

## Schedules to the Consolidated Financial Statements for the quarter ended June 30, 2004

### 23. 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 group of companies ("the Group"). The Group provides end-to-end business solutions that leverage technology thus enabling its clients to enhance business performance. The Group 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 Group offers software products for the banking industry and business process management services.

#### 23.1 Significant accounting policies

##### 23.1.1. 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") 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. There are no accounting standards that although not mandatory for adoption as of the balance sheet date, have material impact on the financial statements.

The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down under the accounting standards on Consolidated Financial Statements issued by the ICAI. The financial statements of the parent company, Infosys, Progeon, Infosys China, Infosys Australia and Infosys Consulting have been combined on a line-by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealized gain/loss. The consolidated financial statements are prepared by applying uniform accounting policies in use at the Group. Minority interests have been excluded. Minority interests represent that part of the net profit or loss and net assets of subsidiaries that are not, directly or indirectly, owned or controlled by the company.

Goodwill has been recorded to the extent the cost of acquisition, comprising purchase consideration and transaction costs, exceeds the fair value of the net assets in the acquired company and will be tested for impairment on an annual basis. Exchange difference resulting from the difference due to translation of foreign currency assets and liabilities in subsidiaries is disclosed as foreign currency translation adjustment.

##### 23.1.2. 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 assess 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.

##### 23.1.3. 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 proportionate-completion method. On time-and-materials contracts, revenue is recognized as the related services are rendered. 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 arrangement contracts, where revenue is recognized as per the proportionate-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. 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.

##### 23.1.4. Expenditure

The cost of software purchased for use in the 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.

##### 23.1.5. 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.

##### 23.1.6. Depreciation and amortization

Depreciation on fixed assets is applied on the straight-line method based on useful lives of assets as estimated by the Management. Depreciation for assets purchased/sold during the 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. 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

### 23.1.7. Retirement benefits to employees

#### 23.1.7.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 at the company and Progeon. 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 at the balance sheet date and as per gratuity regulations for the company and Progeon respectively. The company fully contributes all ascertained liabilities to the Infosys Technologies Limited Employees' Gratuity Fund Trust (the "Trust"). Trustees administer contributions made to the Trust and contributions are invested in specific designated instruments, as permitted by law. Investments are also made in mutual funds that invest in the specific designated instruments.

#### 23.1.7.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 company has no further obligations to the Plan beyond its monthly contributions. Certain employees of Progeon are also eligible for superannuation benefit. Progeon makes monthly provisions under the superannuation plan based on a specified percentage of each covered employee's salary. Progeon has no further obligations to the superannuation plan beyond its monthly provisions. Under the Plan, the aggregate contributions along with interest thereon are paid on the retirement, death, incapacitation or termination of an employee.

#### 23.1.7.c. Provident fund

Eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee's salary. The company contributes a part of the contributions to the Infosys Technologies Limited Employees' Provident Fund Trust. The remainders of the contributions are made to government administered provident fund. The company has no further obligations under the provident fund plan beyond its monthly contributions.

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

The aggregate contributions along with interest thereon are paid on the retirement, death, incapacitation or termination of an employee.

#### 23.1.8. 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.

#### 23.1.9. 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 a rate that approximates the actual monthly average 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 Group's accounting policy.

Monetary current assets and monetary 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.

#### 23.1.10. Forward contracts in foreign currencies

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

The Group 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 an effective hedge, a gain or loss is recognized in the profit and loss account.

#### 23.1.11. 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 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. 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.

#### 23.1.12. Earnings per share

In determining earnings per share, the Group considers the net profit after tax and includes the post-tax effect of any extra-ordinary 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

#### 23.1.13. Investments

Trade investments are the investments made to enhance the Group's business interests. Investments are either classified as current or long-term based on 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.

#### 23.1.14. 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 Group 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.

