

INFOSYS TECHNOLOGIES LIMITED

Report for the second quarter ended September 30, 1999



At a glance - Indian GAAP

Rs. in crores, except per equity share data

| | Quarter ended September 30, | | Half year ended September 30, | | Year ended March 31, |
|---|--------------------------------|--------|----------------------------------|----------|-------------------------|
| | 1999 | 1998 | 1999 | 1998 | 1999 |
| For the period | | | | | |
| Total revenue | 217.88 | 120.44 | 401.94 | 218.86 | 512.74 |
| Export revenue | 205.07 | 118.10 | 373.69 | 214.48 | 500.25 |
| Operating profit (PBIDT) | 85.93 | 42.05 | 163.86 | 73.66 | 191.75 |
| Profit after tax (PAT) from ordinary activities | 65.71 | 28.40 | 126.32 | 52.07 | 132.92 |
| PBIDT as a percentage of total revenue | 38.98% | 34.92% | 39.29% | 33.66% | 37.40% |
| PAT (from ordinary activities) as a percentage of total revenue | 29.63% | 23.58% | 29.72% | 23.79% | 25.92% |
| Earnings per share (from ordinary activities) | 19.37 | 8.59 | 35.24 | 15.75 | 40.19 |
| Dividend per share | NA | NA | 3.00 | 2.50 | 7.50 |
| Dividend amount | NA | NA | 9.92 | 4.00 | 12.11 |
| Capital investment | 38.56 | 22.70 | 59.76 | 33.16 | 71.68 |
| At the end of the period | | | | | |
| Total assets | | | 687.68 | 220.62 | 574.43 |
| Fixed assets – net | | | 140.42 | 85.75 | 100.72 |
| Cash and equivalent | | | 453.80 | 63.64 | 416.66 |
| Working capital | | | 546.50 | 127.63 | 472.96 |
| Total debt | | | - | - | - |
| Net worth | | | 687.68 | 220.62 | 574.43 |
| Equity | | | 33.07 | 16.02 | 33.07 |
| Market capitalization | | | 23,589.06 | 4,086.79 | 9,672.80 |

Note: Rs. One crore equals Rs. 10 million.

All ratios are calculated excluding income from exchange differences on translation of foreign currency deposits kept abroad. Market capitalization is calculated by considering the Indian market price for shares outstanding at the period / year-end.

EPS figures have been calculated for the period and has not been annualized.

[BAR CHARTS APPEARS HERE]

Letter to shareholders

Dear Shareholder,

We are delighted at the company's performance this quarter. Total income (Revenues) for the quarter was Rs. 217.88 crore (\$47.9 million) compared to Rs. 120.44 crore (\$28.2 million) for the corresponding quarter in the previous year, a growth of 81% (70%). Export income (Export revenues) grew to Rs. 205.07 crore (\$47.3 million) from Rs. 118.10 crore (\$27.8 million) for the corresponding quarter in the previous year, a growth of 74% (70%).

Net profit from ordinary activities (Net income) for the quarter was Rs. 65.71 crore (\$14.7 million) as compared to Rs. 28.40 crore (\$6.2 million) for the corresponding quarter in the previous year, an increase of 131% (139%). Operating profit (Operating income) was Rs. 85.93 crore (\$14.6 million) as compared to Rs. 42.06 crore (\$8.2 million) for the corresponding quarter in the previous year, a growth of 104% (79%).

Other income (Other income, net) of Rs. 9.58 crore (\$2.2 million) in the current quarter includes Rs. 3.91 crore (\$0.9 million) of interest on deployment of funds raised through issue of American Depositary Shares (ADS), Rs. 1.30 crore (\$0.3 million) from the sale of Special Import Licences, and an amount of Rs. 1.65 crore (\$0.4 million) arising from exchange rate differences on translation of foreign currency deposits. Excluding the above, net profit (net income) for the current quarter was Rs. 58.85 crore (\$13.1 million), a 107% (113%) increase over the comparable net profit of Rs. 28.40 crore (\$6.2 million) for the quarter ended September 30, 1998.

The shift in the business towards e-commerce related work is rapid. Your company is committed to creating knowledge infrastructure, acquiring people with technical skills in the e-commerce area and e-inventing the company. This may require your company to incur business restructuring costs. A provision of Rs. 3.50 crore (based on current estimates) was made in the Indian GAAP financial statements in the current quarter towards costs related to e-inventing the company. During this quarter, 10.3 % of your company's total income were e-commerce related and we are continuing our focus in this area. Your company's strategic approach to the Year 2000 opportunity has ensured top and bottom line growth, despite a planned decline in Year 2000 revenues to 9.4% of total income in the quarter.

Your company believes that it has identified the major systems, software applications and related equipment used in connection with its internal operations that must be modified or upgraded in order to minimize the possibility of a material disruption to its business from the Year 2000 problem. Your company has converted its financial applications software to programs certified by its suppliers as Year 2000 compliant. In tests conducted to-date on other systems, no significant Year 2000-related problems have been found. Consequent to all the updates and modifications made to its systems, your company believes that its internal systems are Year 2000 ready. All these activities were carried out with internal resources and where necessary, with aid from the vendors who supplied the systems.

Although your company maintains redundant voice and data communication links, any sustained disruption of your company's ability to transmit and receive voice and/or data would have a material adverse effect on its business, results of operations and financial condition. Your company has been led to believe that all its telecommunication service providers are Year 2000 ready and therefore does not expect significant disruption of these facilities.

Your company added 22 new clients in the quarter. New clients include E-business clients like Expense Vision, Petopia.com and Man.com. These clients have availed of the "Product Co-development Service" of your company. As part of this service, your company sets up a dedicated Product Competency Center which becomes a virtual extension of the client's software engineering team, ensuring faster time-to-market and better quality.

During the quarter, your company accelerated the hiring resulting in a net addition of 835 employees. The total strength of your company increased to 4,778 as of this quarter end. Your company's global delivery model enables it to recruit and train large number of employees ahead of the requirements without substantially impacting the margins. As the IT environment becomes more complex and ever changing, your company's strategy of investing in continuous education of its people and research is paying off.

Mr. N. S. Raghavan, one of the founders and Joint Managing Director, expressed his intention to seek retirement from the membership of the Board of Directors in order to enable him to pursue charitable activities on a full-time basis. The Board reluctantly accepted his request. Mr. N. S. Raghavan will retire from the Board of Directors and the post of Joint Managing Director with effect from February 7, 2000. It is difficult to imagine Infosys without Mr. N. S. Raghavan. He has been a close and affectionate colleague in this marathon of building Infosys. His desire to spend his post-retirement time on charitable activities deserves our applause.

As part of the globalization process, your company had earlier stated its intention to start development centers outside India. Based on the recommendations of an internal committee, your company decided to set up an overseas software development center in Canada. This initiative will help satisfy client requirements more effectively.

The construction of Phase I of the software development facility at Pune Infotech Park, Hinjawadi, Pune is nearing completion. Two software blocks (each with a capacity to accommodate 300 employees) and the concomitant support facilities are scheduled for inauguration in mid-October. The Phase II of the software development facility at Pune Infotech Park, Hinjawadi, Pune to accommodate 600 employees is also progressing satisfactorily. Construction of one more block of 70,000 sq. ft of Infosys Park, Phase I is progressing well. Construction of 2,70,000 sq. ft at *Infosys Park*, Phase II, adjacent to the company's headquarters in Electronics City, is progressing as per schedule.

We thank all Infosysians, who through their hard work, dedication and commitment have made this yet another productive quarter, and look forward to reporting to you the results of the quarter ending December 31, 1999.

Bangalore
October 8, 1999

Nandan M. Nilekani
*Managing Director, President
and Chief Operating Officer*

N. R. Narayana Murthy
*Chairman
and Chief Executive Officer*

Note: Figures and terminology in parenthesis refer to US GAAP financial statements, and are in US dollars.

Auditor's report to the members of Infosys Technologies Limited

We have audited the attached Balance Sheet of Infosys Technologies Limited (the Company) as at 30 September, 1999 and the Profit and Loss Accounts of the Company for the half-year and quarter ended on that date, annexed thereto, and report that:

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above:
 - a. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.
 - b. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of these books.
 - c. The Balance Sheet and Profit and Loss Accounts dealt with by this report are in agreement with the books of account.
 - d. In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report have been prepared in compliance with the accounting standards referred to in sub section(3C) of Section 211 of the Companies Act, 1956, to the extent applicable;
 - e. In our opinion, and to the best of our information, and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view:
 - i. in the case of the Balance Sheet, of the state of affairs of the Company as at 30 September, 1999; and
 - ii. in the case of the Profit and Loss Accounts, of the profit for the half-year and quarter ended on that date.
3. We have also examined the attached Cash Flow Statements of the Company for the half-year and quarter ended 30 September, 1999. The Statements have been prepared by the Company in accordance with the requirements of Clause 32 of the listing agreements entered into with the Stock Exchanges.

