

INFOSYS TECHNOLOGIES LIMITED

Report for the second quarter ended September 30, 2002

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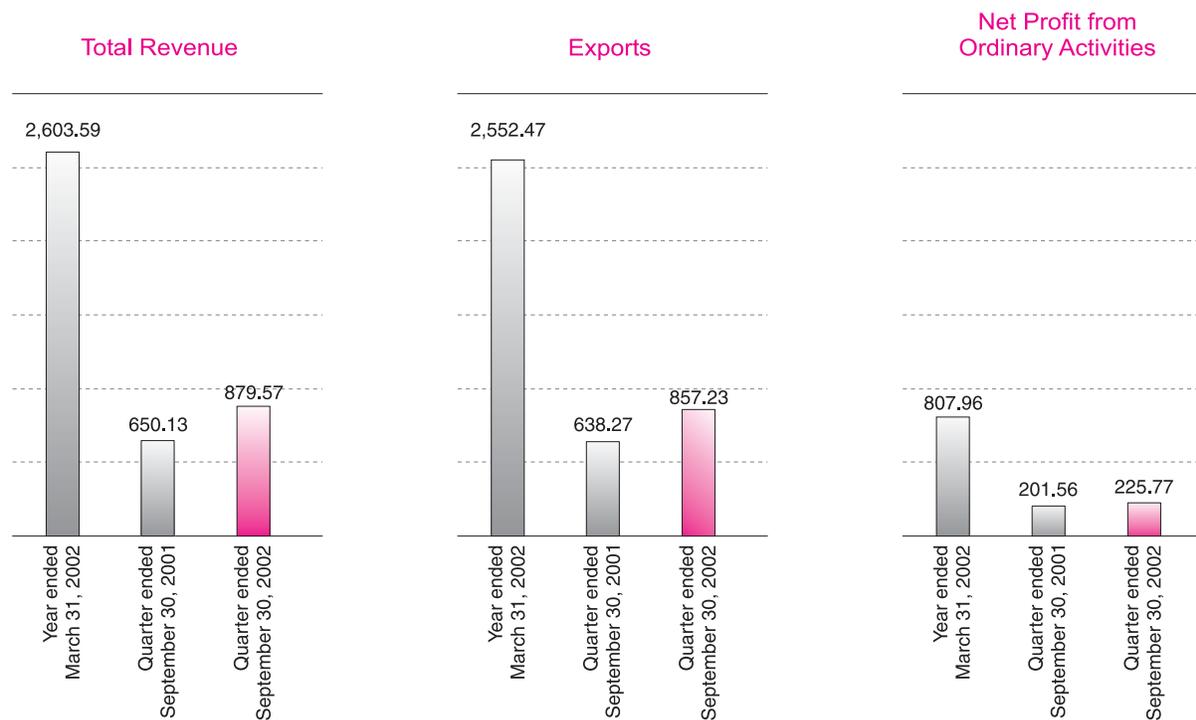
At a glance – Indian GAAP (Non-consolidated financials)

Rs. in crore, except per share data

	Quarter ended September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
For the period					
Total revenue	879.57	650.13	1,644.19	1,262.65	2,603.59
Export revenue	857.23	638.27	1,607.75	1,234.57	2,552.47
Operating profit (PBIDTA)	323.24	258.91	598.17	499.43	1,037.63
PBIDTA/revenues (%)	36.75 %	39.82 %	36.38 %	39.55 %	39.85 %
Profit after tax (PAT)	225.77	201.56	442.62	391.59	807.96
PAT/revenues (%)	25.67 %	31.00 %	26.92 %	31.01 %	31.03 %
Earnings per share*(par value of Rs. 5 each, fully paid)					
Basic	34.10	30.47	66.87	59.19	122.12
Diluted	33.90	30.39	66.41	59.05	121.37
Dividend per share	NA	NA	12.50	7.50	20.00
Dividend amount	NA	NA	82.76	49.63	132.36
Capital expenditure	44.02	129.75	97.80	231.49	322.74
At the end of the period					
Total assets			2,443.32	1,742.48	2,080.31
Fixed assets – net			753.53	713.65	718.24
Cash and cash equivalents			1,289.34	714.85	1,026.96
Working capital			1,623.01	965.75	1,293.41
Total debt			–	–	–
Net worth			2,443.32	1,742.48	2,080.31
Equity			33.10	33.08	33.09
Market capitalization			22,552.46	15,878.57	24,654.33

Note: Market capitalization is calculated by considering the share price at National stock exchange on the shares outstanding at the period/ year end.

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



Letter to the shareholder

Dear shareholder,

We are delighted to report another quarter of robust revenue growth. Our Indian GAAP revenues grew by 15.03% over Q1 FY2003 while net profits from ordinary activities witnessed an increase of 4.11%. Our cash flows during the quarter amounted to Rs. 200.11 crore. Your company has declared an interim dividend of Rs. 12.50 per share (250% on an equity share of par value of Rs. 5 each). Our employee addition during this quarter has been the highest – gross addition of 2,065 for the quarter, including 328 lateral hires; net employee addition for the quarter stood at 1,806.

The economic environment continues to be very challenging. At the same time, there is an increased acceptance of the offshore outsourcing model. Customers are demanding more ROI and reduced risk. In this environment, our superior delivery capabilities and financial strength have accelerated revenue growth beyond our initial projections. In fact, we have increased our guidance for revenue and EPS for this fiscal.

Our US GAAP revenues grew by 16.1% for the quarter as compared to the quarter ended June 30, 2002. Revenue growth comprised of a volume growth of 11.7% and a price growth of 4.4%, over the previous quarter.

Our utilization rates improved during the quarter and we were able to maintain gross margins despite having an increased share of revenues from onsite work. We enhanced our investments in sales and marketing and we are aggressively pursuing our goal to be an integrated, end-to-end technology solutions provider.

We added 18 new clients during the quarter. Significant wins include marquee names such as Porsche AG, the world leader in designing and manufacturing of sports cars, Commonwealth Industries, an aluminum manufacturer in the US, Arrow Electronics in the US, one of the world's largest distributors of electronic components and computer products, Cerebrus Solutions, provider of fraud management solutions for wireless operators, Vcommerce Corporation, a leading supply chain execution solutions provider in the US and The Security Benefit Group of Companies, one of the five largest asset management institutions in Switzerland.

Our business consulting services continue to help companies obtain benefits through enterprise-wide initiatives. We defined steps to improve operations and to support expansion plans of the corporate finance division of one of the top three banks in Australia. We created a divisional Balanced Scorecard for the human resources and customer facing units of the fifth largest ocean transportation company in the world.

Our banking business further strengthened its presence during the quarter. In Nigeria, we have formed an alliance with Kakawa Discount, a discount house formed by a consortium of key banks. In addition, First Bank of Nigeria, the largest commercial bank in West Africa, signed up for our banking products. Further, UTI Bank became the first client to sign up for the Infosys Loan Origination system built on FINACLE™ CRM infrastructure.

During the quarter, Phaneesh Murthy resigned from the company's Board of Directors and from his role as Head – Sales & Marketing and Communications and Product Services (CAPS) effective July 23, 2002. We appointed Basab Pradhan as Senior Vice President and Head – Worldwide Sales, taking over part of Phaneesh Murthy's portfolio.

In the sexual harassment litigation that the company is facing, we initiated voluntary settlement discussions with the plaintiff. However, it appears that the settlement may not be possible in the near term and the lawsuit may go to trial. No trial date has been set yet. We will vigorously defend this matter. However, the results of such a lawsuit are difficult to predict. Accordingly, an unfavorable resolution of this lawsuit could adversely impact our results of operations or our financial condition.

During the quarter, we were assessed at Level 5 on the SEI PCMM model, becoming the first company in the world to be assessed at the Optimizing level on the updated version 2.0 of the model. The model helps us increase our ability to attract, develop, motivate, organize and retain the talent needed to continuously improve our software development capabilities.

Overall, it has been an exciting quarter of growth. Infoscions, through their hard work and dedication have helped achieve this. On your behalf, we thank our fellow Infoscions for their continuing efforts to delight our customers.

Bangalore
October 10, 2002


S. Gopalakrishnan
Chief Operating Officer
and Deputy Managing Director


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

Auditors' report

We have audited the attached Balance Sheet of Infosys Technologies Limited (the Company) as at September 30, 2002, the Profit and Loss Accounts and Cash Flow Statements of the Company for the quarter and half-year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report as follows:

- (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (b) in our opinion, proper books of account have been kept by the Company so far as appears from our examination of those books;
- (c) the Balance Sheet and the Profit and Loss Accounts dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the Balance Sheet, the Profit and Loss Accounts and the Cash Flow Statements comply with the Accounting Standards issued by the Institute of Chartered Accountants of India, to the extent applicable; and
- (e) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at September 30, 2002;
 - (ii) in the case of the Profit and Loss Accounts, of the profit of the Company for the quarter and half year ended on that date; and
 - (iii) in the case of the Cash Flow Statements, of the cash flows of the Company for the quarter and half year ended on that date.

for Bharat S Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner

Bangalore
October 10, 2002

Balance sheet as at

	September 30,		in Rs. crore
	2002	2001	March 31, 2002
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	33.10	33.08	33.09
Reserves and surplus	2,410.22	1,709.40	2,047.22
	2,443.32	1,742.48	2,080.31
APPLICATION OF FUNDS			
FIXED ASSETS			
Original cost	1,137.72	788.09	960.60
Less: Depreciation and amortization	476.54	310.63	393.03
Net book value	661.18	477.46	567.57
Add: Capital work-in-progress	92.35	236.19	150.67
	753.53	713.65	718.24
INVESTMENTS	33.20	44.44	44.44
DEFERRED TAX ASSETS	33.58	18.64	24.22
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	458.25	343.60	336.73
Cash and bank balances	986.85	427.69	772.22
Loans and advances	870.16	623.26	643.87
	2,315.26	1,394.55	1,752.82
Less: Current liabilities	262.36	179.75	126.11
Provisions	429.89	249.05	333.30
NET CURRENT ASSETS	1,623.01	965.75	1,293.41
	2,443.32	1,742.48	2,080.31

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

S. Balasubrahmanyam <i>Partner</i>	N. R. Narayana Murthy <i>Chairman and Chief Mentor</i>	Nandan M. Nilekani <i>Chief Executive Officer, President and Managing Director</i>	S. Gopalakrishnan <i>Chief Operating Officer and Deputy Managing Director</i>	Deepak M. Satwalekar <i>Director</i>
	Marti G. Subrahmanyam <i>Director</i>	Jitendra Vir Singh <i>Director</i>	Omkar Goswami <i>Director</i>	Larry Pressler <i>Director</i>
	Claude Smadja <i>Director</i>	Rama Bijapurkar <i>Director</i>	K. Dinesh <i>Director</i>	S. D. Shibulal <i>Director</i>
Bangalore October 10, 2002	T. V. Mohandas Pai <i>Director and Chief Financial Officer</i>	Srinath Batni <i>Director</i>	V. Balakrishnan <i>Company Secretary and Vice President – Finance</i>	

Profit and loss account for the

in Rs. crore except per share data

	Quarter ended September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
INCOME					
Software services and products					
Overseas	857.23	638.27	1,607.75	1,234.57	2,552.47
Domestic	22.34	11.86	36.44	28.08	51.12
	879.57	650.13	1,644.19	1,262.65	2,603.59
SOFTWARE DEVELOPMENT EXPENSES	424.49	306.95	801.88	592.51	1,224.82
GROSS PROFIT	455.08	343.18	842.31	670.14	1,378.77
SELLING AND MARKETING EXPENSES	69.33	33.46	124.42	61.11	129.79
GENERAL AND ADMINISTRATION EXPENSES	62.51	50.81	119.72	109.60	211.35
	131.84	84.27	244.14	170.71	341.14
OPERATING PROFIT (PBIDTA)	323.24	258.91	598.17	499.43	1,037.63
Interest	–	–	–	–	–
Depreciation & amortization	46.24	39.01	86.71	74.49	160.65
OPERATING PROFIT AFTER INTEREST, DEPRECIATION AND AMORTIZATION	277.00	219.90	511.46	424.94	876.98
Other income	17.53	14.66	42.42	28.15	66.41
Provision for investments	23.76	–	23.76	–	–
PROFIT BEFORE TAX	270.77	234.56	530.12	453.09	943.39
Provision for taxation	45.00	33.00	87.50	61.50	135.43
NET PROFIT AFTER TAX	225.77	201.56	442.62	391.59	807.96
AMOUNT AVAILABLE FOR APPROPRIATION	225.77	201.56	442.62	391.59	807.96
DIVIDEND					
Interim	82.76	49.63	82.76	49.63	49.63
Final	–	–	–	–	82.73
Dividend Tax	–	5.06	–	5.06	5.06
Amount transferred – general reserve	–	–	–	–	670.54
Balance in Profit and Loss Account	143.01	146.87	359.86	336.90	–
	225.77	201.56	442.62	391.59	807.96
EARNINGS PER SHARE (Equity shares, par value Rs. 5 each)					
Basic	34.10	30.47	66.87	59.19	122.12
Diluted	33.90	30.39	66.41	59.05	121.37
Number of shares used in computing earnings per share					
Basic	6,61,98,735	6,61,60,717	6,61,93,632	6,61,59,892	6,61,62,274
Diluted	6,65,96,469	6,63,34,606	6,66,51,932	6,63,12,732	6,65,67,575

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 and Loss Account referred to in our report of even date.

For Bharat S Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner

N. R. Narayana Murthy
Chairman and Chief Mentor

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

S. Gopalakrishnan
Chief Operating Officer and
Deputy Managing Director

Deepak M. Satwalekar
Director

Marti G. Subrahmanyam
Director

Jitendra Vir Singh
Director

Omkar Goswami
Director

Larry Pressler
Director

Claude Smadja
Director

Rama Bijapurkar
Director

K. Dinesh
Director

S. D. Shibulal
Director

Bangalore
October 10, 2002

T. V. Mohandas Pai
Director and Chief Financial Officer

Srinath Batni
Director

V. Balakrishnan
Company Secretary and
Vice President – Finance

Schedules to the profit and loss account for the

in Rs. crore

	Quarter ended		Half year ended		Year ended
	September 30,	2001	September 30,	2001	March 31,
	2002		2002		2002
SOFTWARE DEVELOPMENT EXPENSES					
Salaries and bonus including overseas staff expenses	343.27	242.54	640.92	466.98	976.11
Staff welfare	1.60	1.59	3.29	3.45	6.14
Contribution to provident and other funds	6.81	6.32	13.27	12.48	25.63
Foreign travel expenses	41.22	29.27	78.28	56.47	113.12
Consumables	1.26	0.69	2.42	1.08	3.22
Cost of software packages for					
own use	11.30	9.10	21.06	17.06	34.44
service delivery to clients	0.74	2.04	7.62	6.05	9.17
Provision for post-sales client support	(2.27)	0.95	(0.30)	1.05	3.65
Computer maintenance	2.52	1.72	4.38	2.90	7.11
Communication expenses	5.09	10.51	12.26	20.73	36.11
Consultancy charges	12.95	2.22	18.68	4.26	10.12
	424.49	306.95	801.88	592.51	1,224.82
SELLING AND MARKETING EXPENSES					
Salaries and bonus including overseas staff expenses	32.96	14.69	63.01	30.52	61.04
Staff welfare	0.18	0.05	0.31	0.17	0.27
Contribution to provident and other funds	0.15	0.06	0.24	0.08	0.22
Foreign travel expenses	9.90	3.94	18.59	7.49	18.66
Consumables	0.05	0.01	0.07	0.01	0.02
Cost of software packages for own use	0.02	0.04	0.03	0.07	0.58
Communication expenses	0.18	0.09	0.24	0.09	0.38
Traveling and conveyance	0.30	1.47	0.45	2.37	3.14
Rent	1.20	1.56	2.11	2.62	4.30
Telephone charges	1.46	0.79	2.52	1.52	3.26
Professional charges	2.97	1.45	5.24	2.11	5.90
Printing and stationery	0.40	0.37	0.77	0.74	1.55
Advertisements	0.24	0.03	0.40	0.03	0.31
Brand building	9.37	5.80	17.36	7.66	13.16
Office maintenance	0.35	0.06	0.50	0.13	0.31
Repairs to plant and machinery	—	—	—	0.01	0.01
Power and fuel	0.07	0.02	0.11	0.04	0.06
Insurance charges	0.01	—	0.03	—	—
Rates and taxes	0.12	0.01	0.23	0.24	0.33
Bank charges and commission	0.03	0.01	0.04	0.02	0.03
Commission charges	4.70	1.49	6.22	2.01	10.82
Marketing expenses	2.20	1.11	3.31	2.65	4.67
Sales promotion expenses	0.05	0.10	0.20	0.21	0.44
Other miscellaneous expenses	2.42	0.31	2.44	0.32	0.33
	69.33	33.46	124.42	61.11	129.79

Schedules to the profit and loss account for the

in Rs. crore

	Quarter ended September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
GENERAL AND ADMINISTRATION EXPENSES					
Salaries and bonus including overseas staff expenses	14.17	11.92	26.38	22.81	45.48
Contribution to provident and other funds	0.75	0.83	1.54	1.67	2.98
Foreign travel expenses	2.15	1.02	3.95	2.51	4.81
Traveling and conveyance	3.74	4.13	6.66	7.44	15.48
Rent	5.52	3.96	10.75	9.41	20.11
Telephone charges	5.37	3.25	9.01	6.76	11.45
Professional charges	7.98	3.29	14.51	6.48	16.23
Printing and stationery	1.01	0.65	2.66	3.42	4.75
Advertisements	1.02	0.81	1.67	1.42	2.78
Office maintenance	3.98	3.30	7.91	6.58	13.81
Repairs to building	1.15	1.57	3.02	3.79	8.50
Repairs to plant and machinery	0.93	0.78	2.09	1.26	2.48
Power and fuel	5.32	4.74	10.98	9.35	18.90
Insurance charges	2.48	1.22	4.46	2.50	5.34
Rates and taxes	1.10	1.02	2.27	1.69	3.93
Donations	1.37	1.56	3.04	3.99	5.12
Auditor's remuneration					
audit fees	0.07	0.05	0.13	0.10	0.21
certification charges	—	—	—	—	0.02
out-of-pocket expenses	—	0.01	0.01	0.02	0.02
Bad loans and advances written off	—	—	—	—	—
Bad debts written off	—	—	—	—	—
Provision for bad and doubtful debts	0.11	3.53	0.18	10.47	13.09
Provision for doubtful loans and advances	(0.01)	0.06	(0.05)	0.06	0.42
Bank charges and commission	0.16	0.08	0.32	0.12	0.68
Commission to non-whole time directors	0.24	0.24	0.48	0.48	0.98
Postage and courier	0.72	0.76	1.97	1.93	3.23
Books and periodicals	0.40	0.25	0.65	0.58	1.14
Research grants	—	0.25	—	0.50	0.75
Freight charges	0.16	0.10	0.27	0.22	0.52
Professional membership and seminar participation fees	0.83	0.37	1.65	0.91	2.20
Transaction processing fee and filing fees	1.45	0.90	2.70	2.28	4.78
Other miscellaneous expenses	0.34	0.16	0.51	0.85	1.16
	62.51	50.81	119.72	109.60	211.35
OTHER INCOME					
Interest received on deposits with banks and others*	18.69	11.79	36.37	23.60	51.23
Miscellaneous income	0.47	0.31	1.18	0.73	1.92
Exchange differences	(1.63)	2.56	4.87	3.82	13.26
	17.53	14.66	42.42	28.15	66.41
*Tax deducted at source	3.21	2.08	6.43	3.79	8.28
PROVISION FOR TAXATION					
Current period/year					
Income taxes	53.74	35.05	96.86	64.61	143.19
Deferred taxes	(8.74)	(2.05)	(9.36)	(3.11)	(7.76)
	45.00	33.00	87.50	61.50	135.43

1. Extracts of significant accounting policies and notes on accounts

Company overview

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

Management’s Statement on significant accounting policies contained in the audited financial statements.

