

Schedules to the Financial Statements for the year ended March 31, 2005

22 Significant accounting policies and notes on accounts

Company overview

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

22.1 Significant accounting policies

22.1.1. Basis of preparation of financial statements

The accompanying financial statements are prepared in accordance with Indian Generally Accepted Accounting Principles ("GAAP") under the historical cost convention on the accruals basis. GAAP comprises mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI"), the provisions of the Companies Act, 1956 and guidelines issued by the Securities and Exchange Board of India. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use.

Management evaluates all recently issued or revised accounting standards on an on-going basis.

22.1.2. Use of estimates

The preparation of the financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes, post-sales customer support and the useful lives of fixed assets and intangible assets.

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Actual results could differ from those estimates.

22.1.3. Revenue recognition

Revenue from software development on fixed-price, fixed-time frame contracts where there is no uncertainty as to measurement or collectability of consideration is recognized as per the percentage of completion method. On time-and-materials contracts, revenue is recognized as the related services are rendered. Cost and earnings in excess of billings are classified as unbilled revenue while billing in excess of cost and earnings is classified as unearned revenue. Provision for estimated losses, if any on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. Annual Technical Services revenue and revenue from fixed-price maintenance contracts are 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, except in multiple element contracts, where revenue is recognized as per the percentage of completion method.

Profit on sale of investments is recorded on transfer of title from the company and is determined as the difference between the sales price and the then carrying value of the investment. Lease rentals are recognized ratably on a straight line basis over the lease term. 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.

22.1.4. Expenditure

The cost of software purchased for use in software development and services is charged to cost of revenues in the year of acquisition. Charges relating to non-cancelable, long-term operating leases are computed primarily on the basis of the lease rentals, payable as per the relevant lease agreements. Post-sales customer support costs are estimated by management, determined on the basis of past experience. The costs provided for are carried until expiry of the related warranty period. Provisions are made for all known losses and liabilities. Leave encashment liability is determined on the basis of an actuarial valuation.

22.1.5. Fixed assets, intangible assets and capital work-in-progress

Fixed assets are stated at cost, less accumulated depreciation. Direct costs are capitalized until fixed assets are ready for use. Capital work-in-progress comprises outstanding advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use at the balance sheet date. Intangible assets are recorded at the consideration paid for acquisition.

22.1.6. Depreciation and amortization

Depreciation on fixed assets is applied on the straight-line basis over the useful lives of assets estimated by the Management. Depreciation for assets purchased / sold during a period is proportionately charged. Individual low cost assets (acquired for less than Rs. 5,000/-) are entirely depreciated in the year of acquisition. Intangible assets are amortized over their respective individual estimated useful lives on a straight-line basis, commencing from the date the asset is available to the company for its use. The 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
Intellectual property rights	1-2 years

22.1.7. Retirement benefits to employees

22.1.7.a. 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 as of the balance sheet date, based upon which, the company contributes all the ascertained liabilities to the Infosys Technologies Limited Employees' Gratuity Fund Trust (the "Trust"). Trustees administer contributions made to the Trust and contributions are invested in specific designated instruments, as permitted by law. Investments are also made in mutual funds that invest in the specific designated instruments.

22.1.7.b. 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 Plan provides for the payment of the aggregate contributions along with interest thereon at retirement, death, incapacitation or termination of employment. The company has no further obligations to the Plan beyond its monthly contributions.

22.1.7.c. Provident fund

Eligible employees receive benefits from a provident fund, which is a defined contribution plan. Aggregate contributions along with interest thereon is paid at retirement, death, incapacitation or termination of employment. Both the employee and the company make monthly contributions to the Infosys Technologies Limited Employee's Provident Fund Trust equal to a specified percentage of the covered employee's salary. Infosys also contributes to a government administered pension fund on behalf of its employees. The interest rate payable by the trust to the beneficiaries every year is being notified by the government. The company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the notified interest rate.

22.1.8. 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.

22.1.9. 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 the daily rates. 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.

Monetary current assets and monetary current liabilities that are 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.

22.1.10. Forward contracts in foreign currencies

The company uses foreign exchange forward contracts to hedge its exposure to movements in foreign exchange rates. The use of these foreign exchange forward contracts reduces the risk or cost to the company and the company does not use the foreign exchange forward contracts for trading or speculation purposes.

The company records the gain or loss on effective hedges in the foreign currency fluctuation reserve until the transactions are complete. On completion the gain or loss is transferred to the profit and loss account of that period. To designate a forward contract as an effective hedge, Management objectively evaluates and evidences with appropriate supporting documents at the inception of each contract whether the contract is effective in achieving offsetting cash flows attributable to the hedged risk. In the absence of a designation as effective hedge, a gain or loss is recognized in the profit and loss account.

22.1.11. 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 when it is estimated that a liability due to disallowances or other matters is probable.

The differences that result between the profit considered 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. The income tax provision for the interim period is made based on the best estimate of the annual average tax rate expected to be applicable for the full fiscal year.

22.1.12. 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/exceptional item. 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 that could have been issued on the conversion of all dilutive potential equity shares. The diluted potential equity shares are adjusted for the proceeds receivable, had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares). Dilutive potential equity shares are deemed converted as of the beginning of the period, unless issued at a later date. The number of shares and potentially dilutive equity shares are adjusted for any stock splits and bonus shares issued effected prior to the approval of the financial statements by the board of directors.

