Schedules to the balance sheet and profit and loss account

13 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Company overview

Infosys Technologies Limited ("Infosys" or "the company") is a publicly held company providing information technology ("IT") solutions principally to Fortune 1000 and emerging new economy companies. Infosys' range of services includes IT consulting, IT architecture, application development, e-commerce and Internet consulting, and software maintenance. In addition, the company develops and markets certain software products. Headquartered in Bangalore, India, Infosys has 17 state-of-the-art offshore software development facilities located throughout India that enables it to provide high quality, cost-effective services to clients in a resource-constrained environment. The company also has offices in North America, Europe and Asia.

13.1 Significant accounting policies

13.1.1 Basis of preparation of financial statements

The financial statements are prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Principles ("GAAP") comprising the mandatory accounting standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956, on the accrual basis, as adopted consistently by the company.

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

13.1.2 Revenue recognition

Revenue from software development on time-and-materials contracts is recognized based on software developed and billed to clients as per the terms of specific contracts. On fixed-price contracts, revenue is recognized based on milestones achieved as specified in the contracts on the proportionate completion method on the basis of the work completed. Revenue from rendering Annual Technical Services ("ATS") is recognized proportionately over the period in which services are rendered. Revenue from the sale of licenses for the use of software applications is recognized on transfer of the title in the user license. Interest on deployment of surplus funds is recognized using the time-proportion method, based on interest rates implicit in the transaction. Dividend income is recognized when the company's right to receive dividend is established. Revenue from the sale of special import licenses is recognized when the company transfers the licenses.

13.1.3 Expenditure

The cost of software purchased for use in software development and services is charged to revenue in the year the software is acquired. Project costs in the nature of salaries, travel and other expenses incurred on fixed price contracts, where milestones are yet to be reached are classified as "Costs in excess of billings" in the balance sheet. Provisions are made for all known losses and liabilities, future unforeseeable factors that may affect the profit on fixed-price software development contracts and also towards likely expenses for providing post-sales client support on fixed-price contracts. The leave encashment liability of the company is provided on the basis of an actuarial valuation.

13.1.4 Fixed assets

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Direct costs are capitalized until the assets are ready for use and include financing costs relating to any specific borrowing attributable to the acquisition of the fixed assets.

13.1.5 Capital work-in-progress

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

13.1.6 Depreciation

Depreciation on fixed assets is determined using the straight-line method based on useful lives of assets as estimated by Management. Depreciation for assets purchased/sold during the period is proportionately charged. Individual assets acquired for less than Rs. 5,000 are entirely depreciated in the year of acquisition. Management estimates the useful lives for the various fixed assets as follows :

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

13.1.7 Retirement benefits to employees

13.1.7a Gratuity

In accordance with the Payment of Gratuity Act, 1972, Infosys provides 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 years of employment with the company.

The company established the Infosys Technologies Limited Employees’ Gratuity Fund Trust (the “Trust”) in 1997, until which the company made contributions to a gratuity plan managed by the Life Insurance Corporation of India. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which, the company contributes to the Trust. Trustees administer the contributions made to the Trust. The funds contributed to the Trust are invested in specific designated securities as mandated by law and generally comprise central and state government bonds and debt instruments of government-owned corporations.

13.1.7b Superannuation

Apart from being covered under the Gratuity Plan described above, certain employees of Infosys are also participants of a defined contribution plan. The company makes monthly contributions to the superannuation plan (the “Plan”) based on a specified percentage of each covered employee’s salary. The company has no further obligations under the Plan beyond its monthly contributions.

13.1.7c Provident fund

In addition to the above benefits, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee’s salary.

Infosys established a Provident Fund Trust in 1996 to which a part of the contributions are made each month. Prior thereto, the company made contributions to the provident fund plan administered by the Government of India. The remainders of the contributions are made to the Government administered provident fund. The company has no further obligations under the provident fund plan beyond its monthly contributions.

13.1.8 Research and development

Revenue expenditure incurred on research and development is charged off as incurred. Capital expenditure incurred on research and development is depreciated over the estimated useful lives of the related assets.

13.1.9 Foreign currency transactions

Sales made to overseas clients and collections deposited in foreign currency bank accounts are recorded at the exchange rate as of the date of the respective transactions. Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Disbursements made out of foreign currency bank accounts are reported at a rate that approximates the actual monthly rate. Exchange differences are recorded when the amount actually received on sales or actually paid when expenditure is incurred is converted into Indian Rupees. The exchange differences arising on foreign currency transactions are recognized as income or expense in the period in which they arise.

Fixed assets purchased at overseas offices are recorded at cost, based on the exchange rate as of the date of purchase. The charge for depreciation is determined as per the company’s accounting policy.

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

13.1.10 Investments

Trade investments refer to the investments made with the aim of enhancing the company's business interests in software development and services. The investments are classified as current investments or long-term investments. Current investments are carried at the lower of cost and fair value. Cost for overseas investments comprises the Indian Rupee value of the consideration paid for the investment. Provisions are recorded for any decline in the carrying value as of the balance sheet date.

