

16. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Company overview

Infosys Technologies Limited ("Infosys" or the "company"), a world leader in consulting and information technology ("IT") services partners with Global 2000 companies to provide business consulting, systems integration, application development and product engineering services. Through these services, Infosys enables its clients to fully exploit technology for business transformation. Clients leverage Infosys' Global Delivery Model to achieve higher quality, improved time-to-market and cost-effective solutions.

16.1 Significant accounting policies

16.1.1 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") on the accrual basis. GAAP comprises mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI") and the provisions of the Companies Act, 1956. These accounting policies have been consistently applied, except for applicable recently issued accounting standards made mandatory by the ICAI effective the current fiscal year that were adopted by the company, as described below. All amounts are stated in Indian Rupees, except as otherwise specified.

Of the applicable accounting standards mandated by the ICAI, the company adopted the standards on segment reporting, related party disclosures and earnings per share from the year ended March 31, 2001. Additionally, the company adopted the standards on leases, accounting for taxes on income and interim financial reporting effective the year ended March 31, 2002.

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 income 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 complete software contracts, provisions for doubtful debts, future obligations under employee retirement benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.

16.1.2 Revenue recognition

Revenue from software development on fixed-price contracts is recognized according to the milestones achieved as specified in the contracts on the proportionate-completion method based on the work completed. On time-and-materials contracts, revenue is recognized based on software developed and invoiced as per the terms of specific contracts. Annual Technical Services revenue is recognized proportionately over the period in which services are rendered. Revenue from the sale of user licenses for software applications is recognized on transfer of the title in the user license. Interest is recognized using the time-proportion method, based on rates implicit in the transaction. Dividend income is recognized when the company's right to receive dividend is established.

16.1.3 Expenditure

The cost of software user licenses purchased for software development and the rendering of IT services is charged to revenue in the year the software is acquired at the time of acquisition. Charges relating to non-cancelable long-term operating leases are computed on the basis of the lease rentals payable as per the relevant lease agreements. 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. The leave encashment liability of the company is provided on the basis of an actuarial valuation.

16.1.4 Fixed assets and capital work-in-progress

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 borrowing attributable to acquisition. Capital work-in-progress includes the cost of fixed assets that are not yet ready for their intended use, advances paid to acquire fixed assets and the cost of assets not put to use before the balance sheet date.

16.1.5 Depreciation

Depreciation on fixed assets is determined using the straight-line method based on useful lives of assets as estimated by the company. 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

16.1.6 Retirement benefits to employees

16.1.6a 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 tenure of employment.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which, the company fully contributes all the ascertained liabilities to the Infosys Technologies Limited Employees' Gratuity Fund Trust (the "Trust"). Trustees administer contributions made to the Trust and invest in specific designated securities as mandated by law, which generally comprise central and state government bonds and debt instruments of government-owned corporations.

16.1.6b Superannuation

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

16.1.6c Provident fund

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

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

16.1.7 Research and development

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

16.1.8 Foreign currency transactions

Revenue from 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.

16.1.9 Income tax

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A 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.

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 or substantially 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.

16.1.10 Earnings per share

In determining earnings per share, the company considers 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 period. 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 period, 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.

16.1.11 Investments

Trade investments refer to the investments made to enhance the company's business interests in information technology services. Investments are either classified as current or long-term. 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.

Long-term investments are carried at cost and provisions recorded to recognize any decline, other than temporary, in the carrying value of each investment. Any dividends are recorded as income in the profit and loss account.

16.2 Notes on accounts

Pursuant to our application, the Department of Company Affairs in their letter of January 23, 2002 granted the company approval to present the financial statements in Rupees crore. Accordingly, all amounts in the financial statements are presented in Rupees crore, except for per share data and as otherwise stated. All exact amounts are stated with the suffix "/-". One crore equals 10 million.

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

16.2.1 Deferred income taxes

Consequent to the standard on accounting for taxes on income becoming mandatory effective April 1, 2001, the company recorded the cumulative net deferred tax credit of Rs 15.53 until April 1, 2001, as an addition to the general reserves. The deferred tax credits of Rs 0.96 for the quarter, Rs 4.65 for the half-year and Rs 7.76 for the year ended March 31, 2002 are included in the provision for taxation for the respective periods.