Bangalore
October 08, 1999

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

Balance Sheet as at

| | <i>in Rs.</i> | | |
|---|----------------------|----------------------|----------------------|
| | September 30 | | March 31 |
| | 1999 | 1998 | 1999 |
| SOURCES OF FUNDS | | | |
| SHAREHOLDERS' FUNDS | | | |
| Share capital | 33,06,95,500 | 16,01,73,500 | 33,06,95,500 |
| Reserves and surplus | 654,61,29,197 | 204,60,49,410 | 541,36,15,748 |
| | 687,68,24,697 | 220,62,22,910 | 574,43,11,248 |
| APPLICATION OF FUNDS | | | |
| FIXED ASSETS | | | |
| Gross block | 201,20,83,575 | 133,32,67,084 | 168,92,38,345 |
| Less : Depreciation | 102,07,57,018 | 59,84,23,054 | 83,09,14,934 |
| Net block | 99,13,26,557 | 73,48,44,030 | 85,83,23,411 |
| Add : Capital work-in-progress | 41,28,99,285 | 12,26,42,827 | 14,88,35,800 |
| | 140,42,25,842 | 85,74,86,857 | 100,71,59,211 |
| INVESTMENTS | 75,48,469 | 7,24,71,960 | 75,48,469 |
| CURRENT ASSETS, LOANS AND ADVANCES | | | |
| Sundry debtors | 133,47,09,804 | 59,01,34,640 | 84,51,88,425 |
| Cash and bank balances | 377,68,71,030 | 63,63,59,775 | 405,04,82,999 |
| Loans and advances | 164,28,14,672 | 41,67,37,697 | 68,35,96,522 |
| | 675,43,95,506 | 164,32,32,112 | 557,92,67,946 |
| Less: Current liabilities | 58,78,14,181 | 19,97,43,633 | 42,83,42,481 |
| Provisions | 70,15,30,939 | 16,72,24,386 | 42,13,21,897 |
| NET CURRENT ASSETS | 546,50,50,386 | 127,62,64,093 | 472,96,03,568 |
| | 687,68,24,697 | 220,62,22,910 | 574,43,11,248 |

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

The Schedules referred to above and the notes thereon form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our report of even date. for Bharat S Raut & Co. Chartered Accountants

| | | | | |
|---|--|---|--|---|
| Ravi Ramu Partner | N.R.Narayana Murthy Chairman and Chief Executive Officer | Nandan M. Nilekani Managing Director, President and Chief Operating Officer | Susim M. Datta Director | Deepak M. Satwalekar Director |
| | Ramesh Vangal Director | Marti G. Subrahmanyam Director | N.S. Raghavan Joint Managing Director | S. Gopalakrishnan Deputy Managing Director |
| Place: Bangalore Date: October 8, 1999 | K. Dinesh Director | S.D. Shibulal Director | T.V.Mohandas Pai Sr. Vice-President (F&A) | V.Viswanathan Company Secretary |

Profit and Loss Account

in Rs.

| | Quarter ended September 30 | | Half year ended September 30 | | Year ended March 31 |
|--|----------------------------|----------------------|------------------------------|----------------------|----------------------|
| | 1999 | 1998 | 1999 | 1998 | 1999 |
| INCOME | | | | | |
| Software development services and products | | | | | |
| Overseas | 205,07,22,424 | 118,09,83,329 | 373,69,33,425 | 214,47,71,315 | 500,25,40,418 |
| Domestic | 3,22,64,605 | 1,90,05,058 | 4,87,60,599 | 3,04,47,144 | 8,63,71,250 |
| Sale of special import licenses | 1,29,96,393 | - | 1,29,96,393 | - | - |
| Other income | 8,28,22,042 | 43,71,375 | 22,07,35,287 | 1,33,97,323 | 3,84,71,833 |
| | 217,88,05,464 | 120,43,59,762 | 401,94,25,704 | 218,86,15,782 | 512,73,83,501 |
| EXPENDITURE | | | | | |
| Software development expenses | 113,07,67,428 | 65,92,35,809 | 202,26,48,720 | 121,74,92,099 | 261,51,74,052 |
| Administration and other expenses | 15,37,31,464 | 9,92,83,387 | 28,98,70,425 | 19,91,90,300 | 45,75,30,137 |
| Provision for Contingencies | - | - | 3,33,00,000 | - | 6,66,00,000 |
| Provision towards e-inventing the Company | 3,50,00,000 | - | 3,50,00,000 | - | - |
| Provision for investment in subsidiary | - | 2,53,00,000 | - | 3,53,00,000 | 7,05,95,674 |
| | 131,94,98,892 | 78,38,19,196 | 238,08,19,145 | 145,19,82,399 | 320,98,99,863 |
| Operating profit (PBIDT) | 85,93,06,572 | 42,05,40,566 | 163,86,06,559 | 73,66,33,383 | 191,74,83,638 |
| Interest | - | - | - | - | - |
| Depreciation | 10,72,23,769 | 7,40,72,227 | 20,04,41,918 | 12,34,36,092 | 35,89,30,078 |
| Profit before tax | 75,20,82,803 | 34,64,68,339 | 143,81,64,641 | 61,31,97,291 | 155,85,53,560 |
| Provision for tax | | | | | |
| - earlier periods | 17,00,000 | 1,75,00,000 | 17,00,000 | 1,75,00,000 | 4,32,00,000 |
| - current period | 9,33,00,000 | 4,50,00,000 | 17,33,00,000 | 7,50,00,000 | 18,62,00,000 |
| Profit after tax from ordinary activities | 65,70,82,803 | 28,39,68,339 | 126,31,64,641 | 52,06,97,291 | 132,91,53,560 |
| Extraordinary income (net of tax) | - | - | - | - | 2,34,54,103 |
| Net profit | 65,70,82,803 | 28,39,68,339 | 126,31,64,641 | 52,06,97,291 | 135,26,07,663 |
| AMOUNT AVAILABLE FOR APPROPRIATION | 65,70,82,803 | 28,39,68,339 | 126,31,64,641 | 52,06,97,291 | 135,26,07,663 |
| Dividend | | | | | |
| Interim | 9,92,08,200 | 4,00,43,000 | 9,92,08,200 | 4,00,43,000 | 4,00,43,011 |
| Final | - | - | - | - | 8,10,32,734 |
| Dividend Tax | 1,09,12,902 | 40,04,300 | 1,09,12,902 | 40,04,300 | 1,21,07,574 |
| Amount transferred | | | | | |
| - capital reserve | - | - | - | - | 2,34,54,103 |
| - general reserve | - | - | - | - | 119,59,70,241 |
| Balance in Profit and Loss Account | 54,69,61,701 | 23,99,21,039 | 115,30,43,539 | 47,66,49,991 | - |
| | 65,70,82,803 | 28,39,68,339 | 126,31,64,641 | 52,06,97,291 | 135,26,07,663 |

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

The Schedules referred to above and the notes thereon form an integral part of the Profit and Loss Account.

This is the Profit & Loss Account referred to in our report of even date. for Bharat S Raut & Co. Chartered Accountants

| | | | | |
|---|--|---|--|---|
| Ravi Ramu Partner | N.R.Narayana Murthy Chairman and Chief Executive Officer | Nandan M. Nilekani Managing Director, President and Chief Operating Officer | Susim M. Datta Director | Deepak M. Satwalekar Director |
| | Ramesh Vangal Director | Marti G. Subrahmanyam Director | N.S. Raghavan Joint Managing Director | S. Gopalakrishnan Deputy Managing Director |
| Place: Bangalore Date: October 8, 1999 | K. Dinesh Director | S.D. Shibulal Director | T.V.Mohandas Pai Sr. Vice-President (F&A) | V.Viswanathan Company Secretary |

Schedules to the Profit and Loss Account

in Rs.