#### 23.2 Change in accounting policy

The accounting standard on "The effect of changes in foreign exchange rates" was revised by the ICAI with effect from April 1, 2004 and prescribes accounting for forward exchange 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 Group has adopted the revised accounting standard effective April 1, 2004 to the extent applicable in respect of outstanding forward exchange contracts. The forward exchange contracts constitute hedges from an economic perspective, and the Group has decided to account for these forward exchange 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 an effective hedge, the gain or loss is recognized in the profit and loss account.

Gains and losses on forward exchange contracts are computed by multiplying the foreign currency amount of the forward exchange 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 group also assesses on an ongoing basis at the end of each reporting period whether designated hedges are effective and prospectively reclassifies the hedge as necessary.

Consequent to the change in accounting policy, the charge to the profit and loss account for the quarter ended June 30, 2004 is higher by Rs. 34.81 crore.

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

#### 23.3.1 Aggregate expenses

The following are the aggregate amounts incurred on certain specific expenses:

	Quarter ended June 30, 2004	Quarter ended June 30, 2003	Year ended March 31, 2004
Salaries and bonus including overseas staff expenses	743.77	526.40	2,377.97
Contribution to provident and other funds	18.44	12.57	58.47
Staff welfare	3.92	3.31	14.52
Overseas travel expenses	79.17	54.22	223.64
Consumables	3.47	1.79	10.29
Cost of software packages			
for own use	22.44	13.61	66.91
for service delivery to clients	3.53	9.91	16.12
Computer maintenance	3.17	2.31	12.30
Communication expenses	12.71	9.50	42.58
Consultancy charges	14.27	27.14	65.78
Provision for post-sales client support	7.22	0.17	0.30
Traveling and conveyance	11.56	5.04	28.45
Rent	9.13	10.07	39.14
Telephone charges	11.36	8.42	35.41
Professional charges	15.72	8.66	42.40
Printing and stationery	2.21	2.64	7.16
Advertisements	2.31	1.12	6.15
Office maintenance	8.79	6.33	30.20
Repairs to building	1.32	1.90	10.52
Repairs to plant and machinery	1.57	1.09	4.85
Power and fuel	9.62	7.44	30.18
Recruitment and training	0.57	0.03	1.21
Brand building	5.77	5.73	34.23
Insurance charges	7.78	5.31	24.78
Rates and taxes	2.60	1.24	5.70
Commission charges	4.17	2.27	7.27
Donations	4.22	3.50	14.29
Auditor's remuneration	-	-	-
statutory audit fees	0.20	0.09	0.63
certification charges	-	-	0.10
others	-	-	0.06
out-of-pocket expenses	0.01	0.01	0.02
Provision for bad and doubtful debts	6.33	3.29	15.99
Provision for doubtful loans and advances	0.02	0.01	0.14
Bank charges and commission	0.27	0.22	0.75
Commission to non-whole time directors	0.39	0.39	1.49
Postage and courier	1.47	1.24	3.98
Books and periodicals	0.58	0.24	1.51
Research grants	0.10	0.06	0.54
Freight charges	0.23	0.14	0.84
Professional membership and seminar participation fees	1.60	0.69	3.71
Marketing expenses	3.89	0.85	6.45
Sales promotion expenses	0.25	0.11	0.72
Other miscellaneous expenses	1.96	5.16	11.01
	<b>1,028.11</b>	<b>744.22</b>	<b>3,258.76</b>

23.3.2. Capital commitments and contingent liabilities

	June 30, 2004	As at June 30, 2003	March 31, 2004
Estimated amount of unexecuted capital contracts (net of advances and deposits)	228.15	74.48	200.92
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	10.05	7.68	11.58
Claims against the company, not acknowledged as debts	4.53	4.36	4.53
Forward contracts outstanding			
In US\$	US\$ 242,000,000	US\$ 274,500,000	US\$ 149,000,000
(Equivalent approximate in Rs. crore)	(Rs. 1,089.46)	(Rs. 1,290.47)	(Rs. 671.14)
Unamortized income	-	1.13	3.15

In the year ended March 31, 2004, 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. The trial of the lawsuit is scheduled shortly. Based on its present knowledge of facts, management estimates that the lawsuit will not have material impact on the result of operation or financial position of the company.

