BEING **INFOSYS.** BEING **MORE.**

Infosys®

POWERED BY INTELLECT
DRIVEN BY VALUES

ANNUAL REPORT 2015-16

Management's discussion and analysis

Overview

Infosys is a leading provider of consulting, technology, outsourcing and next-generation services. We enable our clients renew and simplify their existing landscapes, and partner with them in designing and implementing new solutions to their most complex problems in a dynamic business environment.

Along with its subsidiaries, Infosys provides business IT services (comprising application development and maintenance, independent validation, infrastructure management, engineering services, including product engineering and lifecycle solutions, and business process management); consulting and systems integration services (comprising consulting, enterprise solutions, systems integration and advanced technologies); products, business platforms and solutions to accelerate intellectual property-led innovation, including Finacle®, our banking solution; and offerings in the areas of analytics, cloud and digital transformation. Infosys, together with its subsidiaries, is hereinafter referred to as 'the Group'.

The Company is a public limited company incorporated and domiciled in India and has its registered office in Bangalore, Karnataka. The Company has its primary listings on BSE Limited and the National Stock Exchange of India Limited in India. The Company's American Depositary Shares (ADS), representing equity shares, are also listed on the New York Stock Exchange (NYSE), Euronext London and Euronext Paris.

These financial statements are prepared in accordance with the Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis, except for certain financial instruments which are measured at fair values. GAAP comprises mandatory accounting standards as prescribed under Section 133 of the Companies Act, 2013 ('the Act') read with Rule 7 of the Companies (Accounts) Rules, 2014, the provision of the Act (to the extent notified) and guidelines issued by the Securities and Exchange Board of India (SEBI). Accounting policies have been consistently applied, except where a newly-issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use.

I. Industry structure and developments

Software and computing technology are transforming businesses in every industry around the world in a very profound and fundamental way. The continued reduction in the unit cost of hardware, the explosion of network bandwidth, advanced software technologies and technology-enabled services are fuelling the rapid digitization of business processes and information. Traditional business models are being disrupted in every industry with digital and software-based business models. This disruption is characterized by highly desirable user experiences, an extreme scale-of-cost performance that has become available in computing infrastructure and disintermediation of the supply chain. Leveraging technologies and models of the digital era to both extend the value of existing investments and, in parallel, transform and future-proof their businesses is increasingly becoming a top priority for business leaders. This duality – to renew existing core businesses and innovate new businesses – is the essence of what companies are faced with as strategic imperatives today.

From an IT perspective, the renewal translates to harnessing the efficiency of distributed cloud computing, enabling legacy systems for mobile and sensor access, extracting value out of digitized data, keeping systems relevant and optimizing the costs of building and running technology systems. And as businesses look to new areas and new economics, new and intelligent systems are required to be built with next-generation technologies and with exponentially superior cost-benefit performance.

The rapid pace at which technology is changing and the need for highly-skilled professionals in both the renewed and new technology areas are driving businesses to rely on third parties to realize their IT transformation. Several technology solution and service providers have emerged over the years, offering different models for clients to consume their solution and service offerings:

- Technology consulting companies – who take on niche and time bound projects for their clients
- Global IT outsourcing companies – who leverage global talent pools to systematically optimize the IT operations of clients
- Business process outsourcing firms – who leverage global talent pools to manage the outsourced core business processes of their clients
- Software firms – who provide licensed software that enable the automation of business processes
- Specialty platform and Software-As-A-Service companies – who provide utility-based models for clients to consume software features
- Data analytics companies – who specialize in designing, analyzing and reporting insights from the vast amount of data that corporations are collecting about their customers, operations and markets
- Internal IT departments of the companies themselves – usually cost centers for the corporations

There is an increasing need for highly-skilled technology professionals in the markets in which we operate and in the industries to which we provide services. At the same time, companies are reluctant to expand their internal IT departments and increase costs. These factors have increased the reliance of companies on their outsourcing service providers and are expected to continue to drive future growth for outsourcing services. We believe that because the effective use of offshore technology services offers lower total costs of ownership of IT infrastructure, lower labor costs, improved quality and innovation and faster delivery of technology solutions, companies are increasingly turning to offshore technology service providers. The key factors contributing to the growth of IT and IT-enabled services in India include high-quality delivery, significant cost benefits and the availability of a large and growing skilled and English-speaking IT professionals. Our proven Global Delivery Model, our comprehensive end-to-end solutions, our commitment to superior quality and process execution, our long-standing client relationships, and our ability to scale and to service clients across industries make us one of the leading offshore service providers in India.

Global Delivery Model

Our Global Delivery Model is based on a scalable infrastructure that results in multiple efficiencies for our clients. We divide projects into components that we execute simultaneously at client sites and at our Development Centers in India and around the world. We optimize our cost structure by maintaining the flexibility to execute project components where it is most cost effective. We are then able to execute project components round the clock and across time zones, to reduce project delivery times.

II Financial condition

Sources of funds

1. Share capital

We have only one class of shares – equity shares of par value ₹5 each. Our authorized share capital has increased to ₹1200 crore from ₹600 crore, divided into 240 crore equity shares of ₹5 each. The issued, subscribed and paid-up capital stood at ₹1,148 crore as at March 31, 2016 compared to ₹574 crore as at March 31, 2015.

Effective January 1, 2015, the Trust has been de-consolidated consequent to SEBI (Share Based Employee Benefits) Regulations, 2014 issued on October 28, 2014.

The Company has allotted 1,14,84,72,332 fully-paid-up shares of face value ₹5 each during the quarter ended June 30, 2015, pursuant to a bonus issue approved by the shareholders through a postal ballot. The book closure date fixed by the Board was June 17, 2015. The Company has also allotted 57,42,36,166 fully-paid-up equity shares of face value ₹5 each during the quarter ended December 31, 2014 pursuant to a bonus issue approved by the shareholders through a postal ballot. The record date fixed by the Board of Directors was December 3, 2014.

For both the bonus issues, a bonus share of one equity share for every equity share held, and a stock dividend of one American Depositary Share (ADS) for every ADS held has been allotted. Consequently, the ratio of equity shares underlying the ADSs held by an American Depositary Receipt holder remains unchanged. Options granted under the stock option plan have been adjusted for bonus shares.

During the year ended March 31, 2016, the Company made a grant of 1,24,061 restricted stock units to Dr. Vishal Sikka, Chief Executive Officer and Managing Director, under the 2011 Restricted Stock Unit (RSU) Plan. During the year ended March 31, 2015, the Company made a grant of 1,08,268 restricted stock units (adjusted for bonus issues) to Dr. Vishal Sikka, under the same plan. Out of this, 10,824 units have been exercised by Dr. Vishal Sikka. The details of options granted as at March 31, 2016 are provided in the Notes to the *Standalone financial statements* in this Annual Report.

2. Reserves and Surplus

Capital reserve

On a standalone and consolidated basis, the balance as at March 31, 2016 amounted to ₹54 crore, which is the same as the previous year.

Foreign currency translation reserve

On a consolidated basis, the balance as at March 31, 2016 amounted to ₹413 crore (previous year ₹332 crore).

Securities premium account

The reduction of ₹574 crore and increase of ₹1 crore during the year in standalone financial statements are on account of the amount utilized for the issue of bonus shares and exercise of stock options respectively. The balance as at March 31, 2016 amounted to ₹2,205 crore (previous year ₹2,778 crore).

General reserve

An amount of ₹1,579 crore representing 10% of the standalone net profit for the year ended March 31, 2016 (previous year ₹1,217 crore) was transferred to the general reserve from the Surplus on account of declaration of dividend. On a standalone basis, the balance as at March 31, 2016 amounted to ₹11,087 crore (previous year ₹9,508 crore). On a consolidated basis, the balance as at March 31, 2016 amounted to ₹12,084 crore (previous year ₹10,505 crore).

Surplus

On a standalone basis, the balance retained in the Surplus as at March 31, 2016 is ₹42,655 crore, after providing the interim and final dividend for the year of ₹2,297 crore and ₹3,273 crore respectively, and dividend tax of ₹1,134 crore thereon. The total amount of profits appropriated to dividend including dividend tax was ₹6,704 crore, as compared to ₹6,145 crore in the previous year.

On a consolidated basis, the balance retained in the Surplus as at March 31, 2016 is ₹41,905 crore.

Shareholders' funds

On a standalone basis, the total shareholders' funds increased to ₹57,157 crore as at March 31, 2016 from ₹48,068 crore as at March 31, 2015.