| | Quarter ended September 30 | | Half year ended September 30 | | Year ended March 31 |
|--|----------------------------|---------------------|------------------------------|----------------------|----------------------|
| | 1999 | 1998 | 1999 | 1998 | 1999 |
| OTHER INCOME | | | | | |
| Interest received on deposits with banks and others. | 6,52,40,572 | 35,08,437 | 12,10,22,337 | 1,23,10,678 | 3,67,00,927 |
| Tax deducted at source Rs. 52,48,295 (Rs. 6,74,082) | | | | | |
| Profit on sale of Assets | 4,16,230 | - | 4,63,777 | - | - |
| Miscellaneous income | 7,08,917 | 8,62,938 | 14,90,472 | 10,86,645 | 17,70,906 |
| Exchange differences * | 1,64,56,323 | - | 9,77,58,701 | - | - |
| | 8,28,22,042 | 43,71,375 | 22,07,35,287 | 1,33,97,323 | 3,84,71,833 |
| *Exchange differences on translation of foreign currency deposit maintained abroad | | | | | |
| SOFTWARE DEVELOPMENT EXPENSES | | | | | |
| Salaries and bonus including overseas staff expenses | 73,71,21,957 | 35,98,78,983 | 132,43,61,020 | 69,31,81,636 | 151,56,56,923 |
| Staff welfare | 1,01,02,147 | 78,05,647 | 1,97,02,371 | 1,40,42,054 | 3,06,17,200 |
| Contribution to provident and other funds | 4,04,04,539 | 1,77,94,463 | 6,09,67,314 | 4,63,64,461 | 11,42,90,209 |
| Foreign tour and travel | 19,44,34,563 | 14,43,03,794 | 37,35,69,658 | 24,67,37,676 | 58,11,20,975 |
| Consumables | 47,39,041 | 18,97,536 | 1,06,07,532 | 27,63,865 | 1,06,44,207 |
| Cost of software packages | | | | | |
| for own use | 6,00,62,634 | 6,13,26,147 | 9,28,54,660 | 10,25,34,030 | 14,86,91,737 |
| for domestic software development | 24,53,002 | 23,04,627 | 40,65,059 | 40,16,868 | 1,78,19,890 |
| Provision for post-sales client support | 1,09,23,398 | 1,78,08,473 | 1,75,96,154 | 1,92,09,784 | 2,19,18,587 |
| Computer maintenance | 61,45,308 | 1,34,23,968 | 1,00,78,359 | 1,86,21,544 | 3,29,08,467 |
| Communication expenses | 5,64,28,375 | 2,21,19,577 | 9,47,60,089 | 4,78,98,292 | 9,59,08,515 |
| Consultancy charges | 79,52,464 | 1,05,72,594 | 1,40,86,504 | 2,21,21,889 | 4,55,97,342 |
| | 113,07,67,428 | 65,92,35,809 | 202,26,48,720 | 121,74,92,099 | 261,51,74,052 |
| ADMINISTRATION AND OTHER EXPENSES | | | | | |
| Rent | 2,37,09,030 | 1,82,67,185 | 4,42,39,431 | 3,56,24,624 | 7,44,54,587 |
| Legal and professional charges | 1,69,66,773 | 1,12,73,529 | 2,94,93,829 | 2,35,37,784 | 5,37,56,388 |
| Travelling and conveyance | 1,64,00,037 | 94,18,657 | 2,71,78,379 | 1,87,25,381 | 4,15,37,200 |
| Telephone charges | 1,07,93,680 | 1,56,74,390 | 2,45,99,217 | 2,67,15,939 | 5,15,34,846 |
| Power and fuel | 1,00,90,670 | 61,23,149 | 2,01,08,110 | 1,18,07,207 | 2,73,37,769 |
| Provision for bad and doubtful debts | 70,23,453 | 18,26,947 | 1,90,43,237 | 44,14,374 | (13,06,919) |
| Office maintenance | 97,79,872 | 64,89,180 | 1,81,88,757 | 1,45,81,303 | 2,95,44,190 |
| Printing and stationery | 70,99,944 | 32,72,629 | 1,53,91,827 | 83,07,159 | 1,76,34,923 |
| Donations | 1,01,86,367 | 22,19,735 | 1,41,86,367 | 40,21,335 | 1,49,82,357 |
| Sundry marketing expenses | 53,93,530 | 35,60,383 | 1,30,53,262 | 63,77,852 | 1,92,56,725 |
| Other miscellaneous expenses | 90,58,142 | 42,02,716 | 1,27,87,412 | 1,02,96,746 | 1,80,79,939 |
| Advertisements | 68,68,674 | 11,59,566 | 1,12,36,927 | 26,89,853 | 76,84,502 |
| Insurance charges | 49,72,795 | 25,19,451 | 90,30,631 | 57,47,241 | 1,28,78,968 |
| Postage and courier | 25,29,800 | 14,14,441 | 61,99,736 | 35,98,107 | 79,15,959 |
| Rates and taxes | 37,24,887 | 34,21,294 | 57,43,646 | 67,84,556 | 1,16,79,290 |
| Repairs to plant and machinery | 27,39,781 | 24,96,561 | 41,49,262 | 42,09,715 | 86,47,678 |
| Repairs to building | 13,87,841 | 23,24,990 | 40,04,836 | 45,28,897 | 1,08,24,460 |
| Commission Charges | - | - | 34,84,800 | 4,96,700 | 7,40,413 |
| Research Grants | 25,00,000 | - | 25,00,000 | - | 3,09,00,000 |
| Books and periodicals | 8,34,026 | 23,64,234 | 21,48,750 | 40,71,713 | 76,72,725 |
| Bank charges and commission | 8,08,085 | 8,66,850 | 17,62,932 | 18,78,814 | 38,95,031 |
| Auditor's remuneration | | | | | |
| - audit fees | 4,67,500 | 3,50,000 | 8,92,500 | 7,00,000 | 14,35,000 |
| - certification charges | - | - | - | - | 2,00,000 |
| - other services | - | - | - | - | 8,00,000 |
| - out-of-pocket expenses | 50,000 | 37,500 | 1,00,000 | 75,000 | 1,50,000 |
| Bad loans and advances written off | 3,46,577 | - | 3,46,577 | - | 52,94,106 |
| | 15,37,31,464 | 9,92,83,387 | 28,98,70,425 | 19,91,90,300 | 45,75,30,137 |

Statement of Cash Flows

in Rs.

| | Quarter ended September 30, | | Half year ended September 30, | | Year ended |
|---|-----------------------------|-----------------------|-------------------------------|-----------------------|-----------------------|
| | 1999 | 1998 | 1999 | 1998 | March 31, 1999 |
| Cash flows from operations | | | | | |
| Profit before tax | 75,20,82,803 | 34,64,68,339 | 143,81,64,641 | 61,31,97,291 | 155,85,53,560 |
| Other Income | (8,21,13,125) | (35,14,051) | (21,92,44,815) | (1,23,56,967) | (3,67,00,927) |
| Provision for contingencies | - | - | 3,33,00,000 | - | 6,66,00,000 |
| Provision for e-inventing the Company | 3,50,00,000 | - | 3,50,00,000 | - | - |
| Provision for investment in subsidiary | - | 2,53,00,000 | - | 3,53,00,000 | 7,05,95,674 |
| Depreciation, depletion and amortization | 10,72,23,769 | 7,40,72,227 | 20,04,41,918 | 12,34,36,092 | 35,89,30,078 |
| Decrease (increase) in sundry debtors | (26,71,34,722) | (7,25,12,893) | (48,95,21,379) | (19,12,85,973) | (44,63,39,758) |
| Decrease (increase) in loans and advances | (8,30,09,030) | (5,85,36,394) | (17,73,97,884) | (10,42,08,713) | (15,32,76,222) |
| Increase (decrease) in current liabilities and provisions | 4,17,59,020 | 3,10,80,523 | 17,70,67,854 | 10,69,16,563 | 33,82,24,214 |
| Income taxes paid | (10,92,26,480) | (2,51,95,430) | (13,84,37,481) | (6,90,39,814) | (16,79,23,184) |
| Net cash from operations | 39,45,82,235 | 31,71,62,321 | 85,93,72,854 | 50,19,58,479 | 158,86,63,435 |
| Cash flows from financing | | | | | |
| Proceeds from issue of American Depository Shares | - | - | - | - | 296,86,28,400 |
| Expenses relating to issue of American Depository Shares | (3,26,400) | - | (2,05,30,090) | - | (17,33,14,415) |
| Dividends paid (including dividend tax) | - | - | (8,91,36,007) | (5,79,89,512) | (10,20,36,824) |
| Net cash used for financing | (3,26,400) | - | (10,96,66,097) | (5,79,89,512) | 269,32,77,161 |
| Cash flows from investing | | | | | |
| Income from investments | 6,52,40,572 | 35,14,051 | 12,10,22,337 | 1,23,56,967 | 3,67,00,927 |
| Proceeds of sale of investments (net of tax) | - | - | - | - | 6,06,20,029 |
| Proceeds of sale of fixed assets | 4,20,448 | 1,23,860 | 5,71,709 | 2,39,716 | 2,39,716 |
| Purchase of fixed assets | (38,55,70,016) | (22,69,54,087) | (59,76,16,481) | (33,16,25,584) | (71,67,91,924) |
| Other long-term investments | - | - | - | - | (75,38,109) |
| Net cash used for investing | (31,99,08,996) | (22,33,16,176) | (47,60,22,435) | (31,90,28,901) | (62,67,69,361) |
| Effect of exchange differences on translation of foreign currency deposit maintained abroad | 1,64,56,323 | - | 9,77,58,701 | - | - |
| Total increase (decrease) in cash and cash equivalents during the period | 7,43,46,839 | 9,38,46,145 | 27,36,84,322 | 12,49,40,066 | 365,51,71,235 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 444,72,30,805 | 54,25,13,630 | 416,65,90,944 | 51,14,19,709 | 51,14,19,709 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 453,80,33,967 | 63,63,59,775 | 453,80,33,967 | 63,63,59,775 | 416,65,90,944 |