There are no changes in the accounting policies during the quarter ended September 30, 2002. The significant accounting policies of the company relate to revenue recognition, expenditure, fixed assets and capital work-in-progress, depreciation, retirement benefits to employees – principally gratuity, superannuation and provident fund benefits, research and development, income tax, earning per share, foreign currency transactions and investments.

1.1 Significant accounting policies

1.1.1 Basis of preparation of financial statements

The financial statements are prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Principles (“GAAP”) on the accrual basis. GAAP comprises mandatory accounting standards issued by the Institute of Chartered Accountants of India (“ICAI”) and the provisions of the Companies Act, 1956. These accounting policies have been consistently applied, except for applicable recently issued accounting standards made mandatory by the ICAI effective the current fiscal year that were adopted by the company, as described below. All amounts are stated in Indian Rupees, except as otherwise specified.

Effective the current fiscal year, the company has voluntarily adopted the applicable accounting standard on intangible assets, which is mandatory effective the year commencing April 1, 2003. Management has also evaluated the effect of the other recently issued accounting standards such as discontinuing operations and reporting of interests in joint ventures (although all these accounting standards are not mandatory for the fiscal year ending 2003). These accounting standards do not have a material impact on the financial statements of the company.

The preparation of the financial statements in conformity with GAAP requires that the management of the company (“Management”) make estimates and assumptions that affect the reported amounts of income and expenses of the period, reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as of the date of the financial statements. Examples of such estimates include expected development costs to complete software contracts, provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes, provision for post sales customer support and the useful lives of fixed assets and intangible assets. Actual results could differ from those estimates. Contingencies are recorded when it is probable that a liability has been incurred, and the amount can be reasonably estimated.

1.2 Notes on accounts

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

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

1.2.1 Aggregate expenses

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

	Quarter ended		Half year ended		Year ended
	September 30,		September 30,		March 31,
	2002	2001	2002	2001	2002
Salaries and bonus including overseas staff expenses	390.40	269.15	730.31	521.94	1,082.63
Staff welfare	1.78	1.64	3.60	1.98	6.41
Contribution to provident and other funds	7.71	7.21	15.05	14.22	28.83
Foreign travel expenses	53.27	34.23	100.82	66.47	136.59
Consumables	1.31	0.70	2.49	1.09	3.24
Cost of software packages for – own use	11.32	9.14	21.09	17.13	35.02
Cost of software packages for service delivery to clients	0.74	2.04	7.62	6.05	9.17
Computer maintenance	2.52	1.72	4.38	2.90	7.11
Communication expenses	5.27	10.60	12.50	20.82	36.49
Consultancy charges	12.95	2.22	18.68	4.26	10.12
Provision for post-sales client support	(2.27)	0.95	(0.30)	1.05	3.65
Traveling and conveyance	4.04	5.60	7.11	9.81	18.62
Rent	6.72	5.52	12.86	12.03	24.41
Telephone charges	6.83	4.04	11.53	8.28	14.71
Professional charges	10.95	4.74	19.75	8.60	22.13
Printing and stationery	1.41	1.02	3.43	4.16	6.30
Advertisements	1.26	0.84	2.07	1.45	3.09
Office maintenance	4.33	3.36	8.41	6.70	14.12
Repairs to building	1.15	1.57	3.02	3.79	8.50
Repairs to plant and machinery	0.93	0.78	2.09	1.27	2.49
Power and fuel	5.39	4.76	11.09	9.40	18.96
Brand building	9.37	5.80	17.36	7.66	13.16
Insurance charges	2.49	1.22	4.49	2.51	5.34
Rates and taxes	1.22	1.03	2.50	1.93	4.26
Commission charges	4.70	1.49	6.22	2.01	10.82

1.2.1 Aggregate expenses (continued)

	Quarter ended September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
Donations	1.37	1.56	3.04	3.99	5.12
Auditor's remuneration – audit fees	0.07	0.05	0.13	0.10	0.21
certification charges	–	–	–	–	0.02
out-of-pocket expenses	–	0.01	0.01	0.01	0.02
Provision for bad and doubtful debts	0.11	3.53	0.18	10.47	13.09
Provision for doubtful loans and advances	(0.01)	0.06	(0.05)	0.06	0.42
Bank charges and commission	0.19	0.09	0.36	0.14	0.71
Commission to non-whole time directors	0.24	0.24	0.48	0.48	0.98
Postage and courier	0.72	0.76	1.97	1.98	3.23
Books and periodicals	0.40	0.25	0.65	0.60	1.14
Research grants	–	0.25	–	0.50	0.75
Freight charges	0.16	0.10	0.27	0.21	0.52
Professional membership and seminar participation fees	0.83	0.37	1.65	1.06	2.20
Marketing expenses	2.20	1.11	3.31	2.65	4.67
Sales promotion expenses	0.05	0.10	0.20	0.21	0.44
Transaction processing fee and filing fees	1.45	0.90	2.70	2.29	4.78
Other miscellaneous expenses	2.76	0.47	2.95	0.96	1.49
	556.33	391.22	1,046.02	763.22	1,565.96

1.2.2 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 September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
Lease rentals recognized during the period/year	6.72	5.52	12.86	12.03	24.41
Lease obligations					
Within one year of the balance sheet date			16.83	15.90	16.95
Due in a period between one year and five years			39.00	54.72	46.90
Due after five years			5.98	15.08	7.20

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

Lease rental commitments on a contract with Progeon Limited (“Progeon”), a subsidiary company, as at September 30, 2002 due to Infosys within one year of the balance sheet date amounted to Rs. 1.64 and due in the period between one year and five years amounted to Rs. 2.73. The lease for premises extends for a maximum period of three years from quarter ended June 30, 2002 (the period of inception).

Fixed Assets stated below have been provided on operating lease to Progeon, which is under the same management, as at September 30, 2002:

Particulars	Original cost	Accumulated depreciation	Net book value
Building	9.59	0.27	9.32
Plant and machinery	2.42	0.27	2.15
Computers	0.78	0.12	0.66
Furniture & fixtures	1.74	0.26	1.48
Total	14.53	0.92	13.61

The aggregate depreciation charged on the above assets for the quarter and half-year ended September 30, 2002 amounted to Rs. 0.69 and Rs. 0.92 respectively. The rental income from Progeon for the quarter and half-year ended September 30, 2002 amounted to Rs. 0.41 and Rs. 0.55 respectively.

1.2.3 Related party transactions

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

The transactions with Yantra Corporation comprise sales of Rs. 4.43 during the period from April 1, 2001 until February 27, 2002. The outstanding dues from Yantra Corporation as at September 30, 2002 were Rs. 0.45. Such dues as at September 30, 2001 were Rs. 0.52 and as at March 31, 2002 were Rs. 0.34.

The company entered into related party transactions during the period ended September 30, 2002 with Progeon, the subsidiary company, under the same management. The transactions are set out below.

Particulars	Quarter ended September 30, 2002	Half year ended September 30, 2002
Capital transactions:		
Financing transactions – amount paid to Progeon for issue of 1,22,49,993 fully paid equity shares of Rs. 10/- each at par	–	12.25
Revenue transactions:		
Purchase of services	1.87	2.08
Sale of services		
Business consulting services	0.99	1.11
Shared services including facilities and personnel	1.64	2.37
	2.63	3.48

During the quarter ended September 30, 2002 and half-year ended September 30, 2002 an amount of Rs. 1.28 and Rs. 2.53 respectively 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 September 30, 2001 half-year ended September 30, 2001 and year ended March 31, 2002 were Rs. 1.00, Rs. 3.00 and Rs. 3.75 respectively.

1.2.4 Transactions with key management personnel

Our policy in determining our executive officers for reporting purposes has traditionally been to include all statutory officers and all members of our Management Council. As of April, 2002 in line with our growth and strategic objectives, we divided our Management Council into two levels comprising of senior executives and all other members. In accordance with this policy, our directors and executive officers, which include only senior members of our Management Council, who we believe are our key management personnel.

Particulars of remuneration and other benefits provided to key management personnel during the quarters ended September 30, 2002, 2001, half-year ended September 30, 2002, 2001 and the year ended March 31, 2002, are set out below.

	Salary	Contributions to provident and other funds	Perquisites and incentives	Commission*	Sitting fees	Reimbursement of expenses	Total remuneration
Executive Directors							
Quarter ended September 30, 2002	1.12	0.06	0.54	–	–	–	1.72
Quarter ended September 30, 2001	0.43	0.07	0.16	–	–	–	0.66
Half year ended September 30, 2002	1.77	0.11	1.34	–	–	–	3.22
Half year ended September 30, 2001	0.88	0.12	0.83	–	–	–	1.83
Year ended March 31, 2002	2.02	0.21	1.07	–	–	–	3.30
Independent Directors							
Quarter ended September 30, 2002	–	–	–	–	–	–	0.10
Quarter ended September 30, 2001	–	–	–	–	–	–	0.09
Half year ended September 30, 2002	–	–	–	–	–	–	0.31
Half year ended September 30, 2001	–	–	–	–	–	–	0.18
Year ended March 31, 2002	–	–	–	0.96	0.06	0.27	1.29

*An amount of Rs. 0.24 and Rs. 0.48 provided during the quarter and half-year ended September 30, 2002, such provision for the quarter and half-year ended September 30, 2001 were Rs. 0.24 and Rs. 0.48 and for the year ended March 31, 2002, Rs. 0.96.

	Salary	Contributions to provident and other funds	Perquisites and incentives	Total remuneration	Total loans granted	Outstanding loans and advances
Other Senior Management Personnel						
Quarter ended September 30, 2002	0.30	0.05	0.11	0.46	–	0.07
Quarter ended September 30, 2001	0.26	0.05	0.11	0.42	–	0.09
Half year ended September 30, 2002	0.60	0.05	0.32	0.97	–	0.07
Half year ended September 30, 2001	0.55	0.05	0.38	0.98	–	0.09
Year ended March 31, 2002	1.10	0.11	0.79	2.00	–	0.08

In addition, the details of the only options granted to non-whole-time directors and other senior officers during the quarters ended September 30, 2002, 2001, half-year ended September 30, 2002, 2001 and the year ended March 31, 2002 are as follows:

	Date of Grant	Option plan	Number of options granted	Exercise price (in Rs.)	Expiration of options
Non-Wholetime Directors					
Deepak M Satwalekar	April 11, 2001	1999	7,000	3,215.60	April 11, 2011
Marti G Subrahmanyam	April 11, 2001	1999	6,000	3,215.60	April 11, 2011
Philip Yeo	April 11, 2001	1999	3,000	3,215.60	April 11, 2011
Jitendra Vir Singh	April 11, 2001	1999	2,000	3,215.60	April 11, 2011
Omkar Goswami	April 11, 2001	1999	2,000	3,215.60	April 11, 2011
Larry Pressler	April 11, 2001	1999	2,000	3,215.60	April 11, 2011
Rama Bijapurkar	April 11, 2001	1999	2,000	3,215.60	April 11, 2011
Claude Smadja	July 10, 2002	1999	2,000	3,333.65	October 24, 2011
Other Senior Management Personnel					
Girish G Vaidya	October 29, 2001	1999	3,000	3,106.75	October 29, 2011
Basab Pradhan	October 27, 2001	1998	4,000	2,366.85	October 27, 2011
Company Secretary					
V Balakrishnan	October 29, 2001	1999	2,000	3,106.75	October 29, 2011

1.2.5 Pro-forma disclosures relating to the Employee Stock Option Plans (“ESOPs”)

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 September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
Net profit:					
– As reported	225.77	201.56	442.62	391.59	807.96
– Adjusted proforma	219.73	195.64	430.50	379.76	784.18

1.2.6 Intangible assets

During the first quarter, the company acquired the intellectual property rights of Trade IQ product from IQ Financial Systems Inc., USA for its banking group. The consideration paid amounts to Rs. 14.12 (US\$ 2.88 million). An additional US\$ 1 million (Rs. 4.88 as at September 30, 2002) has been retained in escrow for payment to the seller based on the successful renewal of certain customer contracts in favor of the company. The consideration has been recorded as an intangible asset, which is being amortized over two years representing management's estimate of the useful life of the intellectual property.

The company also entered into an agreement in the first quarter, with the Aeronautical Development Agency, India ("ADA") for transferring the intellectual property rights in AUTOLAY, a commercial software application product used in the design of high performance structural systems. The company will pay the consideration in the form of a revenue share with a firm commitment of US\$ 5 million (Rs. 24.50) payable by 10 years of the contract date. The ownership of intellectual property in AUTOLAY transfers to the company on remittance of the consideration to ADA. The committed consideration of Rs. 24.50 has been recorded as an intangible asset and is being amortized over five years, which is management's estimate of the useful life.

1.2.7 Investment activity

Progeon was incorporated on April 3, 2002, and is a majority owned and controlled subsidiary, established to provide business process management and transitioning services. As at the balance sheet date, the company has invested Rs. 12.25 in 1,22,49,993 fully paid equity shares in Progeon of face value Rs. 10/- each, at par. Progeon seeks to leverage the benefits of service delivery globalization, process redesign and technology to drive efficiency and cost effectiveness in customer business processes. Progeon obtained its financial closure by securing funding of Rs. 49.00 from Citicorp International Finance Corporation, USA ("CIFC") in exchange for 43,75,000 cumulative, convertible, redeemable preferred shares of face value Rs. 100/- at a premium of Rs. 12/- per share. The preference shares are convertible to an equal number of equity shares based on certain events as agreed between the company and CIFC.

During the half-year ended September 30, 2002 the company invested Rs. 0.27 in M-Commerce Ventures Pte Limited, Singapore ("M-Commerce") for 10 ordinary shares of face value Singapore \$ ("S\$") 1/- each fully paid at par and 90 redeemable preference shares of face value S\$ 1/- each fully paid for a premium of S\$ 1,110. Accordingly, the aggregate investment in M-Commerce as at September 30, 2002 amounts to Rs. 2.11 (Rs. 1.84 as at September 30, 2001 and March 31, 2002).