22.1.13. Investments

Trade investments are the investments made to enhance the company's business interests. Investments are either classified as current or long-term based on the Management's intention at the time of purchase. 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.

22.1.14. Cash flow statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, investing and financing activities of the company are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

22.2 Change in accounting policy

Accounting standard 11, "The effect of changes in foreign exchange rates", was revised with effect from April 1, 2004 and prescribes accounting for foreign exchange forward contracts based on whether these are entered into for hedging purposes or for trading /speculation purposes. Further, it has been recently clarified that the revised standard does not cover forward exchange contracts entered in to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Upto March 31, 2004, such segregation was not required and the difference between the forward rate and the exchange rate on the date of the transaction was recognized as income or expense over the life of the contract.

The Company has adopted the revised accounting standard effective April 1, 2004 to the extent applicable in respect of outstanding foreign exchange forward contracts. The foreign exchange forward contracts constitute hedges from an economic perspective, and the Company has decided to account for these foreign exchange forward contracts based on their designation as 'effective hedges' or 'not effective'. To designate a forward contract as an effective hedge, management objectively evaluates and evidences with appropriate supporting documentation at the inception of each forward contract, whether these forward contracts are effective in achieving offsetting cash flows attributable to the hedged risk or not. The gain or loss on effective hedges is recorded in the foreign currency fluctuation reserve until the hedged transactions occur and are then recognized in the profit and loss account. In the absence of designation as an effective hedge, the gain or loss is recognized in the profit and loss account.

Gains and losses on foreign exchange forward contracts are computed by multiplying the foreign currency amount of the foreign exchange forward contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period). The Company also assesses on an ongoing basis at the end of each reporting period whether hedges are designated as effective and prospectively reclassifies the hedge as necessary.

Consequent to the change in the accounting policy, the profits for the year ended March 31, 2005 is lower by Rs. 17.05 crore.

22.3 Notes on accounts

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

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

22.3.1 Aggregate expenses

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

	Year ended	
	2005	March 31, 2004
Salaries and bonus including overseas staff expenses	3,075.20	2,295.83
Contribution to provident and other funds	86.11	56.27
Staff welfare	20.69	13.76
Overseas travel expenses	283.76	215.00
Consumables	13.55	9.13
Software packages		
for own use	111.01	65.02
for service delivery to clients	15.27	16.04
Computer maintenance	14.01	11.91
Communication expenses	41.61	32.19
Technical sub-contractors	99.67	59.50
Technical sub-contractors - subsidiaries	252.22	50.39
Provision for post-sales client support and warranties	22.04	0.30
Traveling and conveyance	46.64	23.70
Rent	33.68	38.88
Telephone charges	50.32	34.27
Professional charges	72.28	39.67
Printing and stationery	7.89	6.86
Advertisements	11.75	6.03
Office maintenance	42.95	29.07
Repairs to building	13.54	10.28
Repairs to plant and machinery	7.69	4.85
Power and fuel	40.20	28.72
Brand building	33.65	34.23
Insurance charges	29.31	23.84
Rates and taxes	8.03	5.46
Commission charges	24.67	7.27
Donations	21.09	14.29
Auditor's remuneration		
statutory audit fees	0.36	0.31
certification charges	0.03	0.03
others	0.07	0.24
out-of-pocket expenses	0.02	0.02
Provision for bad and doubtful debts	23.62	15.99
Provision for doubtful loans and advances	0.10	0.14
Bank charges and commission	1.09	0.75
Commission to non-whole time directors	1.24	1.49
Postage and courier	5.05	3.91
Books and periodicals	2.65	1.51
Research grants	0.84	0.54
Freight charges	0.72	0.84
Professional membership and seminar participation fees	6.06	3.57
Marketing expenses	10.52	5.99
Sales promotion expenses	1.03	0.69
Provision for taxation	329.59	227.00
Miscellaneous expenses	2.32	8.46
	<u>4,864.14</u>	<u>3,404.24</u>

22.3.2. Capital commitments and contingent liabilities

	As at	
	March 31, 2005	March 31, 2004
Estimated amount of unexecuted capital contracts (net of advances and deposits)	273.42	192.49
Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given by those banks in favor of various government authorities and others	13.19	11.23
Claims against the company, not acknowledged as debts	16.45	4.53
Forward contracts outstanding		
In US\$	US\$ 349,000,000	US\$ 143,000,000
(Equivalent approximate in Rs. crore)	(Rs. 1,539.31)	(Rs. 643.93)
Unamortized income	-	3.13

During the previous year, Ms. Jennifer Griffith, a former employee, filed a lawsuit against the company and its former director, Mr. Phaneesh Murthy. The lawsuit was served on the company during the quarter ended December 31, 2003. This matter has since been settled. Pursuant to the settlement agreement, all of Ms Griffith's claims against the company has been released and the lawsuit has been dismissed with prejudice.

22.3.3 Quantitative details

The company is primarily 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.

