

Infosys Technologies Limited
Report for the third quarter ended December 31, 2003



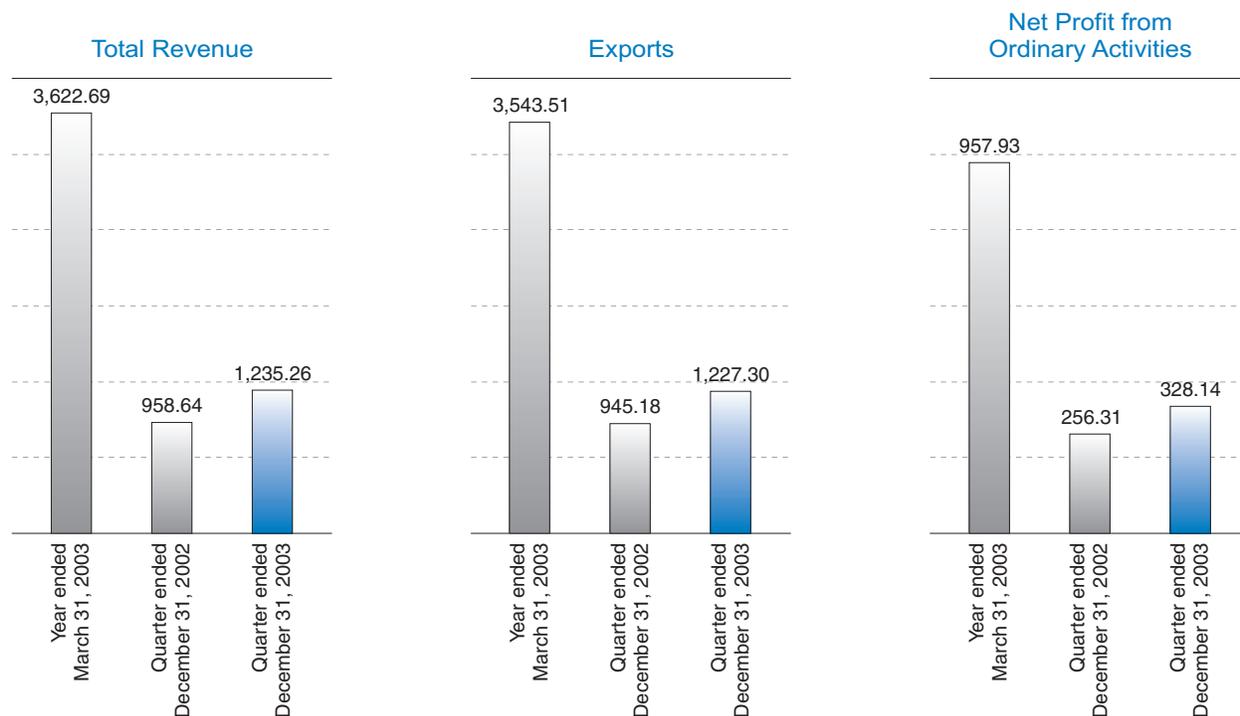
At a glance - Indian GAAP (Non-consolidated financials)

in Rs. crore, except per share data

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
For the period					
Total revenue	1,235.26	958.64	3,451.99	2,602.83	3,622.69
Export revenue	1,227.30	945.18	3,401.93	2,552.93	3,543.51
Operating profit (PBIDTA)	410.18	333.49	1,136.91	931.66	1,272.04
PBIDTA/revenues (%)	33.21 %	34.79 %	32.93 %	35.79 %	35.11 %
Profit after tax (PAT)	328.14	256.31	906.42	698.93	957.93
PAT/revenues (%)	26.56 %	26.74 %	26.26 %	26.85 %	26.44 %
Earnings per share* (par value of Rs. 5 each, fully paid)					
Basic	49.43	38.70	136.73	105.57	144.68
Diluted	48.54	38.22	135.43	104.70	143.37
Dividend per share	NA	NA	14.50	12.50	27.00
Dividend amount	NA	NA	96.09	82.76	178.81
Capital expenditure	85.19	50.86	212.39	148.66	219.26
At the end of the period					
Total assets			3,725.28	2,707.10	2,860.65
Fixed assets – net			816.22	754.91	772.72
Cash and cash equivalents			1,893.96	1,432.21	1,638.51
Working capital			2,260.67	1,883.96	2,017.92
Total debt			–	–	–
Net worth			3,725.28	2,707.10	2,860.65
Equity			33.23	33.11	33.12
Market capitalization			36,980.77	31,613.32	26,847.33

Note : Market capitalization is calculated by considering the share price at National Stock Exchange on the shares outstanding at the period/year end.

*EPS figures have been calculated for the period and have not been annualized.



Letter to the shareholder

Dear shareholder,

Your company is delighted to report another quarter of robust growth. It has increased its guidance for revenue and EPS for this fiscal. Indian GAAP revenues grew by 8.86% over Q2 FY2004, while net profits from ordinary activities witnessed an increase of 9.32%. Revenues in US GAAP terms grew by 9.7%, as compared to the quarter ended September 30, 2003. This quarter, your company saw a record cash addition. Free cash flows amounted to Rs. 344.25 crore.

This was an eventful quarter. Your company completed its first acquisition - Expert Information Systems Pty. Limited, Australia - and is working towards a seamless integration. This will accelerate its market penetration in Australia and provide enhanced value to its clients.

Your company has incorporated its wholly-owned subsidiary in the People's Republic of China, 'Infosys Technologies (Shanghai) Co. Limited'. The setting up of the software development center for 200 professionals in Shanghai is progressing well. The China subsidiary will be offering end-to-end software services to domestic as well as multinational companies operating in China.

Your company continued its focus on improving efficiency. At the same time, it completed its reorganization. This will enable it to face a new set of challenges – increased market expectations, a fast-changing economy, and a new competitive scenario. It will also help further empower the business units. Business opportunities continue to grow. Pricing has stabilized, as have margins. Your company's billing for two clients (on an LTM basis) has crossed \$ 50 million each.

This quarter saw the highest number of gross additions in terms of employees - 3,179, including 545 lateral hires. The net employee addition for the quarter stood at 2,689. In fact, 950,000 people applied to your company over the last twelve months. Clearly, it remains an employer of choice.

Your company added 30 new clients during the quarter. Significant wins include one of Canada's leading telecommunications companies, a premier telecommunications carrier in the Asia Pacific region, one of the world's premier media and entertainment companies, and a nationwide chain of superstores in the US. In addition, your company established a relationship with a global investment bank based in the UK.

High-tech companies are finding new ways of improving knowledge and expertise in cutting-edge technology. An industry leader providing global data and IP network and integration services for multinational businesses has engaged us in the design, development and support of its global CRM applications. The world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries also established a partnership with your company during the last quarter. Other significant client additions in this space include a world leader in integrated IT and eProcessing solutions for the financial services industry, and a corporation providing global automated international trade management solutions.

The Banking Business Unit (BBU) made considerable headway in several countries this quarter, including Mauritius and Zimbabwe. BBU also established its presence in China, with one of the leading banks choosing Finacle® for its branches. In addition, Finacle® has emerged as the world's most scalable open systems - based core-banking solution. In the recently concluded rigorous benchmarking exercise with Sun Microsystems, USA, Finacle® broke all published benchmark results for core banking transaction processing.

As in the past, your company continued to deepen its relationship with global corporations, helping them realize business benefits through the innovative use of technology. Its growth has been made possible through the unstinting commitment of all Infoscons. On your behalf, we thank them for contributing to yet another successful quarter.



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



S. Gopalakrishnan
Chief Operating Officer
and Deputy Managing Director

Bangalore
January 9, 2004

Auditors' report to the members of Infosys Technologies Limited

We have audited the attached Balance Sheet of Infosys Technologies Limited (the Company) as at December 31, 2003, the Profit and Loss Account and Cash Flow Statement of the Company for the quarter and nine months ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We report that :

- (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (b) in our opinion, proper books of account have been kept by the Company so far as appears from our examination of those books;
- (c) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards issued by the Institute of Chartered Accountants of India, to the extent applicable; and
- (e) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give a true and fair view in conformity with the accounting principles generally accepted in India :
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2003;
 - (ii) in the case of the Profit and Loss Account, of the profit of the Company for the quarter and nine months ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows of the Company for the quarter and nine months ended on that date.

for Bharat S. Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

Bangalore
January 9, 2004

Balance Sheet as at

in Rs. crore

	December 31, 2003	December 31, 2002	March 31, 2003
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	33.23	33.11	33.12
Reserves and surplus	3,692.05	2,673.99	2,827.53
	3,725.28	2,707.10	2,860.65
APPLICATION OF FUNDS			
FIXED ASSETS			
Original cost	1,481.83	1,194.24	1,273.32
Less : Depreciation and amortization	744.99	525.74	577.15
Net book value	736.84	668.50	696.17
Add : Capital work-in-progress	79.38	86.41	76.55
	816.22	754.91	772.72
INVESTMENTS	615.54	33.20	33.20
DEFERRED TAX ASSETS	32.85	35.03	36.81
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	683.87	487.32	512.14
Cash and bank balances	1,603.83	1,129.87	1,336.23
Loans and advances	945.50	948.47	872.78
	3,233.20	2,565.66	2,721.15
Less : Current liabilities	549.96	279.38	315.25
Provisions	422.57	402.32	387.98
NET CURRENT ASSETS	2,260.67	1,883.96	2,017.92
	3,725.28	2,707.10	2,860.65

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

for Bharat S. Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

N. R. Narayana Murthy
Chairman and Chief Mentor

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Chief Executive Officer, President
and Managing Director

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Chief Operating Officer and
Deputy Managing Director

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Philip Yeo
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Omkar Goswami
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Larry Pressler
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Rama Bijapurkar
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Sridar A. Iyengar
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K. Dinesh
Director

S. D. Shibulal
Director

T. V. Mohandas Pai
Director and
Chief Financial Officer

Srinath Batni
Director

Bangalore
January 9, 2004

V. Balakrishnan
Company Secretary and
Vice President – Finance

Profit and Loss Account for the

in Rs. crore, except per share data

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
INCOME					
Software services and products					
Overseas	1,227.30	945.18	3,401.93	2,552.93	3,543.51
Domestic	7.96	13.46	50.06	49.90	79.18
	1,235.26	958.64	3,451.99	2,602.83	3,622.69
SOFTWARE DEVELOPMENT EXPENSES	645.48	481.62	1,805.42	1,283.50	1,813.30
GROSS PROFIT	589.78	477.02	1,646.57	1,319.33	1,809.39
SELLING AND MARKETING EXPENSES	92.35	73.60	252.51	198.02	266.98
GENERAL AND ADMINISTRATION EXPENSES	87.25	69.93	257.15	189.65	270.37
	179.60	143.53	509.66	387.67	537.35
OPERATING PROFIT BEFORE INTEREST, DEPRECIATION AND AMORTIZATION	410.18	333.49	1,136.91	931.66	1,272.04
Interest	–	–	–	–	–
Depreciation and amortization	62.23	49.48	168.82	136.19	188.95
OPERATING PROFIT AFTER INTEREST, DEPRECIATION AND AMORTIZATION	347.95	284.01	968.09	795.47	1,083.09
Other income	47.48	29.80	124.21	72.22	99.61
Provision for investments	2.29	–	8.88	23.76	23.77
NET PROFIT BEFORE TAX	393.14	313.81	1,083.42	843.93	1,158.93
Provision for taxation	65.00	57.50	177.00	145.00	201.00
NET PROFIT AFTER TAX	328.14	256.31	906.42	698.93	957.93
AMOUNT AVAILABLE FOR APPROPRIATION	328.14	256.31	906.42	698.93	957.93
DIVIDEND					
Interim	–	–	96.09	82.76	82.76
Final	–	–	–	–	96.05
Dividend Tax	–	–	12.31	–	12.30
Amount transferred – general reserve	–	–	–	–	766.82
Balance in Profit and Loss Account	328.14	256.31	798.02	616.17	–
	328.14	256.31	906.42	698.93	957.93
EARNINGS PER SHARE (equity shares, par value Rs. 5/- each)					
Basic	49.43	38.70	136.73	105.57	144.68
Diluted	48.54	38.22	135.43	104.70	143.37
Number of shares used in computing earnings per share					
Basic	6,63,79,862	6,62,21,577	6,62,94,021	6,62,02,947	6,62,11,068
Diluted	6,76,07,893	6,70,57,160	6,69,29,068	6,67,55,529	6,68,16,821

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

for Bharat S. Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

N. R. Narayana Murthy
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Director

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Company Secretary and
Vice President – Finance

Bangalore
January 9, 2004

Cash Flow statement for the

in Rs. crore

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	393.14	313.81	1,083.42	843.93	1,158.93
Adjustments to reconcile profit before tax to cash provided by operating activities					
(Profit)/Loss on disposal of fixed assets	(0.01)	(0.08)	(0.02)	0.05	–
Depreciation and amortization	62.23	49.48	168.82	136.19	188.95
Interest and dividend income	(26.21)	(19.52)	(72.39)	(55.89)	(78.05)
Provision on long-term investments	2.29	–	8.88	23.76	23.77
Exchange differences on translation of foreign currency cash and cash equivalents	(4.95)	(1.04)	(1.09)	(2.43)	(2.06)
Changes in current assets and liabilities					
Sundry debtors	(106.61)	(29.07)	(171.73)	(150.59)	(175.41)
Loans and advances	16.73	(12.61)	15.21	(86.25)	(127.63)
Current liabilities and provisions	172.75	13.26	228.34	124.71	158.46
Income taxes paid during the period/year	(18.80)	(65.85)	(79.08)	(170.75)	(232.09)
NET CASH GENERATED BY OPERATING ACTIVITIES	490.56	248.38	1,180.36	662.73	914.87
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds on exercise of stock options	61.53	7.47	66.61	10.62	13.52
Dividends paid during the period/year, including dividend tax	(108.40)	(82.76)	(216.75)	(165.49)	(165.49)
NET CASH USED IN FINANCING ACTIVITIES	(46.87)	(75.29)	(150.14)	(154.87)	(151.97)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets and change in capital work-in-progress	(85.19)	(50.86)	(212.39)	(148.66)	(219.26)
Advance for acquisition of company	(50.75)	–	(50.75)	–	–
Proceeds on disposal of fixed assets	0.01	0.08	0.09	0.25	0.33
Investments in securities	(134.82)	–	(585.20)	(12.52)	(12.53)
Interest and dividend income	26.21	19.52	72.39	55.89	78.05
NET CASH USED IN INVESTING ACTIVITIES	(244.54)	(31.26)	(775.86)	(105.04)	(153.41)
Exchange differences on translation of foreign currency cash and cash equivalents	4.95	1.04	1.09	2.43	2.06
Net (decrease)/increase in cash and cash equivalents during the period/year	204.10	142.87	255.45	405.25	611.55
CASH AND CASH EQUIVALENTS					
AT THE BEGINNING OF THE PERIOD/YEAR	1,689.86	1,289.34	1,638.51	1,026.96	1,026.96
CASH AND CASH EQUIVALENTS					
AT THE END OF THE PERIOD/YEAR	1,893.96	1,432.21	1,893.96	1,432.21	1,638.51

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

for Bharat S. Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

N. R. Narayana Murthy
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Company Secretary and
Vice President – Finance

Bangalore
January 9, 2004

Schedules to the Profit and Loss Account for the

in Rs. crore

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
SOFTWARE DEVELOPMENT EXPENSES					
Salaries and bonus including overseas staff expenses	545.94	378.90	1,483.31	1,019.82	1,433.85
Staff welfare	3.76	2.13	9.75	5.42	7.91
Contribution to provident and other funds	12.79	8.43	36.53	21.70	31.94
Overseas travel expenses	41.11	41.52	125.79	119.80	162.66
Consumables	2.60	1.77	6.37	4.19	6.25
Cost of software packages					
for own use	14.50	22.21	49.57	43.27	54.75
for service delivery to clients	2.12	2.34	14.46	9.96	12.99
Computer maintenance	3.03	2.58	8.47	6.96	9.33
Communication expenses	7.73	5.73	23.66	17.99	23.94
Provision for post-sales client support	(0.21)	(3.76)	(0.36)	(4.06)	(6.18)
Consultancy charges	10.75	19.77	45.04	38.45	75.86
Rent	1.36	–	2.83	–	–
	645.48	481.62	1,805.42	1,283.50	1,813.30
SELLING AND MARKETING EXPENSES					
Salaries and bonus including overseas staff expenses	57.97	40.24	157.17	103.25	141.73
Staff welfare	0.15	0.16	0.38	0.47	0.62
Contribution to provident and other funds	0.27	0.23	1.44	0.47	1.34
Overseas travel expenses	11.53	12.25	29.57	30.84	45.16
Consumables	0.06	0.07	0.14	0.14	0.21
Cost of software packages for own use	–	0.01	0.01	0.04	0.21
Computer maintenance	–	–	0.02	–	0.01
Communication expenses	0.01	0.13	0.01	0.37	0.50
Traveling and conveyance	0.56	0.37	1.16	0.82	1.19
Rent	3.93	1.29	10.83	3.40	4.79
Telephone charges	1.45	1.40	3.74	3.92	5.35
Professional charges	1.32	3.03	4.06	8.27	10.63
Printing and stationery	0.25	0.25	0.77	1.02	1.43
Advertisements	0.04	0.33	0.28	0.73	1.04
Brand building	9.16	7.00	24.30	24.36	29.05
Office maintenance	0.08	1.66	0.19	2.16	2.72
Repairs to plant and machinery	–	–	–	–	0.02
Power and fuel	0.01	0.04	0.04	0.15	0.22
Insurance charges	0.03	0.03	0.07	0.06	0.20
Rates and taxes	0.01	0.02	0.04	0.25	0.27
Bank charges and commission	0.01	0.03	0.02	0.07	0.09
Commission charges	3.33	3.28	6.24	9.50	10.58
Marketing expenses	1.88	1.65	4.49	4.96	6.72
Sales promotion expenses	0.30	0.13	0.50	0.33	0.46
Other miscellaneous expenses	–	–	7.04	2.44	2.44
	92.35	73.60	252.51	198.02	266.98
GENERAL AND ADMINISTRATION EXPENSES					
Salaries and bonus including overseas staff expenses	19.14	15.35	53.40	41.73	56.24
Contribution to provident and other funds	1.06	0.88	3.35	2.42	3.49
Overseas travel expenses	1.26	1.70	4.83	5.65	7.78
Traveling and conveyance	5.77	4.47	15.28	11.13	16.76
Rent	3.96	6.75	14.73	17.50	24.51
Telephone charges	6.57	5.82	21.33	14.83	21.34
Professional charges	8.50	9.37	24.78	23.88	37.99
Printing and stationery	1.29	1.02	4.68	3.68	4.80
Advertisements	0.82	1.05	2.18	2.72	5.15
Office maintenance	7.10	5.03	19.65	12.94	20.13
Repairs to building	3.97	2.06	7.36	5.08	7.27
Repairs to plant and machinery	1.15	1.66	3.75	3.75	4.75
Power and fuel	7.48	5.66	21.87	16.64	22.38
Insurance charges	6.07	2.34	17.26	6.80	9.83
Rates and taxes	1.64	1.33	3.79	3.60	5.14
Donations	3.55	1.52	10.57	4.56	6.09
Auditor's remuneration					
audit fees	0.08	0.07	0.23	0.20	0.27
certification charges	–	–	–	–	0.03
out-of-pocket expenses	0.01	0.01	0.02	0.02	0.02
Provision for bad and doubtful debts	4.10	0.33	18.12	0.51	0.73
Provision for doubtful loans and advances	(0.06)	(0.02)	0.07	(0.07)	(0.07)
Bank charges and commission	0.19	0.18	0.54	0.50	0.66
Commission to non whole time directors	0.47	0.24	1.25	0.72	1.12
Postage and courier	0.84	1.03	2.78	3.00	3.99
Books and periodicals	0.44	0.32	1.02	0.97	1.42
Research grants	0.18	–	0.36	–	–
Freight charges	0.32	0.16	0.62	0.43	0.58
Professional membership and seminar participation fees	1.19	0.86	2.46	2.51	3.55
Other miscellaneous expenses	0.16	0.74	0.87	3.95	4.42
	87.25	69.93	257.15	189.65	270.37

Schedules to the Statement of Cash Flows for the

in Rs. crore

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
CHANGE IN LOANS AND ADVANCES					
As per the Balance Sheet	945.50	948.47	945.50	948.47	872.78
Less : Deposits with financial institutions and body corporate, included in cash and cash equivalents	(290.13)	(302.34)	(290.13)	(302.34)	(302.28)
Advance for acquisition of company	(50.75)	–	(50.75)	–	–
Advance income taxes separately considered	(339.32)	(407.00)	(339.32)	(407.00)	(289.99)
	265.30	239.13	265.30	239.13	280.51
Less : Opening balance considered	(282.03)	(226.52)	(280.51)	(152.88)	(152.88)
	(16.73)	12.61	(15.21)	86.25	127.63
CHANGE IN CURRENT LIABILITIES AND PROVISIONS					
As per the Balance Sheet	972.53	681.70	972.53	681.70	703.23
Add/(Less) : Provisions separately considered in the Cash Flow Statement					
Income taxes	(418.10)	(395.38)	(418.10)	(395.38)	(274.81)
Dividends	–	–	–	–	(96.05)
Dividend tax	–	–	–	–	(12.30)
Non Cash transactions	–	–	–	(24.50)	(24.50)
Proceeds received on investment pending regulatory approval	(6.02)	–	(6.02)	–	–
Less : Opening balance considered	(375.66)	(273.06)	(320.07)	(137.11)	(137.11)
	172.75	13.26	228.34	124.71	158.46
INCOME TAXES PAID					
Charge as per the Profit and Loss Account	65.00	57.50	177.00	145.00	201.00
Add : Increase in advance income taxes	(9.14)	65.85	49.33	170.75	53.74
Add : Increase/(Decrease) in Deferred taxes	(1.02)	1.45	(3.96)	10.81	12.59
Less : (Increase)/Decrease in income tax provision	(36.04)	(58.95)	(143.29)	(155.81)	(35.24)
	18.80	65.85	79.08	170.75	232.09
PURCHASES OF FIXED ASSETS AND CHANGE IN CAPITAL WORK-IN-PROGRESS					
As per the Balance Sheet	67.81	56.80	209.57	237.42	317.87
Less : Opening Capital work-in-progress	(62.00)	(92.35)	(76.56)	(150.67)	(150.67)
Less : Non Cash transaction	–	–	–	(24.50)	(24.50)
Add : Closing Capital work-in-progress	79.38	86.41	79.38	86.41	76.56
	85.19	50.86	212.39	148.66	219.26
INVESTMENTS IN SECURITIES					
As per the Balance Sheet	615.54	33.20	615.54	33.20	33.20
Add : Provisions on investments	2.29	–	8.88	23.76	23.77
Proceeds received on investment pending regulatory approval	(6.02)	–	(6.02)	–	–
	611.81	33.20	618.40	56.96	56.97
Less : Opening balance considered	(476.99)	(33.20)	(33.20)	(44.44)	(44.44)
	134.82	–	585.20	12.52	12.53
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR					
As per the Balance Sheet	1,603.83	1,129.87	1,603.83	1,129.87	1,336.23
Add : Deposits with financial institutions and body corporate, included herein	290.13	302.34	290.13	302.34	302.28
	1,893.96	1,432.21	1,893.96	1,432.21	1,638.51

1. Extracts of significant accounting policies and notes on accounts

Company overview

Infosys Technologies Limited ("Infosys") along with its subsidiaries Infosys Technologies (Shanghai) Co. Limited ("Infosys China") and Progeon Limited ("Progeon"), is a global technology and services organization engaged in delivering a comprehensive range of end-to-end solutions to customers. Infosys provides solutions across the entire software and process life-cycles including design, development, implementation, maintenance and management using its Global Delivery Model. Infosys offers the following services : consulting, software development, software re-engineering, systems integration, package evaluation and implementation, software maintenance, and Business Process Management services ("BPM"). Infosys also provides proprietary software products for the banking industry.

1.1 Significant accounting policies

1.1.1 Basis of preparation of financial statements

The accompanying financial statements are prepared in accordance with Indian Generally Accepted Accounting Principles ("GAAP") under the historical cost convention on the accruals basis. GAAP comprises mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI"), the provisions of the Companies Act, 1956 and guidelines issued by the Securities and Exchange Board of India. These accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted by the company. Management evaluates the effect of accounting standards issued on an on-going basis and ensures they are adopted as mandated by the ICAI. There are no recently issued accounting standards that management believes have a material impact on the financial statements of the company.

1.2 Notes on accounts

All amounts in the financial statements are presented in Rupees crore, except for per share data and as otherwise stated. All exact amounts are stated with the suffix "%-". One crore equals 10 million.

The previous period's/year's figures have been regrouped/reclassified, wherever necessary to conform to the current period's/year's presentation.