The book value per share increased to ₹248.84 as at March 31, 2016, compared to ₹209.27 (adjusted for bonus issue) as at March 31, 2015.

On a consolidated basis, the total shareholders' funds increased to ₹57,826 crore as at March 31, 2016 from ₹50,736 crore as at March 31, 2015.

The book value per share increased to ₹253.00 as at March 31, 2016 compared to ₹221.98 (adjusted for bonus issue) as at March 31, 2015.

Application of funds

3. Fixed assets

Additions to gross block – standalone

During the year, we capitalized ₹2,163 crore to our gross block comprising ₹945 crore for investment in computer equipment, ₹5 crore on vehicles and the balance of ₹1,213 crore on infrastructure. Our infrastructure investments comprised ₹58 crore to acquire 10.83 acres of land in Bangalore, ₹440 crore on buildings, ₹319 crore on plant and machinery, ₹155 crore on office equipment and ₹241 crore on furniture and fixtures.

During the previous year, we capitalized ₹2,540 crore to our gross block comprising ₹694 crore for investment in computer equipment, ₹3 crore on vehicles and the balance of ₹1,843 crore on infrastructure. Our infrastructure investments comprised ₹420 crore to acquire 109.1 acres of land in Bangalore, Delhi NCR, Mysore, Pune and Mohali, ₹855 crore on buildings, ₹274 crore on plant and machinery, ₹134 crore on office equipment and ₹160 crore on furniture and fixtures.

Additions to gross block – consolidated

During the year, we capitalized ₹2,379 crore to our gross block (including ₹4 crore on account of acquisitions during the year) comprising ₹1,105 crore for investment in computer equipment, ₹6 crore on vehicles and the balance of ₹1,268 crore on infrastructure. Our infrastructure investments comprised ₹58 crore to acquire 10.8 acres of land in Bangalore, ₹444 crore on buildings, ₹333 crore on plant and equipment, ₹167 crore on office equipment, ₹257 crore on furniture and fixtures, and ₹9 crore on leasehold improvements.

During the previous year, we capitalized ₹2,673 crore to our gross block (including ₹22 crore on account of acquisition during the year) comprising ₹778 crore for investment in computer equipment, ₹6 crore on vehicles and the balance of ₹1,889 crore on infrastructure. Our infrastructure investments comprised ₹422 crore to acquire 109.1 acres of land in Bangalore, Delhi NCR, Mysore, Pune and Mohali, ₹855 crore on buildings, ₹280 crore on plant and equipment, ₹140 crore on office equipment, ₹170 crore on furniture and fixtures, and ₹22 crore on leasehold improvements.

Addition to goodwill was to the tune of ₹881 crore on account of acquisitions made during the year (₹671 crore on account of Kallidus acquisition and ₹210 crore on account of Noah acquisition). During the previous year, addition to goodwill was ₹1,351 crore on account of acquisition of Panaya.

Deductions to gross block – standalone

During the year, we deducted ₹293 crore from the gross block on the disposal of various assets as against ₹91 crore that was deducted from the gross block on disposal of various assets in the previous year.

Deductions to gross block – consolidated

During the year, we disposed of various assets with a gross block of ₹433 crore as against ₹142 crore in the previous year.

Capital expenditure commitments

On a standalone basis, we have a capital expenditure commitment of ₹1,295 crore as at March 31, 2016, as compared to ₹1,272 crore as at March 31, 2015. On a consolidated basis, we have a capital expenditure commitment of ₹1,486 crore as at March 31, 2016, as compared to ₹1,574 crore as at March 31, 2015.

4. Investments in subsidiaries / associates

We made several strategic investments during the year aimed at deriving business benefits and operational efficiencies in subsidiaries, including:

EdgeVerve Systems Limited

On April 24, 2015, the Board of Directors of Infosys authorized the Company to execute a Business Transfer Agreement and related documents with EdgeVerve, to transfer the business of Finacle and Edge Services. Post the requisite approval from shareholders through a postal ballot on June 4, 2015, a Business Transfer Agreement and other related documents were executed with EdgeVerve to transfer the business with effect from August 1, 2015. The Company undertook an enterprise valuation by an independent valuer and accordingly, the businesses were transferred for a consideration of ₹3,222 crore and ₹177 crore for Finacle and Edge Services, respectively. The consideration was settled through issue of 85,00,00,000 equity shares amounting to ₹850 crore and 25,49,00,000 non-convertible redeemable debentures amounting to ₹2,549 crore in EdgeVerve, post the requisite approval from shareholders on December 11, 2015. The transfer of assets and liabilities was accounted for at carrying values and did not have any impact on the consolidated financial statements.

Kallidus Inc. and Skava Systems Pvt. Ltd.

On June 2, 2015, Infosys acquired 100% of the voting interests in Kallidus Inc., (d.b.a Skava) (Kallidus), a leading provider of digital experience solutions, including mobile commerce and in-store shopping experiences to large retail clients and 100% of the voting interests of Skava Systems Private Limited, India, an affiliate of Kallidus.

The business acquisition was conducted by entering into a share purchase agreement for a cash consideration of US$91 million (approximately ₹578 crore) and a contingent consideration of up to US$20 million (approximately ₹128 crore on acquisition date), the payment of which is dependent upon the achievement of certain financial targets by Kallidus over a period of three years ending on December 31, 2017.

Noah Consulting LLC

On November 16, 2015, Infosys acquired 100% membership interest in Noah Consulting LLC, a leading provider of advanced information management consulting services for the oil and gas industry. The business acquisition was conducted by entering into a share-purchase agreement for a cash consideration of US$33 million (approximately ₹216 crore), and a contingent consideration up to US$5 million (approximately ₹33 crore on acquisition date) and retention bonus of up to US$32 million (approximately ₹212 crore on acquisition date), referred to as retention bonus, payable to the employees of Noah at each anniversary following the acquisition date over the next three years, subject to their continuous employment with the Group at each anniversary. The payment of contingent consideration to the sellers of Noah was dependent on the achievement of certain financial targets by Noah for the years ended December 31, 2015 and December 31, 2016. During the year ended March 31, 2016, based on an assessment of Noah achieving the targets for the years ended December 31, 2015 and December 31, 2016, the entire contingent consideration has been reversed in the statement of comprehensive income.

During the year, we invested in our subsidiaries, for the purpose of operations and expansion (including the above acquisitions):

Subsidiary	In foreign currency	in ₹ crore
Infosys Technologies (Shanghai) Company Limited	RMB 248 million	258
EdgeVerve Systems Limited [1]	–	3,399
Kallidus Inc. and Skava Systems Pvt. Ltd. [2]	USD 91 million	578
Noah Consulting LLC	USD 38 million	249

(1) ₹850 crore in shares and ₹2,549 crore unsecured, redeemable, non-convertible debentures of ₹100 each fully-paid-up.
(2) Excluding contingent consideration

We have an innovation fund with an outlay of US$500 million to support the creation of a global ecosystem of strategic partners.

Refer to *Annexure 1* to the *Board's report* for the statement pursuant to Section 129(3) of the Companies Act, 2013 for the summary of the financial performance of our subsidiaries. The audited financial statements and related information of subsidiaries will be available on our website, *www.infosys.com.*

5. Deferred tax assets / liabilities

in ₹ crore

Particulars	Standalone		Consolidated	
	2016	2015	2016	2015
Deferred tax assets, net	405	433	533	536
Deferred tax liabilities, net	–	–	–	–

Deferred tax assets primarily comprise deferred taxes on fixed assets, compensated absences, trade receivables, accrued compensation to employees and post-sales client support.

Deferred tax assets and deferred tax liabilities have been offset wherever the Group has a legally enforceable right to set off current income tax assets against current tax liabilities, and where the deferred tax assets and deferred tax liabilities relate to the taxes levied by the same taxation authority.

6. Trade receivables

On a standalone basis, the trade receivables amounted to ₹9,798 crore (net of provision for doubtful debts amounting to ₹249 crore) as at March 31, 2016, compared to ₹8,627 crore (net of provision for doubtful debts amounting to ₹322 crore) as at March 31, 2015. These debts are considered good and realizable. Debtors are at 18.2% of revenues for each of the years ended March 31, 2016 and March 31, 2015, representing a Days Sales Outstanding of 66 days, compared to 67 days in the previous year.