Long-term investments are carried at cost and provisions recorded to recognize any decline, other than temporary, in the carrying value of such investment.

The investment in the subsidiary is accounted on the cost method, whereby, the investment is carried at cost and the company recognizes only dividends received from the subsidiary as income in the profit and loss account. Provisions are recorded to recognize any decline, other than temporary, in the carrying value of the investment.

13.1.11 Income tax

Provision is made for income tax annually based on the tax liability computed after considering tax allowances and exemptions. Provisions are recorded as considered appropriate for matters under appeal due to disallowances or for other reasons.

13.1.12 Earnings per share

The earnings considered in ascertaining the company's earnings per share comprises the net profit after tax and includes the post-tax effect of any extra-ordinary items. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share, and also the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares). The number of shares and potentially dilutive equity shares are adjusted for stock splits and bonus shares, as appropriate.

13.1.13 New accounting standards

The Institute of Chartered Accountants of India ("ICAI") has issued accounting standards on segment reporting, related party disclosures and earnings per share that are applicable to the financial statements of the company, and are mandatory effective accounting period commencing on April 1, 2001. The ICAI has also submitted an exposure draft on accounting for taxes on income, which is also proposed to be made mandatory effective April 1, 2001. The company has evaluated the effect of these standards becoming mandatory and adopted the accounting standards on segment reporting, related party disclosures and earnings per share and provides pro-forma information in relation to the exposure draft on accounting for income taxes in these financial statements.

Although Yantra Corporation, USA, is a subsidiary of Infosys as per Section 4 of the Companies Act, 1956, the financial statements have not been consolidated since the company does not have controlling interest as envisaged by the accounting standard on consolidated financial statements also issued by the ICAI for mandatory compliance effective April 1, 2001.

13.2 Notes on accounts

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

13.2.1 Capital commitments and contingent liabilities

a. The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advances) is Rs. 158,25,35,171 as at March 31, 2001 (previous year – Rs. 80,31,29,007).

b. The company has outstanding guarantees and counter guarantees of Rs. 6,83,05,000 as at March 31, 2001, to various banks, in respect of the guarantees given by the banks in favor of various government authorities (previous year – Rs. 5,26,30,000).

c. Claims against the company, not acknowledged as debts, amounted to Rs. 8,75,532 as at March 31, 2001 (previous year – Rs. 32,89,661).

d. The outstanding forward contracts amounted to US$ 20,000,000 (approximately Rs. 93,12,00,000 at year-end exchange rates) at March 31, 2001 (previous year – US$ nil).

13.2.2 Quantitative details

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

13.2.3 Imports on the Cost, Insurance and Freight basis

in Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
Capital goods	36,48,32,435	14,76,79,236	70,36,23,566	22,08,36,753	113,56,33,008	37,47,31,691
Software packages	11,45,846	26,28,687	75,49,473	46,88,854	1,67,88,389	2,54,95,652

13.2.4 Earnings in foreign exchange (on the receipts basis)

in Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
Income from software development services and products	535,81,04,817	267,62,34,642	973,14,76,532	484,48,30,491	1708,67,49,891	833,29,73,465
Interest received on deposits with banks	3,93,24,396	5,23,07,865	8,86,61,426	9,86,95,010	19,55,81,989	18,42,65,368

Expenditure in foreign currency (on the payments basis)

in Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
Travel expenses	28,43,42,160	20,31,36,662	62,04,96,505	38,93,42,672	107,69,86,908	70,29,13,532
Professional charges	6,73,31,016	2,50,70,465	10,83,39,749	3,31,19,391	14,63,89,491	4,51,95,637
Other expenditure incurred overseas for software development	147,32,74,851	67,34,31,417	292,93,57,248	129,58,42,036	489,94,99,776	221,74,57,133

Net earnings in foreign currency (on the receipts and payments basis)

in Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
Net earnings in foreign exchange	357,24,81,186	182,69,03,963	616,19,44,456	322,52,21,402	1115,94,55,705	555,16,72,531

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

During the three months ended March 31, 2001, the company charged depreciation at 100% in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 13,13,91,242 (previous period Rs. 6,71,87,321). For the six months ended March 31, 2001 the charge is Rs. 24,95,25,707 (previous period Rs. 10,94,50,169) and for the year ended March 31, 2001 is Rs. 34,99,43,502 (previous year Rs. 13,21,59,074).

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

in Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001 *	2000	2001 *	2000	2001 *	2000
Salary	44,14,263	8,78,659	88,42,276	18,52,459	154,84,785	38,00,059
Contribution to provident fund and other funds	4,79,325	2,79,515	9,58,650	5,89,295	18,29,116	12,08,855
Perquisites	8,60,444	10,34,243	70,91,752	21,54,113	89,20,426	37,32,482

* includes the remuneration paid to three directors who were co-opted into the board on May 27, 2000.