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

	Year ended	
	March 31, 2005	March 31, 2004
Capital goods	130.87	70.64
Software packages	9.18	10.26
	140.05	80.90

22.3.5. Activity in foreign currency

	Year ended	
	March 31, 2005	March 31, 2004
Earnings in foreign currency (on receipts basis)		
Income from software services and products	6,103.02	4,531.54
Interest received on deposits with banks	2.00	1.02
Expenditure in foreign currency (on payments basis)		
Travel expenses	204.38	165.34
Professional charges	79.84	30.87
Other expenditure incurred overseas for software development	2,478.74	1,730.43
Net earnings in foreign currency (on the receipts and payments basis)		
Net earnings in foreign exchange	3,342.06	2,605.92

22.3.6. Obligations on long-term, non-cancelable operating leases

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

	Year ended	
	March 31, 2005	March 31, 2004
Lease rentals recognized during the year	33.68	38.88
Lease obligations		
		As at
	March 31, 2005	March 31, 2004
Within one year of the balance sheet date	19.51	25.04
Due in a period between one year and five years	64.72	56.74
Due after five years	23.99	4.82
	108.22	86.60

The operating lease arrangements extend for a maximum of ten years from their respective dates of inception and relates to rented overseas premises and car rentals. Some of these lease agreements have price escalation clause.

Fixed assets stated provided on operating lease to Progeon, a subsidiary company, as at March 31, 2005 and March 31, 2004:-

Particulars	Cost	Accumulated depreciation	Net book value
Building	12.57	2.83	9.74
	12.57	1.99	10.58
Plant and machinery	5.63	3.64	1.99
	5.44	2.96	2.48
Computers	1.29	1.24	0.05
	1.24	1.07	0.17
Furniture & fixtures	9.47	6.83	2.64
	9.16	5.48	3.68
Total	28.96	14.54	14.42
	28.41	11.50	16.91

The aggregate depreciation charged on the above during the year ended March 31, 2005 amounted to Rs. 3.19 (for the year ended March 31, 2004 was Rs. 4.41).

The company has non-cancelable operating leases on equipped premises leased to Progeon. The leases extend for periods between 36 months and 70 months from the date of inception. The lease rentals received are included as a component of sale of services (refer note 22.3.7). Lease rental commitments from Progeon:-

Lease rentals	As at	
	March 31, 2005	March 31, 2004
Within one year of the balance sheet date	5.63	8.02
Due in a period between one year and five years	4.35	9.48
Due after five years	-	-
	9.98	17.50

The rental income from Progeon for the year ended March 31, 2005 amounted to Rs. 8.43 (Rs. 6.49 for the year ended March 31, 2004).

22.3.7. Related party transactions

List of related parties:

Name of the related party	Country	Nature of relationship
Progeon Limited	India	Majority owned and controlled subsidiary
Infosys Technologies (Australia), Pty	Australia	Wholly owned subsidiary
Infosys Technologies (Shanghai) Co. Limited	China	Wholly owned subsidiary
Infosys Consulting, Inc.	USA	Wholly owned subsidiary

The details of the related party transactions entered into by the company, in addition to the lease commitments described in note 22.3.6, for the year ended March 31, 2005 and 2004:-

Particulars	Progeon	Infosys Australia	Infosys China	Infosys Consulting
Capital transactions:				
Financing transactions	-	-	18.46	44.87
	12.25	66.89	4.55	-
Transfer of fixed assets	-	-	-	-
	-	3.50	-	-
Transfer of advances	-	-	-	-
	-	2.33	-	-
Rental deposit received	-	-	-	-
	1.61	-	-	-
Revenue transactions:				
Purchase of services	2.04	233.60	3.46	13.50
	0.70	47.20	-	-
Purchase of shared services including facilities and personnel	0.51	-	-	-
	-	-	-	-
Sale of services	0.13	-	-	1.34
	0.12	2.93	-	-
Sale of shared services including facilities and personnel	14.06	-	-	-
	12.70	-	-	-

Details of amounts due to or due from and maximum dues from subsidiaries:

Particulars	Progeon	Infosys Australia	Infosys China	Infosys Consulting
Sundry Debtors	-	-	-	-
	-	-	-	-
Sundry Creditors	-	-	0.94	-
	1.61	11.34	-	-
Loans and advances	-	-	2.24	-
	-	-	0.85	-
Maximum balances of loans and advances	0.45	-	2.95	1.44
	-	-	0.85	-

During the year ended March 31, 2005, an amount of Rs. 15.00 (Rs.12.00 for the year ended March 31, 2004) has been donated to Infosys Foundation, a not-for-profit foundation, in which certain directors of the company are trustees.

22.3.8. Transactions with key management personnel

Key management personnel comprise our directors and statutory officers.

Particulars of remuneration and other benefits paid to key management personnel during the year ended March 31, 2005 and 2004:-

Name	Salary	Contributions to provident and other funds	Perquisites and incentives	Total Remuneration
Chairman and Chief Mentor				
N R Narayana Murthy	0.12 0.08	0.04 0.04	0.15 0.10	0.31 0.22
Chief Executive Officer, President and Managing Director				
Nandan M Nilekani	0.12 0.09	0.04 0.04	0.16 0.10	0.32 0.23
Chief Operating Officer and Deputy Managing Director				
S Gopalakrishnan	0.12 0.08	0.05 0.04	0.15 0.10	0.32 0.22
Whole-time Directors				
K Dinesh	0.12 0.09	0.04 0.04	0.15 0.10	0.31 0.23
S D Shibulal	0.82 0.76	- -	0.32 0.23	1.14 0.99
T V Mohandas Pai Chief Financial Officer	0.17 0.11	0.05 0.04	0.36 0.16	0.58 0.31
Srinath Batni	0.16 0.10	0.06 0.04	0.32 0.13	0.54 0.27
Other Senior Management Personnel				
V Balakrishnan, Company Secretary	0.12 0.12	0.04 0.04	0.39 0.22	0.55 0.38