On a consolidated basis, trade receivables amounted to ₹11,330 crore (net of provision for doubtful debts amounting to ₹289 crore) as at March 31, 2016, compared to ₹9,713 crore (net of provision for doubtful debts amounting to ₹366 crore) as at March 31, 2015. These debts are considered good and realizable. Debtors are at 18.1% of revenues for the year ended March 31, 2016, compared to 18.2% as at March 31, 2015, representing a Days Sales Outstanding of 66 days, same as in the previous year.

On a standalone basis, out of the total trade receivables, 72% and 73.7% were not due as at March 31, 2016 and March 31, 2015, respectively. On a consolidated basis, out of the total trade receivables, 73.6% and 75.5% were not due as at March 31, 2016 and March 31, 2015, respectively. The age profile of debtors (net of provision) that are due, is as follows:

in %

Days	Standalone		Consolidated	
	2016	2015	2016	2015
0-30	67.3	62.9	69.4	69.0
31-60	18.1	17.8	15.7	14.5
61-90	8.5	6.0	10.2	3.7
Above 90	6.1	13.3	4.7	12.8
	100.0	100.0	100.0	100.0

The need for provisions is assessed based on various factors, including collectability of specific dues, risk perceptions of the industry in which the customer operates, and general economic factors that could affect the customer's ability to settle.

The movement in provisions for doubtful debts during the year is as follows:

in ₹ crore

	Standalone		Consolidated	
	2016	2015	2016	2015
Opening balance	322	196	366	214
Add: Amount provided	(48)	142	(52)	171
Less: Amount written off	(31)	(12)	(33)	(12)
Translation difference	6	(4)	8	(7)
Closing balance	249	322	289	366

The reversal of provision during the year ended March 31, 2016 was due to collection of receivables which were earlier provided for.

The unbilled revenues as at March 31, 2016 and March 31, 2015, amounted to ₹2,673 crore and ₹2,423 crore, respectively.

The unbilled revenues as at March 31, 2016 and March 31, 2015, amounted to ₹3,029 crore and ₹2,845 crore, respectively.

7. Cash and cash equivalents

The bank balances in India include both rupee accounts and foreign currency accounts. The bank balances in overseas accounts are maintained to meet the expenditure of the overseas operations.

Deposits with financial institutions represent surplus money deployed in the form of deposits.

Our treasury policy calls for investing cash Surplus in a combination of instruments: (a) Deposits in highly-rated scheduled banks and financial institutions (b) Debt mutual funds (c) Tax-free bonds in highly-rated and government-backed entities (d) Certificates of deposit, commercial paper or any other similar instrument issued by highly-rated banks and financial institutions.

On a standalone basis, balance in current and deposit accounts stands at ₹24,276 crore as at March 31, 2016 as compared to ₹23,722 crore as at March 31, 2015. Deposits with financial institutions stands at ₹4,900 crore as at March 31, 2016 (₹4,000 crore as at March 31, 2015).

On a consolidated bases, balance in current and deposit accounts stands at ₹27,420 crore as at March 31, 2016 as compared to ₹26,195 crore as at March 31, 2015. Deposits with financial institutions stands at ₹5,277 crore as at March 31, 2016 (₹4,172 crore as at March 31, 2015).

8. Loans and advances and other non-current assets

The details of our long-term and short-term loans, advances and other non-current assets are as follows:

Long-term loans and advances, and other non-current assets

in ₹ crore

	Standalone		Consolidated	
	2016	2015	2016	2015
Prepaid expenses	87	7	87	7
Capital advances	333	316	933	664
Advance income tax (net of provisions)	5,020	3,941	5,230	4,089
Loans and advances to employees	5	4	25	31
Security deposits	73	65	78	68
Rental deposits	119	45	146	47
Restricted deposits	–	–	62	58
Deferred contract cost	333	–	333	–
Advance to gratuity trust	2	26	4	27
Total	5,972	4,404	6,898	4,991

Capital advances represent the amount paid in advance on capital expenditure.

The advance income tax (net of provisions) represents domestic and overseas corporate tax. In fiscal 2016, income tax of ₹913 crore was paid consequent to the demand from tax authorities in India for fiscal 2011, towards the denial of certain tax benefits. The Company has filed an appeal with the income tax appellate authorities.

Short-term loans and advances

in ₹ crore

	Standalone		Consolidated	
	2016	2015	2016	2015
Loans to subsidiaries	91	24	–	–
Prepaid expenses	209	71	201	98
Deferred contract cost	48	–	48	–
Interest accrued but not due	696	433	762	444
Advance paid for supply of goods and services	58	60	110	79
Withholding and other taxes receivable	1,650	1,253	1,799	1,364
Unbilled revenues	2,673	2,423	3,029	2,845
Loans and advances to employees	264	201	303	222
Security deposits	1	1	7	4
Rental deposits	2	6	13	24
Restricted deposits	1,154	1,039	1,238	1,100
Mark-to-market gain on forward and options contracts	109	94	116	101
Others	166	49	25	9
Total	7,121	5,654	7,651	6,290

Loans to subsidiaries as at March 31, 2016 comprise ₹24 crore given to Infosys Sweden and ₹67 crore to Infosys Technologies China. As at March 31, 2015, it included ₹6 crore given to Infy Consulting Company Limited and ₹18 crore to EdgeVerve Systems Limited.

Withholding and other tax receivables represent transaction taxes paid in various domestic and overseas jurisdictions which are recoverable.

Unbilled revenues primarily comprise costs and earnings in excess of billings to the clients on fixed-price, fixed-timeframe, and time-and-material contracts.

We provide personal loans and salary advances to employees, who are not executive officers or directors. Of the total loans and advances of ₹328 crore given to employees on a consolidated basis, ₹303 crore is recoverable in 12 months and ₹25 crore is recoverable in 24 months from March 31, 2016.

Deferred contract costs are upfront costs incurred for the contract and amortized over the term of the contract.

Restricted deposits represent amounts deposited with financial institutions to settle employee-related obligations as and when they arise during the normal course of business.

Rental deposits are for buildings taken on lease by us for our development centers and marketing offices across the world.

9. Liabilities

Long-term liabilities

in ₹ crore

	Standalone		Consolidated	
	2016	2015	2016	2015
Gratuity obligations – unamortized amount	–	3	–	3
Rental deposit received from subsidiaries	27	27	–	–

	Standalone		Consolidated	
	2016	2015	2016	2015
Deferred income – government grant on land-use rights	–	–	47	47
Accrued salaries and benefits	–	–	33	–
Payable for acquisition of business	46	–	46	–
Total	73	30	126	50

Payable for acquisition of business represents contingent consideration payable to the sellers of Kallidus depending on the achievement of certain financial targets by Kallidus over a period of three years ending December 31, 2017. The current and non-current portions have been disclosed accordingly.

Current liabilities and trade payables

in ₹ crore

	Standalone		Consolidated	
	2016	2015	2016	2015
Trade payables	623	124	386	140
Accrued salaries and benefits	1,764	1,719	2,266	2,106
Provision for expenses	1,707	1,582	2,189	1,984
Retention monies	58	50	80	53
Withholding and other taxes	1,068	733	1,296	904
Gratuity obligations – unamortized amount	4	4	4	4
Payable for acquisition of business	86	525	86	525
Payable by controlled trusts	–	–	167	177
Advances received from clients	16	20	28	27
Unearned revenue	1,025	831	1,332	1,052
Unpaid dividend	5	3	5	3
Deferred income – government grant on land-use rights	–	–	1	1
Mark-to-market loss on forward and option contracts	2	–	5	3
Accrued gratuity	–	–	1	7
Others	370	79	141	74
Total	6,728	5,670	7,987	7,060

Liabilities for accrued salaries and benefits include the provision for bonus and incentives payable to the staff. Provision for expenses represents amounts accrued for other operational expenses. Retention monies represents monies withheld on contractor payments pending final acceptance of their work. Withholding and other taxes payable represent local taxes payable in various countries in which we operate, and the same will be paid in due course.

Effective July 1, 2007, we revised the employee death benefits provided under the gratuity plan, and included all eligible employees under a consolidated term insurance cover. Accordingly, the obligations under the gratuity plan reduced by ₹37 crore, which is being amortized on a straight-line basis to the Statement of Profit and Loss over 10 years, representing the average future service period of employees. An amount of ₹4 crore was amortized during the year. The unamortized balance as at March 31, 2016 was ₹4 crore, included under long-term liabilities and current liabilities.

Advances received from clients represent money received for the delivery of future services. Unearned revenue primarily comprises advance client billings on fixed-price and fixed-timeframe contracts for which related costs and earnings were not yet incurred. Unpaid dividends represent dividends paid, but not claimed by shareholders, and are represented by a bank balance of an equivalent amount.