1.2.1 Aggregate expenses

The following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Companies Act, 1956.

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
Salaries and bonus including overseas staff expenses	623.05	434.49	1,693.88	1,164.80	1,631.82
Contribution to provident and other funds	14.12	9.54	41.32	24.59	36.77
Staff welfare	3.91	2.29	10.13	5.89	8.53
Overseas travel expenses	53.90	55.47	160.19	156.29	215.60
Consumables	2.66	1.84	6.51	4.33	6.46
Cost of software packages					
for own use	14.50	22.22	49.58	43.31	54.96
for service delivery to clients	2.12	2.34	14.46	9.96	12.99
Computer maintenance	3.03	2.58	8.49	6.96	9.34
Communication expenses	7.74	5.86	23.67	18.36	24.44
Consultancy charges	10.75	19.77	45.04	38.45	75.86
Provision for post-sales client support	(0.21)	(3.76)	(0.36)	(4.06)	(6.18)
Traveling and conveyance	6.33	4.84	16.44	11.95	17.95
Rent	9.25	8.04	28.39	20.90	29.30
Telephone charges	8.02	7.22	25.07	18.75	26.69
Professional charges	9.82	12.40	28.84	32.15	48.62
Printing and stationery	1.54	1.27	5.45	4.70	6.23
Advertisements	0.86	1.38	2.46	3.45	6.19
Office maintenance	7.18	6.69	19.84	15.10	22.85
Repairs to building	3.97	2.06	7.36	5.08	7.27
Repairs to plant and machinery	1.15	1.66	3.75	3.75	4.77
Power and fuel	7.49	5.70	21.91	16.79	22.60
Brand building	9.16	7.00	24.30	24.36	29.05
Insurance charges	6.10	2.37	17.33	6.86	10.03
Rates and taxes	1.65	1.35	3.83	3.85	5.41
Commission charges	3.33	3.28	6.24	9.50	10.58
Donations	3.55	1.52	10.57	4.56	6.09
Auditor's remuneration					
– audit fees	0.08	0.07	0.23	0.20	0.27
– certification charges	–	–	–	–	0.03
– out-of-pocket expenses	0.01	0.01	0.02	0.02	0.02
Provision for bad and doubtful debts	4.10	0.33	18.12	0.51	0.73
Provision for doubtful loans and advances	(0.06)	(0.02)	0.07	(0.07)	(0.07)
Bank charges and commission	0.20	0.21	0.56	0.57	0.75
Commission to non-whole time directors	0.47	0.24	1.25	0.72	1.12
Postage and courier	0.84	1.03	2.78	3.00	3.99
Books and periodicals	0.44	0.32	1.02	0.97	1.42
Research grants	0.18	–	0.36	–	–
Freight charges	0.32	0.16	0.62	0.43	0.58
Professional membership and seminar participation fees	1.19	0.86	2.46	2.51	3.55
Marketing expenses	1.88	1.65	4.49	4.96	6.72
Sales promotion expenses	0.30	0.13	0.50	0.33	0.46
Other miscellaneous expenses	0.16	0.74	7.91	6.39	6.86
	825.08	625.15	2,315.08	1,671.17	2,350.65

1.2.2 Obligations on long-term, non-cancelable operating leases

The lease rentals charged during the period and maximum obligations on long-term non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows :

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
Lease rentals recognized during the period/year	9.25	8.04	28.39	20.90	29.30

Lease obligations	As at		
	December 31, 2003	December 31, 2002	March 31, 2003
Within one year of the Balance Sheet date	27.84	17.96	17.93
Due in a period between one year and five years	65.00	40.05	36.00
Due after five years	6.60	5.40	7.00
	99.44	63.41	60.93

The operating lease arrangements extend for a maximum of ten years from their respective dates of inception and relates to rented overseas premises and car rentals.

Lease rental commitments on a contract with Progeon, as at December 31, 2003 and December 31, 2002 due to Infosys within one year of the Balance Sheet date amounted to Rs. 8.02 and Rs. 2.46 and due in the period between one and five years amounted to Rs. 11.48 and Rs. 3.76 respectively. The lease for premises extends for a maximum period of five years from quarter ended June 30, 2002 (the period of inception).

The sub-lease rentals received from Progeon during the quarter and nine months ended December 31, 2003 amounted to Rs. 0.39 and Rs. 0.53.

Fixed assets stated below have been provided on operating lease to Progeon, as at [December 31, 2003](#) and *December 31, 2002* and March 31, 2003.

Particulars	Cost	Accumulated depreciation	Net book value
Building	10.24	1.14	9.10
	10.13	0.45	9.68
	10.21	0.62	9.59
Plant and machinery	3.76	1.34	2.42
	2.06	0.40	1.66
	2.94	0.70	2.24
Computers	1.23	0.91	0.32
	0.85	0.32	0.53
	0.85	0.49	0.36
Furniture & fixtures	5.60	2.07	3.53
	1.74	0.50	1.24
	2.64	0.88	1.76
Total	20.83	5.46	15.37
	14.78	1.67	13.11
	16.64	2.69	13.95

The aggregate depreciation charged on the above during the quarter and nine months ended December 31, 2003, amounted to Rs. 1.03 and Rs. 2.77 (for the quarter and nine months ended December 31, 2002 was Rs. 0.75 and Rs. 1.67 and for the year ended March 31, 2003 was Rs. 2.69). The rental income from Progeon for the quarter and nine months ended December 31, 2003 amounted to Rs. 1.61 and Rs. 4.43 (for the quarter and nine months ended December 31, 2002 was Rs. 0.61 and Rs. 1.16 and for the year ended March 31, 2003 was Rs. 1.96).

1.2.3 Related party transactions

The company entered into related party transactions with the Progeon. The transactions are set out below.

Particulars	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
Capital transactions :					
Financing transactions - amount paid to Progeon for issue of 1,22,49,993 fully paid equity shares of Rs 10/- each at par	-	-	-	12.25	12.25
Rental deposit placed	-	-	1.61	-	-
Revenue transactions :					
Purchase of services	-	-	0.14	2.08	2.08
	-	-	0.14	2.08	2.08
Sale of services					
Business consulting services	0.04	1.83	0.08	2.94	3.56
Shared services including facilities and personnel	3.08	2.95	9.49	5.32	9.61
	3.12	4.78	9.57	8.26	13.17

The company entered into related party transactions with Infosys China. The transactions are set out below.

Particulars	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
Capital transactions :					
Financing transactions – amount remitted towards capital	4.54	–	4.54	–	–

The company has an alliance with Supplychainge Inc., USA to jointly market and deliver lead-time optimization solutions. Prof. Marti G. Subrahmanyam, an external director of the company, is also a director on the board of Supplychainge Inc. During the quarter, nine months ended December 31, 2003 and year ended March 31, 2003, the company paid Rs. nil, Rs. 0.71 and Rs. nil respectively to Supplychainge Inc., towards marketing services under this alliance. Additionally, amount receivable from Supplychainge Inc., as at December 31, 2003 amounted to Rs. nil (as at December 31, 2002 Rs. 0.03 and March 31, 2003 Rs. 0.03) an amount that has been outstanding for a period exceeding six months and fully provided.

During the quarter and nine months ended December 31, 2003 an amount of Rs. 3.50 and Rs. 10.50 respectively has been donated to Infosys Foundation a not-for-profit trust, in which certain directors of the company are trustees. Donation to the Foundation for the quarter and nine months ended December 31, 2002 and year ended March 31, 2003 were Rs. 1.50, Rs. 4.03 and Rs. 5.53 respectively.

1.2.4 Transactions with key management personnel

Key management personnel comprise our directors and statutory officers.

Particulars of remuneration and other benefits provided to key management personnel

Particulars of remuneration and other benefits provided to key management personnel during the quarters ended December 31, 2003, 2002, nine months ended December 31, 2003, 2002 and the year ended March 31, 2003, are set out below.

	Salary	Contributions to provident and other funds	Perquisites and incentives	Total remuneration
Executive directors				
Quarter ended December 31, 2003	0.30	0.06	0.33	0.69
Quarter ended December 31, 2002	0.42	0.06	1.88	2.36
Nine months ended December 31, 2003	1.00	0.18	0.74	1.92
Nine months ended December 31, 2002	2.19	0.12	3.24	5.55
Year ended March 31, 2003	2.61	0.18	3.30	6.09

	Commission	Sitting fees	Reimbursement of expenses	Total remuneration
Independent directors				
Quarter ended December 31, 2003	0.08	0.02	0.06	0.16
Quarter ended December 31, 2002	–	0.02	0.11	0.13
Nine months ended December 31, 2003	1.21	0.02	0.26	1.49
Nine months ended December 31, 2002	0.89	0.04	0.37	1.30
Year ended March 31, 2003	0.89	0.05	0.42	1.36

	Salary	Contributions to provident and other funds	Perquisites and incentives	Total remuneration	Total loans granted	Outstanding loans and advances
Other key managerial personnel						
Quarter ended December 31, 2003	0.03	0.01	0.08	0.12	–	–
Quarter ended December 31, 2002	0.01	–	0.04	0.05	–	–
Nine months ended December 31, 2003	0.09	0.03	0.17	0.29	–	–
Nine months ended December 31, 2002	0.04	0.01	0.08	0.13	–	–
Year ended March 31, 2003	0.06	0.02	0.09	0.17	–	–

In addition, the details of the options granted to non-whole-time directors and other senior officers during the quarters ended December 31, 2003, 2002, nine months ended December 31, 2003, 2002 and the year ended March 31, 2003 are as follows :

Name	Date of Grant	Option plan	Number of options granted	Exercise price (in Rs.)	Expiration of options
Non-whole-time directors					
Claude Smadja	July 10, 2002	1999	2,000	3,333.65	July 09, 2012
Sridar A. Iyengar	April 10, 2003	1999	2,000	3,049.75	April 09, 2013

1.2.5 Pro forma disclosures relating to the Employee Stock Option Plans (“ESOPs”)

The company's 1994 stock option plan was established prior to the SEBI guidelines on stock options.

Had the stock compensation costs for this stock option plan been determined as per the guidelines issued by SEBI, the company's reported net profit would have been reduced to the pro forma amounts indicated below.

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
Net profit :					
– As reported	328.14	256.31	906.42	698.93	957.93
– Adjusted pro forma	325.07	250.31	893.42	680.80	934.76

1.2.6 Fixed assets

The company has entered into lease-cum-sale agreements to acquire certain properties. In accordance with the terms of these agreements, the company has the option to purchase the properties on expiry of the lease period. The company has already paid 99% of the value of the properties at the time of entering into the lease-cum-sale agreements. These amounts are disclosed as "Land - leasehold" under "Fixed assets" in the financial statements. Additionally, certain land has been purchased for which the company has possession certificate for which sale deeds are yet to be executed as at December 31, 2003.

During the year ended March 31, 2003, the company entered into several arrangements to purchase Intellectual Property Rights ("IPR"). These primarily included : The purchase of IPR in the Trade IQ, a treasury management product, from IQ Financial Systems Inc., USA ("IQFS") for a consideration of Rs. 16.97 (US\$ 3.47 million).

An agreement to purchase IPR in AUTOLAY, a commercial software application product, with the Aeronautical Development Agency, India ("ADA"). The company has a firm commitment to share revenues with ADA for a maximum of US\$ 5 million (Rs. 24.50) payable by 10 years from the contract date after which the ownership of intellectual property in AUTOLAY will transfer to the company.

Purchase of a non-exclusive global license in ILink, a signature display software, from Integra Microsystems Private Limited, for Rs. 0.65.

During the nine months ended December 31, 2003, management reduced the remaining estimated useful life of the intellectual property in a commercial software application product to three months, effective August 2003 and treasury management product to two months, effective November 2003. The revised estimation represents management's present evaluation of the expected future commercial benefits from these products. The revision has resulted in an increased charge to the profit-and-loss account of Rs. 8.57 crore and Rs. 20.28 crore in the quarter and nine months ended December 31, 2003.

1.2.7 Investment activity

The following are the particulars of strategic investments made during the quarters and nine months ended December 31, 2003 and December 31, 2002, and year ended March 31, 2003 respectively :

Particulars of investee companies	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
Progeon Limited, India	–	–	–	12.25	12.25
Infosys Technologies (Shanghai) Co. Limited, China	4.54	–	4.54	–	–
M-Commerce Ventures Pte. Limited, Singapore *	–	–	0.19	0.27	0.27
	4.54	–	4.73	12.52	12.52

*Net of redemptions

Progeon was incorporated on April 3, 2002, and is a majority owned and controlled subsidiary, established to provide Business Process Management and transition services. As at the balance sheet date, the company has invested Rs. 12.25 in 1,22,49,993 fully paid equity shares in Progeon of face value Rs. 10/- each, at par. Progeon seeks to leverage the benefits of service delivery globalization, process redesign and technology to drive efficiency and cost effectiveness in customer business processes. Progeon obtained its financial closure by securing funding of Rs. 49.00 from Citicorp International Finance Corporation, USA ("CIFC") in exchange for 43,75,000 cumulative, convertible, redeemable preferred shares of face value Rs. 100/- at a premium of Rs. 12/- per share. The preference shares are convertible to an equal number of equity shares based on certain events as agreed between the company and CIFC.

The company received Rs. 0.35 towards return of premium of S\$ 1,110/- each on 126 redeemable preference shares of face value of S\$ 1/- each during the quarter ended September 30, 2003 from M-Commerce. Accordingly, the aggregate investment in M-Commerce as at December 31, 2003 amounts to Rs. 2.30.

Current liabilities include an amount of Rs. 6.02 received from CiDRA Corporation, USA on a buy back offer which is pending approval from regulatory authorities.

During the nine months ended December 31, 2003, Infosys received Rs. 3.27 from Workadia Inc., and Rs. 0.46 from Stratify Inc., towards recovery of the amounts invested. The remainder of the investment was written off in the quarter ended December 31, 2003.

1.2.8 Contingent liability

During the quarter ended September 30, 2003, Ms. Jennifer Griffith, a former employee, filed a lawsuit against the company and its former director, Mr. Phaneesh Murthy. The lawsuit was served on the company during the quarter ended December 31, 2003. Management is reviewing the allegations. Based on its present knowledge of facts, management estimates that the lawsuit will not have material impact on the result of operation or financial position of the company.

1.2.9 Segment reporting

The company's operations predominantly relate to providing IT services, delivered to customers globally operating in various industry segments. Accordingly, IT service revenues represented along industry classes comprise the primary basis of segmental information set out in these financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers.

The accounting principles consistently used in the preparation of the financial statements are also consistently applied to record income and expenditure in individual segments. These are as set out in the note on significant accounting policies.

Industry segments at the company are primarily financial services comprising customers providing banking, finance and insurance services; manufacturing companies; companies in the telecommunications and the retail industries; and others such as utilities, transportation and logistics companies.

Income and direct expenses in relation to segments is categorized based on items that are individually identifiable to that segment, while the remainder of the costs

are categorized in relation to the associated turnover of the segment. Certain expenses such as depreciation, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. The company believes that it is not practical to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and directly charged against total income.

Fixed assets used in the company's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments. Accordingly, no disclosure relating to total segment assets and liabilities are made.

Customer relationships are driven based on the location of the respective client. North America comprises the United States of America, Canada and Mexico; Europe includes continental Europe (both the east and the west), Ireland and the United Kingdom; and the Rest of the World comprising all other places except, those mentioned above and India.

Geographical revenues are segregated based on the location of the customer who is invoiced or in relation to which the revenue is otherwise recognized.

Industry segments

Quarter ended [December 31, 2003](#) and [December 31, 2002](#)

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	457.86	178.85	183.84	151.98	262.73	1,235.26
	360.79	166.23	134.60	112.82	184.20	958.64
Identifiable operating expenses	190.06	80.49	74.24	57.44	109.49	511.72
	138.26	64.45	46.43	34.97	71.42	355.53
Allocated expenses	116.14	45.37	46.64	38.56	66.65	313.36
	104.91	45.80	37.08	31.08	50.75	269.62
Segmental operating income	151.66	52.99	62.96	55.98	86.59	410.18
	117.62	55.98	51.09	46.77	62.03	333.49
Unallocable expenses						62.23
						49.48
Operating income						347.95
						284.01
Other income (expense), net						45.19
						29.80
Net profit before taxes						393.14
						313.81
Income taxes						65.00
						57.50
Net profit after taxes						328.14
						256.31

Nine months ended [December 31, 2003](#) and [December 31, 2002](#)

Revenues	1,295.09	522.28	511.59	413.70	709.33	3,451.99
	982.25	442.36	379.19	300.59	498.44	2,602.83
Identifiable operating expenses	546.67	228.11	204.99	154.06	292.37	1,426.20
	395.17	179.90	129.93	94.94	187.69	987.63
Allocated expenses	333.54	134.52	131.76	106.51	182.55	888.88
	267.21	113.73	97.26	77.28	128.06	683.54
Segmental operating income	414.88	159.65	174.84	153.13	234.41	1,136.91
	319.87	148.73	152.00	128.37	182.69	931.66
Unallocable expenses						168.82
						136.19
Operating income						968.09
						795.47
Other income (expense), net						115.33
						48.46
Net profit before taxes						1,083.42
						843.93
Income taxes						177.00
						145.00
Net profit after taxes						906.42
						698.93

Year ended March 31, 2003

Revenues	1,355.94	597.84	543.19	414.54	711.18	3,622.69
Identified operating expenses	546.77	243.93	186.18	132.45	264.64	1,373.97
Allocated expenses	377.31	157.77	143.72	109.56	188.32	976.68
Segmental operating income	431.86	196.14	213.29	172.53	258.22	1,272.04
Unallocable expenses						188.95
Operating income						1,083.09
Other income (expense), net						75.84
Net profit before taxes						1,158.93
Income taxes						201.00
Net profit after taxes						957.93

Geographic segments

Quarter ended [December 31, 2003](#) and [December 31, 2002](#)

	North America	Europe	India	Rest of the World	Total
Revenues	891.80	253.86	7.96	81.64	1,235.26
	708.47	157.71	13.46	79.00	958.64
Identifiable operating expenses	369.54	101.98	2.80	37.40	511.72
	281.61	51.84	4.58	17.50	355.53
Allocated expenses	226.23	64.40	2.02	20.71	313.36
	198.14	41.96	7.72	21.80	269.62
Segmental operating income	296.03	87.48	3.14	23.53	410.18
	228.72	63.91	1.16	39.70	333.49
Unallocable expenses					62.23
					49.48
Operating income					347.95
					284.01
Other income (expense), net					45.19
					29.80
Net profit before taxes					393.14
					313.81
Income taxes					65.00
					57.50
Net profit after taxes					328.14
					256.31

Nine months ended [December 31, 2003](#) and [December 31, 2002](#)

Revenues	2,535.05	647.61	50.06	219.27	3,451.99
	1,909.05	450.15	49.90	193.73	2,602.83
Identifiable operating expenses	1,064.33	260.44	15.70	85.73	1,426.20
	758.31	155.01	17.18	57.13	987.63
Allocated expenses	652.85	166.64	12.94	56.45	888.88
	496.98	114.76	18.76	53.04	683.54
Segmental operating income	817.87	220.53	21.42	77.09	1,136.91
	653.76	180.38	13.96	83.56	931.66
Unallocable expenses					168.82
					136.19
Operating income					968.09
					795.47
Other income (expense), net					115.33
					48.46
Net profit before taxes					1,083.42
					843.93
Income taxes					177.00
					145.00
Net profit after taxes					906.42
					698.93

Year ended March 31, 2003

Revenues	2,637.51	641.58	79.18	264.42	3,622.69
Identifiable operating expenses	1,052.82	224.82	19.79	76.54	1,373.97
Allocated expenses	704.20	169.21	30.01	73.26	976.68
Segmental operating income	880.49	247.55	29.38	114.62	1,272.04
Unallocable expenses					188.95
Operating income					1,083.09
Other income (expense), net					75.84
Net profit before taxes					1,158.93
Income taxes					201.00
Net profit after taxes					957.93

1.2.10 Reconciliation of basic and diluted shares used in computing earnings per share

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
Number of shares considered as basic weighted average shares outstanding	6,63,79,862	6,62,21,577	6,62,94,021	6,62,02,947	6,62,11,068
Add : Effect of dilutive issues of shares/stock options	12,28,031	8,35,583	6,35,047	5,52,582	6,05,753
Number of shares considered as weighted average shares and potential shares outstanding	6,76,07,893	6,70,57,160	6,69,29,068	6,67,55,529	6,68,16,821

Consolidated financial statements of Infosys Technologies Limited and its subsidiaries

Principles of consolidation

The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under the accounting standard on Consolidated Financial Statements issued by the ICAI. The financial statements of the parent company, Infosys, and its subsidiaries, Infosys Technologies (Shanghai) Co. Limited ("Infosys China") and Progeon Limited ("Progeon") have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealized gains/losses. The consolidated financial statements are prepared applying uniform accounting policies in use at Infosys, Progeon and Infosys China.

Management's Statement on significant accounting policies contained in the audited financial statements.

There are no changes in the accounting policies during the quarter ended December 31, 2003. The significant accounting policies of the company relate to revenue recognition, expenditure, fixed assets and capital work-in-progress, depreciation, retirement benefits to employees—principally gratuity, superannuation and provident fund benefits, research and development, income tax, earning per share, foreign currency transactions and investments.

A complete set of the audited consolidated financial statements is available at www.infosys.com.

Auditors' report to the Board of Directors on the Consolidated Financial Statements of Infosys Technologies Limited and its subsidiaries

We have audited the attached consolidated balance sheet of Infosys Technologies Limited (the Company) and its subsidiaries as at December 31, 2003, and also the consolidated profit and loss account and the consolidated cash flow statement for the quarter and nine months ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India :

- (a) in the case of the consolidated balance sheet, of the state of affairs of Infosys Technologies Limited and its subsidiaries as at December 31, 2003;
- (b) in the case of the consolidated profit and loss account, of the profit of Infosys Technologies Limited and its subsidiaries for the quarter and nine months ended on that date; and
- (c) in the case of the consolidated cash flow statement, of the cash flows of Infosys Technologies Limited and its subsidiaries for the quarter and nine months ended on that date.

for Bharat S. Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

Bangalore
January 9, 2004

Consolidated Balance Sheet as at

in Rs. crore

	December 31, 2003	December 31, 2002	March 31, 2003
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	33.23	33.11	33.12
Reserves and surplus	3,690.87	2,670.09	2,824.37
	3,724.10	2,703.20	2,857.49
Preference shares issued by subsidiary	49.00	49.00	49.00
	3,773.10	2,752.20	2,906.49
APPLICATION OF FUNDS			
FIXED ASSETS			
Original cost	1,499.00	1,199.09	1,279.04
Less : Depreciation and amortization	749.88	526.48	578.54
Net book value	749.12	672.61	700.50
Add : Capital work-in-progress	80.47	86.42	77.39
	829.59	759.03	777.89
INVESTMENTS	614.01	20.95	20.95
DEFERRED TAX ASSETS	32.85	35.03	36.81
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	696.96	491.56	518.65
Cash and bank balances	1,616.99	1,138.72	1,346.54
Loans and advances	961.69	991.57	913.46
	3,275.64	2,621.85	2,778.65
Less : Current liabilities	555.71	282.17	319.60
Provisions	423.28	402.49	388.21
NET CURRENT ASSETS	2,296.65	1,937.19	2,070.84
	3,773.10	2,752.20	2,906.49

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

for Bharat S. Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

N. R. Narayana Murthy
Chairman and Chief Mentor

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

S. Gopalakrishnan
Chief Operating Officer and
Deputy Managing Director

Deepak M. Satwalekar
Director

Marti G. Subrahmanyam
Director

Philip Yeo
Director

Omkar Goswami
Director

Larry Pressler
Director

Rama Bijapurkar
Director

Claude Smadja
Director

Sridar A. Iyengar
Director

K. Dinesh
Director

S. D. Shibulal
Director

T. V. Mohandas Pai
Director and
Chief Financial Officer

Srinath Batni
Director

Bangalore
January 9, 2004

V. Balakrishnan
Company Secretary and
Vice President – Finance

Consolidated Profit and Loss Account for the

in Rs. crore, except per share data

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
INCOME - Software services, products and business process management					
Overseas	1,249.09	951.56	3,453.53	2,560.41	3,564.36
Domestic	7.92	13.46	49.98	49.90	75.62
	1,257.01	965.02	3,503.51	2,610.31	3,639.98
Software development and business process management expenses	656.70	486.04	1,831.58	1,289.46	1,822.96
GROSS PROFIT	600.31	478.98	1,671.93	1,320.85	1,817.02
SELLING AND MARKETING EXPENSES	94.89	75.09	259.23	200.61	271.73
GENERAL AND ADMINISTRATION EXPENSES	92.33	71.21	267.66	192.59	275.67
	187.22	146.30	526.89	393.20	547.40
OPERATING PROFIT BEFORE INTEREST, DEPRECIATION AND AMORTIZATION	413.09	332.68	1,145.04	927.65	1,269.62
Interest	-	-	-	-	-
Depreciation and amortization	63.75	50.05	172.32	136.93	190.34
OPERATING PROFIT AFTER INTEREST, DEPRECIATION AND AMORTIZATION	349.34	282.63	972.72	790.72	1,079.28
Other income	46.46	29.78	121.56	73.07	100.26
Provision for investments	2.29	-	8.88	23.76	23.77
NET PROFIT BEFORE TAX	393.51	312.41	1,085.40	840.03	1,155.77
Provision for taxation	65.00	57.50	177.00	145.00	201.00
NET PROFIT AFTER TAX	328.51	254.91	908.40	695.03	954.77
AMOUNT AVAILABLE FOR APPROPRIATION	328.51	254.91	908.40	695.03	954.77
DIVIDEND					
Interim	-	-	96.09	82.76	82.76
Final (Subject to deduction of tax, if any)	-	-	-	-	96.05
Dividend tax	-	-	12.31	-	12.30
Amount transferred - general reserve	-	-	-	-	763.66
Balance in Profit and Loss Account	328.51	254.91	800.00	612.27	-
	328.51	254.91	908.40	695.03	954.77
EARNINGS PER SHARE (Equity shares, par value Rs. 5/- each)					
Basic	49.49	38.49	137.03	104.98	144.20
Diluted	48.59	38.01	135.73	104.12	142.89
Number of shares used in computing earnings per share					
Basic	6,63,79,862	6,62,21,577	6,62,94,021	6,62,02,947	6,62,11,068
Diluted	6,76,07,893	6,70,57,160	6,69,29,068	6,67,55,529	6,68,16,821

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

for Bharat S. Raut & Co.

Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

N. R. Narayana Murthy
Chairman and Chief Mentor

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Chief Executive Officer, President
and Managing Director

S. Gopalakrishnan
Chief Operating Officer and
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T. V. Mohandas Pai
Director and
Chief Financial Officer

Srinath Batni
Director

V. Balakrishnan
Company Secretary and
Vice President - Finance

Bangalore
January 9, 2004

Consolidated Cash Flow Statement for the

in Rs. crore

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	393.51	312.41	1,085.40	840.03	1,155.77
Adjustments to reconcile profit before tax to cash provided by operating activities					
(Profit)/Loss on sale of fixed assets	(0.01)	(0.08)	(0.02)	0.05	(0.01)
Depreciation and amortization	63.75	50.05	172.32	136.93	190.34
Interest and dividend income	(26.59)	(20.37)	(73.81)	(57.87)	(80.67)
Provisions on long-term investments	2.29	–	8.88	23.76	23.77
Exchange differences on translation of foreign currency cash and cash equivalents	(4.95)	0.01	(1.09)	(2.46)	(2.06)
Changes in current assets and liabilities					
Sundry debtors	(104.37)	(31.83)	(178.31)	(154.83)	(181.92)
Loans and advances	21.89	(13.82)	16.45	(88.92)	(132.38)
Current liabilities and provisions	173.33	10.97	230.22	127.67	163.04
Income taxes paid during the period/year	(18.89)	(66.11)	(79.40)	(171.16)	(232.54)
NET CASH GENERATED BY OPERATING ACTIVITIES	499.96	241.23	1,180.64	653.20	903.34
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of preference share capital	–	–	–	49.00	49.00
Proceeds on exercise of stock options	61.53	7.47	66.61	10.62	13.52
Dividends paid during the period/year, including dividend tax	(108.40)	(82.76)	(216.75)	(165.49)	(165.49)
NET CASH USED IN FINANCING ACTIVITIES	(46.87)	(75.29)	(150.14)	(105.87)	(102.97)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets and change in capital work-in-progress	(90.50)	(52.33)	(224.26)	(153.52)	(225.82)
Advance for acquisition of company	(50.75)	–	(50.75)	–	–
Proceeds on disposal of fixed assets	0.02	0.08	0.26	0.25	0.33
Long-term investments in securities	(145.54)	–	(595.92)	(0.27)	(0.27)
Interest and dividend income	26.59	20.37	73.81	57.87	80.67
NET CASH USED IN INVESTING ACTIVITIES	(260.18)	(31.88)	(796.86)	(95.67)	(145.09)
Effect of exchange differences on translation of foreign currency cash and cash equivalents	4.95	(0.01)	1.09	2.46	2.06
Net (decrease)/increase in cash and cash equivalents during the period/year	197.86	134.05	234.73	454.12	657.34
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR	1,721.17	1,347.03	1,684.30	1,026.96	1,026.96
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR	1,919.03	1,481.08	1,919.03	1,481.08	1,684.30

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

for Bharat S. Raut & Co.

Chartered Accountants

S. Balasubrahmanyam
Partner
Membership No. 53315

N. R. Narayana Murthy
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Director

V. Balakrishnan
Company Secretary and
Vice President – Finance

Bangalore
January 9, 2004

Ratio analysis as per Indian GAAP (Non consolidated)

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2003	2002	2003	2002	2003
Financial performance					
Export revenue/total revenue (%)	99.36	98.6	98.55	98.08	97.81
Domestic revenue/total revenue (%)	0.64	1.4	1.45	1.92	2.19
Software development expenses/total revenue (%)	52.25	50.24	52.3	49.31	50.05
Gross profit/total revenue (%)	47.75	49.76	47.7	50.69	49.95
Selling and marketing expenses/total revenue (%)	7.48	7.68	7.31	7.61	7.37
General and administration expenses/total revenue (%)	7.06	7.3	7.45	7.29	7.46
Selling, general and administration expenses/total revenue (%)	14.54	14.97	14.76	14.89	14.83
Employee costs/total revenue (%)	51.9	46.56	50.56	45.92	46.3
Operating profit/total revenue (%)	33.21	34.79	32.93	35.79	35.11
Depreciation and amortization/total revenue (%)	5.04	5.16	4.89	5.23	5.22
Operating profit after depreciation and Interest/total revenue (%)	28.17	29.63	28.04	30.56	29.9
Other income/total revenue (%)	3.84	3.11	3.6	2.78	2.75
Provision for Investments/total revenue (%)	0.19	–	0.26	0.91	0.66
Profit before tax/total revenue (%)	31.83	32.73	31.39	32.42	31.99
Tax/total revenue (%)	5.26	6	5.1	5.57	5.55
Tax/PBT (%)	16.53	18.32	16.25	17.18	17.34
PAT from ordinary activities/total revenue (%)	26.56	26.74	26.28	26.85	26.44
Capital expenditure/total revenue (%) (LTM)	6.9	5.3	6.15	5.71	6.05
PAT from ordinary activities/average net worth (%) (LTM)	36.27	39.05	36.27	39.05	38.78
ROCE (PBIT/Average capital employed) (%) (LTM)	43.48	46.95	43.48	46.95	46.91
Return on invested capital (%) (LTM)	87.9	73.29	87.9	73.29	79.86
Capital output ratio (LTM)	1.39	1.41	1.39	1.41	1.47
Invested capital output ratio (LTM)	3.55	2.78	3.55	2.78	3.18
Balance sheet					
Debt-equity ratio	–	–	–	–	–
Debtors turnover (Days) (LTM)	56	54	56	54	52
Current ratio	3.26	3.76	3.26	3.76	3.87
Cash and cash equivalents/total assets (%)*	66.68	52.91	66.68	52.91	57.28
Cash and cash equivalents/total revenue (%) (LTM)*	55.55	43.63	55.55	43.63	45.23
Depreciation/average gross block (%) (LTM)	16.56	17.71	16.56	17.71	16.92
Technology investment/total revenue (%) (LTM)	4.35	3.6	4.35	3.6	3.62
Year on Year Growth (%) **					
Export revenue	30	46	33	36	39
Total revenue	29	45	33	35	39
Operating profit	23	25	22	21	23
Net profit	28	24	30	17	19
EPS	28	24	30	17	18
Per -share data (period end)					
Basic earnings per share from ordinary activities (Rs.)	49.43	38.72	136.87	105.57	144.68
Basic cash earnings per share from ordinary activities (Rs.)	58.81	46.19	162.33	126.15	173.22
Book value (Rs.)	561.93	408.91	561.93	408.91	431.84
Price/earning (LTM)	31.63	34.76	31.63	34.76	28.01
Price/cash earnings (LTM)	26.58	28.99	26.58	28.99	23.4
Price/book value	9.9	11.67	9.9	11.67	9.39
PE/EPS growth	1.14	1.43	1.07	2.06	1.52
Dividend per share (Rs.)	–	–	14.5	12.5	27

* Investments in Liquid funds have been considered as Cash & Cash equivalents for the purpose of the above ratio analysis.

** Denotes growth compared with figures of the corresponding period in the previous year.

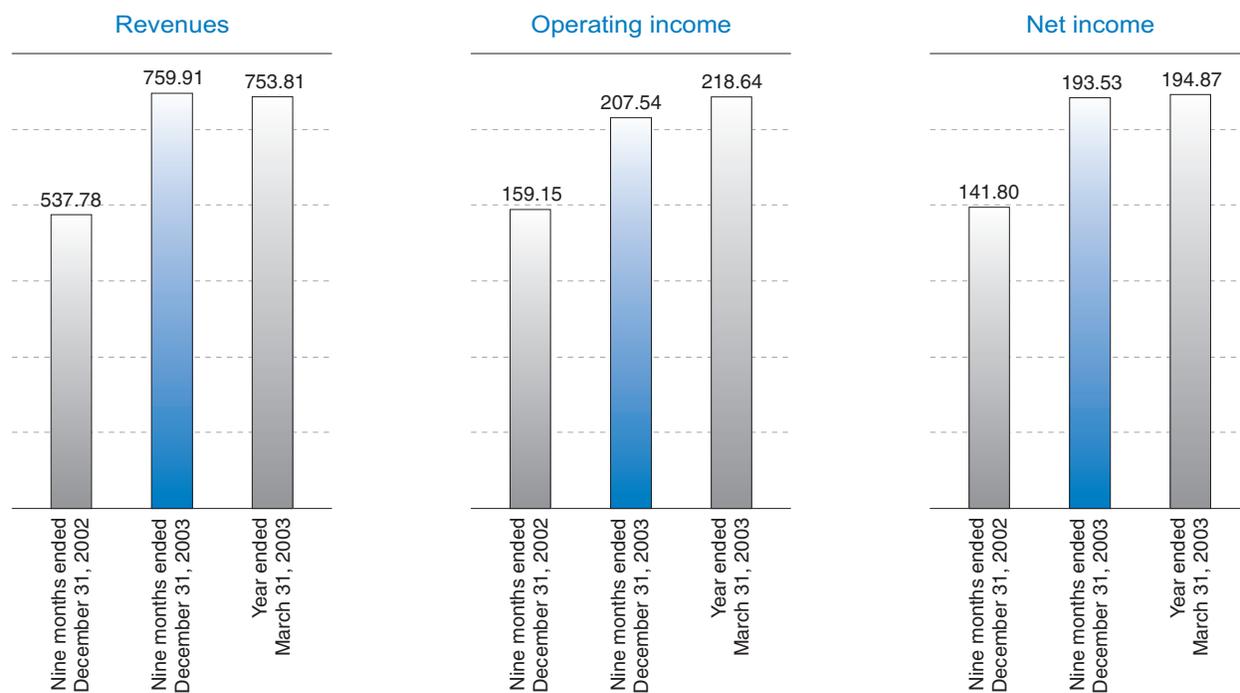
LTM : Last Twelve Months.

At a glance – US GAAP

US \$ millions, except as otherwise stated

	Quarter ended		Nine months ended		Year ended
	December 31,		December 31,		March 31,
	2002	2003	2002	2003	2003
For the period					
Revenues	200.01	275.89	537.78	759.91	753.81
Operating income	57.27	75.69	159.15	207.54	218.64
Operating income/revenues (%)	28.63 %	27.43 %	29.59 %	27.31 %	29.00 %
Net income	52.25	70.55	141.80	193.53	194.87
Net income/revenues (%)	26.12 %	25.57 %	26.37 %	25.47 %	25.85 %
Basic earnings per equity share (\$)	0.80	1.07	2.16	2.95	2.97
Cash dividend per equity share (\$)	0.26	0.36	0.51	0.71	0.51
Capital expenditure	10.80	19.83	30.88	48.63	46.71
At the end of the period					
Total assets	635.40	969.24	635.40	969.24	704.31
Property, plant and equipment- net	150.71	182.13	150.71	182.13	157.19
Cash and cash equivalents	308.56	421.30	308.56	421.30	354.36
Working capital	387.42	630.82	387.42	630.82	444.77
Total debt	-	-	-	-	-
Stockholders' equity	565.13	821.02	565.13	821.02	626.00
Common stock	8.60	8.63	8.60	8.63	8.60
Market capitalization	6,586.11	8,118.72	6,586.11	8,118.72	5,648.50

Note : Market capitalization is calculated by considering the share price at National Stock Exchange on the shares outstanding at the period/year end.



UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

For the quarter ended December 31, 2003

Commission File Number: 333-72195

INFOSYS TECHNOLOGIES LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Bangalore, Karnataka, India

(Jurisdiction of incorporation or organization)

Electronics City, Hosur Road, Bangalore, Karnataka, India 560 100. +91-80-852-0261

(Address of principal executive offices)

Indicate by check mark registrant files or will file annual reports under cover Form 20-F or Form 40-F

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g 3-2(b) under the Securities Exchange Act of 1934

Yes No

If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g 3-2(b).

Not Applicable

Currency of Presentation and Certain Defined Terms

In this Quarterly Report, references to "U.S." or "United States" are to the United States of America, its territories and its possessions. References to "India" are to the Republic of India. References to "\$" or "dollars" or "U.S. dollars" are to the legal currency of the United States and references to "Rs." or "rupees" or "Indian rupees" are to the legal currency of India. Our financial statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with United States Generally Accepted Accounting Principles, or U.S. GAAP. References to "Indian GAAP" are to Indian Generally Accepted Accounting Principles. References to a particular "fiscal" year are to our fiscal year ended March 31 of such year.

All references to "we," "us," "our," "Infosys" or the "Company" shall mean Infosys Technologies Limited. "Infosys" is a registered trademark of Infosys Technologies Limited in the United States and India. All other trademarks or tradenames used in this Quarterly Report are the property of their respective owners.

Except as otherwise stated in this Quarterly Report, all translations from Indian Rupees to U.S. dollars are based on the noon buying rate in the City of New York on December 31, 2003, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York which was Rs. 45.55 per \$ 1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Information contained in our website, www.infosys.com, is not part of this Quarterly Report.

Forward-looking Statements May Prove Inaccurate

In addition to historical information, this Quarterly Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such differences include but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. In addition, readers should carefully review the other information in this Quarterly Report and in the Company's periodic reports and other documents filed with the Securities and Exchange Commission ("SEC") from time to time.

Part I - Financial Information

Item 1. Financial Statements

Consolidated balance sheets

	March 31, 2003 ⁽¹⁾	December 31, 2003 <i>(Unaudited)</i>
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 354,362,918	\$ 421,302,898
Investments in liquid mutual fund units	–	133,011,380
Trade accounts receivable, net of allowances	109,119,856	153,010,094
Deferred tax assets	288,541	472,095
Prepaid expenses and other current assets	24,384,316	35,637,535
Unbilled revenue	19,702,186	20,420,935
<i>Total current assets</i>	<u>507,857,817</u>	<u>763,854,937</u>
Property, plant and equipment, net	157,194,190	182,131,622
Intangible assets, net	6,471,236	–
Deferred tax assets	7,264,885	6,509,330
Investments	4,613,833	1,925,167
Prepaid income taxes	4,452,678	169,688
Other assets	16,454,328	14,651,560
TOTAL ASSETS	<u>\$ 704,308,967</u>	<u>\$ 969,242,304</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>Current Liabilities</i>		
Accounts payable	\$ 426,611	\$ 342,644
Client deposits	3,208,295	21,203,634
Other accrued liabilities	46,249,269	78,656,396
Income taxes payable	–	14,321,236
Unearned revenue	13,202,115	18,510,857
<i>Total current liabilities</i>	<u>63,086,290</u>	<u>133,034,767</u>
<i>Non-current liabilities</i>		
<i>Preferred stock of subsidiary</i>		
0.0005% Cumulative Convertible Preference Shares, par value \$ 2 each, 4,375,000 preference shares Authorized, issued and outstanding - 4,375,000 preference shares as of March 31, 2003 and December 31, 2003	10,000,000	10,757,408
Other non-current liabilities	5,217,758	4,427,000
<i>Stockholders' Equity</i>		
Common stock, \$ 0.16 par value; 100,000,000 equity shares authorized, Issued and outstanding - 66,243,078 and 66,455,992 as of March 31, 2003 and December 31, 2003 respectively	8,602,909	8,626,207
Additional paid-in capital	127,042,751	144,070,027
Retained earnings	524,621,160	670,884,201
Deferred stock compensation	(2,817,066)	–
Accumulated other comprehensive income	(31,444,835)	(2,557,306)
<i>Total stockholders' equity</i>	<u>626,004,919</u>	<u>821,023,129</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 704,308,967</u>	<u>\$ 969,242,304</u>

⁽¹⁾ March 31, 2003 balances were obtained from audited financial statements

Unaudited consolidated statements of income

	Three months ended December 31,		Nine months ended December 31,	
	2002	2003	2002	2003
Revenues	\$ 200,014,166	\$ 275,886,678	\$ 537,775,974	\$ 759,911,290
Cost of revenues (including amortization of stock compensation expenses of \$ 729,994 and \$ 395,344 for the three months ended December 31, 2002 and 2003 and \$ 2,189,981 and \$ 1,653,156 for the nine months ended December 31, 2002 and 2003)	110,928,922	155,856,199	294,226,283	429,501,225
Gross profit	89,085,244	120,030,479	243,549,691	330,410,065
Operating Expenses:				
Selling and marketing expenses	14,952,660	20,827,551	40,734,946	56,243,853
General and administrative expenses	15,422,086	20,586,131	40,383,534	58,747,502
Amortization of stock compensation expense	513,954	278,343	1,541,863	1,163,910
Amortization of intangible assets	924,249	2,647,778	1,744,274	6,719,351
Total operating expenses	31,812,949	44,339,803	84,404,617	122,874,616
Operating income	57,272,295	75,690,676	159,145,074	207,535,449
Other income, net	6,907,692	8,842,133	12,538,464	24,385,839
Income before income taxes	64,179,987	84,532,809	171,683,538	231,921,288
Provision for income taxes	11,926,841	13,987,449	29,885,621	38,391,629
Net income	<u>\$ 52,253,146</u>	<u>\$ 70,545,360</u>	<u>\$ 141,797,917</u>	<u>\$ 193,529,659</u>
Earnings per equity share				
Basic	\$ 0.80	\$ 1.07	\$ 2.16	\$ 2.95
Diluted	\$ 0.78	\$ 1.05	\$ 2.13	\$ 2.91
Weighted equity shares used in computing earnings per equity share				
Basic	65,569,377	65,709,862	65,567,814	65,628,199
Diluted	66,667,561	67,181,796	66,405,932	66,557,167

See accompanying notes to the unaudited consolidated financial statements

Unaudited consolidated statements of stockholders' equity and comprehensive income

	Common stock		Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred stock compensation	Retained earnings	Total stockholders' equity
	Shares	Par value						
Balance as of March 31, 2002	66,186,130	\$ 8,597,001	\$ 123,079,948	\$ (45,441,148)	\$ (7,620,600)	\$ 363,764,165	\$ 442,379,366	
Common stock issued	43,359	4,480	2,191,234	-	-	-	2,195,714	
Cash dividends	-	-	-	-	-	(34,013,046)	(34,013,046)	
Income tax benefit arising on exercise of stock options	-	-	804,695	-	-	-	804,695	
Amortization of compensation related to stock option grants	-	-	-	-	-	3,731,844	3,731,844	
Comprehensive income	-	-	-	\$ 141,797,917	-	-	141,797,917	
Net income	-	-	-	\$ 141,797,917	-	-	141,797,917	
Other comprehensive income	-	-	-	-	-	-	-	
Translation adjustment	-	-	-	8,232,075	8,232,075	-	8,232,075	
Comprehensive income	-	-	-	\$ 150,029,992	-	-	-	
Balance as of December 31, 2002	66,229,489	\$ 8,601,481	\$ 126,075,877	\$ (37,209,073)	\$ (3,888,756)	\$ 471,549,036	\$ 565,128,565	
Balance as of March 31, 2003	66,243,078	\$ 8,602,909	\$ 127,042,751	\$ (31,444,835)	\$ (2,817,066)	\$ 524,621,160	\$ 626,004,919	
Common stock issued	212,914	23,298	14,560,748	-	-	-	14,584,046	
Cash dividends	-	-	-	-	-	(47,266,618)	(47,266,618)	
Income tax benefit arising on exercise of stock options	-	-	2,466,528	-	-	-	2,466,528	
Amortization of compensation related to stock option grants	-	-	-	-	-	2,817,066	2,817,066	
Comprehensive income	-	-	-	\$ 193,529,659	-	-	193,529,659	
Net income	-	-	-	\$ 193,529,659	-	-	193,529,659	
Other comprehensive income	-	-	-	-	-	-	-	
Unrealized gain on investments, net of taxes	-	-	-	89,130	89,130	-	89,130	
Translation adjustment	-	-	-	28,798,399	28,798,399	-	28,798,399	
Comprehensive income	-	-	-	\$ 222,417,188	-	-	-	
Balance as of December 31, 2003	66,455,992	\$ 8,626,207	\$ 144,070,027	\$ (2,557,306)	-	\$ 670,884,201	\$ 821,023,129	

See accompanying notes to the unaudited consolidated financial statements

Unaudited consolidated statements of cash flows

	Nine months ended December 31,	
	2002	2003
OPERATING ACTIVITIES:		
Net income	\$ 141,797,917	\$ 193,529,659
Adjustments to reconcile net income to net cash provided by operating activities		
Loss on sale of property, plant and equipment	8,437	–
Depreciation	26,466,706	30,717,514
Amortization of intangible assets	1,744,274	6,719,351
Provision for investments	3,219,030	1,922,070
Deferred taxes	(2,228,025)	853,268
Amortization of deferred stock compensation expense	3,731,844	2,817,066
Changes in assets and liabilities		
Trade accounts receivable	(31,876,890)	(38,665,222)
Prepaid expenses and other current assets	(3,401,291)	(154,127)
Unbilled revenue	(11,183,030)	135,986
Income taxes	(3,159,384)	20,305,900
Accounts payable	126,497	(101,250)
Client deposits	3,776,724	17,636,155
Unearned revenue	8,014,837	4,676,599
Other accrued liabilities	14,275,082	29,409,213
Net cash provided by operating activities	151,312,728	269,802,182
INVESTING ACTIVITIES:		
Expenditure on property, plant and equipment	(26,796,968)	(48,630,139)
Expenditure on intangible asset	(4,078,363)	–
Proceeds from sale of property, plant and equipment	53,222	56,378
Loans to employees	(4,973,581)	3,714,929
Investments in liquid mutual fund units	–	(130,818,049)
Cash advanced for contemplated business combination	–	(11,141,603)
Net cash used in investing activities	(35,795,690)	(186,818,484)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	2,195,714	14,584,046
Proceeds from issuance of preferred stock by subsidiary	10,000,000	–
Payment of dividends	(34,013,046)	(47,153,536)
Net cash used in financing activities	(21,817,332)	(32,569,490)
Effect of exchange rate changes on cash	4,373,092	16,525,772
Net increase in cash and cash equivalents during the period	98,072,798	66,939,980
Cash and cash equivalents at the beginning of the period	210,485,940	354,362,918
Cash and cash equivalents at the end of the period	\$ 308,558,738	\$ 421,302,898
Supplementary information:		
Cash paid towards taxes	\$ 33,014,206	\$ 17,204,767
Non cash transaction (see Note 2.5)	\$ 5,000,000	–

See accompanying notes to the unaudited consolidated financial statements

Notes to the unaudited consolidated financial statements

1 Company overview and significant accounting policies

1.1 Company overview

Infosys Technologies Limited ("Infosys" or "the Company") along with its majority owned and controlled subsidiaries, Progeon Limited ("Progeon") and Infosys Technologies (Shanghai) Co. Limited is a leading global information technology, or IT, services company. The Company provides end-to-end business solutions that leverage technology thus enabling its clients to enhance business performance. The Company provides solutions that span the entire software life cycle encompassing consulting, design, development, re-engineering, maintenance, systems integration and package evaluation and implementation. In addition, the Company offers software products for the banking industry and business process management services.

1.2 Basis of preparation of financial statements

The accompanying consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Inter-company balances and transactions are eliminated on consolidation. All amounts are stated in U.S. dollars, except as otherwise specified.

