounting to $ 2,003,140 to the shareholders. The corresponding figure for last year was $ 1,131,427.

Quarterly financial and market information (unaudited)

in $

Quarter ending	June 30	Sept. 30	Dec. 31	Mar. 31	Total
1997-98					
Net revenues	12,791,408	16,849,466	18,771,524	19,917,563	68,329,961
Operating income	2,120,881	3,137,957	3,840,265	3,282,244	12,381,347
Net income	1,762,495	3,226,835	3,704,482	3,650,376	12,344,188
Earnings per share	0.12	0.21	0.24	0.24	0.81
Common stock price per share					
High	26.74	44.26	41.99	47.22	47.22
Low	14.15	26.67	26.65	27.58	14.15
1996-97					
Net revenues	7,442,914	9,515,206	10,326,195	12,301,604	39,585,919
Operating income	1,064,283	2,574,969	2,133,227	3,420,233	9,192,712
Net income	961,578	2,364,043	2,305,838	3,010,543	8,642,002
Earnings per share	0.07	0.16	0.16	0.21	0.60
Common stock price per share					
High	10.50	10.50	10.00	16.50	16.50
Low	7.00	9.00	8.50	11.00	7.00
1995-96					
Net revenues	5,994,424	5,628,202	7,995,684	6,988,699	26,607,009
Operating income	1,312,766	699,133	2,441,822	1,804,148	6,257,869
Net income	1,582,643	1,058,819	2,444,732	1,737,443	6,823,637
Earnings per share	0.11	0.07	0.17	0.12	0.47
Common stock price per share					
High	7.50	7.00	7.00	7.50	7.50
Low	6.50	6.00	5.00	5.50	5.00

Earnings per share and common stock price per share have been restated to reflect a two-for-one stock-split in October 1997.

Item 6. Selected financial data

Financial Highlights

in $

	1994	1995	1996	1997	1998
	Unaudited		Audited		
Net revenues	9,534,321	18,105,010	26,607,009	39,585,919	68,329,961
Net income	2,669,727	3,963,367	6,823,637	8,642,002	12,344,188
Earnings per share	0.40	0.37	0.47	0.60	0.81
Return on net revenues (%)	28	22	26	22	18
Cash and cash equivalents	2,884,643	8,046,302	7,769,390	8,320,331	15,419,265
Total assets	9,400,229	23,050,717	27,261,119	32,947,961	49,718,390
Stockholders' equity	8,851,707	19,668,279	23,924,556	30,664,731	42,082,325

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

This information is provided on pages 79-87 of this report.

Item 8. Financial statements and supplementary data

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

The independent auditor, Mr. A. M. Bhatkal, retired at the previous Annual General Meeting held on June 7, 1997, and had informed the Company of his inability to offer himself for reappointment due to his prior professional commitments. Hence, a shareholder proposed Bharat S Raut & Co., a full member firm of KPMG, as the independent auditors for fiscal 1998, which was duly approved in the Annual General Meeting held on June 7, 1997.

The independent auditor's report for fiscal 1997, as well as for the previous two years, contained no qualification or adverse opinion. Mr. A. M. Bhatkal had retired voluntarily due to his prior professional commitments and the change had not been necessitated due to any decision by either the Audit committee or the Board of Directors.

Part III

Item 10. Directors and executive officers of the registrant

Executive officers as of March 31, 1998

Name	Age	Position with the Company
Narayana Murthy N. R.	52	Chairman and Managing Director
Deepak M. Satwalekar	49	Non-Executive Director
Susim M. Datta	61	Non-Executive Director
Ramesh Vangal	43	Non-Executive Director
Ashwani K. Khurana	47	Senior Vice President and Head - Banking Business Unit (Sales and Support)
Balasubramanian P. Dr.	48	Senior Vice President and Head - Strategic Business Unit-2
Dinesh K.	44	Director and Head - Quality, Productivity and MIS
Gopalakrishnan S.	42	Deputy Managing Director and Head - Customer Delivery and Technology
Mohandas Pai T. V.	39	Senior Vice President and Head - Finance and Administration
Nandan M. Nilekani	42	Deputy Managing Director, Head - Marketing and Sales, and Banking Business Unit
Phaneesh Murthy	34	Senior Vice President and Head - Worldwide Sales
Prahlad D. N.	42	Senior Vice President and Head - New Initiatives
Prabhu M. S. S.	50	Senior Vice President and Head - Strategic Business Unit-7
Raghavan N. S.	55	Joint Managing Director and Head - Human Resources and Education
Sharad K. Hegde	40	Senior Vice President and Head - Technology Advancement Unit (SBU-4)
Shibulal S. D.	43	Director and Head - Strategic Business Units 1 and 5
Srinath Batni	43	Senior Vice President and Head - Strategic Business Unit-3
Yegneshwar S. Dr.	37	Associate Vice President and Head - Education and Research

The experience and the previous employment of the above employees are provided on pages 29-34 of this report.

Information with respect to the election of directors is provided in the notice for the Annual General Meeting.

Item 11. Executive compensation

11.1 Cash compensation - Table 1

in $

		Annual compensation			Long-term compensation			
		Awards			Payouts			
Name *and Principal position*	Year	Salary	Bonus	Other annual compensation	Restricted stock award(s)	Securities underlying options/ SAR's (#)	LTIP Payouts	All other components
Narayana Murthy N. R.	1998	28,471	-	-	-	-	-	-
Chairman and Managing Director	1997	29,159	-	-	-	-	-	-
	1996	32,403	-	-	-	-	-	-
Deepak M. Satwalekar	1998	-	-	8,049	-	-	-	-
Non-Executive Director	1997	-	-	-	-	-	-	-
	1996	-	-	-	-	-	-	-
Susim M. Datta	1998	-	-	9,123	-	-	-	-
Non-Executive Director	1997	-	-	-	-	-	-	-
	1996	-	-	-	-	-	-	-
Ramesh Vangal	1998	-	-	6,976	-	-	-	-
Non-Executive Director	1997	-	-	-	-	-	-	-
	1996	-	-	-	-	-	-	-
Ashwani K. Khurana	1998	26,002	-	-	-	-	-	-
Senior Vice President	1997	22,566	-	-	34,375	1,800	-	-
	1996	19,497	-	-	-	-	-	-
Balasubramanian P. Dr.	1998	28,213	-	-	87,857	3,000	-	-
Senior Vice President	1997	23,835	-	-	34,375	1,800	-	-
	1996	24,003	-	-	28,666	3,000	-	-
Dinesh K.	1998	27,496	-	-	-	-	-	-
Director	1997	25,429	-	-	-	-	-	-
	1996	31,088	-	-	-	-	-	-
Gopalakrishnan S.	1998	28,109	-	-	-	-	-	-
Deputy Managing Director	1997	25,965	-	-	-	-	-	-
	1996	25,370	-	-	-	-	-	-
Mohandas Pai T. V.	1998	25,986	-	-	117,143	4,000	-	-
Senior Vice President	1997	21,290	-	-	45,834	2,400	-	-
	1996	18,711	-	-	47,776	5,000	-	-
Nandan M. Nilekani	1998	26,601	-	-	-	-	-	-
Deputy Managing Director	1997	26,183	-	-	-	-	-	-
	1996	28,422	-	-	-	-	-	-
Phaneesh Murthy	1998	1,24,000	-	-	117,143	4,000	-	-
Senior Vice President	1997	1,00,000	-	-	34,375	1,800	-	-
	1996	70,000	-	-	47,776	5,000	-	-
Prahlad D. N.	1998	31,414	-	-	117,143	4,000	-	-
Senior Vice President	1997	26,092	-	-	34,375	1,800	-	-
	1996	24,898	-	-	-	-	-	-
Prabhu M. S. S.	1998	28,412	-	-	58,571	2,000	-	-
Senior Vice President	1997	-	-	-	-	-	-	-
	1996	-	-	-	-	-	-	-
Raghavan N. S.	1998	27,133	-	-	-	-	-	-
Joint Managing Director	1997	27,600	-	-	-	-	-	-
	1996	30,326	-	-	-	-	-	-
Sharad K. Hegde	1998	28,859	-	-	58,571	2,000	-	-
Senior Vice President	1997	26,230	-	-	34,375	1,800	-	-
	1996	22,899	-	-	-	-	-	-
Shibulal S. D.	1998	24,518	-	-	-	-	-	-
Director	1997	21,924	-	-	-	-	-	-
	1996	-	-	-	-	-	-	-
Srinath Batni	1998	23,441	-	-	87,857	3,000	-	-
Senior Vice President	1997	16,457	-	-	45,834	2,400	-	-
	1996	15,601	-	-	38,221	4,000	-	-
Yegneshwar S. Dr.	1998	15,806	-	-	58,571	2,000	-	-
Associate Vice President	1997	12,500	-	-	22,917	1,200	-	-
	1996	11,137	-	-	19,111	2,000	-	-

11.2 Compensation pursuant to stock options

11.2.1 Option grants in the last fiscal year – Table 2

The following table sets forth certain information on option grants in fiscal 1998 to the named executive officers.

	Individual grants				Potential realized value at assumed annual rates of stock price appreciation for option term ($)		
Name	Number of securities underlying options/ securities granted	% of total options/ SARs granted to employees in fiscal year	Exercise or base price ($/share)	Expiration date	0%	5%	10%
Narayana Murthy N. R.	–	–	–	–	–	–	–
Deepak M. Satwalekar	–	–	–	–	–	–	–
Susim M. Datta	–	–	–	–	–	–	–
Ramesh Vangal	–	–	–	–	–	–	–
Ashwani K. Khurana	–	–	–	2002	–	–	–
Balasubramanian P. Dr.	3,000	1.11%	2.55	2002	87,857	108,440	132,183
Dinesh K.	–	–	–	–	–	–	–
Gopalakrishnan S.	–	–	–	–	–	–	–
Mohandas Pai T. V.	4,000	1.48%	2.55	2002	117,143	144,587	176,245
Nandan M. Nilekani	–	–	–	–	–	–	–
Phaneesh Murthy	4,000	1.48%	2.55	2002	117,143	144,587	176,245
Prahlad D. N.	4,000	1.48%	2.55	2002	117,143	144,587	176,245
Prabhu M. S. S.	2,000	0.74%	2.55	2002	58,571	72,293	88,122
Raghavan N. S.	–	–	–	–	–	–	–
Sharad K. Hegde	2,000	0.74%	2.55	2002	58,571	72,293	88,122
Shibulal S. D.	–	–	–	–	–	–	–
Srinath Batni	3,000	1.11%	2.55	2002	87,857	108,440	132,183
Yegneshwar S. Dr.	2,000	0.74%	2.55	2002	58,571	72,293	88,122

The options were issued under the Employees Stock Offer Plan (ESOP) of Infosys. The options carry a vesting period of five years from the date of issue and can be converted into stock during specified times within the vesting period. On exercise, such stocks will also carry restrictive covenants until the expiry of five years from the date of issue of options. The exercise price is fixed under the ESOP at the US dollar equivalent of Rs. 100. The potential realizable value at assumed annual growth rates of stock price appreciation is calculated at the exercise price of US dollar equivalent of Rs. 100.

It may be noted that the potential realizable values are based on annual rates of return specified by the Securities and Exchange Commission. Infosys management has consistently cautioned shareholders and option holders that such increases in values are based on speculative assumptions, and should not inflate expectations of the future value of their holdings.

11.2.2 Aggregated option exercises in the last fiscal year and fiscal year-end option values - Table 3

The following table provides information on options exercised in fiscal 1998 by the named executive officers and the value of such officers' unexercised options as at March 31, 1998:

Name	Shares acquired on exercise*	Value on vesting ($)	Number of securities underlying unexercised options at the fiscal year-end°		Value of unexercised In-the-money options at the fiscal year-end ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Narayana Murthy N. R.	-	-	-	-	-	-
Deepak M. Satwalekar	-	-	-	-	-	-
Susim M. Datta	-	-	-	-	-	-
Ramesh Vangal	-	-	-	-	-	-
Ashwani K. Khurana	7,800	295,104	-	7,800	-	238,429
Balasubramanian P. Dr.	4,800	182,724	-	7,800	-	238,429
Dinesh K.	-	-	-	-	-	-
Gopalakrishnan S.	-	-	-	-	-	-
Mohandas Pai T. V.	13,400	508,012	-	17,400	-	509,571
Nandan M. Nilekani	-	-	-	-	-	-
Phaneesh Murthy	10,800	409,644	-	14,800	-	433,429
Prahlad D. N.	1,800	68,724	-	5,800	-	169,857
Raghavan N. S.	-	-	-	-	-	-
Sharad K. Hegde	1,800	68,724	-	3,800	-	111,286
Shibulal S. D.	-	-	-	-	-	-
Srinath Batni	10,400	272,736	-	13,400	-	392,429
Yegneshwar S. Dr.	5,200	197,276	-	7,200	-	210,857
Prabhu M. S. S.	-	-	-	2,000	-	58,571

* Stocks received on two-for-one stock-split during October 1997.

° Stocks which are not fully vested and outstanding as at March 31, 1998.

11.3. Compensation committee

Mr. Susim M. Datta, *Chairman*

Mr. Deepak M. Satwalekar, *Member*

Mr. Ramesh Vangal, *Member*

Infosys' employee policy is to offer competitive salaries, stock options based on individual performance, congenial working environment, full independence in operations, informal culture and continuous training. The Company's compensation policy for officers is similar to that for other employees, and is designed to promote continued performance and attainment of corporate and personal goals.

The Compensation Committee of the Board of Directors (comprised entirely of non-executive directors) reviews and approves the annual salaries, bonus arrangements and service arrangements for the members of the board, including executive directors. In the process, the committee may consider information prepared by independent consultants, and appropriate survey data on the pay practices of other companies. The committee approves bonuses based on annual and longer-term results, and administers the share option plan of the Company for executive directors (founder-directors are not eligible for any options) and awards option grants to executive directors (founder-directors are not eligible for any options).

Officers of the Company are paid salaries in line with their responsibilities. These salaries are structured to be comparable to salaries paid by competitors in the computer software and other relevant industries. Likewise, stock option grants to officers (and other employees) are aimed at promoting success by aligning employee financial interests with long-term shareholder value. Stock option grants are based on various subjective factors primarily relating to the responsibilities of the individual officers, and also to their expected future contributions and prior option grants.

The Compensation Committee annually reviews and approves the compensation of Mr. N. R. Narayana Murthy, the Chairman and Managing Director of the Company. The Committee believes Mr. N. R. Narayana Murthy is paid a reasonable salary. In addition, Mr. N. R. Narayana Murthy is a significant shareholder in the Company, and to that extent his performance as Chairman and Managing Director translates into an increase in the value of the Company's stock, all shareholders, including him, share the benefits.

Information on bonuses and options granted to executive directors is provided elsewhere in the report.

11.4 Performance graph

The performance graph is provided on page 124 of this report.

Item 12. Certain relationships and related transactions

This information is provided in Notes to accounts on page 98.

Part IV

Item 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 10, 1998.