23.3.3. 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 June 30, 2004	June 30, 2003	Year ended March 31, 2004
Lease rentals recognized during the period/year	9.13	10.07	39.14
Lease obligations		As at June 30, 2003	March 31, 2004
Within one year of the balance sheet date	28.71	24.81	27.00
Due in a period between one year and five years	59.96	55.82	61.42
Due after five years	3.81	7.09	4.82

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.

23.3.4. Related party transactions

The company has an alliance with Supplychange Inc., USA to jointly market and deliver lead-time optimization solutions. Prof. Marti G. Subrahmanyam,

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

During the quarter ended June 30, 2004, an amount of Rs. 4.00 has been donated to Infosys Foundation, a not-for-profit trust, in which certain directors of the company are trustees. Donation to the foundation for the quarter ended June 30, 2003 and year ended March 31, 2004 were Rs. 3.50 and Rs. 12.00 respectively.

23.3.5. Transactions with key management personnel

Key management personnel comprise our directors and statutory officers.

Particulars of remuneration and other benefits provided to key management personnel during the quarters ended [June 30, 2004](#) and 2003 and the year ended March 31, 2004 are set out below.

Name	Salary	Contributions to provident and other funds	Perquisites and incentives	Total Remuneration
<b>Chairman and Chief Mentor</b>				
N R Narayana Murthy	0.03	0.01	0.04	0.08
	0.02	0.01	0.03	0.06
	0.08	0.04	0.10	0.22
<b>Chief Executive Officer, President and Managing Director</b>				
Nandan M Nilekani	0.03	0.01	0.04	0.08
	0.03	0.01	0.04	0.08
	0.09	0.04	0.10	0.23
<b>Chief Operating Officer and Deputy Managing Director</b>				
S Gopalakrishnan	0.03	0.01	0.04	0.08
	0.02	0.01	0.04	0.07
	0.08	0.04	0.10	0.22
<b>Whole-time Directors</b>				
K Dinesh	0.03	0.01	0.04	0.08
	0.02	0.01	0.04	0.07
	0.09	0.04	0.10	0.23
S D Shibulal	0.19	-	0.11	0.30
	0.16	-	0.12	0.28
	0.76	-	0.23	0.99
T V Mohandas Pai <i>Chief Financial Officer</i>	0.04	0.02	0.09	0.15
	0.02	0.01	0.03	0.06
	0.11	0.04	0.16	0.31
Srinath Batni	0.04	0.02	0.08	0.14
	0.02	0.01	0.02	0.05
	0.10	0.04	0.13	0.27

Name	Commission	Sitting fees	Reimbursement of expenses	Total remuneration
<b>Non-Wholetime Directors</b>				
Deepak M Satwalekar	0.05	-	0.01	0.06
	0.04	0.01	-	0.05
	0.21	0.01	0.01	0.23
Marti G Subrahmanyam	0.05	-	0.03	0.08
	0.05	-	0.01	0.06
	0.19	-	0.07	0.26
Philip Yeo	0.05	-	-	0.05
	0.03	-	-	0.03
	0.15	-	0.01	0.16
Jitendra Vir Singh	-	-	-	-
	-	-	-	-
	0.08	-	-	0.08
Omkar Goswami	0.05	-	0.01	0.06
	0.04	-	0.01	0.05
	0.18	0.01	0.01	0.20
Larry Pressler	0.05	-	-	0.05
	0.04	-	-	0.04
	0.16	-	0.01	0.17
Rama Bijapurkar	0.04	0.01	-	0.05
	0.04	-	0.01	0.05
	0.19	0.01	0.01	0.21
Claude Smadja	0.05	-	0.02	0.07
	0.03	-	0.03	0.06
	0.15	-	0.09	0.24
Sridar A Iyengar	0.05	-	0.04	0.09
	0.04	-	0.05	0.09
	0.18	0.01	0.13	0.32

Other Senior Management Personnel

Particulars of remuneration and other benefits provided to other key management personnel during the quarters ended **June 30, 2004, 2003** and the year ended March 31, 2004 are set out below.