10. Provisions

Short-term provisions

in ₹ crore

	Standalone		Consolidated	
	2016	2015	2016	2015
Proposed dividend	3,273	3,388	3,273	3,388
Tax on dividend	666	690	666	690
Income taxes (net of advance tax and tax deducted at source)	3,304	2,678	3,410	2,818
Compensated absences	1,130	907	1,341	1,069
Post-sales client support, warranties and other provisions	436	382	512	478
Total	8,809	8,045	9,202	8,443

Proposed dividend represents the final dividend recommended. The Board of Directors, in its meeting on April 15, 2016, has proposed a final dividend of ₹14.25 per equity share. The proposal is subject to the approval of shareholders at the Annual General Meeting to be held on June 18, 2016.

Provisions for taxation represent estimated income tax liabilities, both in India and overseas, net of advance tax and tax deducted at source.

Provisions for compensated absences are towards our liability for leave encashment. The provision for post-sales client support, warranties and other provisions is towards likely expenses for providing post-sales client support on fixed-price contracts.

III Results of our operations

The function-wise classification of the standalone Statement of Profit and Loss is as follows:

in ₹ crore

	Year ended March 31,			
	2016	%	2015	%
Income from software services and products	53,983	100.0	47,300	100.0
Software development expenses	32,255	59.8	27,828	58.8
Gross profit	21,728	40.2	19,472	41.2
Selling and marketing expenses	2,694	5.0	2,549	5.4
General and administration expenses	3,271	6.1	2,961	6.3
	5,965	11.1	5,510	11.7
Operating profit before depreciation	15,763	29.2	13,962	29.5
Depreciation and amortization	1,115	2.1	913	1.9
Operating profit	14,648	27.1	13,049	27.6
Other income	3,009	5.6	3,337	7.1
Profit before exceptional item and tax	17,657	32.7	16,386	34.7
Profit on transfer of business	3,036	5.6	412	0.9
Profit before tax	20,693	38.3	16,798	35.6
Tax expense	4,907	9.1	4,634	9.8
Profit for the year	15,786	29.2	12,164	25.8

The function-wise classification of the consolidated Statement of Profit and Loss is as follows:

in ₹ crore

	Year ended March 31,			
	2016	%	2015	%
Income from software services and products	62,441	100.0	53,319	100.0
Software development expenses	37,609	60.2	31,834	59.7
Gross profit	24,832	39.8	21,485	40.3
Selling and marketing expenses	3,431	5.5	2,946	5.5
General and administration expenses	4,281	6.9	3,668	6.9
	7,712	12.4	6,614	12.4
Operating profit before depreciation	17,120	27.4	14,871	27.9
Depreciation and amortization	1,266	2.0	1,017	1.9
Operating profit	15,854	25.4	13,854	26.0
Other income	3,128	5.0	3,430	6.4
Profit before tax	18,982	30.4	17,284	32.4
Tax expense	5,301	8.5	4,911	9.2
Profit for the year before minority interests / share in net profit / (loss) of associate	13,681	21.9	12,373	23.2
Add: Share in net profit / (loss) of associate	(3)	–	(1)	–
Less: Minority interests	–	–	–	–
Profit for the year	13,678	21.9	12,372	23.2

1. Income

Of the total revenues for the year ended March 31, 2016, on a standalone basis, approximately 97.6% were export revenues whereas 2.4% were domestic revenues, as compared to 97.2% being export revenues and 2.8% domestic revenues during the previous year.

Of the total revenues for the year ended March 31, 2016, on a consolidated basis, approximately 97.4% were export revenues whereas 2.6% were domestic revenues, as compared to 97.6% being export revenues and 2.4% domestic revenues during the previous year.

Our revenues are generated primarily on fixed-price or fixed-timeframe or time-and-material basis. Revenues from software services on fixed-price and fixed-timeframe contracts are recognized as per the percentage-of-completion method. On time-and-material contracts, revenue is recognized as the related services that are rendered. Revenue from the sale of user licenses for software applications is recognized on transfer of the title in the user license, except in multiple-arrangement contracts, which require significant implementation services, where revenue is recognized as per the percentage-of-completion method.

Our revenues are segmented into onsite and offshore revenues. Onsite revenues are for those services which are performed at our client locations or at our development centers outside India, as part of software projects, while offshore revenues are for services which are performed at our software development centers in India.

The segmentation of revenues by location, including product revenue is as follows:

in %

	Standalone		Consolidated	
	2016	2015	2016	2015
Onsite	52.7	50.4	53.2	51.2
Offshore	47.3	49.6	46.8	48.8
Total	100.0	100.0	100.0	100.0

The proportion of work performed at our facilities and at client sites varies from period to period. The services performed onsite typically generate higher revenues per capita, but at lower gross margins in percentage as compared to the services performed at our own facilities in India. Therefore, any increase in the onsite effort impacts our margins. The details of the billable hours expended for onsite and offshore are as follows:

in %

	Standalone		Consolidated	
	2016	2015	2016	2015
Onsite	26.6	25.5	24.7	24.1
Offshore	73.4	74.5	75.3	75.9
Total	100.0	100.0	100.0	100.0

The break-up of revenues from software services and products is as follows:

in ₹ crore

	Standalone		Consolidated	
	2016	2015	2016	2015
Income				
Software services	53,334	45,658	60,528	51,666
Software products	649	1,642	1,913	1,653
Total	53,983	47,300	62,441	53,319

Refer to the *Segmental profitability* section in this report for more details on the analysis of segment revenues.

2. Expenditure

Software development expenses – standalone

in ₹ crore

	2016	%	2015	%	Growth %
Revenues	53,983	100	47,300	100.0	14.1
Software development expenses					
Salaries and bonus	25,131	46.6	22,281	47.1	12.8
Technical sub-contractors	4,416	8.2	2,909	6.1	51.8
Overseas travel expenses	1,207	2.2	995	2.1	21.3
Cost of software packages	651	1.2	797	1.7	(18.3)
Third-party items bought for service delivery to clients	386	0.7	182	0.4	112.1
Communication expenses	97	0.2	137	0.3	(29.2)
Rent	92	0.2	86	0.2	7.0
Post-sales customer support and warranties	18	–	17	–	5.9
Deferred consideration	110	0.2	219	0.5	(49.8)
Others	147	0.3	205	0.4	(28.3)
Total	32,255	59.8	27,828	58.8	15.9

Software development expenses – consolidated

in ₹ crore

	2016	%	2015	%	Growth %
Revenues	62,441	100.0	53,319	100.0	17.1
Software development expenses					
Salaries and bonus	30,414	48.7	26,349	49.4	15.4
Technical sub-contractors	3,530	5.7	2,170	4.1	62.7
Overseas travel expenses	1,593	2.5	1,295	2.4	23.0
Cost of software packages	726	1.1	855	1.6	(15.1)
Third-party items bought for service delivery to clients	534	0.9	189	0.4	182.5
Communication expenses	179	0.3	206	0.4	(13.1)
Rent	242	0.4	215	0.4	12.6
Post-sales customer support and warranties	8	–	39	0.1	(79.5)
Deferred consideration	110	0.2	219	0.4	(49.8)
Others	273	0.4	297	0.5	(8.1)
Total	37,609	60.2	31,834	59.7	18.1

On a standalone basis, software development expenses were 59.8% of revenues, compared to 58.8% during the previous year. On a consolidated basis, software development expenses were 60.2% of revenues, compared to 59.7% during the previous year. The increase in software development expenses from fiscal 2015 to fiscal 2016 was primarily due to increase in cost of efforts (comprising employee cost and cost of technical sub-contractors). The cost of efforts has increased as a percentage of revenue from 53.5% in fiscal 2015 to 54.4% in fiscal 2016. The increase in cost of efforts is due to an increased engagement of technical sub-contractors to meet certain skill requirements in complex projects which has been partially offset by a decrease in employee cost as a percentage of revenue. Employee costs relate to salaries paid to employees in India and overseas and include staff welfare expenses. The increase in salaries and bonus is primarily due to increased compensation in the last 12 months, promotions and an increase in the number of employees, partially offset by the role-mix changes and currency impact. The utilization rates of billable IT service professionals for the years ended March 31, 2016 and March 31, 2015 are as follows:

in %

	Standalone		Consolidated	
	2016	2015	2016	2015
Including trainees	75.0	74.5	75.0	74.6
Excluding trainees	80.8	81.0	80.6	80.9

On a standalone basis, the cost of technical sub-contractors includes ₹1,761 crore towards the purchase of services from subsidiaries for the year ended March 31, 2016, as against ₹1,385 crore in the previous year. The details of such related party transactions are available in the Notes to the *Standalone financial statements* section of the Annual Report. We continue to engage the services of these consultants on a need basis.