These are the Cash Flow Statements referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

| | | | | |
|---|--|---|--|---|
| Ravi Ramu Partner | N.R.Narayana Murthy Chairman and Chief Executive Officer | Nandan M. Nilekani Managing Director, President and Chief Operating Officer | Susim M. Datta Director | Deepak M. Satwalekar Director |
| | Ramesh Vangal Director | Marti G. Subrahmanyam Director | N.S. Raghavan Joint Managing Director | S. Gopalakrishnan Deputy Managing Director |
| Place: Bangalore Date: October 8, 1999 | K. Dinesh Director | S.D. Shibulal Director | T.V.Mohandas Pai Sr. Vice-President (F&A) | V.Viswanathan Company Secretary |

Reconciliation of Balance Sheet items with cash flow items

in Rs.

| | Quarter ended September 30, | | Half year ended September 30, | | Year ended |
|---|-----------------------------|----------------|-------------------------------|---------------|----------------|
| | 1999 | 1998 | 1999 | 1998 | March 31, 1999 |
| 1. Loans and advances | | | | | |
| As per Balance sheet | 164,28,14,672 | 41,67,37,697 | 164,28,14,672 | 41,67,37,697 | 68,35,96,522 |
| Less: Deposits with financial institutions/body corporate, included in cash equivalents | (76,11,62,937) | - | (76,11,62,937) | - | (11,61,07,945) |
| Advance income taxes considered separately | (32,78,45,496) | (8,93,96,851) | (32,78,45,496) | (8,93,96,851) | (19,10,80,222) |
| Balance considered for preparing the cash flow statement | 55,38,06,239 | 32,73,40,846 | 55,38,06,239 | 32,73,40,846 | 37,64,08,355 |
| 2. Additions to fixed assets | | | | | |
| As per Balance sheet | 11,48,32,169 | 23,19,78,997 | 33,35,52,996 | 28,21,96,029 | 64,11,69,396 |
| Add: Closing capital work-in-progress | 41,28,99,285 | 12,26,42,827 | 41,28,99,285 | 12,26,42,827 | 14,88,35,800 |
| Less: Opening capital work-in-progress | (14,21,61,438) | (12,76,67,737) | (14,88,35,800) | (7,32,13,272) | (7,32,13,272) |
| Balance considered for preparing the cash flow statement | 38,55,70,016 | 22,69,54,087 | 59,76,16,481 | 33,16,25,584 | 71,67,91,924 |
| 3. Cash and cash equivalents | | | | | |
| As per Balance sheet | 377,68,71,030 | 63,63,59,775 | 377,68,71,030 | 63,63,59,775 | 405,04,82,999 |
| Add: Deposits with financial institutions/body corporate (as per 1 above) | 76,11,62,937 | - | 76,11,62,937 | - | 11,61,07,945 |
| Balance considered for preparing the cash flow statement | 453,80,33,967 | 63,63,59,775 | 453,80,33,967 | 63,63,59,775 | 416,65,90,944 |
| 4. Income taxes paid | | | | | |
| As per Profit and Loss account | 9,50,00,000 | 6,25,00,000 | 17,50,00,000 | 9,25,00,000 | 22,94,00,000 |
| Add: Decrease(increase) in balance in provision for taxes account | (9,50,05,897) | (2,17,00,000) | (17,33,27,793) | (1,69,52,470) | (15,66,52,471) |
| Increase(decrease) in balance in advance income tax account | 10,92,32,377 | (1,56,04,570) | 13,67,65,274 | (65,07,716) | 9,51,75,655 |
| Balance considered for preparing the cash flow statement | 10,92,26,480 | 2,51,95,430 | 13,84,37,481 | 6,90,39,814 | 16,79,23,184 |
| 5. Other income | | | | | |
| As per Profit and Loss account | 9,58,18,435 | 43,71,375 | 23,37,31,680 | 1,33,97,323 | 3,84,71,833 |
| Less: Income from operating activities | (1,37,05,310) | (8,57,324) | (1,44,86,865) | (10,40,356) | (17,70,906) |
| Balance considered for preparing the cash flow statement | 8,21,13,125 | 35,14,051 | 21,92,44,815 | 1,23,56,967 | 3,67,00,927 |
| 6. Current liabilities and provisions | | | | | |
| As per Balance sheet | 128,93,45,120 | 36,69,68,019 | 128,93,45,120 | 36,69,68,019 | 84,96,64,378 |
| Less: Provision for taxation considered separately | (40,46,85,281) | (9,16,57,487) | (40,46,85,281) | (9,16,57,487) | (23,13,57,488) |
| Provision for dividend considered separately | (9,92,08,200) | (4,00,43,000) | (9,92,08,200) | (4,00,43,000) | (8,10,32,734) |
| Provision for dividend tax considered separately | (1,09,12,902) | (40,04,300) | (1,09,12,902) | (40,04,300) | (81,03,273) |
| Provision for contingencies | (9,99,00,000) | - | (9,99,00,000) | - | (6,66,00,000) |
| Provision for e-inventing the Company | (3,50,00,000) | - | (3,50,00,000) | - | - |
| Balance considered for preparing the cash flow statement | 63,96,38,737 | 23,12,63,232 | 63,96,38,737 | 23,12,63,232 | 46,25,70,883 |

These are the Cash Flow Statements referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

Ravi Ramu
Partner

N.R.Narayana Murthy
Chairman and
Chief Executive Officer

Nandan M. Nilekani
Managing Director, President
and Chief Operating Officer

Susim M. Datta
Director

Deepak M. Satwalekar
Director

Ramesh Vangal
Director

Marti G. Subrahmanyam
Director

N.S. Raghavan
Joint Managing Director

S. Gopalakrishnan
Deputy Managing Director

Place: Bangalore
Date: October 8, 1999

K. Dinesh
Director

S.D. Shibulal
Director

T.V.Mohandas Pai
Sr. Vice-President (F&A)

V.Viswanathan
Company Secretary

Significant accounting policies

1 Basis for preparation of financial statements

The financial statements are prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Principles (GAAP), the accounting standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956, as adopted consistently by the Company. All income and expenditure having a material bearing on the financial statements are recognized on the accrual basis.

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

2 Revenue recognition

Revenue from software development on a time-and-material basis is recognized based on software developed and billed to clients as per the terms of specific contracts. In the case of fixed-price contracts, revenue is recognized based on the milestones achieved as specified in the contracts, on the percentage of completion basis. Revenue from the sale of software products is recognized when the sale has been completed with the passing of title. Revenue from Annual Technical Services (ATS) is recognized on a pro rata basis over the period in which such services are rendered. Interest on deployment of surplus funds is recognized using the time-proportion method, based on interest rates implicit in the transaction. Dividend income is recognized when the right to receive dividend is established. Revenue from the sale of Special Import Licences is recognized when the licences are actually sold.

3 Expenditure

Expenses are accounted on the accrual basis and provisions are made for all known losses and liabilities. Provisions are made for future unforeseeable factors which may affect the ultimate profit on fixed-price software development contracts. The cost of software purchased for use in software development and services is charged to revenue in the same year. The leave encashment liability of the Company is provided on the basis of actuarial valuation. Provisions are made towards likely expenses on providing post-sales client support for fixed-price contracts.

4 Fixed assets

Fixed assets are stated at the cost of acquisition, less accumulated depreciation. Direct costs are capitalized till the assets are ready to be put to use. These costs include financing costs relating to specific borrowing(s) attributable to fixed assets.

5 Capital work-in-progress

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

6 Depreciation

Depreciation on fixed assets is provided using the straight-line method, based on useful lives as estimated by the management. Depreciation is charged on a pro rata basis for assets purchased / sold during the period. Individual assets costing less than Rs. 5,000 are depreciated in full in the year of purchase. The management's estimate of useful lives for the various fixed assets is given below.

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

7 Retirement benefits to employees

7.1 Gratuity

In accordance with the Indian law, Company provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement, death or termination of employment, based on the respective employee's salary, and the years of employment with the Company.

The Company has established the Infosys Technologies Limited Employees' Group Gratuity Fund Trust (the Trust). Liabilities with regard to the gratuity plan are determined by actuarial valuation, based upon which, the Company makes contributions to the Trust. Trustees administer the contributions made to the Trust. The funds contributed to the Trust are invested in specific designated securities as mandated by law, and generally comprise central and state government bonds, and debt instruments of government-owned corporations.

7.2 Superannuation

Apart from being covered under the gratuity plan described above, the senior officers of the Company are also participants of a defined contribution benefit plan. The plan is termed the superannuation plan to which the Company makes monthly contributions, based on a specified percentage of each covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions.