Infosys Technologies Limited

N. R. Narayana Murthy
Chairman and Managing Director

Management structure

N. R. Narayana Murthy
Chairman & Managing Director

- **Sudha Kumar**
  Manager - Corporate Planning

- **N. M. Nilekani**
  Deputy Managing Director, Head - Sales and Marketing and Head - BBU (SBU-6)
  - Ashwani K. Khurana
    Senior Vice President and Head - (BBU-Sales & Support)
    - Sudheer K. – Associate Vice President
  - Sharad K. Hegde
    Senior Vice President and Head - SBU-4 and BBU Development
  - Phaneesh Murthy
    Senior Vice President and Head - Worldwide Sales *
  - Rohan W. Joshi
    Senior Manager - Corporate Marketing
  - B. M. Rao
    Manager - Communication Design Group

- **S. Gopalakrishnan**
  Deputy Managing Director and Head - Customer Delivery and Technology
  - D. N. Prahlad
    Senior Vice President - New Initiatives
  - S. D. Shibulal
    Director and Head - SBU-1 & SBU-5
    - R. G. Bhandi – Associate Vice President and Head - Mangalore center
    - L. Vasudeva Rao – Associate Vice President
    - Bhaskar Ghosh – Project Manager and Head - Bhubaneshwar center
  - P. Balasubramanian
    Senior Vice President and Head - SBU-2
    - Ajay Dubey – Associate Vice President and Head - Pune center
  - Srinath Batni
    Senior Vice President and Head - SBU-3
    - A. S. Krishnamurthy – Associate Vice President
    - Rajiv Kuchhal – Senior Project Manager and Head - Koramangala center
  - M. S. S. Prabhu
    Senior Vice President and Head - SBU-7
  - P. D. Mallya
    Associate Vice President - Networking Services
  - Ashok V. Arunachalam
    Senior Manager - Computers and Communication Services

- **K. Dinesh**
  Director and Head - Quality, Productivity and MIS
  - Pankaj Jalote
    Vice President and Head - Quality
  - M. Subbaraya Sastry
    Senior Manager - Management Information Systems

- **N. S. Raghavan**
  Joint Managing Director and Head - Human Resources and Education
  - N. V. Rajan
    Associate Vice President and Head - Human Resource Development
    - M.M. Mohan – Senior Manager
  - S. Yegneshwar
    Associate Vice President and Head - Education and Research

- **T. V. Mohandas Pai**
  Senior Vice President and Head - Finance and Administration
  - C. Vijay Kumar
    Senior Manager - Corporate Support Services
  - V. Balakrishnan
    Manager - Finance
  - U. Ramadas Kamath
    Manager - Accounts and Administration
  - V. Viswanathan
    Company Secretary

1. Dates of book closure : May 19, 1998 to May 30, 1998 (both days inclusive)
2. Date and venue of the annual general meeting : At 3.00 p.m. on May 30, 1998, at Hotel Taj Residency, No. 41/3, M. G. Road, Bangalore - 560 001.
3. Dividend payment : On or after May 31, 1998, but within the statutory time limit.
4. Listing on stock exchanges at : Bangalore, Bombay and National Stock Exchanges
5. Registered office : Electronics City, Hosur Road, Bangalore - 561 229, India.
6. Stock market data
   a. The Company's market capitalization is included in the computation of the BSE 200 Index and the BSE Dollex Index.
   b. Monthly high and low quotations as well as the volume of shares traded at Bangalore, Bombay and National Stock Exchanges for 1997-98 are:

	Bombay			Bangalore			NSE		
	Highest Rs.	Lowest Rs.	Volume Nos.	Highest Rs.	Lowest Rs.	Volume Nos.	Highest Rs.	Lowest Rs.	Volume Nos.
April, 1997	1,469	1,005	1,22,600	1,291	1,068	5,940	1,498	950	2,13,700
May	1,477	1,376	1,09,300	1,401	1,305	900	1,479	1,378	2,83,000
June	1,950	1,482	3,21,600	1,900	1,425	2,600	1,950	1,468	2,80,500
July	2,500	1,865	1,51,450	2,400	1,885	500	2,520	1,875	2,91,500
August	2,525	1,175*	1,36,900	2,350	2,200	500	2,405	1,081*	3,04,400
September	1,610	1,265	2,14,840	2,295	1,405*	100	1,624	1,261	5,56,600
October	1,656	1,327	57,440	1,600	1,405	1,000	1,609	1,365	6,95,300
November	1,456	1,282	3,00,300	1,464	1,350	100	1,499	1,275	6,30,800
December	1,421	1,105	4,07,800	1,350	1,140	900	1,429	1,101	11,72,900
January, 1998	1,316	1,077	1,99,700	1,150	1,150	100	1,315	1,080	5,34,700
February	1,425	1,100	1,45,427	1,225	1,105	400	1,421	1,050	3,02,200
March	1,878	1,370	8,31,610	1,225	1,225	100	1,880	1,360	8,13,300
Total			29,98,967			13,140			60,78,900
% of volume traded to average number of shares outstanding			25.49			0.11			51.67

* Ex-bonus price

7. Share transfers and other communication regarding share certificates, dividends, and change of address, etc., may be addressed to : Karvy Consultants Limited
   Registrars and Share Transfer Agents
   T.K.N. Complex, No. 51/2, Vanivilas Road,
   Opp. National College, Basavanagudi,
   Bangalore - 560 004.

8. 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 at least eight times a month.

   The total number of shares transferred during the year 1997-98 was 22,22,907 (previous year - 6,49,761). 62.05% of transfers (previous year - 62.57%) were completed within 15 days.

	1997-98				1996-97			
Transfer period in days	No. of transferees (folios) New	No. of transferees (folios) Existing	No. of shares	%	No. of transferees (folios) New	No. of transferees (folios) Existing	No. of shares	%
1 - 10	279	39	3,91,575	17.62	245	679	2,95,059	45.41
11 - 15	497	67	9,87,647	44.43	113	329	1,11,507	17.16
16 - 20	264	42	7,81,310	35.15	98	208	91,695	14.11
* 21 - 25	68	23	62,375	2.80	36	39	1,51,500	23.32
	1,108	171	22,22,907	100.00	492	1,255	6,49,761	100.00

* Delays beyond 20 days were due to compliance of legal requirements.

9. Investors' services - Complaints received during the year

Nature of complaints	1997-98		1996-97	
	Received	Cleared	Received	Cleared
1. Non-receipt of share certificates	82	82	75	75
2. Non-receipt of bonus shares	58	58	2	2
3. Letters from Stock Exchanges, SEBI, etc.	12	12	8	8
4. Non-receipt of dividend warrants	102	102	96	96
	254	254	181	181

The Company has attended to most of the investors' grievances/correspondence within a period of 10 days from the date of receipt of same, during the year 1997-98.

10. Legal proceedings

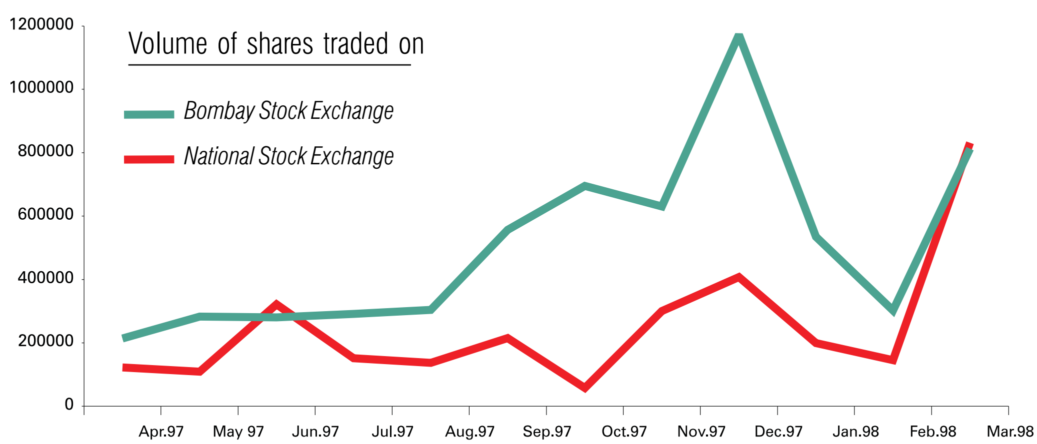
There are some pending cases relating to disputes over title to shares, in which the Company is made a party to the disputes. These cases are however not material in nature.

11. Distribution of shareholding as on March 31

No. of equity shares held	1998 No. of share-holders	1998 % of share-holders	1998 No. of shares	1998 % of share-holding	1997 No. of share-holders	1997 % of share-holders	1997 No. of shares	1997 % of share-holding
1 - 100	792	11.96	73,085	0.46	2,085	32.51	2,04,990	2.82
101 - 200	1,934	29.21	3,69,468	2.31	3,025	47.16	6,04,654	8.33
201 - 500	2459	37.13	9,24,934	5.77	804	12.54	3,10,358	4.28
501 - 1000	759	11.46	5,69,817	3.56	254	3.96	1,90,178	2.62
1001 - 5000	469	7.08	8,84,952	5.53	150	2.34	3,38,836	4.67
5001 - 10000	65	0.98	4,80,740	3.00	22	0.34	1,74,100	2.40
10001 and above	144	2.18	1,27,14,204	79.37	74	1.15	54,36,484	74.88
	6,622	100.00	1,60,17,200	100.00	6,414	100.00	72,59,600	100.00

12. Categories of shareholders as on March 31

Category	1998 No. of shareholders	1998 Voting strength (%)	1998 No. of shares held	1997 No. of shareholders	1997 Voting strength (%)	1997 No. of shares held
Individuals	6,305	28.41	45,49,823	6,186	25.24	18,32,750
Companies	152	2.81	4,49,577	118	3.74	2,71,300
FIIs, NRIs, OCBs	89	24.68	39,53,300	60	23.44	17,01,950
Founders and their families	18	30.96	49,58,900	19	34.68	25,17,300
Mutual Funds, Banks, FIs	58	13.14	21,05,600	31	12.90	9,36,300
	6,622	100.00	1,60,17,200	6,414	100.00	72,59,600



13. Shares under lock-in

Following are the details of shares held by employees under the Employees Stock Offer Plan (ESOP) that are subject to lock-in for varying periods of time. These shares are also reflected in the categories of shareholders given in (12) above.

No. of shares subject to lock-in as on March 31					
1998			1997		
Period of lock-in	No. of shares	No. of employees	Period of lock-in	No. of shares	No. of employees
3-4 years	1,14,800	171	4-5 years	1,20,900	184
2-3 years	1,37,400	113	3-4 years	1,39,800	117
1-2 years	1,13,900	78	2-3 years	1,18,700	83
0-1 years	-	-	0-2 years	-	-

During the year, a right to 2,69,600 shares was awarded to 366 employees, which are subject to a lock-in of 4-5 years as on March 31, 1998. Currently, 484 employees have been covered under the ESOP. The ITL Employees Welfare Trust holds, as on March 31, 1998, 4,87,900 shares for future grants under ESOP.

Shares subject to lock-in held by employees will be transferred back to the ITL Employees Welfare Trust when such employees leave the services of the Company.

14. Dematerialization of shares and liquidity

The Company has become the first in India to have paid the one-time custodial fees of Rs. 44.43 lakhs to National Securities Depository Limited (NSDL). Consequently, the Company's shareholders are exempted from the payment of custodial fees to the depository participants or the NSDL on their holding in the Company. The Company hopes that this initiative will enthuse shareholders to dematerialize their holding in the Company. Over 35% of the Company's shares are now held in electronic form.

A detailed letter explaining the methodology of using the depository as well as a booklet - *An Investor's Guide to Depositories* - was sent by the Company to all its shareholders during January 1997. The Investor's Guide to Depositories is now available on the Company's homepage (http://www.inf.com). Copies will be made available to shareholders on request.

The Bombay Stock Exchange has permitted trading of the Company's shares in the A group. This move is expected to increase the liquidity of the Company's shares.

15. Financial calendar (tentative and subject to change)

Annual General Meeting May, 1998	
Financial reporting for the first quarter ending June 30, 1998	July 1998
Financial reporting for the second quarter ending September 30, 1998	October 1998
Interim dividend payment (if any)	November 1998
Financial reporting for the third quarter ending December 31, 1998	January 1999
Financial results for the year ending March 31, 1999	April 1999
Annual General Meeting for the year ending March 31, 1999	May 1999

16. Investors' correspondence may be addressed to:

Mr. V. Viswanathan (e-mail address: invest@inf.com),
Company Secretary, Investors' Service Cell,
Infosys Technologies Ltd., Electronics City, Hosur Road, Bangalore - 561 229, India.
Tel: 91 80 8521518.

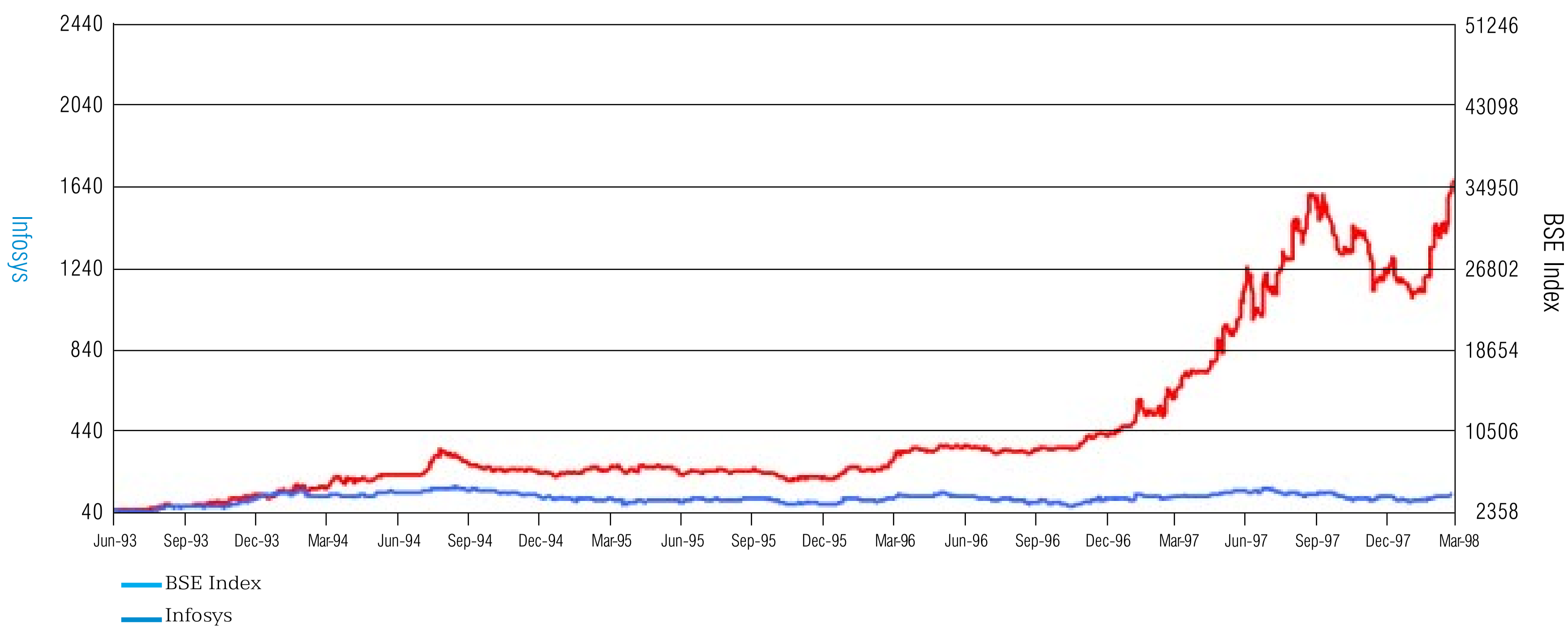
Any queries relating to the financial statements of the Company can be addressed to:

Mr. T. V. Mohandas Pai (e-mail address: mdpai@inf.com),
Senior Vice President - Finance and Administration,
Infosys Technologies Ltd., Electronics City, Hosur Road, Bangalore - 561229, India.
Tel: 91 80 8520396.