13.2.7 Managerial remuneration paid to non-whole-time directors

in Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
Commission	59,22,049	48,17,800	59,22,049	48,17,800	59,22,049	48,17,800
Sitting fees	80,000	14,000	1,20,000	48,000	2,57,000	92,000
Reimbursement of expenses	2,10,838	1,11,975	4,10,396	5,57,098	9,09,070	10,13,703

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

in Rs.

	Year ended March 31,	
	2001	2000
Net Profit after tax from ordinary activities	623,31,92,341	285,94,85,819
Add:		
1. Whole-time directors remuneration	2,62,34,327	87,41,396
2. Directors sitting fees	2,57,000	92,000
3. Commission to non-whole time directors	59,22,049	48,17,800
4. Provision for bad and doubtful debts	19,27,45,549	94,03,099
5. Provision for bad loans and advances	7,11,816	-
6. Provision on investments	15,28,98,608	-
7. Depreciation as per the books of account	112,89,45,152	53,23,27,389
8. Provision for taxation	72,71,00,000	39,70,00,000
	846,80,06,842	381,18,67,503
Less:		
Depreciation as envisaged under section 350 of the Companies Act *	112,89,45,152	39,86,14,483
Net Profit on which commission is payable	733,90,61,690	341,32,53,020
Commission payable to non-whole time directors:		
Maximum allowed as per the Companies Act, 1956 at 1%	7,33,90,617	3,41,32,530
Maximum approved by the shareholders (0.5%)	3,66,95,309	1,70,66,265
Commission approved by the Board	**59,22,049**	**48,17,800**

* The company depreciates fixed assets based on estimated useful lives that are lower than those implicit in Schedule XIV of the Companies Act, 1956. Accordingly, the rates of depreciation used by the company are higher than the minimum rates prescribed by Schedule XIV.

13.2.8 Exchange differences

In Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
Gains on the translation of foreign currency deposits	(37,33,837)	76,94,209	3,07,15,082	15,68,374	20,17,12,483	9,93,27,075
Net realized and unrealized exchange gains – others	(3,63,34,120)	(5,68,36,110)	2,14,55,746	(10,10,275)	19,45,83,779	8,76,31,024
Total net realized and unrealized gains	(4,00,67,957)	(4,91,41,901)	5,21,70,828	5,58,099	39,62,96,262	18,69,58,099

Total realized and unrealized exchange gains comprise, gains on the translation of foreign currency deposits which is classified as “other income” and net realized and unrealized exchange gains, which are classified as “Income from software development services and products- overseas”.

13.2.9 Research and development expenditure

In Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
Capital	73,00,838	15,27,500	1,46,01,676	15,27,500	2,14,29,903	15,27,500
Revenue	3,92,60,999	1,91,18,610	7,80,48,820	4,18,83,950	14,97,08,196	8,07,35,940
Total research and development expenses	4,65,61,837	2,06,46,110	9,26,50,496	4,34,11,450	17,11,38,099	8,22,63,440

13.2.10 Provision for contingencies

The company had instituted a contingency plan effective October 1, 1998 and made a total provision of Rs. 9,99,00,000 to meet any possible disruption in client support due to the Year 2000 impact on the technology and communication infrastructure provided to the company by its vendors. In the year ended March 31, 2000, Rs. 2,42,29,154 was spent towards the Year 2000 transition effort, which was set off against the provision and the remainder of Rs. 7,56,70,846 was written back to the profit and loss account.

13.2.11 Provision for e-inventing the company

The company made a provision of Rs. 3,50,00,000 for the quarter ended September 30, 1999 towards e-inventing the company. Until March 31, 2000 the company had incurred Rs. 3,10,99,023 towards e-inventing Infosys, which was set-off against the provision earlier made. The remainder of Rs. 39,00,977 was incurred and set-off against this provision during the first quarter of the current year.

13.2.12 Unearned revenue

Unearned revenue as of March 31, 2001 amounting to Rs. 34,82,60,201 (previous year Rs. 17,56,71,963) primarily consists of client billings on fixed-price, fixed-time-frame contracts for which the related costs have not yet been incurred.

13.2.13 Dues to small-scale industrial undertakings

As of March 31, 2001, the company had no outstanding dues to small-scale industrial undertakings (previous year Rs. nil).

13.2.14 Balance of unutilized money raised by issue of American Depositary Shares

During the year ended March 31, 1999, Infosys made an Initial Public Offering of American Depositary Shares (“ADS”), of US$ 70,380,000, equivalent to Rs. 296,86,00,000. The issue proceeds net of expenses of Rs. 19,68,00,000 were entirely utilized as of the balance sheet date. The unutilized ADS proceeds as at March 31, 2001 is Rs. nil (Rs. 140,99,00,000 as at March 31, 2000).

13.2.15 Stock option plans

The company currently has three stock option plans. These are summarized below.

1994 Stock Option Plan ("the 1994 Plan")

As of March 31, 2001 the options to acquire 2,57,400 shares were outstanding with the Employee Welfare Trust and options to acquire 3,30,000 shares are outstanding with the employees under the 1994 Plan. These options were granted at an exercise price of Rs. 50 (post split) per option. Additionally, the number of shares earlier issued to employees subject to lock-in-period is 14,21,200 shares.