16.2.2 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 63.53 as at March 31, 2002. The amount of such contracts as at March 31, 2001 was Rs 158.25.
- b. The company has outstanding guarantees and counter guarantees of Rs. 16.27 as at March 31, 2002, to various banks, in respect of the guarantees given by the banks in favor of various government authorities and others. The guarantees outstanding as at March 31, 2001 were Rs 6.83.
- c. Claims against the company, not acknowledged as debts, amounted to Rs 3.77 as at March 31, 2002. The claims as at March 31, 2001 were Rs.0.09.
- d. Outstanding forward contracts amounted to US\$ 2,000,000 (approximately Rs 9.76 at year end exchange rates) at March 31, 2002. Such contracts as at March 31, 2001 were US\$ 20,000,000 (approximately Rs 93.12 at year end exchange rates).

16.2.3 Aggregate expenses

Following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under schedule VI to the Companies Act, 1956:

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Salaries and bonus including overseas staff expenses	284.76	200.25	565.11	391.07	1,089.04	684.32
Contribution to provident and other funds	7.25	7.70	14.61	16.52	28.83	33.46
Foreign travel expenses	37.90	37.08	70.13	81.11	136.59	147.22
Consumables	0.99	1.80	2.15	3.92	3.24	5.87
Cost of software packages for own use	8.87	3.95	17.89	12.06	35.02	31.86
Cost of software packages for service delivery to clients	1.60	1.92	3.12	4.37	9.17	5.70
Computer maintenance	2.19	2.48	4.21	4.48	7.11	7.19
Communication expenses	7.62	10.56	15.67	21.58	36.49	31.52
Consultancy charges	4.69	3.49	5.86	6.21	10.12	9.19
Provision for post-sales client support	2.64	(0.03)	2.60	1.03	3.65	1.83
Traveling and conveyance	4.21	5.67	8.81	10.70	18.62	18.41
Rent	6.26	5.51	12.37	9.99	24.41	16.95
Telephone charges	3.31	3.83	6.42	7.52	14.71	14.03
Professional charges	7.95	8.93	13.54	13.98	22.13	20.40
Printing and stationery	1.00	1.49	2.14	2.64	6.30	6.25
Advertisements	0.92	2.05	1.64	3.42	3.09	6.31
Office maintenance	3.66	4.24	7.42	7.17	14.12	12.84
Repairs to building	3.43	1.43	4.72	2.54	8.50	3.95
Repairs to plant and machinery	0.64	0.71	1.22	1.53	2.49	2.27
Power and fuel	4.88	3.85	9.57	7.20	18.96	11.78
Brand building	2.97	3.03	5.50	5.50	13.16	10.52
Insurance charges	1.38	2.85	2.84	3.92	5.34	5.18
Rates and taxes	0.92	0.76	2.33	0.84	4.26	1.82
Commission charges	4.69	0.55	8.81	0.89	10.82	1.79
Donations	0.29	2.44	1.13	3.94	5.12	7.22
Auditor's remuneration – audit fees	0.05	0.04	0.11	0.09	0.21	0.18
– certification charges	0.02	0.02	0.02	0.02	0.02	0.02
– out-of-pocket expenses	0.01	0.01	0.01	0.01	0.02	0.02
Bad debts written off	-	-	-	-	-	0.28
Provision for bad and doubtful debts	(0.15)	7.09	2.62	14.36	13.09	19.28
Provision for doubtful loans and advances	0.36	0.07	0.36	0.07	0.42	0.07
Bank charges and commission	0.53	0.17	0.58	0.50	0.71	0.59
Commission to non-whole time directors	0.26	0.14	0.50	0.29	0.98	0.59
Postage and courier	0.53	0.76	1.30	1.32	3.23	2.28
Books and periodicals	0.27	0.47	0.55	0.80	1.14	1.69
Research grants	-	0.25	0.25	0.50	0.75	1.00
Freight charges	0.13	0.12	0.31	0.33	0.52	0.56
Professional membership and seminar participation fees	0.61	0.65	1.30	1.27	2.20	2.17
Marketing expenses	0.83	1.00	2.02	1.98	4.67	4.27
Sales promotion expenses	0.07	0.16	0.22	0.64	0.44	0.70
Transaction processing fee and filing fees	0.77	0.93	2.49	1.23	4.78	1.53
Other miscellaneous expenses	0.08	0.13	0.30	0.62	1.49	2.61
	409.39	328.55	802.75	648.16	1,565.96	1,135.72

16.2.4 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.