Name	Salary	Contributions to provident and other funds	Perquisites and incentives	Total remuneration	Total loans granted	Outstanding loans and advances
V Balakrishnan,	0.03	0.01	0.11	0.15	-	-
Company Secretary	0.03	0.01	0.06	0.10	-	-
	0.12	0.04	0.22	0.38	-	-

In addition, the details of the options granted to non-whole time directors and other senior officers during the *year ended March 31, 2004 and quarters ended June 30, 2004 and 2003* are as follows:

Name	Date of Grant	Option plan	Number of options granted	Exercise price (in Rs.)	Expiration of options
<b>Non-Wholetime Directors</b>					
Sridar A Iyengar	April 10, 2003	1999	2,000	3,049.75	April 9, 2013

### 23.3.6. Exchange differences

Other income includes exchange differences of Rs. (13.92) for the quarter ended June 30, 2004. The corresponding amounts for the quarter ended June 30, 2003 and year ended March 31, 2004 were Rs. 7.56 and 20.02 respectively.

### 23.3.7. Research and development expenditure

	Quarter ended		Year ended
	June 30, 2004	June 30, 2003	March 31, 2004
Capital	-	0.08	1.48
Revenue	13.93	5.61	43.06
	<u>13.93</u>	<u>5.69</u>	<u>44.54</u>

### 23.3.8. Unearned revenue

Unearned revenue as at June 30, 2004 amounting to Rs. 96.73 (Rs. 73.83 as at June 30, 2003 and Rs. 63.85 as at March 31, 2004) primarily consists of client billings on fixed-price, fixed-time-frame contracts for which the related costs have not yet been incurred.

### 23.3.9. Stock option plans

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

#### 1994 Stock Option Plan ("the 1994 Plan")

The 1994 plan elapsed in fiscal year 2000 and, consequently, no further grants will be made under this plan.

#### 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 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. All options have been granted at 100% of fair market value.

	Quarter ended		Year ended
	June 30, 2004	June 30, 2003	March 31, 2004
Options granted, beginning of period/year	19,35,505	25,03,406	25,03,406
Granted during the period/year	-	53,800	95,900
Exercised during the period/year	(10,814)	(12,516)	(2,58,870)
Forfeited during the period/year	(53,953)	(1,10,293)	(4,04,931)
Options granted, end of period/year	<u>18,70,738</u>	<u>24,34,397</u>	<u>19,35,505</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 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.

	Quarter ended		Year ended
	June 30, 2004	June 30, 2003	March 31, 2004
Options granted, beginning of period/year	45,90,530	50,61,171	50,61,171
Granted during the period/year	-	1,51,050	192,800
Exercised during the period/year	(221,571)	(30)	(2,68,543)
Forfeited during the period/year	(78,426)	(76,430)	(3,94,898)
Options granted, end of period/year	<u>42,90,533</u>	<u>51,35,761</u>	<u>45,90,530</u>

The aggregate options considered for dilution are set out in note 23.3.21

The above options will automatically be adjusted for the bonus shares issued in the same proportion. The respective exercise price will also reduce in the same proportion.

Progeon's 2002 Plan provides for the grant of stock options to employees of Progeon and was approved by the board of directors and stockholders in June 2002. All options under the 2002 Plan are exercisable for equity shares. The 2002 Plan is administered by a Compensation Committee comprising three members, all of whom are directors of Progeon. The 2002 Plan provides for the issue of 52,50,000 equity shares to employees, at an exercise price, which shall not be less than the Fair Market Value ("FMV") on the date of grant. Options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in general meeting. The options issued under the 2002 Plan vest in periods ranging between one through six years, although accelerated vesting based on performance conditions is provided in certain instances. All options granted have been accounted for as a fixed plan.

The activity in Progeon's 2002 Plan in the quarter ended June 30, 2004, 2003 and year ended March 31, 2004 is set out below.