1998 Stock Option Plan ("the 1998 Plan")

The company's 1998 Stock Option Plan ("the 1998 Plan") provides for the grant of non-statutory stock options and incentive stock options to employees. The Board of Directors approved the 1998 Plan in December 1997 and the company's shareholders approved the plan in January 1998. A total of 16,00,000 equity shares corresponding to 32,00,000 ADSs are currently reserved for issue pursuant to the 1998 Plan. The Government of India approved the 1998 Plan, subject to a limit of 14,70,000 equity shares representing 29,40,000 ADSs to be issued under the plan. These options may be issued at an exercise price that is not less than 90% of the fair market value of the underlying equity share on the date of the grant. The 1998 Plan will terminate in January 2008, unless terminated earlier. All options under the 1998 Plan are exercisable for ADSs representing equity shares. The Compensation Committee comprising members of the Board of Directors administers the 1998 Plan.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
Number of options granted, exercised and forfeited	2001	2000	2001	2000	2001	2000
Options granted, beginning of period/year	9,44,666	6,51,000	8,71,466	4,19,000	6,89,500	4,19,000
Granted during the period	6,52,040	62,300	7,32,840	2,94,300	9,64,840	2,94,300
Exercised during the period	9,700	23,800	11,100	23,800	12,434	23,800
Forfeited during the period	21,500	-	27,700	-	76,400	-
Options granted, end of period/year	15,65,506	6,89,500	15,65,506	6,89,500	15,65,506	6,89,500
Weighted average exercise price	US$ 90.98 (Rs. 4,236)	US$ 58.53 (Rs. 2,552)	US$ 90.98 (Rs. 4,236)	US$ 58.53 (Rs. 2,552)	US$ 90.98 (Rs. 4,236)	US$ 58.53 (Rs. 2,552)

1999 Stock Option Plan ("the 1999 Plan")

In fiscal 2000, the company instituted the 1999 Plan. The shareholders and the Board of Directors approved the 1999 Plan in June 1999. The 1999 Plan provides for the issue of 66,00,000 equity shares to the employees. A Compensation Committee comprising a maximum of five members, the majority of whom are independent directors on the Board of Directors, administers the 1999 Plan. Under the 1999 Plan, options will be issued to employees at an exercise price, which shall not be less than the Fair Market Value. Fair Market Value is the closing price of the company's shares in the stock exchange where there is the highest trading volume on a given date and if the shares are not traded on that day, the closing price on the next trading day.

Under the 1999 Plan, options may be issued to employees at exercise prices that are less than Fair Market Value only if specifically approved by the members of the company in a general meeting.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
Number of options granted, exercised and forfeited	2001	2000	2001	2000	2001	2000
Options granted, beginning of period/year	20,12,000	9,51,000	18,83,000	-	10,06,800	-
Granted during the period	8,25,530	61,300	10,03,730	10,14,500	19,57,830	10,14,500
Exercised during the period	700	-	1,200	-	1,200	-
Forfeited during the period	42,850	5,500	91,550	7,700	1,69,450	7,700
Options granted, end of period/year	27,93,980	10,06,800	27,93,980	10,06,800	27,93,980	10,06,800
Weighted average exercise price	Rs. 5,572	Rs. 4,268	Rs. 5,572	Rs. 4,268	Rs. 5,572	Rs. 4,268

13.2.16 Pro-forma disclosures relating to the Employee Stock Option Plans ("ESOPs")

The Securities and Exchange Board of India (SEBI) issued the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines in 1999, which is applicable to all stock option schemes established on or after June 19, 1999. In accordance with these guidelines, the excess of the market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the options, including up-front payments, if any, is to be recognized and amortized on a straight-line basis over the vesting period. All options under the 1998 and 1999 stock option plans have been issued at fair market value, hence there are no compensation costs.

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.

In Rs.

	Three months ended March 31,		Six months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
Net profit :						
- As reported	181,67,43,523	93,41,37,231	348,00,51,013	167,19,92,024	628,81,36,341	293,51,56,665
- Adjusted pro forma	175,81,27,123	87,82,76,059	336,20,67,647	156,00,30,927	605,55,42,584	271,34,60,717

13.2.17 Provision for taxation

The company's profits from export activities are partly deductible from taxable income. However, most of Infosys' operations are conducted through 100% Export Oriented Units ("EOU"), which are entitled to a tax holiday for a period of ten years from the date of commencement of operations. The Government of India amended the tax incentive available to companies operating through EOUs. The tenure of tax exemption available to such companies has been restricted to 10 consecutive years, commencing from the earlier of, the fiscal year in which the unit commences software development, and March 31, 2000. Additionally, export related tax deductions apart from the 100% EOU scheme earlier described are being phased out by fiscal 2004. The provision for taxation includes tax liabilities in India on the company's global income as reduced by exempt incomes and any tax liabilities arising overseas on income sourced from those countries.