7.3 Provident fund

In addition to the above benefits, all employees receive benefits from a provident fund which is a defined contribution plan. Both the employee and the employer make monthly contributions to the plan equal to 12% of the covered employee's salary.

The Company has established a Provident Fund Trust to which a part of the contributions are made each month. The remainder of the contributions are made to the Government's provident fund. The Company has no further obligations under the plan beyond its monthly contributions.

8 Research and development

Capital and revenue expenditure incurred on research and development is charged off to revenue in the same year in which such expenditure is incurred.

9 Foreign currency transactions

Sales made to clients outside India and realizations deposited into foreign currency bank accounts are accounted for on the basis of the exchange rate as on the date of the transaction. Adjustments are made for any variations in the sale proceeds on conversion into Indian currency upon actual receipt. Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Disbursements made out of foreign currency bank accounts are reported at a rate that approximates the actual monthly rate. Fixed assets purchased at overseas offices are accounted for on the basis of the actual cost incurred at the exchange rate prevalent at the time of purchase. Depreciation is charged as per Company policy. Exchange differences arising on foreign currency transactions are recognized as income or expense in the period in which they arise.

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

10 Investments

Investments are classified into current investments and long-term investments. Current investments are carried at the lower of the cost and the fair value, and provision is made to recognize any decline in the carrying value. Long-term investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment. Overseas investments are carried at their original rupee cost less provision as described above.

11 Investment in subsidiary

The investment in the subsidiary is accounted on the cost method, whereby, the Company recognizes only dividends received from the subsidiary as income. In case of losses made by the subsidiary, other than temporary, adequate provision is made to recognize any decline in the value of the investment.

12 Income tax

Provision is made for income tax on a yearly basis, under the tax-payable method, based on the tax liability as computed after taking credit for allowances and exemptions. In case of matters under appeal, due to disallowances or otherwise, full provision is made when the said liabilities are accepted by the Company.

Notes on accounts

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

1. Contingent liabilities

- a. The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advance) is Rs 61,66,53,437 as at September 30, 1999. The amount of such contracts as at September 30, 1998 was Rs. 18,18,16,277.
- b. The company has outstanding counter guarantees of Rs. 1,58,84,263 as at September 30, 1999, to various banks, in respect of guarantees given by the said banks in favour of various government authorities. The counter guarantees outstanding, as at September 30, 1998 was Rs. 2,91,13,719.
- c. Claims against the company, not acknowledged as debts, amounted to Rs. 17,91,814 as at September 30, 1999. Such claims as at September 30, 1998 was Rs. Nil.

d. The Company has issued letters of credit outstanding to various vendors amounting to Rs. Nil as at September 30, 1999. The corresponding figure as at September 30, 1998 was Rs. 38,17,000.

2. Quantitative details

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

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

| | Three months ended | | Six months ended | |
|---|--------------------|----------|------------------|-----------|
| | September 30, | | September 30, | |
| | 1999 | 1998 | 1999 | 1998 |
| Salary | 9,73,800 | 9,73,800 | 19,47,600 | 19,47,600 |
| Contribution to provident and other funds | 3,09,780 | 3,09,780 | 6,19,560 | 6,19,560 |
| Perquisites | 6,32,970 | 8,66,783 | 15,78,369 | 17,35,505 |

4. Managerial remuneration paid to non-whole-time directors

| | Three months ended | | Six months ended | |
|---------------------------|--------------------|----------|------------------|----------|
| | September 30, | | September 30, | |
| | 1999 | 1998 | 1999 | 1998 |
| Sitting fees | 4,000 | 8,000 | 44,000 | 30,000 |
| Reimbursement of expenses | 2,25,891 | 2,66,850 | 4,56,605 | 4,11,701 |

5. Imports on CIF basis

| | Three months ended | | Six months ended | |
|-------------------|--------------------|-------------|------------------|--------------|
| | September 30, | | September 30, | |
| | 1999 | 1998 | 1999 | 1998 |
| Capital goods | 7,75,09,947 | 9,97,13,370 | 15,38,94,938 | 12,01,66,669 |
| Software packages | 1,67,09,821 | 1,82,49,612 | 2,08,06,798 | 2,62,35,025 |

6. Expenditure in foreign currency

| | Three months ended | | Six months ended | |
|--|--------------------|--------------|------------------|--------------|
| | September 30, | | September 30, | |
| | 1999 | 1998 | 1999 | 1998 |
| Travel expenses | 14,18,36,600 | 14,81,73,047 | 31,35,70,860 | 23,16,94,796 |
| Professional charges | 58,93,140 | 34,77,006 | 1,20,76,246 | 1,01,60,920 |
| Other expenditure incurred overseas for software development | 58,00,33,181 | 23,26,90,925 | 92,16,15,097 | 49,91,43,886 |

7. Earnings in foreign exchange

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | September 30, | | September 30, | |
| | 1999 | 1998 | 1999 | 1998 |
| Income from software development charges and products on a receipt basis | 182,51,55,780 | 110,84,46,434 | 348,81,42,974 | 195,13,76,128 |
| Interest received on deposits with banks | 4,31,26,392 | 35,08,437 | 8,55,70,358 | 1,05,57,901 |

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

During the quarter, the Company charged depreciation at one hundred percent in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 1,50,93,874 and Rs. 2,27,08,905 for the three months period ended September 30, 1999 and six months period ended September 30, 1999 respectively. The corresponding figure for the previous period amounted to Rs. 4,40,64,957 and Rs. 5,24,82,496 respectively.

9. Depreciation

With effect from October 1, 1998, the Company revised the estimates of useful lives of buildings (software centers and others) from 28 years / 58 years to 15 years. Due to this change, depreciation for the three months period ended September 30, 1999 and six months period ended September 30, 1999 is higher by Rs. 52,23,571 and Rs. 1,08,76,561. As a result, the profit for the three months period ended September 30, 1999 and six months period ended September 30, 1999 is lower by Rs. 52,23,571 and Rs. 1,08,76,561 on a comparative basis.

10. Exchange differences

The Company has earned net realized and unrealized exchange gains of Rs. 6.89 crore and Rs. 8.39 crore for the three months period ended September 30, 1999 and September 30, 1998 respectively and Rs.18.64 crore and Rs. 13.50 crore for the six months period ended September 30, 1999 and September 30, 1998 respectively. This includes Rs. 1.65 crore (previous period Rs. nil) and Rs. 9.78 crore (previous period Rs. nil) for the three months and six months period ended September 30, 1999 respectively arising from exchange differences on translation of foreign currency deposits with State Bank of India, Nassau, OBU, New York, disclosed separately under "Other income" in the financial statements. The balance of Rs. 5.24 crore and Rs. 8.39 crore, for the three months period ended September 30, 1999 and September 30, 1998 and Rs. 8.86 crore and Rs. 13.50 crore for the six months period ended September 30, 1999 and September 30, 1998 respectively, and is included under "Income from software development services and products-overseas".

11. Research and development expenditure

Research and development expenses charged to the Profit and Loss Account on both capital and revenue accounts for the three month period ended September 30, 1999 and six month period ended September 30, 1999 amounted to Rs. 2,26,17,590 and Rs. 3,88,51,990 (previous period – Rs. 1,65,94,875 and Rs. 3,18,95,500). This includes Rs. nil being the depreciation charged at 100% in respect of R & D assets acquired during the period (previous period – Rs. 1,01,625).

12. Investment in subsidiary

During the quarter ended September 30, 1998, the Company made a provision for Rs. 2,53,00,000 on its investment in [Yantra Corporation](#), a subsidiary company. The corresponding figure for the current quarter is nil.

13. Provision for contingencies

The Company had instituted a contingency plan effective October 1, 1998 to meet any possible disruption in client support due to the Year 2000 impact on the technology and communication infrastructure provided to the Company by its vendors. The contingency plan called for the creation of a total provision of Rs. 20.00 crore based on an initial estimate. This provision was required to be made over six quarters starting October 1998. Accordingly, the Company has made a total provision of Rs. 9.99 crore upto the quarter ended June 30, 1999 (including Rs. 3.33 crore for the quarter ended June 30, 1999). The Company has been led to believe that all its telecommunication service providers are Year 2000 ready and therefore does not expect significant disruption of these facilities. During this quarter, the Company made an appraisal and re-estimated the provision required for meeting such contingencies over the next two quarters and is of the opinion that the provision already made is adequate for the purpose and hence no further provision is required.

14. Provision for e-inventing the Company

The shift in the business towards e-commerce related work is very rapid. The Company is committed to creating knowledge infrastructure, acquiring people with technical skills in the e-commerce area, and for e-inventing the Company which may require the Company to incur business restructuring cost. A provision of Rs. 3.50 crore was made during this quarter towards costs (based on the current estimates) related to e-inventing the Company. No such provision was made during the earlier quarters.