On a standalone basis, the overseas travel expenses representing the cost of travel overseas for software development constituted approximately 2.2% and 2.1%, respectively, of total revenue for the years ended March 31, 2016 and March 31, 2015. Overseas travel expenses include visa charges of ₹392 crore (0.7% of revenues) for the year, compared to ₹310 crore (0.7% of revenues) in the previous year. On a consolidated basis, overseas travel expenses for software development constituted approximately 2.5% and 2.4% of total revenue for the years ended March 31, 2016 and March 31, 2015, respectively.

Cost of software packages primarily represents the cost of software packages and tools procured for our internal use. These packages and tools enhance the quality of our services and also meet the needs of software development. On a standalone basis, the cost of software packages was 1.2% and 1.7% of the revenues for the years ending March 31, 2016 and March 31, 2015, respectively. On a consolidated basis, the cost of software packages was 1.1% and 1.6% of the revenues for the years ended March 31, 2016 and March 31, 2015, respectively.

Third-party items bought for service delivery to clients include software and hardware items.

A major part of our revenues is generated from software development centers in India. We use high-end communication tools in order to establish real-time connections with our clients. On a standalone basis, the communication expenses represent approximately 0.2% and 0.3% of revenues for each of the years ended March 31, 2016 and March 31, 2015, respectively. On a consolidated basis, the communication expenses represent approximately 0.3% and 0.4% of revenues for the years ended March 31, 2016 and March 31, 2015, respectively.

On a standalone basis, the rent represents approximately 0.2% of revenues for each of the years ended March 31, 2016 and March 31, 2015. On a consolidated basis, the rent represents approximately 0.4% of revenues for each of the years ended March 31, 2016 and March 31, 2015.

On a standalone basis, the provision for post-sales customer support and warranties saw a charge of ₹18 crore for fiscal 2016 against a charge of ₹17 crore for fiscal 2015. On a consolidated basis, the provision for post-sales customer support and warranties saw a charge of ₹8 crore for fiscal 2016 against a charge of ₹39 crore for fiscal 2015.

Deferred consideration represents compensation payable to selling shareholders of Lodestone on the third anniversary of the acquisition date and is contingent upon their continued employment for a period of three years and is recognized proportionately. The liability towards deferred consideration was settled during the quarter ended December 31, 2015.

On a standalone basis, other expenses primarily represent computer maintenance and consumables and approximate to 0.3% of revenues during the year (0.4% in the previous year). On a consolidated basis, the other expenses approximate to 0.4% of revenues during the year (0.5% in the previous year).

Gross profit

On a standalone basis, the gross profit during the year was ₹21,728 crore representing 40.2% of revenues, compared to ₹19,472 crore representing 41.2% of revenues in the previous year.

On a consolidated basis, the gross profit during the year was ₹24,832 crore representing 39.8% of revenues, compared to ₹21,485 crore representing 40.3% of revenues in the previous year.

Selling and marketing expenses

Selling and marketing expenses primarily consist of employee costs. On a standalone basis, we incurred selling and marketing expenses at 5.0% of our total revenues in the year ended March 31, 2016 compared to 5.4% of our total revenues in the year ended March 31, 2015. All other expenses, excluding employee costs, were 1.1% of revenues during the year, as compared to 1.0% in the previous year. The employee benefit costs as a percentage of revenue has not changed significantly in fiscal 2016 as compared to fiscal 2015.

On a consolidated basis, we incurred selling and marketing expenses at 5.5% of our total revenues, in both the current year and previous year. All other expenses, excluding employee costs, were 1.3% of revenues during the year, as compared to 1.1% in the previous year.

On a standalone basis, the number of sales and marketing personnel increased from 1,690 as at March 31, 2015 to 1,832 as at March 31, 2016. On a consolidated basis, the number of sales and marketing personnel increased from 1,841 as at March 31, 2015 to 2,147 as at March 31, 2016.

General and administration expenses

On a standalone basis, our general and administration expenses amounted to 6.1% and 6.3% of our total revenues, for the current and previous years respectively. All other expenses, excluding employee costs, were 4.3% of revenues during the year, as compared to 4.6% in the previous year.

On a consolidated basis, our general and administration expenses amounted to 6.9% of our total revenues each in the current and previous years. All other expenses, excluding employee costs, were 4.7% of revenues during the year, as compared to 4.9% in the previous year.

The increase in administrative expenses for fiscal 2016 from fiscal 2015 was primarily due to the increase in consultancy and professional charges and in repairs and maintenance, partially offset by a decrease in provision for doubtful accounts receivable. The increase in consultancy and professional charges was due to additional costs arising out of acquisitions, increased recruitment and training initiatives and increase in other professional fees. The increase in repairs and maintenance cost was primarily on account of higher cost incurred on maintenance of physical and technology infrastructure. The decrease in provision for bad and doubtful trade receivables was primarily due to collection of receivables, which was earlier provided. The employee benefit costs as a percentage of revenue has not changed significantly in the current year as compared to the previous year.

3. Operating profits

On a standalone basis, we earned an operating profit (PBITDA) of ₹15,763 crore, representing 29.2% of total revenues, compared to ₹13,962 crore, representing 29.5% of total revenues, during the previous year.

On a consolidated basis, we earned an operating profit (PBITDA) of ₹17,120 crore, representing 27.4% of total revenues, compared to ₹14,871 crore, representing 27.9% of total revenues, during the previous year.

4. Depreciation and amortization

On a standalone basis, we provided ₹1,115 crore and ₹913 crore towards depreciation and amortization, representing 2.1% and 1.9% of total revenues, for the years ended March 31, 2016 and March 31, 2015, respectively.

On a consolidated basis, we provided ₹1,266 crore and ₹1,017 crore towards depreciation and amortization, representing 2.0% and 1.9% of total revenues, for the years ended March 31, 2016 and March 31, 2015, respectively.

5. Other income, net

We use foreign exchange forward and option contracts to hedge our exposure to movements in foreign exchange rates.

On a standalone basis, foreign exchange gains / losses include transaction and translation gain of ₹141 crore and ₹26 crore for the years ended March 31, 2016 and March 31, 2015, respectively, and forward / option contracts gain of ₹29 crore for the year ended March 31, 2016 and gain of ₹499 crore for the year ended March 31, 2015.

On a consolidated basis, foreign exchange gains / losses include transaction and translation gain of ₹136 crore for the year ended March 31, 2016 and loss of ₹34 crore for the year ended March 31, 2015, and forward / option contracts gain of ₹29 crore and ₹514 crore for the years ended March 31, 2016 and March 31, 2015, respectively. The interest income for fiscal 2016 has declined as compared to fiscal 2015 primarily due to the softening interest rate environment in India.

The composition of currency-wise revenues for the years ended March 31, 2016 and March 31, 2015 is as follows:

in %

Currency	Standalone		Consolidated	
	2016	2015	2016	2015
U.S. Dollar (USD)	73.0	71.8	69.9	68.9
U.K. Pound Sterling (GBP)	6.9	6.0	6.6	5.9
Euro (EUR)	8.4	8.8	9.3	10.2
Australian Dollar (AUD)	7.2	7.8	6.9	7.6
Others	4.5	5.6	7.3	7.4
Total	100.0	100.0	100.0	100.0

6. Sensitivity to rupee movement

Every percentage point depreciation / appreciation in the exchange rate between the Indian rupee and the U.S. dollar has an impact of approximately 0.50% and 0.52%, respectively, on the Company's incremental operating margins during the years ended March 31, 2016 and March 31, 2015.

7. Provision for tax

We have provided for our tax liability both in India and overseas. The applicable Indian corporate statutory tax rate for the years ended March 31, 2016 and March 31, 2015 is 34.61% and 33.99%, respectively. Export profits for the year were entitled to tax benefits under the Special Economic Zone (SEZ) scheme of the Government of India. The Company had also claimed tax benefit under the Software Technology Park (STP) scheme, for export profits earned by certain STP units up to the year ended March 31, 2011.