13.2.18 Cash and bank balances

The cash and bank balances include interest accrued but not due on fixed deposits amounting to Rs. 1,94,43,708 as on March 31, 2001 (previous year Rs. 94,92,514).

13.2.19 Loans and advances

"Advances" mainly comprises prepaid travel and per-diem expenses and advances to vendors for current assets.

Deposits with financial institutions and a body corporate comprise:

	As at March 31,	
	2001	2000
Deposits with financial institutions:		
Housing Development Finance Corporation Limited	50,87,03,015	25,50,19,994
ICICI Limited	50,87,01,373	25,75,52,742
IDBI Limited	40,35,30,424	-
Deposits with body corporate:		
G E Capital Services India Limited	50,58,17,345	25,32,29,129
	192,67,52,157	76,58,01,865

The above amounts include interest accrued but not due amounting to Rs. 2,67,52,157 (previous year Rs. 1,58,01,863).

The financial institutions and the body corporate have superior credit rating from a premier credit rating agency in the country.

Mr. Deepak M Satwalekar, Director, is also Director of HDFC. Mr. N R Narayana Murthy, Chairman and CEO, and Prof. Marti G. Subrahmanyam, Director, are also directors in ICICI Limited. Except as directors in these financial institutions, these persons have no direct interest in these transactions.

13.2.20 Current liabilities

Sundry creditors for other liabilities represent mainly the retention amounts payable to the vendors, and amounts accrued for various other operational expenses.

13.2.21 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 outright at the 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.

13.2.22 Transfer of intellectual property rights

During the first quarter of the current fiscal, the company transferred its intellectual property rights in Onscan- a web-focused wireless-enabled notification product, to Onmobile Systems, Inc. (formerly Onscan Inc.), USA, a company incubated by Infosys as part of its ongoing effort to encourage and promote budding entrepreneurs among its employees. The product was transferred for a gross consideration of Rs. 8,93,40,000 (US$ 2 million), received as equity, preferred voting and preferred non-voting securities in Onmobile Systems, Inc. The income arising out of the transfer of Rs. 5,49,44,000 (net of tax) is disclosed as an extraordinary item.

13.2.23 Investments

Purpleyogi Inc., USA

During the third quarter of the current fiscal, the company made a strategic investment of Rs. 2,33,34,992 comprising 2,76,243 fully paid Series D Convertible Preferred Stock, par value of US$ 0.001 each, at US$ 1.81 each in Purpleyogi Inc., USA. Purpleyogi Inc. is a developer of infrastructure software for information management, related to empowering networks to enable next generation content management and enterprise knowledge management solutions.

M-Commerce Ventures Pte. Ltd., Singapore

The company has a commitment to invest an aggregate amount of Singapore $ (“S$”) 1,000,000 in M-Commerce Ventures Pte. Ltd ("MCV"), a Singapore based venture fund. As at December 31, 2000, the company made an investment of Rs. 1,84,47,700 (equivalent to S$ 700,000), and acquired 70 capital units in MCV. Each unit in MCV represents one ordinary share of S$ 1 each, issued at par, and nine redeemable preference shares at a par value of S$ 1 each, with a premium of S$ 1,110 per redeemable preference share. MCV is promoted by the Economic Development Board, Singapore and intends to focus on companies offering mobile portals, personal information management and messaging, bandwidth optimization and offer key enablers of m-commerce.

EC Cubed Inc., USA

During the third quarter of the current fiscal, EC Cubed Inc., USA (“EC Cubed”), one of the companies in which Infosys had made a strategic investment, filed for liquidation. Pending the conclusion of liquidation proceedings, the company has provided for the entire investment amounting to Rs. 13,08,00,000 in its profit and loss account.

Alpha Thinx Mobile Phone Services AG, Austria

During the second quarter of current fiscal, the company invested Rs. 2,20,98,608 (equivalent to € 555,800) and acquired 27,790 bearer shares of nominal value € 1 each, at an issue price of € 20 per share in Alpha Thinx Mobile Phone Services AG ("Alpha Thinx"), a Vienna-based company. Due to adverse market conditions and non-availability of additional funding, the company filed for liquidation. Pending the conclusion of liquidation proceedings, the company has provided for the entire investment amounting to Rs. 2,20,98,608 in its profit and loss account.

Asia Net Media BVI Ltd., the British Virgin Islands

During the second quarter of current fiscal, the company invested Rs. 6,84,75,000 (equivalent to US$ 1,500,000) and acquired 3,00,00,000 Ordinary Shares of par value US$ 0.01 each, at an issue price of US$ 0.05 per Ordinary Share in Asia Net Media BVI Limited ("Asia Net"). Asia Net intends to leverage under-exploited offline brands in media and entertainment by delivering them through online channels and to establish a synergistic network of companies in this space.

CiDRA Corporation, USA

During the first quarter of current fiscal, the company made a strategic investment of Rs. 13,40,08,660 comprising 33,333 fully paid Series D Convertible Preferred Stock, par value of US$ 0.01 each, at US$ 90 each in CiDRA Corporation, USA. CiDRA Corporation is a developer of photonic devices for high-precision wavelength management and control for next-generation optical networks.