Interim information presented in the consolidated financial statements has been prepared by the management without audit and, in the opinion of management, includes all adjustments of a normal recurring nature that are necessary for the fair presentation of the financial position, results of operations and cash flows for the periods shown, and is in accordance with GAAP. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the company's annual report on Form 20-F for the fiscal year ended March 31, 2003.

1.3 Use of estimates

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, the disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenues and expenses during the period. Examples of estimates include accounting for contract costs expected to be incurred to complete software development, allowance for uncollectible accounts receivable, future obligations under employee benefit plans, provisions for post-sales customer support and the useful lives of property, plant and equipment and intangible assets. Actual results could differ from those estimates.

1.4 Revenue recognition

The company derives revenues primarily from software development and related services, licensing of software products and from business process management services. Arrangements with customers for software development and related services are either on a fixed price, fixed timeframe or on a time and material basis.

Revenue on time-and-material contracts is recognized as the related services are performed. Revenue from the end of the last billing to the balance sheet date is recognized as unbilled revenues. Revenue from fixed-price, fixed-time frame contracts is recognized as per the percentage-of-completion method. Guidance has been drawn from paragraph 95 of Statement of Position (SOP) 97-2 to account for revenue from fixed price arrangements for software development and related services in conformity with SOP 81-1. The input (efforts expended) method has been used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. Costs and earnings in excess of billings are classified as unbilled revenue while billings in excess of costs and earnings are classified as unearned revenue. Maintenance revenue is recognized ratably over the term of the underlying maintenance agreement.

The company provides its clients with a fixed-period warranty for corrections of errors and telephone support on all its fixed-price, fixed-time frame contracts. Costs associated with such support services are accrued at the time related revenues are recorded and included in cost of revenues. The company estimates such costs based on historical experience and estimates are reviewed on a periodic basis for any material changes in assumptions and likelihood of occurrence.

In accordance with SOP 97-2, Software Revenue Recognition, license fee revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable, and the collection of the fee is probable. Arrangements to deliver our software products generally have three elements: license, implementation and Annual Technical Services ("ATS"). The company has applied the principles in SOP 97-2 to account for revenue from these multiple element arrangements. Vendor specific objective evidence of fair value ("VSOE") has been established for ATS. VSOE is the price charged when the element is sold separately. When other services are provided in conjunction with the licensing arrangement, the revenue from such contracts are allocated to each component of the contract using the residual method, whereby revenue is deferred for the undelivered services and the residual amounts are recognized as revenue for delivered elements. In the absence of an established VSOE for implementation, the entire arrangement fee for license and implementation is recognized as the implementation is performed. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed. ATS revenue is recognized ratably over the period in which the services are rendered.

Revenues from business process management and other services are recognized on both, the time-and-material and fixed-price, fixed-time frame basis. Revenue on time-and-material contracts is recognized as the related services are rendered. Revenue from fixed-price, fixed-time frame contracts is recognized as per the proportional performance method using an output measure of performance.

When the company receives advances for services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met.

1.5 Cash and cash equivalents

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

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. The company depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets are as follows:

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

The cost of software purchased for internal use is accounted under SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Deposits paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under "Capital work-in-progress".

1.7 Intangible assets

Intangible assets are amortized over their respective individual estimated useful lives on a straight-line basis, commencing from the date the asset is available to the company for its use. Management estimates the useful lives of acquired rights in software applications to range between one through two years.

1.8 Impairment of long-lived assets

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

1.9 Research and development

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is achieved.

1.10 Foreign currency translation

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

1.11 Earnings per share

In accordance with Statement of Financial Accounting Standards ("SFAS") 128, *Earnings Per Share*, basic earnings per share are 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 result would be anti-dilutive. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the if-converted method.

1.12 Income taxes

Income taxes are accounted for 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 carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred tax assets and liabilities is recognized as income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is uncertain. The income tax provision for the interim period is based on the best estimate of the effective tax rate expected to be applicable for the full fiscal year.

1.13 Fair value of financial instruments

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

1.14 Concentration of risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash equivalents, trade accounts receivable, investment securities and hedging instruments. By nature, all such financial instruments involve risk, including the credit risk of non-performance by counterparties. In management's opinion, as of March 31, 2003 and December 31, 2003, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements, if any. Exposure to credit risk is managed through credit approvals, establishing credit limits and monitoring procedures. The company's cash resources are invested with corporations, financial institutions and banks with high investment grade credit ratings. Limitations are established by the company as to the maximum amount of cash that may be invested with any such single entity.

1.15 Retirement benefits to employees

1.15.1 Gratuity

In accordance with the Payment of Gratuity Act, 1972, Infosys and Progeon provide for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation. The company fully contributes all ascertained liabilities to the Infosys Technologies Limited Employees' Gratuity Fund Trust (the "Trust"). Trustees administer contributions made to the Trust and contributions are invested in specific designated instruments as permitted by law and investments are also made in mutual funds that invest in the specific designated instruments.

1.15.2 Superannuation

Certain employees of Infosys are also participants of a defined contribution plan. The company makes monthly contributions under the superannuation plan (the "Plan") to the Infosys Technologies Limited Employees Superannuation Fund Trust based on a specified percentage of each covered employee's salary. The company has no further obligations to the Plan beyond its monthly contributions. Certain employees of Progeon are also eligible for superannuation benefit. Progeon makes monthly provisions under the superannuation plan based on a specified percentage of each covered employee's salary. Progeon has no further obligations to the superannuation plan beyond its monthly provisions.

1.15.3 Provident fund

Eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee's salary. The company contributes a part of the contributions to the

Infosys Technologies Limited Employees' Provident Fund Trust. The remainders of the contributions are made to Government administered provident fund. The company has no further obligations under the provident fund plan beyond its monthly contributions.

In respect of Progeon, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and Progeon make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a government administered provident fund. Progeon has no further obligations under the provident fund plan beyond its monthly contributions.

1.16 Investments

The company accounts by the equity method for investments between 20% and 50% or where it is otherwise able to exercise significant influence over the operating and financial policies of the investee. Non-readily marketable equity securities for which there are no readily determinable fair values are recorded at cost. Declines in value judged to be other than temporary are included in earnings. Realized gains and losses and unrealized holding gains and losses for trading securities are included in earnings. Investment securities designated as "available for sale" are carried at their fair value. Fair value is based on quoted market prices. Temporary unrealized gains and losses, net of the related tax effect are reported as a separate component of stockholder's equity until realized. Realized gains and losses and declines in value judged to be other than temporary on available for sale securities are included in earnings. The cost of securities sold is based on the specific identification method. Interest and dividend income are recognized when earned.

1.17 Stock-based compensation

The company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25* to account for its fixed stock option plans. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS 148, *Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123*. All stock options issued to date have been accounted as a fixed stock option plan.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Nine months ended December 31,	
	2002	2003
Net income, as reported	\$ 141,797,917	\$ 193,529,659
Add: Stock-based employee compensation expense included in reported net income	3,731,844	2,817,066
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(43,311,902)	(41,222,826)
Pro forma net income	\$ 102,217,859	\$ 155,123,899
Earnings per share:		
Basic - as reported	\$ 2.16	\$ 2.95
Basic - pro forma	\$ 1.56	\$ 2.36
Diluted - as reported	\$ 2.13	\$ 2.91
Diluted - pro forma	\$ 1.56	\$ 2.34

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

	Nine months ended December 31,	
	2002	2003
Dividend yield	0.2 %	0.2 %
Expected life	1 - 5 years	1 - 5 years
Risk free interest rate	6 %	5.1 % - 5.7 %
Volatility	60 - 75 %	60 - 75 %

1.18 Dividends

Dividend on common stock are recorded as a liability on the date of declaration by the stockholders.

1.19 Derivative financial instruments

The company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* as amended, when the rules became effective. The company enters into foreign exchange forward contracts where the counter party is generally a bank. The company purchases foreign exchange forward contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecasted cash flows denominated in certain foreign currencies. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS 133, as amended. Any derivative that is either not designated hedge, or is so designated but is ineffective per SFAS 133, is marked to market and recognized in earnings immediately.

1.20 Reclassifications

Certain reclassifications have been made to conform prior period data to the current presentations. These reclassifications had no effect on reported earnings.

1.21 Recent Accounting Pronouncements

In December 2003, The Financial Accounting Standards Board (FASB) has published a revision to Interpretation 46 to clarify some of the provisions of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, and to exempt certain entities from its requirements. The additional guidance is being issued in response to input received from constituents regarding certain issues arising in implementing Interpretation 46. The revision is not expected to have any impact on the company's accounting or disclosure policies.

In December 2003, the FASB issued FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, that improves financial statement disclosures for defined benefit plans. The guidance is effective for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003. The company is evaluating the impact of the revision on its disclosure policies.

2 Notes to the unaudited consolidated financial statements

2.1 Cash and cash equivalents

The cost and fair values for cash and cash equivalents are as follows:

	As of	
	March 31, 2003	December 31, 2003
<i>Cost and fair values</i>		
Cash and bank deposits	\$ 283,302,326	\$ 354,992,338
Deposits with corporations	71,060,592	66,310,560
	<u>\$ 354,362,918</u>	<u>\$ 421,302,898</u>

Cash and cash equivalents include restricted cash balances in the amount of \$ 336,610 and \$ 465,733 as of March 31, 2003 and December 31, 2003 respectively primarily on account of accrued dividends. Cash and cash equivalents as of December 31, 2003 also include \$ 2,249,177 retained in escrow for a contemplated business combination (see Note 2.21).

2.2 Trade accounts receivable

Trade accounts receivable as of March 31, 2003 and December 31, 2003, net of allowance for doubtful accounts of \$ 3,010,568 and \$ 4,743,201 respectively, amounted to \$ 109,119,856 and \$ 153,010,094. The age profile of trade accounts receivable, net of allowances is given below.

Period (in days)	As of		in %
	March 31, 2003	December 31, 2003	
0 - 30	65.8	64.5	
31 - 60	29.0	23.9	
61 - 90	3.9	6.9	
More than 90	1.3	4.7	
	<u>100.0</u>	<u>100.0</u>	

2.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	As of	
	March 31, 2003	December 31, 2003
Rent deposits	\$ 2,856,226	\$ 3,292,508
Security deposits with service providers	2,814,216	1,963,387
Loans to employees	12,252,004	11,541,388
Prepaid expenses	5,209,907	6,448,691
Other current assets	1,251,963	12,391,561
	<u>\$ 24,384,316</u>	<u>\$ 35,637,535</u>

Other current assets include advance payments to vendors for the supply of goods and rendering of services and certain costs incurred towards software. Deposits with service providers relate principally to leased telephone lines and electricity supplies. Other current assets as of December 31, 2003 include \$ 11,141,603 advanced for a contemplated business combination (see Note 2.21).

2.4 Property, plant and equipment – net

Property, plant and equipment consist of the following:

	As of	
	March 31, 2003	December 31, 2003
Land	\$ 9,948,480	\$ 18,081,838
Buildings	81,114,141	95,705,338
Furniture and fixtures	43,969,763	53,475,222
Computer equipment	77,299,299	93,659,146
Plant and equipment	47,832,904	58,821,887
Vehicles	73,995	93,680
Capital work-in-progress	16,281,831	17,669,963
	<u>276,520,413</u>	<u>337,507,074</u>
Accumulated depreciation	(119,326,223)	(155,375,452)
	<u>\$ 157,194,190</u>	<u>\$ 182,131,622</u>

Depreciation expense amounted to \$ 26,466,706 and \$ 30,717,514 for the nine months ended December 31, 2002 and 2003 respectively. The amount of third party software (for internal use) expensed during the nine months ended December 31, 2002 and 2003 was \$ 9,939,369 and \$ 10,749,960 respectively.

2.5 Intangible assets

During fiscal 2003, the company acquired the intellectual property rights of Trade IQ product from IQ Financial Systems Inc., USA for its banking business unit. The consideration paid amounted to \$ 3.5 million and was recorded as an intangible asset and amortized over two years being management's initial estimate of the useful life. In the same fiscal year, the company also entered into an agreement for transferring the intellectual property rights in a commercial software application product used in the design of high performance structural systems. The company is required to pay the committed consideration of \$ 5.0 million within ten years of the contract date. The ownership of intellectual property in the product transfers to the company on remittance of the consideration. The committed consideration of \$ 5.0 million was recorded as an intangible asset and was being amortized over management's estimate of the useful life, which was initially 5 years. During the nine months ended December 31, 2003, management revised its estimates of the remaining useful life of these intangible assets. The additional amortization for the nine months ended December 31, 2003 due to the revisions in the estimates of remaining useful life was \$ 4.4 million. The recorded values of the intangible assets have been completely amortized as of December 31, 2003.

2.6 Investments

The carrying value of the Company's investments are as follows:

	Carrying Value
As of March 31, 2003	
M-Commerce Ventures Pte Ltd - 80 units, each unit representing 1 Ordinary Share of S\$ 1 each at par and 900 Redeemable Preference Shares of S\$ 1 each at par, with a premium of S\$ 1,110 per Redeemable Preference Share	\$ 453,863
CiDRA Corporation - 33,333 Series D Convertible Preferred Stock, at \$ 90 each, fully paid, par value \$ 0.01 each	2,999,970
Workadia Inc., USA - 880,000 Series B Preferred Stock at \$ 2.5 each, fully paid, par value \$ 0.0005 each	660,000
Stratify, Inc. (formerly Purple Yogi Inc.) - 276,243 Series D Convertible Preferred Stock, at \$ 1.81 each fully paid, par value \$ 0.001 each	500,000
	<u>\$ 4,613,833</u>
As of December 31, 2003	
M-Commerce Ventures Pte Ltd - 100 units, each unit representing 1 Ordinary Share of S\$ 1 each at par and 774 Redeemable Preference Shares of S\$ 1 each at par with a premium of S\$ 1,110 per Redeemable Preference Share and 126 Redeemable Preference Shares of S\$ 1 each at par	\$ 505,116
CiDRA Corporation - 33,333 Series D Convertible Preferred Stock, at \$ 90 each, fully paid, par value \$ 0.01 each	1,420,051
	<u>\$ 1,925,167</u>

Investments in liquid mutual fund units are designated as "available for sale".

2.7 Other assets

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

2.8 Related parties

The company grants loans to employees for acquiring assets such as property and cars. Such loans are repayable over fixed periods ranging from 1 to 100 months. The annual rates of interest at which the loans have been made to employees vary between 0% through 4%. No loans have been made to employees in connection with equity issues.

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

Year ending March/December	As of	
	March 31, 2003	December 31, 2003
2004	\$ 12,252,004	\$ 11,541,388
2005	4,298,780	3,899,488
2006	3,206,683	2,811,554
2007	2,416,202	2,114,012
2008	2,099,781	1,962,762
Thereafter	4,432,882	3,863,744
	<u>\$ 28,706,332</u>	<u>\$ 26,192,948</u>

The estimated fair values of related party receivables amounted to \$ 24,422,419 and \$ 22,666,488 as of March 31, 2003 and December 31, 2003 respectively. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to develop these estimates of fair value. Consequently, these estimates are not necessarily indicative of the amounts that the company could realize in the market.

2.9 Other accrued liabilities

Other accrued liabilities comprise the following:

	As of	
	March 31, 2003	December 31, 2003
Accrued compensation to staff	\$ 25,382,793	\$ 51,306,973
Accrued dividends	336,610	465,733
Provision for post sales client support	1,015,022	979,899
Withholding taxes payable	4,964,118	8,431,314
Provision for expenses	12,196,810	14,363,741
Retainage	1,120,938	1,128,961
Others	1,232,978	1,979,775
	<u>\$ 46,249,269</u>	<u>\$ 78,656,396</u>

2.10 Stockholders' equity

Infosys has only one class of capital stock referred to as equity shares. All references in these financial statements to number of shares, per share amounts and market prices of equity shares are retroactively restated to reflect stock splits made. The rights of equity shareholders are set out below.

2.10.1 Voting

Each holder of equity shares is entitled to one vote per share. The equity shares represented by American Depositary Shares ("ADS") carry similar rights to voting and dividends as the other equity shares. Two ADSs represent one underlying equity share.

2.10.2 Dividends

Should the company declare and pay dividends, such dividends will be paid in Indian Rupees. Indian law mandates that any dividend be declared out of distributable profits only after the transfer of a specified percentage of net income computed in accordance with current regulations to a general reserve. Moreover, the remittance of dividends outside India is governed by Indian law on foreign exchange and is subject to applicable taxes.

2.10.3 Liquidation

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

2.10.4 Stock options

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

2.11 Share capital of Progeon

In April 2002, Progeon issued 12,250,000 equity shares of par value \$ 0.20 per share to its holding company, Infosys, in exchange for an aggregate consideration of \$ 2,500,000 ("First Tranche subscription"). In terms of the stock subscription agreement between Infosys, Citicorp International Finance Corporation ("CIFIC") and Progeon, Infosys is also required to subscribe to an additional 12,250,000 equity shares in Progeon.

On June 14, 2002, Progeon issued 4,375,000 0.0005% cumulative convertible preference shares to CIFIC at an issue price of \$ 2.28 (equivalent to Rs. 112) per share, in exchange for an aggregate consideration of \$ 10,000,000. Unless earlier converted, pursuant to an agreement between the company and CIFIC, these cumulative convertible preference shares shall automatically be converted into equity shares, (i) one year prior to the Initial Public Offering ("IPO") date or (ii) September 30, 2005 or (iii) at the holder's option, immediately upon the occurrence of any Liquidity Event; whichever is earlier. The term "Liquidity Event" includes any of a decision of the Board of Directors of the company to make an IPO, merger, reconstruction, capital reorganization or other event which, in the sole opinion of the holder of the convertible preference shares, amounts to an alteration in the capital structure of the company. Each preference share is convertible into one equity share, par value \$ 0.20 each. The dividend on the preference shares for the period ended December 31, 2003 is payable.

Each holder of these cumulative convertible preference shares is entitled to receive notice of, and to attend, any shareholders' meeting and shall be entitled to vote together with holders of equity shares on any matters that affect their rights as preference shareholders including any resolution for winding up the company or for the repayment or reduction of the company's share capital.

In the event of any liquidation, dissolution or winding up of the company, either voluntary or involuntary, each holder of the preference shares will be paid a dollar equivalent of Rs. 112 per preference share, as adjusted for stock dividends, combinations, splits, recapitalizations and the like, in preference to any distribution of any assets of the company to the holders of equity shares. Indian law requires redemption of preference shares within a period of 20 years.

Upon the completion of the distribution described above, the remaining assets and funds of the company available for distribution to shareholders shall be distributed among all holders of preference shares and equity shares based on the number of equity shares held by each of them (assuming a full conversion of all the preference shares). CIFIC is also required to subscribe to an additional 4,375,000 cumulative convertible preference shares in Progeon.

2.12 Other income, net

Other income, net, consists of the following:

	Nine months ended December 31,	
	2002	2003
Interest income	\$ 11,728,239	\$ 14,066,607
Income from liquid mutual fund investments	–	1,937,136
Exchange gains	3,528,637	10,174,551
Provision for investments	(3,219,030)	(1,922,070)
Others	500,618	129,615
	<u>\$ 12,538,464</u>	<u>\$ 24,385,839</u>

The provision for investments during the nine months ended December 31, 2002 included approximately \$ 1.5 million for Asia Net Media BVI Limited, \$ 0.2 million for JASDIC Park Company, \$ 1.5 million for Workadia Inc and other miscellaneous investments. The provisions during the nine months ended December 31, 2003 include write-downs to investments in CiDRA Corporation (\$ 1.5 million) and Stratify Inc. (\$ 0.4 million). These write-downs were required due to the non-temporary impact of adverse market conditions on these entities' business models and contemporary transactions on the securities of the entities which have been indicative of their current fair value.

2.13 Research and development

General and administrative expenses in the accompanying statements of income include research and development expenses of \$ 2,159,994 and \$ 6,860,238 for the nine months ended December 31, 2002 and 2003 respectively.

2.14 Employees' Stock Offer Plans ("ESOP")

In September 1994, the company established the 1994 plan, which provided for the issue of 6,000,000 warrants, as adjusted, to eligible employees. The warrants were issued to an employee welfare trust (the "Trust"). In 1997, in anticipation of a share dividend to be declared by the company, the Trust exercised all warrants held by it and converted them into equity shares. As and when the Trust issued options/stock to eligible employees, the difference between the market price and the exercise price was accounted as deferred stock compensation expense and amortized over the vesting period. Such amortized deferred compensation expense

was \$ 3,731,844 and \$ 2,817,066 for the nine months ended December 31, 2002 and 2003 respectively. The 1994 plan lapsed in fiscal 2000, and consequently no further grants will be made to employees under this plan.

1998 Employees Stock Offer Plan (the "1998 Plan"). The company's 1998 Plan provides for the grant of non-statutory stock options and incentive stock options to employees of the company. The establishment of the 1998 Plan was approved by the board of directors in December 1997 and by the stockholders in January 1998. The Government of India has approved the 1998 Plan, subject to a limit of 1,470,000 equity shares representing 2,940,000 ADS to be issued under the 1998 Plan. Unless terminated sooner, the 1998 Plan will terminate automatically in January 2008. All options under the 1998 Plan will be exercisable for equity shares represented by ADSs. The 1998 Plan is administered by a Compensation Committee comprising five members, all of who are independent directors on the board of directors. All options under the 1998 Plan are exercisable for equity shares represented by ADSs.

1999 Stock Offer Plan (the "1999 Plan"). In fiscal 2000, the company instituted the 1999 Plan. The stockholders and the board of directors approved the 1999 Plan in June 1999. The 1999 Plan provides for the issue of 6,600,000 equity shares to employees. The 1999 Plan is administered by a Compensation Committee comprising five members, all of who are independent directors on the board of directors. Under the 1999 Plan, options will be issued to employees at an exercise price, which shall not be less than the Fair Market Value ("FMV"). Under the 1999 Plan, options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in a general meeting. All options under the 1999 plan are exercisable for equity shares.

The options under the 1998 Plan and 1999 Plan vest over a period of one through four years and expire 5 years from the date of completion of vesting.

The activity in the warrants/equity shares of the 1994, 1998 and 1999 ESOP are set out below.

	Nine months ended December 31,			
	2002		2003	
	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price
1994 Option Plan				
Outstanding at the beginning of the period	321,400		318,200	
Granted	–		–	
Forfeited	(2,800)	\$ 1.15	(600)	\$ 1.15
Outstanding at the end of the period	318,600		317,600	
Weighted average fair value of grants during the period at less than market	–		–	
1998 Option Plan				
Outstanding at the beginning of the period	1,131,247		1,251,703	
Granted	221,900	\$ 122	47,950	\$ 95
Forfeited	(84,505)	\$ 72	(129,470)	\$ 149
Exercised	(36,887)	\$ 50	(67,517)	\$ 70
Outstanding at the end of the period	1,231,755		1,102,666	
Weighted-average fair value of options granted during the period	\$ 32		\$ 24	
1999 Option Plan				
Outstanding at the beginning of the period	4,668,815		5,061,171	
Granted	478,050	\$ 75	192,800	\$ 66
Forfeited	(157,961)	\$ 96	(303,678)	\$ 97
Exercised	(6,472)	\$ 55	(145,397)	\$ 68
Outstanding at the end of the period	4,982,432		4,804,896	
Weighted-average fair value of options granted during the period	\$ 33		\$ 29	

The following table summarizes information about stock options outstanding as of December 31, 2003

Range of exercise prices per share (\$)	No. of shares arising out of options	Options Outstanding		Options Exercisable	
		Weighted average remaining contractual life in years	Weighted average exercise price	No. of shares arising out of options	Weighted average exercise price
1994 Plan					
1.15	317,600	0.73	\$ 1.15	–	–
1998 Plan					
34-50	71,850	3.19	\$ 34	71,850	\$ 34
51-100	234,935	6.12	\$ 85	38,106	\$ 87
101-150	331,780	6.51	\$ 124	35,485	\$ 128
151-200	329,346	4.87	\$ 190	154,682	\$ 187
201-300	61,355	4.86	\$ 240	32,100	\$ 242
301-400	58,490	4.35	\$ 324	35,550	\$ 324
401-660	14,910	4.14	\$ 515	9,210	\$ 514
	1,102,666			376,983	

Range of exercise prices per share (\$)	Options Outstanding			Options Exercisable	
	No. of shares arising out of options	Weighted average remaining contractual life in years	Weighted average exercise price	No. of shares arising out of options	Weighted average exercise price
1999 Plan					
51-100	3,152,942	5.51	\$ 75	1,262,280	\$ 82
101-150	1,267,279	4.93	\$ 127	524,933	\$ 129
151-200	366,275	4.70	\$ 166	220,935	\$ 166
201-250	18,400	4.16	\$ 208	11,040	\$ 208
	4,804,896			2,019,188	

Progeon's 2002 Plan provides for the grant of stock options to employees of Progeon and was approved by its board of directors and stockholders in June 2002. All options under the 2002 Plan are exercisable for equity shares. The 2002 Plan is administered by a Compensation Committee comprising three members, all of whom are directors of Progeon. The 2002 Plan provides for the issue of 5,250,000 equity shares to employees, at an exercise price, which shall not be less than the FMV. Options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in general meeting. The options issued under the 2002 Plan vest in periods ranging between one through six years, although accelerated vesting based on performance conditions is provided in certain instances. All options granted have been accounted for as a fixed plan. Options to purchase 2,549,675 shares of Progeon are outstanding as of December 31, 2003. Options to purchase 813,250 shares with a weighted average exercise price of \$ 0.87 per share were granted during the nine months ended December 31, 2003. The weighted average fair value of grants during the nine months ended December 31, 2003 was \$ 0.38. The outstanding options have a weighted average remaining contractual life of 3.17 years and weighted average exercise price of \$ 0.87. No options were exercisable as of December 31, 2003.