Particulars of remuneration and other benefits provided to key management personnel during the year ended March 31, 2005 and 2004:-

Name	Commission	Sitting fees	Reimbursement of expenses	Total remuneration
Non-Whole time Directors				
Deepak M Satwalekar	0.18 0.21	- 0.01	0.01 0.01	0.19 0.23
Marti G Subrahmanyam	0.16 0.19	- -	0.05 0.07	0.21 0.26
Philip Yeo	0.12 0.15	- -	- 0.01	0.12 0.16
Jitendra Vir Singh	- 0.08	- -	- -	- 0.08
Omkar Goswami	0.16 0.18	- 0.01	0.01 0.01	0.17 0.20
Larry Pressler	0.15 0.16	- -	- 0.01	0.15 0.17
Rama Bijapurkar	0.16 0.19	0.01 0.01	0.01 0.01	0.18 0.21
Claude Smadja	0.16 0.12	0.01 -	0.13 0.09	0.30 0.21
Sridar A Iyengar	0.16 0.18	- 0.01	0.10 0.13	0.26 0.32

Options granted to non-whole time director during the year ended March 31, 2005 and 2004:-

Name	Date of Grant	Option plan	Number of options granted	Exercise price (in Rs.)	Expiration of options
Sridar A Iyengar	April 10, 2003	1999	8,000	762.44	April 9, 2013

The aggregate Managerial remuneration under section 198 of the Companies Act, 1956, to the directors (including managing director) is:

Particulars	Year ended	
	March 31, 2005	March 31, 2004
Whole time directors		
Salary	1.75	1.43
Contributions to provident and other funds	0.31	0.28
Perquisites and incentives	2.04	1.14
Total remuneration	4.10	2.85
Non Whole time directors		
Commission	1.25	1.49
Sitting fees	0.05	0.04
Reimbursement of expenses	0.31	0.33
	1.61	1.86

During the year ended March 31, 2005 Progeon Limited, the majority owned subsidiary of the company has provided for commission of Rs 0.03 to a Non whole time director of Infosys.

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

Particulars	Year ended	
	March 31, 2005	March 31, 2004
Net profit after tax from ordinary activities	1,904.38	1,243.47
Add:		
1. Whole-time directors remuneration	3.53	2.47
2. Director's sitting fees	0.05	0.04
3. Commission to non-whole time directors	1.25	1.49
4. Provision for bad and doubtful debts	23.62	15.99
5. Provision for bad loans and advances	0.10	0.14
6. Provision on investments	(0.10)	9.67
7. Depreciation as per books of accounts	268.22	230.90
8. Provision for taxation	325.30	227.00
	2,526.35	1,731.17
Less:		
1. Depreciation as envisaged under section 350 of the Companies Act *	268.22	230.90
2. Profit of a Capital nature	45.19	-
Net profit on which commission is payable	2,212.94	1,500.27
Commission payable to non-whole time directors:		
Maximum allowed per the Companies Act, 1956 at 1%	22.13	15.00
Maximum approved by the shareholders (0.5%)	11.06	7.50
Commission approved by the board	1.25	1.49

* 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 prescribed by the Schedule XIV.

22.3.9. Research and development expenditure

	Year ended	
	March 31, 2005	March 31, 2004
Capital	-	1.48
Revenue	<u>74.39</u>	<u>43.06</u>
	<u>74.39</u>	<u>44.54</u>

22.3.10. Dues to small-scale industrial undertakings

As at March 31, 2005 and March 31, 2004, the company has no outstanding dues to small-scale industrial undertaking.

22.3.11. Stock option plans

The company currently has three stock option plans.

1994 Stock Option Plan ("the 1994 Plan")

The 1994 plan lapsed in fiscal 2000 and consequently, no further grants have since been made.

1998 Stock Option Plan ("the 1998 Plan")

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 58,80,000 ADSs representing 58,80,000 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. All options have been granted at 100% of fair market value.

Number of options granted, exercised and forfeited during the	Year ended	
	March 31, 2005	March 31, 2004
Options outstanding, beginning of year	38,71,010	50,06,812
Granted	-	1,91,800
Less: exercised	5,85,800	5,17,740
forfeited	<u>2,30,920</u>	<u>8,09,862</u>
Options outstanding, end of year	<u>30,54,290</u>	<u>38,71,010</u>

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 2,64,00,000 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.

Number of options granted, exercised and forfeited during the	Year ended	
	March 31, 2005	March 31, 2004
Options outstanding, beginning of year	1,83,62,120	2,02,44,684
Granted	-	7,71,200
Less: exercised	34,20,525	10,74,172
forfeited	<u>8,86,658</u>	<u>15,79,592</u>
Options outstanding, end of year	<u>1,40,54,937</u>	<u>1,83,62,120</u>

The aggregate options considered for dilution are set out in note 22.3.21

22.3.12. 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, applicable to stock option schemes established on or after June 19, 1999. Under these guidelines, the excess of the market price of the underlying equity shares as of the date of the grant over the exercise price of the options, 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.