13.2.24 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 consistently applied to record revenue and expenditure in individual segments, are as set out in the note of 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 retailing industries; and others such as utilities, transportation and logistics companies.

Revenue 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. 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 or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services 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.

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 March 31, 2001 Rs.

	Financial services	**Manufac-turing**	**Telecom**	**Retail**	**Others**	**Total**
Revenues	188,45,61,661	100,33,43,646	102,73,48,875	62,46,84,796	107,87,77,614	561,87,16,592
Identifiable operating expenses	65,08,63,317	40,45,33,544	22,68,05,778	14,41,11,914	30,25,68,532	172,88,83,085
Allocated expenses	53,48,34,434	27,45,32,756	28,11,01,016	17,09,24,926	29,51,72,838	155,65,65,970
Segmental operating income	69,88,63,910	32,42,77,346	51,94,42,081	30,96,47,956	48,10,36,244	233,32,67,537
Unallocable expenses						40,11,11,815
Operating income						193,21,55,722
Other income (expense), net						10,20,87,801
Net profit before taxes						203,42,43,523
Income taxes						21,75,00,000
Net profit after taxes						**181,67,43,523**

Quarter ended March 31, 2000 *Rs.*

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	96,51,47,790	52,69,48,506	47,14,80,242	23,57,40,120	57,40,96,533	277,34,13,191
Identifiable operating expenses	33,99,77,653	19,69,74,296	14,04,12,241	7,36,76,264	21,56,99,574	96,67,40,028
Allocated expenses	26,81,26,265	13,39,24,565	11,98,27,243	5,99,13,620	14,59,07,290	72,76,98,983
Segmental operating income	35,70,43,872	19,60,49,645	21,12,40,758	10,21,50,236	21,24,89,669	107,89,74,180
Unallocable expenses						18,70,86,391
Operating income						89,18,87,789
Other income (expense), net						8,65,78,596
Net profit before taxes						97,84,66,385
Income taxes						12,00,00,000
Net profit after taxes						**85,84,66,385**

Geographic segments

Quarter ended March 31, 2001 *Rs.*

	North America	Europe	India	Rest of the World	Total
Revenues	402,37,12,703	115,03,29,661	9,40,15,896	35,06,58,332	561,87,16,592
Identifiable operating expenses	118,32,46,962	37,37,73,307	3,62,10,550	13,56,52,266	172,88,83,085
Allocated expenses	110,87,44,516	31,69,76,334	3,16,37,559	9,92,07,561	155,65,65,970
Segmental operating income	173,17,21,225	45,95,80,020	2,61,67,787	11,57,98,505	233,32,67,537
Unallocable expenses					40,11,11,815
Operating income					193,21,55,722
Other income (expense), net					10,20,87,801
Net profit before taxes					203,42,43,523
Income taxes					21,75,00,000
Net profit after taxes					**181,67,43,523**

Quarter ended March 31, 2000

	North America	Europe	India	Rest of the World	Total
Revenues	214,93,95,217	43,54,25,869	5,74,58,216	13,11,33,889	277,34,13,191
Identifiable operating expenses	73,08,41,247	17,64,20,676	84,78,394	5,09,99,711	96,67,40,028
Allocated expenses	54,94,45,294	11,13,06,982	2,95,84,299	3,73,62,408	72,76,98,983
Segmental operating income	86,91,08,676	14,76,98,211	1,93,95,523	4,27,71,770	107,89,74,180
Unallocable expenses					18,70,86,391
Operating income					89,18,87,789
Other income (expense), net					8,65,78,596
Net profit before taxes					97,84,66,385
Income taxes					12,00,00,000
Net profit after taxes					**85,84,66,385**

Industry segments

Half-Year ended March 31, 2001

	Financial services	Manufac-turing	Telecom	Retail	Others	Total
Revenues	385,02,32,111	190,02,47,922	197,79,59,994	109,19,34,329	216,90,26,525	1098,94,00,881
Identifiable operating expenses	130,04,43,391	76,73,61,969	48,60,66,931	29,14,61,421	63,31,52,333	347,84,86,045
Allocated expenses	107,98,02,522	51,20,05,975	53,27,94,188	29,46,38,519	58,38,37,889	300,30,79,093
Segmental operating income	146,99,86,198	62,08,79,978	95,90,98,875	50,58,34,389	95,20,36,303	450,78,35,743
Unallocable expenses						86,21,04,496
Operating income						364,57,31,247
Other income (expense), net						24,68,19,766
Net profit before taxes						389,25,51,013
Income taxes						41,25,00,000
Net profit after taxes						**348,00,51,013**