1.2.8 Segment reporting

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

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

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

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

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

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

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

Industry segments

Quarter ended **September 30, 2002**, September 30, 2001, Half year ended **September 30, 2002**, September 30, 2001 and year ended March 31, 2002

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	339.61	150.46	128.45	99.21	161.84	879.57
	248.44	111.84	99.39	74.75	115.71	650.13
	621.46	276.13	244.59	187.77	314.24	1,644.19
	474.02	224.24	201.67	142.79	219.93	1,262.65
	953.98	445.94	406.79	320.40	476.48	2,603.59
Identifiable operating expenses	139.84	61.38	44.87	30.74	62.17	339.00
	89.88	47.01	27.00	20.63	43.90	228.42
	256.91	115.45	83.50	59.97	116.27	632.10
	168.04	91.62	52.93	38.78	80.45	431.82
	355.38	181.92	114.13	89.43	166.37	907.23
Allocated expenses	84.92	36.90	31.50	24.33	39.68	217.33
	63.47	27.66	24.58	18.48	28.61	162.80
	162.30	67.93	60.18	46.20	77.31	413.92
	128.09	57.86	52.06	36.77	56.62	331.40
	247.73	111.26	101.50	79.61	118.63	658.73
Segmental operating income	114.85	52.18	52.08	44.14	59.99	323.24
	95.09	37.17	47.81	35.64	43.20	258.91
	202.25	92.75	100.91	81.60	120.66	598.17
	177.89	74.76	96.68	67.24	82.86	499.43
	350.87	152.76	191.16	151.36	191.48	1,037.63

Industry segments (continued)

	Quarter ended September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
Unallocable expenses	46.24	39.01	86.71	74.49	160.65
Operating income	277.00	219.90	511.46	424.94	876.98
Other income (expense), net	(6.23)	14.66	18.66	28.15	66.41
Net profit before taxes	270.77	234.56	530.12	453.09	943.39
Income taxes	45.00	33.00	87.50	61.50	135.43
Net profit after taxes	225.77	201.56	442.62	391.59	807.96

Geographic segments

Quarter ended September 30, 2002, September 30, 2001, Half year ended September 30, 2002, September 30, 2001 and year ended March 31, 2002

	North America	Europe	India	Rest of the World	Total
Revenues	648.01	144.94	22.35	64.27	879.57
	462.51	122.87	11.86	52.89	650.13
	1,200.57	292.44	36.45	114.73	1,644.19
	904.60	244.28	28.08	85.69	1,262.65
	1,854.10	506.84	51.12	191.53	2,603.59
Identifiable operating expenses	260.29	48.76	6.72	23.23	339.00
	160.95	46.10	4.93	16.44	228.42
	476.70	103.17	12.60	39.63	632.10
	303.13	89.14	9.77	29.78	431.82
	646.90	181.55	19.98	58.80	907.23
Allocated expenses	161.04	36.02	5.00	15.27	217.33
	115.78	30.76	3.38	12.88	162.80
	298.84	72.80	11.04	31.24	413.92
	235.90	63.75	9.53	22.22	331.40
	468.20	127.97	14.82	47.74	658.73
Segmental operating income	226.68	60.16	10.63	25.77	323.24
	185.78	46.01	3.55	23.56	258.91
	425.03	116.47	12.81	43.86	598.17
	365.57	91.39	8.78	33.69	499.43
	739.00	197.32	16.32	84.99	1,037.63

	Quarter ended September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
Unallocable expenses	46.24	39.01	86.71	74.49	160.65
Operating income	277.00	219.90	511.46	424.94	876.98
Other income (expense), net	(6.23)	14.66	18.66	28.15	66.41
Net profit before taxes	270.77	234.56	530.12	453.09	943.39
Income taxes	45.00	33.00	87.50	61.50	135.43
Net profit after taxes	225.77	201.56	442.62	391.59	807.96

1.2.9 Provisions for investments

The Company evaluates all investments for any diminution in their carrying values that is other than temporary. Accordingly, the company provided for an aggregate amount of Rs. 23.76, which consists of Rs. 0.75 to JASDIC Park Company, Japan; Rs. 6.85 to Asia Net Media (BVI) Ltd, the British Virgin Islands; Rs. 8.95 to OnMobile Systems Inc (formerly OnScan Inc), USA; Rs. 7.21 to Workadia Inc., USA; Rs. 10,350/- to The Saraswat Co-operative Bank Limited and Rs. 10/- to Software Services Support Education Center Limited, during the quarter ended September 30, 2002.

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

	Quarter ended September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
Number of shares considered as basic					
weighted average shares outstanding	6,61,98,735	6,61,60,717	6,61,93,632	6,61,59,892	6,61,62,274
Add: Effect of dilutive issues of shares/stock options	3,97,734	1,73,889	4,58,300	1,52,840	4,05,301
Number of shares considered as					
weighted average shares and potential shares outstanding	6,65,96,469	6,63,34,606	6,66,51,932	6,63,12,732	6,65,67,575

Cash flow statement for the

in Rs. crore

	Quarter ended		Half year ended		Year ended
	September 30,	2001	September 30,	2001	March 31,
	2002		2002		2002
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	270.77	234.56	530.12	453.09	943.39
Adjustments to reconcile profit before tax to cash provided by operating activities					
(Profit)/Loss on sale of fixed assets	0.14	0.01	0.13	(0.02)	(0.09)
Depreciation and amortization	46.24	39.01	86.72	74.49	160.65
Interest income	(18.69)	(11.79)	(36.37)	(23.60)	(51.23)
Effect of deferred taxes	(8.74)	(2.05)	(9.36)	(3.11)	(8.69)
Provision on long term investments	23.76	–	23.76	–	–
Income taxes paid during the period/year	1 (70.20)	(40.94)	(95.54)	(78.84)	(131.27)
Exchange differences on translation of foreign currency deposits	1.06	(2.56)	0.97	(3.82)	(13.26)
Changes in current assets and liabilities					
Sundry debtors	(44.96)	(34.48)	(121.52)	(41.23)	(34.36)
Loans and advances	2 (22.05)	(9.15)	(73.64)	(18.10)	(39.02)
Current liabilities and provisions	3 46.38	26.18	111.45	45.88	(5.16)
NET CASH GENERATED BY OPERATING ACTIVITIES	223.71	198.79	416.72	404.74	820.96
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds on exercise of stock options	2.75	–	3.15	0.41	4.60
Dividends paid during the period/year, including Dividend Tax	–	–	(82.73)	(54.68)	(109.37)
NET CASH GENERATED / (USED) BY FINANCING ACTIVITIES	2.75	–	(79.58)	(54.27)	(104.77)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets and change in capital work-in-progress	4 (44.02)	(129.75)	(97.80)	(231.49)	(322.74)
Proceeds on disposal of fixed assets	0.04	0.95	0.16	1.03	1.60
Long-term investments in securities	5 –	–	(12.52)	(10.32)	(10.32)
Interest income	18.69	11.79	36.37	23.60	51.23
NET CASH USED IN INVESTING ACTIVITIES	(25.29)	(117.01)	(73.79)	(217.18)	(280.23)
Effect of exchange differences on translation of foreign currency deposits	(1.06)	2.56	(0.97)	3.82	13.26
Net (decrease)/increase in cash and cash equivalents during the period/year	200.11	84.34	262.38	137.11	449.22
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR	1,089.23	630.51	1,026.96	577.74	577.74
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR	1,289.34	714.85	1,289.34	714.85	1,026.96
NOTES ON THE STATEMENT OF CASH FLOWS	7				

This is the Cash Flow Statement referred to in our report of even date.

For Bharat S Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner

N. R. Narayana Murthy
Chairman and Chief Mentor

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

S. Gopalakrishnan
Chief Operating Officer and
Deputy Managing Director

Deepak M. Satwalekar
Director

Marti G. Subrahmanyam
Director

Jitendra Vir Singh
Director

Omkar Goswami
Director

Larry Pressler
Director

Claude Smadja
Director

Rama Bijapurkar
Director

K. Dinesh
Director

S. D. Shibulal
Director

Bangalore
October 10, 2002

T. V. Mohandas Pai
Director and Chief Financial Officer

Srinath Batni
Director

V. Balakrishnan
Company Secretary and
Vice President – Finance

Schedules to the statement of cash flows

in Rs. crore

	Quarter ended		Half year ended		Year ended
	September 30, 2002	2001	September 30, 2002	2001	March 31, 2002
1 Income taxes paid during the period/year					
Charge as per the Profit and Loss Account	45.00	33.00	87.50	61.50	135.43
Add: Increase in advance income taxes	78.94	42.99	104.90	80.40	112.51
Less: Increase/(Decrease) in income tax provision	(53.74)	(35.05)	(96.86)	(63.06)	(116.67)
	70.20	40.94	95.54	78.84	131.27
2 Change in loans and advances during the period/year					
As per the Balance Sheet	870.16	623.26	870.16	623.26	643.87
Less: Deposits with financial institutions and body corporate, included in cash and cash equivalents	(302.49)	(287.16)	(302.49)	(287.16)	(254.74)
Advance income taxes separately considered	(341.15)	(204.14)	(341.15)	(204.14)	(236.25)
	226.52	131.96	226.52	131.96	152.88
Less: Opening balance considered	(204.47)	(122.81)	(152.88)	(113.86)	(113.86)
	22.05	9.15	73.64	18.10	39.02
3 Change in current liabilities and provisions during the period/year					
As per the Balance Sheet	692.25	428.80	692.25	428.80	459.41
Add/ (Less):Provisions separately considered in the cash flow statement					
Income taxes	(336.43)	(185.97)	(336.43)	(185.97)	(239.57)
Dividends	(82.76)	(49.62)	(82.76)	(49.62)	(82.73)
Dividend tax	–	(5.06)	–	(5.06)	–
	273.06	188.15	273.06	188.15	137.11
Less: Non-cash transactions	–	–	(24.50)	–	–
Less: Opening balance considered	(226.68)	(161.97)	(137.11)	(142.27)	(142.27)
	46.38	26.18	111.45	45.88	(5.16)
4 Purchases of fixed assets and change in capital work-in-progress					
As per the Balance Sheet	40.64	57.57	180.62	165.95	342.72
Less: Opening capital work-in-progress	(88.97)	(164.01)	(150.67)	(170.65)	(170.65)
Less: Non-cash transactions	–	–	(24.50)	–	–
Add: Closing capital work-in-progress	92.35	236.19	92.35	236.19	150.67
	44.02	129.75	97.80	231.49	322.74
5 Long-term investments in securities during the period/year					
As per the Balance Sheet	33.20	44.44	33.20	44.44	44.44
Add: Provisions on investments	23.76	–	23.76	–	–
	56.96	44.44	56.96	44.44	44.44
Less: Opening balance considered	(56.96)	(44.44)	(44.44)	(34.12)	(34.12)
	–	–	12.52	10.32	10.32
6 Cash and cash equivalents at the end of the period/year					
As per the Balance Sheet	986.85	427.69	986.85	427.69	772.22
Add: Deposits with financial institutions and body corporate, included herein	302.49	287.16	302.49	287.16	254.74
	1,289.34	714.85	1,289.34	714.85	1,026.96

7. Notes on the statement of cash flows

7.1 Cash flows are reported using the indirect method, whereby 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, financing, and investing activities of the company are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

7.2 The balance of cash and cash equivalents includes Rs. 1.53 as at September 30, 2002 (as at September 30, 2001, Rs. 0.76 and March 31, 2002, Rs. 0.48) set aside for payment of dividends, also an amount of Rs. 4.88 (nil as at September 30, 2001 and March 31, 2002) has been retained in escrow for payment to IQ Financial Systems, USA towards purchase of IPR and the same is payable on the successful renewal of certain customer contracts in favor of the company. Accordingly, such cash is not available to the company.

7.3 During the quarter, the company entered into an agreement with the Aeronautical Development Agency, India for acquiring the intellectual property rights in AUTOLAY, a commercial software application product used in the design of high performance structural systems. The agreement requires the company to pay a consideration of \$5 million (approximately Rs. 24.50) by 10 years of the contract date. The intellectual property has been recorded in the books of account along with the corresponding liability, which in substance is a non-cash transaction and hence has been excluded in the statement of cash flows.

7.4 Long-term investments in securities includes Rs. 12.25 invested in Progeon Ltd., a subsidiary, in the quarter ended September 30, 2002.

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

Consolidated financial statements of Infosys Technologies Limited and its subsidiary

Principles of consolidation

The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under the accounting standard on Consolidated Financial Statements issued by the ICAI. This being the first year of presentation of consolidated financial statements in line with the accounting standards, prior period figures have not been provided as they are unconsolidated and therefore do not permit meaningful comparison. The financial statements of the parent company, Infosys and Progeon have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealized gains/losses. The consolidated financial statements are prepared applying uniform accounting policies in use at Infosys and Progeon.

Management's Statement on significant accounting policies contained in the audited financial statements

There are no changes in the accounting policies during the quarter ended September 30, 2002. The significant accounting policies of the company relate to revenue recognition, expenditure, fixed assets and capital work-in-progress, depreciation, retirement benefits to employees – principally gratuity, superannuation and provident fund benefits, research and development, income tax, earning per share, foreign currency transactions and investments.

A complete set of the audited consolidated financial statements is available at www.infosys.com

Auditor's report

We have examined the attached Consolidated Balance Sheet of Infosys Technologies Limited (the Company) and its subsidiary Progeon Limited (subsidiary) as at September 30, 2002, the Consolidated Profit and Loss Accounts and the Consolidated Cash Flow Statements for the quarter and half-year ended on that date, annexed thereto.

These financial statements are the responsibility of the Infosys Technologies Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with the financial reporting framework generally accepted in India and are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of separate audited financial statements of Infosys Technologies Limited and its subsidiary included in the consolidated financial statements.

On the basis of the information and explanation given to us, and on consideration of separate audit reports on individual audited financial statements of Infosys Technologies Limited and its subsidiary, we are of the opinion that:

- (i) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of the Infosys Technologies Limited and its subsidiary as at September 30, 2002;
- (ii) the Consolidated Profit and Loss Accounts gives a true and fair view of the consolidated results of operations of Infosys Technologies Limited and its subsidiary for the quarter and half year ended on that date; and
- (iii) the Consolidated Cash Flow Statements gives a true and fair view of the consolidated cash flows of Infosys Technologies Limited and its subsidiary for the quarter and half year ended on that date.

for Bharat S Raut & Co.
Chartered Accountants

Bangalore
October 10, 2002

S. Balasubrahmanyam
Partner

Consolidated balance sheet as at

in Rs. crore

September 30, 2002

SOURCES OF FUNDS

SHAREHOLDERS' FUNDS

Share capital	33.10
Reserves and surplus	2,407.73
Preference shares issued by subsidiary	49.00
	<u>2,489.83</u>

APPLICATION OF FUNDS

FIXED ASSETS

Original cost	1,140.87
Less: Depreciation and amortization	476.70
Net book value	664.17
Add: Capital work-in-progress	92.59
	<u>756.76</u>

INVESTMENTS

DEFERRED TAX ASSETS

CURRENT ASSETS, LOANS AND ADVANCES

Sundry debtors	459.73
Cash and bank balances	1,004.11
Loans and advances	912.20
	<u>2,376.04</u>
Less: Current liabilities	267.61
Provisions	429.89
NET CURRENT ASSETS	<u>1,678.54</u>
	<u>2,489.83</u>

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

The schedules referred to above and the notes thereon form an integral part of the consolidated balance sheet.

This is the consolidated balance sheet referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner

N. R. Narayana Murthy
Chairman and Chief Mentor

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

S. Gopalakrishnan
Chief Operating Officer and
Deputy Managing Director

Deepak M. Satwalekar
Director

Marti G. Subrahmanyam
Director

Jitendra Vir Singh
Director

Omkar Goswami
Director

Larry Pressler
Director

Claude Smadja
Director

Rama Bijapurkar
Director

K. Dinesh
Director

S. D. Shibulal
Director

Bangalore
October 10, 2002

T. V. Mohandas Pai
Director and Chief Financial Officer

Srinath Batni
Director

V. Balakrishnan
Company Secretary and
Vice President – Finance

Consolidated profit and loss account for the

	<i>in Rs. crore, except per share data</i>	
	Quarter ended	Half year ended
	September 30, 2002	
INCOME – Software services, products and business process management		
Overseas	858.24	1,608.86
Domestic	22.34	36.44
	880.58	1,645.30
Software development and business process management expenses	425.50	803.24
GROSS PROFIT	455.08	842.06
SELLING AND MARKETING EXPENSES	70.26	125.53
GENERAL AND ADMINISTRATION EXPENSES	63.38	121.27
	133.64	246.80
OPERATING PROFIT (PBIDTA)	321.44	595.26
Interest	–	–
Depreciation and amortization	46.39	86.88
OPERATING PROFIT AFTER INTEREST, DEPRECIATION AND AMORTIZATION	275.05	508.38
Other income	18.21	43.01
Provision for investments	23.76	23.76
NET PROFIT BEFORE TAX	269.50	527.63
Provision for taxation	45.00	87.50
NET PROFIT AFTER TAX	224.50	440.13
AMOUNT AVAILABLE FOR APPROPRIATION	224.50	440.13
DIVIDEND		
Interim	82.76	82.76
Balance in Profit and Loss Account	141.74	357.37
EARNINGS PER SHARE (Equity shares, par value Rs. 5/- each)		
Basic	33.91	66.49
Diluted	33.71	66.03
Number of shares used in computing earnings per share		
Basic	6,61,98,735	6,61,93,632
Diluted	6,65,96,469	6,66,51,932

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

The schedules referred to above and the notes thereon form an integral part of the consolidated profit and loss account.

This is the consolidated profit and loss account referred to in our report of even date.

for Bharat S Raut & Co.