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

Had the stock compensation costs for the 1994 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 are as under:-

Net profit:	Year ended	
	March 31, 2005	March 31, 2004
As reported	<u>1,904.38</u>	<u>1,243.47</u>
Adjusted pro forma	<u>1,904.38</u>	<u>1,230.57</u>

22.3.13. Income taxes

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.

Most of Infosys' operations are conducted through Software Technology Parks ("STPs"). Income from STPs 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.

22.3.14. Cash and bank balances

Details of balances as on balance sheet dates and the maximum balances during the year with non-scheduled banks:-

Balances with non-scheduled banks	As at	
	March 31, 2005	March 31, 2004
In current accounts		
ABN Amro Bank , Taipei, Taiwan	0.02	0.94
Bank of America, Palo Alto, USA	125.34	108.03
Bank of China, Beijing, China	0.02	0.03
Bank of Melbourne, Melbourne, Australia	-	0.23
Citibank NA, Melbourne, Australia	2.91	20.21
Citibank NA, Hong Kong	0.00	0.09
Citibank NA, Singapore	0.35	0.47
Citibank NA, Sydney, Australia	-	0.04
Citibank NA, Tokyo, Japan	2.02	0.08
Citibank NA, Sharjah, UAE	0.03	0.03
Deutsche Bank, Brussels, Belgium	0.57	3.30
Deutsche Bank, Frankfurt, Germany	6.04	2.03
Deutsche Bank, Amsterdam, Netherlands	0.15	0.05
Deutsche Bank, Paris, France	1.22	0.30
Deutsche Bank, Zurich, Switzerland	4.20	0.40
HSBC Bank PLC, Croydon, UK	4.75	11.17
ICICI Bank UK Ltd., London, UK	29.43	-
ICICI Bank - Toronto, Canada	2.39	-
Nordbanken, Stockholm, Sweden	0.12	0.02
Nova Scotia Bank, Toronto, Canada	-	5.33
Royal Bank of Canada, Toronto, Canada	10.32	6.21
UFJ Bank, Tokyo, Japan	0.32	0.22
Svenska Handels Bank, Stockholm, Sweden	0.35	0.26
	190.54	159.44

Maximum balance with non-scheduled banks during the year	Year ended	
	March 31, 2005	March 31, 2004
In current accounts		
ABN Amro Bank, Taipei, Taiwan	0.96	0.96
Bank of America, Palo Alto, USA	252.58	263.45
Bank of America, Dallas, USA	-	6.98
Bank of China, Beijing, China	0.10	0.13
Bank of Melbourne, Melbourne, Australia	0.23	3.20
Citibank NA, Melbourne, Australia	75.12	20.21
Citibank NA, Hong Kong	0.35	0.41
Citibank NA, Singapore	0.48	0.57
Citibank NA, Sydney, Australia	0.04	15.31
Citibank NA, Tokyo, Japan	9.71	5.74
Citibank NA, Sharjah, UAE	0.19	0.11
Deutsche Bank, Brussels, Belgium	33.16	18.24
Deutsche Bank, Frankfurt, Germany	47.72	22.37
Deutsche Bank, Amsterdam, Netherlands	1.05	1.69
Deutsche Bank, Paris, France	3.96	2.97
Deutsche Bank, Zurich, Switzerland	9.01	14.69
Fleet Bank (Bank of Boston), Boston, USA	-	0.97
HSBC Bank PLC, Croydon, UK	47.30	38.00
ICICI Bank UK Ltd., London, UK	30.87	-
ICICI Bank - Toronto, Canada	2.45	-
Merrill Lynch Esop A/C - Fremont, USA	28.57	-
National Bank of Sharjah, UAE	-	0.08
Nordbanken, Stockholm, Sweden	0.27	0.41
Nova Scotia Bank, Toronto, Canada	8.68	8.69
Royal Bank of Canada, Toronto, Canada	17.41	10.09
Svenska Handels Bank, Stockholm, Sweden	2.95	4.25
UFJ Bank, Tokyo, Japan	0.71	2.67

The cash and bank balances include interest accrued but not due on fixed deposits amounting to Rs. 9.93 for the year ended March 31, 2005 (Rs. 7.28 for the year ended March 31, 2004).

22.3.15. Loans and advances

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

Deposits with financial institutions:-

	As at	
	March 31, 2005	March 31, 2004
Deposits with financial institutions:		
Housing Development Finance Corporation Limited ("HDFC")	201.54	201.39
Life Insurance Corporation of India	66.39	-
	267.93	201.39
Interest accrued but not due (included above)	1.54	1.39

Maximum balance held as deposits with financial institutions and a body corporate:-

	Year ended	
	March 31, 2005	March 31, 2004
Deposits with financial institutions:		
Housing Development Finance Corporation Limited ("HDFC")	201.54	201.70
Life Insurance Corporation of India	66.39	-
Deposit with body corporate:		
GE Capital Services India Limited	-	151.82

Mr. Deepak M Satwalekar, Director, is also Director of HDFC. Except as director in the financial institution, he has no direct interest in any transactions.