15. Unearned revenue

Unearned revenue as of September 30, 1999 of Rs. 27.76 crore consists primarily of client billings on fixed-price, fixed-time-frame contracts for which related costs were not yet incurred.

16. Dues to Small-Scale Industrial undertakings

As of September 30, 1999, the Company had no outstanding dues to small-scale industrial undertakings.

17 Balance of unutilized money raised by issue

During the year ended March 31, 1999, the Company made an Initial Public Offering (IPO) of American Depositary Shares (ADS) amounting to Rs 296.86 crore (equivalent to US\$ 70,380,000). The ADSs are listed on the NASDAQ exchange in the United States (US). The unutilized monies out of the issue, after meeting issue expenses, amounting to Rs 300.49 crore (equivalent to US\$ 68,950,554) is included under "Deposit accounts in foreign currency with Scheduled Banks" in the financial statements.

18 ADS issue expenses

During the half year ended September 30, 1999, the company received additional bills for costs incurred during the ADS issue. The details of such expenses are given under:

in Rs.

| | |
|---------------------------|--------------------|
| Legal and accounting fees | 1,28,26,437 |
| Printing charges | 77,03,653 |
| TOTAL | 2,05,30,090 |

19 Stock options

The Company currently has two stock option plans. These are summarized below.

1998 Stock Offer plan (the 1998 plan)

The Company's 1998 Plan provides for the grant of non-statutory stock options and incentive stock options to employees of the Company. The establishment of 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 the 1998 Plan, subject to a limit of US\$ 50 million on the aggregate value of equity shares reserved under the 1998 Plan. Accordingly, the number of equity shares reserved under the 1998 Plan may be reduced by the Board of Directors from time to time to comply with this limit of US\$ 50 million. A total of 8,00,000 equity shares are currently reserved for issuance pursuant to the 1998 Plan. These options may be issued at an exercise price that is not less than 90% of the fair market value of the underlying equity share on the date of the grant. The 1998 Plan will terminate in January 2008, unless terminated sooner. All options under the 1998 Plan are exercisable for ADSs representing equity shares. A committee of the Board of Directors administers the 1998 Plan. As of September 30, 1999, options to acquire an aggregate of 106,500 equity shares were granted to employees concurrent with the Company's IPO in the US at an exercise price equal to the IPO issue price.

1999 Stock Offer Plan (the 1999 Plan)

In fiscal 2000, the Company instituted the 1999 Plan. The 1999 Plan was approved by the share holders and the Board of Directors in June 1999. The 1999 Plan provides for the issue of 33,00,000 equity shares to employees. The 1999 Plan is administered by a Compensation Committee comprising a maximum of seven members, the majority of whom are independent directors on the Board of Directors. Under the 1999 Plan, options will be issued to employees at an exercise price which shall not be less than the Fair Market Value. Fair Market Value means the closing price of the Company's shares in the stock exchange where there is the highest trading volume on a given date and if the shares are not traded on that day, the closing price on the next trading day. Under the 1999 Plan, options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the Company in a general meeting. As of September 30, 1999, no options have been issued to employees under the 1999 Plan.

20 Employee Stock Option Plan (ESOP)

The Securities and Exchange Board of India (SEBI) recently issued the (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 which is effective for all stock option schemes established 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.

The Companies 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 proforma amounts indicated below.

in Rs.

| | Three months ended September 30, | | Six months ended September 30, | |
|----------------------|-------------------------------------|--------------|-----------------------------------|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| Net profit : | | | | |
| - As reported | 65,70,82,803 | 28,39,68,339 | 126,31,64,641 | 52,06,97,291 |
| - Adjusted pro forma | 60,09,10,486 | 26,43,55,932 | 115,34,29,790 | 48,20,37,140 |

21 Provision for taxation

The Company's profits from export activities are deductible from taxable income. Further, most of the Company's operations are conducted through 100% Export Oriented Units, which are entitled to a tax holiday for a period of ten years from the date of commencement of operations. The provision for taxation includes taxes payable in respect of domestic income and that arising on the Company's overseas operations, primarily in the United States, Europe, Far East and South East Asia.

22 Cash and Bank balance

The Company has a deposit of USD 73,841,730 (Rs. 321,80,22,575) in EEFC account as at September 30, 1999. Bank balances in overseas deposit account includes an net amount of USD 68,950,554 (Rs. 300,48,65,132) received on ADS program and maintained as deposit along with the accrued interest with State Bank of India, Nassau, OBU, New York.

23 Loans and advances

Advances recoverable in cash or kind or for value to be received mainly comprise of prepaid travel and per-diem expenses and advance paid to vendors towards current assets.

Deposits with financial institutions consists of Rs. 25,47,68,334 and Rs. 25,32,64,877 deposited with Housing Development Finance Corporation Limited, and ICICI Limited, respectively. Mr. Deepak M Satwalekar, is the Managing Director in Housing Development Finance Corporation Limited. Mr. N R Narayana Murthy and Prof. Marti G. Subrahmanyam are Directors in ICICI Limited. Except as directors in these financial institutions they have no direct interest in these transactions. Deposit with a body corporate consists of Rs. 25,31,29,726 deposited with GE Capital Services India. All these financial institutions and a body corporate have AAA rating from CRISIL. There is no unpaid interest as on date.

Provision for doubtful loans and advances comprise of provisions made for deposit kept with a Company and for loans and advances given to employees. The Company has filed recovery suit against this company in a court of law and the court has attached the property of this company against the claims of unpaid deposit amount. The adjudication on this issue is pending. However as matter of abundant precaution, a provision has been made.

24 Current liabilities

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

25 Fixed assets

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

26 Set off of unearned revenues

The Company entered into an agreement with a customer for providing software services in an earlier year. The Company collected a portion of amounts receivable from this customer in respect of work performed for the customer under this agreement. The customer subsequently went into liquidation. In fiscal 1999, the company raised invoices in its books of account for the remainder of the contracted value of the services to be performed under the agreement amounting to Rs 3,24,52,521 in order to stake its claim in the liquidation proceedings. The Company subsequently informed the Reserve Bank of India about the claim raised by it on the customer. This amount was treated as "Unearned revenues" in the financial statements for fiscal 1999. The Company has set off the amount receivable from the customer against the amount earlier treated as "Unearned revenue", in the previous quarter. The Company is actively pursuing liquidation proceedings to recover this amount.

At a glance - US GAAP

US\$ in millions, except per equity share data

| | Quarter ended | | Half-year ended | | Year ended |
|---|-----------------------|-----------------------|-----------------------|-----------------------|----------------|
| | September 30, 1999 | September 30, 1998 | September 30, 1999 | September 30, 1998 | March 31, 1999 |
| For the period | | | | | |
| Total revenue | 47.94 | 28.24 | 87.67 | 51.90 | 120.96 |
| Operating income | 14.62 | 8.18 | 26.92 | 14.23 | 22.87 |
| Net income | 14.72 | 6.16 | 28.03 | 10.94 | 17.45 |
| Operating income as a percentage of total revenue | 30.49% | 28.96% | 30.71% | 27.41% | 18.91% |
| Net income as a percentage of total revenue | 30.70% | 21.81% | 31.97% | 21.07% | 14.42% |
| Basic earnings per share | 0.45 | 0.20 | 0.85 | 0.36 | 0.57 |
| Capital investment | 8.72 | 5.48 | 12.97 | 6.99 | 16.12 |
| At the end of the period | | | | | |
| Total assets | | | 181.22 | 65.12 | 153.66 |
| Property, plant and equipment - net | | | 32.22 | 20.66 | 23.90 |
| Cash and equivalents | | | 104.13 | 21.54 | 98.87 |
| Working capital | | | 123.27 | 33.76 | 110.62 |
| Total debt | | | - | - | - |
| Shareholders' equity | | | 162.25 | 49.17 | 139.61 |
| Common stock | | | 8.59 | 4.55 | 8.59 |
| Market capitalization | | | 9,457.85 | 962.73 | 2,852.24 |

Note: Market capitalization is calculated by considering the NASDAQ market price for shares outstanding at the period/year end except as of Sep 30, 1998 where the same has been calculated by considering the Indian market price.