17. Reuters code - INFO.BO (Bombay Stock Exchange)
- INFO.NS (National Stock Exchange)

Additional information to shareholders
Share 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.



The share price has been adjusted for two bonus issues of 1:1 during October 1994 and October 1997.

Directors' report on Corporate Governance

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

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

Corporate Governance

The Cadbury Committee on corporate governance has made 19 recommendations. The Company complies with most recommendations except for the following:

1. The Cadbury Committee has recommended that the Chairman and the Managing Director should not be the same person. The Chairman is also the Managing Director of the Company. However, the Board consists of four non-executive directors (as on April 10, 1998) who bring in the desired independence.
2. The Board should consist of a majority of non-executive directors. Currently, the Company has six executive directors and four non-executive directors (as on April 10, 1998).

The key elements in the Company's existing system of internal financial control are described below:

Board of Directors

The Board of Directors, as on date, comprises ten directors; six executive directors and four non-executive directors. Three non-executive directors were co-opted into the Board during October 1997, and one on April 10, 1998. The Chairman of the Company is also the Chief Executive Officer. The board meets regularly and is responsible for the proper management of the Company.

All the directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are followed and that the applicable rules and regulations are complied with.

During the financial year ended March 31, 1998, the Board met eight times and the attendance of various board members is as under:

Director	Executive/ Non-Executive Director	No. of Meetings Held	No. of Meetings Attended
N. R. Narayana Murthy	Executive director	8	8
Susim M. Datta	Non-Executive director	4	4
Deepak M. Satwalekar	Non-Executive director	4	2
Ramesh Vangal	Non-Executive director	4	2
N. S. Raghavan	Executive director	8	6
Nandan M. Nilekani	Executive director	8	8
S. Gopalakrishnan	Executive director	8	7
K. Dinesh	Executive director	8	7
S. D. Shibulal	Executive director	8	7

The Board has reserved certain items of governance for its review, including the approval of annual and interim results, acquisitions, disposals and joint ventures, as well as material agreements, major capital expenditure, budgets, all statutory compliance, and long range plans. In addition, the following committees have been formed with specific responsibilities.

Nominations committee

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

This committee makes recommendations to the Board on the appointment of any new director (executive or non-executive). The committee also evaluates the performance of the Chairman and Managing Director (Chief Executive Officer) and other board members.

Compensation committee

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

This committee reviews and approves the annual salaries, bonus payments and service arrangements for the members of the board including executive directors. In the process, the committee may consider information prepared by independent consultants and appropriate survey data on the pay practices of other companies. The committee approves bonuses based on annual and longer-term results, and administers the share option plan of the Company for directors (founder-directors are not eligible) and awards option grants to directors (founder-directors are not eligible).

Information on bonuses and options granted to executive directors is provided elsewhere in the report.

Audit committee

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

This committee deals with accounting matters, financial reporting and internal controls. It provides overall direction on the risk management function of the Company, including the quality of internal and management audit. The committee interacts with both internal and external auditors, as and when necessary, to ensure that the accounts of the Company are properly maintained and the transactions are in accordance with prevailing laws and regulations.

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

Internal financial control

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

1. The safeguarding of assets against unauthorized use or disposition; and
2. The maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

While acknowledging their responsibility for the system of internal financial control, the directors are aware that such a system cannot provide an absolute assurance against material misstatement or loss.

The key elements of this system are:

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

Each executive director performs a close scrutiny of those elements that come under his/her purview and reports on any issues of concern to the board. In addition, any board member is free to ask for any necessary information.

Going concern

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

Bangalore
April 10, 1998

N. R. Narayana Murthy
Chairman and Managing Director

Intangible Assets Scoresheet

A knowledge-intensive company leverages know-how, innovation and reputation for success in the marketplace. Hence, these attributes should be measured and improved, year after year, to achieve the best performance. The profitability of a knowledge firm depends on its ability to optimize the learnability of its professionals, and in enhancing the re-usability of their knowledge and expertise.

The stock price of a company is the result of the market's valuation of the future earnings potential of the company. Thus, the market provides a value to the off-balance-sheet assets of the company – that is, those assets which are invisible or which are not accounted for in the traditional financial statements. The intangible assets of a company include its brand, products and the ability to attract, develop and nurture a cadre of competent professionals, and the ability to attract and retain marqué clients.

Today's discerning investors take a critical look at the financial and non-financial parameters that determine the long-term success of a company. These new non-financial parameters challenge the usefulness of evaluating companies solely on the traditional measures, as they appear in the financial reports of a company. Thus, the intangible assets of the company have been receiving considerable attention from corporate leaders.

The intangible assets of a company can be classified into four major categories – Human Resources, Intellectual Property Assets, Internal Assets and External Assets.

Human resources

Human resource represents the collective expertise, innovation, leadership and entrepreneurial and managerial skills endowed in the employees of an organization.

Intellectual property assets

Intellectual Property Assets include know-how, copyright, patent, products and tools that are owned by a corporation. These assets are valued, based on their commercial potential. A corporation derives its revenues by licensing these assets to outside users.

Internal assets

Internal assets are systems, technologies, methodologies, processes and tools that are specific to the organization. These assets give the organization a unique advantage over its competitors in the marketplace. Thus, these assets are not licensed to outsiders, since the competitors form the market for these assets. Examples of *internal assets* include methodologies for assessing risk, methodologies for managing projects, risk policies, and communication systems.

External assets

External assets are the *market-related* intangibles that enhance the fitness of an organization for succeeding in the marketplace. Examples are customer loyalty (reflected by the repeat business of the company) and brand value.

The Scoresheet

Last year, Infosys published models for valuing the two most valuable, intangible assets of the Company – *Human Resources* and the *Infosys Brand*. This year, an attempt has been made to publish data on some of the internal and external assets of Infosys. The scoresheet published in this report is broadly adopted from the *Intangible asset scoresheet* provided in the book titled *The New Organizational Wealth* written by Karl Erik Sveiby and published by Berrett-Koehler Publishers Inc., San Francisco. We believe that such representation of intangible assets provides a tool to our investors for evaluating the market-worthiness of a company.

The Infosys management cautions investors that these data are provided *only as additional information* to investors. Using such reports for predicting the future of Infosys, or any other company, is risky. The Infosys management is not responsible for any direct, indirect or consequential losses suffered by any person using these data.

The Infosys Intangible Assets Scoresheet

			Knowledge Capital					
Our customers (External structure)			Our organization (Internal structure)			Our people (Competence)		
	1997-98	1996-97		1997-98	1996-97		1997-98	1996-97
Growth/Renewal								
Revenue growth over previous year (%)	81	54	IT investment/ value added (%)	14.12	15.23	Education index of all employees	7,326	4,772
Percentage of revenue from image-enhancing customers	46	48	R&D/ value added (%)	2.88	7.43			
Percentage of revenue from exports	96	87	Total investment in organization/ value added (%)	18.52	27.31			
No. of new customers added during the year	45	45						
Efficiency								
Sales/Customer (Rs. in lakhs)	243	170	Average proportion of support staff (%)	17.10	17.19	Value added per software engineer (Rs. in lakhs)	10.67	8.64
			Sales per support staff (Rs. in lakhs)	72	60	Value added per employee (Rs. in lakhs)	8.84	7.15
Stability								
Repeat-business revenue as a percentage of total revenue (%)	83	82	Average age of support employees	31.15	31.35	Average age of all employees (Years)	26.56	26.82
Sales from the five largest customers/total revenue (%)	35	43						
Sales from the ten largest customers/total revenue (%)	50	60						

Notes:

1. Marqué or image-enhancing customers are those who enhance the Company's market-worthiness. These customers are *Fortune 500* customers, and are reference customers for Infosys.
2. Sales per customer is calculated by dividing total revenue, excluding other income, by the total number of customers.
3. Repeat-business revenue is the revenue during current year from those clients who contributed to the revenue of the Company during the previous year also.
4. Value-added is the revenue of the Company minus payment to all outside resources. The Value-Added Statement is provided on page 130 of this report.
5. IT investment includes investment in hardware and software for the Company.
6. Total investment in the organization is investment in the fixed assets of the Company.
7. Average proportion of support staff is the average number of support staff to total staff strength of the Company during the year.
8. Sales per support staff is Infosys revenue divided by the average number of support staff during the year.
9. Education index is shown as at the year end, with primary education calculated as 1, secondary education as 2, and tertiary education as 3.

Customers

The growth in revenue is 81% this year, compared with 54%, the previous year. The most valuable intangible asset of Infosys is its customer base. Marqué customers or image-enhancing customers contributed around 46% of revenue this year. They reduce our marketing costs.

The high percentage – 83% – of revenue from repeat orders during the current year is an indication of the satisfaction and loyalty of the customers. The top 5 and 10 customers contributed around 35% and 50% of the Company's revenue during the current year as compared with 43% and 60% during the previous year. The Company's strategy is to increase its customer base, and reduce the risk of depending on a few large customers. During 1997-98, the Company added 45 new customers.

Organization

During the current year, Infosys invested around 14.12% of the value-added on its IT infrastructure and 2.88% of the value-added on R& D activities. However, due to increased value addition by Infosys employees during the current year, the investment on IT and R & D has come down in percentage terms.

A young, fast-growing organization requires efficiency in the area of support services. The sales per support staff, as well as the proportion of support staff to the total organizational staff, have shown improvements over the previous year.

The average age of the support employees is 31.15 years, as against the previous year average age of 31.35 years. This parameter is an indicator of the stability of support staff.

People

Infosys is in a people-oriented business. The education index of employees has gone up substantially to 7,326 from 4,772. This reflects the quality of employees at Infosys. The value-added per software engineer and the value-added per employee show an increasing trend. Moreover, the efficiency of the support staff has increased, as seen by the reduction in the proportion of support staff to total staff. The average age of employees is 26.56 years as against the previous year average age of 26.82 years.

Human Resources Accounting

The dichotomy in accounting between human and non-human capital is fundamental. The latter is recognized as an asset and is therefore recorded in the books and reported in the financial statements, whereas, the former is totally ignored by accountants. The definition of wealth as a source of income inevitably leads to the recognition of human capital as one of several forms of wealth such as money, securities and physical capital.

The *Lev& Schwartz* model has been used by Infosys to compute the value of the human resources as at March 31, 1998. 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 are considered.
3. The future earnings have been discounted at 26.95% (previous year - 27.97%), this rate being the cost of capital for Infosys. Beta has been assumed at 1.48 based on average beta for software stocks in the US.

As of March 31	1998		1997	
	No. of employees	Value of human resources (Rs. in lakhs)	No. of employees	Value of human resources (Rs. in lakhs)
Production	1,755	397,31.09	1,293	227,31.10
Support - Technical	472	59,67.22	157	33,80.23
- Others	378	52,02.38	255	17,44.50
	2,605	509,00.69	1,705	278,55.83

	1998	1997
Number of employees	2,605	1,705
Value of human resources	509,00.69	278,55.23
Total turnover	260,36.57	143,80.76
Software revenue	257,65.73	139,21.47
Employee cost	93,72.65	51,63.08
Value-added	185,79.12	100,01.77
Net profits excluding extraordinary income	60,36.33	33,68.06
- Total turnover/Human resources value (ratio)	0.51	0.52
- Total software revenue/Human resources value (ratio)	0.51	0.50
- Value-added/Human resources value (ratio)	0.37	0.36
Value of human resources per employee	19.54	16.34
Employee cost/Human resources value (%)	18.41%	18.54%
Return on human resources value (%)	11.86%	12.09%

Value-added statement

Rs. in lakhs

Year ending March 31	1998	1997
Total income	260,36.57	143,80.76
Less : Cost of imported software packages sold	1.30	37.14
Software development expenses (other than employee costs)	46,24.43	24,72.49
Administration expenses (other than provisions)	28,31.72	15,09.83
Loss on sale of investments	-	3,59.53
Subtotal	74,57.45	43,78.99
Total value-added	185,79.12	100,01.77
Applied to meet		
Employee costs	93,72.65	51,63.08
Income tax	5,50.00	5,24.96
Provision for post-sales customer support	1,23.10	-
Provision for bad and doubtful debts and doubtful loans and advances	2,22.22	60.51
Dividends	7,73.21	4,28.27
Interest payments	-	61.10
Retained in business	75,37.94	37,63.85
	185,79.12	100,01.77

Brand valuation

The strength of the invisible

A balance sheet discloses the financial strength of a company. The financial position of an enterprise is influenced by the economic resources it controls, the financial structure, liquidity and solvency, and its capacity to adapt to changes in the environment. However, it is becoming increasingly clear that intangible assets have a significant role in defining the growth of a hi-tech company. So, quite often, the search for the added value leads us invariably back to understanding, evaluating and enhancing the intangible assets of the business.

From time to time, Infosys has used various models for evaluating assets off the balance sheet to bring certain advances in financial reporting, from the realm of research and practices in advanced nations, to the notice of the shareholders. Such an exercise also helps the Infosys management in understanding the components that make up goodwill. The aim of such modeling is to lead the debate on the balance sheet of the next millennium. The Infosys management cautions the investors that these models are still the subject of debate among researchers, and using such models and data in predicting the future of Infosys, or any other company, is risky, and that the Infosys management is not responsible for any direct, indirect or consequential losses suffered by any person using these models or data.

Valuing the brand

A brand is much more than a trademark or a logo. It is a *Trustmark* – a promise of quality and authenticity that customers can rely on. Brand equity is the value addition provided to a product or company by its brand name. It is the financial premium that a buyer is willing to pay for the brand over a generic or less worthy brand. Brand equity is not created overnight. It is the result of relentless pursuit of quality in manufacturing, selling, service, advertising and marketing. It is the integral of customer experiences in dealing with the company and its products over a sustained period.