16.2.5 Imports (valued on the cost, insurance and freight basis)

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Capital goods	4.39	36.48	14.47	70.36	41.66	113.56
Software packages	4.44	0.11	4.51	0.75	7.08	1.68

16.2.6 Earnings in foreign exchange (on the receipts basis)

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Income from software services and products	624.26	535.81	1,302.10	973.15	2,490.91	1,708.67
Interest received on deposits with banks	0.75	3.93	1.59	8.87	4.59	19.56

Expenditure in foreign currency (on the payments basis)

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Travel expenses	29.89	28.43	51.54	62.05	101.21	107.70
Professional charges	4.91	6.73	7.85	10.84	14.31	14.64
Other expenditure incurred overseas for software development	241.46	147.33	481.25	292.94	907.89	489.95

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

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Net earnings in foreign exchange	348.75	357.25	763.05	616.19	1,472.09	1,115.94

16.2.7 Fixed assets

Depreciation charged to the profit and loss account relating to assets costing less than Rs. 5,000/- each

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Charged during the period/year	8.75	13.14	13.93	24.95	21.17	34.99

Profit/loss on disposal of fixed assets

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Profit on sale of fixed assets	0.25	0.01	0.29	0.10	0.86	0.11
Loss on sale of fixed assets	(0.18)	-	(0.23)	-	(0.77)	(0.02)
Profit on sale of fixed assets, net	0.07	0.01	0.06	0.10	0.09	0.09

16.2.8 Obligations on long-term non-cancelable operating leases

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

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Lease rentals paid during the period/year	5.59	3.59	10.80	6.24	19.78	9.74

Lease obligations	Year ended	
	March 31, 2002	March 31, 2001
Within one year of the balance sheet date	16.95	7.30
Due in a period between one year and five years	46.90	27.72
Due after five years	7.20	14.40

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

16.2.9 Managerial remuneration for the chairman, managing director and whole-time directors

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Salary	0.45	0.44	1.14	0.88	2.03	1.55
Contribution to provident fund and other funds	0.05	0.05	0.10	0.10	0.19	0.18
Perquisites and incentives	0.09	0.09	0.24	0.71	1.07	0.89

16.2.10 Managerial remuneration for non-whole-time directors

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Commission	0.26	0.14	0.50	0.29	0.98	0.59
Sitting fees	0.01	0.01	0.02	0.01	0.04	0.03
Reimbursement of expenses	0.09	0.02	0.10	0.04	0.27	0.09

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

	March 31, 2002	March 31, 2001
Net Profit after tax from ordinary activities	807.96	623.32
Add:		
1. Whole-time directors remuneration	3.29	2.62
2. Directors sitting fees	0.04	0.03
3. Commission to non-whole time directors	0.98	0.59
4. Provision for bad and doubtful debts	13.09	19.28
5. Provision for bad loans and advances	0.42	0.07
6. Provision on investments	-	15.29
7. Depreciation as per the books of account	160.65	112.89
8. Provision for taxation	135.43	72.71
	1,121.86	846.80
Less:		
Depreciation as envisaged under section 350 of the Companies Act *	160.65	112.89
Net Profit on which commission is payable	961.21	733.91
Commission payable to non-whole time directors:		
Maximum allowed per Companies Act, 1956 at 1%	9.61	7.34
Maximum as approved by the shareholders (0.5%)	4.80	3.67
Commission approved by the Board	0.98	0.59

* 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.

16.2.11 Exchange differences

Other income includes exchange differences of Rs 6.44, Rs 8.51 and Rs. 23.75 for the quarter, half-year and year ended March 31, 2002. The corresponding amounts for the quarter, half-year and year ended March 31, 2001 were Rs (4.01), Rs 5.22 and Rs 39.63 respectively. Of this amount, the gains on translation of foreign currency deposits amounted to Rs 1.96 in the quarter ended March 31, 2002 (Rs. (0.37) for the quarter ended March 31, 2001), Rs. 2.83 in the half-year ended March 31, 2002 (Rs 3.07 for the half-year ended March 31, 2001) and Rs 6.65 in the year ended March 31, 2002 (Rs 20.17 for the year ended March 31, 2001).