2.15 Income taxes

The provision for income taxes comprises:

	Nine months ended December 31,	
	2002	2003
Current taxes:		
Domestic taxes	\$ 13,553,644	\$ 10,178,571
Foreign taxes	18,560,002	27,359,790
	32,113,646	37,538,361
Deferred taxes:		
Domestic taxes	(1,296,511)	1,212,292
Foreign taxes	(931,514)	(359,024)
	(2,228,025)	853,268
Aggregate taxes	\$ 29,885,621	\$ 38,391,629

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 as follows:

	As of	
	March 31, 2003	December 31, 2003
Deferred tax assets:		
Property, plant and equipment	\$ 4,719,124	\$ 5,060,373
Provision for doubtful debts	1,093,701	1,170,696
Investments	2,545,761	3,059,683
	8,358,586	9,290,752
<i>Less:</i> Valuation allowance	(614,004)	(2,078,897)
	7,744,582	7,211,855
Deferred tax liability on foreign exchange gains	(191,156)	(180,566)
Deferred tax liability on unrealized gain on investments	–	(49,864)
Net deferred tax assets	\$ 7,553,426	\$ 6,981,425

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the company will realize the benefits of those deductible differences, net of the existing valuation allowance at December 31, 2003. The valuation allowance relate to provision for doubtful debts and investments. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

All deferred tax expenses/(benefits) are allocated to the continuing operations of the company.

The provision for foreign taxes is due to income taxes payable overseas, principally in the United States of America. The company benefits from certain significant tax incentives provided to software firms under Indian tax laws. These incentives presently include: (i) an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as "Software Technology Parks" (the "STP Tax Holiday"); and (ii) a tax deduction for profits derived from exporting computer software (the "Export Deduction"). All but one of the company's software development facilities are located in designated Software Technology Parks ("STP"). The Government of India has recently amended the tax incentives available to companies set up in designated STPs. The period of the STP Tax Holiday available to such companies is restricted to ten consecutive years, beginning from the financial year when the unit started producing computer software or April 1, 1999, whichever is earlier. The Finance Act 2002 provided that the exempt income from an export oriented

undertaking, for fiscal 2003 be restricted to 90% of its export income. However, this restriction is not applicable from fiscal 2004. Additionally, the Export Deduction is being phased out equally over a period of five years starting from fiscal 2000.

The company is subject to a 15% Branch Profit Tax (BPT) in the U.S. to the extent its U.S. branch's net profit during the year is greater than the increase in the net assets of the company's U.S. branch during the fiscal year, computed in accordance with the Internal Revenue Code. The company has not triggered the BPT and intends to maintain the current level of its net assets in the U.S., as it is consistent with its business plan. Accordingly, a BPT provision has not been recorded.

2.16 Earnings per share

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

	Nine months ended December 31,	
	2002	2003
Basic earnings per equity share – weighted average number of common shares outstanding excluding unallocated shares of ESOP	5,567,814	65,628,199
Effect of dilutive common equivalent shares – stock options outstanding	838,118	928,968
Diluted earnings per equity share – weighted average number of common shares and common equivalent shares outstanding	66,405,932	66,557,167

Options to purchase 702,902 shares under the 1998 Plan and 2,840,392 shares under the 1999 Plan were not considered for calculating diluted earnings per share for the nine months ended December 31, 2003 as their effect was anti-dilutive.

2.17 Derivative financial instruments

The Company enters into foreign exchange forward contracts where the counter party is generally a bank. The Company considers the risks of non-performance by the counter party as non-material. Infosys held foreign exchange forward contracts of \$ 88,000,000 and \$ 113,750,000 as of March 31, 2003 and December 31, 2003, respectively. The foreign exchange forward contracts mature between one to six months.

2.18 Segment reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the way that public business enterprises report information about operating segments and related disclosures about products and services, geographic areas, and major customers. The company's operations predominantly relate to providing IT solutions, delivered to customers located globally, across various industry segments. The Chief Operating Decision Maker evaluates the company's performance and allocates resources based on an analysis of various performance indicators by industry classes and geographic segmentation of customers. Accordingly, revenues represented along industry classes comprise the principal basis of segmental information set out in these financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers. The accounting principles consistently used in the preparation of the financial statements are consistently applied to record revenue and expenditure in individual segments, and are as set out in the summary of significant accounting policies.

Industry segments for the company are primarily *financial services* comprising enterprises providing banking, finance and insurance services, *manufacturing* enterprises, enterprises in the *telecommunications ("telecom")* and retail industries, and *others* such as utilities, transportation and logistics companies.

Geographic segmentation is based on business sourced from that geographic region and delivered from both on-site and off-shore. *North America* comprises the United States of America, Canada and Mexico; *Europe* includes continental Europe (both the east and the west), Ireland and the United Kingdom; and the *Rest of the World* comprising all other places except those mentioned above and India.

Revenue in relation to segments is categorized based on items that are individually identifiable to that segment, while expenditure is categorized in relation to the associated turnover of the segment. Allocated expenses of the geographic segments include expenses incurred for rendering services from the company's offshore software development centres and on-site expenses. Certain expenses such as depreciation, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not practical to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and adjusted only against the total income of the company.

Fixed assets used in the company's business are not identified to any of the reportable segments, as these are used interchangeably between segments. Management believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Geographical information on revenue and industry revenue information is collated based on individual customers invoiced or in relation to which the revenue is otherwise recognized.

2.18.1 Industry segments

Nine months ended December 31, 2002

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	\$ 203,419,872	\$ 91,154,337	\$ 79,168,194	\$ 61,946,100	\$ 102,087,471	\$ 537,775,974
Identifiable operating expenses	81,664,228	37,057,023	26,678,891	19,558,427	38,673,125	203,631,694
Allocated expenses	56,445,056	23,557,385	20,530,951	16,009,339	26,513,650	143,056,381
Segmental operating income	65,310,588	30,539,929	31,958,352	26,378,334	36,900,696	191,087,899
Unallocable expenses						31,942,825
Operating income						159,145,074
Other income, net						12,538,464
Income before income taxes						171,683,538
Provision for income taxes						29,885,621
Net income						\$ 141,797,917

2.18.1 Industry segments (continued)

Nine months ended December 31, 2003

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	\$ 288,816,091	\$ 113,256,436	\$ 114,172,149	\$ 89,754,981	\$ 153,911,633	\$ 759,911,290
Identifiable operating expenses	120,933,319	49,464,341	46,200,260	33,436,345	63,491,710	313,525,975
Allocated expenses	77,123,675	28,841,657	30,594,784	22,845,631	39,190,186	198,595,933
Segmental operating income	90,759,097	34,950,438	37,377,105	33,473,005	51,229,737	247,789,382
Unallocable expenses						40,253,933
Operating income						207,535,449
Other income, net						24,385,839
Income before income taxes						231,921,288
Provision for income taxes						38,391,629
Net income						\$ 193,529,659

2.18.2 Geographic segments

Nine months ended December 31, 2002

	North America	Europe	India	Rest of the World	Total
Revenues	\$ 395,272,736	\$ 92,863,563	\$ 10,108,669	\$ 39,531,006	\$ 537,775,974
Identifiable operating expenses	156,416,246	31,914,376	3,536,136	11,764,936	203,631,694
Allocated expenses	104,085,331	24,259,358	3,495,073	11,216,619	143,056,381
Segmental operating income	134,771,159	36,689,829	3,077,460	16,549,451	191,087,899
Unallocable expenses					31,942,825
Operating income					159,145,074
Other income, net					12,538,464
Income before income taxes					171,683,538
Provision for income taxes					29,885,621
Net income					\$ 141,797,917

Nine months ended December 31, 2003

	North America	Europe	India	Rest of the World	Total
Revenues	\$ 558,606,344	\$ 142,899,787	\$ 10,784,260	\$ 47,620,899	\$ 759,911,290
Identifiable operating expenses	234,609,087	56,909,000	3,369,253	18,638,635	313,525,975
Allocated expenses	146,450,161	37,260,912	2,756,062	12,128,798	198,595,933
Segmental operating income	177,547,096	48,729,875	4,658,945	16,853,466	247,789,382
Unallocable expenses					40,253,933
Operating income					207,535,449
Other income, net					24,385,839
Income before income taxes					231,921,288
Provision for income taxes					38,391,629
Net income					\$ 193,529,659

2.18.3 Significant clients

No clients individually accounted for more than 10% of the revenues in the nine months ended December 31, 2002 and 2003.

2.19 Commitments and contingencies

The company has outstanding performance guarantees for various statutory purposes totaling \$ 1,681,044 and \$ 2,414,929 as of March 31, 2003 and December 31, 2003, respectively. These guarantees are generally provided to governmental agencies.

2.20 Litigation

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

Ms. Jennifer Griffith, a former employee, has filed a lawsuit against the company and its former director, Mr. Phaneesh Murthy. The lawsuit has been served on the company. Management is reviewing the allegations. Based on its present knowledge of facts, management estimates that the lawsuit will not have material impact on the result of operation or financial position of the company.

2.21 Business combination

On December 18, 2003, the company concluded an agreement to acquire 100% of the equity in Expert Information Services Pty. Limited, Australia, subject to the standard closing conditions. The transaction value approximates \$ 23.24 million. As of December 31, 2003, the company had remitted \$ 11,141,603, to its solicitors to be retained in trust for the acquisition of the shares. In addition, \$ 2,249,177 has been retained in escrow as of December 31, 2003. The transaction was concluded on January 2, 2004 and consequently, the acquired company was renamed as "Infosys Technologies (Australia) Pty. Limited".

Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations

Investors are cautioned that this discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," "intend," "project," "seek," "should," "will" and other similar expressions as they relate to us or our business are intended to identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading "Risk Factors" in this Report. Readers are cautioned not to place undue reliance on these forward-looking statements, as they speak only as of the date of this Report. The following discussion and analysis should be read in conjunction with our financial statements included herein and the notes thereto.

Overview

We are a leading global IT services company founded in 1981, and headquartered in Bangalore, India. We provide end-to-end business solutions that leverage technology, thus enabling our clients to enhance business performance. Our solutions span the entire software life cycle, encompassing consulting, design, development, re-engineering, maintenance, systems integration, package evaluation, and implementation. In addition, we offer software products for the banking industry and we also offer business process management services through our majority-owned subsidiary, Progeon Limited, which typically include offsite customer relationship management, finance and accounting, administration and sales order processing functions. Infosys Technologies (Shanghai) Co. Limited, a wholly owned subsidiary, was incorporated in October 2003.

We completed our initial public offering of equity shares in India in 1993 and our initial public offering of ADSs in the United States in 1999. In August 2003, on behalf of our stockholders, we completed a sponsored secondary offering of ADSs in the United States. We did not receive any of the proceeds from this sponsored secondary offering.

Our revenues grew from \$ 121.0 million in fiscal 1999 to \$ 753.8 million in fiscal 2003, representing a compound annual growth rate of 58.0%. Our net income grew from \$ 17.5 million, after a one-time stock compensation expense to \$ 194.9 million during the same period, representing a compound annual growth rate of 83.0%. Our revenue growth is attributable to a number of factors, including an increase in the size and number of projects for existing and new clients. For the nine months ended December 31, 2003, 95.0% of our revenue came from repeat business, which we define as revenue from a client who also contributed to our revenue during the prior fiscal year. Between December 31, 1999 and December 31, 2003 our total employees grew from approximately 5,000 to approximately 21,800 representing a compound annual growth rate of 44.5%. In addition, Progeon Limited had approximately 1,400 employees as of December 31, 2003.

We use a distributed project management methodology that we refer to as our Global Delivery Model. We divide projects into components that we execute simultaneously at client sites and at our geographically dispersed development centers in India and around the world. Our Global Delivery Model allows us to efficiently execute projects across time zones and development centers, thereby optimizing our cost structure. We also offer a secure and redundant infrastructure for all client data. We earned 73.0% of our total revenues from North America, 17.7% from Europe, 2.1% from India and 7.2% from the rest of the world for fiscal 2003.

Our revenues are generated principally from IT services provided on either a time-and-materials or a fixed-price, fixed-timeframe basis. Revenues from services provided on a time-and-materials basis are recognized as the related services are performed. Revenues from services provided on a fixed-price, fixed-timeframe basis are recognized pursuant to the percentage of completion method. Most of our client contracts, including those that are on a fixed-price, fixed-timeframe basis, can be terminated with or without cause, without penalties and with short notice periods between zero and 90 days. Since we collect revenues on contracts as portions of the contracts are completed, terminated contracts are only subject to collection for portions of the contract completed through the time of termination. Our contracts do not contain specific termination-related penalty provisions. In order to manage and anticipate the risk of early or abrupt contract terminations, we monitor the progress on all contracts and change orders according to their characteristics and the circumstances in which they occur. This includes a focused review of our ability and our client's ability to perform on the contract, a review of extraordinary conditions that may lead to a contract termination, as well as historical client performance considerations. Since we also bear the risk of cost overruns and inflation with respect to fixed-price, fixed-timeframe projects, our operating results could be adversely affected by inaccurate estimates of contract completion costs and dates, including wage inflation rates and currency exchange rates that may affect cost projections. Losses on contracts, if any, are provided for in full in the period when determined. Although we revise our project completion estimates from time to time, such revisions have not, to date, had a material adverse effect on our operating results or financial condition. We also generate revenue from software application products, including banking software. Such software products represented 4.6% of our total revenues for fiscal 2003 and 3.0% for the nine months ended December 31, 2003.

We have also experienced pricing pressure from our clients which has adversely affected our revenues, margins and gross profits. For example, clients often expect that as we do more business with them, they will receive volume discounts. Additionally, clients may ask for fixed-price arrangements or reduced rates. We attempt to use fixed-price agreements for work where the specifications are complete, so individual rates are not negotiated. We are also adding new services at higher price points and where more value is added for our clients.

Our cost of revenues primarily consists of salary and other compensation expenses, depreciation, overseas travel expenses, cost of software purchased for internal use, subcontracting costs, data communications expenses and computer maintenance. We depreciate our personal computers and servers over two years and mainframe computers over three years. Third party software is written off over the estimated useful life. Cost of revenues also includes amortization of deferred stock compensation expense arising from option grants relating to the 1994 stock option plan that have been accounted for under the intrinsic value method.

We typically assume full project management responsibility for each project that we undertake. Approximately 69.2% of the total billed person months during the nine months ended December 31, 2003 was performed at our global development centers in India, and the balance of the work was performed at client sites and global development centers located outside India. The proportion of work performed at our facilities and at client sites varies from quarter to quarter. We charge higher rates and incur higher compensation and other expenses for work performed at client sites and global development centers located outside India. Services performed at a client site or global development centers located outside India typically generate higher revenues per-capita at a lower gross margin than the same services performed at our facilities in India. As a result, our total revenues, cost of revenues and gross profit in absolute terms and as a percentage of revenues fluctuate from quarter to quarter based on the proportion of work performed offshore. Additionally, any increase in work performed at client sites or global development centers located outside India can decrease our gross profits. We hire subcontractors on a limited basis from time to time for our own IT development needs, and we do not perform subcontracted work for other IT service providers. For fiscal 2003 and the nine months ended December 31, 2003, approximately 3.8% and 2.3% of our cost of revenues was attributable to subcontracting costs. We do not anticipate that our subcontracting needs will increase significantly as we expand our business.

Revenues and gross profits are also affected by employee utilization rates. We define employee utilization as the proportion of total billed person months to total available person months excluding support personnel. We manage utilization by monitoring project requirements and timetables. The number of consultants assigned to a project will vary according to size, complexity, duration, and demands of the project. An unanticipated termination of a significant project could also cause us to

experience lower IT professional utilization resulting in a higher than expected number of unassigned IT professionals. In addition, we do not fully utilize our IT professionals when they are enrolled in training programs, particularly our 14-week training course for new employees. Because a large percentage of new hires begin their initial training in the second fiscal quarter, our utilization rates have historically been lower in the second and third quarters of our fiscal year.

Selling and marketing expenses represent 7.4% of total revenues for fiscal 2003 and nine months ended December 31, 2003. Our selling and marketing expenses primarily consist of expenses relating to salaries of sales and marketing personnel, travel, brand building, sales and marketing offices and telecommunication. Our general and administrative expenses represent 7.7% of total revenues for fiscal 2003 and nine months ended December 31, 2003. General and administrative expenses comprise expenses relating to salaries of senior management and other support personnel, legal and other professional fees, telecommunications, utilities and other miscellaneous administrative costs.

Our amortization of stock compensation expense consists of the portion of amortization expenses that has not been included in cost of revenues. The non-cash compensation expense arises from option grants relating to the 1994 stock option plan that have been accounted for under the intrinsic value method. The deferred stock compensation has been fully amortized as of December 31, 2003.

Our amortization of intangible assets consists of non-cash expenses arising from the acquisition of intellectual property rights. We amortized intellectual property rights over their estimated useful lives.

Other income includes interest and dividend income, foreign currency exchange gains/losses and provisions for losses on investments.

Our functional currency is the Indian rupee and the financial statements included in this Report are reported in U.S. dollars. The translation of rupees to dollars is performed for the balance sheet accounts using the exchange rate in effect at the balance sheet date, and for revenue and expense accounts using a monthly average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as other comprehensive income.

Generally, Indian law requires residents of India to repatriate any foreign currency earnings to India to control the exchange of foreign currency. More specifically, Section 8 of the Foreign Exchange Management Act, or FEMA, requires an Indian company to take all reasonable steps to realize and repatriate into India all foreign exchange earned by the company outside India, within such time periods and in the manner as specified by the Reserve Bank of India, or RBI. The RBI has promulgated guidelines that require the company to repatriate any realized foreign exchange back to India, and either:

- sell it to an authorized dealer for rupees within seven days from the date of receipt of the foreign exchange;
- retain it in a foreign currency account such as an Exchange Earners Foreign Currency, or EEFC, account with an authorized dealer; or
- use it for discharge of debt or liabilities denominated in foreign exchange.

We typically collect our earnings and pay expenses denominated in foreign currencies using a dedicated foreign currency account located in the local country of operation. In order to do this, we are required to, and have obtained, special approval from the RBI to maintain a foreign currency account in overseas countries like the United States. However, the RBI approval is subject to limitations, including a requirement that we repatriate all foreign currency in the account back to India within a reasonable time, except an amount equal to our local monthly operational cost of our overseas branch and personnel. We currently pay such expenses and repatriate the remainder of the foreign currency to India on a regular basis. We have the option to retain those in an EEFC account (foreign currency denominated) or an Indian-rupee-denominated account. We convert substantially all of our foreign currency to rupees to fund operations and expansion activities in India.

Our failure to comply with these regulations could result in RBI enforcement actions against us.

Income taxes

Our net income earned from providing services outside India is subject to tax in the country where we perform the work. Most of our tax paid in countries other than India can be applied as a credit against our Indian tax liability to the extent that the same income is subject to tax in India.

Currently, we benefit from the tax holidays the Government of India gives to the export of IT services from specially designated software technology parks in India. As a result of these incentives, our operations have been subject to relatively lower tax liabilities. These tax incentives include a 10-year tax holiday from Indian corporate income taxes for the operation of most of our Indian facilities and a partial taxable income deduction for profits derived from exported IT services. We can use either of these two tax incentives. As a result of these two tax exemptions, a substantial portion of our pre-tax income has not been subject to significant tax in recent years. These tax incentives resulted in a decrease in our income tax expense of \$ 71.9 million and \$ 79.4 million for fiscal 2003 and the nine months ended December 31, 2003 compared to the effective tax rates that we estimate would have applied if these incentives had not been available, without accounting for double taxation treaty set-offs, if any.

The Finance Act, 2000 phases out the ten-year tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. Accordingly, facilities set up in India on or before March 31, 2000 have a ten-year tax holiday, new facilities set up on or before March 31, 2001 have a nine-year tax holiday and so forth until March 31, 2009. After March 31, 2009, the tax holiday will no longer be available to new facilities. Our current tax holidays expire in stages by 2009. For companies opting for the partial taxable income deduction for profits derived from exported IT services, the Finance Act, 2000 phases out the deduction over five years beginning April 1, 2000.

When our tax holiday and taxable income deduction expire or terminate, our tax expense will materially increase, reducing our profitability. As a result of such tax incentives, our effective tax rate for the nine months ended December 31, 2003 was 16.6% while our Indian statutory tax rate for the same period was 35.9%.

Results for three months ended December 31, 2003 compared to the three months ended December 31, 2002

Revenues. Our revenues were \$ 275.9 million for the three months ended December 31, 2003, representing an increase of \$ 75.9 million, or 38.0% over revenues of \$ 200.0 million for the three months ended December 31, 2002. Revenues continued to increase in most segments of our services. The increase in revenues was attributable, in part, to an increase in business from existing clients and from certain new clients, particularly in financial services, retailing and telecom and from clients in other industries, including utilities and logistics. Our financial services clients comprised 37.7% of revenues for each of the three months ended December 31, 2003 and 2002. Our retail clients comprised 12.1% and 11.7% of revenues for each of the three months ended December 31, 2003 and 2002 while our clients in telecom comprised 15.0% and 14.5% of revenues for each of the three months ended December 31, 2003 and 2002. Our clients in other industries comprised 20.9% and 18.9% of revenues for each of the three months ended December 31, 2003 and 2002. Sales of our software products represented 2.6% of our total revenues for the three months ended December 31, 2003, as compared to 4.3% for the three months ended December 31, 2002. Revenues from services represented 97.4% of total revenues for the three months ended December 31, 2003, as compared to 95.7% for the three months ended December 31, 2002. Revenues from fixed-price, fixed-timeframe contracts and from time-and-materials contracts represented 34.4% and 65.6% of total services revenues for the three months ended December 31, 2003, as compared to 37.4% and 62.6% for the three months ended December 31, 2002. Revenues from North America, Europe, India and the rest of the world represented 72.2%, 20.7%, 0.6% and 6.5% of total revenues for the three months ended December 31, 2003 as compared to 74.2%, 16.4%, 1.2% and 8.2% for the three months ended December 31, 2002.

Cost of revenues. Our cost of revenues was \$ 155.9 million for the three months ended December 31, 2003, representing an increase of \$ 45.0 million, or 40.6%, over our cost of revenues of \$ 110.9 million for the three months ended December 31, 2002. Cost of revenues represented 56.5% and 55.5% of total revenues for the three months ended December 31, 2003 and 2002. This increase in our cost of revenues was partially attributable to increased personnel costs of approximately \$ 43.5 million related to salary increases and compensation of new hires; communication costs of approximately \$ 1.0 million; and depreciation expenses of approximately \$ 1.9 million. There has been a decrease of \$ 1.6 million in subcontracting costs and \$ 1.6 million in cost of software for own use. Cost of revenues includes amortization of stock compensation expense of \$ 0.4 million and \$ 0.7 million for the three months ended December 31, 2003 and 2002 respectively.

Gross profit. As a result of the foregoing, our gross profit was \$ 120.0 million for the three months ended December 31, 2003, representing an increase of \$ 30.9 million, or 34.7% over our gross profit of \$ 89.1 million for the three months ended December 31, 2002. As a percentage of revenues, gross profit decreased to 43.5% for the three months ended December 31, 2003 from 44.5% for the three months ended December 31, 2002. This decrease is attributable to a 40.6% increase in cost of revenues from the three months ended December 31, 2002 to the three months ended December 31, 2003, offset by a comparable 38.0% increase in revenues over the same periods.

Selling and marketing expenses. We incurred selling and marketing expenses of \$ 20.8 million in the three months ended December 31, 2003, representing an increase of \$ 5.8 million, or 38.7%, over the \$ 15.0 million expended in the three months ended December 31, 2002. As a percentage of total revenues, selling and marketing expenses were 7.6% and 7.5% for the three months ended December 31, 2003 and 2002. The number of our sales and marketing personnel increased to 297 as of December 31, 2003, from 277 as of December 31, 2002. The increase in selling and marketing expenses is mainly attributable to increases of approximately \$ 4.9 million in personnel costs related to selling and marketing employees and \$ 0.6 million in rental expenses.