We have our operations both under the STP and SEZ schemes. The profits attributable to operations under the STP scheme were exempted from income tax for a consecutive period of 10 years from the financial year in which the unit started producing computer software, or March 31, 2011, whichever was earlier. However, the income tax incentives provided by the Government of India for STP units have expired, and the income from all of our STP units are now taxable. SEZ units, which began providing services on or after April 1, 2005 are eligible for a deduction of 100% of profits or gains derived from the export of services for the first five years from the financial year in which the unit has commenced the provision of services and 50% of such profits or gains for the five years thereafter subject to creation of a Special Economic Zone Re-investment Reserve out of the profit of the eligible SEZ units and utilization of such reserve by the Company for acquiring new plant and machinery for the purpose of its business as per the provisions of the Income-tax Act, 1961.

On a standalone basis, the effective tax rate (based on profit before exceptional item and tax) decreased to 27.8% in fiscal 2016, as compared to 28.3% in fiscal 2015. The decrease in the effective tax rate was mainly due to decrease in overseas taxes, increase in tax reversals partially offset by decrease in benefits from SEZ units as a percentage of profit before income taxes, increase in Indian statutory corporate tax rate and reduction in deductions on eligible research and development expense based on the approval received from the Department of Scientific and Industrial Research (DSIR) for Finacle®.

On a consolidated basis, the effective tax rate decreased to 27.9% in fiscal 2016, as compared to 28.4% in fiscal 2015, which was mainly due to a decrease in overseas taxes, increase in tax reversals partially offset by a decrease in benefits from SEZ units as a percentage of profit before income taxes and increase in Indian statutory corporate tax rate.

The reversal of the provision is primarily due to completion of audits in certain jurisdictions.

8. Exceptional items

On a standalone basis, the Company has recorded a gain of ₹3,036 crore from the sale of business to EdgeVerve Systems Limited.

On April 24, 2015, the Board of Directors of Infosys authorized the Company to execute a Business Transfer Agreement and related documents with EdgeVerve, to transfer the business of Finacle and Edge Services. Post the requisite approval from shareholders through a postal ballot on June 4, 2015, a Business Transfer Agreement and other related documents were executed with EdgeVerve to transfer the business with effect from August 1, 2015. The Company has undertaken an enterprise valuation by an independent valuer and accordingly, the businesses were transferred for a consideration of ₹3,222 crore and ₹177 crore for Finacle and Edge Services, respectively. Net assets amounting to ₹363 crore (including working capital amounting to ₹337 crore) have been transferred and accordingly, a gain of ₹3,036 crore has been recorded as an exceptional item. The Company recorded a gain of ₹412 crore from sale of business to EdgeVerve Systems Limited in the previous year.

9. Net profit after tax and exceptional item

On a standalone basis, our net profit increased by 29.8% to ₹15,786 crore for the year ended March 31, 2016 from ₹12,164 crore in the previous year. This represents 29.2% and 25.8% of total revenue for the years ended March 31, 2016 and March 31, 2015, respectively.

On a consolidated basis, our net profit increased by 10.6% to ₹13,678 crore for the year ended March 31, 2016 from ₹12,372 crore in the previous year. This represents 21.9% and 23.2% of total revenue for the years ended March 31, 2016 and March 31, 2015, respectively.

10. Earnings Per Share (EPS) after exceptional item

On a standalone basis, our basic EPS after exceptional item increased by 29.8% during the year to ₹68.73 per share from ₹52.96 per share in the previous year. The outstanding shares used in computing the basic EPS were 2,29,69,44,664 and 2,29,69,44,664 (adjusted for bonus shares allotted in June 2015), for the years ended March 31, 2016 and March 31, 2015, respectively.

On a consolidated basis, our basic EPS increased by 10.6% during the year to ₹59.85 per share from ₹54.13 per share in the previous year. The outstanding shares used in computing the basic EPS were 2,28,56,16,160 and 2,28,56,10,264 (adjusted for bonus shares allotted in June 2015) for the years ended March 31, 2016 and March 31, 2015, respectively.

11. Segmental profitability

Our operations predominantly relate to providing end-to-end business solutions that leverage technology to enable clients to enhance business performance. During the year ended March 31, 2016, the Company reorganized its segments to enhance executive-customer relationships, improve focus on sales investments and increase management oversight. However, the reorganizations did not have any impact in the reportable segments as per AS 17 'Segment reporting' apart from Manufacturing being named as Manufacturing and Hi-tech. 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 clients. The details of income and operating income by industry and geographical segments are provided in this section.

Industry segments – standalone

in ₹ crore

	FSI [1]	MFG & HI-TECH [2]	ECS [3]	RCL [4]	LSH [5]	Total
Segmental revenues						
2016	17,791	12,087	10,997	9,501	3,607	53,983
2015	16,175	10,230	9,756	8,369	2,770	47,300
Growth %	10.0	18.2	12.7	13.5	30.2	14.1
Segmental operating income						
2016	5,068	3,424	3,425	2,835	1,011	15,763
2015	4,905	2,798	2,920	2,620	723	13,966
Growth %	3.3	22.4	17.4	8.2	39.7	12.9
Segmental operating profit (%)						
2016	28.5	28.3	31.1	29.8	28.0	29.2
2015	30.3	27.4	29.9	31.3	26.1	29.5

(1) *Financial Services and Insurance*
(2) *Manufacturing and Hi-tech*
(3) *Energy & utilities, Communications and Services*
(4) *Retail, Consumer packaged goods and Logistics*
(5) *Life Sciences and Healthcare*

Geographical segments – standalone

in ₹ crore

	North America	Europe	India	Rest of the World	Total
Segmental revenues					
2016	35,638	11,775	1,274	5,296	53,983
2015	30,273	10,300	1,307	5,420	47,300
Growth %	17.7	14.3	(2.5)	(2.3)	14.1
Segmental operating income					
2016	10,119	3,445	452	1,747	15,763
2015	8,842	2,929	378	1,817	13,966
Growth %	14.4	17.6	19.6	(3.8)	12.9
Segmental operating profit (%)					
2016	28.4	29.3	35.5	33.0	29.2
2015	29.2	28.4	28.9	33.5	29.5

Industry segments – consolidated

in ₹ crore

	FSI (1)	MFG and Hi-tech (2)	ECS (3)	RCL (4)	LSH (5)	Total
Segmental revenues						
2016	20,624	14,559	12,031	10,421	4,806	62,441
2015	17,721	12,470	10,562	8,966	3,600	53,319
Growth %	16.4	16.8	13.9	16.2	33.5	17.1
Segmental operating income						
2016	5,757	3,635	3,481	2,847	1,400	17,120
2015	5,190	3,095	2,973	2,689	928	14,875
Growth %	10.9	17.5	17.1	5.9	50.8	15.1
Segmental operating profit (%)						
2016	27.9	25.0	28.9	27.3	29.1	27.4
2015	29.3	24.8	28.1	30.0	25.8	27.9

(1) *Financial Services and Insurance*
(2) *Manufacturing and Hi-tech*
(3) *Energy & utilities, Communications and Services*
(4) *Retail, Consumer packaged goods and Logistics*
(5) *Life Sciences and Healthcare*

Geographical segments – consolidated

in ₹ crore

	North America	Europe	India	Rest of the World	Total
Segmental revenues					
2016	39,139	14,373	1,623	7,306	62,441
2015	32,794	12,829	1,284	6,412	53,319
Growth %	19.4	12.0	26.4	13.9	17.1
Segmental operating income					
2016	10,262	3,923	574	2,361	17,120
2015	9,126	3,449	312	1,988	14,875
Growth %	12.4	13.8	84.2	18.8	15.1
Segmental operating profit (%)					
2016	26.2	27.3	35.4	32.3	27.4
2015	27.8	26.9	24.3	31.0	27.9

12. Liquidity

Our growth has been financed largely through cash generated from operations. On a standalone basis, the net cash generated from our operations was ₹9,399 crore and ₹7,955 crore for the years ended March 31, 2016 and March 31, 2015, respectively. Net cash used in investing activities was ₹1,028 crore for the year ended March 31, 2016, while net cash generated was ₹665 crore for the year ended March 31, 2015. Net cash used in financing activities was ₹6,908 crore and ₹4,961 crore for the years ended March 31, 2016 and March 31, 2015, respectively.

On a consolidated basis, the net cash generated from our operations was ₹9,863 crore and ₹8,353 crore for the years ended March 31, 2016 and March 31, 2015, respectively. Net cash used in investing activities was ₹686 crore for the year ended March 31, 2016, while net cash generated was ₹1,088 crore for the year ended March 31, 2015. Net cash used in financing activities was ₹6,813 crore and ₹4,935 crore for the years ended March 31, 2016 and March 31, 2015, respectively.