16.2.12 Research and development expenditure

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Capital	0.11	0.73	0.23	1.46	0.46	2.14
Revenue	3.29	3.93	6.68	7.81	14.40	14.97
	3.40	4.66	6.91	9.27	14.86	17.11

16.2.13 Unearned revenue

Unearned revenue as at March 31, 2002 amounting to Rs. 16.90 (as at March 31, 2001 Rs 34.83) primarily consists of client billings on fixed-price, fixed-time-frame contracts for which the related costs have not yet been incurred.

16.2.14 Dues to small-scale industrial undertakings

As at March 31, 2002, the company had no outstanding dues to small-scale industrial undertakings (as at March 31, 2001 - Rs Nil).

16.2.15 Balance of unutilized money raised by issue of American Depositary Shares ("ADSs")

During the year ended March 31, 1999, Infosys made an Initial Public Offering of ADS amounting to US\$ 70,380,000, equivalent to Rs 296.86. The issue proceeds, net of expenses of Rs 19.68, were entirely utilized by December 31, 2000.

16.2.16 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, 2002 options to acquire 3,20,000 shares were outstanding with the Employee Welfare Trust and options to acquire 3,21,400 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, 11,75,800 shares earlier issued are subject to lock-in. No options were issued under this plan during the period.

1998 Stock Option Plan ("the 1998 Plan")

The 1998 Plan provides for the grant of stock options to employees. The 1998 Plan was approved by the board of directors in December 1997 and by the shareholders in January 1998. The Government of India approved 29,40,000 ADSs representing 14,70,000 equity shares for issue under the Plan. The 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 automatically expires in January 2008, unless terminated earlier. All options under the 1998 Plan are exercisable for ADSs representing equity shares. A compensation committee comprising independent members of the board of directors administers the 1998 Plan.

Number of options granted, exercised and forfeited	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Options granted, beginning of period/year	22,76,386	9,44,666	21,09,816	8,71,466	15,65,506	6,89,500
Granted during the period/year	77,650	6,52,040	3,05,800	7,32,840	9,08,500	9,64,840
Exercised during the period/year	(33,766)	(9,700)	(50,766)	(11,100)	(55,966)	(12,434)
Forfeited during the period/year	(57,776)	(21,500)	(1,02,356)	(27,700)	(1,55,546)	(76,400)
Options granted, end of period/year	22,62,494	15,65,506	22,62,494	15,65,506	22,62,494	15,65,506
Weighted average exercise price	US\$ 83.96 (Rs 4,093/-)	US\$ 90.98 (Rs 4,236/-)	US\$ 83.96 (Rs 4,093/-)	US\$ 90.98 (Rs 4,236/-)	US\$ 83.96 (Rs 4,093/-)	US\$ 90.98 (Rs 4,236/-)

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 plan in June 1999, which provides for the issue of 66,00,000 equity shares to the employees. The compensation committee administers the 1999 Plan. Options will be issued to employees at an exercise price that is not 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 the fair market value only if specifically approved by the members of the company in a general meeting. No approval has been sought to date in this regard.

Number of options granted, exercised and forfeited	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Options granted, beginning of period/year	46,40,515	20,12,000	41,41,060	18,83,000	27,93,980	10,06,800
Granted during the period/year	70,900	8,25,530	5,97,680	10,03,730	20,50,500	19,57,830
Exercised during the period/year	-	(700)	(30)	(1,200)	(30)	(1,200)
Forfeited during the period/year	(42,600)	(42,850)	(69,895)	(91,550)	(1,75,635)	(1,69,450)
Options granted, end of period/year	46,68,815	27,93,980	46,68,815	27,93,980	46,68,815	27,93,980
Weighted average exercise price	Rs 4,982/-	Rs 5,572/-	Rs 4,982/-	Rs 5,572/-	Rs 4,982/-	Rs 5,572/-

The aggregate options outstanding and considered for dilution as at March 31, 2002 are 58,00,062 (as at March 31, 2001 - 35,76,733 options).

16.2.17 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.