General and administrative expenses. Our general and administrative expenses were \$ 20.6 million for the three months ended December 31, 2003, representing an increase of \$ 5.2 million, or 33.8%, over general and administrative expenses of \$ 15.4 million for the three months ended December 31, 2002. General and administrative expenses were 7.5% and 7.7% of total revenues for the three months ended December 31, 2003 and 2002. This increase in general and administrative expenses was primarily attributable to increases of approximately \$ 0.6 million for personnel costs, \$ 0.6 million in office maintenance expenses, \$ 0.5 million for power and fuel charges, \$ 1.2 million for insurance expenses and \$ 0.8 million for provision for bad debts. The factors which affect the fluctuations in our provisions for bad debts and write offs of uncollectible accounts include the financial health and economic environment of our clients. We specifically identify the credit risk and then make the provision. No one client has contributed significantly to a loss and we have had no significant changes in our collection policies or payment terms.

Amortization of stock compensation expenses. Amortization of stock compensation expenses was \$ 0.3 million and \$ 0.5 million for the three months ended December 31, 2003 and 2002.

Amortization of intangible assets. Amortization of intangible assets was \$ 2.6 million for the three months ended December 31, 2003, representing amortization of certain intellectual property rights we acquired through purchases and licenses of software during fiscal 2003. We recorded amortization of intangible assets of \$ 0.9 million during the three months ended December 31, 2002.

During fiscal 2003, the company acquired the intellectual property rights of Trade IQ product from IQ Financial Systems Inc., USA for its banking business unit. The consideration paid amounted to \$ 3.5 million and was recorded as an intangible asset and amortized over two years being management's initial estimate of the useful life. In the same fiscal year, the company also entered into an agreement for transferring the intellectual property rights in a commercial software application product used in the design of high performance structural systems. The company is required to pay the committed consideration of \$ 5.0 million within ten years of the contract date. The ownership of intellectual property in the product transfers to the company on remittance of the consideration. The committed consideration of \$ 5.0 million was recorded as an intangible asset and was being amortized over management's estimate of the useful life, which was initially 5 years. During the nine months ended December 31, 2003, management revised its estimates of the remaining useful life of these intangible assets. The additional amortization for the three months ended December 31, 2003 due to the revisions in the estimates of remaining useful life was \$ 1.8 million. The recorded values of the intangible assets have been completely amortized as of December 31, 2003.

Operating income. Our operating income was \$ 75.7 million for the three months ended December 31, 2003 representing an increase of \$ 18.4 million, or 32.1%, over our operating income of \$ 57.3 million for three months ended December 31, 2002. As a percentage of revenues, operating income decreased to 27.4% for the three months ended December 31, 2003 from 28.6% for the three months ended December 31, 2002.

Other income. Other income was \$ 8.8 million for the three months ended December 31, 2003 representing an increase of \$ 1.9 million over other income of \$ 6.9 million for the three months ended December 31, 2002. The increase is primarily on account of \$ 1.0 million in foreign exchange differences and \$ 1.2 million in dividend income from investments in mutual funds offset by \$ 0.5 million in provision for investments.

During the three months ended December 31, 2003, we provided for additional write downs to our investments in CiDRA Corporation in the aggregate amount of approximately \$ 0.5 million. The write-down was required due to contemporary transactions on the securities of the entity which has been indicative of its current fair value.

Provision for income taxes. Our provision for income taxes was \$ 14.0 million for three months ended December 31, 2003, representing an increase of \$ 2.1 million, or 17.6%, over our provision for income taxes of \$ 11.9 million for the three months ended December 31, 2002. Our effective tax rate decreased to 16.5% for the three months ended December 31, 2003 from 18.6% for the three months ended December 31, 2002. The decrease is primarily attributable to a one-time tax on 10% of the profits generated by our operations located in Software Technology Parks in fiscal 2003. These operations are subject to a 100% tax holiday in the current fiscal year. The income tax provision for the interim period is based on the best estimate of the effective tax rate expected to be applicable for the full fiscal year.

Net income. Our net income was \$ 70.5 million for the three months ended December 31, 2003, representing an increase of \$ 18.2 million, or 34.8% over our net income of \$ 52.3 million for the three months ended December 31, 2002. As a percentage of total revenues, net income decreased to 25.6% for the three months ended December 31, 2003 from 26.1% for the three months ended December 31, 2002.

Results for nine months ended December 31, 2003 compared to the nine months ended December 31, 2002

Revenues. Our revenues were \$ 759.9 million for the nine months ended December 31, 2003, representing an increase of \$ 222.1 million, or 41.3%, over revenues of \$ 537.8 million for the nine months ended December 31, 2002. Revenues increased in all segments of our services. The increase in revenues was attributable, in part, to an increase in business from existing clients and from certain new clients, particularly in the financial services, retailing and telecom industries and from clients in other industries, including utilities and logistics. Our financial services clients comprised 38.0% and 37.8% of revenues for each of the nine months ended December 31, 2003 and 2002. Our retail clients comprised 11.8% and 11.5% of revenues for each of the nine months ended December 31, 2003 and 2002 while our clients in telecom comprised 15.0% and 14.7% of revenues for each of the nine months ended December 31, 2003 and 2002. Our clients in other industries comprised 20.3% and 19.0% of revenues for each of the nine months ended December 31, 2003 and 2002. Sales of our software products represented 3.0% of our total revenues for the nine months ended December 31, 2003, as compared to 4.5% for the nine months ended December 31, 2002. Revenues from

services represented 97.0% of total revenues for the nine months ended December 31, 2003, as compared to 95.5% for the nine months ended December 31, 2002. Revenues from fixed-price, fixed-timeframe contracts and from time-and-materials contracts represented 35.0% and 65.0% of total services revenues for the nine months ended December 31, 2003, as compared to 36.4% and 63.6% for the nine months ended December 31, 2002. Revenues from North America, Europe, India and the rest of the world represented 73.5%, 18.8%, 1.4% and 6.3% of total revenues for the nine months ended December 31, 2003 as compared to 73.5%, 17.3%, 1.8% and 7.4% for the nine months ended December 31, 2002.

Cost of revenues. Our cost of revenues was \$ 429.5 million for the nine months ended December 31, 2003, representing an increase of \$ 135.3 million, or 46.0%, over our cost of revenues of \$ 294.2 million for the nine months ended December 31, 2002. Cost of revenues represented 56.5% and 54.7% of total revenues for the nine months ended December 31, 2003 and 2002. This increase in our cost of revenues was partially attributable to increased personnel costs of approximately \$ 118.5 million related to salary increases and compensation of new hires; foreign travel costs of approximately \$ 2.9 million; software purchased for own use of approximately \$ 1.7 million; communication expenses of approximately \$ 2.7 million; depreciation expenses of approximately \$ 4.3 million; and consultancy charges of approximately \$ 1.9 million paid to sub-contractors. Cost of revenues includes amortization of stock compensation expense of \$ 1.7 million and \$ 2.2 million for the nine months ended December 31, 2003 and 2002 respectively.

Gross profit. As a result of the foregoing, our gross profit was \$ 330.4 million for the nine months ended December 31, 2003, representing an increase of \$ 86.9 million, or 35.7%, over our gross profit of \$ 243.5 million for the nine months ended December 31, 2002. As a percentage of revenues, gross profit decreased to 43.5% for the nine months ended December 31, 2003 from 45.3% for the nine months ended December 31, 2002. This decrease is attributable to a 46.0% increase in cost of revenues from the nine months ended December 31, 2002 to the nine months ended December 31, 2003, offset by a comparable 41.3% increase in revenues over the same period.

Selling and marketing expenses. We incurred selling and marketing expenses of \$ 56.2 million in the nine months ended December 31, 2003, representing an increase of \$ 15.5 million, or 38.1%, over the \$ 40.7 million expended in the nine months ended December 31, 2002. As a percentage of total revenues, selling and marketing expenses were 7.4% and 7.6% for the nine months ended December 31, 2003 and 2002. The number of our sales and marketing personnel increased to 297 as of December 31, 2003, from 277 as of December 31, 2002. The increase in selling and marketing expenses is mainly attributable to increases of approximately \$ 14.1 million in personnel costs related to selling and marketing employees and \$ 1.7 million in rental expenses offset by a decrease of \$ 0.8 million in professional charges.

General and administrative expenses. Our general and administrative expenses were \$ 58.7 million for the nine months ended December 31, 2003, representing an increase of \$ 18.3 million, or 45.3%, over general and administrative expenses of \$ 40.4 million for the nine months ended December 31, 2002. General and administrative expenses were 7.7% and 7.5% of total revenues for the nine months ended December 31, 2003 and 2002. This increase in general and administrative expenses was primarily attributable to increases of approximately \$ 3.1 million for personnel costs, \$ 1.0 million for travel expenses, \$ 1.6 million in telecommunication charges, \$ 1.7 million for office maintenance, \$ 3.1 million for insurance expenses, \$ 1.5 million in power and fuel charges, \$ 1.4 million in donations to charities and \$ 3.8 million in provision for bad debts. The factors which affect the fluctuations in our provisions for bad debts and write offs of uncollectible accounts include the financial health and economic environment of our clients. We specifically identify the credit risk and then make the provision. No one client has contributed significantly to a loss, and we have had no significant changes in our collection policies or payment terms.

Amortization of stock compensation expenses. Amortization of stock compensation expenses was \$ 1.2 million and \$ 1.5 million for the nine months ended December 31, 2003 and 2002.

Amortization of intangible assets. Amortization of intangible assets was \$ 6.7 million and \$ 1.7 million for the nine months ended December 31, 2003 and 2002, representing amortization of certain intellectual property rights we acquired through purchases and licenses of software during fiscal 2003.

During fiscal 2003, the company acquired the intellectual property rights of Trade IQ product from IQ Financial Systems Inc., USA for its banking business unit. The consideration paid amounted to \$ 3.5 million and was recorded as an intangible asset and amortized over two years being management's initial estimate of the useful life. In the same fiscal year, the company also entered into an agreement for transferring the intellectual property rights in a commercial software application product used in the design of high performance structural systems. The company is required to pay the committed consideration of \$ 5.0 million within ten years of the contract date. The ownership of intellectual property in the product transfers to the company on remittance of the consideration. The committed consideration of \$ 5.0 million was recorded as an intangible asset and was being amortized over management's estimate of the useful life, which was initially 5 years. During the nine months ended December 31, 2003, management revised its estimates of the remaining useful life of these intangible assets. The additional amortization for the nine months ended December 31, 2003 due to the revisions in the estimates of remaining useful life was \$ 4.4 million. The recorded values of the intangible assets have been completely amortized as of December 31, 2003.

Operating income. Our operating income was \$ 207.5 million for the nine months ended December 31, 2003 representing an increase of \$ 48.4 million, or 30.4%, over our operating income of \$ 159.1 million for nine months ended December 31, 2002. As a percentage of revenues, operating income decreased to 27.3% for the nine months ended December 31, 2003 from 29.6% for the nine months ended December 31, 2002.

Other income. Other income was \$ 24.4 million for the nine months ended December 31, 2003 representing an increase of \$ 11.9 million over other income of \$ 12.5 million for the nine months ended December 31, 2002. The increase is primarily attributable to foreign exchange differences of \$ 6.6 million, interest income of \$ 2.3 million on deposits with financial institutions, dividend income of \$ 1.9 million from mutual funds and a decrease of approximately \$ 1.3 million in provision for investments.

During the nine months ended December 31, 2003 and 2002, we provided for write downs to our investments in the aggregate amount of approximately \$ 1.9 million and \$ 3.2 million. The provisions during the nine months ended December 31, 2002 included approximately \$ 1.5 million for Asia Net Media BV Limited, \$ 0.2 million for JASDIC Park Company, \$ 1.5 million for Workadia Inc and other miscellaneous investments. The provisions during the nine months ended December 31, 2003 include write-downs to investments of approximately \$ 1.5 million in CiDRA Corporation and \$ 0.4 million in Stratify Inc. These write-downs were required due to the non-temporary impact of adverse market conditions on these entities' business models and contemporary transactions on the securities of the entities which have been indicative of their current fair value.

Provision for income taxes. Our provision for income taxes was \$ 38.4 million for nine months ended December 31, 2003, representing an increase of \$ 8.5 million, or 28.4%, over our provision for income taxes of \$ 29.9 million for the nine months ended December 31, 2002. Our effective tax rate decreased to 16.6% for the nine months ended December 31, 2003 from 17.4% for the nine months ended December 31, 2002. The decrease is primarily attributable to a one-time tax on 10% of the profits generated by our operations located in software technology parks in fiscal 2003. These operations are subject to a 100% tax holiday in the current fiscal year. The income tax provision for the interim period is based on the best estimate of the effective tax rate expected to be applicable for the full fiscal year.

Net income. Our net income was \$ 193.5 million for the nine months ended December 31, 2003, representing an increase of \$ 51.7 million, or 36.5% over our net income of \$ 141.8 million for the nine months ended December 31, 2002. As a percentage of total revenues, net income decreased to 25.5% for the nine months ended December 31, 2003 from 26.4% for the nine months ended December 31, 2002.

Liquidity and capital resources

Our growth has been financed largely by cash generated from operations and, to a lesser extent, from the proceeds from the sale of equity. In 1993, we raised approximately \$ 4.4 million in gross aggregate proceeds from our initial public offering of equity shares in India. In 1994, we raised an additional \$ 7.7 million through private placements of our equity shares with foreign institutional investors, mutual funds, Indian domestic financial institutions and corporations. On March 11, 1999 we raised \$ 70.4 million in gross aggregate proceeds from our initial U.S. public offering of ADSs.

As of December 31, 2003 we had \$ 421.3 million in cash and cash equivalents, \$ 133.0 million invested in liquid mutual funds, \$ 630.8 million in working capital and no outstanding bank borrowings or long term debt. We believe that a sustained reduction in IT spending, a longer sales cycle, and a continued economic downturn in any of the various industry segments in which we operate, could result in a decline in our revenue and negatively impact our liquidity and cash resources.

Net cash provided by operating activities was \$ 269.8 million and \$ 151.3 million for the nine months ended December 31, 2003 and 2002. Net cash provided by operations consisted primarily of net income and increases in income tax provisions, other accrued liabilities and client deposits, offset in significant part by an increase in accounts receivable. Accounts receivable as a percentage of the last twelve-month revenues represented 15.1% and 15.7% as of December 31, 2002 and 2003.

Prepaid expenses and other current assets increased by \$ 0.2 million during the nine months ended December 31, 2003 compared to a \$ 3.4 million increase during the nine months ended December 31, 2002. There has been a decrease of \$ 0.1 million in unbilled revenues during the nine months ended December 31, 2003 compared to an increase of \$ 11.2 million during the nine months ended December 31, 2002. Unbilled revenues represent revenues that are recognized but not yet invoiced. Other accrued liabilities increased by \$ 29.4 million and \$ 14.3 million during the nine months ended December 31, 2003 and 2002. The increases are primarily due to increases in our accrued employee compensation, withholding taxes payable and provisions for expenses.

The increase in unearned revenues was \$ 4.7 million during the nine months ended December 31, 2003 compared to a \$ 8.0 million increase during the nine months ended December 31, 2002. These changes resulted primarily from advance client billings on fixed-price, fixed-timeframe contracts for which related costs were not yet incurred.

Net cash used in investing activities was \$ 186.8 million and \$ 35.8 million for the nine months ended December 31, 2003 and 2002. Net cash used in investing activities, relating to our acquisition of additional property, plant and equipment for the nine months ended December 31, 2003 and 2002, was \$ 48.6 million and \$ 26.8 million. Additionally, we acquired intangible assets in the amount of \$ 4.1 million during the nine months ended December 31, 2002. During the nine months ended December 31, 2003, we invested \$ 130.8 million in liquid mutual fund units and advanced \$ 11.1 million for a contemplated business combination.

On December 18, 2003, we agreed to acquire Expert Information Services Pty. Limited, Australia, subject to the standard closing conditions. The transaction value approximates \$ 23.2 million. As of December 31, 2003, we had remitted \$ 11.1 million to our solicitors to be retained in trust for the acquisition of the business. Cash and cash equivalents as of December 31, 2003 include \$ 2.2 million retained in escrow. The transaction closed on January 2, 2004.

We provide various loans, primarily to employees in India who are not executive officers or directors, including marriage loans, personal loans, salary advances, and loans for rental deposits. The loan program is designed to assist our employees and increase employee satisfaction. The terms of the outstanding loans range from 12 to 100 months. In the aggregate, these loans represented approximately \$ 28.7 million and \$ 26.2 million as of March 31, 2003 and December 31, 2003.

Net cash used in financing activities for the nine months ended December 31, 2003 of \$ 32.6 million primarily comprised of \$ 47.2 million of dividend payments offset \$ 14.6 million of proceeds from issuance of common stock. During the nine months ended December 31, 2002 we had \$ 10.0 million of cash raised by the issuance of preferred stock by our subsidiary and \$ 2.2 million of proceeds from issuance of common stock offset by dividend payments of \$ 34.0 million. As of December 31, 2003 we had contractual commitments for capital expenditure of \$ 19.2 million. These commitments include approximately \$ 17.3 million in domestic purchases and \$ 1.9 million in imports and overseas commitments for hardware, supplies and services to support our operations generally, which we expect to be completed by June 2004.

We have provided information to the public regarding forward-looking guidance on our business operations.

Reconciliation between Indian and U.S. GAAP

All financial information in this report is presented in U.S. GAAP, although we also report for Indian statutory purposes under Indian GAAP. There are material differences between financial statements prepared in Indian and U.S. GAAP. The material differences that affect us are primarily attributable to U.S. GAAP requirements for the:

- accounting for stock-based compensation;
- deferred taxes;
- consolidation of majority owned subsidiaries;
- provision for investments acquired through a non-cash transaction; and
- accounting for foreign exchange forward contracts.

	Nine months ended December 31,	
	2002	2003
Net profit as per Indian GAAP	\$ 143,642,214	\$ 196,547,208
Amortization of stock compensation expense	(3,731,844)	(2,817,066)
Profit/(Loss) of consolidated subsidiary	(808,680)	477,151
Forward contract-marked to market	696,227	(42,777)
Deferred taxes	–	20,008
Provision for investments	2,000,000	–
Others	–	(654,865)
Net income as per US GAAP	\$ 141,797,917	\$ 193,529,659

Quantitative and qualitative disclosures about market risk

General

Market risk is the loss of future earnings, to fair values or to future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market sensitive financial instruments including foreign currency receivables and payables.

Our exposure to market risk is a function of our borrowing activities and revenue generating activities in foreign currency. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. Most of our exposure to market arises out of our foreign currency accounts receivable.

Risk management procedures

We manage market risk through treasury operations. Treasury operations' objectives and policies are approved by senior management and our audit committee. The activities of treasury operations include management of cash resources, implementing hedging strategies for foreign currency exposures, borrowing strategies, if any, and ensuring compliance with market risk limits and policies.

Components of market risk

Exchange rate risk. Our exposure to market risk arises principally from exchange rate risk. Even though our functional currency is the Indian rupee, we transact a major portion of our business in foreign currencies, particularly the U.S. dollar. The exchange rate between the rupee and the dollar has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of our operations are adversely affected as the rupee appreciates against dollar. For fiscal 2003 and the nine months ended December 31, 2003, our U.S. dollar denominated revenues represented 89.0% and 86.9% of our total revenues. Our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables. We have sought to reduce the effect of exchange rate fluctuations on our operating results by purchasing foreign exchange forward contracts to cover a portion of outstanding accounts receivable. As of March 31, 2003 and December 31, 2003 we had outstanding forward contracts in the amount of \$ 88.0 million and \$ 113.8 million. These contracts typically mature within six months, must be settled on the day of maturity and may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these instruments only as a hedging mechanism and not for speculative purposes. We may not purchase contracts adequate to insulate ourselves from foreign exchange currency risks. In addition, any such contracts may not perform adequately as a hedging mechanism. We may, in the future, adopt more active hedging policies, and have done so in the past.

Fair value. The fair value of our market rate risk sensitive instruments approximates their carrying value.

Recent Accounting Pronouncements

In December 2003, The Financial Accounting Standards Board (FASB) has published a revision to Interpretation 46 to clarify some of the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, and to exempt certain entities from its requirements. The additional guidance is being issued in response to input received from constituents regarding certain issues arising in implementing Interpretation 46. The revision is not expected to have any impact on the company's accounting or disclosure policies.

In December 2003, the FASB issued FASB Statement No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, that improves financial statement disclosures for defined benefit plans. The guidance is effective for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003. The company is evaluating the impact of the revision on its disclosure policies.

Critical accounting policies

We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We primarily make estimates related to contract costs expected to be incurred to complete development of software, allowances for doubtful accounts receivable, our future obligations under employee retirement and benefit plans, useful lives of property, plant and equipment, future income tax liabilities and contingencies and litigation.

We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. These include revenue recognition, as well as accounting for income taxes. Our accounting policy and related procedures for revenue recognition on such contracts and on income taxes are set out below.

Revenue recognition

We derive our revenues primarily from software development and related services, licensing of software products and from business process management services. We make and use significant management judgments and estimates in connection with the revenue that we recognize in any accounting period. Material differences may result in the amount and timing of our revenue for any period, if we made different judgments or utilized different estimates.

Arrangements with customers for software development and related services are either on a fixed price, fixed time frame or on a time and material basis. Revenue on time and material contracts is recognized as the related services are rendered. Revenue from the end of the last billing to the balance sheet date is recognized as unbilled revenues. Maintenance revenues are recognized ratably over the term of the underlying maintenance arrangement. When the company receives advances for services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met.

Revenue from our fixed price arrangements for software development and related services that involves significant production, modification or customization of the software, is accounted in conformity with ARB No. 45, using the guidance in Statement of Position (SOP) 81-1, and the Accounting Standards Executive Committee's conclusion in paragraph 95 of SOP 97-2. Fixed price arrangements, which are similar to "contracts to design, develop, manufacture, or modify complex aerospace or electronic equipment to a buyer's specification or to provide services related to the performance of such contracts" and "contracts for services performed by

architects, engineers, or architectural or engineering design firms,” as laid out in Paragraph 13 of SOP 81-1, are also accounted for in conformity with SOP 81-1.

In the above mentioned fixed price arrangements, revenue has been recognized using the percentage-of-completion method. Costs and earnings in excess of billings are classified as unbilled revenue while billings in excess of costs and earnings are classified as unearned revenue. In measuring progress towards completion, we have selected a method that we believe is reliable and best approximates the progress to completion. The input (efforts expended) method has been used to measure progress towards completion as there is a direct relationship between labor hour input and productivity and the method indicates the most reliable measure of progress. However, we evaluate each contract and apply judgment to ensure the existence of a relationship between labor hours input and productivity.

At the end of every reporting period, we evaluate each project for estimated revenue and estimated efforts. Any revisions or updates to existing estimates are made wherever required by obtaining approvals from officers having the requisite authority. Management regularly reviews and evaluates the status of each contract in progress to estimate the profit or loss. As part of the review, detailed actual efforts and a realistic estimate of efforts to complete all phases of the project is compared with the details of the original estimate and the total contract price. To date, we have not had any fixed-price, fixed-timeframe contracts that resulted in a material loss. However, our policy is to establish a provision for losses on a contract as soon as losses become evident. We evaluate change orders according to their characteristics and the circumstances in which they occur. If such change orders are considered by the parties to be a normal element within the original scope of the contract, no change in the contract price is made. Otherwise, the adjustment to the contract price may be routinely negotiated. Contract revenue and costs are adjusted to reflect change orders approved by the client and us, regarding both scope and price. Changes are reflected in revenue recognition only after the change order has been approved by both parties. The same principle is also followed for escalation clauses. Costs that are incurred for a specific anticipated contract that will result in no future benefits unless the contract is obtained are not included in contract costs or deferred costs before the signing of the contract. Such costs are deferred only if the costs can be directly associated with a specific anticipated contract and if their recoverability from that contract is determined to be probable.

We provide our clients with a fixed-period warranty for corrections of errors and telephone support on all fixed-price, fixed-time frame contracts. Costs associated with such support services are accrued at the time related revenues are recorded and included in cost of revenues. We estimate such costs based on historical experience, and review estimates on a periodic basis for any material changes in assumptions and likelihood of occurrence.

In accordance with SOP 97-2, Software Revenue Recognition, license fee revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable, and the collection of the fee is probable. Arrangements to deliver our software product generally have three elements: license, implementation and Annual Technical Services, or ATS. We have applied the principles in SOP 97-2 to account for revenue from these multiple element arrangements. Vendor Specific Objective Evidence of fair value or VSOE has been established for ATS. VSOE is the price charged when the element is sold separately. When other services are provided in conjunction with the licensing arrangement, the revenue from such contracts are allocated to each component of the contract using the residual method, whereby revenue is deferred for the undelivered services and the residual amounts are recognized as revenue for delivered elements. In the absence of an established VSOE for implementation, the entire arrangement fee for license and implementation is recognized as the implementation is performed. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed. ATS revenue is recognized ratably over the period in which the services are rendered.