[BAR CHARTS APPEARS HERE]

Shareholder information

1. Listing on stock exchanges in India at [Bangalore Stock Exchange Ltd.](#)
Stock Exchange Towers, No. 51, 1st Cross, J.C. Road, Bangalore - 560027.
Tel.: 91-80-299 5234, Fax: 91-80-299 5242
[The Stock Exchange, Mumbai](#)
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001.
Tel.: 91-22-265 5581, Fax: 91-22-265 8121
[National Stock Exchange of India Ltd.](#)
Trade World, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013.
Tel.: 91-22-497 2950, Fax: 91-22-491 4275/85
2. Listing fees Paid for all the above stock exchanges for 1999-2000.
3. Listing on stock exchanges outside India [NASDAQ National Market in the United States](#)
33 Whitehall Street, New York, NY-1004-4087
Tel.: 1-212-709-2400, Fax: 1-212-709-2496
4. Registered office Electronics City, Hosur Road, Bangalore - 561 229, India.
Tel.: 91-80-852 0261, Fax: 91-80-852 0362
Homepage: www.itlinfosys.com
5. Stock market data relating to shares listed in India
 - a. The company's market capitalization is included in the computation of the BSE-30 Sensitive Index (Sensex), the BSE Dollex and S&P CNX NIFTY Index.
 - b. Monthly high and low quotations as well as the volume of shares traded at Mumbai, National and Bangalore Stock Exchanges during the three-month period ended September 30, 1999 are:

| | BSE | | | NSE | | | BgSE | | |
|--------------|-------------|------------|------------------|-------------|------------|------------------|-------------|------------|----------------|
| | High Rs. | Low Rs. | Volume Nos. | High Rs. | Low Rs. | Volume Nos. | High Rs. | Low Rs. | Volume Nos. |
| July, 1999 | 5,960 | 3,622 | 27,22,986 | 5,515 | 3,641 | 24,76,873 | * | * | * |
| August | 5,715 | 4,820 | 17,65,916 | 5,740 | 4,780 | 16,50,790 | 5,775 | 4,800 | 570 |
| September | 7,955 | 5,400 | 15,64,028 | 7,960 | 5,406 | 15,77,086 | 7,500 | 5,600 | 147 |
| Total | | | 60,52,930 | | | 57,04,749 | | | 717 |

% of volume traded to total number of shares outstanding

| | | |
|---------|---------|--------|
| 18.90%# | 17.81%# | 0.01%# |
|---------|---------|--------|

The number of shares outstanding has been taken to be 3,20,34,400. The American Depository Shares (ADSs) have been excluded for the purpose of this calculation.

* There was no trading in the shares of Infosys on the Bangalore Stock Exchange during July 1999.

6. Share transfers in physical form and other communication regarding share certificates, dividends, and change of address, etc., in India may be addressed to
 Karvy Consultants Limited
 Registrars and Share Transfer Agents
 T.K.N. Complex, No. 51/2, Vanivilas Road,
 Opp. National College, Basavanagudi,
 Bangalore - 560 004.
 Tel.: 91-80-662 1184, Fax: 91-80-662 1169
 Email: KARVY.BGL@KARVY.sprintprg.ems.vsnl.net.in

7. Share transfer system

The Securities and Exchange Board of India (SEBI) has mandated that investors should compulsorily trade in dematerialized form in the securities of Infosys from January 4, 1999. Investors are required to open an account with a Depository Participant to trade in dematerialized form. A list of Depository Participants is available with the National Securities Depository Limited (NSDL). A booklet entitled "An Investor's Guide to Depositories" is available at www.itlinfosys.com.

Shares sent for physical transfer are generally registered and returned within a period of 15 days from the date of receipt, if the documents are clear in all respects. The Share Transfer Committee of the company meets as often as required.

The total number of shares transferred in physical form during the quarter ended September 30, 1999 was 2,87,568 (previous year – 2,23,727). 99.79% of transfers (previous year – 73.54%) were completed within 15 days. Shares in dematerialized form were transferred within 10 days, on the average.

| Transfer period in days | 1999 | | | | 1998 | | | |
|-------------------------|-----------------------------|----------|---------------|--------|-----------------------------|----------|---------------|--------|
| | No. of transferees (folios) | | No. of shares | % | No. of transferees (folios) | | No. of shares | % |
| | New | Existing | | | New | Existing | | |
| 1-10 | 25 | 12 | 2,86,168 | 99.51 | 52 | 42 | 1,20,115 | 53.69 |
| 11-15 | 6 | 0 | 800 | 0.28 | 26 | 18 | 44,410 | 19.85 |
| 16 - 20 | 2 | 0 | 200 | 0.07 | 36 | 29 | 38,302 | 17.12 |
| *21 and above | 1 | 2 | 400 | 0.14 | 19 | 11 | 20,900 | 9.34 |
| | 34 | 14 | 2,87,568 | 100.00 | 133 | 100 | 2,23,727 | 100.00 |

* Delays beyond 21 days were due to compliance of legal requirements.

8. Investors' services - Complaints received during the three-month period ended September 30

| Nature of complaints | 1999 | | 1998 | |
|---|----------|---------|----------|---------|
| | Received | Cleared | Received | Cleared |
| 1. Non-receipt of share certificates | 0 | 0 | 24 | 24 |
| 2. Non-receipt of bonus shares | 22 | 22 | 3 | 3 |
| 3. Letters from Stock Exchanges, SEBI, etc. | 0 | 0 | 0 | 0 |
| 4. Non-receipt of dividend warrants | 16 | 16 | 10 | 10 |
| | 38 | 38 | 37 | 37 |

The Company has attended to most of the investors' grievances / correspondence within a period of 10 days from the date of receipt of the same, during the quarter ended September 30, 1999.

9. Legal proceedings

There are some pending cases relating to disputes over title to shares, in which the company was made a party. These cases are however not material in nature.

10. Distribution of shareholding as on September 30

| No. of equity shares held | 1999 | | | | 1998 | | | |
|----------------------------|----------------------|--------------------|---------------|--------------------|----------------------|--------------------|---------------|--------------------|
| | No. of share-holders | % of share-holders | No. of shares | % of share-holding | No. of share-holders | % of share-holders | No. of shares | % of share-holding |
| 1 - 100 | 6,864 | 44.92 | 2,10,821 | 0.66 | 1,192 | 19.16 | 1,13,762 | 0.71 |
| 101 - 200 | 2,060 | 13.48 | 3,96,053 | 1.24 | 1,638 | 26.34 | 3,49,768 | 2.18 |
| 201 - 500 | 2,626 | 17.18 | 9,85,410 | 3.08 | 1,968 | 31.65 | 8,63,223 | 5.38 |
| 501 - 1000 | 2,051 | 13.42 | 15,51,110 | 4.84 | 687 | 11.04 | 8,48,537 | 5.29 |
| 1001 - 5000 | 1,297 | 8.49 | 26,26,305 | 8.20 | 455 | 7.32 | 5,58,495 | 3.48 |
| 5001 - 10000 | 153 | 1.00 | 11,00,813 | 3.44 | 79 | 1.27 | 11,87,032 | 7.41 |
| 10001 and above | 231 | 1.51 | 2,48,54,933 | 77.58 | 201 | 3.22 | 1,20,96,383 | 75.55 |
| Shares in transit in NSDL | - | - | 3,08,955 | 0.96 | - | - | - | - |
| | 15,282 | 100.00 | 3,20,34,400 | 100.00 | 6,215 | 100.00 | 1,60,17,200 | 100.00 |
| American Depositary Shares | 1* | | 10,35,000 | | - | | - | |
| Total | 15,283 | | 3,30,69,400 | | 6,215 | | 1,60,17,200 | |

* Held by beneficial owners outside India.

11. Categories of shareholders as on September 30

| Category | 1999 | | | 1998 | | |
|-----------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|--------------------|
| | No. of shareholders | Voting strength (%) | No. of shares held | No. of shareholders | Voting strength (%) | No. of shares held |
| Individuals | 14,272 | 25.18 | 83,27,240 | 5,833 | 28.08 | 44,97,043 |
| Companies | 646 | 1.37 | 4,54,021 | 179 | 2.44 | 3,91,157 |
| FIIs | 154 | 25.58 | 84,59,343 | 102 | 24.67 | 39,52,550 |
| OCBs and NRIs | 88 | 0.74 | 2,44,908 | 26 | 0.25 | 39,700 |
| Founders and their families | 18 | 29.58 | 97,82,100 | 18 | 30.77 | 49,27,800 |
| Mutual Funds, Banks, FIs | 104 | 13.48 | 44,57,833 | 57 | 13.79 | 22,08,950 |
| Shares in transit in NSDL | - | 0.94 | 3,08,955 | - | - | - |
| American Depository Shares | 1* | 3.13 | 10,35,000 | - | - | - |
| Total | 15,283 | 100.00 | 3,30,69,400 | 6,215 | 100.00 | 1,60,17,200 |

* Held by beneficial owners outside India.