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Net profit:						
- As reported	210.32	181.67	416.37	348.00	807.96	628.81
- Adjusted pro forma	204.31	175.81	404.51	336.21	784.18	605.55

16.2.18 Provision for taxation

Most of Infosys' operations are conducted through 100% Export Oriented Units ("EOU"). Income from EOUs are tax exempt for the earlier of 10 years commencing from the fiscal year in which the unit commences software development, or March 31, 2009. The Finance Bill, 2002, which is yet to be enacted, propose that the export income from EOUs for the year commencing April 1, 2002, is restricted to 90% of its aggregate income. Additionally, non-EOU exports are partly exempt from tax and such tax deductions 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.

16.2.19 Cash and bank balances

Details of balance kept with non-scheduled banks as on balance sheet dates and the maximum balances kept with non-scheduled banks during the periods/year are as follows:

Balances with non-scheduled banks	As at	
	March 31, 2002	March 31, 2001
In current accounts		
ABN Amro Bank, Brussels, Belgium	0.11	0.09
Bank of America, Concord, USA	3.45	0.27
Bank of America, Hong Kong	0.08	0.04
Bank of America, Milpitas, USA	-	0.24
Bank of America, Palo Alto, USA	27.88	35.70
Bank of America, Singapore	0.07	-
Bank of America, Dallas, USA	2.43	1.17
Bank of Melbourne, Melbourne, Australia	0.10	0.22
Barclays Bank, London, UK	-	0.38
Deutsche Bank, Frankfurt, Germany	0.12	0.20
Deutsche Bank, Paris, France	0.02	-
Deutsche Bank, Brussels, Belgium	0.17	-
Deutsche Bank, Zurich, Switzerland	0.10	-
Fleet Bank, Boston, USA	2.19	0.21
Fleet Bank, New Jersey, USA	2.03	0.15
Hong Kong Bank of Canada, Toronto, Canada	-	0.06
HSBC Bank PLC – Croydon, London	7.66	9.77
National Bank of Sharjah, UAE	0.06	-
Nordbanken, Stockholm, Sweden	0.41	0.16
Nova Scotia Bank, Toronto, Canada	3.12	5.21
Sanwa Bank, Tokyo, Japan	0.41	0.12
	<u>50.41</u>	<u>54.00</u>

Maximum balance held in non-scheduled banks during the period/year	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
in deposit account in foreign currency						
HSBC Bank Middle East, Bahrain	-	-	-	-	-	72.78
in current accounts						
ABN Amro Bank, Heerlen, Netherlands	-	-	-	0.15	-	0.16
ABN Amro Bank, Brussels, Belgium	0.44	0.25	0.44	0.25	0.44	0.25
Bank of America, Concord, USA	4.27	9.66	5.79	9.66	5.99	11.56
Bank of America, Hong Kong	0.17	0.12	-	0.12	0.29	0.12
Bank of America, Los Angeles, USA	-	0.09	-	3.09	-	3.09
Bank of America, Milpitas, USA	-	5.89	0.29	5.89	0.29	5.89
Bank of America, Palo Alto, USA	125.54	80.23	145.48	92.86	145.48	92.96
Bank of America, Singapore	0.07	-	0.11	-	0.11	-
Bank of America (Nations Bank), Dallas, USA	2.30	3.36	3.14	3.36	3.14	3.37
Bank of Melbourne, Melbourne, Australia	0.78	0.33	2.40	0.33	4.04	0.33
Barclays Bank, London, UK	0.40	1.08	0.40	3.63	0.40	3.63
Deutsche Bank, Frankfurt, Germany	0.36	0.29	0.41	0.29	0.57	0.37
Deutsche Bank, Paris, France	0.26	-	0.35	-	0.35	-
Deutsche Bank, Brussels, Belgium	0.17	-	0.17	-	0.17	-
Deutsche Bank, Zurich, Switzerland	0.10	-	0.10	-	0.09	-
First Chicago Bank, Chicago, USA	-	0.01	-	0.01	-	0.22
Fleet Bank (Bank of Boston), Boston, USA	2.19	0.72	2.89	0.72	2.89	0.72
Fleet Bank (Summit Bank), New Jersey, USA	2.03	0.85	2.03	0.85	2.03	-
Hong Kong Bank of Canada, Toronto, Canada	0.05	0.17	0.05	0.31	0.06	1.02
HSBC Bank PLC – Croydon, London	18.23	7.64	18.70	7.64	18.70	16.52
Michigan National Bank, Detroit, USA	-	0.04	-	0.09	-	0.17
Nations Bank, Georgia, USA	-	-	-	0.12	-	0.21
National Bank of Sharjah, UAE	0.06	-	0.11	-	0.14	-
Nordbanken, Stockholm, Sweden	0.42	0.23	0.42	0.23	0.42	0.23
Nova Scotia Bank, Toronto, Canada	3.62	4.40	4.92	4.40	6.02	7.57
Seafirst Bank, Seattle, USA	-	0.23	-	0.24	-	0.31
Sanwa Bank, Tokyo, Japan	1.75	1.40	1.75	1.40	1.75	1.40
Summit Bank, Bridgewater, USA	-	-	-	-	-	0.89