22.3.16. Fixed assets

Profit / (loss) on disposal of fixed assets

	Year ended	
	March 31, 2005	March 31, 2004
Profit on disposal of fixed assets, included in miscellaneous income	0.36	0.04
(Loss) on disposal of fixed assets, included in miscellaneous expenses	(0.93)	-
Profit / (loss) on disposal of fixed assets, net	(0.57)	0.04

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

	Year ended	
	March 31, 2005	March 31, 2004
Charged during the year	40.08	28.61

The company has entered into lease-cum-sale agreements to acquire certain properties. In accordance with the terms of these agreements, the company has the option to purchase the properties on expiry of the lease period. The company has already paid 99% of the value of the properties at the time of entering into the lease-cum-sale agreements. These amounts are disclosed as "Land - leasehold" under "Fixed assets" in the financial statements. Additionally, certain land has been purchased for which the company has possession certificate for which sale deeds are yet to be executed as at March 31, 2005.

During the year ended March 31, 2004, management reduced the remaining estimated useful life of the intellectual property in a commercial software application product to three months, effective August 2003 and treasury management product to two months, effective November 2003. The revised estimation represents management's present evaluation of the expected future commercial benefits from these products. The revision has resulted in an increased charge to the profit and loss account of Rs. 20.28 during the year ended March 31, 2004.

22.3.17. Details of Investments

	March 31, 2005	As at	March 31, 2004
Long-term investments			
Yantra Corporation, USA,			
Nil (20,00,000) common stock at US\$ 0.20 each, fully paid, par value US\$ 0.01 each	-		1.42 *
Nil (55,00,000) Fully paid warrant to purchase 55,00,000 common stock, at US \$ 0.19 each, exercise price of US\$ 0.01 each	-		3.91 *
Nil (6,36,363) Series A convertible preferred stock, at US\$ 0.75 each, fully paid, par value US\$ 0.01 each	-		1.73 *
CiDRA Corporation, USA			
12,752 (12,752) Series D convertible preferred stock at US\$ 90 each, fully paid, par value US\$ 0.01 each	5.13 *		5.11 *
72,539 (72,539) Class A common stock, par value US\$ 0.001 each	-		-
2,139 (2,139) Non voting redeemable preferred stock, par value US\$ 0.01 each	-		-
CyVera Corporation, USA			
25,641 (25,641) , Series A preferred stock par value \$0.001	-		-
Asia Net Media (BVI) Ltd., the British Virgin Islands			
Nil (3,00,00,000) ordinary shares at US\$ 0.05 each, fully paid, par value US\$ 0.01 each	-		6.85 *
OnMobile Systems Inc., (formerly Onscan Inc.) USA			
1,00,000 (1,00,000) common stock at US\$ 0.4348 each, fully paid, par value US\$ 0.001 each	0.19 *		0.20 *
1,00,000 (1,00,000) Series A voting convertible preferred stock at US\$ 0.4348 each, fully paid, par value US\$ 0.001 each	0.19 *		0.20 *
44,00,000 (44,00,000) Series A non-voting convertible preferred stock at US\$ 0.4348 each, fully paid, par value US\$ 0.001 each	8.55 *		8.55 *
M-Commerce Ventures Pte Ltd, Singapore			
100 (100) ordinary shares of Singapore \$ 1 each, fully paid, par value Singapore \$ 1 each	-		-
684 (684) redeemable preference shares of Singapore \$ 1, fully paid, at a premium of Singapore \$ 1,110 per redeemable preferred stock	2.04		2.04
216 (216) redeemable preference shares of Singapore \$ 1, fully paid, par value Singapore \$ 1 each	-		-
The Saraswat Co-operative Bank Limited, India			
1,035 (1,035) equity shares of Rs. 10 each, fully paid, par value Rs. 10	-		-
	<u>16.10</u>		<u>30.01</u>

* Investments that are provided for in whole or in part

Current investments - Liquid Mutual Funds, India

	Number of units as at		Amount As at	
	March 31, 2005	March 31, 2004	March 31, 2005	March 31, 2004
Birla Cash Plus Fund	9,24,76,122	9,99,03,547	99.95	99.92
Deutsche Bank Insta-Cash Fund	4,99,57,408	2,46,26,175	50.02	25.00
DSP Merrill Lynch Liquidity Fund	6,05,17,461	4,03,72,579	75.08	50.08
Grindlays Cash Fund	7,07,47,373	9,43,07,163	74.97	99.95
HDFC Liquid Fund	8,36,11,057	7,11,51,648	100.16	85.00
HSBC Cash Fund	7,48,98,088	4,78,71,898	74.94	49.97
JM High Liquidity Fund	7,69,31,305	9,97,76,708	76.99	99.99
Kotak Mahindra Liquid Fund	8,97,41,740	9,97,12,325	90.00	99.98
Principal Cash Management Fund	5,49,75,911	5,49,47,898	55.00	55.00
Prudential ICICI Liquid Plan	8,37,14,699	8,37,14,699	99.79	99.77
Reliance Liquid Fund Treasury Plan	5,30,22,669	3,93,95,110	85.26	59.90
SBI Insta Cash Fund	2,38,20,119	2,37,55,900	25.02	25.02
Templeton India Treasury Management Account	9,49,782	4,42,156	95.02	55.02
UTI Liquid Cash Plan	4,94,901	2,49,23,733	50.23	25.00
TLSM Tata Liquid Super High Inv Fund - Monthly Dividend	6,24,358	-	70.15	-
LICMF Liquid Fund - Dividend Plan	4,15,28,325	-	45.00	-
			<u>1,167.59</u>	<u>929.60</u>
At cost			732.86	490.02
At fair value			<u>434.73</u>	<u>439.58</u>
			<u>1,167.59</u>	<u>929.60</u>

Details of investments in and disposal of securities during the year ended March 31, 2005 and 2004:-