Corporate brands and service brands are often perceived to be interchangeable. Both types of brands aim at the enhancement of confidence and the reduction of uncertainty in the quality of what the company offers. Therefore, companies rely heavily on the image and personality they create for their brands, to communicate these qualities to the marketplace.

The task of measuring the brand value is a complex one. Several models are available for accomplishing this. The most widely used one is the Brand-earnings-multiple model. There are several variants of this model. For example, the *Financial World* magazine has used a variant of this model in the July 1996 issue and valued the *Microsoft* brand at US$ 5.63 billion, while the market capitalization of the company was around US$ 60 billion on the date of brand valuation.

Goodwill is a nebulous accounting concept that is defined as the premium paid to tangible assets of a company. It is an umbrella concept that transcends components like brand equity and human resources, and is the result of many corporate attributes including core competency, market leadership, copyrights, trademarks, brands, superior earning power, excellence in management, outstanding workforce, competition, longevity and so on.

The management has adapted the generic *Brand-earnings-multiple* model (given in the article on *Valuation of Trademarks and Brand Names* by *Michael Birkin* in the book *Brand Valuation,* edited by *John Murphy* and published by *Business Books Limited, London*) to value its corporate brand – *Infosys*. The methodology followed for valuing the brand is as given below:

1. Determine Brand earnings

   To do this,

   - Determine brand profits by eliminating the non-brand profits from the total profits of the company
   - Restate the historical profits at present-day values
   - Provide for the remuneration of capital to be used for purposes other than promotion of the brand
   - Adjust for taxes.

2. Determine the brand-strength or brand-earning multiple

Brand-strength multiple is a function of a multitude of factors like leadership, stability, market, internationality, trend, support and protection. These factors have been evaluated on a scale of 1 to 100, internally by the Infosys management, based on the information available within the Company.

3. Compute the brand value by multiplying the brand earnings with the multiple derived in step 2 above.

The computation is as follows *in Rs.*

	1997-98	1996-97	1995-96
PBIT	65,86,33,079	39,54,12,934	25,31,94,517
Less: non-brand income	2,43,75,414	4,13,37,138	4,37,25,909
Adjusted profit after tax	63,42,57,665	35,40,75,796	20,94,68,608
Inflation compound factor at 8%	1.000	1.087	1.181
Present value of profits for the brand	63,42,57,665	38,48,80,390	24,73,82,426
Weightage factor	3	2	1
Weighted profits	190,27,72,995	76,97,60,780	24,73,82,426
Three-year average weighted profits	48,66,52,700		
Remuneration of capital			
(5% of average capital employed)	7,14,48,338		
Brand-related profits	41,52,04,362		
Tax at 35%	14,53,21,527		
Brand earnings	26,98,82,835		
Multiple-applied	18.65		
Brand value	503,33,14,872		

Assumptions

1. Total revenue excluding the other income after adjusting for cost of earning such income is brand revenue, since this is an exercise to determine the brand value of Infosys as a company and not for any of its products or services.
2. Inflation is assumed at 8% per annum.
3. 5% of the average capital employed is used for purposes other than promotion of the brand.
4. Tax rate is at 35%.
5. The earnings multiple is based on the ranking of Infosys against the industry average based on certain parameters (exercise undertaken internally and based on available information).

Thus, it is interesting to note that while Infosys has a market capitalization of Rs. 2,963 crore as on March 31, 1998, the value of the "Infosys" brand alone is estimated at Rs. 503.33 crore.

Balance Sheet (including the intangible assets) as at March 31,1998

	in Rs.
SOURCES OF FUNDS	
SHAREHOLDERS' FUNDS	
Share capital	16,01,73,500
Reserves and surplus	
- Share premium account	41,49,51,460
- Capital reserves	1012,33,83,872
- Other reserves	115,44,47,959
	1185,29,56,791
APPLICATION OF FUNDS	
FIXED ASSETS	
Tangible assets - at cost	105,13,90,563
Less : Depreciation	47,50,66,754
Net block	57,63,23,809
Add : Capital work-in-progress	7,32,13,272
	64,95,37,081
Intangible assets	
- Brand equity	503,33,14,872
- Human resources	509,00,69,000
INVESTMENTS	10,77,71,960
CURRENT ASSETS, LOANS AND ADVANCES	
Inventories	-
Accounts receivable	39,88,48,667
Cash and bank balances	43,86,55,723
Loans and advances	39,18,00,686
	122,93,05,076
Less : Current liabilities	11,20,36,854
Provisions	14,50,04,344
Net current assets	97,22,63,878
	1185,29,56,791

Note:
1. This balance sheet is provided for the purpose of information only. The management accepts no responsibility for any direct, indirect or consequential losses or damages suffered by any person relying on the same.
2. Capital reserves include the value of "Infosys" brand and human resources.

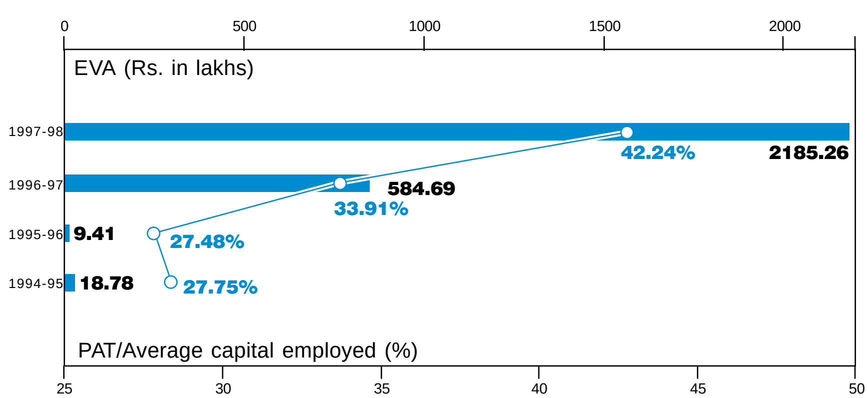
Economic-Value-Added (EVA) statement

Economic-Value-Added, measures the profitability of a company after taking into account the cost of all capital including equity. It is the post-tax return on capital employed (adjusted for the tax shield on debt) minus the cost of capital employed. It is those companies which earn higher returns than costs, that create value. Those companies which earn lower returns than costs are destroyers of shareholders value.

Economic-value-added analysis

Year ending March 31	1998	1997	1996	1995
1. Average capital employed (Rs. in lakhs)	142,89.67	98,46.75	76,44.80	48,01.44
2. Average debt/Total capital (%)	-	2.16	6.93	6.60
3. Beta variant	1.48	1.48	1.48	1.48
4. Risk free debt cost (%)	12.15	13.60	14.00	14.00
5. Market premium	10.00	10.00	10.00	10.00
6. Cost of equity (%)	26.95	28.40	28.80	28.80
7. Cost of debt (post tax) (%)	-	7.70	7.70	6.75
8. Weighted Average Cost of Capital (WACC) (%)	26.95	27.97	27.36	27.36
9. PAT as a percentage of average capital employed (%)	42.24	33.91	27.48	27.75
10. Economic-Value-Added (EVA)				*Rs. in lakhs*
Operating profit (PBT excluding extraordinary income)	6,586.33	38,93.03	25,32.00	15,26.44
Less : Tax	5,50.00	5,54.00	4,31.00	1,94.00
Less : Cost of capital	38,51.07	27,54.34	20,91.59	13,13.66
Economic Value Added	21,85.26	5,84.69	9.41	18.78
11. Enterprise Value (Rs. in lakhs)				
Market value of equity	2963,42.20	731,04.17	355,67.10	348,42.00
Less : Cash and cash equivalents	51,14.20	28,77.82	29,78.31	25,34.18
Add : Debt	-	-	4,26.06	6,33.91
Enterprise value	2912,28.00	702,26.35	330,14.85	329,41.73
12. Ratios				
EVA as a percentage of year end capital employed (%)	12.63	5.18	0.11	0.27
PAT as a percentage of average capital employed - weighted average cost of capital (%)	15.29	5.94	0.13	0.39
Enterprise value/Year end capital employed	16.83	6.22	3.93	4.79

Note : The cost of equity is calculated by using the following formula:
Return on risk free investment + expected risk premium on equity investment adjusted for the average beta variant for software stocks in the US.



Relationship between PAT as a percentage of average capital employed and Economic Value Added (EVA)

Rs. in lakhs

EVA (Rs. in lakhs)
PAT as a percentage of average capital employed

Ratio Analysis for the year ended March 31

	1998	1997	1996
Ratios - Financial performance			
Export turnover/Total turnover (%)	96.38	87.12	86.00
Domestic turnover/Total turnover (%)	2.57	9.27	6.98
Trading turnover/Total turnover (%)	0.01	0.41	1.81
Other income/Total turnover (%)	1.04	3.19	5.20
Manpower costs/Total turnover (%)	36.00	35.90	36.84
Administration expenses/Total turnover (%)	11.73	10.92	8.51
Operating expenses/Total turnover (%)	65.97	64.27	61.22
Interest/Total turnover (%)	0.00	0.42	0.00
Depreciation/Total turnover (%)	8.74	7.31	9.24
Tax/Total turnover (%)	2.11	3.65	4.61
Tax/PBT (%)	8.35	13.48	17.02
EBIDTA/Total turnover (%)	34.03	34.81	36.35
PAT from ordinary activities/Total turnover (%)	23.18	23.42	22.49
PAT from ordinary activities/Average net worth (%)	42.24	34.96	29.53
ROCE (PBIT/Average capital employed) (%)	46.09	40.16	33.12
Return on invested capital (%)	57.64	47.27	43.01
Capital output ratio	1.82	1.46	1.22
Value-added/Total revenues (%)	71.36	69.55	75.62
Enterprise-value/Total revenue	11.19	4.88	3.53
Ratios - Balance Sheet			
Debt-Equity ratio	0.00	0.00	0.05
Debtors turnover (Days)	57	47	46
Current ratio	4.78	4.12	4.17
Cash and equivalents/Total assets (%)	29.57	25.50	35.41
Depreciation for the year/Average gross block (%)	25.79	17.80	23.92
Technology investment/Total turnover (%)	10.08	10.59	9.81
Ratios - Growth			
Growth in export turnover (%)	100.30	55.94	57.66
Growth in total turnover (%)	81.05	53.95	61.88
Operating expenses growth (%)	83.20	63.94	51.10
Operating profit growth (%)	77.02	47.43	70.97
Net profit (from ordinary activities) growth (%)	79.22	60.31	57.68
Per-share data			
Earnings (from ordinary activities) (Rs.)*	37.69	21.03	13.12
Cash earnings (from ordinary activities) (Rs.)*	51.89	27.59	18.51
Dividend (%)	60	55	50
Dividend per share (Rs)	6.00	5.50	5.00
Book value (Rs.)*	108	70	50
Dividend payout (%)	12.81	12.72	17.27
Price/Earnings, end of year	49.09	47.89	37.36
Price/Cash earnings, end of year	35.66	36.49	26.48
Price/Book value, end of year	17.13	14.29	9.83
Price/Total revenue, end of year	11.38	11.22	8.40
EPS growth (%)	79.22	60.31	57.67
PE/EPS growth	0.62	0.79	0.65
Dividend/Adjusted public offer price (%)	25	23	21
Market price/Adjusted public offer price (%)	7,790	4,240	2,063

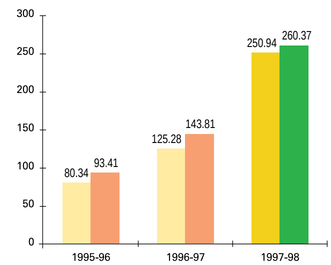
* On diluted basis

Ratio analysis

Ratio analysis is amongst the best tools available to analyze the financial performance of a company. It allows inter-company and intra-company comparison and analysis. The ratios also provide a bird's eye view of the financial condition of the company.

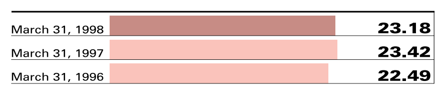
Financial performance

The exports have grown by 100% during the year ended March 31, 1998, as against 56% during the previous year. The export revenues come from various parts of the globe and is well segmented. The segmental analysis of the revenues is provided on pages 139-140 of this report. During the year ended March 31, 1998, the exports constituted around 96% of the total turnover as compared with 87% during the previous year. USA continued to be a major market for Infosys during the current year. The domestic turnover was around 3% of the total turnover during the year ended March 31, 1998, as compared with 9% during the previous year. The reduction in domestic revenues was primarily due to a slow-down in computerization by Indian banks. The total turnover increased by approximately 81% during the year ended March 31, 1998, as compared with 54% during the previous year.



Revenue & exports
Rs. in crores

The manpower costs were approximately 36% of the total turnover during both the years ended March 31, 1998, and 1997. The administration expenses were approximately 12% and 11% during the years ended March 31, 1998 and 1997. The increase is primarily due to an increase in provision for doubtful debts and doubtful loans and advances. During the year ended March 31, 1998, the company made provisions for all its debtors which are outstanding for more than 180 days.



Net profit ratio
Percentage

The depreciation during the year ended March 31, 1998, was approximately 9% of the total turnover as compared with 7% during the previous year. The increase is primarily due to a revision in the estimated useful life of some of the assets and also due to 100% depreciation of assets procured for research and development purposes during the year ended March 31, 1998. The depreciation to average gross block amounts to 26% during the year ended March 31, 1998, as compared with 18% during the previous year, signifying the accelerated depreciation on technology assets by the company.

The income tax expense during the year ended March 31, 1998, was approximately 2% of the total turnover as compared with 4% during the previous year. The reduction is due to higher exports revenue during the year ended March 31, 1998, which is eligible for certain tax concessions.

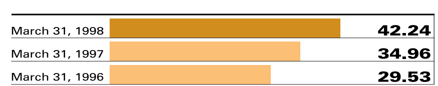
The profit after tax from ordinary activities was 23% of the total turnover during the years ended March 31, 1998, and 1997. The company was able to maintain the same margins in spite of an additional charge of approximately Rs. 4.05 crore during the year ended March 31, 1998, arising out of various accounting changes.

Balance sheet analysis

The key ratios affecting the performance of the Company's financial condition are discussed below:

1. Return on average net worth

The return on average net worth is 42.24% during the year ended March 31, 1998, as against 34.96% during the previous year. This increase was primarily due to the productive use of assets and higher profits.



Return on average net worth
Percentage

Since the Company is maintaining around 30% of its assets in liquid cash funds, where the returns are less, the above figures need further analysis. If the average liquid funds are adjusted against the average net worth and the revenue earned from liquid funds after tax are adjusted against the net profit, the return on invested capital stands at 58% during the year ended March 31, 1998, as compared with 47% during the previous year.

2. Debt-equity ratio

The Company funds its short-term and long-term cash requirements primarily out of internal accruals. As on March 31, 1998, the company remained debt-free.

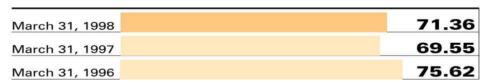
Capital output ratio

3. Current ratio

The Current ratio is 4.78 as on March 31, 1998, as compared with 4.12 as on March 31, 1997.