Revenues from business process management and other services are recognized on both the time-and-material and fixed-price, fixed-time frame bases. Revenue on time-and-material contracts is recognized as the related services are rendered. Revenue from fixed-price, fixed-time frame contracts is recognized as per the proportional performance method using an output measure of performance.

We recognize revenue only on collectibility being probable and hence credit losses do not have an impact on our revenue recognition policy. Fluctuations in our provisions for bad debts and write offs of uncollectible accounts depend on the financial health and economic environment governing our clients. Our provisions are based on specific identification of the credit risk. No one client has contributed significantly to the loss. We have had no significant changes in our collection policies or payment terms.

Income taxes

As part of our financial reporting process, we are required to estimate our liability for income taxes in each of the tax jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure together with an assessment of temporary differences resulting from differing treatment of items, such as depreciation on property, plant and equipment, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet.

We face challenges from domestic and foreign tax authorities regarding the amount of current taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Based on our evaluation of our tax position and the information presently available to us, we believe we have adequately accrued for probable exposures as of December 31, 2003. To the extent we are able to prevail in matters for which accruals have been established or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period may be materially impacted.

Our deferred tax assets comprise assets arising from basis differences in depreciation on property, plant and equipment, investments for which the ultimate realization of the tax asset may be dependent on the availability of future capital gains, and provisions for doubtful accounts receivable. We assess the likelihood that our deferred tax assets will be recovered from future taxable income. This assessment takes into consideration tax planning strategies, including levels of historical taxable income and assumptions regarding the availability and character of future taxable income over the periods in which the deferred tax assets are deductible. We believe it is more likely than not that we will realize the benefits of those deductible differences, net of the existing valuation differences at December 31, 2003. The ultimate amount of deferred tax assets realized may be materially different from those recorded, as influenced by potential changes in income tax laws in the tax jurisdictions where we operate.

To the extent we believe that realization of a deferred tax asset is not likely, we establish a valuation allowance or increase this allowance in an accounting period and include an expense within the tax provision in our statements of income. As of March 31, 2003 and December 31, 2003 we recorded valuation allowances of \$ 0.6 million and \$ 2.1 million due to uncertainties related to our ability to utilize some of our deferred tax assets comprising provisions for doubtful accounts receivable and provision for investments. In the event that actual results differ from these estimates of valuation allowance or if we adjust these estimates in future periods, we may need to establish an additional valuation allowance, which could materially impact our financial position and results of operations.

Off-balance sheet arrangements

None.

RISK FACTORS

Risks Related to Our Company and Our Industry

Our revenues and expenses are difficult to predict and can vary significantly from quarter to quarter, which could cause our share price to decline.

Our revenues and profitability have grown rapidly in recent years and are likely to vary significantly in the future from quarter to quarter. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. It is possible that in the future some of our quarterly results of operations may be below the expectations of market analysts and our investors, which could cause the share price of our equity shares and our ADSs to decline significantly.

Factors which affect the fluctuation of our operating results include:

- the size, timing and profitability of significant projects;
- changes in our pricing policies or those of our competitors;
- the proportion of services that we perform outside India as opposed to at our development centers in India;
- the effect of seasonal hiring patterns and the time required to train and productively utilize new employees, particularly information technology, or IT, professionals;
- the size and timing of facilities expansion;
- unanticipated cancellations, contract terminations or deferrals of projects; and
- unanticipated variations in the duration, size and scope of our projects.

A significant part of our total operating expenses, particularly expenses related to personnel and facilities, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number and timing of our projects or employee utilization rates, or the accuracy of our estimates of the resources required to complete ongoing projects, may cause significant variations in our operating results in any particular quarter.

There are also a number of factors, other than our performance, that are not within our control that could cause fluctuations in our operating results from quarter to quarter. These include:

- the duration of tax holidays or exemptions and the availability of other Government of India incentives;
- currency exchange rate fluctuations, particularly when the rupee appreciates in value against the dollar since the majority of our revenues are in dollars and a significant part of our costs are in rupees; and
- other general economic factors.

We have not been able to sustain our previous profit margins or levels of profitability.

Our net income increased 18.5% in fiscal 2003 as compared to fiscal 2002. Our net income increased 24.6% in fiscal 2002 as compared to fiscal 2001. As we continue to experience declines in demand, pricing pressures for our services, and increased wage pressures in India, we have not been able to sustain our historical levels of profitability. During fiscal 2003, we incurred substantially higher selling and marketing expenses to increase brand awareness among target clients and promote client loyalty and repeat business among existing clients, and we expect to continue to incur substantially higher selling and marketing expenses in the future, which could result in declining profitability. While our Global Delivery Model allows us to manage costs efficiently, as the proportion of our services delivered at client sites increases, we may not be able to keep our operating costs as low in the future.

The current economic downturn has negatively impacted our revenues and operating results.

Spending on IT products and services in most parts of the world has significantly decreased due to a challenging global economic environment. Some of our clients have cancelled, reduced or deferred expenditures for IT services. Pricing pressures from our clients, wage pressures in India and an increase in our sales and marketing expenditures have also negatively impacted our operating results. For example, clients often expect that as we do more business with them, they will receive volume discounts. Additionally, clients may ask for fixed-price arrangements or reduced rates.

If the current economic downturn continues, our utilization and billing rates for our IT professionals could be adversely affected which may result in lower gross and operating profits.

Any inability to manage our growth could disrupt our business and reduce our profitability.

We have grown significantly in recent periods. Between December 31, 1999 and December 31, 2003 the number of our total employees grew from approximately 5,000 to approximately 21,800 representing a compound annual growth rate of 44.5%. In addition, in the last four fiscal years we have undertaken major expansions of our existing facilities, as well as the construction of new facilities.

We expect our growth to place significant demands on our management and other resources. It will require us to continue to develop and improve our operational, financial and other internal controls, both in India and elsewhere. In particular, continued growth increases the challenges involved in:

- recruiting, training and retaining sufficient skilled technical, marketing and management personnel;
- adhering to our high quality and process execution standards;
- preserving our culture, values and entrepreneurial environment;
- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems; and
- maintaining high levels of client satisfaction.

Our growth strategy also relies on the expansion of our operations to other parts of the world, including Europe, Australia and other parts of Asia. The costs involved in entering these markets may be higher than expected and we may face significant competition in these regions. Our inability to manage growth in these regions may have an adverse effect on our business, results of operations and financial condition.

We may face difficulties in providing end-to-end business solutions for our clients, which could lead to clients discontinuing their work with us, which in turn could harm our business.

Over the past three years, we have been expanding the nature and scope of our engagements by extending the breadth of services we offer. We have recently added new service offerings, such as IT consulting, business process management systems integration and IT outsourcing. The success of these service offerings is dependent, in part, upon continued demand for such services by our existing and new clients and our ability to meet this demand in a cost-competitive and effective manner. In addition, our ability to effectively offer a wider breadth of end-to-end business solutions depends on our ability to attract existing or new clients to these service offerings. To obtain engagements for such end-to-end solutions, we also are more likely to compete with large, well-established international consulting firms, resulting in increased competition and marketing costs. Accordingly, we cannot be certain that our new service offerings will effectively meet client needs or that we will be able to attract existing and new clients to these service offerings.

The increased breadth of our service offerings may result in larger and more complex projects with our clients. This will require us to establish closer relationships with our clients and a thorough understanding of their operations. Our ability to establish such relationships will depend on a number of factors including the proficiency of our IT professionals and our management personnel.

Larger projects may involve multiple engagements or stages, and there is a risk that a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. These terminations, cancellations or delays may result from the business or financial condition of our clients or the economy generally, as opposed to factors related to the quality of our services. Such cancellations or delays make it difficult to plan for project resource requirements, and inaccuracies in such resource planning may have a negative impact on our profitability. While our Global Delivery Model allows us to manage costs efficiently, as the proportion of our services delivered at client sites increases, we may not be able to keep our operating costs as low in the future.

Intense competition in the market for IT services could affect our cost advantages, which could reduce our share of business from clients and decrease our revenues.

The IT services market is highly competitive. Our competitors include large consulting firms, divisions of large multinational technology firms, IT outsourcing firms, Indian IT services firms, software firms and in-house IT departments of large corporations.

The IT services industry is experiencing rapid changes that are affecting the competitive landscape, including recent divestitures and acquisitions that have resulted in consolidation within the industry. These changes may result in larger competitors with significant resources. In addition, some of our competitors have added or announced plans to add cost-competitive offshore capabilities to their service offerings. Many of these competitors are substantially larger than us and have significant experience with international operations, and we may face competition from them in countries in which we currently operate, as well as in countries in which we expect to expand our operations. We also expect additional competition from IT services firms with current operations in other countries, such as China and the Philippines. While we believe that we are well positioned in our markets relative to our competitors, such competitors may be able to offer services using offshore and onshore models that are more effective than ours.

Many of our competitors, including Accenture, EDS and IBM, have significantly greater financial, technical and marketing resources, generate greater revenues and have greater name recognition than we do. We cannot be reasonably certain that we will be able to compete successfully against such competitors, or that we will not lose clients to such competitors. Additionally, we believe that our ability to compete also depends in part on factors outside our control, such as the price at which our competitors offer comparable services, and the extent of our competitors' responsiveness to their clients' needs.

Our revenues are highly dependent upon a small number of clients, and the loss of any one of our major clients could significantly impact our business.

We have historically earned, and believe that in the future we will continue to earn, a significant portion of our revenues from a limited number of corporate clients. In the nine months ended December 31, 2003 and fiscal 2003, our largest client accounted for 5.5% and 5.8% of our total revenues, and our five largest clients together accounted for 23.4% of our total revenues. The volume of work we perform for specific clients is likely to vary from year to year, particularly since we historically have not been the exclusive external IT services provider for our clients. Thus, a major client in one year may not provide the same level of revenues in a subsequent year. However, in any given year, a limited number of clients tend to contribute a significant portion of our revenues.

There are a number of factors, other than our performance, that could cause the loss of a client and that may not be predictable. In certain cases, we have significantly reduced the services provided to a client when the client either changed its outsourcing strategy by moving more work in-house or replaced its existing software with packaged software supported by the licensor. Another circumstance which may result in our loss of a client is a reduction in spending on IT services due to a challenging economic environment. If we were to lose one of our major clients or have it significantly reduce its volume of business with us, our revenues and profitability could be reduced.

Our revenues are highly dependent on clients primarily located in the United States, as well as clients concentrated in certain industries, and economic slowdowns, changes in U.S. law and other restrictions or factors that affect the economic health of the United States and these industries may affect our business.

A significant portion of our revenues is derived from clients located in the United States, as well as clients in certain industries. In the nine months ended December 31, 2003 and fiscal 2003, approximately 72.4% and 72.0% of our revenues were derived from the United States. For the same periods, we earned 38.0% and 37.6% of our revenues from the financial services industry, and 14.9% and 16.4% from the manufacturing industry. Consequently, if the current economic slowdown in the United States is prolonged, our clients may reduce or postpone their IT spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. Further, any significant decrease in the growth of the financial services or other industry segments on which we focus may reduce the demand for our services and negatively affect our revenues and profitability.

Recently, some organizations have expressed concerns about a perceived association between offshore outsourcing and the loss of jobs in the United States. Within the last 12 months, some U.S. states have enacted legislation restricting government agencies from outsourcing their back office processes and IT solutions work to companies outside the United States. It is also possible that U.S. private sector companies that work with these states may be restricted from outsourcing their work related to government contracts. We currently do not have significant contracts with U.S. federal or state government entities, however, there can be no assurance that these restrictions will not extend to private companies, such as our clients. Any changes to existing laws or the enactment of new legislation restricting offshore outsourcing may adversely impact our ability to do business in the United States, particularly if these changes are widespread.

Our success depends in large part upon our highly skilled IT professionals and our ability to attract and retain these personnel.

Our ability to execute projects and to obtain new clients depends largely on our ability to attract, train, motivate and retain highly skilled IT professionals, particularly project managers and other mid-level professionals. If we cannot hire and retain additional qualified personnel, our ability to bid on and obtain new projects, and to continue to expand our business will be impaired and our revenues could decline. We believe that there is significant worldwide competition for IT professionals with the skills necessary to perform the services we offer. We may not be able to hire and retain enough skilled and experienced IT professionals to replace those who leave. Additionally, we may not be able to redeploy and retrain our IT professionals to keep pace with continuing changes in technology, evolving standards and changing client preferences. Our inability to attract and retain IT professionals may have a material adverse effect on our business, results of operations and financial condition.

Our success depends in large part upon our management team and key personnel and our ability to attract and retain them.

We are highly dependent on the senior members of our management team, including the continued efforts of our Chairman, our Chief Executive Officer, our Chief Operating Officer, other executive members of the board and the management council, which consists of executive and other officers. Our future performance will be affected by any disruptions in the continued service of these persons. We do not maintain key man life insurance for any of the senior members of our management team or other key personnel. Competition for senior management in our industry is intense, and we may not be able to retain such senior management personnel or attract and retain new senior management personnel in the future. The loss of any members of our senior management or other key personnel may have a material adverse effect on our business, results of operations and financial condition.

Our failure to complete fixed-price, fixed-timeframe contracts on budget and on time may negatively affect our profitability.

As an element of our business strategy, we offer a portion of our services on a fixed-price, fixed-timeframe basis, rather than on a time-and-materials basis. In the nine months ended December 31, 2003 and fiscal 2003, revenues from fixed-price, fixed-timeframe projects accounted for 35.0% and 36.7% of our total services revenues. Although we use our software engineering methodologies and processes and past project experience to reduce the risks associated with estimating, planning and performing fixed-price, fixed-timeframe projects, we bear the risk of cost overruns, completion delays and wage inflation in connection with these projects. If we fail to estimate accurately the resources and time required for a project, future wage inflation rates, or currency exchange rates, or if we fail to complete our contractual obligations within the contracted timeframe, our profitability may suffer.

Our client contracts can typically be terminated without cause and with little or no notice or penalty, which could negatively impact our revenues and profitability.

Our clients typically retain us on a non-exclusive, project-by-project basis. Most of our client contracts, including those that are on a fixed-price, fixed-timeframe basis, can be terminated with or without cause, with between zero and 90 days' notice and without termination-related penalties. Additionally, our contracts with clients are typically limited to discrete projects without any commitment to a specific volume of business or future work. Our business is dependent on the decisions and actions of our clients, and there are a number of factors relating to our clients that are outside our control that might result in the termination of a project or the loss of a client, including:

- financial difficulties for a client;
- a change in strategic priorities, resulting in a reduced level of IT spending;
- a demand for price reductions;

- a change in outsourcing strategy by moving more work to client in-house IT departments or to our competitors; and
- the replacement by our clients of existing software with packaged software supported by licensors.

Our client contracts are often conditioned upon our performance, which, if unsatisfactory, could result in less revenue generated than anticipated.

A number of our contracts have incentive-based or other pricing terms that condition some or all of our fees on our ability to meet defined goals. Our failure to meet these goals or a client's expectations in such performance-based contracts may result in a less profitable or an unprofitable engagement.

Our business will suffer if we fail to anticipate and develop new services and enhance existing services in order to keep pace with rapid changes in technology and the industries on which we focus.

The IT services market is characterized by rapid technological change, evolving industry standards, changing client preferences and new product and service introductions. Our future success will depend on our ability to anticipate these advances and develop new product and service offerings to meet client needs. We may not be successful in anticipating or responding to these advances in a timely basis, or, if we do respond, the services or technologies we develop may not be successful in the marketplace. Further, products, services or technologies that are developed by our competitors may render our services non-competitive or obsolete.

Disruptions in telecommunications could harm our service delivery model, which could result in client dissatisfaction and a reduction of our revenues.

A significant element of our Global Delivery Model is to continue to leverage and expand our global development centers. We currently have 26 global development centers located in various countries around the world. Our global development centers are linked with a network architecture that uses multiple service providers and various satellite and optical links with alternate routing. We may not be able to maintain active voice and data communications between our various global development centers and between our global development centers and our clients' sites at all times. Any significant loss in our ability to communicate could result in a disruption in business, which could hinder our performance or our ability to complete client projects on time. This, in turn, could lead to client dissatisfaction and a material adverse effect on our business, results of operations and financial condition.

We may be liable to our clients for damages caused by system failures, which could damage our reputation and cause us to lose clients.

Many of our contracts involve projects that are critical to the operations of our clients' businesses, and provide benefits which may be difficult to quantify. Any failure in a client's system or breaches of security could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to limit our contractual liability for consequential damages in rendering our services, we cannot be assured that the limitations on liability we provide for in our service contracts will be enforceable in all cases, or that they will otherwise be sufficient to protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors or omissions, however, we cannot be assured that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or changes in our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirement, could adversely affect our operating results.

We are investing substantial cash assets in new facilities, and our profitability could be reduced if our business does not grow proportionately.

As of December 31, 2003, we had contractual commitments of approximately \$ 19.2 million for capital expenditure. Although we have successfully developed new facilities in the past, we may still encounter cost overruns or project delays in connection with new facilities. Additionally, future financing for additional facilities, whether within India or elsewhere, may not be available on attractive terms or at all. Such expansions will significantly increase our fixed costs. If we are unable to grow our business and revenues proportionately, our profitability will be reduced.

We may be unable to recoup our investment costs to develop our software products.

In the nine months ended December 31, 2003 and fiscal 2003, we earned 3.0% and 4.6% of our total revenue from the sale of software products. The development of our software products requires significant investments. The markets for our primary suite of software products that we call Finacle™ are competitive. Our current software products or any new software products that we develop may not be commercially successful and the costs of developing such new products may not be recouped. Since software product revenues typically occur in periods subsequent to the periods in which the costs are incurred for the development of such software products, delayed revenues may cause periodic fluctuations of our operating results.

Our insiders are significant shareholders, are able to exercise significant control over the election of our board and may have interests which conflict with those of our other shareholders or holders of our ADSs.

Our executive officers and directors, together with members of their immediate families, beneficially owned, in the aggregate, approximately 22.5% of our issued equity shares as of December 31, 2003. As a result, acting together, this group has the ability to exercise significant control over most matters requiring our shareholders' approval, including the election and removal of directors and significant corporate transactions.

We may engage in acquisitions, strategic investments, strategic partnerships or alliances or other ventures that may or may not be successful.

We may acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into strategic partnerships or alliances with third parties in order to enhance our business. For example, we recently acquired Expert Information Services Pty. Limited, Australia. It is possible that we may not identify suitable acquisition, strategic investment or strategic partnership candidates, or if we do identify suitable candidates, we may not complete those transactions on terms commercially acceptable to us or at all. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions may affect our competitiveness and our growth prospects.

If we acquire a company, we could have difficulty in assimilating that company's personnel, operations, technology and software. In addition, the key personnel of the acquired company may decide not to work for us. In some cases, we could have difficulty in integrating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses. As of the date of this Quarterly Report, we have no agreements to enter into any material acquisition, investment, partnership, alliance or other joint venture transaction.

We make strategic investments in new technology start-up companies in order to gain experience in or exploit niche technologies. As of December 31, 2003, we have invested an aggregate amount of approximately \$ 11.4 million in strategic investments. However, our investments may not be successful. The lack of profitability of any of our investments could have a material adverse effect on our operating results. In the nine months ended December 31, 2003 and fiscal 2003, we made a loss provision for \$ 1.9 million and \$ 3.2 million related to investments in private start-up companies.

Our earnings may be adversely affected if we are required to change our accounting policies with respect to the expensing of stock options.

We do not currently deduct the expense of employee stock option grants from our income based on the fair value method. Regulatory authorities, including the Financial Accounting Standards Board and International Accounting Standards Board, are considering requiring companies to change their accounting policies to record the fair value of stock options issued to employees as an expense. Many companies have or are in the process of voluntarily changing their accounting policies to expense the fair value of stock options. Stock options are an important component of our employee compensation package. If we change our accounting policy with respect to the treatment of employee stock option grants, our earnings could be adversely affected. We have adopted the pro forma disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Had compensation cost for our stock-based compensation plan been determined in a manner consistent with the fair value approach described in SFAS No. 123, our net income as reported would have been reduced to the pro forma amounts of approximately \$ 155.1 million and \$ 137.2 million in the nine months ended December 31, 2003 and fiscal 2003.

Risks Related to Investments in Indian Companies and International Operations Generally

Our net income would decrease if the Government of India reduces or withdraws tax benefits and other incentives it provides to us.

Currently, we benefit from the tax holidays the Government of India gives to the export of IT services from specially designated software technology parks in India. As a result of these incentives, which include a 10-year tax holiday from Indian corporate income taxes for the operation of most of our Indian facilities and a partial taxable income deduction for profits derived from exported IT services, our operations have been subject to relatively low tax liabilities. These tax incentives resulted in a decrease in our income tax expense of \$ 79.4 million and \$ 71.9 million for the nine months ended December 31, 2003 and fiscal 2003 compared to the effective tax rates that we estimate would have applied if these incentives had not been available, without accounting for double taxation treaty set-offs, if any.

The Finance Act, 2000 phases out the 10-year tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. Additionally, the Finance Act, 2002 required that ten percent of all income derived from services performed in software technology parks be subject to income tax for a one-year period which ended March 31, 2003. For companies opting for the partial taxable income deduction for profits derived from exported IT services, the Finance Act, 2000 phases out the deduction over five years beginning on April 1, 2000. When our tax holiday and taxable income deduction expire or terminate, our tax expense will materially increase, reducing our profitability.

Wage pressures in India may prevent us from sustaining our competitive advantage and may reduce our profit margins.

Wage costs in India have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive strengths. However, wage increases in India may prevent us from sustaining this competitive advantage and may negatively affect our profit margins. Wages in India are increasing at a faster rate than in the United States, which could result in increased costs for IT professionals, particularly project managers and other mid-level professionals. We may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive. Compensation increases may result in a material adverse effect on our business, results of operations and financial condition.

Terrorist attacks or a war could adversely affect our business, results of operations and financial condition.

Terrorist attacks, such as the attacks of September 11, 2001 in the United States and other acts of violence or war, such as the recent conflict in Iraq, have the potential to have a direct impact on our clients. To the extent that such attacks affect or involve the United States, our business may be significantly impacted, as the majority of our revenues are derived from clients located in the United States. In addition, such attacks may make travel more difficult, may make it more difficult to obtain work visas for many of our IT professionals who are required to work in the United States, and may effectively curtail our ability to deliver our services to our clients. Such obstacles to business may increase our expenses and negatively affect the results of our operations. Many of our clients, in particular for our newer services, such as business process management and IT outsourcing, visit several IT services firms prior to reaching a decision on vendor selection. Terrorist threats, attacks or war could make travel more difficult and delay, postpone or cancel decisions to use our services.

Regional conflicts in South Asia could adversely affect the Indian economy, disrupt our operations and cause our business to suffer.

South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. In recent years there have been military confrontations between India and Pakistan that have occurred in the region of Kashmir and along the India-Pakistan border. The potential for hostilities between the two countries is higher due to recent terrorist incidents in India, recent troop mobilizations along the border, and the aggravated geopolitical situation in the region. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult and such political tensions could create a greater perception that investments in Indian companies involve higher degrees of risk. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our equity shares and our ADSs, and on the market for our services.

Restrictions on immigration may affect our ability to compete for and provide services to clients in the United States, which could hamper our growth and cause our revenues to decline.

The vast majority of our employees are Indian nationals. The ability of our IT professionals to work in the United States, Europe and in other countries depends on the ability to obtain the necessary visas and work permits. As of December 31, 2003, the majority of our IT professionals in the United States held H-1B visas (approximately 2,900 persons), allowing the employee to remain in the United States as long as he or she remains an employee of the sponsoring firm, or L-1 visas (approximately 800 persons), allowing for the employee to stay in the United States only temporarily. Although there is no limit to new L-1 visas, there is a limit to the aggregate number of new H-1B visas that the U.S. Immigration and Naturalization Service, or INS, may approve in any government fiscal year. Further, in response to the recent terrorist attacks in the United States, the INS has increased the level of scrutiny in granting visas. This may also lead to limits on the number of L-1 visas granted. The U.S. immigration laws may also require us to meet certain levels of compensation, and to comply with other legal requirements, as a condition to obtaining or maintaining work visas for our IT professionals working in the United States.

Immigration laws in the United States and in other countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or monitoring work visas for our IT professionals. Our reliance on work visas for a significant number of IT professionals makes us particularly vulnerable to such changes and variations as it affects our ability to staff projects with IT professionals who are not citizens of the country where the work is to be performed. As a result, we may not be able to obtain a sufficient number of visas for our IT professionals or may encounter delays or additional costs in obtaining or maintaining the condition of such visas.