Half-Year ended March 31, 2000

	Financial services	Manufac-turing	Telecom	Retail	Others	Total
Revenues	163,75,94,329	107,48,67,908	79,97,79,057	42,13,98,761	110,39,02,894	503,75,42,949
Identifiable operating expenses	60,32,59,955	40,64,29,703	24,70,11,705	13,64,36,607	38,65,71,121	177,97,09,091
Allocated expenses	42,88,85,728	26,36,50,396	19,75,55,529	10,38,70,308	27,13,44,663	126,53,06,624
Segmental operating income	60,54,48,646	40,47,87,809	35,52,11,823	18,10,91,846	44,59,87,110	199,25,27,234
Unallocable expenses						33,18,85,471
Operating income						166,06,41,763
Other income (expense), net						15,76,79,415
Net profit before taxes						181,83,21,178
Income taxes						22,20,00,000
Net profit after taxes						**159,63,21,178**

Geographic segments

Half year ended March 31, 2001

	North America	Europe	India	Rest of the World	Total
Revenues	797,71,69,308	216,12,01,438	17,22,98,796	67,87,31,339	1098,94,00,881
Identifiable operating expenses	243,85,19,472	73,71,12,822	5,38,17,428	24,90,36,323	347,84,86,045
Allocated expenses	216,26,01,342	58,64,40,307	6,17,57,435	19,22,80,009	300,30,79,092
Segmental operating income	337,60,48,494	83,76,48,309	5,67,23,933	23,74,15,007	450,78,35,743
Unallocable expenses					86,21,04,496
Operating income					364,57,31,247
Other income (expense), net					24,68,19,766
Net profit before taxes					389,25,51,013
Income taxes					41,25,00,000
Net profit after taxes					**348,00,51,013**

Half Year ended March 31, 2000

	North America	Europe	India	Rest of the Worl	Total
Revenues	393,47,50,892	71,62,66,163	7,74,95,444	30,90,30,450	503,75,42,949
Identifiable operating expenses	135,56,07,902	29,25,34,098	1,78,80,080	11,36,87,011	177,97,09,091
Allocated expenses	97,43,82,433	17,81,50,509	3,37,82,304	7,89,91,378	126,53,06,624
Segmental operating income	160,47,60,557	24,55,81,556	2,58,33,060	11,63,52,061	199,25,27,234
Unallocable expenses					33,18,85,471
Operating income					166,06,41,763
Other income (expense), net					15,76,79,415
Net profit before taxes					181,83,21,178
Income taxes					22,20,00,000
Net profit after taxes					**159,63,21,178**

Industry segments

Year ended March 31, 2001

	Financial services	Manufac-turing	Telecom	Retail	Others	Total
Revenues	640,77,55,042	338,84,20,263	350,11,16,331	172,86,39,345	397,97,27,826	1900,56,58,807
Identifiable operating expenses	225,87,90,591	130,66,14,108	88,39,38,378	54,74,24,303	120,92,12,385	620,59,79,765
Allocated expenses	177,68,81,844	90,69,15,538	93,89,68,074	46,30,82,749	106,54,09,651	515,12,57,856
Segmental operating income	237,20,82,607	117,48,90,617	167,82,09,879	71,81,32,293	170,51,05,790	764,84,21,186
Unallocable expenses						128,18,43,760
Operating income						636,65,77,426
Other income (expense), net						59,37,14,915
Net profit before taxes						696,02,92,341
Income taxes						72,71,00,000
Net profit after taxes						**623,31,92,341**

Year ended March 31, 2000

	Financial services	Manufac-Turing	Telecom	Retail	Others	Total
Revenues	265,30,85,370	202,83,52,254	135,55,15,518	93,73,76,882	184,89,06,949	882,32,36,973
Identifiable operating expenses	101,19,71,503	75,67,92,632	40,28,62,023	27,76,93,104	66,64,12,833	311,57,32,095
Allocated expenses	69,37,68,066	50,86,57,287	34,03,02,435	23,63,91,743	46,26,83,234	224,18,02,765
Segmental operating income	94,73,45,801	76,29,02,335	61,23,51,060	42,32,92,035	71,98,10,882	346,57,02,113
Unallocable expenses						60,06,27,389
Operating income						286,50,74,724
Other income (expense), net						39,14,11,095
Net profit before taxes						325,64,85,819
Income taxes						39,70,00,000
Net profit after taxes						**285,94,85,819**

Geographic segments

Year ended March 31, 2001

	North America	Europe	India	Rest of the World	Total
Revenues	1396,90,84,594	358,05,91,607	26,53,92,386	119,05,90,220	1900,56,58,807
Identifiable operating expenses	443,71,64,129	125,44,88,260	8,95,83,246	42,47,44,130	620,59,79,765
Allocated expenses	377,03,71,740	96,78,27,796	8,59,85,652	32,70,72,668	515,12,57,856
Segmental operating income	576,15,48,725	135,82,75,551	8,98,23,488	43,87,73,422	764,84,21,186
Unallocable expenses					128,18,43,760
Operating income					636,65,77,426
Other income (expense), net					59,37,14,915
Net profit before taxes					696,02,92,341
Income taxes					72,71,00,000
Net profit after taxes					**623,31,92,341**