Chartered Accountants

S. Balasubrahmanyam
Partner

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Chairman and Chief Mentor

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Director

Bangalore
October 10, 2002

T. V. Mohandas Pai
Director and Chief Financial Officer

Srinath Batni
Director

V. Balakrishnan
*Company Secretary and
Vice President – Finance*

Consolidated cash flow statement for the

in Rs. crore

	Quarter ended September 30, 2002	Half year ended September 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	269.50	527.63
Adjustments to reconcile profit before tax to cash provided by operating activities		
(Profit)/Loss on sale of fixed assets	(0.14)	(0.13)
Depreciation and amortization	46.39	86.88
Interest income	(19.79)	(37.50)
Effect of deferred taxes	(8.74)	(9.36)
Provision for investments	23.76	23.76
Income taxes paid during the period	(70.35)	(95.69)
Exchange differences on translation of foreign currency deposits	1.06	0.97
Changes in current assets and liabilities		
Sundry debtors	(45.84)	(123.01)
Loans and advances	(23.96)	(75.10)
Current liabilities and provisions	50.80	116.70
NET CASH GENERATED BY OPERATING ACTIVITIES	222.69	415.15
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of preference share capital	–	49.00
Proceeds on exercise of stock options	2.74	3.14
Dividends paid during the period/year, including dividend tax	–	(82.73)
NET CASH GENERATED / (USED) BY FINANCING ACTIVITIES	2.74	(30.59)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and change in capital work-in-progress	(46.99)	(101.19)
Proceeds on disposal of fixed assets	0.32	0.44
Long-term investments in securities	–	(0.27)
Interest income	19.79	37.50
NET CASH USED IN INVESTING ACTIVITIES	(26.88)	(63.52)
Effect of exchange differences on translation of foreign currency deposits	(1.06)	(0.97)
Net (decrease)/increase in cash and cash equivalents during the period	197.49	320.07
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,149.54	1,026.96
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,347.03	1,347.03

NOTES ON THE STATEMENT OF CASH FLOWS

This is the Cash Flow Statement referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

S. Balasubrahmanyam
Partner

N. R. Narayana Murthy
Chairman and Chief Mentor

Nandan M. Nilekani
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Director

Bangalore
October 10, 2002

T. V. Mohandas Pai
Director and Chief Financial Officer

Srinath Batni
Director

V. Balakrishnan
Company Secretary and
Vice President – Finance

Ratio analysis as per Indian GAAP (Non-consolidated)

	Quarter ended September 30,		Half Year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
Financial performance					
Export revenue / total revenue (%)	97.46	98.18	97.78	97.78	98.04
Domestic revenue / total revenue (%)	2.54	1.82	2.22	2.22	1.96
Software development expenses / total revenue (%)	48.26	47.21	48.77	46.93	47.04
Gross profit / total revenue (%)	51.74	52.79	51.23	53.07	52.96
Selling and marketing expenses / total revenue (%)	7.88	5.15	7.57	4.84	4.99
General and administration expenses / total revenue (%)	7.11	7.81	7.28	8.68	8.12
Selling, general and administration expenses / total revenue (%)	14.99	12.96	14.85	13.52	13.11
Employee costs / total revenue (%)	45.46	42.76	45.55	42.62	42.94
Operating profit / total revenue (%)	36.75	39.83	36.38	39.55	39.85
Depreciation and amortization / total revenue (%)	5.26	6.00	5.27	5.90	6.17
Operating profit after depreciation and interest / total revenue (%)	31.49	33.82	31.11	33.65	33.68
Other income / total revenue (%)	1.99	2.25	2.58	2.23	2.55
Provision for investments / total revenue (%)	2.70	–	1.45	–	–
Profit before tax / total revenue (%)	30.78	36.08	32.24	35.88	36.23
Tax / total revenue (%)	5.12	5.08	5.32	4.87	5.20
Tax / PBT (%)	16.62	14.07	16.51	13.57	14.36
PAT from ordinary activities / total revenue (%)	25.67	31.00	26.92	31.01	31.03
PAT from ordinary activities / average net worth (%) (LTM)	41.04	52.15	41.04	52.15	46.57
ROCE (PBIT/Average capital employed) (%) (LTM)	48.76	59.39	48.76	59.39	54.37
Return on invested capital (%) (LTM)	75.04	89.64	75.04	89.64	83.10
Capital output ratio (LTM)	1.43	1.67	1.43	1.67	1.50
Invested capital output ratio (LTM)	2.74	2.98	2.74	2.98	2.79
Balance sheet					
Debt-equity ratio	–	–	–	–	–
Debtors turnover (Days) (LTM)	56	53	56	53	47
Current ratio	3.34	3.25	3.34	3.25	3.82
Cash and cash equivalents / total assets (%)	52.77	41.02	52.77	41.02	49.37
Cash and cash equivalents / total revenue (%) (LTM)	43.19	30.27	43.19	30.27	39.44
Capital expenditure / total revenue (%) (LTM)	6.33	20.96	6.33	20.96	12.40
Depreciation/ average gross block (%) (LTM)	17.95	23.76	17.95	23.76	20.18
Technology investment / total revenue (%) (LTM)	3.14	6.51	3.14	6.51	3.93
Year on Year growth (%) **					
Export revenue	34	45	30	56	36
Total revenue	35	46	30	58	37
Operating profit	25	47	20	59	36
Net profit	12	31	13	42	30
Basic EPS	12	31	13	42	30
Per – share data (period end)					
Basic earnings per share from ordinary activities (Rs.)	34.10	30.47	66.87	59.19	122.12
Basic cash earnings per share from ordinary activities (Rs.)	41.09	36.36	79.96	70.45	146.40
Book value (Rs.)	369.05	263.37	369.05	263.37	314.31
Price / earning (LTM)	26.25	21.47	26.25	21.47	30.50
Price / cash earnings (LTM)	21.86	17.94	21.86	17.94	25.44
Price / book value	9.23	9.11	9.23	9.11	11.85
PE / EPS growth	2.20	0.70	2.03	0.51	1.03
Dividend per share (Rs.)	NA	NA	12.50	7.50	20.00

** Denotes growth compared with figures of the corresponding period in the previous year.
LTM: Last Twelve Months

At a glance – US GAAP

US\$ millions, except as otherwise stated

	Quarter ended September 30,		Half year ended September 30,		Year ended March 31,
	2002	2001	2002	2001	2002
For the period					
Revenues	181.45	137.26	337.76	267.79	545.05
Operating income	55.44	45.16	101.87	87.60	178.55
Operating income/revenues (%)	30.55 %	32.90 %	30.16 %	32.71 %	32.76 %
Net income	46.70	41.29	89.54	80.53	164.47
Net income/ revenues (%)	25.74 %	30.08 %	26.51 %	30.07 %	30.17 %
Basic earnings per equity share (\$)	0.71	0.63	1.36	1.23	2.51
Cash dividend per equity share (\$)	NA	NA	0.26	0.16	0.35
Capital expenditure	9.48	26.95	20.08	47.51	68.35
At the end of the period					
Total assets			591.52	413.40	471.16
Property, plant and equipment- net			149.20	149.14	147.21
Cash and cash equivalents			278.31	149.39	210.49
Working capital			355.04	201.41	270.37
Total debt			–	–	–
Stockholders' equity			524.02	374.07	442.38
Common stock			8.60	8.59	8.60
Market capitalization			4,659.60	3,288.47	5,053.15

Note: Market capitalization is calculated by considering the Indian market price for the shares outstanding at the period / year end.



United States Securities and Exchange Commission

Washington, DC 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

For the quarter ended September 30, 2002

Commission File Number 333-72195

INFOSYS TECHNOLOGIES LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Bangalore, Karnataka, India

(Jurisdiction of incorporation or organization)

Electronics City, Hosur Road, Bangalore, Karnataka, India 561 229. +91-80-852-0261

(Address of principal executive offices)

Indicate by check mark registrant files or will file annual reports under cover Form 20-F or Form 40-F

Form 20-Fx..... Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g 3-2(b) under the Securities Exchange Act of 1934.

Yes Nox.....

If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g 3-2(b).

Not applicable.

Currency of Presentation and Certain Defined Terms

In this Quarterly Report, references to "\$" or "dollars" or "U.S. dollars" are to the legal currency of the United States and references to "Rs." or "rupees" or "Indian rupees" are to the legal currency of India. Our financial statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"). References to "Indian GAAP" are to Indian Generally Accepted Accounting Principles. References to a particular "fiscal" year are to our fiscal year ended March 31 of such year.

References to "U.S." or "United States" are to the United States of America, its territories and its possessions. References to "India" are to the Republic of India. "Infosys" is a registered trademark of Infosys Technologies Limited in the United States and India. All other trademarks or tradenames used in this Quarterly Report are the property of their respective owners.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on September 30, 2002, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York which was Rs. 48.40 per \$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Information contained in our website, www.infosys.com, is not part of this Quarterly Report.

Forward-looking statements may prove inaccurate

IN ADDITION TO HISTORICAL INFORMATION, THIS QUARTERLY REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH DIFFERENCES INCLUDE BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE HEREOF IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS QUARTERLY REPORT AND IN THE COMPANY'S PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") FROM TIME TO TIME.

Part I – Financial information

Item 1. Financial statements

Consolidated balance sheets as of

	September 30, 2002 (Unaudited)	September 30, 2001 (Unaudited)	March 31, 2002 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 278,309,589	\$ 149,392,226	\$ 210,485,940
Trade accounts receivable, net of allowances	94,986,654	71,807,005	69,017,110
Deferred tax assets	821,430	1,817,416	774,107
Prepaid expenses and other current assets	32,800,529	17,717,830	18,875,904
Total current assets	406,918,202	240,734,477	299,153,061
Property, plant and equipment, net	149,202,077	149,145,830	147,211,731
Intangible assets, net	7,154,784	–	–
Deferred tax assets	6,074,905	2,078,817	4,560,934
Investments	4,613,833	7,777,393	7,777,393
Advance income taxes	3,250,571	3,799,181	–
Other assets	14,304,031	9,860,592	12,458,615
TOTAL ASSETS	\$ 591,518,403	\$ 413,396,290	\$ 471,161,734
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 339,912	\$ 7,843	–
Client deposits	3,539,862	980,531	\$ 2,215,001
Other accrued liabilities	37,189,116	31,483,326	22,424,646
Income taxes payable	–	–	678,703
Unearned revenue	10,812,402	6,849,878	3,464,018
Total current liabilities	51,881,292	39,321,578	28,782,368
Non-current liabilities			
Preferred stock of subsidiary	5,621,302	–	–
0.0005% Cumulative Convertible Preference Shares, par value \$ 2 each, 4,375,000 preference shares Authorized, issued and outstanding – 4,375,000 preference shares as of September 30, 2002	10,000,000	–	–
Stockholders' Equity			
Common stock, \$ 0.16 par value; 100,000,000 equity shares authorized, Issued and outstanding – 66,205,180, 66,160,717 and 66,186,130 as of September 30, 2002 and 2001 and March 31, 2002, respectively	8,598,962	8,594,383	8,597,001
Additional paid-in capital	124,164,993	122,105,641	123,079,948
Accumulated other comprehensive income	(39,967,489)	(37,878,770)	(45,441,148)
Deferred stock compensation	(5,132,704)	(10,005,936)	(7,620,600)
Retained earnings	436,352,047	291,259,394	363,764,165
Total stockholders' equity	\$ 524,015,809	\$ 374,074,712	\$ 442,379,366
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 591,518,403	\$ 413,396,290	\$ 471,161,734

Consolidated statements of income

	Three months ended		Six months ended		Year ended
	September 30, 2002 (Unaudited)	September 30, 2001 (Unaudited)	September 30, 2002 (Unaudited)	September 30, 2001 (Unaudited)	March 31, 2002 (Audited)
Revenues	\$ 181,446,939	\$ 137,258,134	\$ 337,761,808	\$ 267,790,892	\$ 545,051,214
Cost of revenues	96,562,599	73,051,389	181,837,374	141,466,357	290,032,232
Gross profit	84,884,340	64,206,745	155,924,434	126,324,535	255,018,982
Operating Expenses:					
Selling and marketing expenses	14,484,552	7,019,074	25,782,286	12,911,415	27,113,122
General and administrative expenses	13,102,320	10,771,278	24,961,448	23,299,156	44,348,181
Amortization of stock compensation expense	1,243,948	1,251,327	2,487,896	2,511,082	5,009,772
Amortization of intangible assets	615,904	–	820,025	–	–
Total operating expenses	29,446,724	19,041,679	54,051,655	38,721,653	76,471,075
Operating income	55,437,616	45,165,066	101,872,779	87,602,882	178,547,907
Other income, net	534,252	3,090,300	5,630,772	5,966,399	13,865,294
Income before income taxes	55,971,868	48,255,366	107,503,551	93,569,281	192,413,201
Provision for income taxes	9,271,397	6,962,947	17,958,780	13,035,503	27,946,892
Net income	\$ 46,700,471	\$ 41,292,419	\$ 89,544,771	\$ 80,533,778	\$ 164,466,309
Earnings per equity share					
Basic	\$ 0.71	\$ 0.63	\$ 1.36	\$ 1.23	\$ 2.51
Diluted	\$ 0.70	\$ 0.62	\$ 1.35	\$ 1.22	\$ 2.49
Weighted equity shares used in computing earnings per equity share					
Basic	65,567,135	65,557,784	65,657,033	65,563,317	65,556,648
Diluted	66,175,895	66,094,152	66,275,118	66,155,053	66,084,874

See accompanying notes to the unaudited financial statements

Consolidated statements of stockholders' equity and comprehensive income

	Shares	Common stock Par value	Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred stock compensation	Retained earnings	Total stockholders' equity
Balance as of March 31, 2001	66,158,117	\$ 8,594,106	\$ 122,017,518	-	\$ (28,664,972)	\$ (12,517,018)	\$ 222,362,067	\$ 311,791,701
Common stock issued	2,600	277	88,123	-	-	-	-	88,400
Cash dividends declared	-	-	-	-	-	-	(11,636,451)	(11,636,451)
Amortization of compensation related to stock option grants	-	-	-	-	-	2,511,082	-	2,511,082
Comprehensive income	-	-	-	80,533,778	-	-	80,533,778	80,533,778
Net income	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	(9,213,798)	(9,213,798)	-	-	(9,213,798)
Translation adjustment	-	-	-	71,319,980	-	-	-	-
Comprehensive income				71,319,980				
Balance as of September 30, 2001 (unaudited)	66,160,717	\$ 8,594,383	\$ 122,105,641		\$ (37,878,770)	\$ (10,005,936)	\$ 291,259,394	\$ 374,074,712
Cash dividends declared							(11,427,800)	(11,427,800)
Common stock issued	25,413	2,618	860,953	-	-	-	-	863,571
Amortization of compensation related to stock option grants	-	-	-	-	-	2,498,690	-	2,498,690
Deferred stock compensation related to stock option grants	-	-	113,354	-	-	(113,354)	-	-
Comprehensive income	-	-	-	83,932,571	-	-	83,932,571	83,932,571
Net income	-	-	-	(7,562,378)	(7,562,378)	-	-	(7,562,378)
Other comprehensive income	-	-	-	76,370,193	-	-	-	-
Translation adjustment	-	-	-	-	-	-	-	-
Comprehensive income				76,370,193				
Balance as of March 31, 2002	66,186,130	\$ 8,597,001	\$ 123,079,948		\$ (45,441,148)	\$ (7,620,600)	\$ 363,764,165	\$ 442,379,366
Common stock issued	19,050	1,961	646,906	-	-	-	-	648,867
Cash dividends declared	-	-	-	-	-	-	(16,956,889)	(16,956,889)
Amortization of compensation related to stock option grants	-	-	-	-	-	2,487,896	-	2,487,896
Income tax benefit arising on exercise of stock options	-	-	438,139	-	-	-	-	438,139
Comprehensive income	-	-	-	89,544,771	-	-	89,544,771	89,544,771
Net income	-	-	-	5,473,659	-	-	-	5,473,659
Other comprehensive income	-	-	-	95,018,430	-	-	-	95,018,430
Translation adjustment	-	-	-	-	-	-	-	-
Comprehensive income				95,018,430				
Balance as of September 30, 2002 (unaudited)	66,205,180	\$ 8,598,962	\$ 124,164,993		\$ (39,967,489)	\$ (5,132,704)	\$ 436,352,047	\$ 524,015,809

See accompanying notes to the unaudited financial statements

Consolidated statements of cash flows

	Six months ended		Year ended
	September 30, 2002 (Unaudited)	September 30, 2001 (Unaudited)	March 31, 2002 (Audited)
OPERATING ACTIVITIES:			
Net income	\$ 89,544,771	\$ 80,533,778	\$ 164,466,309
Adjustments to reconcile net income to net cash provided by operating activities			
(Gain) / loss on sale of property, plant and equipment	24,787	(4,301)	(16,754)
Depreciation	17,386,573	15,796,701	33,608,391
Amortization	820,025	–	–
Provision for investments	3,163,560	–	–
Deferred tax benefit	(1,561,294)	(560,663)	(1,999,471)
Amortization of deferred stock compensation expense	2,487,896	2,511,082	5,009,772
Changes in assets and liabilities			
Trade accounts receivable	(25,241,313)	(8,745,498)	(7,196,700)
Prepaid expenses and other current assets	(12,175,158)	(844,552)	(2,052,721)
Income taxes	(3,908,096)	(3,678,464)	869,109
Accounts payable	337,610	(19,775)	(27,382)
Client deposits	1,298,162	(207,454)	1,075,855
Unearned revenue	7,270,897	(434,738)	(3,753,943)
Other accrued liabilities	14,401,660	9,753,433	1,492,616
Net cash provided by operating activities	93,850,080	94,099,549	191,475,081
INVESTING ACTIVITIES:			
Expenditure on property, plant and equipment	(17,174,194)	(47,507,854)	(68,347,644)
Expenditure on intangible asset	(2,901,487)	–	–
Proceeds from sale of property, plant and equipment	36,366	218,995	335,079
Loans to employees	(3,796,946)	(2,897,016)	(5,547,203)
Purchase of investments	–	(2,200,000)	(2,200,000)
Net cash used in investing activities	(23,836,261)	(52,385,875)	(75,759,768)
FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	648,867	88,400	963,351
Proceeds from issuance of preferred stock by subsidiary	10,000,000	–	–
Payment of dividends	(16,641,276)	(11,476,631)	(22,902,618)
Net cash used in financing activities	(5,992,409)	(11,388,231)	(21,939,267)
Effect of exchange rate changes on cash	3,802,239	(5,017,462)	(7,374,351)
Net increase in cash and cash equivalents during the period	67,823,649	25,307,981	86,401,695
Cash and cash equivalents at the beginning of the period	210,485,940	124,084,245	124,084,245
Cash and cash equivalents at the end of the period	\$ 278,309,589	\$ 149,392,226	\$ 210,485,940
Supplementary information:			
Cash paid towards taxes	\$ 21,888,054	\$ 13,035,503	\$ 27,493,194
Non cash transaction (See Note 2.5)	\$ 5,000,000	–	–

See accompanying notes to the unaudited financial statements

Notes to unaudited financial statements as of and for the half year ended September 30, 2002

1 Company overview and significant accounting policies

1.1 Company overview

Infosys Technologies Limited (“Infosys”), a world leader in consulting and information technology services, partners with Global 2000 companies to provide business consulting, systems integration, application development and product engineering services. Through these services, Infosys enables its clients to fully exploit technology for business transformation. Clients leverage Infosys’ Global Delivery Model to achieve higher quality, rapid time-to-market and cost-effective solutions. On April 3, 2002, Infosys incorporated a subsidiary, Progeon Limited (“Progeon”), to provide business process management and transition services to organizations that outsource their business processes. Infosys and Progeon (together, the “company”) work closely together to provide a complete service to the client, by addressing the client’s technology as well as process outsourcing needs.