4. Capital output ratio

The Capital output ratio is 1.82 for the year ended March 31, 1998, compared with 1.46 for the previous year. This increase is due to productive use of assets and higher profits.



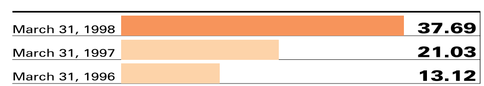
Value-added to total turnover
Percentage

5. Value-added to total turnover

The value-added to total turnover was 71% for the year ended March 31, 1998, compared with 70% for the previous year. This is primarily due to reduced use of outside services.

6. Enterprise-value to total turnover

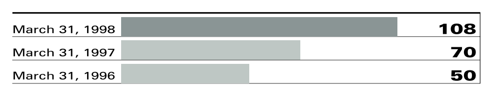
The enterprise-value to total turnover was 11 times for the year ended March 31, 1998, as compared with 5 times for the previous year.



Earnings per share
Rs.

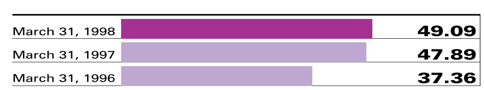
Per-share data

The Earnings Per Share (EPS) for the year ended March 31, 1998, is Rs. 37.69 compared with Rs. 21.03 for the previous year. The EPS for the years ended March 31, 1998, 1997 and 1996, is calculated after adjusting for the 1:1 bonus issue during October 1997, and also the issue of 7,49,000 shares on conversion of warrants issued under the Employees Stock Offer scheme. The cash earnings per share was Rs. 51.89 during the year ended March 31, 1998, compared with Rs. 27.59 during the previous year. This is due to higher cash generation within the company due to higher value addition. The book value per share has also increased to Rs. 108 as on March 31, 1998, as against Rs. 70 as on March 31, 1997. The dividend payout ratio for the years ended March 31, 1998 and 1997, was 13%.



Book value
Rs.

The P/E to EPS growth was approximately 0.62 for the year ended March 31, 1998, compared with 0.79 for the previous year. This represents the valuation of the company in comparison to its growth in earnings.



Price earnings multiple
Nos.

The appreciation in Infosys share price (adjusted for bonus issues in 1994 and 1997), over the public issue price, is more than 7,790%. Since the public issue, the market capitalization of the Company has grown to Rs. 2,963 crore, as on March 31, 1998, from the public issue valuation of Rs. 31.84 crore during February 1993. The dividend payout on the adjusted IPO issue price is 25% for the year ended March 31, 1998, compared with 23% for the previous year.

Dividend payout
Percentage

Statutory obligations

The Company has established Software Technology Parks - 100% export-oriented units - for the development of software at Electronics City, Koramangala, J. P. Nagar and Manipal Center at Bangalore as well as at Mangalore, Pune, Chennai and Bhubaneswar (all in India). Certain capital items purchased for these centers are eligible for 100% customs and excise duty exemption, subject to fulfillment of stipulated export obligations, namely, one and a half time the value of duty-free imports of capital goods, or duty-free purchase of goods subject to excise, over a period of four years and one and a half times the wage bill, on a yearly basis.

The non-fulfillment of export obligations may result in penalties as stipulated by the Government which may have an impact on future profitability. The chart showing the export obligation, and the export obligation fulfilled by the Company, on a global basis, for all its STP units together, year-wise is given here under:

in Rs.

For the year ended March 31	Export obligation	Export obligation fulfilled	Excess/ (shortfall)	Cumulative excess/ (shortfall)
1993	11,07,019	28,25,575	17,18,556	1,718,556
1994	2,69,45,277	8,04,57,379	5,35,12,102	5,52,30,658
1995	7,70,12,146	15,63,56,751	7,93,44,605	13,45,75,263
1996	28,42,90,379	47,64,44,106	19,21,53,727	32,67,28,990
1997	39,67,03,285	68,93,56,837	29,26,53,552	61,93,82,542
1998	73,55,63,113	142,41,27,171	68,85,64,058	130,79,46,600
	152,16,21,219	282,95,67,819	130,79,46,600	

The total customs duty waived on both computer software and hardware imported by the Company since 1993 amounts to Rs. 24.74 crore.

The Company has fulfilled its export obligations on a global basis for all its operations under the Software Technology Park Scheme (STP). However, in case of STPs operationalized during the year, the export obligation will be met in the future years. On a forward basis, the Company's management is confident of fulfilling all its export obligations.

Taxation

The economic reforms program of the Government of India has enhanced the velocity of business for companies in India. Being one of the signatories to the World Trade Organization, India is committed to reducing the import tariff levels, thereby exposing the Indian entrepreneurs to global competition. The present Indian corporate tax rate is 35%. The export profits are entitled to benefit under two schemes of Government of India. Under the first scheme, the profits of the company attributable to export activities are deductible from the total taxable income. Under the second scheme, the profits attributable to operations of the company under the 100% export oriented unit scheme are entitled to a tax holiday during any consecutive five-year in a block of eight years from the date of commencement of operations. Presently, the Company is entitled to benefits under both the schemes.

The government may reduce or eliminate the tax exemptions provided to Indian exporters in the near future. This may result in the export profits of the Company being fully taxed, and may adversely affect the post-tax profits of the Company in the future. This is expected to be tackled by increasing the per capita revenue productivity and moving up the value chain. On a full-tax-paid basis, without any duty concessions on import of hardware and software for its operations, the Company's post-tax profits for the relevant years would be,

in Rs.

	1998	1997	1996
Profit before tax (excluding extraordinary items)	65,86,33,079	38,93,03,219	25,31,94,517
Less - Duty waiver on software purchases	-	11,19,799	18,51,521
- Additional depreciation to be provided on duty waiver for computer equipment	6,60,77,136	5,02,49,353	3,26,05,244
- Reduction in other income	98,21,728	2,22,26,527	2,10,56,536
Adjusted profit before tax	58,27,34,215	31,57,07,540	19,76,81,216
Less - Income tax on above on full tax basis	24,53,97,021	15,49,11,118	7,67,50,460
Adjusted profit after tax	33,73,37,194	16,07,96,422	12,09,30,756
Adjusted Earnings Per Share *	21.06	10.04	7.55

* The Earnings per share for earlier years has been restated to reflect the 1:1 bonus issue in October 1997 and issue of 7,49,000 shares under the ESOP scheme.

However, it may be noted that the above is an academic exercise only. The Company has provided for income tax in full in the respective years and there is no carried-forward liability on this account.

Segment reporting

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

By geographical area

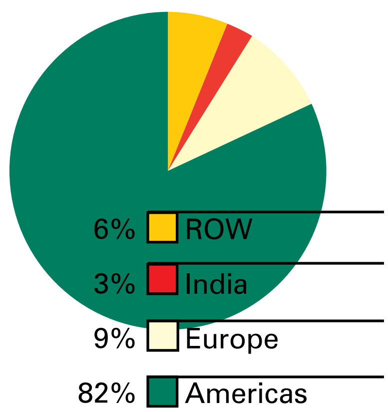
Rs. in lakhs

	1998	1997	1996
Revenues			
Americas	212,24.46	108,91.73	66,89.47
Europe	23,17.20	11,56.94	12,03.53
Rest of the world	15,52.10	2,27.80	1,40.81
India	9,42.81	21,04.30	13,07.52
	260,36.57	143,80.77	93,41.33

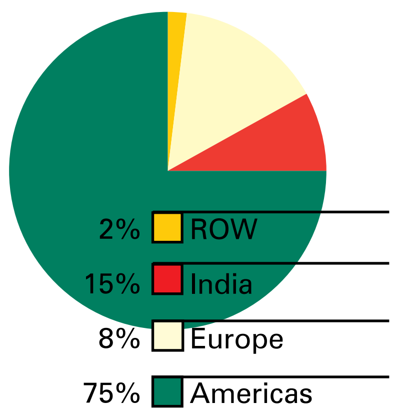
Approximately 82% of Infosys revenue comes from the Americas, which includes USA and Canada, and the remaining from Europe and other markets. The revenues from Americas increased by 95% during the year, compared with the previous year. Thus, Americas continued to be a major market for Infosys. The revenues from European markets has increased by 100% during the year, compared with the previous year. However, as a percentage of total revenue, the contribution from European markets has increased from 8% during the previous year to 9% during the current year. The revenues from India have slowed down during the year, at 3% of the total revenues compared with 15% of the total revenues during the previous year. The slowdown was predominantly due to slackening of computerization activities by Indian banks. The revenues from rest of the world has grown from 2% of the total revenues for the previous year to around 6% of the total revenues for the current year.

The dependency on a single market for substantial part of the revenue is prone to risk. Infosys has a de-risking strategy to increase its share of business from the European, Japanese and other markets, thereby, reducing its predominant dependency on the American market. The Company's goal is to reduce the contribution to the revenue from the US, to 60% (from the current 82%), in the future.

By geographical area – 1998



By geographical area – 1997



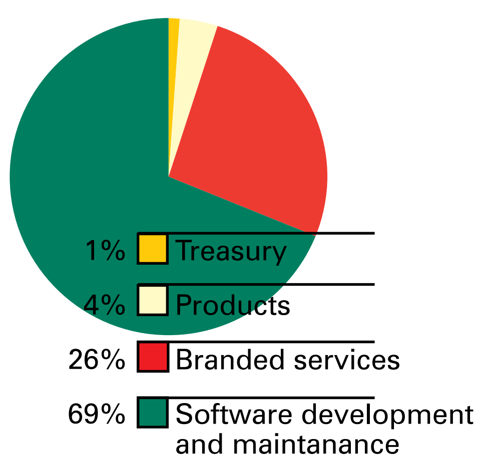
By business segments

Rs. in lakhs

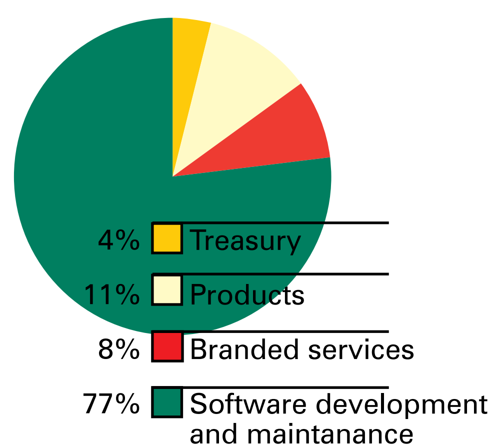
	1998	1997	1996
Revenues			
Branded services	66,46.09	11,45.32	-
Products	10,45.62	16,45.46	8,74.23
Software development and maintenance	180,74.03	111,30.69	79,81.26
Treasury	2,70.83	4,59.30	4,85.84
	260,36.57	143,80.77	93,41.33

Today, major part of the Company's revenue comes from software development and maintenance services. During the year, the revenues from branded services grew substantially. The revenues from branded services has grown from around 8% of the total revenues during the previous year to around 26% of the total revenues during the current year. This has been mainly due to increase in revenues from Year 2000 conversion projects which has grown from around 7% of the total revenues during the previous year to around 23% of the total revenues during the current year. The Company's policy is not to depend on any single business segment for a large part of its business. In line with this de-risking strategy, the Company has limited its revenue from Year 2000 work to 25% of the total revenue for a given year. During the year, the contribution from Year 2000 projects is around 23% - below this limit. During the year, the revenues from products were approximately around 4% of the total revenues compared with 11% during the previous year. The slow down was mainly due to slackening of computerization activities of Indian banks. The revenues from software development and maintenance have shown substantial growth during the year, by growing at more than 62% compared with the previous year. The treasury income has come down during the current year due to lower interest rates available on deployment of surplus funds.

By business segment – 1998



By business segment – 1997



Frequently Asked Questions

1. When is the next earnings release? What is the fiscal year of Infosys?

   Ans: The day of earnings releases are given below. The earnings release will also be posted on our homepage on the Internet.

Quarter	Earnings release date (Tentative and subject to change)
First quarter ending June 30, 1998	July 10, 1998
Second quarter ending September 30, 1998	October 9, 1998
Third quarter ending December 31, 1998	January 11, 1999
Fourth quarter ending March 31, 1999	April 9, 1999

   The fiscal year of the Company is a period of twelve months starting April 1, every year.

2. When did Infosys have its initial public offer (IPO) and what was the initial listing price? Was there any follow-on offering after that?

   Ans: Infosys went public in February 1993 and got listed during June 1993. The shares started trading at Rs. 145 per share compared to an IPO price of Rs. 95 per share. During October 1994, Infosys made a private placement of 5,50,000 shares at Rs. 450 each to Foreign Institutional Investors (FIIs), Financial Institutions (FIs) and Corporates.

3. Which are the stock exchanges where Infosys shares are listed and traded?

   Ans: Infosys shares are listed and traded, only in India, on the Bangalore Stock Exchange, Bombay Stock Exchange, and the National Stock Exchange.

4. Where and in which year was Infosys incorporated?

   Ans: Infosys was incorporated at Mumbai, in the state of Maharashtra, in India on July 2, 1981.

5. What is the Reuters code for Infosys stock?

Ans:	Bombay Stock Exchange	INFO.BO
	National Stock Exchange	INFO.NS

6. What is the employee strength of Infosys and what is the break-up?

   Ans: As of March 31, 1998, Infosys employs 2,605 people on a full-time basis.

   The break-up of the employees is:

Software development including trainees	2,186	84%
Support services	419	16%
Total	2,605	100%

   The gender break-up of employees is:

Male	2,228	86%
Female	377	14%
Total	2,605	100%

   The agewise break-up of employees is:

Between 20 and 30 years	2,240	86%
Between 31 and 40 years	308	12%
Between 41 and 50 years	50	2%
Between 51 and 60 years	7	-
Total	2,605	100%

7. Does Infosys issue quarterly reports?

Ans: Yes. Infosys issues audited quarterly reports in Indian GAAP and unaudited US GAAP results, and the same is mailed to all the shareholders.

8. How do I transfer my stock or change my address with the transfer agent?

Ans: You have to write to our registrars: Karvy Consultants Limited, Registrars and Share Transfer Agents, T.K.N. Complex, No. 51/2, Vanivilas Road, Opp. National College, Basavanagudi, Bangalore - 560 004, India or

Mr. V. Viswanathan (viswav@inf.com), Company Secretary, Investors' Service Cell, Infosys Technologies Ltd., Electronics City, Hosur Road, Bangalore - 561 229, India.

Or fax your queries at 91 80 8520352 or call up at 91 80 8520261.

You can also address your queries at e-mail: invest@inf.com

9. What is the previous history of bonus issues at Infosys?

Ans:	Year	1986	1989	1991	1992	1994	1997
	Bonus issue ratio	1:1	1:1	1:1	1:1	1:1	1:1

10. How many development centers does Infosys have?

Ans: Infosys has nine development centers in India, of which five are in Bangalore, and one each in Bhubaneswar, Mangalore, Pune and Chennai.