The cash and bank balances include interest accrued but not due on fixed deposits amounting to Rs. 5.27 for the year ended March 31, 2002 (previous year Rs. 1.94).

16.2.20 Loans and advances

“Advances” mainly comprises prepaid travel and per-diem expenses and advances to vendors.

Deposits with financial institutions and a body corporate comprise:

	As at March 31,	
	2002	2001
Deposits with financial institutions:		
Housing Development Finance Corporation Limited	101.10	50.87
ICICI Limited	52.77	50.87
IDBI Limited	-	40.36
Deposits with body corporate:		
GE Capital Services India Limited	100.87	50.58
	254.74	192.68

Maximum Balance held during the year

	For the year ended March 31,	
	2002	2001
Deposits with financial institutions:		
Housing Development Finance Corporation Limited	101.26	51.15
ICICI Limited	62.94	50.92
IDBI Limited	51.50	40.36
Deposits with body corporate:		
GE Capital Services India Limited	101.48	51.03

The above amounts include interest accrued but not due amounting to Rs. 2.74 (previous year Rs. 2.68).

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

Mr. Deepak M Satwalekar, Director, is also Director of HDFC. Prof. Marti G. Subrahmanyam, Director, is also a director in ICICI Limited. Mr. N. R. Narayana Murthy, Chairman and Chief Mentor, was a director in ICICI Limited until March 27, 2002. Except as directors in these financial institutions, these persons have no direct interest in these transactions.

16.2.21 Current liabilities

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

16.2.22 Fixed assets

The company has entered into lease-cum-sale agreements to acquire certain properties. In accordance with the terms of these agreements, the company has the option to purchase the properties on expiry of the lease period. The company has already paid 99% of the value of the properties at the time of entering into the lease-cum-sale agreements. These amounts are disclosed as “Land-leasehold” under “Fixed assets” in the financial statements.

16.2.23 Transfer of intellectual property rights

During the year ended March 31, 2001, 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 rights were transferred for Rs 8.93 (US\$ 2 million), received as equity, preferred voting and preferred non-voting securities in OnMobile Systems, Inc. The income of Rs. 5.49 (net of tax) arising on the transfer is disclosed as an extraordinary item in the statement of profit and loss of that year. The transaction was completed in the quarter ended June 30, 2000.

16.2.24 Investment activity

The following are the particulars of strategic investments made during the quarter, half-year and year ended March 31, 2002 respectively:

Particulars of investee companies	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Workadia, Inc., USA*	-	-	-	-	10.32	-
Alpha Thinx Mobile Phone Services AG, Austria	-	-	-	-	-	2.21
Asia Net Media BVI Limited, BVI	-	-	-	-	-	6.85
M-Commerce Ventures Pte. Limited, Singapore	-	-	-	-	-	1.84
CiDRA Corporation, USA	-	-	-	-	-	13.40
Stratify Inc. (formerly PurpleYogi Inc.) USA	-	-	-	-	-	2.33
	-	-	-	-	10.32	26.63

* Investments in Workadia, Inc., USA ("Workadia") comprise of 22,00,000 fully paid Series "B" convertible preferred stock, par value of US\$ 0.0002, at US\$ 1.00 each (adjusted for stock splits). Workadia will provide companies with comprehensive, customizable business intranets through browser accessed hosted portals and also offer consulting services to help customers select and deploy their intranet applications, content and services.