	Year ended	
	March 31, 2005	March 31, 2004
Investment in securities		
Subsidiaries	63.33	83.49
Long-term investments	-	0.54
Liquid Mutual funds	355.67	930.03
	<u>419.00</u>	<u>1,014.06</u>
Redemption / Disposal of Investment in securities		
Subsidiaries	-	-
Long-term investments	-	10.21
Liquid Mutual funds	117.78	-
	<u>117.78</u>	<u>10.21</u>
Net movement in investments	<u>301.22</u>	<u>1,003.85</u>

Particulars of investments made during the year ended March 31, 2005 and 2004:-

Particulars of investee companies	Year ended	
	March 31, 2005	March 31, 2004
Progeon Limited, India	-	12.25
Infosys Technologies (Shanghai) Co. Limited, China	18.46	4.55
Infosys Technologies (Australia) Pty Limited, Australia	-	66.69
Infosys Consulting, Inc., USA	44.87	-
M-Commerce Ventures Pte. Limited, Singapore *	-	(0.07)
	<u>63.33</u>	<u>83.42</u>
* Net of redemptions		

Investment purchased and sold during the year

Name of the fund	Face value Rs /-	Units	Cost
Birla cash plus - institutional dividend plan	10.00	2,49,46,117	26.55

Subsidiaries

On April 8, 2004, the Board approved the formation of a new wholly-owned subsidiary, Infosys Consulting, Inc., incorporated in Texas, USA (Infosys Consulting) to enhance business consulting revenues in Infosys' global delivery model. The Board approved an investment of up to US\$ 20 million in Infosys Consulting. As of March 31, 2005, the company had invested US\$ 10 million (Rs. 44.87) in the subsidiary.

On January 2, 2004, the company acquired 100% of equity in Expert Information Services Pty Limited, Australia. The transaction value approximates Aus \$ 32.0 million (US \$ 24.32 million or Rs. 110.90). The consideration comprises a payment in cash on conclusion, an earn-out on achieving financial conditions over a three year period ending March 31, 2007, and the release of the balance retained in escrow for representations and warranties made by the selling share holders. The acquired company has been renamed as Infosys Technologies (Australia) Pty Limited. As of March 31, 2005, the company had invested (Rs. 66.69) for 1,01,08,869 equity shares of Aus \$ 0.11 par value, fully paid.

On October 10, 2003, the company set up a wholly-owned subsidiary in the People's republic of China named Infosys Technologies (Shanghai) Co. Limited. The subsidiary will be capitalized at US\$ 5 million (Rs. 22.78). As of March 31, 2005, the company had invested US\$ 5.0 million (Rs. 23.01) in the subsidiary.

Infosys holds 99.54% of the equity share capital of Progeon. The equity shares have been issued to Infosys as per the terms of the stock subscription agreement signed in April 2002, between Infosys, Citicorp International Finance Corporation ("CIFIC") and Progeon. 122,49,993 equity shares have been issued to Infosys in April 2002 and 1,22,50,000 in March 2004 for an aggregate consideration of Rs. 24.50. Pursuant to the agreement, CIFIC has been issued 4,375,000 0.0005% cumulative convertible preference shares each on June 30, 2002 and March 31, 2004 for an aggregate consideration of Rs. 93.80. The preference shares are convertible to an equal number of equity shares based on certain events as agreed between the company and CIFIC.

Other investments

During the year ended March 31, 2004, the Company invested Rs 0.54 in M-Commerce Ventures Pte. Limited, Singapore (M-Commerce) for 20 ordinary shares of face value Singapore \$ ("S\$") 1/- each, fully paid at par and 180 redeemable preference shares of face value S\$ 1/- each, fully paid for a premium of S\$ 1,110. The company also received Rs 0.61 towards return of premium of S\$ 1,110/- each on 216 redeemable preference shares of face value of S\$ 1/- each during the year. Accordingly, the aggregate investment in M-Commerce as at March 31, 2005 amounts to Rs 2.04.

During the year ended March 31, 2004, the company received from CiDRA Corporation, USA (CiDRA), an amount of Rs. 6.05 in cash; 72,539 Class A common stock of par value US\$ 0.001 each of CiDRA, 2,139 Non-voting redeemable preferred stock of par value US\$ 0.01 each of CiDRA, 12,921, Series A preferred stock par value \$0.001 of CyVera Corporation, USA on a buy back offer. The company also received 12,720 Series A preferred stock par value \$0.001 of CyVera Corporation, USA, due to company's holding in CiDRA.

During the year ended March 31, 2004, Infosys received Rs. 3.22 from Workadia Inc. and Rs. 0.47 from Stratify Inc. towards recovery of the amounts invested. The remainder of the investment was written-off during the year ended March 31, 2004.

Provisions for investments

The Company evaluates all investments for any diminution in their carrying values that is other than temporary. The amount of provision made on Trade investments during the year ended March 31, 2005 amounted to Rs. nil (Rs. 9.24 during the year ended March 31, 2004).

The company provided Rs. (0.10) during the year ended March 31, 2005 (Rs. 0.43 during the year ended March 31, 2004) on revision of the carrying amount of non-trade current investments to fair value.