11. How many marketing offices are there outside India?

Ans: There are twelve marketing offices outside India, of which eight are located in USA, and one each in the UK, the Netherlands, Canada and Japan.

12. What is the product strategy of Infosys? Are products going to contribute more to the revenues of Infosys in the near future?

Ans: Infosys believes that Indian companies will have to concentrate on large, application products in vertical areas to leverage their development competencies and advantages. Shrink-wrapped products are very sales- and marketing-intensive which are not the forte of Indian companies. Infosys intends to convert a project opportunity into a product opportunity.

Infosys is essentially a software services company. However, Infosys expects to create branded services which will contribute substantial revenues. Thus, branded services and products are together expected to contribute 35% to 40% of the total revenues in the near future.

13. What are *branded services*? Is it going to increase the margins of Infosys?

Ans: *Branded services* are services that have unique methodologies, tool sets, processes, training material, sales collateral and knowledge base. They facilitate high reusability of the Company's knowledge base, improve productivity, make selling easier and bring better value-for-money to our customers. A good example of a branded service is *In2000*®, Infosys' solution to the millennium problem.

14. What percentage of Infosys revenue is derived from Year 2000?

Ans: We have a stated objective of limiting the revenue contribution from *In2000*® to around 25% of our sales. In fiscal 1998, *In2000*® contributed 23% to revenues.

15. Which are the new areas Infosys is addressing?

Ans: The new areas that Infosys is addressing are Engineering services, Euroconversion, ERP implementation and application migration.

16. What are the expansion plans of Infosys and how will these be funded?

Ans: Infosys will add another 3,500 to 4,500 professionals in the next three to five years. It intends spending about US$ 75 to US$ 85 million in creating the physical and technological infrastructure for these professionals. It may look beyond India for starting development centers. The funds will come from internal accruals, a possible ADR issue or debt.

17. What is the current status of the proposed ADR issue of Infosys?

Ans: Infosys has applied to the Government of India for approval. Once the approval is received, the issue will proceed further.

18. What has the employee strength and revenue growth been since 1993, when the Company went for an IPO?

Ans: The employee strength and revenue growth since 1993 have been:

Fiscal year ended March 31	Total no. of employees	Net revenues in US$	Growth %	Net income in US$	Growth %
1994	573	9,534,321	82	2,669,727	106
1995	903	18,105,010	90	3,963,367*	48
1996	1172	26,607,009	47	6,823,637*	72
1997	1705	39,585,919	49	8,642,002*	27
1998	2605	68,329,961	73	12,344,188*	43

* After amortization of deferred stock compensation amounting to US$ 2,566,613, US$ 767,926, US$ 360,853 and US$ 45,884 for fiscal years 1998, 1997, 1996 and 1995 respectively.

19. Can you provide the details of the various properties owned or leased by Infosys?

Ans: The total area of operational space available with the Company is 3,38,337 sq.ft. The details are given below:

Location	Owned/Leased	Area in sq.ft.
Bangalore:		
• Electronics City	Owned	1,60,000
• J.P. Nagar	Leased	59,485
• BTM Layout	Leased	11,251
• Koramangala	Leased	18.733
• Manipal Center	Owned	6,966
Mangalore	Leased	14.134
Pune	Leased	43,715
Bhubaneswar	Leased	20,600
Chennai:		
• Guindy	Leased	26,626
• Santhome	Leased	23,167
Mumbai	Owned	1,160
Delhi	Leased	2,500

The Company also owns land at Bhubaneswar and various locations in Bangalore, India measuring 14,39,344 sq.ft. for future expansion.

The worldwide sales headquarters at Fremont, USA and various sales offices in USA, Europe are leased.

20. Does Infosys pay a dividend? What is the dividend payment policy of Infosys?

Ans: Currently, Infosys pays dividend to its shareholders. The current dividend policy is to distribute up to 20% of the PAT as dividend. The Board of Directors reviews the dividend policy periodically.

A historical perspective

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

Particulars	1981-82	1993-94	1994-95	1995-96	1996-97	1997-98
Revenue account						
Revenue	11.63	30,08.47	57,70.43	93,41.34	143,80.77	260,36.57
Operating profit (PBIDT)	-	9,70.71	19,85.97	33,95.36	50,05.78	88,61.15
Interest	-	4.64	-	-	61.09	-
Depreciation	-	80.88	4,59.53	8,63.42	10,51.64	22,74.82
Provision for taxation	-	76.00	1,94.00	4,31.00	5,24.97	5,50.00
Profit after tax from ordinary activities	3.78	8,09.19	13,32.44	21,00.94	33,68.06	60,36.33
Dividend	-	1,17.32	2,31.39	3,62.93	3,99.23	7,02.92
Return on average net worth (%)	96.88	39.61	29.71	29.53	34.96	42.24
Return on average capital employed (PBIT/ average capital employed) (%)	96.88	43.14	31.79	33.12	40.16	46.09
Capital account						
Share capital	0.10	3,35.11	7,25.88	7,25.88	7,25.98	16,01.74
Reserves and surplus	3.78	25,35.00	55,19.92	72,57.94	105,57.63	156,93.99
Loan funds	-	-	6,33.91	4,26.06	-	-
Gross block	0.02	8,27.38	25,32.01	46,85.75	71,29.16	105,13.91
Capital investment	0.02	7,12.71	25,23.05	15,55.49	27,31.04	34,40.97
Net current assets	6.27	13,94.34	32,46.95	41,17.17	54,19.85	97,22.64
Debt - Equity ratio	-	-	0.10	0.05	-	-
Market capitalization	-	191,01.50	348,42.00	355,67.10	731,04.17	2963,42.23
Per share data						
Earnings (Rs.) *	377.77	7.49	8.32	13.12	21.03	37.69
Dividend (%)	-	35	45	50	55	60
Book value (Rs.) *	383.10	25.00	39.00	50.00	70.00	108.00
Other information						
Number of shareholders	7	6,033	6,526	6,909	6,414	6,622
Credit rating from CRISIL						
Commercial paper	-	-	"P1+"	"P1+"	"PI +"	"PI +"
Non-convertible debentures	-	-	"AA"	"AA"	"AA"	"AA"

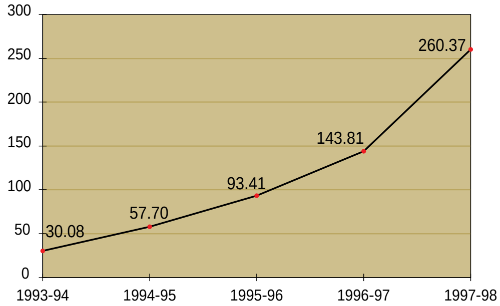
Note: One lakh equals. One hundred thousand.

* on a fully diluted basis and adjusted for bonus issue of 1:1 during 1994-95 and 1997-98.

A historical perspective (Contd.)

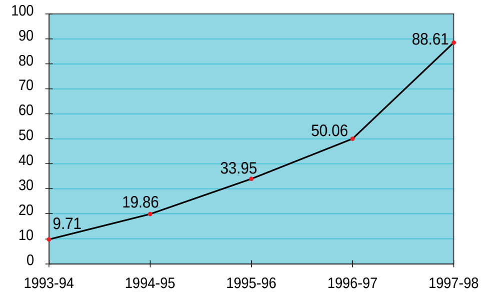
Revenue

(Rs. in crores)



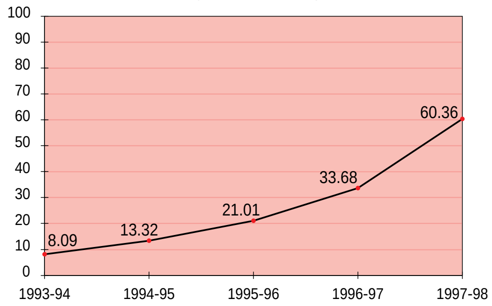
Operating profit (PBIDT)

(Rs. in crores)



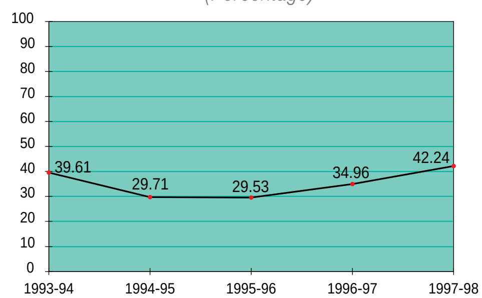
Profit after tax from ordinary activities

(Rs. in crores)



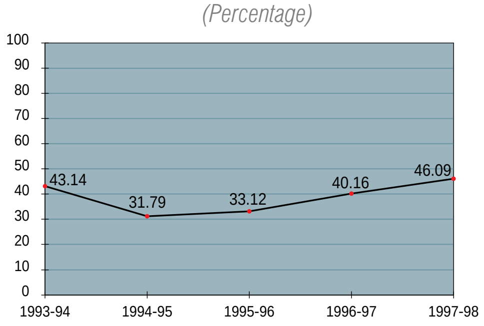
Return on average net worth

(Percentage)



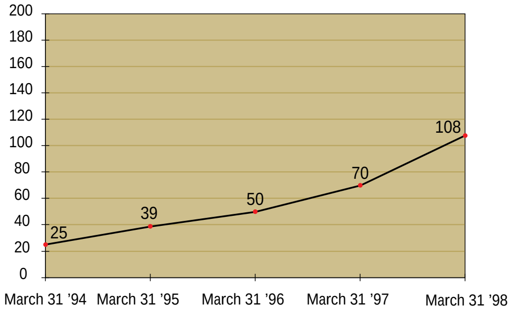
Return on average capital employed

(Percentage)

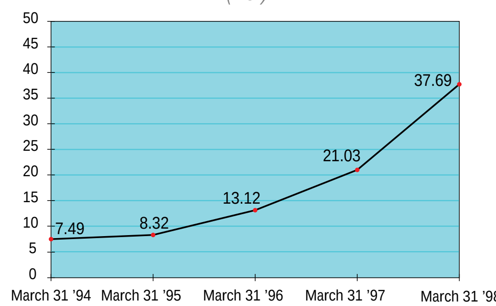


A historical perspective (Contd.)

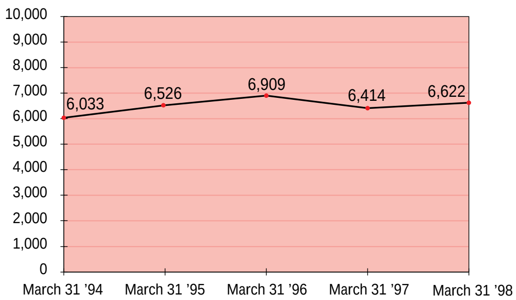
Book value
(Rs.)



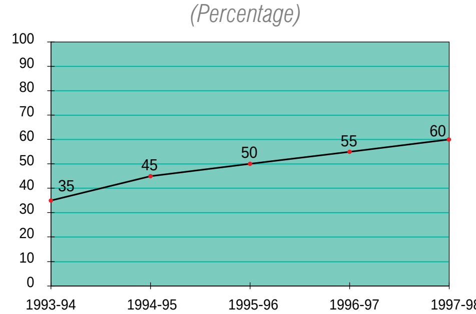
Earnings per share
(Rs.)



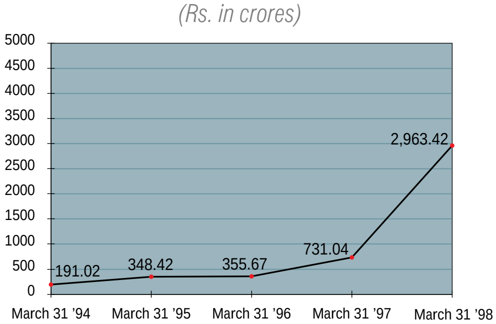
Number of Shareholders



Dividend
(Percentage)



Market capitalization
(Rs. in crores)



Consolidated financial statements of Infosys and its subsidiary

Infosys currently has a subsidiary, Yantra Corporation, incorporated in the USA. The fianancial statements of Infosys are prepared as per the requirements of The Companies Act, 1956 and Indian GAAP. The financial statements of Yantra Corporation are prepared as per US GAAP.

In order to enable investors to appreciate and evaluate the consolidated operations of Infosys and its subsidiary, an attempt has been made to provide a consolidated Balance sheet and Profit and loss account. These statements are unaudited.

Consolidated Balance sheets as at March 31 (Unaudited)

in Rs.

	1998	1997
SOURCES OF FUNDS		
SHAREHOLDERS' FUNDS		
Share capital	16,01,73,500	7,25,97,500
Reserves and surplus	147,63,35,548	101,33,24,544
CONVERTIBLE PREFERRED STOCK	8,42,17,950	-
	172,07,26,998	108,59,22,044
APPLICATION OF FUNDS		
FIXED ASSETS		
Gross block less depreciation	58,59,25,187	46,49,78,756
Add : Capital work-in-progress	7,32,13,272	7,04,41,980
	65,91,38,459	53,54,20,736
INVESTMENTS	10,360	10,360
CURRENT ASSETS, LOANS AND ADVANCES		
Inventories	-	4,10,878
Sundry debtors	40,51,86,549	17,91,06,614
Cash and bank balances	53,59,88,610	16,08,20,738
Loans and advances	39,42,28,035	38,57,29,332
	133,54,03,194	72,60,67,562
Less : Current liabilities and provisions	27,38,25,015	17,55,76,614
NET CURRENT ASSETS	106,15,78,179	55,04,90,948
	172,07,26,998	108,59,22,044

Consolidated financial statements of Infosys and its subsidiary

Consolidated profit and loss account for the year ended March 31 (Unaudited)

in Rs.

	1998	1997
INCOME		
Software development services and products	256,21,18,473	140,04,06,042
Sale of imported software packages	1,64,840	59,53,940
Other income	2,95,89,158	4,65,49,735
	259,18,72,471	145,29,09,717
EXPENDITURE		
Cost of imported software packages sold	1,30,429	37,14,984
Software development expenses	141,20,94,728	76,28,92,519
Administration and other expenses	34,71,65,549	17,75,01,431
Loss on sale of investments/provision for investments	-	1,31,92,752
	175,93,90,706	95,73,01,686
Operating profit (PBIDT)	83,24,81,765	49,56,08,031
Interest	-	61,09,715
Depreciation	22,94,02,937	10,59,09,887
Profit before tax	60,30,78,828	38,35,88,429
Provision for tax	5,52,09,905	5,28,42,350
Profit after tax from ordinary activities	54,78,68,923	33,07,46,079
Extraordinary income	-	-
Net profit	54,78,68,923	33,07,46,079
Dividend on preferred stock	25,15,725	-
Amount available for appropriation	54,53,53,198	33,07,46,079
Dividend		
Interim	1,75,73,859	1,08,87,900
Final	5,27,17,738	2,90,35,145
Dividend tax	70,29,160	29,03,515
Amount transferred to - capital reserve	-	-
- revenue reserve	46,80,32,441	28,79,19,519

Note:

1. Infosys's financial statements are prepared in Indian rupees, the reporting currency. The financial statements of Yantra Corporation, the subsidiary, is prepared in United States dollars, their reporting currency. The above consolidated financial statements are prepared by translating the financial statements of Yantra corporation to Indian rupees by converting the revenue and expenditure at average rate during the year; current assets, current liabilities, fixed assets, long-term borrowings at year-end rate; and accretions to stockholders' equity at average rate during the year. The difference arising on translation is shown under Reserves and surplus. All inter-company transactions has been netted off on consolidation.