1.2 Basis of preparation of financial statements

The accompanying consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). Inter-company balances and transactions are eliminated on consolidation. All amounts are stated in U.S. dollars, except as otherwise specified.

1.3 Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the year. Examples of estimates include accounting for contract costs expected to be incurred to complete software development, allowance for uncollectible accounts receivable, future obligations under employee benefit plans, provisions for post sales customer support and the useful lives of property, plant and equipment and intangible assets. Actual results could differ from those estimates.

1.4 Revenue recognition

The company derives revenues primarily from software services, licensing of software products and from business process management services. Revenue on time-and-material contracts is recognized as the related services are performed. Revenue from fixed-price, fixed-time frame contracts is recognized as per the percentage-of-completion method. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. The company provides its clients with a fixed-period warranty for corrections of errors and telephone support on all its fixed-price, fixed-time frame contracts. Costs associated with such support services are accrued at the time related revenues are recorded.

In accordance with Statement of Position 97-2, Software Revenue Recognition, license fee revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable, and the collection of the fee is probable. When other services are provided in conjunction with the licensing arrangement, the revenue from such contracts are allocated to each component of the contract using the residual method, whereby revenue is deferred for the undelivered services and the residual amounts are recognized as revenue for delivered elements. When the company receives advances for software development services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met. Maintenance revenue is deferred and recognized ratably over the term of the underlying maintenance agreement, generally 12 months. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed.

1.5 Cash and cash equivalents

The company considers all highly liquid investments with a remaining maturity at the date of purchase/ investment of three months or less to be cash equivalents. Cash and cash equivalents comprise cash, cash on deposit with banks, marketable securities and deposits with corporations.

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The company depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets are as follows:

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

The cost of software purchased for use in software development and services is charged to the cost of revenues at the time of acquisition. Deposits paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under “Capital work-in-progress”.

1.7 Intangible assets

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 of acquired rights in software applications to range between two through five years.

1.8 Impairment of long-lived assets

Effective April 1, 2002, the Company adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, it retains the fundamental provisions of SFAS No. 121.

SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business. However, SFAS No. 144 retains the requirement of APB Opinion No. 30 to separately report discontinued operations and extends that reporting to a component of an entity that an entity has disposed of, or classified as held-for-sale. SFAS No. 144 requires that the Company measures long-lived assets held-for-sale, at the lower of carrying amount or fair value, less costs to sell. Similarly, under SFAS No. 144, discontinued operations are no longer measured at net realizable value or include amounts for operating losses that have not yet been incurred.

The Company does not expect any material changes as a result of the adoption of these standards.

1.9 Research and development

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is achieved.

1.10 Foreign currency translation

The accompanying financial statements are reported in U.S. dollars. The functional currency of the company is the Indian rupee (“Rs.”). The translation of Rs. to U.S. dollars is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date, and for revenue and expense accounts

using a monthly average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as “Other comprehensive income”, a separate component of stockholders’ equity. The method for translating expenses of overseas operations depends upon the funds used. If the payment is made from a rupee denominated bank account, the exchange rate prevailing on the date of the payment would apply. If the payment is made from a foreign currency, i.e., non-rupee denominated account, the translation into rupees is performed at the average monthly exchange rate.

1.11 Earnings per share

In accordance with Statement of Financial Accounting Standards (“SFAS”) 128, Earnings Per Share, basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for options and warrants, except where the result would be anti-dilutive.

1.12 Income taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred tax assets and liabilities is recognized as income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is uncertain.

1.13 Fair value of financial instruments

The carrying amounts reflected in the balance sheets for cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short maturities of these instruments.

1.14 Concentration of risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash equivalents, trade accounts receivable, investment securities and hedging instruments. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counterparties. In management’s opinion, as of September 30, 2002, September 30, 2001 and March 31, 2002, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements, if any. Exposure to credit risk is managed through credit approvals, establishing credit limits and monitoring procedures. The company’s cash resources are invested with corporations, financial institutions and banks with high investment grade credit ratings. Limitations are established by the company as to the maximum amount of cash that may be invested with any such single entity.

1.15 Retirement benefits to employees

1.15.1 Gratuity

In accordance with the Payment of Gratuity Act, 1972, Infosys provides for gratuity, a defined benefit retirement plan (the “Gratuity Plan”) covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee’s salary and the tenure of employment. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which, Infosys contributes to the Infosys Technologies Limited Employees’ Gratuity Fund Trust (the “Trust”). Trustees administer contributions made to the Trust and invest in specific designated securities as mandated by law, which generally comprise central and state government bonds and debt instruments of government-owned corporations.

1.15.2 Superannuation

Apart from being covered under the Gratuity Plan described above, certain employees of Infosys are also participants of a defined contribution plan. The company makes monthly contributions 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. Infosys has no further obligations to the Plan beyond its monthly contributions.

1.15.3 Provident fund

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

1.16 Investments

The company accounts by the equity method for investments between 20% and 50% or where it is otherwise able to exercise significant influence over the operating and financial policies of the investee. Investment securities in which the company controls less than 20% voting interest are currently classified as “Available-for-sale securities”. Non-readily marketable equity securities for which there are no readily determinable fair values are recorded at cost.

Investment securities designated as “available-for-sale” are carried at their fair value. Fair value is based on quoted market prices. Unquoted securities are carried at cost, adjusted for declines in value judged to be other than temporary. Temporary unrealized gains and losses, net of the related tax effect are reported as a separate component of stockholders’ equity until realized. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in the statements of income. The cost of securities sold is based on the specific identification method. Interest and dividend income is recognized when earned.

1.17 Stock-based compensation

The company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25, issued in March 2000, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS 123. All stock options issued to date have been accounted as a fixed stock option plan.

1.18 Dividends

Dividend on common stock and the related dividend tax are recorded as a liability on the date of declaration by the stockholders.

1.19 Derivative financial instruments

On April 1, 2001, the company adopted SFAS 133, Accounting for Derivative Instruments and Hedging Activities as amended, when the rules became effective for companies with fiscal years ending March 31. The company enters into forward foreign exchange contracts where the counter party is generally a bank. The company purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecasted cash flows denominated in certain foreign currencies. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS 133, as amended. Any derivative that is either not designated hedge, or is so designated but is ineffective per SFAS 133, is marked to market and recognized in earnings immediately.

1.20 Reclassifications

Certain reclassifications have been made to conform prior period data to the current presentations. These reclassifications had no effect on reported earnings.

2 Notes to the unaudited Financial Statements

2.1 Cash and cash equivalents

The cost and fair values for cash and cash equivalents as of September 30, 2002 and 2001 and March 31, 2002, respectively are as follows:

	As of September 30,		As of March 31,
	2002	2001	2002
Cost and fair values			
Cash and bank deposits	\$ 207,459,395	\$ 89,380,370	\$ 158,274,886
Deposits with corporations	70,850,194	60,011,856	52,211,054
	\$ 278,309,589	\$ 149,392,226	\$ 210,485,940

Cash and cash equivalents include restricted cash balances in the amount \$ 1,324,380, \$ 158,830 and \$ 284,839 as of September 30, 2002, 2001 and March 31, 2002 respectively.

2.2 Trade accounts receivable

Trade accounts receivable, as of September 30, 2002 and 2001 and March 31, 2002, net of allowance for doubtful accounts of \$ 3,000,156, \$ 4,618,969 and \$ 3,941,245, respectively amounted to \$ 94,986,654, \$ 71,807,005 and \$ 69,017,110, respectively. The age profile of trade accounts receivable, net of allowances is given below.

	As of September 30,		As of March 31,
	2002	2001	2002
Period (in days)			In %
0 – 30	68.8	74.9	69.0
31 – 60	23.4	17.2	30.0
61 – 90	5.9	7.2	0.5
More than 90	1.9	0.7	0.5
	100.0	100.0	100.0

2.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	As of September 30,		As of March 31,
	2002	2001	2002
Rent deposits	\$ 2,520,962	\$ 2,030,494	\$ 2,079,155
Deposits with government organizations	1,269,829	1,364,705	1,220,401
Loans to employees	10,474,064	8,750,218	8,331,779
Prepaid expenses	4,723,062	4,698,466	2,990,523
Unbilled revenues	12,991,682	855,220	3,635,989
Other current assets	820,930	18,727	618,057
	\$ 32,800,529	\$ 17,717,830	\$ 18,875,904

Other current assets represent advance payments to vendors for the supply of goods and rendering of services and certain costs incurred towards software. Deposits with government organizations relate principally to leased telephone lines and electricity supplies.

2.4 Property, plant and equipment – net

Property, plant and equipment consist of the following:

	As of September 30,		As of March 31,
	2002	2001	2002
Land	\$ 9,389,005	\$ 7,653,308	\$ 8,955,962
Buildings	69,945,506	42,371,265	58,481,413
Furniture and fixtures	38,247,890	28,385,473	32,683,315
Computer equipment	66,907,080	56,249,166	59,006,470
Plant and equipment	43,176,782	29,968,047	37,685,337
Vehicles	72,665	73,501	72,085
Capital work-in-progress	19,132,371	49,363,019	30,881,704
	246,871,299	214,063,779	227,766,286
Accumulated depreciation	(97,669,222)	(64,917,949)	(80,554,555)
	\$ 149,202,077	\$ 149,145,830	\$ 147,211,731

Depreciation expense amounted to \$ 17,386,573, \$ 15,796,701 and \$ 33,608,391 for the six months ended September 30, 2002, and 2001 and fiscal 2002 respectively. The amount of third party software expensed during the six months ended September 30, 2002, and 2001 and fiscal 2002 was \$ 5,362,888, \$ 3,631,011 and \$ 7,147,614 respectively.

2.5 Intangible assets

During the six months ended September 30, 2002, the company acquired the intellectual property rights of Trade IQ product from IQ Financial Systems Inc., USA for its banking business unit. The consideration paid amounted to US\$ 2.9 million. An additional US\$ 1 million is retained in escrow for payment to the seller based on the successful renewal of certain customer contracts in favor of the company. The consideration has been recorded as an intangible asset, which is being amortized over two years representing management's estimate of the useful life of the intellectual property.

The company also entered into an agreement with the Aeronautical Development Agency, India ("ADA") for transferring the intellectual property rights in AUTOLAY, a commercial software application product used in the design of high performance structural systems. The company will pay the consideration in the form of a revenue share with a firm commitment of US\$ 5 million payable within 10 years of the contract date. The ownership of intellectual property in AUTOLAY transfers to the company on remittance of the consideration to ADA. The committed consideration is recorded as an intangible asset and is being amortized over five years, which is management's estimate of the useful life. The amount payable to ADA is disclosed as a non-current liability as of September 30, 2002 and as a non-cash transaction in the consolidated statement of cash flows.

As of September 30, 2002, intangible assets (net of accumulated amortization of \$ 820,025) were \$ 7,154,784.

2.6 Investments

The amortized cost and fair values of available-for-sale securities by major investment type and class of investment are as follows:

	Carrying cost	Fair value
As of September 30, 2002		
M-Commerce Ventures Pte Ltd – 80 units, each unit representing 1 Ordinary Share of S\$ 1 each at par and 9 Redeemable Preference Shares of S\$ 1 each at par, with a premium of S\$ 1,110 per Redeemable Preference Share	\$ 453,863	\$ 453,863
CiDRA Corporation – 33,333 Series D Convertible Preferred Stock, at \$ 90 each, fully paid, par value \$ 0.01 each	2,999,970	2,999,970
Workadia Inc., U.S.A – 880,000 Series B Preferred Stock at \$ 2.5 each, fully paid, par value \$ 0.0005 each	660,000	660,000
Stratify, Inc. (formerly Purple Yogi Inc.) – 276,243 Series D Convertible Preferred Stock, at \$ 1.81 each fully paid, par value \$ 0.001 each	500,000	500,000
	\$ 4,613,833	\$ 4,613,833

As of September 30, 2001

M-Commerce Ventures Pte Ltd – 70 units, each unit representing 1 Ordinary Share of S\$ 1 each at par and 9 Redeemable Preference Shares of S\$ 1 each at par, with a premium of S\$ 1,110 per Redeemable Preference Share	\$ 399,485	\$ 399,485
Asia Net Media BVI Limited – 30,000,000 Ordinary Shares at \$ 0.05 each, fully paid, par value \$ 0.01 each	1,500,000	1,500,000
CiDRA Corporation – 33,333 Series D Convertible Preferred Stock, at \$ 90 each, fully paid, par value \$ 0.01 each	2,999,970	2,999,970
Workadia Inc., U.S.A – 880,000 Series B Preferred Stock at \$ 2.5 each, fully paid, par value \$ 0.0005 each	2,200,000	2,200,000
JASDIC Park Company – 480 Common Stock, at ¥ 50,000 each, (fully paid, par value ¥ 50,000 each)	177,576	177,576
Stratify, Inc. (formerly Purple Yogi Inc.) – 276,243 Series D Convertible Preferred Stock, at \$ 1.81 each fully paid, par value \$ 0.001 each	500,000	500,000
Others	362	362
	\$ 7,777,393	\$ 7,777,393

As of March 31, 2002

M-Commerce Ventures Pte Ltd – 70 units, each unit representing 1 Ordinary Share of S\$ 1 each at par and 9 Redeemable Preference Shares of S\$ 1 each at par, with a premium of S\$ 1,110 per Redeemable Preference Share	\$ 399,485	\$ 399,485
Asia Net Media BVI Limited – 30,000,000 Ordinary Shares at \$ 0.05 each, fully paid, par value \$ 0.01 each	1,500,000	1,500,000
CiDRA Corporation – 33,333 Series D Convertible Preferred Stock, at \$ 90 each, fully paid, par value \$ 0.01 each	2,999,970	2,999,970
Workadia Inc., USA – 440,000 Series B Preferred Stock at \$ 5 each, fully paid, par value \$ 0.001 each	2,200,000	2,200,000
JASDIC Park Company – 480 Common Stock, at ¥ 50,000 each, fully paid, par value ¥ 50,000 each	177,576	177,576
Stratify, Inc. (formerly Purple Yogi Inc.) – 276,243 Series D Convertible Preferred Stock, at \$ 1.81 each fully paid, par value \$ 0.001 each	500,000	500,000
Others	362	362
	\$ 7,777,393	\$ 7,777,393

During the six months ended September 30, 2002, the company provided for certain investments in the amount of \$ 3,217,938 as there was a diminution in their values that was considered other than temporary.

2.7 Other assets

Other assets represent the non-current portion of loans to employees.

2.8 Related parties

The company grants loans to employees for acquiring assets such as property and cars. Such loans are repayable over fixed periods ranging from 1 to 100 months. The annual rates of interest at which the loans have been made to employees vary between 0% through 4%. No loans have been made to employees in connection with equity issues. The loans are generally secured by the assets acquired by the employees. As of September 30, 2002 and

September 30, 2001 and March 31, 2002, amounts receivable from officers amounting to \$ 14,256, \$ 18,868 and \$ 16,529 respectively are included in prepaid expenses and other current assets, and other assets in the accompanying balance sheets.

The required repayments of loans by employees are as detailed below.

	As of September 30,		As of March 31,
	2002	2001	2002
2002	–	\$ 8,750,218	–
2003	\$ 10,474,064	3,119,998	\$ 8,331,779
2004	4,004,881	2,165,452	3,755,840
2005	2,917,159	1,316,536	2,670,075
2006	2,150,096	1,023,402	1,826,748
2007	1,751,621	–	1,454,086
Thereafter	3,480,274	2,235,204	2,751,866
Total	\$ 24,778,095	\$ 18,610,810	\$ 20,790,394

The estimated fair values of related party receivables amounted to \$ 22,224,368 and \$ 14,305,838 and \$ 17,905,507 as of September 30, 2002 and 2001 and March 31, 2002. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to develop these estimates of fair value. Consequently, these estimates are not necessarily indicative of the amounts that the company could realize in the market.

2.9 Other accrued liabilities

Other accrued liabilities comprise the following:

	As of September 30,		As of March 31,
	2002	2001	2002
Accrued compensation to staff	\$ 21,313,775	\$ 16,589,239	\$ 11,575,996
Accrued dividends	315,613	159,820	229,839
Provision for post sales client support	2,210,896	1,755,916	2,255,573
Employee withholding taxes payable	4,503,371	183,717	2,614,479
Provision for expenses	7,208,620	6,326,568	3,356,760
Retention money	1,246,620	3,946,821	1,918,203
Others	390,221	2,521,245	473,796
	\$ 37,189,116	\$ 31,483,326	\$ 22,424,646

2.10 Employee post-retirement benefits

2.10.1 Superannuation

The company contributed \$ 581,207, \$ 609,610 and \$ 1,220,716 to the superannuation plan in the six months ended September 30, 2002, 2001 and fiscal 2002, respectively.