22.3.18. Segment reporting

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

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

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

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

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

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

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

Industry segments

Year ended March 31, 2005 and March 31, 2004

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	2,335.37	1,020.83	1,233.96	696.16	1,573.34	6,859.66
	1,722.08	716.47	774.83	563.16	984.35	4,760.89
Identifiable operating expenses	974.59	441.54	570.97	277.09	638.06	2,902.25
	728.69	311.01	317.93	210.29	413.33	1,981.25
Allocated expenses	555.81	242.81	293.71	165.44	374.53	1,632.30
	433.73	180.08	193.52	141.58	247.08	1,195.99
Segmental operating income	804.97	336.48	369.28	253.63	560.75	2,325.11
	559.66	225.38	263.38	211.29	323.94	1,583.65
Unallocable expenses						268.22
						230.90
Operating income						2,056.89
						1,352.75
Other income (expense), net						127.60
						117.72
Net profit before taxes						2,184.49
						1,470.47
Income taxes						325.30
						227.00
Net profit after taxes						1,859.19
						1,243.47

Geographic segments

Year ended March 31, 2005 and March 31, 2004

	North America	Europe	India	Rest of the World	Total
Revenues	4,515.70	1,524.08	133.75	686.13	6,859.66
	3,401.42	913.84	66.20	379.43	4,760.89
Identifiable operating expenses	1,877.69	594.17	37.29	393.10	2,902.25
	1,422.01	371.35	18.25	169.64	1,981.25
Allocated expenses	1,074.60	362.70	31.88	163.12	1,632.30
	856.13	229.10	16.73	94.03	1,195.99
Segmental operating income	1,563.41	567.21	64.58	129.91	2,325.11
	1,123.28	313.39	31.22	115.76	1,583.65
Unallocable expenses					268.22
					230.90
Operating income					2,056.89
					1,352.75
Other income (expense), net					127.60
					117.72
Net profit before taxes					2,184.49
					1,470.47
Income taxes					325.30
					227.00
Net profit after taxes					1,859.19
					1,243.47

22.3.19. Provision for doubtful debts

Periodically, the company 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 as at the balance sheet date. As at March 31, 2005 the company has provided for doubtful debts of Rs. 8.24 (Rs 4.29 as at March 31, 2004) 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 pursues the recovery of the dues, in part or full.

22.3.20. 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 depository bank, which is the registered shareholder on record for all owners of the company's ADSs. The depository bank purchases the foreign currencies and remits dividends to the ADS holders.

Particulars of dividends remitted:-

Particulars	Number of shares to which the dividends relate	Year ended	
		March 31, 2005	March 31, 2004
Final dividend for Fiscal 2003	21,60,870	-	3.13
Interim dividend for fiscal 2004	51,78,450	-	7.51
Final and one-time special dividend for Fiscal 2004	52,92,612	60.87	-
Interim dividend for fiscal 2005	2,12,44,988	10.62	-

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

At the annual general meeting held on June 12, 2004, the shareholders approved the issue of bonus shares in the ratio of three bonus shares for every share held. The record date for the bonus issue was July 2, 2004 and shares were allotted on July 3, 2004. All basic and diluted shares used in determining earnings per share are after considering the effect of bonus issue.

	Year ended	
	March 31, 2005	March 31, 2004
Number of shares considered as basic weighted average shares outstanding	26,84,20,167	26,54,47,776
Add: Effect of dilutive issues of shares/stock options	71,63,377	33,39,240
Number of shares considered as weighted average shares and potential shares outstanding	<u>27,55,83,543</u>	<u>26,87,87,016</u>

22.3.22. Exceptional item

During the year ended March 31, 2005 the company sold its entire investment in Yantra Corporation, USA ("Yantra") for a total consideration of US\$ 12.57 million. An amount of Rs 49.48 representing 90% of the consideration has been received by the company and the balance amounts has been deposited in Escrow to indemnify any contractual contingencies. The unutilised balance in the escrow account, if any, is eligible for release in April, 2006. The income arising thereof amounted to Rs 45.19 (net of taxes) is disclosed separately as exceptional item.

The carrying value of the company's investment was Rs Nil since a provision of Rs 7.06 had been made in earlier years to recognise losses incurred by Yantra in excess of the company's contribution to capital. Accordingly the realised gain on disposal of investment of Rs 45.19, net of taxes of Rs 4.29 has been recognised in the profit and loss account and being of a non recurring nature has been disclosed in the statement of profit and loss account as an "Exceptional Item"

22.3.23. Cash flow statement

22.3.23.a.

The balance of cash and cash equivalents includes Rs. 3.33 as at March 31, 2005 (Rs. 1.98 as at March 31, 2004) set aside for payment of dividends. Also, an amount of Rs. nil has been retained in escrow as at March 31, 2005 (Rs. 0.04 as at March 31, 2004).

22.3.23.b.

During the year ended March 31, 2005, Infosys issued bonus shares at the ratio of three equity shares for each equity share in India and a stock dividend of two ADSs for each ADS in USA. The ratio of shares to ADS was also changed from 1:2 to 1:1. Consequently, the share capital of the company stands increased by Rs. 100.30. The bonus shares were issued by capitalization of general reserves.

22.3.23.c

Deposits with financial institutions and body corporate as at March 31, 2005 include an amount of Rs. 66.39 (Rs. nil as at March 31, 2004) deposited with Life Insurance Corporation of India to settle employee benefit/ leave obligations as and when they arise during the normal course of business. This amount is considered as restricted cash and is hence not considered "Cash and cash equivalents".