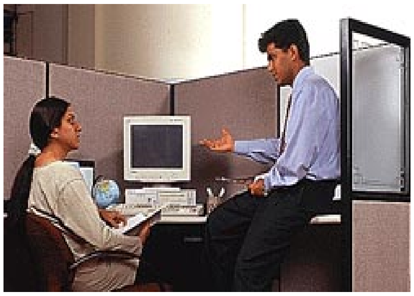
2. Exchange rates used:

	1998	1997
Average exchange rate	1 $ = Rs. 37.27	1 $ = Rs. 35.50
Year-end exchange rate	1 $ = Rs. 39.48	1 $ = Rs. 35.86

3. Reconciliation between Indian GAAP and the above consolidated Profit and loss account: *in Rs.*

	1998	1997
Net profit of Infosys as per Indian GAAP	60,36,33,079	37.27.05.929
Less: Loss of Yantra Corporation	(5,82,79,881)	(60,59,850)
Extra-ordinary income arising out of sale of product EAGLE to Yantra Corporation	-	(3,59,00,000)
Net profit as per the above consolidated Financial statements	54,53,53,198	33,07,46,079

Financial statements prepared in substantial compliance with GAAP requirements of various countries



Thanks to the opening up of financial sectors in most nations and the integration of the world economy, investors today, have a wide choice of capital markets to invest in, across the globe. Thus, the global investor must have access to the performance of any company, in any market that he/she chooses to invest. The advances in technology provide desktop access to all companies that have a desire to source capital from the global capital pool. However, differences in language, accounting practices and reporting in various countries make the performance evaluation of the investee-company rather investor-unfriendly.

The strength of a global company is its ability to access capital at the lowest cost from across the world. Thus, a company has to attract investors from all over the world. Companies that are successful in sourcing global capital are very global-investor-friendly. Such companies study the needs of the global investors and publish the company's financial information in a language and form which is understood globally. In the process, financial statistics may have to be restated and financial terminology may need to be translated. In a globalized world, financial information of such successful corporations moves rapidly across national boundaries. Indeed, a key issue in international financial analysis is the restatement and translation of financial reports that describe operations conducted in one environment but which are the subject of review and analysis in another.

As an investor-friendly company committed to giving world-class information to our global investors, we have voluntarily reformatted our financial statements to be in substantial compliance with the local GAAP requirements of six countries, in addition to that of USA (which information appears separately elsewhere). We have also translated the financial reports into the national language of these countries (where applicable). The countries are: Australia, Canada, France, Germany, the United Kingdom and Japan. These reports are unaudited.

These unaudited *Consolidated Profit and Loss Accounts* and *Balance Sheets* have been arrived at by converting the various financial parameters reported in the audited *Income Statement of Infosys* (according to the Indian GAAP) and consolidating the subsidiary's financial information, into respective currencies. In addition, adjustments have been made for differences in accounting principles and in formats, between India and these countries, if any.

In the event of a conflict in interpretation, the audited Indian version of the financial statements should be considered. The Infosys management cautions the investors that these reports are provided only as additional information to our global investors. Using such reports for predicting the future of Infosys, or any other company, is risky. The Infosys management is not responsible for any direct, indirect or consequential losses suffered by any person using these financial statements or data.

Financial statements prepared in substantial compliance with Australian GAAP (Unaudited): Balance Sheets

Infosys and its controlled entities for the year ended March 31

Australian dollars

	Consolidated		Infosys	
	1998	1997	1998	1997
CURRENT ASSETS				
Cash	23,458,674	10,610,494	19,707,889	10,234,067
Receivables	15,614,126	6,369,367	15,369,891	6,432,786
Investments	-	-	-	-
Other	7,745,524	4,905,022	7,667,677	4,858,270
TOTAL CURRENT ASSETS	46,818,324	21,884,883	42,745,457	21,525,123
NON-CURRENT ASSETS				
Receivables	-	-	-	-
Investments	399	368	4,153,062	1,894,095
Property, plant and equipment	25,400,326	19,040,567	25,030,331	18,958,535
Intangibles	-	-	-	-
Other	3,218,576	1,090,943	3,202,885	1,090,943
TOTAL NON-CURRENT ASSETS	28,619,301	20,131,878	32,386,278	21,943,573
TOTAL ASSETS	75,437,625	42,016,761	75,131,735	43,468,696
CURRENT LIABILITIES				
Trade creditors	226,818	160,145	151,780	139,516
Borrowings	-	-	-	-
Provisions	7,243,249	2,751,541	6,671,512	2,714,911
TOTAL CURRENT LIABILITIES	7,470,067	2,911,686	6,823,292	2,854,427
NON-CURRENT LIABILITIES				
Borrowings	-	-	-	-
Provisions	-	-	-	-
TOTAL NON-CURRENT LIABILITIES	-	-	-	-
TOTAL LIABILITIES	7,470,067	2,911,686	6,823,292	2,854,427
NET ASSETS	67,967,558	39,105,075	68,308,443	40,614,269
SHAREHOLDERS' EQUITY				
Share capital	6,444,416	3,077,403	6,444,416	3,077,403
Reserves	58,285,237	36,027,672	61,864,027	37,536,866
Retained profits				
Shareholders' equity attributable to members of Infosys Technologies Limited	64,729,653	39,105,075	68,308,443	40,614,269
Convertible Preferred stock	3,237,905	-	-	-
TOTAL SHAREHOLDERS' EQUITY	67,967,558	39,105,075	68,308,443	40,614,269

Financial statements prepared in substantial compliance with Australian GAAP (Unaudited): Profit and Loss Accounts

Infosys and controlled entities for the year ended March 31

Australian dollars

	Consolidated 1998	Consolidated 1997	Infosys 1998	Infosys 1997
Operating revenue	99,649,076	51,926,723	100,102,164	51,396,597
Operating profit before abnormal items and Income tax	23,186,422	13,709,379	25,322,302	13,913,625
Abnormal items	-	-	-	1,283,059
Operating profit before income tax	23,186,422	13,709,379	25,322,302	15,196,684
Income tax expense/(benefit) attributable to				
Operating profit	995,442	1,502,258	987,372	1,489,925
Abnormal items	-	-	-	-
Income tax expense/(benefit) for the year	995,442	1,502,258	987,372	1,489,925
Operating profit after income tax	22,190,980	12,207,121	24,334,930	13,706,759
Outside equity interests in operating profit after income tax	-	-	-	-
Operating profit after income tax attributable to members of Infosys Technologies Limited	22,190,980	12,207,121	24,334,930	13,706,759
Dividend on preferred stock	96,721	-	-	-
Retained profits at the beginning of the financial year	-	-	-	-
Aggregate of amounts transferred from reserves	-	-	-	-
Total available for appropriation	22,094,259	12,207,121	24,334,930	13,706,759
Dividends provided for or paid	2,972,732	1,426,842	2,972,732	1,426,842
Aggregate of amounts transferred to reserves	19,121,527	10,780,279	21,362,198	12,279,917
Retained profits at the end of the financial year	-	-	-	-
Basic earnings per share	1.45	0.84	1.59	0.94
Diluted earnings per share	1.42	0.82	1.55	0.92

1. The Company's financial statements are prepared in Indian rupees, the reporting currency. These financial statements have been prepared by translating revenue and expenditure at average rate during the year; current assets, current liabilities, Property, plant and equipment, long-term borrowings at year-end rate; and accretions to stockholders' equity at an average rate for the year. The difference arising on translation is shown under Reserves.

2. Exchange rates used :

Exchange rates used :	1998	1997
Average exchange rate used	1 AUD = Rs. 26.01	1 AUD = Rs. 27.98
Closing exchange rate used	1 AUD = Rs. 25.95	1 AUD = Rs. 28.12

3. Reconciliation between the Indian GAAP and the Australian GAAP statements: *Australian dollars*

	Consolidated 1998	Consolidated 1997	Infosys 1998	Infosys 1997
Net income as per Indian GAAP in Rs.	603,633,079	369,802,414	603,633,079	369,802,414
Net income as per Indian GAAP in Aus $	23,207,730	13,216,670	23,207,730	13,216,670
Less: Extra-ordinary income arising out of sale of product Eagle to Yantra corporation	-	(1,283,059)	-	
Less: Net income of subsidiary included on consolidation	(2,240,671)	(216,579)	-	
Add: provision for deferred taxes	1,127,200	490,089	1,127,200	490,089
Net income as per Australian GAAP	22,094,259	12,207,121	24,334,930	13,706,759

Financial statements prepared in substantial compliance with Canadian GAAP (Unaudited)

Consolidated Balance Sheets

Canadian dollars

March 31	1998	1997
ASSETS		
Current assets		
Cash and cash equivalents	21,858,262	11,560,135
Accounts receivable	14,548,889	6,939,427
Inventories	-	15,919
Prepaid expenses and other assets	7,217,105	5,328,104
	43,624,256	23,843,585
Property, plant and equipment	23,667,449	20,744,701
Investments	372	401
Deferred taxes	1,545,104	531,294
Other assets	1,453,892	657,289
	70,291,073	45,777,270
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	211,343	174,478
Accrued liabilities	6,567,530	2,724,499
Current portion of long term obligations	-	-
Advances received from clients	181,566	273,306
	6,960,439	3,172,283
Long term obligations		-
	6,960,439	3,172,283
Convertible preferred stock	3,023,984	-
Share capital	6,223,087	3,080,039
Common shares - 16,017,200 outstanding (1997 - 14,519,200 outstanding)		
Additional paid-in capital	17,099,275	14,744,704
Accumulated foreign currency translation adjustment	(5,193,113)	(2,797,396)
Retained earnings	42,177,401	27,577,640
	70,291,073	45,777,270

Financial statements prepared in substantial compliance with Canadian GAAP (Unaudited)

Consolidated Statements of Earnings and Retained Earnings

Canadian dollars

Year ended March 31	1998	1997
Sales	91,969,968	53,904,177
Cost of sales	53,870,425	30,917,100
Gross margin	38,099,543	22,987,077
Expenses		
Selling, General and Administration expenses	17,514,845	9,834,589
Income from operations	20,584,698	13,152,488
Interest and other income	1,062,066	1,784,198
Interest expense	-	(234,178)
Earnings before income taxes	21,646,764	14,702,508
Provision for income taxes	929,341	1,611,084
Dividend on preferred stock	90,299	-
Net earnings	20,627,124	13,091,424
Cash dividend declared	2,775,332	1,530,205
	17,851,792	11,561,219
Retained earnings, beginning of the year	27,577,641	16,016,421
Capitalization of profits	(3,252,032)	-
Retained earnings, end of the year	42,177,401	27,577,640
Earnings per share		
Net earnings		
Basic	1.35	0.90
Fully diluted	1.32	0.88
Weighted average number of shares		
Basic	15,266,148	14,518,197
Fully diluted	15,662,619	14,852,030

Note:

1. The Company's financial statements are prepared in Indian rupees, the reporting currency. These financial statements have been prepared by translating revenue and expenditure at an average rate for the year; current assets, current liabilities, Property, plant and equipment, long-term borrowings at year-end rate; and accretions to stockholders' equity at an average rate for the year. The difference arising on translation is shown under Accumulated foreign currency translation adjustment.

2. **Exchange rate used:**

	1998	1997
Average exchange rate used	1 CAD = Rs. 27.86	1 CAD = Rs. 26.09
Closing exchange rate used	1 CAD = Rs. 27.85	1 CAD = Rs. 25.81

3. **Reconciliation between the Indian GAAP and the Canadian GAAP statements:**

	1998	1997
Net income as per Indian GAAP in Rs.	603,633,079	369,802,414
Net income as per Indian GAAP in Canadian dollars	21,666,658	14,174,106
Less: Extra-ordinary income arising out of sale of product Eagle by Infosys to Yantra Corporation	-	(1,376,006)
Net income/(loss) of subsidiary included on consolidation	(2,091,884)	(232,267)
Add: provision for deferred taxes	1,052,350	525,591
Net earnings as per Canadian GAAP	20,627,124	13,091,424

Etats financiers préparés selon les principes comptables français (non vérifés):

Bilan Consolidé

FRF

Actif	1998 Brut	1998 amortissements et provisions	1998 Net	1997 Net
Actif immobilisé	-	-		-
Immobilisations incorporelles	-	-		-
Frais d'établissement	-	-		-
Frais de recherche et de développement	-	-		-
Fonds commercial	-	-		-
Autres	-	-		-
Avances et acomptes	-	-		-
Immobilisations corporelles				
Terrains	7,548,212	-	7,548,212	3,737,735
Constructions	30,435,908	1,786,532	28,649,376	28,086,319
Installations techniques, matériel	108,349,200	62,602,250	45,746,950	34,275,202
Autres	20,958,242	10,776,179	10,182,063	7,241,243
Immobilisations corporelles en cours	11,511,521	-	11,511,521	11,110,722
Avances et accomptes				
	178,803,083	75,164,961	103,638,122	84,451,221
Immobilisations financières				
Participations	-	-	-	-
Créances rattachées à des participations	-	-	-	-
Autres titres immobilisés	1,629	-	1,629	1,668
Prêts	-	-	-	-
Autres	-	-	-	-
	1,629	-	1,629	1,668
Total (I)	178,804,712	75,164,961	103,639,751	84,452,889
Actif circulant				
Stocks et en-cours	-	-	-	-
Matières premières et autres approvisionnements	-	-	-	-
En cours de production (biens)	-	-	-	-
En cours de production (services)	-	-	-	-
Produits intermédiaires et finis	-	-	-	-
Marchandises	-	-	-	64,807
	-	-	-	64,807
Prêts aux employés	11,928,278	-	11,928,278	5,023,468
Créances	-	-	-	-
Créances clients et comptes rattachés	-	-	-	-
Autres	66,100,435	2,391,858	63,708,577	28,250,255
Capital souscrit-appelé, non versé	-	-	-	-
Valeurs immobilères de placement				
Disponibilités	95,715,817	-	95,715,817	47,061,055
Comptes de régulation				
Charges constatées d'avance	26,041,417	-	26,041,417	19,342,933
Total II	199,785,947	2,391,858	197,394,089	99,742,518
Impôts et taxes à répartir sur plusieurs exercices (III)	6,765,905	-	6,765,905	2,162,886
Primes de remboursement des obligations (IV)	-	-	-	-
Ecart de conversion actif (V)	-	-	-	-
Total Général (I+II+III+IV+V)	385,356,564	77,556,819	307,799,745	186,358,293