13. Related party transactions

These have been discussed in detail in the Notes to the *Standalone financial statements* in this Annual Report.

14. Events occurring after the Balance Sheet date

There were no significant events that occurred after the Balance Sheet date.

IV Opportunities and threats

Our strengths

We believe our strengths give us the competitive advantage to position ourselves as the leading global solutions and services company.

Consulting and domain expertise: Our specific industry, domain, process, and technology expertise allows us to enable clients to transform their businesses with innovative strategies and solutions. Our expertise helps our clients enhance their performance, gain process and IT efficiencies, increase agility and flexibility, reduce costs, and achieve measurable business value.

Breadth of offerings: Our suite of comprehensive end-to-end business solutions includes business and technology consulting, enterprise solutions, systems integration, custom application development, application maintenance and production support, infrastructure management, independent testing and validation, cloud ecosystem integration, product engineering and lifecycle solutions, business process management, software products, and business platforms and solutions.

Intellectual property in platforms and products: Our products, platforms and solutions are geared to sense, influence, fulfill and serve the needs of digital consumers as well as leverage the potential of their business ecosystems.

Experience and expertise in large-scale outsourcing: We have developed processes and frameworks for large-scale outsourcing of technology projects that minimize financial and business risk to our clients. Our Global Delivery Model divides projects into components that can be executed simultaneously at client sites and at our development centers in India and around the world. We optimize our cost structure by maintaining the flexibility to execute project components where it is most cost-effective. This is further strengthened with automation, intelligence and collaboration technologies.

Deep client relationships and brand: We have long-standing relationships with large corporations and other organizations. Our track record in delivering high-quality solutions across the entire software lifecycle and our strong domain expertise help us solidify these relationships and gain increased business from existing clients. This history of client retention allows us to showcase and strengthen our brand.

Quality and process execution: Our sophisticated processes, standards and quality frameworks allow us to continuously optimize service delivery of various engagements on key performance indicators like business value, productivity, quality and cycle-time.

High-quality talent: We have a strong ecosystem for employee attraction, career development, engagement and retention through a trusted partnership with our stakeholders. Competency development of our workforce has always been one of our key strategic focus areas. We have a culture of performance and innovation in an open and collaborative environment.

Our strategy

Our strategic objective is to build a sustainable organization that remains relevant to the agenda of our clients, while generating profitable growth for our investors. In order to do this, we will apply the priorities of 'renew' and 'new' to our own business and cascade it to everything we do.

These translate to the following strategic focus areas:

Build expansive, lasting relationships with our clients by delivering differentiated market offerings: Our strategy is to engage with clients on their large transformative programs, both in traditional IT areas as well as for their new digital business initiatives. We expand existing client relationships by providing them with a broad set of end-to-end service offerings and increase the size, nature and number of projects we do with them. Our specific industry, domain, process, and technology expertise allows us to enable clients transform their businesses with innovative strategies and solutions. Through our transformation offering, which we call 'Aikidō', we help our clients address key aspects of their business Our 'Ai' offering, a result of our investments in building intellectual property, helps clients leverage software-based platforms to dramatically boost productivity and deliver next-generation experiences to their customers. Our 'Ki' offering captures the know-how of existing client technology landscapes, which we then leverage for process improvements and transformation. With our 'Dō' offering, which incorporates Design Thinking concepts, we help clients identify and prioritize their most significant problems and solve them in rapid, iterative and innovative ways. We offer an end-to-end suite of high-quality, highly responsive and innovation-led services spanning business consulting, IT services, software platform-based services and business process management. This enables us to partner with our clients on large, multi-year engagements.

We also plan to acquire new clients and increase our presence in new geographies and market segments by investing in targeted business development and marketing. We will position our brand as differentiated, global and respected.

Deliver solutions and services leveraging highly cost-effective models: Our strategy is to leverage software-based automation and our Global Delivery Model to deliver solutions and services to our clients in the most cost-effective manner, while at the same time optimizing our cost structure to remain competitive.

We are embracing artificial intelligence-based automation techniques and software automation platforms to boost productivity of our projects. We are leveraging software process engineering and collaboration technologies to improve process productivity.

Our Global Delivery Model provides scale, quality, expertise and cost and time-to-market advantages to our client projects. The model enables us to perform work at the location where the best talent is available and where it makes the best economic sense with the least amount of acceptable risk. Over the last 30 years, we have developed our distributed execution capabilities to deliver high-quality and scalable services. This scalable infrastructure complements our ability to deliver project components that are executed round the clock and across time zones enabling us to reduce project delivery times.

Enhance our operational processes for agility and optimal cost: We periodically assess the effectiveness of our organization structure and processes to optimize it for alignment with our strategic objectives and agility. We continually evaluate critical cross-functional processes and benchmark them with best-in-class practices to optimize costs and enable swift and effective response to our clients. We constantly monitor and optimize various operational parameters, such as the cost and utilization of resources, distribution of employees around the world, the cost of operating our campuses and whether we are optimally realizing the efficiencies of scale.

Attract and retain a global, diverse, motivated and high-performing employee base: Our employees are our biggest assets. To meet the evolving needs of our clients, our priority is to attract and engage the best talent in the right locations with the right skills. We offer our employees challenging work assignments, benchmarked compensation and a collaborative, productive work environment. Our performance management system is objective and rewards performance. We invest substantially in employee engagement to motivate employees and encourage social communication and collaboration.

Teaching and learning are central to the Infosys culture. Our investments in our Global Education Center and in creating various learning opportunities for our employees help them stay abreast of new developments in software technologies, spur innovation and build a lifelong career at Infosys.

We are guided by our value system which motivates our attitudes and actions. Our core values are Client Value, Leadership by Example, Integrity and Transparency, Fairness and Excellence (C-LIFE).

Pursue strategic alliances and acquisitions: We leverage alliances that complement our core competencies. We partner with leading technology software and hardware providers in creating, deploying, integrating and operating business solutions for our clients. We have also expanded the scope of our collaborations to encompass universities and research organizations.

We will deploy our capital in making selective business acquisitions that augment our expertise, complement our presence in certain market segments and accelerate the execution of our strategies.

We have an innovation fund with an outlay of US $500 million to tap into innovation networks of early-stage companies and universities to gain access to new thinking and business models.

Our competition

We experience intense competition in traditional services and see a rapidly-changing marketplace with new competitors arising in new technologies who are focused on agility, flexibility and innovation.

We typically compete with other technology services providers in response to requests for proposals. Clients often cite our industry expertise, comprehensive end-to-end solutions, ability to scale, superior quality and process execution, Global Delivery Model, experienced management team, talented professionals and track record as reasons for awarding us contracts.

In future, we expect intensified competition. In particular, we expect increased competition from firms that strengthen their offshore presence in India or other low-cost locations and firms that offer technology-based solutions to business problems and from firms incumbent in market segments that we have recently entered.

We believe that the principal competitive factors in our business are:

- the ability to keep pace with ever-changing technology and customer requirements;
- the ability to increase the scale and breadth of service offerings to provide one-stop solutions for customer needs;

- the ability to articulate and demonstrate long-term value to existing and potential customers;
- the ability to attract and retain high-quality management, technology professionals, and sales personnel;
- the ability to effectively integrate onsite and offshore execution capabilities to deliver high-quality, seamless, scalable, cost-effective services;
- a strong and well-recognized brand;
- a proven track record of performance excellence and customer satisfaction;
- the financial strength to be able to invest in personnel and infrastructure to support the evolving demands of customers; and
- high ethical and corporate governance standards to ensure honest and professional business practices and protect the reputation of the Company and its customers.