2.10.2 Provident fund

The company contributed \$ 1,716,215, \$ 1,536,668 and \$ 3,146,742 to the provident fund in the six months ended September 30, 2002, 2001 and fiscal 2002, respectively.

2.11 Stockholders' equity

Infosys has only one class of capital stock referred to as equity shares. All references in these financial statements to number of shares, per share amounts and market prices of equity shares are retroactively restated to reflect stock splits made. The rights of equity shareholders are set out below.

2.11.1 Voting

Each holder of equity shares is entitled to one vote per share. The equity shares represented by American Depositary Shares ("ADS") carry similar rights to voting and dividends as the other equity shares. Two ADS represent one underlying equity share.

2.11.2 Dividends

Should the company declare and pay dividends, such dividends will be paid in Indian Rupees. Indian law mandates that any dividend be declared out of distributable profits only after the transfer of a specified percentage of net income computed in accordance with current regulations to a general reserve. Moreover, the remittance of dividends outside India is governed by Indian law on foreign exchange and is subject to applicable taxes.

2.11.3 Liquidation

In the event of a liquidation of the company, the holders of common stock shall be entitled to receive any of the remaining assets of the company, after distribution of all preferential amounts. The amounts will be in proportion to the number of equity shares held by the stockholders.

2.11.4 Stock options

There are no voting, dividend or liquidation rights to the holders of warrants issued under the company's stock option plan.

2.12 Preference shares of subsidiary

During the six months ended September 30, 2002, Progeon issued 4,375,000 0.0005% cumulative convertible preference shares of par value \$ 2.0 per share to Citicorp International Finance Corporation ("CIFC") at a issue price of \$ 2.28 (equivalent to Rs. 112) per share, in exchange for a aggregate consideration of \$ 10,000,000. Unless earlier converted pursuant to an agreement in this behalf between the company and CIFC, these cumulative convertible preference shares shall automatically be converted into equity shares, (i) one year prior to the Initial Public Offering ("IPO") date or (ii) September 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 of a decision of the Board of Directors of the company 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 \$ 0.20 each.

Each holder of these cumulative convertible preference shares is entitled to receive notice of, and to attend, any shareholders' meeting and shall be entitled to vote together with holders of equity shares on any matters that affect their rights as preference shareholders including any resolution for winding up the company or for the repayment or reduction of the company's share capital.

In the event of any liquidation, dissolution or winding up of the company, either voluntary or involuntary, each holder of the preference shares will be paid an dollar equivalent 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 the company 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).

2.13 Other income, net

Other income, net, consists of the following:

	Six months ended		Year ended
	September 30, 2002	September 30, 2001	March 31, 2002
Interest income	\$ 7,573,223	\$ 4,829,985	\$ 10,423,654
Exchange gains	992,134	805,506	2,749,162
Others	283,353	330,908	692,478
Provision for investments	(3,217,938)	—	—
	\$ 5,630,772	\$ 5,966,399	\$ 13,865,294

2.14 Operating leases

The company has various operating leases for office buildings that are renewable on a periodic basis. Rental expense for operating leases in the three months ended September 30, 2002 and 2001 and fiscal 2002 were \$ 2,640,112, \$ 2,551,105 and \$ 5,109,690, respectively. The operating leases can be renewed or canceled at the company's option.

The company leases some of its office space under non-cancelable operating leases for periods ranging between three through ten years. The schedule of future minimum rental payments in respect of these leases is set out below.

Year ending September 30,	
2003	\$ 3,498,998
2004	3,446,379
2005	2,793,414
2006	1,381,773
2007	478,597
Thereafter	1,236,373
	\$ 12,835,534

2.15 Research and development

General and administrative expenses in the accompanying statements of income include research and development expenses of \$ 1,389,215, \$ 1,654,750 and \$ 3,083,994 for the six months ended September 30, 2002 and 2001 and fiscal 2002, respectively.

2.16 Employees' Stock Offer Plans ("ESOP")

In September 1994, the company established the 1994 plan, which provided for the issue of 6,000,000 warrants, as adjusted, to eligible employees. The warrants were issued to an employee welfare trust (the "Trust"). In 1997, in anticipation of a share dividend to be declared by the company, the Trust exercised all warrants held by it and converted them into equity shares. As and when the Trust issued options/stock to eligible employees, the difference between the market price and the exercise price was accounted as deferred stock compensation expense and amortized over the vesting period. Such amortized deferred compensation expense was \$ 2,487,896, \$ 2,511,082 and \$ 5,009,772 for the six months ended September 30, 2002, 2001 and fiscal 2002, respectively. The 1994 plan lapsed in fiscal 2000, and consequently no further shares will be issued to employees under this plan.

1998 Employees 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 stockholders in January 1998. The Government of India has approved the 1998 Plan, subject to a limit of 1,470,000 equity shares representing 2,940,000 American Depositary Shares ("ADS") to be issued under the 1998 Plan. Unless terminated sooner, the 1998 Plan will terminate automatically in January 2008. All options under the 1998 Plan will be exercisable for equity shares represented by American Depositary Shares (ADSs). The 1998 Plan is administered by a Compensation Committee comprising five members, all of who are independent directors on the Board of Directors. All options under the 1998 Plan are exercisable for equity shares represented by ADSs.

1999 Stock Offer Plan (the "1999 Plan"). In fiscal 2000, the company instituted the 1999 Plan. The stockholders and the Board of Directors approved the 1999 Plan in June 1999. The 1999 Plan provides for the issue of 6,600,000 equity shares to employees. The 1999 Plan is administered by a Compensation Committee comprising five members, all of who 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 ("FMV"). 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. All options under the 1999 plan are exercised for equity shares.

The options under all of the above plans vest over a period of one through five years.

The company adopted the proforma disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Had compensation cost for the company's stock-based compensation plan been determined in a manner consistent with the fair value approach described in SFAS No. 123, the company's net income and basic earnings per share as reported would have reduced to the proforma amounts indicated below.

		Six months ended		Year ended
		September 30,		March 31,
		2002	2001	2002
Net income	As reported	89,544,771	80,533,778	164,466,309
	Adjusted proforma	64,168,590	55,178,895	105,181,094
Basic earnings per share	As reported	\$ 1.36	\$ 1.23	\$ 2.51
	Adjusted proforma	\$ 0.98	\$ 0.84	\$ 1.60
Diluted earnings per share	As reported	\$ 1.35	\$ 1.22	\$ 2.49
	Adjusted proforma	\$ 0.97	\$ 0.83	\$ 1.59

The activity in the warrants/equity shares of the 1994, 1998 and 1999 Employees Stock Offer Plans in the six months ended September 30, 2002 and 2001 and fiscal 2002 are set out below.

	Six months ended				Year ended	
	September 30, 2002		September 30, 2001		March 31, 2002	
	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price
1994 Option plan:						
Outstanding at the beginning of the period	321,400	–	330,000	\$ 1.15	330,000	–
Granted	–	–	–	–	–	–
Forfeited	(1,600)	\$ 1.15	(7,000)	\$ 1.15	(8,600)	\$ 1.15
Exercised	–	–	–	–	–	–
Outstanding at the end of the period	319,800	–	323,000	–	321,400	–
Exercisable at the end of the period	–	–	–	–	–	–
Weighted-average fair value of grants during the period at less than market	–	–	–	–	–	–
1998 Option plan:						
Outstanding at the beginning of the period	1,131,247	–	782,753	–	782,753	–
Granted	138,850	\$ 114.60	301,350	\$ 92.72	454,250	\$ 98.06
Forfeited	(75,558)	\$ 60.47	(26,595)	\$ 286.44	(77,773)	\$ 240.90
Exercised	(19,050)	\$ 34.00	(2,600)	\$ 34.00	(27,983)	\$ 44.32
Outstanding at the end of the period	1,175,489	–	1,054,908	–	1,131,247	–
Exercisable at the end of the period	202,893	–	60,580	–	164,527	–
Weighted-average fair value of grants during the period	–	\$ 114.60	–	\$ 92.72	–	\$ 98.06
1999 Option plan:						
Outstanding at the beginning of the period	4,668,815	–	2,793,980	\$ 124.70	2,793,980	–
Granted	338,750	\$ 70.13	1,452,820	\$ 63.75	2,050,500	\$ 64.74
Forfeited	(107,269)	\$ 94.50	(105,740)	\$ 132.98	(175,635)	\$ 119.23
Exercised	–	–	–	–	(30)	\$ 84.95
Outstanding at the end of the period	4,900,296	–	4,141,060	–	4,668,815	–
Exercisable at the end of the period	594,507	–	172,699	–	448,530	–
Weighted-average fair value of grants during the period	–	\$ 70.13	–	\$ 63.75	–	\$ 64.74

2.17 Income taxes

The provision for income taxes comprises:

	Six months ended		Year ended
	September 30,		March 31,
	2002	2001	2002
Current taxes			
Domestic taxes	\$ 8,413,825	\$ 2,674,305	\$ 6,483,255
Foreign taxes	11,106,249	10,921,861	23,463,108
	19,520,074	13,596,166	29,946,363
Deferred taxes			
Domestic taxes	(918,227)	(560,663)	27,126
Foreign taxes	(643,067)	–	(2,026,597)
	(1,561,294)	(560,663)	(1,999,471)
Aggregate taxes	\$ 17,958,780	\$ 13,035,503	\$ 27,946,892

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the financial statement items that created these differences are as follows:

	Six months ended September 30,		Year ended March 31,
	2002	2001	2002
Deferred tax assets:			
Property, plant and equipment	\$ 3,585,092	\$ 1,777,845	\$ 2,989,348
Provision for doubtful debts	1,042,908	1,781,641	1,448,407
Investments	2,489,813	1,442,477	1,571,586
	7,117,813	5,001,963	6,009,341
Less: Valuation allowance	(221,478)	(1,105,730)	(674,300)
Net deferred tax assets	\$ 6,896,335	\$ 3,896,233	\$ 5,335,041

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the company will realize the benefits of those deductible differences, net of the existing valuation differences at September 30, 2002. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

All deferred tax expenses / (benefits) are allocated to the continuing operations of the company.

A reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to the income before provision for income taxes is summarized below.

	Six months ended September 30,		Year ended March 31,
	2002	2001	2002
Net income before taxes	\$ 107,503,551	\$ 93,569,281	\$ 192,413,201
Enacted tax rates in India	36.75%	35.70%	35.70%
Computed expected tax expense	39,507,555	33,404,233	68,691,513
Less: Tax effect due to non-taxable income for Indian tax purposes	(38,631,010)	(32,660,107)	(67,338,527)
Others	5,917,301	1,098,544	5,014,830
Effect of tax rate change	58,685	270,972	142,565
Provision for Indian income tax	6,852,531	2,113,642	6,510,381
Effect of tax on foreign income	11,106,249	10,921,861	21,436,511
Aggregate taxes	\$ 17,958,780	\$ 13,035,503	\$ 27,946,892

The provision for foreign taxes is due to income taxes payable overseas, principally in the United States of America. The company benefits from certain significant tax incentives provided to software firms under Indian tax laws. These incentives presently include: (i) an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as "Software Technology Parks" (the "STP Tax Holiday"); and (ii) a tax deduction for profits derived from exporting computer software (the "Export Deduction"). All but one of the company's software development facilities are located in designated Software Technology Parks ("STP"). The Government of India has recently amended the tax incentives available to companies set up in designated STPs. The period of the STP Tax Holiday available to such companies is restricted to 10 consecutive years beginning from the financial year when the unit started producing computer software or March 31, 2000, whichever is earlier. The Finance Act, 2002, has enacted that the exempt income from an export oriented undertaking, for the year commencing April 1, 2002, be restricted to 90% of its aggregate income. Additionally, the Export Deduction will be phased out equally over a period of five years starting from fiscal 2000.

As of September 30, 2002, the accumulated undistributed earnings of the U. S. branch offices were \$ 78.45 million. These earnings may attract a 15% tax imposed by the United States Internal Revenue Service on their repatriation to India. The company intends to reinvest such undistributed earnings within the United States and currently has no intent to repatriate such earnings in the foreseeable future.

2.18 Earnings per share

The following is a reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share:

	Six months ended September 30,		Year ended March 31,
	2002	2001	2002
Basic earnings per equity share – weighted average number of common shares outstanding excluding unallocated shares of ESOP	65,567,033	65,563,317	65,556,648
Effect of dilutive common equivalent shares – stock options outstanding	708,085	591,736	528,226
Diluted earnings per equity share – weighted average number of common shares and common equivalent shares outstanding	66,275,118	66,155,053	66,084,874

2.19 Derivative financial instruments

The Company enters into forward foreign exchange contracts where the counter party is generally a bank. The Company considers the risks of non-performance by the counter party as non-material. Infosys held foreign exchange forward contracts of \$ 92,000,000, \$ 26,000,000 and \$ 2,000,000 as of September 30, 2002 and 2001 and March 31, 2002, respectively. The foreign forward exchange contracts mature between one to six months.

2.20 Segment reporting

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the way that public business enterprises report information about operating segments and related disclosures about products and services, geographic areas, and major customers. The company's

operations predominantly relate to providing IT solutions, delivered to customers located globally, across various industry segments. In the year ended March 31, 2000, the company provided segmental disclosures based on the geographical segment. However, from the fiscal year ended March 31, 2001, the Chief Operating Decision Maker evaluates the company's performance and allocates resources based on an analysis of various performance indicators by industry classes and geographic segmentation of customers. Accordingly, revenues represented along industry classes comprise the principal basis of segmental information set out in these financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers. The accounting principles consistently used in the preparation of the financial statements are consistently applied to record revenue and expenditure in individual segments, and are as set out in the summary of significant accounting policies.

Industry segments for the company are primarily financial services comprising enterprises providing banking finance and insurance services, manufacturing enterprises, enterprises in the telecommunications ("telecom") and retail industries, and others such as utilities, transportation and logistics companies.

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

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

Fixed assets used in the company's business are not identified to any of the reportable segments, as these are used interchangeably between segments. Management believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Geographical information on revenue and industry revenue information is collated based on individual customers invoiced or in relation to which the revenue is otherwise recognized.

2.20.1 Industry segments

Six months ended September 30, 2002

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	\$ 128,013,740	\$ 56,687,555	\$ 50,209,456	\$ 38,547,834	\$ 64,303,223	\$ 337,761,808
Identifiable operating expenses	52,959,562	23,698,477	17,139,646	12,309,458	23,868,523	129,975,666
Allocated expenses	33,917,196	13,942,755	12,351,052	9,482,195	15,869,311	85,562,509
Segmental operating income	\$ 41,136,982	\$ 19,046,323	\$ 20,718,758	\$ 16,756,181	\$ 24,565,389	122,223,633
Unallocable expenses						20,350,854
Operating income						101,872,779
Other income (expense), net						5,630,772
Income before income taxes						107,503,551
Provision for income taxes						17,958,780
Net income						\$ 89,544,771

Six months ended September 30, 2001

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	\$ 100,520,519	\$ 47,571,396	\$ 42,782,273	\$ 30,291,606	\$ 46,625,098	\$ 267,790,892
Identifiable operating expenses	35,633,367	19,435,593	11,229,057	8,223,894	17,056,592	91,578,503
Allocated expenses	27,170,703	12,277,543	11,046,949	7,801,767	12,006,180	70,303,142
Segmental operating income	\$ 37,716,449	\$ 15,858,260	\$ 20,506,267	\$ 14,265,945	\$ 17,562,326	105,909,247
Unallocable expenses						18,306,365
Operating income						87,602,882
Other income (expense), net						5,966,399
Income before income taxes						93,569,281
Provision for income taxes						13,035,503
Net income						\$ 80,533,778

Year ended March 31, 2002

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	\$ 199,725,558	\$ 93,404,474	\$ 85,190,054	\$ 67,027,323	\$ 99,703,805	\$ 545,051,214
Identifiable operating expenses	74,364,097	38,112,096	23,873,023	18,696,233	34,831,145	189,876,594
Allocated expenses	51,905,935	23,321,898	21,273,366	16,667,939	24,840,829	138,009,967
Segmental operating income	\$ 73,455,526	\$ 31,970,480	\$ 40,043,665	\$ 31,663,151	\$ 40,031,831	217,164,653
Unallocable expenses						38,616,746
Operating income						178,547,907
Other income (expense), net						13,865,294
Income before income taxes						192,413,201
Provision for income taxes						27,946,892
Net income						\$ 164,466,309

2.20.2 Geographic segments

Six months ended September 30, 2002

	North America	Europe	India	Rest of the World	Total
Revenues	\$ 246,881,743	\$ 60,017,683	\$ 7,488,804	\$ 23,373,578	\$ 337,761,808
Identifiable operating expenses	98,082,819	21,167,925	2,587,166	8,137,756	129,975,666
Allocated expenses	61,950,015	14,939,186	2,267,115	6,406,193	85,562,509
Segmental operating income	\$ 86,848,909	\$ 23,910,572	\$ 2,634,523	\$ 8,829,629	122,223,633
Unallocable expenses					20,350,854
Operating income					101,872,779
Other income (expense), net					5,630,772
Income before income taxes					107,503,551
Provision for income taxes					17,958,780
Net income					\$ 89,544,771

Six months ended September 30, 2001

	North America	Europe	India	Rest of the World	Total
Revenues	\$ 191,835,922	\$ 51,822,645	\$ 5,965,421	\$ 18,166,904	\$ 267,790,892
Identifiable operating expenses	64,286,137	18,905,458	2,072,447	6,314,461	91,578,503
Allocated expenses	50,042,047	13,527,498	2,022,931	4,710,666	70,303,142
Segmental operating income	\$ 77,507,738	\$ 19,389,689	\$ 1,870,043	\$ 7,141,777	105,909,247
Unallocable expenses					18,306,365
Operating income					87,602,882
Other income (expense), net					5,966,399
Income before income taxes					93,569,281
Provision for income taxes					13,035,503
Net income					\$ 80,533,778

Year ended March 31, 2002

	North America	Europe	India	Rest of the World	Total
Revenues	\$ 388,168,447	\$ 106,103,448	\$ 10,735,626	\$ 40,043,693	\$ 545,051,214
Identifiable operating expenses	135,362,671	38,013,083	4,183,775	12,317,065	189,876,594
Allocated expenses	98,093,268	26,809,588	3,119,373	9,987,738	138,009,967
Segmental operating income	\$ 154,712,508	\$ 41,280,777	\$ 3,432,478	\$ 17,738,890	217,164,653
Unallocable expenses					38,616,746
Operating income					178,547,907
Other income (expense), net					13,865,294
Income before income taxes					192,413,201
Provision for income taxes					27,946,892
Net income					\$ 164,466,309

2.20.3 Significant clients

No clients individually accounted for more than 10% of the revenues in the six months ended September 30, 2002 and 2001 and fiscal 2002, respectively.