FRF

Passif	1998	1997
Capitaux propres		
Capital social	12,867,960	11,690,287
Primes d'émission, de fusion, d'apport	66,277,819	55,963,614
Ecart de réévaluation	-	-
Réserves	-	-
Réserve légale	-	-
Réserves statutaires	-	-
Réserves réglementées	103,216	107,085
Autres	183,491,123	105,683,014
Report à nouveau	-	-
Résultat de l'exercice (Bénéfice ou perte)	-	-
Subventions d'investissement	-	-
Provisions réglementées	-	-
Total I	262,740,118	173,444,000
Provisions pour risques et charges	-	-
Provisions pour risques	-	-
Provisions pour charges	-	-
Total II	-	-
Dettes	-	-
Dettes financières	-	-
Emprunts obligataires convertibles	-	-
Autres emprunts obligataires	-	-
Emprunts et dettes auprès d'établissements de crédit	-	-
Emprunts et dettes financiers divers	-	-
Avances et accomptes reçus sur commande en cours	795,063	1,112,623
Dettes fournisseurs et comptes rattachés	925,458	710,296
Dettes fiscales et sociales	-	-
Dettes sur immobilisations et comptes rattachés	-	-
Autres dettes	28,758,759	11,091,374
Comptes de régularisation		
Produits constatés d'avance	-	-
Total III	30,479,280	12,914,293
Ecarts de conversion passif (IV)	1,296,759	-
Actions de préférence	13,283,588	
Total Général (I+II+III+IV)	307,799,745	186,358,293

Etats financiers préparés selon les principes comptables français (non vérifiés):

Compte de résultat consolidé

FRF

	1998	1997
Produits d'exploitation		
Vente de marchandises	25,918	880,760
Production vendue (biens et services)	402,848,816	207,160,657
Montant net du chiffre d'affaires	402,874,734	208,041,417
Production stockée	-	-
Production immobilisée	-	-
Subventions d'exploitation	-	-
Reprises sur provisions (et amortissements), transfert de charges		
Autres produits	-	-
Total I	402,874,734	208,041,417
Charges d'exploitation		
Achat de marchandises	20,508	549,554
Variation de stocks	-	-
Achat de matières premières et autres approvisionnements	-	-
Variation de stocks	-	-
Autres achats et charges externes	-	-
Impôts, taxes et versements assimilés	-	-
Salaires et traitements	147,368,647	76,376,936
Dotations aux amortissements et aux provisions:	-	-
Sur immobilisations: dotation aux amortissements	36,069,644	15,641,195
Sur immobilisations: dotation aux provisions	-	-
Sur actif circulant: dotation aux provisions	-	-
Pour risques et charges: dotation aux provisions	-	-
Autres charges	129,244,604	64,712,133
Total II	312,703,403	157,279,818
Résultat d'exploitation (I-II)	90,171,331	50,761,599
Quotes-parts de résultat sur opérations faites en commun		
Bénéfice ou perte transférée III	-	-
Perte ou bénéfice transféré IV	-	-
Produits financiers		
De participations	-	-
D'autres valeurs mobilières et créances de l'actif immobilisé	-	-
Intérêts et produits similaires	4,652,383	6,886,055
Reprises sur provisions et transfert de charges	-	-
Différences positives de change	-	-
Produits nets sur cessions de valeurs mobilières de placement		
Total V	4,652,383	6,886,055
Charges fiancières		
Dotations aux amortissements et aux provisions	-	-
Intérêts et charges assimilées	-	903,804
Différences négatives de change	-	-
Charges nettes sur cessions de valeurs mobilières de placement		
Total VI	-	903,804
Résultat financier (V-VI)	4,652,383	5,982,251
Résultat courant avant impôts (I-II+III-IV+V-VI)	94,823,714	56,743,850

FRF

	1998	1997
Produits exceptionnels		
Sur opérations de gestion	-	-
Sur opérations en capital		
Reprises sur provisions et transfert de charges	-	-
Total VII	-	-
Charges exceptionnelles	-	-
Sur opérations de gestion	-	-
Sur opérations en capital	-	-
Dotations aux amortissements et aux provisions	-	-
Total VIII	-	-
Résultat exceptionnel (VII-VIII)	-	-
Participation des salariés aux fruits de l'expansion IX	-	-
Impôt sur les bénéfices X	4,070,982	6,217,924
Total des produits (I+III+V+VII)	407,527,117	214,927,472
Total des charges (II+IV+VI+VIII+IX+X)	316,774,385	164,401,546
Dividendes préciputaires	395,554	-
Bénéfice ou perte	90,357,178	50,525,926

Notes:

1. Conversion en monnaie étrangère

Les états financiers de la société sont préparés en roupies indiennes. Ces états financiers ont été préparés en convertissant les revenus et dépenses au taux moyen pendant l'année; les actif et passif circulants, les immobilisations, les emprunts à long terme et acroissements des fonds propres sont calculés au taux moyen pendant l'année. La différence provenant des conversions est enregistrée en écart de conversion Actif/Passif.

2. Taux de change utilisé

Taux moyen de change utilisé	1 FRF=Rs. 6,36	1 FRF=Rs. 6,76
Taux de change de clôture utilisé	1 FRF=Rs. 6,36	1 FRF=Rs. 6,34

3. Rapprochement entre les états financiers établis selon les principes comptables indiens et français:

FRF

	1998	1997
Résultat net selon les principes comptables indiens en Rs	603,633,079	369,802,414
Résultat net selon les principes comptables indiens en FRF	94,910,861	54,704,499
Soustraction du revenu anormal provenant de la vente d' Eagle à la filiale	-	(5,310,651)
Soustraction du revenu net de la filiale inclus en consolidation	(9,163,504)	(896,427)
Addition des provisions pour impôts différés	4,609,821	2,028,505
Résultat net selon les principes comptables francais	90,357,178	50,525,926

Nach den allgemeingültigen Buchführungsmethoden (GAAP) erfaßter Finanzbericht (ungeprüft):

Konsolidierte Bilanz 31. März

Zahlen in DM

	1998		1997	
	Infosys	konsolidiert	Infosys	konsolidiert
AKTIVA				
Immaterielle Werte	-	-	-	-
Reale Aktiva	30,494,699	30,945,468	24,853,800	24,961,340
Finanzielle Aktiva	5,059,716	486	2,483,075	483
Feste Anlagen	35,554,415	30,945,954	27,336,875	24,961,823
Inventare	-	-	19,155	19,155
Außenstände	18,725,290	19,022,843	8,433,097	8,349,959
Andere Forderungen und vermischte Aktiva	9,341,606	9,436,449	6,349,822	6,411,112
Marktbare/verkaufbare Wertschriften und Scheine	-	-	-	-
Flüssige Mittel	24,010,315	28,579,934	13,416,409	13,909,888
Umlaufvermögen	52,077,211	57,039,226	28,218,483	28,690,114
Vorbezahlte Ausgaben und Steuerrückstellung	3,902,106	3,921,223	1,430,178	1,430,178
Aktiva Gesamt	91,533,732	91,906,403	56,985,536	55,082,115
STAMMAKTIEN UND VERBINDLICHKEITEN				
Zeichnungskapital	7,488,313	7,488,313	3,384,470	3,384,470
Kapitalreserven	19,360,994	19,276,094	16,202,137	16,202,137
Einkünftereserven	56,371,542	52,087,248	33,656,904	31,678,421
Gewinn, das nicht zugeteilt ist und für die Verteilung verfügbar ist	-	-	-	-
Minderheitsbeteiligung	-	-	-	-
Stammaktien	83,220,849	78,851,655	53,243,511	51,265,028
Einlösbare Vorzugsaktien	-	3,953,894	-	-
Gewinnbeteiligungsscheine (Nominale/Namensscheine)	-	-	-	-
Rückstellungen/Vorbehalte für Rente	-	-	-	-
andere Vorbehalte und Verbindlichkeiten	7,890,569	8,587,122	3,259,521	3,278,285
Vorbehalte und Verbindlichkeiten	7,890,569	8,587,122	3,259,521	3,278,285
Geschäftsschulden	184,915	276,334	182,899	209,943
Andere Verbindlichkeiten	237,399	237,398	299,605	328,859
Passiva	422,314	513,732	482,504	538,802
Einbehaltenes Einkommen	-	-	-	-
Passiva Gesamt	91,533,732	91,906,403	56,985,536	55,082,115

Nach den allgemeingültigen Buchführungsmethoden (GAAP) erfaßter Finanzbericht (ungeprüft):

Konsolidierte Gewinn und Verlustrechnung für das Geschäftsjahr beendet am 31. März

Zahlen in DM

	1998		1997	
	Infosys	konsolidiert	Infosys	konsolidiert
Nettoverkäufe	120,739,151	120,069,509	60,845,570	61,466,782
Verkaufskosten	70,235,817	70,329,431	35,251,181	35,254,682
Bruttogewinn	50,503,334	49,740,078	25,594,389	26,212,100
Verkaufs-, Verwaltungskosten und allgemeine Kosten	20,908,709	22,866,148	10,319,792	11,214,355
Andere Betriebseinkommen	-	-	-	-
Andere Betriebskosten	-	-	-	-
Betriebsgewinn	29,594,625	26,873,930	15,274,597	14,997,745
Finanzartikel	1,269,156	1,386,558	1,740,404	1,767,483
Ergebnisse der gewöhnlichen Aktivitäten	30,863,781	28,260,488	17,015,001	16,765,228
Außerordentliches Einkommen	-	-	1,569,056	-
Einkommen vor der Steuerung	30,863,781	28,260,488	18,584,057	16,765,228
Einkommenssteuer	1,203,446	1,213,282	1,822,033	1,837,114
Dividende zu Vorzugsaktien	-	117,888	-	-
Nettoeinkommen	29,660,335	26,929,318	16,762,024	14,928,114
Zuordnung zu Reserven für Einkünfte	26,037,056	23,306,040	15,017,136	13,183,226
Dividenden an Aktienbesitzer	3,623,279	3,623,278	1,744,888	1,744,888
Minderheitsbeteiligung	-	-	-	-
Nicht zugeordnetes Gewinn	-	-	-	-

Anmerkungen:

1. Fremdwährungumsetzung/-konvertierung

Die Rechnung der Firma wird in indische Rupien dargestellt, welche die Währung für Berichte ist. Diese Finanzauszüge werden nach der Umsetzung der Einkünfte und Ausgaben um den durchschnittlichen Satz während des Jahres, bereitgestellt. Umlaufvermögen, kurzfristige Verbindlichkeiten, Eigentum, Werke und Anlagen, langfristige Verpflichtungen und Ablagerungen an den Stammaktien zum Zinssatz, der am Jahresende besteht und langfristige Anlagen zum Zinssatz, der zur Zeit des Investitions besteht. Der Unterschied nach der Umsetzung wird unter Reserven gezeigt.

2. Verwendete Wechselkurse

	1998	1997
Durchschnittswechselkurs	1 DM = Rs. 21.34	1 DM = Rs. 22.88
Schlußwechselkurs	1 DM = Rs. 21.30	1 DM = Rs. 21.45

3. Beilegung zwischen indischen GAAP und deutschen GAAP Auszüge

Zahlen in DM

	1998		1997	
	Infosys	konsolidiert	Infosys	konsolidiert
Nettoeinkommen nach indischen GAAP in Rupien	603,633,079	603,633,079	369,802,414	369,802,414
Nettoeinkommen nach indischen GAAP in DM	28,286,461	28,286,461	16,162,693	16,162,693
abzüglich: Netto der anormalen Einkommen wegen des Verkaufs von dem Produkt Eagle an der Tochtergesellschaft	-	-	-	(1,569,056)
abzüglich: Nettoeinkommen/(Verlust) der Tochtergesellschaft eingeschlossen Konsolidierung	-	(2,731,016)		(264,854)
Hinzufügen: Vorbehalte für Steuerrückstellung	1,373,874	1,373,874	599,331	599,331
Gewinn des Geschäftsjahres nach dem deutschen GAAP	29,660,335	26,929,319	16,762,024	14,928,114

Financial statements prepared in substantial compliance with the UK GAAP (Unaudited):

Group Balance Sheet

for the year ended March 31

	1998	1997
	£	
Fixed assets		
Tangible fixed assets	9,991,488	9,062,639
Investments	157	175
	9,991,645	9,062,814
Current assets		
Stocks	-	6,955
Debtors	6,141,982	3,031,595
Cash at bank and in hand	9,227,719	5,050,222
Others - advances and prepayments	3,046,785	2,327,664
Deferred tax asset	652,284	232,104
	19,068,770	10,648,540
Creditors - amounts falling due within a year		
Creditors	89,221	76,223
Dividend	816,799	503,264
Provisions and other liabilities	2,032,410	806,373
	2,938,430	1,385,860
Net current assets	16,130,340	9,262,680
Loans and advance more than one year	613,777	287,146
Total assets less current liabilities	26,735,762	18,612,640
Capital and reserves		
Called up share capital	2,792,793	1,466,888
Share premium account	8,015,397	7,022,235
Retained profits	14,650,962	10,123,517
Equity shareholders' funds	25,459,152	18,612,640
Convertible preferred stock	1,276,610	
	26,735,762	18,612,640

Financial statements prepared in substantial compliance with the UK GAAP (Unaudited):

Group profit and loss account

for the years ended March 31

	1998	1997
	£	
Turnover	38,793,086	24,953,158
Operating expenses	30,110,426	18,864,648
Operating profit	8,682,660	6,088,510
Interest receivable	447,981	825,936
Interest payable	-	108,405
Net interest (payable)/receivable	447,981	717,531
Profit on ordinary activities before taxation	9,130,641	6,806,041
Taxation on profit on ordinary activities	391,998	745,798
Profit on ordinary activities after taxation	8,738,643	6,060,243
Dividend on preferred stock	38,088	-
Profit for the financial year	8,700,555	6,060,243
Dividends	1,170,640	708,358
Retained profits for the financial year	7,529,915	5,351,885
Earnings per ordinary share:		
Undiluted	0.57	0.42
Diluted	0.56	0.41

Notes:

1. The Company's financial statements are prepared in Indian rupees, the reporting currency. These financial statements have been prepared by translating revenue and expenditure at an average rate for the year; current assets, current liabilities, Property, plant and equipment, long-term borrowings at year-end rate; and accretions to stockholders' equity at an average rate for the year. The difference arising on translation is shown under Retained profits.

2. **Exchange rates used:**

	1998	1997
Average exchange rate used	1£ = Rs. 66.05	1£ = Rs. 56.36
Closing exchange rate used	1£ = Rs. 65.97	1£ = Rs. 59.08

3. **Reconciliation between the Indian GAAP and the UK GAAP statements:** £

	1998	1997
Net income as per Indian GAAP in Rs.	603,633,079	369,802,414
Net income as per Indian GAAP in £	9,139,032	6,561,434
Less: Extra-ordinary income arising out of sale of Product Eagle to Yantra Corporation	-	(636,977)
Less: Net income of subsidiary included on consolidation	(882,360)	(107,519)
Add: provision for deferred taxes	443,883	243,305
Profit for the financial year as per the UK GAAP	8,700,555	6,060,243

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