	Quarter ended		Year ended
	June 30, 2004	June 30, 2003	March 31, 2004
Outstanding at the beginning of the period/year	31,24,625	18,01,175	18,01,175
Granted during the period/year	1,99,600	-	14,01,150
Exercised during the period/year	2,700	-	-
Forfeited during the period/year	74,450	-	(77,700)
Options granted, end of period/year	<u>32,47,075</u>	<u>18,01,175</u>	<u>31,24,625</u>

23.3.10. 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		Year ended
	June 30, 2004	June 30, 2003	March 31, 2004
Net profit:			
- As reported	<u>388.34</u>	<u>278.92</u>	<u>1,243.63</u>
- Adjusted pro forma	<u>388.34</u>	<u>273.89</u>	<u>1,230.73</u>

23.3.11. 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 the company's and all of Progeon's 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.

23.3.12. Loans and advances

Deposits with financial institutions and a body corporate comprise:

	Quarter ended		Year ended
	June 30, 2004	June 30, 2003	March 31, 2004
<b>Deposits with financial institutions:</b>			
Housing Development Finance Corporation Limited	213.49	211.61	207.85
<b>Deposit with body corporate:</b>			
GE Capital Services India Limited	-	171.37	-
	<u>213.49</u>	<u>382.98</u>	<u>207.85</u>
Interest accrued but not due (included above)	1.49	2.99	1.45

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 a Director of HDFC Limited. Except as director in this financial institution, he has no direct interest in any transactions.

### 23.3.13. Fixed assets

#### Profit / loss on disposal of fixed assets

	Quarter ended		Year ended
	June 30, 2004	June 30, 2003	March 31, 2004
Profit on disposal of fixed assets	0.07	0.01	0.04
Loss on disposal of fixed assets	-	-	(0.45)
Profit/(loss) on disposal of fixed assets, net	<b>0.07</b>	<b>0.01</b>	<b>(0.41)</b>

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 June 30, 2004.

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.

### 23.3.14. Details of Investments

The following are the particulars of strategic investments made by the Group during the quarters ended June 30, 2004, June 30, 2003 and year ended March 31, 2003.

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, 2004 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.

#### Details of investments in and disposal of securities during the quarter ended June 30, 2004 and 2003 and year ended March 31, 2004:

	Quarter ended		Year ended
	June 30, 2004	June 30, 2003	March 31, 2004
Investment in securities			
Long-term investments	-	0.54	0.54
Liquid Mutual funds	<u>26.30</u>	<u>100.00</u>	<u>943.84</u>
	<u>26.30</u>	<u>100.54</u>	<u>944.38</u>
Redemption / Disposal of Investment in securities			
Long-term investments	-	-	10.21
Liquid Mutual funds	<u>117.78</u>	-	-
	<u>117.78</u>	-	<u>10.21</u>
<b>Net movement in investment</b>	<b><u>(91.48)</u></b>	<b><u>100.54</u></b>	<b><u>934.17</u></b>

### 23.3.15. Proportionate holding of Infosys in its subsidiaries

As of June 30, 2004 Infosys held 99.99% of equity shares in Progeon. The company held the entire equity capital of Progeon as of March 31, 2004 and June 30, 2003. As of June 30, 2004, Infosys also holds the entire equity capital of each of its subsidiaries, other than Progeon, since each subsidiary's incorporation.

### 23.3.16. Unbilled revenue

Unbilled revenue as at June 30, 2004 amounts to Rs. 136.77 (Rs. 99.01 as at June 30, 2003 and Rs. 103.09 as at March 31, 2004) primarily comprises the revenue recognized in relation to efforts incurred on fixed-price, fixed-time-frame contracts until the balance sheet date.