Changes in the policies of the Government of India or political instability could delay the further liberalization of the Indian economy and adversely affect economic conditions in India generally, which could impact our business and prospects.

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators has remained significant. The current Government of India, formed in October 1999, has announced policies and taken initiatives that support the continued economic liberalization policies that have been pursued by previous governments. However, these liberalization policies may not continue in the future. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally, and our business in particular.

The current Indian government is a coalition of several parties. The withdrawal of one or more of these parties could result in political instability. Such instability could delay the reform of the Indian economy and could have a material adverse effect on the market for securities of Indian companies, including our equity shares and our ADSs, and on the market for our services.

Currency exchange rate fluctuations may affect the value of our ADSs.

Our functional currency is the Indian rupee although we transact a major portion of our business in foreign currencies and accordingly face foreign currency exposure through our sales in the United States and elsewhere and purchases from overseas suppliers in dollars. Historically, we have held a substantial majority of our cash funds in rupees. Accordingly, changes in exchange rates may have a material adverse effect on our revenues, cost of services sold, gross margin and net income, which may in turn have a negative impact on our business, operating results and financial condition. The exchange rate between the rupee and the dollar has changed substantially in recent years and may fluctuate substantially in the future. We expect that a majority of our revenues will continue to be generated in

U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs, as well as capital and operating expenditures, will continue to be denominated in Indian rupees. Consequently, the results of our operations are adversely affected as the rupee appreciates against the dollar.

We have sought to reduce the effect of exchange rate fluctuations on our operating results by purchasing foreign exchange forward contracts to cover a portion of outstanding accounts receivable. As of December 31, 2003, we had outstanding forward contracts in the amount of \$ 113.8 million. This increase is primarily attributable to our decision to actively hedge our foreign currency exposure in light of the recent steady appreciation of the Indian rupee against the U.S. dollar. We may not purchase contracts adequate to insulate ourselves from foreign exchange currency risks.

Fluctuations in the exchange rate between the rupee and the dollar will also affect the dollar conversion by Deutsche Bank Trust Company Americas, the Depository, of any cash dividends paid in rupees on the equity shares represented by the ADSs. In addition, these fluctuations will affect the dollar equivalent of the rupee price of equity shares on the Indian stock exchanges and, as a result, the prices of our ADSs in the United States, as well as the dollar value of the proceeds a holder would receive upon the sale in India of any equity shares withdrawn from the Depository under the Depository Agreement. Holders may not be able to convert rupee proceeds into dollars or any other currency, and there is no guarantee of the rate at which any such conversion will occur, if at all.

Our international expansion plans subject us to risks inherent in doing business on an international level.

Currently, we have global development centers in six countries around the world. The majority of our global development centers are located in India. We intend to establish new development facilities, potentially in Southeast Asia, Africa, Latin America and Europe. Because of our limited experience with facilities outside of India, we are subject to additional risks related to our international expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of certain technologies and multiple and possibly overlapping tax structures. In addition, we may face competition in other countries from companies that may have more experience with operations in such countries or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture. In addition, our international expansion strategy in China may face difficulty resulting from a potential outbreak of Severe Acute Respiratory Syndrome, or SARS. Our international expansion plans may not be successful and we may not be able to compete effectively in other countries.

It may be difficult for you to enforce any judgment obtained in the United States against us or our affiliates.

We are incorporated under the laws of India and many of our directors and executive officers reside outside the United States. Virtually all of our assets and the assets of many of these persons are located outside the United States. As a result, you may be unable to effect service of process upon us outside India or upon such persons outside their jurisdiction of residence. In addition, you may be unable to enforce against us in courts outside of India, or against these persons outside the jurisdiction of their residence, judgments obtained in courts of the United States, including judgments predicated solely upon the federal securities laws of the United States.

We have been advised by our Indian counsel that the United States and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be enforceable in India. However, the party in whose favor such final judgment is rendered may bring a new suit in a competent court in India based on a final judgment that has been obtained in the United States. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce foreign judgments if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval from the Reserve Bank of India under the Foreign Exchange Management Act, 1999, to execute such a judgment or to repatriate any amount recovered.

The laws of India do not protect intellectual property rights to the same extent as those of the United States, and we may be unsuccessful in protecting our intellectual property rights. We may also be subject to third party claims of intellectual property infringement.

We rely on a combination of patent, copyright, trademark and design laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property. However, the laws of India do not protect proprietary rights to the same extent as laws in the United States. Therefore, our efforts to protect our intellectual property may not be adequate. Our competitors may independently develop similar technology or duplicate our products or services. Unauthorized parties may infringe upon or misappropriate our products, services or proprietary information.

The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. We may need to litigate to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time consuming and costly. As the number of patents, copyrights and other intellectual property rights in our industry increases, and as the coverage of these rights increase, we believe that companies in our industry will face more frequent infringement claims. Defense against these claims, even if not meritorious, could be expensive and divert our attention and resources from operating our company.

Although there are currently no material pending or threatened intellectual property claims against us, infringement claims may be asserted against us in the future. However, if we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and be forced to develop non-infringing technology, obtain a license or cease selling the applications or products that contain the infringing technology. We may be unable to develop non-infringing technology or to obtain a license on commercially reasonable terms, or at all.

Our ability to acquire companies organized outside India depends on the approval of the Government of India and/or the Reserve Bank of India and failure to obtain this approval could negatively impact our business.

Generally, the Reserve Bank of India must approve any acquisition by us of any company organized outside of India. The Reserve Bank of India has recently permitted acquisitions of companies organized outside of India without approval where the transaction value is:

- if in cash, up to 100% of the proceeds from an ADS offering or up to 100% of the net worth of the company; and
- if in stock, up to the greater of \$ 100 million or ten times the acquiring company's previous fiscal year's export earnings.

Any required approval from the Reserve Bank of India and the Ministry of Finance of the Government of India or any other government agency may not be obtained. Our failure to obtain approvals for acquisitions of companies organized outside India may restrict our international growth, which could negatively affect our business and prospects.

Indian law limits our ability to raise capital outside India and may limit the ability of others to acquire us, which could prevent us from operating our business or entering into a transaction that is in the best interests of our shareholders.

Indian law relating to foreign exchange management constrains our ability to raise capital outside India through the issuance of equity or convertible debt securities. Generally, any foreign investment in, or acquisition of, an Indian company requires approval from relevant government authorities in India, including the Reserve Bank of India. There are, however, certain exceptions to this approval requirement for IT companies on which we are able to rely. Changes to such policies may create restrictions on our capital raising abilities. For example, a limit on the foreign equity ownership of Indian IT companies may constrain our ability to seek and obtain additional equity investment by foreign investors. In addition, these restrictions, if applied to us, may prevent us from entering into certain transactions, such as an acquisition by a non-Indian company, which might otherwise be beneficial for us and the holders of our equity shares and ADSs.

Additionally, under current Indian law, the sale of an IT services company can result in the loss of the tax benefits for specially designed software technology parks in India. The potential loss of this tax benefit may discourage others from acquiring us or entering into a transaction with us that is in the best interest of our shareholders.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

3.1 Foreign Currency Market Risk

This information is set forth under the caption "Exchange Rate Risk" under the Components of Market Risk above, and is incorporated herein by reference.

Item 4. Controls and Procedures

Based on their evaluation as of the end of the period covered by this quarterly report, our Chief Executive Officer and Chief Financial Officer believe, based on an evaluation performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, that the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) are effective to ensure that material information relating to Infosys is made known to them by others within our Company during the period in which this Quarterly Report was being prepared. There have been no material changes in our internal controls over financial reporting that occurred during the period covered by the quarterly report which materially affected, or would be reasonably likely to affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

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

Ms. Jennifer Griffith, a former employee has filed a lawsuit against the Company and its former director, Mr. Phaneesh Murthy. The lawsuit has been served on the Company. Management is reviewing the allegations. Based on its present knowledge of facts, management estimates that the lawsuit will not have a material impact on the results of operations or financial position of the Company.

Item 2. Changes in securities and use of proceeds

None

Item 3. Default upon senior securities

None

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

None

Item 5. Other information

None

Item 6. Exhibits and reports

Infosys filed no reports on Form 8-K during the quarter ended December 31, 2003. As a foreign private issuer, the Company does not file reports on Form 8-K. During the quarter ended December 31, 2003, the Company furnished the following reports on Form 6-K:

- (a) Report furnished on December 22, 2003 containing a press release announcing our proposed acquisition of Expert Information Services Pty. Limited, Australia, as well as transcripts from the related press conference and teleconference with investors and analysts and a presentation we used at the press conference.
- (b) Report furnished on October 31, 2003 containing our Quarterly Report for the quarter ended September 30, 2003, that was mailed to our equity shareholders on or about November 01, 2003.
- (c) Report furnished on October 22, 2003 containing our Quarterly Report for the quarter ended September 30, 2003.
- (d) Report furnished on October 16, 2003 containing both U.S. GAAP and Indian GAAP press releases announcing our results of operations for the three months ended September 30, 2003, as well as transcripts from the related press conference, two teleconferences with investors and analysts and a question-and-answer session with analysts from CNBC India, a presentation we used at the press conference, a spreadsheet providing details on the Company's revenues by various classifications and an advertisement we placed in various Indian newspapers.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly organized.

Dated : January 20, 2004

INFOSYS TECHNOLOGIES LIMITED

/s/ NANDAN M. NILEKANI

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

EXHIBIT INDEX

Exhibit Number	Description of Document
99.1	Certification of Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes Oxley Act.
99.2	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes Oxley Act.

Exhibit 99.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Nandan M. Nilekani, Chief Executive Officer, President and Managing Director of Infosys Technologies Limited, certify that:

1. I have reviewed this Quarterly Report on Form 6-K of Infosys Technologies Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Nandan M. Nilekani
Chief Executive Officer, President
and Managing Director

Date : January 20, 2004

CHIEF FINANCIAL OFFICER CERTIFICATION

I, T.V. Mohandas Pai, Chief Financial Officer and Head-Finance and Administration of Infosys Technologies Limited, certify that:

1. I have reviewed this Quarterly Report on Form 6-K of Infosys Technologies Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ T.V. Mohandas Pai
Chief Financial Officer and
Head - Finance and Administration

Date : January 20, 2004

Exhibit 99.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Nandan M. Nilekani, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Infosys Technologies Limited on Form 6-K for the quarterly period ended December 31, 2003, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 6-K fairly presents in all material respects the financial condition and results of operations of Infosys Technologies Limited.

/s/ Nandan M. Nilekani
Nandan M. Nilekani
Chief Executive Officer

I, T. V. Mohandas Pai, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Infosys Technologies Limited on Form 6-K for the quarterly period ended December 31, 2003, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 6-K fairly presents in all material respects the financial condition and results of operations of Infosys Technologies Limited.

/s/ T. V. Mohandas Pai
T. V. Mohandas Pai
Chief Financial Officer

Shareholder information

1. **Registered office** Electronics City, Hosur Road, Bangalore 560 100, India
Tel. : +91-80-2852-0261, Fax : +91-80-2852-0362
Website : www.infosys.com
2. **Listing on stock exchanges** **In India :** Bangalore Stock Exchange Ltd. (BgSE), the Stock Exchange, Mumbai (BSE), and the National Stock Exchange of India Ltd. (NSE).
Outside India : NASDAQ National Market in the US.
3. **Par value of equity shares** Rs. 5/- each fully paid-up
4. **Registrar and share transfer agents** Share transfers in physical form and other communication regarding share Certificate dividends, 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;
Opposite National College, Basavanagudi;
Bangalore 560 004, India.
Tel. : +91-80-2662-1184, Fax : +91-80-2662-1169
E-Mail : kumars@karvy.com
5. **Stock market data relating to shares listed in India**
 - a. The company's market capitalization is included in the computation of the BSE-30 Sensitive Index (Sensex), the BSE Dollex and S&P CNX NIFTY Index.
 - b. Monthly high and low quotations as well as the volume of shares traded at BSE, NSE and the Bangalore Stock Exchange for the quarter ended December 31, 2003 are :

	BSE			NSE			BgSE		
	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.
October, 2003	4,825.00	4,262.00	60,76,037	5,200.00	3,710.00	1,34,21,861	NT	NT	NT
November	5,150.00	4,500.00	42,34,160	5,147.70	4,440.00	94,91,662	NT	NT	NT
December	5,675.00	4,866.15	34,67,351	5,985.00	4,700.00	87,78,138	NT	NT	NT
Total			1,37,77,548			3,16,91,661	NT	NT	NT

Volume traded to average shares outstanding (%) *

Quarter ended December 31, 2003 22.50% 51.76%

Quarter ended December 31, 2002 37.49% 81.73%

NA : Not applicable. NT : Not traded. The number of shares outstanding is 6,12,27,605. American Depository Shares (ADSs) have been excluded for the purpose of this calculation.

6. Share transfer system

Shares sent for physical transfer are effected after giving a notice of 15 days to the seller for sale confirmation. The share transfer committee of the company meets as often as required.

The total number of shares transferred in physical form during the three months ended December 31, 2003 was 800 (quarter ended December 31, 2002-Nil).

7. Investor services – Complaints received

Nature of complaints	Quarter ended			
	December 31, 2003		December 31, 2002	
	Received	Attended to	Received	Attended to
Non-receipt of dividend warrants	31	31	79	79
Total	31	31	79	79

The company has attended to most of the investors' grievances/correspondences within a period of 10 days from the date of receipt of the same, during the quarter ended December 31, 2003 except in cases that are constrained by disputes or legal impediments.

8. Legal proceedings

There are some pending cases relating to disputes over title to shares, in which the company has been made a party. However, these cases are not material in nature.

9. Categories of shareholders as on December 31, 2003

Category	No. of shareholders	Voting strength (%)	No. of shares held
Indian Promoters	23	26.62	1,76,91,470
Foreign Institutional Investors	337	42.32	2,81,26,418
Non Resident Indians	713	0.66	4,73,965
Financial Institutions	17	2.95	19,57,847
Mutual Funds	148	3.10	20,62,084
Banks	26	0.07	45,099
Bodies Corporate	2,289	0.97	6,42,577
Trust	12	1.32	8,76,797
Employees	2,905	5.09	33,81,280
Public	58,686	9.00	59,79,867
ADR*	1	7.87	52,28,387
Overseas Corporate Bodies	21	0.04	26,201
Total	65,178	100	6,64,55,992

* Held by beneficial owners outside India.

10. Financial calendar (tentative and subject to change)

Financial results for year ending March 31, 2004	April 13, 2004
Annual General Meeting for year ending March 31, 2004	May/June 2004

11. Investors' correspondence in India

For investor matters :

V. Balakrishnan,
Company Secretary and Vice President – Finance;
Investors' Service Cell;
Infosys Technologies Limited;
Electronics City, Hosur Road;
Bangalore 560 100, India.
Tel. : +91-80-2852-0440, Fax : +91-80-2852-0754
E-mail : balakv@infosys.com

For queries relating to financial statements :

T. V. Mohandas Pai,
Director (F&A) and CFO;
Infosys Technologies Limited;
Electronics City, Hosur Road;
Bangalore 560 100, India.
Tel. : +91-80-2852-0396, Fax : +91-80-2852-0362
E-mail : mdpai@infosys.com

12. Stock exchange codes

Reuters code :	INFY.BO (BSE)	Bridge code :	IN;INF (BSE)	Bloomberg code :	INFO IN (BSE)
	INFY.NS (NSE)		IN;INFN (NSE)		NINFO IN (NSE)
	INFY.O (NASDAQ)		US;INFY (NASDAQ)		

13. Stock market data relating to American Depository Shares (ADSs)

- ADS listed at : NASDAQ National Market in the US
- Ratio of ADS to equity shares : 2 ADS for one equity share
- ADS symbol : INFY
- The American Depository Shares issued under the ADS program of the company were listed on the NASDAQ National Market in the US on March 11, 1999. The monthly high and low quotations as well as the volume of ADSs traded at the NASDAQ National Market for the quarter ended December 31, 2003 are :

	High		Low		Volume
	\$	Rs.	\$	Rs.	
October, 2003	84.50	3,830.38	68.91	3,123.69	5,896,760
November, 2003	89.55	4,103.18	78.09	3,623.90	3,701,958
December, 2003	95.40	4,345.47	81.13	3,695.47	4,442,937
Total					14,041,655

Note : 2 ADS = 1 equity share. US\$ has been converted into Indian rupees at the monthly closing rates. The number of ADSs outstanding as on December 31, 2003 was 10,456,774. The percentage of volume traded to the total float was 134.28%.

e. Investor correspondence

In US :
Sandeep Shroff,
General Manager - Investor Relations;
Infosys Technologies Limited;
34760 Campus Drive, Fremont CA 94555, USA.
Tel. : +1-510-742-2960, Fax : +1-510-742-2930
Mobile : +1-415-515-9095
E-mail : sandeep_shroff@infosys.com

In India :
V. Balakrishnan,
Company Secretary and Vice President - Finance;
Infosys Technologies Limited;
Electronics City, Hosur Road;
Bangalore 560 100, India.
Tel. : +91-80-2852-0440, Fax : +91-80-2852-0754
E-mail : balakv@infosys.com

14. ECS mandate

The company has received complaints regarding non-receipt of dividend warrants. All shareholders are requested to update their bank account details with their respective depositories. This would enable the company to service its investors better.

15. Change of address

The company has received complaints regarding non-receipt of dividend warrants and other corporate communications. All shareholders are requested to update their current address with their respective depositories immediately. This would enable the company to service its investors better.

Infosys Technologies Limited

United States

Addison

15305 Dallas Parkway
Suite 210
Addison, TX 75001
Tel : 972 770 0450
Fax : 972 770 0490

Atlanta

400 Galleria Parkway
Suite 1490
Atlanta, GA 30339
Tel : 770 980 7955
Fax : 770 980 7956

Bellevue

205,108 Avenue A/E
Suite 550
Bellevue, WA 98004
Tel : 425 452 5300
Fax : 425 452 8440

Berkeley Heights

Two Connell Drive
Suite 4100
Berkeley Heights
New Jersey 07922
Tel : 908 286 3100
Fax : 908 286 3125

Charlotte

900, West Trade Street
Charlotte 28202

Fremont

34760 Campus Drive
Fremont, CA 94555
Tel : 510 742 3000
Fax : 510 742 3090

Lake Forest

1 Spectrum Pointe Drive
Suite 350
Lake Forest, CA 92630
Tel : 949 455 9161
Fax : 949 609 0694

Lisle

2300 Cabot Drive
Suite 250
Lisle, IL 60532
Tel : 630 482 5000
Fax : 630 505 9144

Phoenix

10851 N Black Canyon Fwy
Suite 830
Phoenix, AZ 85029
Tel : 602 944 4855
Fax : 602 944 4879

Quincy

Two Adams Place
Quincy, MA 02169
Tel : 781 356 3100
Fax : 781 356 3150

Troy

100 Liberty Center
Suite 200
West Big Beaver
Troy, MI 48084
Tel : 248 524 0320
Fax : 248 524 0321

Rochester

134 W. University drive
Suite 305
Rochester, MI-483071

Argentina

Republica, Arabe Siria 3149
Piso 7'27'
1425 Capital Federal
Buenos Aires
Tel : 5411 480 20025

Australia

Level 9, 114 Albert Road
South Melbourne, VIC 3025
Tel : 61 3 9685 1600
Fax : 61 3 9685 1699

Level 4, 90 Mount Street
North Sydney, NSW 2060
Tel : 61 2 9954 0036
Fax : 61 2 8904 1344

Belgium

Airport Boulevard Office Park
Bessenveldstraat 25
1831-Diegem
Tel : 32 2 716 4888
Fax : 32 2 716 4880

Canada

5140 Yonge Street
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Toronto, Ontario M2N 6L7
Tel : 416 224 7439
Fax : 416 224 7474

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Beijing Representative Office
14th Floor, IBM Tower
Pacific Century Place
2A Workers Stadium Road
North Chaoyang District
Beijing 100027
Tel : 86 10 6539 1095, 1063
Fax : 86 10 6539 1060

France

12 Avenue de l'Arche
Faubourg de l'Arche
92419 Courbevoie Cedex
Paris
Tel : 331 46 91 84 56
Fax : 331 46 91 88 00

Germany

TOPAS 1
Mergenthalerallee 77
65760 Eschborn/Frankfurt
Tel : 49 6196 9694 0
Fax : 49 6196 9694 200
Buro+Business Center
Liebknechtstr. 33
Stuttgart 70565
Tel : 49 711 7811 500
Fax : 49 711 7811 501

Hong Kong

16F Cheung Kong Centre
2 Queen's Road Central
Central, Hong Kong
Tel : 852 2297 2231
Fax : 852 2297 0066

Japan

Izumi Garden Wing 2F
1-6-3, Roppongi, Minato-ku
Tokyo 106-0032
Tel : 81 3 5545 3251
Fax : 81 3 5545 3252

Mauritius

2nd & 3rd Floor
Hassmal Shopping Centre
Corner Remono & Queen St.
Rose Hill, Mauritius

Scandinavia

Stureplan 4C, 4tr
114 35, Stockholm
Tel : 46 8 463 1112
Fax : 46 8 463 1114

Singapore

30, Raffles Place
#23-00 Caltex House
Singapore 048622
Tel : 65 6233 6820
Fax : 65 6233 6905

Switzerland

Dreikönigstrasse 31A
8002 Zurich
Tel : 41 1 208 3905
Fax : 41 1 208 3500

The Netherlands

Newtonlaan 115
3584 BH Utrecht
Tel : 31 30 210 6462
Fax : 31 30 210 6860

United Kingdom

Emerald House
15 Lansdowne Road
Croydon, Surrey CR0 2BX
Tel : 44 208 774 3364
Fax : 44 208 774 3302

United Arab Emirates

Y-45, P.O. Box 8230
Sharjah Airport International
Free Zone (SAIF Zone)
Sharjah
Tel : 971 6 5571 068
Fax : 971 6 5571 056

India

Bangalore

Electronics City, Hosur Road
Bangalore 560 100
Tel : 91 80 28520261
Fax : 91 80 28520362

Reddy Building
K-310, 1st Main, 5th Block,
Koramangala
Bangalore 560 095
Tel : 91 80 25532591/92
Fax : 91 80 25530391

Pavithra Complex
#1, 27th Main, 2nd Cross
1st Stage, BTM Layout
Bangalore 560 068
Tel : 91 80 26680182-85
Fax : 91 80 26680181

Bhubaneswar

Plot No. E/4, Info City
Bhubaneswar 751 024
Tel : 91 674 2320001-32
Fax : 91 674 2320100

Chennai

No.138
Old Mahabalipuram Road
Sholinganallur
Chennai 600 119
Tel : 91 44 24509530/40
Fax : 91 44 24500390

Hyderabad

Survey No. 210,
Manikonda Village
Lingampally
Rangareddy (Dist)
Hyderabad 500 019
Tel : 91 40 23005222
Fax : 91 40 23005223

Mangalore

Kuloor Ferry Road, Kottara
Mangalore 575 006
Tel : 91 824 2451485-88
Fax : 91 824 2451504

Mohali (Chandigarh)

B 100, Industrial Area
Phase 8
Mohali (SAS Nagar) 160 059
Tel : 91 172 390510
91 172 257191/92
Fax : 91 172 257193

Mumbai

85-C Wing, 8th Floor
Mittal Towers
Nariman Point
Mumbai 400 021
Tel : 91 22 22882911/14
Fax : 91 22 22846489

Mysore

No. 350
Hebbal Electronics City
Hootagalli
Mysore 571 186
Tel : 91 821 404101
Fax : 91 821 404200

New Delhi

K30, Green Park Main
Behind Green Park Market
New Delhi 110 066
Tel : 91 11 26514829-30
Fax : 91 11 26583366

Pune

Plot No. 1
Pune Infotech Park
At Post Hinjawadi
Taluka Mulshi
Pune 411 027
Tel : 91 20 2932800/01
Fax : 91 20 2932832

Subsidiaries

Infosys Technologies

(Shanghai) Co. Ltd.,
Suite 3414 – 3416
Pudong Software Park
498 Guoshoujing Road
Zhangjiang Hi-tech Park
Shanghai, P. R. C

Progeon Limited

Plot # 26/3, 26/4 and 26/6
Electronic City, Hosur Road
Bangalore 560 100
Tel : 91 80 28522405
Fax : 91 80 28522411
27, Bannerghatta Road
J. P. Nagar III Phase
Bangalore 560 076
Tel : 91 80 26588668
Fax : 91 80 26588676

Bankers

ICICI Bank Ltd.
Bank of America

Company Secretary

V. Balakrishnan

Auditors

Bharat S. Raut and Co.
Chartered Accountants

Independent Auditors

(US GAAP)
KPMG

Visit Infosys at

www.infosys.com

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within the U.S.

91-80-28520261
outside the U.S.