Year ended March 31, 2000

	North America	Europe	India	Rest of the Worl	Total
Revenues	688,38,28,204	130,36,56,209	12,62,56,042	50,94,96,518	882,32,36,973
Identifiable operating expenses	233,90,25,514	54,42,04,124	3,92,29,204	19,32,73,253	311,57,32,095
Allocated expenses	173,76,61,289	33,01,22,096	4,52,76,088	12,87,43,292	224,18,02,765
Segmental operating income	280,71,41,401	42,93,29,989	4,17,50,750	18,74,79,973	346,57,02,113
Unallocable expenses					60,06,27,389
Operating income					286,50,74,724
Other income (expense), net					39,14,11,095
Net profit before taxes					325,64,85,819
Income taxes					39,70,00,000
Net profit after taxes					**285,94,85,819**

13.2.25 Related party transactions

The company entered into related party transactions during the nine months with Yantra Corporation, USA, the subsidiary of the company and key management personnel.

The transactions with Yantra comprise sales of Rs. 3,88,13,967 during the three months ended March 31, 2001 (previous period Rs. 3,62,92,624). The corresponding amounts for the half-year ended March 31, 2001 were Rs. 9,27,85,631 (corresponding half-year in fiscal 2001 -- Rs. 6,59,30,591) and the corresponding amounts for the year ended March 31, 2001 were Rs. 19,64,85,967 (previous year Rs. 11,40,18,373). The outstanding dues from the subsidiary as set out in schedule 5, *Sundry Debtors,* to the financial statements.

Key management personnel are non-director officers of the company, who have the authority and responsibility for planning, directing and controlling the activities of the company. The loans and advances receivable from non-director officers is stated in schedule 7, *Loans and advances,* to the financial statements.

13.2.26 Provisions for doubtful debts

Periodically management evaluates all customer dues to the company for collectibility. The need for provisions is assessed based on various factors including collectibility of specific dues, risk perceptions of the industry in which the customer operates, general economic factors, which could effect the customer's ability to settle. The company normally provides for debtor dues outstanding for 180 days or longer. For the year ended March 31, 2001, the company has provided for doubtful debts of Rs. 8,55,48,753 (previous year Rs. nil) on dues from certain customers although the outstanding amounts were less than 180 days old, since the amounts were considered doubtful of recovery. Management continues pursuing the parties for recovery of the dues, in part or full.

13.2.27 Dividends remitted in foreign currencies

The Company remits dividends in foreign currency only in respect of the holders of American Depository Receipts ("ADR holders") in Indian Rupees to the depositary bank, which is the registered shareholder on record for all owners of the company's ADRs. Particulars of dividends remitted are as follows:

Particulars	Number of shares to which the dividends relate	Year ended March 31,	
		2001	2000
		Amount (Rs)	Amount (Rs)
Final dividend for fiscal 1999	10,35,000	-	62,10,000
Interim dividend for fiscal 2000	10,35,000	-	31,05,000
Final dividend for fiscal 2000	2,081,900	62,11,810	-
Interim dividend for fiscal 2001	2,082,567	52,06,417	-
		1,14,18,227	93,15,000

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

Particulars	Quarter ended March 31,		Six Months ended March 31,		Year ended March 31,	
	2001	2001			2001	2000
Number of shares considered as basic weighted average shares outstanding	6,61,54,453	6,61,41,121	6,61,54,297	6,61,39,948	6,61,52,131	6,61,39,372
Add: Effect of dilutive issues of shares and stock options during the period	3,10,980	16,515	2,55,578	17,811	2,06,180	18,447
Number of shares considered as weighted average shares and potential shares outstanding	6,64,65,433	6,61,57,636	6,64,09,875	6,61,57,759	6,63,58,311	6,61,57,819

13.2.29 Pro-forma disclosures relating to deferred income taxes

The pro-forma amounts based on the following proposed accounting policy in conformity with the referred exposure draft issued by the ICAI relating to accounting for income taxes is as given below.

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. The differences that result between the profit offered for income taxes and the profit as per the financial statements are identified and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted regulations. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

Deferred tax assets:

	Year ended March 31,	
	2001	2000
Fixed assets	7,07,25,385	11,55,09,912
Investments	7,44,36,031	-
Others	1,01,42,724	39,75,433
	15,53,04,140	11,94,85,345

Net profit after tax:

	Quarter ended March 31,		Six Months ended March 31,		Year ended March 31,	
	2001	2000	2001	2000	2001	2000
As reported	181,67,43,523	93,41,37,231	348,00,51,013	167,19,92,024	628,81,36,341	293,51,56,665
Adjusted pro-forma	180,87,69,453	96,54,09,487	344,99,59,249	170,92,85,658	632,39,55,136	297,20,17,263

When the exposure draft is formally issued by the ICAI and adopted by the company, the cumulative charge or benefit of deferred taxes until April 1, 2001, the effective date of the standard's adoption by the company, will be recorded as an appropriation to accumulated profits currently estimated by management at Rs. 15,53,04,140, while the deferred tax charge or benefit for the periods commencing from April 1, 2001 will be recorded as a part of the income tax charge on net profits.