Geographic segments

Quarter ended [June 30, 2004](#), *June 30, 2003* and year ended March 31, 2004

	North America	Europe	India	Rest of the World	Total
Revenues	988.27	337.76	23.93	167.42	1,517.38
	817.81	190.97	23.33	62.59	1,094.70
	3,459.86	932.57	66.23	394.29	4,852.95
Identifiable operating expenses	425.39	132.28	4.69	92.11	654.47
	348.02	76.83	10.34	20.73	455.92
	1,453.94	376.72	18.23	167.90	2,016.79
Allocated expenses	233.54	79.21	5.35	55.54	373.64
	217.35	49.16	5.91	15.88	288.30
	879.47	235.63	16.41	110.46	1,241.97
Segmental operating income	329.34	126.27	13.89	19.77	489.27
	252.44	64.98	7.08	25.98	350.48
	1,126.45	320.22	31.59	115.93	1,594.19
Unallocable expenses					52.53
					45.14
					236.73
Operating income					436.74
					305.34
					1,357.46
Other income (expense), net					15.71
					25.58
					113.71
Net profit before taxes					452.45
					330.92
					1,471.17
Income taxes					64.11
					52.00
					227.54
Net profit after taxes					388.34
					278.92
					1,243.63

23.3.18. 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 are as follows:

Particulars	Number of shares to which the dividends relate	Quarter ended		Year ended March 31, 2004
		June 30, 2004	June 30, 2003	
Final dividend for Fiscal 2003	2,160,870	-	3.13	3.13
Interim dividend for fiscal 2004	5,178,450	-	-	7.51
Final dividend for Fiscal 2004	5,292,612	60.87	-	-

23.3.19. Cumulative convertible preference shares

Progeon issued 87,50,000 0.0005% cumulative convertible preference shares of par value Rs. 100 each in two equal tranches to Citicorp International Finance Corporation ("Citicorp"), on June 24, 2002 and March 31, 2004 in accordance with the shareholder's agreement. The total cash consideration received was Rs. 93.80, comprising an amount of Rs. 87.50 and Rs. 6.30, respectively towards preference share capital and share premium.

Unless earlier converted pursuant to an agreement in this behalf between Progeon and Citicorp, all the convertible preference shares shall automatically be converted into equity shares, (i) one year prior to the Initial Public Offering ("IPO") Date or (ii) June 30, 2005 or (iii) at the holder's option, immediately upon the occurrence of any Liquidity Event; whichever is earlier. The term "Liquidity Event" includes any decision of the Board of Directors to make an IPO, merger, reconstruction, capital reorganization or other event which, in the sole opinion of the holder of the convertible preference shares, amounts to an alteration in the capital structure of the company. Each preference share is convertible into one equity share, par value Rs. 10 each.

In the event of any liquidation, dissolution or winding up of Progeon, either voluntary or involuntary, each holder of the preference shares will be paid an amount of Rs. 112/- per preference share, as adjusted for stock dividends, combinations, splits, recapitalization and the like, in preference to any distribution of any assets of Progeon to the holders of equity shares.

Upon the completion of the distribution described above, the remaining assets and funds of the company available for distribution to shareholders shall be distributed among all holders of preference shares and equity shares based on the number of equity shares held by each of them (assuming a full conversion of all the preference shares).

23.3.20. 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 quarter ended June 30, 2004 and 2003 and year ended March 31, 2004 amounted to Rs. nil, Rs. 6.35 and Rs. 9.24 respectively.

The company provided Rs. (0.01) and Rs. 0.01 during the quarter ended June 30, 2004 and 2003 and Rs. 0.43 during the year ended March 31, 2004, on revision of the carrying amount of non-trade current investments to fair value.

23.3.21. 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 each share. The record date for the bonus issue was July 2, 2004 and the 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

	Quarter ended		Year ended March 31, 2004
	June 30, 2004	June 30, 2003	
Number of shares considered as basic weighted average shares outstanding	26,71,36,028	26,49,80,696	26,54,47,776
Add: Effect of dilutive issues of shares/stock options	47,15,239	9,36,772	33,39,240
Number of shares considered as weighted average shares and potential shares outstanding	<b>27,18,51,267</b>	<b>26,59,17,468</b>	<b>26,87,87,016</b>

23.3.22. Notes on the statement of cash flow

The balance of cash and cash equivalents includes Rs. 6.72 as at June 30, 2004 (Rs. 2.66 as at June 30, 2003 and 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 June 30, 2004 (Rs. nil as at June 30, 2003 and Rs. 0.04 as at March 31, 2004).