2.21 Commitments and contingencies

The company has outstanding performance guarantees for various statutory purposes totaling \$ 2,866,736, \$ 3,275,340 and \$ 3,334,700 as of September 30, 2002 and 2001 and March 31, 2002, respectively. These guarantees are generally provided to governmental agencies.

2.22 Litigation

The company is subject to legal proceedings and claims, which have arisen, in the ordinary course of its business. In relation to a lawsuit filed against the company, management initiated voluntary settlement discussions with the plaintiff. It appears that the settlement may not be possible in the near future and the lawsuit may go to trial. No trial date is set yet. The company intends to vigorously defend this matter. However, the results of such a lawsuit are difficult to predict. As a result, an unfavorable resolution of this lawsuit could adversely impact the results of operations or the financial position of the company. Except for this one instance, legal actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial position of the company.

2.23 Non-monetary transactions

During the year ended March 31, 2001, the company transferred certain Intellectual Property Rights ("IPR") that it had developed and owned in a product called Onscan to OnMobile Systems Inc. (formerly Onscan Inc.). Onscan is a comprehensive web-enabled wireless notification product. In exchange for the transfer, the company received consideration in the form of securities including 100,000 Common Stock, par value \$0.001 each, 100,000 Series A Voting Convertible Preferred Stock, par value \$0.001 each and 4,400,000 Series A Nonvoting Convertible Preferred Stock, par value \$0.001 each. Convertible Preferred Stock is convertible into Common Stock automatically upon the closing of an Initial Public Offering by OnMobile Systems Inc. As of March 31, 2002, the company's voting interest in OnMobile Systems Inc. was 9.7%. The transfer was recorded at historic cost and, accordingly, no gain was recognized on this transaction as of the date of transfer of the IPR.

Item 2. Management discussion and analysis of financial conditions and results of operations

Investors are cautioned that this discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words “anticipate”, “believe”, “estimate”, “intend”, “will”, “expect” and other similar expressions as they relate to us or our business are intended to identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading “Risk Factors” in the prospectus filed with the Securities and Exchange Commission, as well as the risk factors discussed in this quarter report. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. The following discussion and analysis should be read in conjunction with our financial statements included herein and the notes thereto.

Overview

We are an India based IT consulting and services company that utilizes an extensive infrastructure in India, which we call Offshore Software Development Centers or “OSDCs”, to provide managed software solutions to clients worldwide. Our service offerings include business consulting, systems integration, application development, maintenance, re-engineering and product engineering. From fiscal 1998 through fiscal 2002, our total revenue increased from \$68.3 million to \$545.1 million. During the same period, the total number of our IT professionals increased from 2,200 to 9,400, and our OSDCs increased from nine to 16. We also commenced operations in four proximity development centers in the U.K. and the U.S. in fiscal 2001, one global development center in Canada and two proximity development centers in the U.S. in fiscal 2000.

Our revenues are generated principally from software services provided on either a time-and-materials or a fixed-price, fixed-time frame basis. Revenues from services provided on a time-and-materials basis are recognized as the related services are performed. Revenues from services provided on a fixed-price, fixed-time frame basis are recognized pursuant to the percentage of completion method. Since we bear the risk of cost overruns and inflation with respect to fixed-price, fixed-time frame projects, our operating results could be adversely affected by inaccurate estimates of contract completion costs and dates, including wage inflation rates and currency exchange rates that may affect cost projections. Although we revise our project completion estimates from time to time, such revisions have not, to date, had a material adverse effect on our operating results or financial condition. We also develop and market certain software application products, including banking software that is licensed primarily to clients in Asia and Africa. Such software products represented 4.0% of total revenues in fiscal 2002. We earned 71.2% of our total revenues from North America, 19.5% from Europe, 2.0% from India and 7.3% from the rest of the world in fiscal 2002.

Our cost of revenues primarily consists of salary and other compensation expenses, depreciation, data communications expenses, computer maintenance, cost of software purchased for internal use and foreign travel expenses. We depreciate our personal computers and servers over two years and mainframe computers over three years and we amortize intellectual property rights over a period of two through five years. Third party software is expensed at the time of acquisition.

We assume full project management responsibility for each project that we undertake. Approximately, 66.5% of the work on a project during the quarter ended September 30, 2002 was performed at our facilities in India, and the balance of the work is performed at the client site. The proportion of work performed at our facilities and at client sites varies from quarter to quarter. We charge higher rates and incur higher compensation expenses for work performed at the client site. Services performed at a client site typically generate higher revenues per-capita at a lower gross margin than the same services performed at our facilities in India. As a result, total revenues, cost of revenues and gross profit in absolute terms and as a percentage of revenues fluctuate from quarter to quarter based on the proportion of work performed offshore at our facilities and at client sites. Additionally, any increase in work at client sites can decrease our gross margins.

Revenues and gross profits are affected by employee utilization rates. Utilization rates depend, among other factors, on the number of employees enrolled in training programs, particularly our 14.5 week training course for new employees. Because a large percentage of new hires begin their initial training in the second quarter, our utilization rates have historically been lower in the second and third quarters of our fiscal year.

Our selling and marketing expenses primarily consist of expenses relating to advertisements, brand building, rentals of sales and marketing offices, salaries of marketing personnel, and traveling and conveyance. Our general and administrative expenses comprise expenses relating to communications, finance and administration, legal and professional charges, management, rent, salary and other compensation, travel, and miscellaneous administrative costs.

Other income includes interest income and foreign currency exchange gains/losses, net of provision for investments.

Results of operations

Results for three months ended September 30, 2002 compared to three months ended September 30, 2001

Revenue. Our total revenues were \$181.4 million in the three months ended September 30, 2002, representing an increase of \$44.2 million or 32.2% over total revenues of \$137.2 million during the same period in the three months ended September 30, 2001. This increase was attributable to an increase of \$52.1 million or 38.0% in the number of projects executed, offset by a \$7.9 million or 5.8% decrease in prices at which contracts were executed. Revenues continued to increase in most segments of our services. Custom software development, re-engineering, maintenance and software development through OSDCs formed the majority of our revenues. The increase in revenues was attributable, in part, to a steady increase in business from existing clients and from certain new clients, particularly in the insurance, banking and financial services industry segment and others comprising the energy, utilities, transportation and logistics segments. Our insurance, banking and financial services clients comprised 38.8% and 38.2% of revenues in each of the three months ended September 30, 2002 and 2001, while our clients in other segments comprised 18.3% and 17.8% of revenues in each of the three months ended September 30, 2002 and 2001. Net sales of FINACLE™ and other products represented 5.5% of our total revenues in the three months ended September 30, 2002, as compared to 3.8% during the three months ended September 30, 2001. Revenues from services represented 94.5% of total revenues in the three months ended September 30, 2002, as compared to 96.2% in the three months ended September 30, 2001. Revenues from fixed-price, fixed-time frame contracts and from time-and-materials contracts represented 36.1% and 63.9% of total revenues for the three months ended September 30, 2002, as compared to 29.9% and 70.1% for the three months ended September 30, 2001. Revenues from North America and Europe represented 73.8% and 16.5% of total revenues for the three months ended September 30, 2002, as compared to 71.1% and 18.9% for the corresponding period in the three months ended September 30, 2001.

Cost of revenues. Our cost of revenues was \$96.6 million for the three months ended September 30, 2002, representing an increase of 32.3% over cost of revenues of \$73.0 million for the corresponding period in the three months ended September 30, 2001. This increase in our cost of revenues as a percentage of revenues was attributable to: (i) an increase in compensation paid to our U.S. based Indian employees to comply with new immigration regulations introduced in the U.S. effective July 2001; (ii) increased personnel costs for new hires; (iii) an increase in foreign travel costs; and (iv) an increase in professional charges paid to subcontractors. This increase was offset by a decrease in our data communication expenses and depreciation, which represented 0.6% and 4.9% of revenues in the three months ended September 30, 2002 as compared to 1.6% and 6.0% of revenues for the

corresponding period in the three months ended September 30, 2001. Cost of revenues represented 53.2% of total revenues in the three months ended September 30, 2002 and 2001.

Gross profit. Our gross profit was \$84.8 million for the three months ended September 30, 2002, representing an increase of 32.1% over gross profit of \$64.2 million for the three months ended September 30, 2001. As a percentage of total revenues, gross profit was 46.8% for the three months ended September 30, 2002 and 2001.

Selling and marketing expenses. We incurred sales and marketing expenses of \$14.5 million in the three months ended September 30, 2002, representing an increase of 107.1% over sales and marketing expenses of \$7.0 million for the corresponding period in the three months ended September 30, 2001. The increase was primarily attributable to additional investment in brand building activities, increased participation in marketing seminars and conferences, increased hiring of sales and marketing employees and provisions for bonus payments to sales and marketing personnel. As a percentage of total revenues, sales and marketing expenses were 8.0% and 5.1% for the three months ended September 30, 2002 and September 30, 2001, respectively. The number of our sales offices increased to 29 as of September 30, 2002 up from 26 as of September 30, 2001, and the number of our sales and marketing personnel increased to 246 as of September 30, 2002, up from 133 as of September 30, 2001.

General and administrative expenses. Our general and administrative expenses were \$13.1 million for the three months ended September 30, 2002, representing an increase of 21.3% over general and administrative expenses of \$10.8 million for the three months ended September 30, 2001. General and administrative expenses were 7.2% and 7.9% of total revenues for the three months ended September 30, 2002 and September 30, 2001, respectively. This decrease in general and administrative expense as a percentage of revenues was primarily attributable to a decrease in the provision for doubtful accounts receivable, which comprised Nil and 0.6% of revenues in the three months ended September 30, 2002 and September 30, 2001, respectively.

Amortization of deferred stock compensation expense. Amortization of deferred stock compensation expense was \$1.2 million in the three months ended September 30, 2002 and September 30, 2001 respectively.

Amortization of intangible assets. Amortization of intangible assets was \$0.6 million in the three months ended September 30, 2002. This represents amortization of certain intellectual property rights acquired by the company during the current fiscal year.

Operating income. Our operating income was \$55.4 million for the three months ended September 30, 2002, representing an increase of 22.6% over operating income of \$45.2 million for the three months ended September 30, 2001. As a percentage of revenues, operating income decreased to 30.5% for the three months ended September 30, 2002, from 32.9% for the three months ended September 30, 2001. Excluding the amortization of deferred stock compensation expense, the operating margin was 31.2% for the three months ended September 30, 2002, as compared to 33.8% for the three months ended September 30, 2001.

Other income. Other income was \$0.5 million for the three months ended September 30, 2002, a decrease of 83.9% over other income of \$3.1 million for the three months ended September 30, 2001. Other income includes an interest income of \$3.7 million for the three months ended September 30, 2002 as compared to \$2.4 million for the three months ended September 30, 2001. The increase was primarily attributable to increase in investible surplus of the company. This increase was offset by a decrease in foreign exchange gains and provisions for investments during the three month period ended September 30, 2002. The foreign exchange gains and provisions for investments were \$ (0.3) million and \$3.2 million for the three month period ended September 30, 2002 as compared to \$0.5 million and Nil during the three months ended September 30, 2001.

Provision for income taxes. Our provision for income taxes was \$9.3 million in the three months ended September 30, 2002 compared to \$7.0 million in the corresponding period in the three months ended September 30, 2001. Our effective tax rate increased to 16.6% for the three months ended September 30, 2002, as compared to 14.5% for the three months ended September 30, 2001. The increase in the effective tax rate was primarily attributable to an increase in foreign taxes paid in respect of our overseas operations in the three months ended September 30, 2002, as compared to the three months ended September 30, 2001. The increase is also due to the provisions of the Finance Act, 2002, which taxed 10% of the profits generated by our operations under the STP scheme in the current fiscal year. These operations enjoyed a 100% tax holiday in the previous fiscal year.

Net income. Our net income was \$46.7 million for the three months ended September 30, 2002, an increase of 13.1% over the net income of \$41.3 million for the three months ended September 30, 2001. As a percentage of total revenues, net income decreased to 25.7% for the three months ended September 30, 2002 from 30.1% for the three months ended September 30, 2001.

Liquidity and capital resources

Our growth has been financed largely by cash generated from operations and, to a lesser extent, from the proceeds of equity issues and borrowings. In 1993, we raised approximately \$4.4 million in gross aggregate proceeds from our initial public offering of equity shares on Indian stock exchanges. In 1994, we raised an additional \$7.7 million through private placements of our equity shares with foreign institutional investors, mutual funds, Indian domestic financial institutions and corporations. On March 11, 1999 we raised \$70.4 million in gross aggregate proceeds from our initial U.S. public offering of ADSs on the NASDAQ.

As of September 30, 2002, we had \$278.3 million in cash and cash equivalents, \$355.0 million in working capital and no outstanding bank borrowings. We believe that a sustained cut in IT spending, the longer decision time that may be taken by our customers, and the continued downturn in any of the various industry segments that we operate in, will result in the decline of our revenue growth and affect our liquidity and cash resources.

Net cash provided by operating activities was \$93.8 million and \$94.1 million in the six months ended September 30, 2002 and 2001. Net cash provided by operations consisted primarily of net income offset, in part, by an increase in accounts receivable. Accounts receivable as a percentage of last twelve months total revenues, represented 15.4% and 14.3% as of September 30, 2002 and September 30, 2001, respectively.

Prepaid expenses and other current assets increased by \$12.2 million during the six months ended September 30, 2002, as compared to an increase of \$0.8 million during the six months ended September 30, 2001. The increase during the six months ended September 30, 2002 was primarily due to an increase in loans given to employees and unbilled revenues. Unbilled revenues comprise revenues recognized in respect of which the company was not yet contractually permitted to invoice customers. Other accrued liabilities increased by \$14.4 million and \$9.7 million in the six months ended September 30, 2002 and 2001 primarily due to an increase in accrued compensation to staff and provisions for expenses in both periods.

The increase in unearned revenues during the three months ended September 30, 2002 was \$7.3 million compared to a decrease of \$0.4 million during the six months ended September 30, 2001, and consists primarily of advance client billings on fixed-price, fixed-time frame contracts for which related costs were not yet incurred. The proportion of fixed-price contracts under which the company was entitled to bill clients in advance increased as of September 30, 2002 over the prior year.

Net cash used in investing activities was \$23.8 million and \$52.4 million in the six months ended September 30, 2002 and September 30, 2001, respectively. Net cash used in investing activities for acquiring property, plant and equipment in the six months ended September 30, 2002 and 2001 was \$17.2 million and \$47.5 million. Additionally, the company acquired intangible assets in the amount of \$2.9 million and made loans to employees in the amount of \$3.8 million during the six months ended September 30, 2002. During the six months ended September 30, 2001, cash used in investing activities also included loans made to employees of \$2.9 million and purchase of investments amounting to \$2.2 million.

Net cash used in financing activities for the six months ended September 30, 2002 was \$6.0 million, primarily comprising cash raised by the issue of preferred stock of the company's subsidiary of \$10.0 million offset by dividend payments of \$16.6 million. Net cash used in financing activities for the six months ended September 30, 2001 primarily comprised dividend payments of \$11.5 million. As of September 30, 2002, we had contractual commitments for capital expenditure of \$16.6 million.

Reconciliation between U.S. and Indian GAAP

There are material differences between financial statements prepared as per Indian and U.S. GAAP. The material differences are primarily attributable to U.S. GAAP requirements for the:

- accounting for stock-based compensation;
- consolidation of majority owned subsidiaries and
- Provision for investments acquired through a non-cash transaction (refer note 2.23 of financial statements)

Reconciliation of net income	Three months ended September 30,		Six months ended September 30,	
	2002	2001	2002	2001
Net profit as per non consolidated Indian GAAP	\$ 46,207,193	\$ 42,543,746	\$ 90,545,438	\$ 83,044,860
Amortization of deferred stock compensation expense	(1,243,948)	(1,251,327)	(2,487,896)	(2,511,082)
Loss of consolidated subsidiary	(262,774)	–	(512,771)	–
Provision for investments – Onmobile	2,000,000	–	2,000,000	–
Net income as per US GAAP	\$ 46,700,471	\$ 41,292,419	\$ 89,544,771	\$ 80,533,778

Income taxes

Our net income earned from providing services in client premises outside India is subject to tax in the country where we perform the work.

Most of our tax paid in countries other than India can be applied as a credit against our Indian tax liability to the extent that the same income is subject to tax in India.