V Outlook, risks and concerns

This section lists forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these statements as a result of certain factors. Our outlook, risks and concerns are as follows:

- Our revenues and expenses are difficult to predict and can vary significantly from period to period, which could cause our share price to decline.
- We may not be able to sustain our previous profit margins or levels of profitability.
- The economic environment, pricing pressures, and decreased employee utilization rates could negatively impact our revenues and operating results.
- Our revenues are highly dependent on clients primarily located in the United States and Europe, as well as on clients concentrated in certain industries. An economic slowdown or other factors that affect the economic health of the United States, Europe or those industries, or any other impact on the growth of such industries, may affect our business.
- Currency fluctuations and declining interest rates may affect the results of our operations.
- Our success depends largely upon our highly-skilled technology professionals and our ability to hire, attract, motivate, retain and train these personnel.
- Wage pressures in India and the hiring of employees outside India may prevent us from sustaining some of our competitive advantage and may reduce our profit margins.
- Any inability to manage our growth could disrupt our business, reduce our profitability and adversely impact our ability to implement our growth strategy.
- We may not be able to provide 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.
- Intense competition in the market for technology services could affect our pricing, which could reduce our share of business from clients and decrease our revenues.
- A large part of our revenues is dependent on our top clients and the loss of any one of our major clients could significantly impact our business.
- Our success depends in large part upon our management team and key personnel, and our ability to attract and retain them.
- Our failure to complete fixed-price and fixed-timeframe contracts, or transaction-based pricing contracts, within budget and on time, may negatively affect our profitability.
- 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 engagements with customers are typically singular in nature and do not necessarily provide for subsequent engagements.
- Our client contracts are often conditioned upon our performance, which, if unsatisfactory, could result in lower revenues than previously anticipated.
- Some of our long-term client contracts contain benchmarking provisions which, if triggered, could result in lower future revenues and profitability under the contract.
- Our increasing work with governmental agencies may expose us to additional risks.
- 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 in the industries on which we focus.
- Disruptions in telecommunications, system failures, or virus attacks could negatively impact our operations and ability to provide our services and solutions, which could result in client dissatisfaction and a reduction in our revenues.
- We may be liable to our clients for damages caused by the disclosure of confidential information, system failures, errors or unsatisfactory performance of services.
- We may be the subject of litigation which, if adversely determined, could harm our business and operating results.
- Our insurance coverage may not be adequate to protect us against all potential losses to which we may be subject, and this may have a material adverse effect on our business.
- We are investing substantial cash assets in new facilities and physical infrastructure, and our profitability could be reduced if our business does not grow proportionately.
- We may be unable to recoup investment costs incurred in developing our software products and platforms.
- We may engage in acquisitions, strategic investments, strategic partnerships or alliances or other ventures that may or may not be successful.
- Goodwill that we carry on our Balance Sheet could give rise to significant impairment charges in the future.
- The markets in which we operate are subject to the risk of earthquakes, floods, tsunamis, storms and other natural and man-made disasters.
- Anti-outsourcing legislation in certain countries in which we operate, including the United States and the United Kingdom, may restrict companies in those countries from outsourcing work to us, or may limit our ability to send our employees to certain client sites.
- Restrictions on immigration may affect our ability to compete for and provide services to clients in the United States, Europe and other jurisdictions, which could hamper our growth or cause our revenues to decline.
- New and changing corporate governance and public disclosure requirements add uncertainty to our compliance policies and increase our costs of compliance.
- The intellectual property laws of India are limited and do not give sufficient protection to software and the related intellectual property rights to the same extent as those in the United States. We may be unsuccessful in protecting our intellectual property rights. We may also be subject to third-party claims of intellectual property infringement.
- Increased regulation in the industries in which our clients operate could harm our business, results of operations and financial condition.

- Our net income would decrease if the Government of India reduces or withdraws tax benefits and other incentives it provides to us or when our tax holidays expire, reduce or terminate.
- In the event that the Government of India or the government of another country changes its tax policies in a manner that is adverse to us, our tax expense may materially increase, reducing our profitability.
- We operate in jurisdictions that impose transfer-pricing and other tax-related regulations on us, and any failure to comply could materially and adversely affect our profitability.
- Terrorist attacks or a war could adversely affect our business, results of operations and financial condition.
- Changes in the policies of the Government of India or political instability may adversely affect economic conditions in India generally, which could impact our business and prospects.
- Our international expansion plans subject us to risks inherent in doing business internationally.
- Our ability to acquire companies organized outside India depends on the approval of the Reserve Bank of India and / or the Government of India, and failure to obtain this approval could negatively impact our business.
- Indian laws limit 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.
- Historically, our ADSs have traded at a significant premium to the trading prices of our underlying equity shares. Currently, they do not do so and they may not continue to do so in the future.
- Sales of our equity shares may adversely affect the prices of our equity shares and ADSs.
- The price of our ADSs and the U.S. dollar value of any dividends we declare may be negatively affected by fluctuations in the U.S. dollar to Indian rupee exchange rate.
- Negative media coverage and public scrutiny may adversely affect the prices of our equity shares and ADSs.
- Indian law imposes certain restrictions that limit a holder's ability to transfer the equity shares obtained upon conversion of ADSs and repatriate the proceeds of such transfer, which may cause our ADSs to trade at a premium or discount to the market price of our equity shares.
- An investor in our ADSs may not be able to exercise pre-emptive rights for additional shares, and may thereby suffer the dilution of such investor's equity interest in us.
- ADS holders may be restricted in their ability to exercise voting rights.
- It may be difficult for holders of our ADSs to enforce any judgment obtained in the United States against us or our affiliates.
- Holders of ADSs are subject to the Securities and Exchange Board of India's Takeover Code with respect to their acquisitions of ADSs or the underlying equity shares. This may impose requirements on such holders with respect to disclosure and offers to purchase additional ADSs or equity shares.
- If the Government of India modifies dividend distribution tax rates or introduces new forms of taxes on the distribution of profits, or changes the basis of application of these taxes, the same could materially affect the returns to our shareholders.

VI Internal control systems and their adequacy

The CEO and CFO certification provided in the *CEO and CFO Certification* section of the Annual Report discusses the adequacy of our internal control systems and procedures.

VII Material developments in human resources / industrial relations, including number of people employed

Our culture and reputation as a leader in consulting, technology, outsourcing and next-generation services enable us to attract and retain some of the best talent in India.

Human capital

Our professionals are our most important assets. We believe that the quality and level of service that our professionals deliver are among the highest in the global technology services industry. We are committed to remaining among the industry's leading employers.

As at March 31, 2016, the Group employed 1,94,044 employees, of which 1,82,329 were software professionals, including trainees. During fiscal 2016, we added 17,857 new hires, net of attrition. Our culture and reputation as a leader in the technology services industry enables us to recruit and retain some of the best available talent in India. The key elements that define our culture include recruitment, training and development, and compensation.

Recruitment

We have built our global talent pool by recruiting new students from premier universities, colleges and institutes in India, and through the need-based hiring of project leaders and middle managers. We recruit students who have consistently shown high levels of achievement from campuses in India. We, generally, also recruit students from campuses in the U.S., the U.K., Australia and China. We rely on a rigorous selection process involving aptitude tests and interviews to identify the best applicants. This selection process is continually assessed and refined based on the performance tracking of past recruits.

During fiscal 2016, we received 11,15,745 employment applications, interviewed 1,21,670 applicants and extended offers of employment to 55,056 applicants. These statistics do not include our subsidiaries.

Training and development

The competency development of our employees continues to be a key area of strategic focus for us. We launched new programs for our employees in keeping with the changes in the use of technology in education. We enhanced our technology-led training efforts in multiple areas. As part of our Foundation Program, an integrated learning platform has been developed that combines teaching, hands-on learning and assessments of in-class training to provide students an enhanced learning experience.

Our continuous education programs emphasize enhancing the relevance and effectiveness of learning. For instance, hands-on assessments have been strengthened and skill-based certifications have been included.

We have also made significant investments in hardware and software assets to boost our infrastructure capabilities. All these changes were incorporated to create a unique experience for learners at Infosys.

Compensation

Our technology professionals receive competitive salaries and benefits. We have a performance-linked compensation program that links compensation to individual performance as well as our Company's performance.

Creative concept and design by Communication Design Group, Infosys Limited.

Safe Harbor

This Annual Report contains 'forward-looking statements', that are based on our current expectations, assumptions, estimates and projections about the Company, our industry, economic conditions in the markets in which we operate, and certain other matters. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'will', 'project', 'seek', 'should' and similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause actual results or outcomes to differ materially from those implied by the forward-looking statements. Important factors that may cause actual results or outcomes to differ from those implied by the forward-looking statements include, but are not limited to, those discussed in the 'Outlook, risks and concerns' section in this Annual Report. In light of these and other uncertainties, you should not conclude that the results or outcomes referred to in any of the forward-looking statements will be achieved. All forward-looking statements included in this Annual Report are based on information available to us on the date hereof, and we do not undertake to update these forward-looking statements to reflect future events or circumstances unless required to do so by law.

www.infosys.com

To read the report online:
http://www.infosys.com/AR-2016

The Annual Report is printed on 100% recycled paper certified by the UK-based National Association of Paper Merchants (NAPM) and Germany-based Blue Angel.