12. Shares under lock-in

Details of shares held by employees under the Employee Stock Offer Plan (ESOP) subject to lock-in are given below. These shares are also included in the categories of shareholders given in (11) above.

| Period of lock-in | Number of shares subject to lock-in as on September 30 | | | |
|-------------------|--|------------------|---------------|------------------|
| | 1999 | | 1998 | |
| | No. of shares | No. of employees | No. of shares | No. of employees |
| 4-5 years | 3,95,200 | 1,052 | - | - |
| 3-4 years | 2,52,400 | 342 | 1,08,100 | 161 |
| 2-3 years | 1,03,200 | 152 | 1,33,200 | 110 |
| 1-2 years | 1,30,600 | 106 | 1,11,900 | 77 |
| 0-1 years | 1,07,100 | 75 | - | - |

As on September 30, 1999, 588 employees hold rights to 1,73,900 shares which are subject to a lock-in of 4-5 years. Currently, 1,667 employees are beneficiaries of the ESOP. The ITL Employees Welfare Trust holds, as on September 30, 1999, 70,600 shares for future grants. Shares subject to lock-in held by the employees will be transferred back to the ITL Employees Welfare Trust when such employees leave the services of the company.

13. Dematerialization of shares and liquidity

Your company was the first in India to pay a one-time custodial fee of Rs. 44.43 lakh to National Securities Depository Limited (NSDL). Consequently, the company's shareholders do not have to pay depository participants the custodial fee charged by the NSDL, on their holding. This payment of a one-time custodial fee extends to the issue of bonus shares too. The company hopes that this initiative will enthruse shareholders to dematerialize their holding in the company. Over 87% of the company's shares are now held in electronic form.

A detailed letter explaining the methodology of using a Depository as well as a booklet entitled "An Investor's Guide to Depositories" was sent to all shareholders in November 1998. Copies of this booklet are available to shareholders on request.

14. Financial calendar (tentative and subject to change)

| | |
|--|------------------|
| Interim dividend payment (if any) | November 1999 |
| Financial reporting for the third quarter ending December 31, 1999 | January 11, 2000 |
| Financial results for the year ending March 31, 2000 | April 11, 2000 |
| Annual General Meeting for the year ending March 31, 2000 | May 2000 |

15. Investors' correspondence in India may be addressed to:

Mr. V. Viswanathan,
Company Secretary, Investors' Service Cell,
Infosys Technologies Ltd., Electronics City,
Hosur Road, Bangalore - 561 229, India.
Tel.: 91-80-852 1518, Fax: 91-80-852 0362
(e-mail address: invest@itlinfosys.com)

Any queries relating to the financial statements of the company may be addressed to:

Mr. T. V. Mohandas Pai,
Senior Vice President (F&A),
Infosys Technologies Ltd., Electronics City, Hosur Road,
Bangalore - 561 229, India.
Tel.: 91-80-852 0396, Fax: 91-80-852 0362
(e-mail address: mdpai@itlinfosys.com)

Segment information

Rs. in lakhs

| | Quarter ended | | Half-year ended | | Year ended |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------|
| | September 30, 1999 | September 30, 1998 | September 30, 1999 | September 30, 1998 | March 31, 1999 |
| Geographical segment | | | | | |
| North America | 16,718.10 | 9,643.25 | 31,082.53 | 17,887.91 | 41,739.11 |
| Europe | 3,084.40 | 1,418.43 | 5,876.59 | 2,225.72 | 4,753.03 |
| Rest of the World | 1,109.73 | 748.16 | 1,998.19 | 1,334.09 | 3,533.26 |
| India | 875.82 | 233.76 | 1,236.95 | 438.44 | 1,248.43 |
| | 21,788.05 | 12,043.60 | 40,194.26 | 21,886.16 | 51,273.83 |
| Business segment | | | | | |
| Branded services | 2,096.91 | 3,376.24 | 4,243.18 | 6,173.97 | 11,321.57 |
| Products | 875.41 | 367.56 | 1,132.33 | 507.94 | 1,444.89 |
| Software development and maintenance | 17,857.55 | 8,256.09 | 32,481.44 | 15,070.28 | 38,122.66 |
| Treasury | 958.18 | 43.71 | 2,337.31 | 133.97 | 384.71 |
| | 21,788.05 | 12,043.60 | 40,194.26 | 21,886.16 | 51,273.83 |

* Exchange differences arising on translation of foreign currency deposits kept abroad have been included under Treasury.

By geographical area - quarter ended September 30, 1999 By business segment - quarter ended September 30, 1999

Data for charts for the quarter ended Sep 30, 1999

Geographical segment

| | |
|-------------------|-------|
| North America | 76.7% |
| Europe | 14.2% |
| Rest of the World | 5.1% |
| India | 4.0% |

Business segment

| | |
|--------------------------------------|-------|
| Branded services | 9.6% |
| Products | 4.0% |
| Software development and maintenance | 82.0% |
| Treasury | 4.4% |

[CHART APPEARS HERE]

Ratio analysis

| | Quarter ended | | Half-year ended | | Year ended |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| | September 30, 1999 | September 30, 1998 | September 30, 1999 | September 30, 1998 | March 31, 1999 |
| Ratios - Financial performance | | | | | |
| Export revenue/Total revenue (%) | 94.84 | 98.06 | 95.29 | 98.00 | 97.57 |
| Domestic revenue/Total revenue (%) | 1.49 | 1.58 | 1.24 | 1.39 | 1.68 |
| Other income/Total revenue (%) | 3.67 | 0.36 | 3.47 | 0.61 | 0.75 |
| Employee costs/Total revenue (%) | 36.42 | 32.01 | 35.83 | 34.43 | 32.39 |
| Administration expenses/Total revenue (%) | 7.11 | 8.24 | 7.39 | 9.10 | 8.92 |
| Operating expenses/Total revenue (%) | 61.02 | 65.08 | 60.71 | 66.34 | 62.60 |
| Depreciation/Total revenue (%) | 4.96 | 6.15 | 5.11 | 5.64 | 7.00 |
| Tax/Total revenue (%) | 4.39 | 5.19 | 4.46 | 4.23 | 4.47 |
| Effective tax rate (Tax/PBT) (%) | 12.91 | 18.04 | 13.06 | 15.08 | 14.72 |
| EBIDTA/Total revenue (%) | 38.98 | 34.92 | 39.29 | 33.66 | 37.40 |
| PAT from ordinary activities/Total revenue (%) | 29.63 | 23.58 | 29.72 | 23.79 | 25.92 |
| PAT from ordinary activities/Average net worth (%)* | 35.61 | 47.92 | 34.05 | 46.74 | 54.16 |
| ROCE (PBIT/Average capital employed) (%)* | 40.90 | 58.47 | 39.17 | 55.04 | 63.51 |
| Return on invested capital (%)* | 118.38 | 75.28 | 113.83 | 73.56 | 86.30 |
| Invested capital output ratio* | 4.28 | 3.22 | 4.11 | 3.14 | 3.39 |
| Ratios - Balance Sheet | | | | | |
| Debt-Equity ratio | | | - | - | - |
| Debtors turnover (Days) | | | 64 | 50 | 61 |
| Current ratio | | | 5.24 | 4.48 | 6.57 |
| Cash and equivalents/Total assets (%) | | | 65.49 | 28.84 | 72.51 |
| Cash and equivalents/Total assets (%) (excluding ADR issue proceeds) | | | 42.98 | 28.84 | 46.50 |
| Depreciation for the period/Average gross block (%) | | | 21.66 | 20.70 | 26.19 |
| Technology investment/Total revenue (%) | | | 6.65 | 10.62 | 8.55 |
| Ratios - Growth** | | | | | |
| Export revenue (%) | 74 | 100 | 74 | 108 | 99 |
| Total revenue (%) | 80 | 95 | 79 | 103 | 97 |
| Operating expenses (%) | 68 | 93 | 64 | 100 | 87 |
| Operating profit (%) | 100 | 97 | 109 | 110 | 116 |
| Net profit (from ordinary activities) (%) | 126 | 106 | 124 | 126 | 120 |
| Per share data | | | | | |
| Earnings per share from ordinary activities (Rs.) | 19.37 | 8.59 | 35.24 | 15.75 | 40.19 |
| Cash earnings per share from ordinary activities (Rs.) | 22.61 | 10.83 | 41.30 | 19.48 | 51.05 |
| Book value (Rs.), period end | 205.00 | 66.72 | 205.00 | 66.72 | 174.00 |
| Price/Earning, end of the period | 92.05 | 74.23 | 101.21 | 80.98 | 72.77 |

* Annualized

** Denotes growth compared with figures of the corresponding period in the previous year.

Note: The ratio calculations are based on Indian GAAP.

All ratios are calculated excluding income from exchange differences on translation of foreign currency deposit kept abroad.

EPS figures have been calculated for the period and has not been annualized.

Invested capital ratios has been calculated by adjusting the average liquid assets against the average net worth and adjusting the revenue earned from liquid assets after taxes against net profits.

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Bankers

State Bank of Mysore
Hongkong and Shanghai Banking Corporation Ltd.
State Bank of India
ICICI Banking Corporation Limited
Bank of America

Company Secretary

V. Viswanathan

Auditors

Bharat S Raut and Company
Chartered Accountant

Independent auditors - US GAAP

KPMG Peat Marwick