During the quarter ended March 31, 2002 the company swapped 55,00,000 common stock in Yantra Corporation, USA ("Yantra") for a fully paid warrant to purchase 55,00,000 common stock. Accordingly, Yantra is no longer a subsidiary of the company as per the Companies Act, 1956 as at March 31, 2002.

An amount of Rs. 15.29 was provided for the investments in Alpha Thinx and EC Cubed, Inc., USA, in the latter half of the year ended March 31, 2001, when the investee companies filed for liquidation.

16.2.25 Unbilled revenue

Unbilled revenue as at March 31, 2002 amounts to Rs. 17.74 (as at March 31, 2001 Rs. 2.35) primarily comprises the revenue recognized in relation to efforts incurred on fixed-price, fixed-time-frame contracts until the balance sheet date.

16.2.26 Segment reporting

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

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

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

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

Fixed assets used in the company's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments. The company 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, 2002 and 2001

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	253.75	116.95	105.05	87.77	116.61	680.13
	188.46	100.33	102.73	62.47	107.88	561.87
Identified operating expenses	98.65	45.14	35.39	26.23	41.35	246.76
	65.09	40.45	22.68	14.41	30.26	172.89
Allocated expenses	62.25	27.53	24.73	20.66	27.46	162.63
	53.49	27.45	28.11	17.09	29.52	155.66
Segmental operating income	92.85	44.28	44.93	40.88	47.80	270.74
	69.88	32.43	51.94	30.97	48.10	233.32
Unallocable expenses						44.82
						37.90
Operating income						225.92
						195.42
Other income (expense), net						23.33
						8.00
Net profit before taxes						249.25
						203.42
Income taxes						38.93
						21.75
Net profit after taxes						210.32
						181.67

Half-year ended March 31, 2002 and 2001

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	479.96	221.71	205.12	177.60	256.55	1,340.94
	385.02	190.03	197.80	109.19	216.90	1,098.94
Identified operating expenses	187.34	90.30	61.20	50.65	85.92	475.41
	130.04	76.74	48.61	29.15	63.31	347.85
Allocated expenses	119.63	53.40	49.45	42.85	62.01	327.34
	107.98	51.20	53.28	29.46	58.39	300.31
Segmental operating income	172.99	78.01	94.47	84.10	108.62	538.19
	147.00	62.09	95.91	50.58	95.20	450.78
Unallocable expenses						86.15
						70.92
Operating income						452.04
						379.86
Other income (expense), net						38.26
						9.39
Net profit before taxes						490.30
						389.25
Income taxes						73.93
						41.25
Net profit after taxes						416.37
						348.00

Year ended March 31, 2002 and 2001

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	953.98	445.94	406.79	320.40	476.48	2,603.59
	640.78	338.84	350.11	172.86	397.97	1,900.56
Identified operating expenses	355.38	181.92	114.13	89.43	166.37	907.23
	225.88	130.66	88.39	54.74	120.92	620.59
Allocated expenses	247.73	111.26	101.50	79.61	118.63	658.73
	177.69	90.69	93.90	46.31	106.54	515.13
Segmental operating income	350.87	152.76	191.16	151.36	191.48	1,037.63
	237.21	117.49	167.82	71.81	170.51	764.84
Unallocable expenses						160.65
						112.89
Operating income						876.98
						651.95
Other income (expense), net						66.41
						44.08
Net profit before taxes						943.39
						696.03
Income taxes						135.43
						72.71
Net profit after taxes						807.96
						623.32

Geographic segments

Quarter ended March 31, 2002 and 2001

	North America	Europe	India	Rest of the World	Total
Revenues	481.00	134.17	10.59	54.37	680.13
	402.37	115.03	9.40	35.07	561.87
Identifiable operating expenses	179.57	47.22	5.53	14.44	246.76
	118.33	37.37	3.62	13.57	172.89
Allocated expenses	114.88	32.05	2.59	13.11	162.63
	110.88	31.70	3.16	9.92	155.66
Segmental operating income	186.55	54.90	2.47	26.82	270.74
	173.16	45.96	2.62	11.58	233.32
Unallocable expenses					44.82
					37.90
Operating income					225.92
					195.42
Other income (expense), net					23.33
					8.00
Net profit before taxes					249.25
					203.42
Income taxes					38.93
					21.75
Net profit after taxes					210.32
					181.67

Half-year ended March 31, 2002 and 2001

	North America	Europe	India	Rest of the World	Total
Revenues	949.50	262.56	23.04	105.84	1,340.94
	797.72	216.12	17.23	67.87	1,098.94
Identifiable operating expenses	343.77	92.41	10.21	29.02	475.41
	243.85	73.71	5.38	24.91	347.85
Allocated expenses	232.30	64.22	5.30	25.52	327.34
	216.26	58.64	6.18	19.23	300.31
Segmental operating income	373.43	105.93	7.53	51.30	538.19
	337.61	83.77	5.67	23.73	450.78
Unallocable expenses					86.15
					70.92
Operating income					452.04
					379.86
Other income (expense), net					38.26
					9.39
Net profit before taxes					490.30
					389.25
Income taxes					73.93
					41.25
Net profit after taxes					416.37
					348.00

Year ended March 31, 2002 and 2001

	North America	Europe	India	Rest of the World	Total
Revenues	1,854.10	506.84	51.12	191.53	2,603.59
	1,396.90	358.06	26.54	119.06	1,900.56
Identifiable operating expenses	646.90	181.55	19.98	58.80	907.23
	443.71	125.45	8.96	42.47	620.59
Allocated expenses	468.20	127.97	14.82	47.74	658.73
	377.04	96.78	8.60	32.71	515.13
Segmental operating income	739.00	197.32	16.32	84.99	1,037.63
	576.15	135.83	8.98	43.88	764.84
Unallocable expenses					160.65
					112.89
Operating income					876.98
					651.95
Other income (expense), net					66.41
					44.08
Net profit before taxes					943.39
					696.03
Income taxes					135.43
					72.71
Net profit after taxes					807.96
					623.32

16.2.27 Related party transactions

The company entered into related party transactions during the year ended March 31, 2002 with Yantra Corporation, USA, the subsidiary of the company until February 27, 2002, and key management personnel.

The transactions with Yantra Corporation comprise sales of Rs. 4.43 during the period from April 1, 2001 until February 27, 2002 (previous year as at March 31, 2001 Rs. 19.65). The outstanding dues from the subsidiary as at March 31, 2001 were Rs. 1.00.

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 as at March 31, 2002 are Rs 2.31 (previous year – Rs 1.06).

16.2.28 Provisions for doubtful debts

Periodically, the company evaluates all customer dues to the company for collectibles. The need for provisions is assessed based on various factors including collectibles 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 as at the balance sheet date. As at March 31, 2002 the company has provided for doubtful debts of Rs. 11.88 (as at March 31, 2001 - Rs 8.55) on dues from certain customers although the outstanding amounts were less than 180 days old, since the amounts were considered doubtful of recovery. The company continues pursuing the parties for recovery of the dues, in part or full.

16.2.29 Dividends remitted in foreign currencies

Infosys does not make any direct remittances of dividends in foreign currency. The company remits the equivalent of the dividends payable to the holders of ADS ("ADS holders") in Indian Rupees to the depositary bank, which is the registered shareholder on record for all owners of the company's ADSs. The depositary bank purchases the foreign currencies and remits dividends to the ADS holders.

Particulars of dividends remitted are as follows:

Particulars	Number of shares to which the dividends relate	Quarter ended		Half-year ended		Year ended	
		March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Final dividend for fiscal 2000	20,81,900	-	-	-	-	-	0.62
Interim dividend for fiscal 2001	20,82,567	-	-	-	0.52	-	0.52
Final dividend for fiscal 2001	20,88,517	-	-	-	-	1.56	-
Interim dividend for fiscal 2002	20,95,517	-	-	1.57	-	1.57	-
				1.57	0.52	3.13	1.14

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

	Quarter ended		Half-year ended		Year ended	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
Number of shares considered as basic weighted average shares outstanding	6,61,73,729	6,61,54,453	6,61,69,054	6,61,54,297	6,61,62,274	6,61,52,131
Add: Effect of dilutive issues of shares/stock options	8,68,898	3,10,980	5,66,219	2,55,578	4,05,301	2,06,180
Number of shares considered as weighted average shares and potential shares outstanding	6,70,42,627	6,64,65,433	6,67,35,273	6,64,09,875	6,65,67,575	6,63,58,311