Currently, we benefit from the tax holidays the Government of India gives to the export of information technology services from specially designated "Software Technology Parks" in India. As a result of these incentives, our operations have been subject to relatively insignificant tax liabilities. These tax incentives include a 10-year tax holiday from payment of Indian corporate income taxes for the operation of our Indian facilities, all but one of which are "Export Oriented Undertakings" or located in "Software Technology Parks" or "Export Processing Zones"; and an income tax deduction of 100% for profits derived from exporting information technology services. We can use either of these two tax incentives. As a result of these two tax exemptions, a substantial portion of our pre-tax income has not been subject to significant tax in recent years. For the six months ended September 30, 2002 and 2001, without accounting for double taxation treaty set offs, our tax benefits were \$38.6 million and \$32.7 million, from such tax incentives.

The Finance Act, 2000 phases out the 10-year tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. Accordingly, facilities set up in India on or before March 31, 2000 have a 10-year tax holiday, new facilities set up on or before March 31, 2001 have a 9-year tax holiday and so forth until March 31, 2009, after which the tax holiday will no longer be available to new facilities. Our current tax holidays expire in stages by 2009. Additionally, the Finance Act, 2002 had proposed that ten percent of all income derived from services located in "Software Technology Parks" be subject to income tax for a one-year period ending March 31, 2003.

The Finance Act, 2000 also restricts the scope of the tax exemption to export income earned by software development centers that are "Export Oriented Undertakings" or located in "Software Technology Parks" or "Export Processing Zones" as compared to the earlier exemption which was available to business profits earned by them. For companies opting for the 100% tax deduction for profits derived from exporting information technology services, the Finance Act, 2000 phases out the income tax deduction over the next five years beginning on April 1, 2000.

Quantitative and qualitative disclosures about market risk

General

Market risk is the loss of future earnings, to fair values or to future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market sensitive financial instruments including foreign currency receivables and payables.

Our exposure to market risk is a function of our borrowing activities and revenue generating activities in foreign currency. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. Most of our exposure to market arises out of our foreign currency accounts receivable.

Risk management procedures

Management is responsible for our internal controls and financial reporting process. The independent auditors are responsible for performing an independent audit of our financial statements in accordance with the generally accepted auditing standards, and for issuing a report thereon. Our audit committee's responsibility is to monitor these processes. The audit committee is also responsible for overseeing the processes related to financial reporting and information dissemination, in order to ensure that the financial statements are fair, sufficient and credible. In addition, the audit committee recommends to the board of directors, the appointment of our internal and statutory auditors.

Components of market risk

Our exposure to market risk arises principally from exchange rate risk.

Exchange rate risk: Even though our functional currency is the Indian rupee, we transact a major portion of our business in foreign currencies, particularly the U.S. dollar. Our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables. Although we constantly evaluate our net exchange rate exposure arising from these transactions, we do not actively hedge against such exposure. We may, in the future, adopt more active hedging policies, and have done so in the past. As a result, changes in exchange rates may adversely affect our operating results. As of September 30, 2002 and 2001, we had outstanding foreign exchange forward contracts in the aggregate amounts of \$92.0 million and \$26.0 million. These contracts typically mature within three months, must be settled on the day of maturity, and may be canceled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market rate on the date of cancellation.

Principles of currency translation

The exchange rate between the rupee and the dollar has changed substantially in recent years and may fluctuate substantially in the future. For the six months ended September 30, 2002 and in fiscal 2002 and 2001, our U.S. dollar denominated revenues represented 87.5%, 87.7% and 89.6% of our total revenues.

Our revenues generated in foreign currencies are translated into rupees at the exchange rate prevailing on the dates we recognized these revenues. The expenses of our overseas operations incurred in foreign currencies are translated in rupees at either the monthly average exchange rate or the exchange rate on the date the expense is incurred, depending on the source of the payment for such expense. Assets and liabilities of our foreign branches held in foreign currency are translated into rupees at the end of the applicable reporting period. For U.S. GAAP reporting, our financial statements are translated into dollars using the average monthly exchange rate for revenues and expenses and the period end rate for assets and liabilities. The gains or losses from such translation are reported as “Other comprehensive income”, a separate component of stockholders’ equity. We expect that a majority of our total revenues will continue to be generated in dollars and that significant portion of our expenses, including personnel costs as well as capital expenditure, will continue to be incurred in rupees. Consequently, our operating results may be adversely affected to the extent the rupee appreciates against the dollar.

Critical accounting policies

High-quality financial statements require rigorous application of high-quality accounting policies. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management’s judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

We prepare financial statements in conformity with U.S. GAAP which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We primarily make estimates of contract costs expected to be incurred to complete development of software, allowances for doubtful accounts receivable, our future obligations under employee retirement and benefit plans, useful lives of property, plant and equipment, and contingencies and litigation.

We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Certain of our accounting policies require higher degrees of judgment than others in their application. These include revenue recognition as well as accounting for income taxes. Our accounting policy and related procedures for revenue recognition on such contracts and on income taxes are set out below.

Revenue recognition

We derive our revenues primarily from software services and licensing of software products. We make and use significant management judgments and estimates in connection with the revenue that we recognize in any accounting period. Material differences may result in the amount and timing of our revenue for any period, if we made different judgments or utilized different estimates.

We enter into contracts for software services with clients either on a time-and-material basis or on a fixed-price, fixed-timeframe basis. Such contracts require us to deliver software that involves significant production, modification or customization. We therefore apply the provisions of Statement of Position (“SOP”) 97-2, “Software Revenue Recognition,” as amended, read together with certain provisions of SOP 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts,” and Accounting Research Bulletin 45, “Long-Term Construction-Type Contracts and Certain Production-Type Contracts,” in recognizing revenue arising from such contracts for software services. For contracts that are entered into on a time-and-material basis, we recognize revenue as the related services are rendered. For contracts that are entered into on a fixed-price, fixed-timeframe basis, we recognize revenue under the percentage-of-completion method. This is because we believe that estimates of costs to complete and extent of progress toward completion of such contracts are reasonably dependable. We estimate the percentage-of-completion based on the ratio of efforts performed to date to estimated total efforts at completion.

Clients with whom we have entered into contracts for software services on a fixed-price, fixed-timeframe basis are provided with a fixed-period warranty for correction of errors and telephone support. We accrue for costs associated with such support services at the time related revenues are recorded based on our historical experience.

We also earn fees from clients for the license of software products. We apply the provisions of SOP 97-2, “Software Revenue Recognition,” as amended by SOP 98-9, “Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions” to all transactions involving the sale of software products. In accordance with SOP 97-2, we recognize license fee revenues when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable, and the collection of the fee is probable. At the time of the transaction, we assess whether the fee associated with our revenue transactions is fixed and determinable and whether or not collection is reasonably assured. We assess whether the fee is fixed and determinable based on the payment terms associated with the transaction. We assess collection based on a number of factors, including the creditworthiness of the client. We also provide other services in conjunction with such licensing arrangements. In such cases, we allocate the total revenue from such contracts to each component of the contract using the residual method. Under this method, we defer revenue for the undelivered services and recognize only the residual amounts as revenue for delivered elements.

We recognize revenue for maintenance services ratably over the term of the underlying maintenance agreement, generally 12 months. We earn revenues from client training, support, and other services related to the license of software products, which is generally recognized as these services are performed. In certain instances, we receive advances for software development services and products. We report such amounts as client deposits until all conditions for revenue recognition are met.

Income taxes

As part of our financial reporting process, we are required to estimate our liability to income taxes in each of the tax jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure together with an assessment of temporary differences resulting from differing treatment of items, such as depreciation on property, plant and equipment, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet.

We face challenges from domestic and foreign tax authorities regarding the amount of current taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Based on our evaluation of our tax position, we believe we have adequately accrued for probable exposures. To the extent we are able to prevail in matters for which accruals have been established or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period may be materially impacted.

Our deferred tax assets comprise assets arising from basis differences in depreciation on property, plant and equipment, investments for which the ultimate realization of the tax asset may be dependent on the availability of future capital gains, and provisions for doubtful accounts receivable. We assess the likelihood that our deferred tax assets will be recovered from future taxable income. This assessment takes into consideration tax planning strategies, including levels of historical taxable income and assumptions regarding the availability and character of future taxable income over the periods in which

the deferred tax assets are deductible. We believe it is more likely than not that we will realize the benefits of those deductible differences, net of the existing valuation differences at September 30, 2002. The ultimate amount of deferred tax assets realized may be materially different from those recorded, as influenced by potential changes in income-tax laws in the tax jurisdictions where we operate.

To the extent we believe that realization of a deferred tax asset is not likely, we establish a valuation allowance or increase this allowance in an accounting period and include an expense within the tax provision in our statements of income. As of September 30, 2002 and 2001 and March 31, 2002, we recorded valuation allowances of 0.2 million, 1.1 million and \$0.7 million due to uncertainties related to our ability to utilize some of our deferred tax assets comprising provisions for doubtful accounts receivable. In the event that actual results differ from these estimates of valuation allowance or if we adjust these estimates in future periods, we may need to establish an additional valuation allowance, which could materially impact our financial position and results of operations.

Risk factors

Risks related to our company

Any inability to manage our rapid growth could disrupt our business and reduce our profitability.

We have experienced significant growth in recent periods. Our revenues increased 31.7% in fiscal 2002 as compared to fiscal 2001, and increased 103.4% in fiscal 2001 as compared to fiscal 2000. As of March 31, 2002, we employed approximately 9,400 IT professionals worldwide as compared to 8,660 and 4,625 IT professionals as of March 31, 2001 and 2000. As of September 30, 2002, we employed approximately 11,892 software professionals worldwide as compared to 9,300 software professionals as of September 30, 2001. In the last four fiscal years we have approved and undertaken major expansions of our existing facilities as well as the construction of new facilities.

We expect our growth to place significant demands on our management and other resources. It will require us to continue to develop and improve our operational, financial and other internal controls, both in India and elsewhere. In particular, continued growth increases the challenges involved in:

- recruiting and retaining sufficient skilled technical, marketing and management personnel;
- providing adequate training and supervision to maintain our high quality standards; and
- preserving our culture and values and our entrepreneurial environment.

Inability to manage our growth effectively could adversely affect our business and reduce our profitability.

Our revenues are difficult to predict and can vary significantly from quarter to quarter which could cause our share price to decline significantly.

Our revenues have historically fluctuated and may fluctuate significantly in the future depending on a number of factors, including:

- the size, timing and profitability of significant projects;
- the proportion of services that we perform at client sites rather than at our offshore facilities;
- the accuracy of our estimates of the resources required to complete ongoing projects, particularly projects performed under fixed price, fixed timeframe contracts;
- a change in the mix of services provided to our clients, or in the relative proportion of services and product revenues;
- the effect of seasonal hiring patterns and the time required to train and productively utilize new employees;
- the size and timing of facilities expansion; and
- unanticipated variations in the duration, size and scope of our projects.

The majority of our total operating expenses, particularly of personnel and facilities, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number and timing of our projects or employee utilization rates may cause significant variations in our operating results in any particular quarter. There are also a number of factors other than our performance and not within our control that could cause fluctuations in our operating results from quarter to quarter. These include:

- the timing of tax holidays and other Government of India incentives;
- currency exchange rate fluctuations; and
- other general economic factors.

We believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. Thus, it is possible that in the future some of our quarterly results of operations may be below the expectations of market analysts and our investors, and the share price of our equity shares and our ADSs could decline significantly.

Our customers may defer or terminate projects before completion or choose not to renew contracts, most of which are terminable at will, which could adversely affect our profitability.

Our contracts with customers do not commit our customers to provide us with a specific volume of business and can typically be terminated by our clients with or without cause, with little or no advance notice and without penalty, which could reduce our revenues significantly. Additionally, our contracts with clients typically are limited to a specific project without any commitment of future work. There are also a number of factors other than our performance and not within our control that could cause the loss of a client, including:

- financial difficulties for a client;
- a demand for price reductions;
- a change in outsourcing strategy by moving more work in-house; and
- the replacement of existing software with packaged software supported by licensors.

Any of these factors could reduce our profitability.

A significant portion of our revenues is earned from the United States and derived from clients in only a few industry segments. This increases the likelihood that the slowdown in IT spending in the United States will affect our profitability.

We have historically earned a significant portion of our revenues from the United States. For the six months ended September 30, 2002 and in fiscal 2002 and 2001, approximately 73.1%, 69.1% and 70.0% of our revenues were from the United States. In addition, we derive a significant proportion of our revenues from certain industry segments. For the six months ended September 30, 2002 and in fiscal 2002 and 2001, we earned 37.9%, 36.6% and 33.7% of our revenues from the financial services segment, and 11.4%, 12.3% and 9.1% from the retail segment. During an economic slowdown, our clients in the United States may reduce or postpone their IT spending significantly, which may in turn, lower the demand for our services and affect our profitability. Additionally, any significant decrease in the growth of the financial services or retail industry segments may reduce the demand for our services and affect our profitability significantly.

Currency exchange rate fluctuations may affect the value of the ADSs

Market risks relating to our operations result primarily from changes in interest rates and changes in foreign exchange rates. Our functional currency is the Indian rupee although we transact a major portion of our business in foreign currencies and accordingly face foreign currency exposure through our sales in the United States and purchases from overseas suppliers in dollars. In our U.S. operations, we do not actively hedge against exchange rate fluctuations, although we may elect to do so in the future. Accordingly, changes in exchange rates may have a material adverse effect on our net sales, cost of services sold, gross margin and net income, any of which alone or in the aggregate may in turn have a material adverse effect on our business, operating results and financial condition. The exchange rate between the rupee and the dollar has changed substantially in recent years and may fluctuate substantially in the future. During the four-year period from March 31, 1998 through March 31, 2002, the value of the rupee against the dollar declined by approximately 29.5%. For the six months ended September 30, 2002 and in fiscal 2002 and 2001, our dollar-denominated revenues represented 87.5%, 87.7% and 89.6% of our total revenues. We expect that a majority of our revenues will continue to be generated in dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in Indian rupees. Consequently, the results of our operations will be adversely affected to the extent the rupee appreciates against the dollar. We have sought to reduce the effect of exchange rate fluctuations on our operating results by purchasing foreign exchange forward contracts to cover a portion of outstanding accounts receivable on a need basis. As of September 30, 2002, we had outstanding forward contracts in the amount of \$92.0 million. These contracts typically mature within three months, must be settled on the day of maturity and may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these instruments only as a hedging mechanism and not for speculative purposes. We cannot assure you that we will purchase contracts adequate to insulate ourselves from foreign exchange currency risks or that any such contracts will perform adequately as a hedging mechanism. Devaluation of the Indian rupee will result in foreign currency translation losses. For example, for the six months ended September 30, 2002, fiscal 2002 and 2001, our foreign currency translation gains/(losses) were approximately \$5.5 million, \$(16.7) million and \$(14.5) million.

Fluctuations in the exchange rate between the rupee and the dollar will also affect the dollar conversion by the Depositary of any cash dividends paid in rupees on the equity shares represented by the ADSs. In addition, fluctuations in the exchange rate between the rupee and the dollar will affect the dollar equivalent of the rupee price of equity shares on the Indian Stock Exchanges and, as a result, are likely to affect the prices of our ADSs in the United States. Such fluctuations will also affect the dollar value of the proceeds a holder would receive upon the sale in India of any equity shares withdrawn from the Depositary under the Depositary Agreement. We cannot assure you that holders will be able to convert rupee proceeds into dollars or any other currency or with respect to the rate at which any such conversion could occur.

We are investing substantial cash assets in new facilities.

As of September 30, 2002, we had contractual commitments of \$16.6 million for capital expenditure and have budgeted for significant infrastructure expansion in the near future. Although we have successfully developed new facilities in the past, we may still encounter cost overruns or project delays in connection with the new facilities. Additionally, future financing for additional facilities, whether within India or elsewhere, may not be available on attractive terms or at all. Such an expansion will significantly increase our fixed costs. Therefore, if we are unable to grow our business proportionately, our profitability will be reduced.

Restrictions on immigration may affect our ability to compete for and provide services to clients in the United States, which could hamper our growth and cause our revenues to decline.

If U.S. immigration laws change and make it more difficult for us to obtain H-1B and L-1 visas for our employees, our ability to compete for and provide services to clients in the United States could be impaired. This in turn could hamper our growth and cause our revenues to decline. Our employees who work onsite at client facilities or at our facilities in the United States on temporary and extended assignments typically must obtain visas. As of September 30, 2002, the majority of our personnel in the United States held H-1B visas (1,860 persons) or L-1 visas (779 persons). An H-1B visa is a temporary work visa, which allows the employee to remain in the U.S. while he or she remains an employee of the sponsoring firm, and the L-1 visa is an intra-company transfer visa, which only allows the employee to remain in the United States temporarily. Although there is no limit to new L-1 petitions, there is a limit to the aggregate number of new H-1B petitions that the U.S. Immigration and Naturalization Service ("USINS") may approve in any government fiscal year. We may not be able to obtain the H-1B visas necessary to bring critical Indian professionals to the United States on an extended basis during the years in which this limit is reached. This limit was reached in March 2000 for the U.S. Government's fiscal year ended September 30, 2000. While we anticipated that this limit would be reached before the end of the U.S. Government's fiscal year, and made efforts to plan accordingly, we cannot assure you that we will continue to be able to obtain a sufficient number of H-1B visas. In response to the recent terrorist attacks in the United States, the USINS has increased the level of scrutiny in granting visas. As a result, we may not be able to obtain a sufficient number of H-1B visas for our employees.

Our international operations subject us to risks inherent in doing business on an international level. This could harm our operating results.

While to date most of our software development facilities are located in India and in the United States, we intend to establish new development facilities, potentially in Southeast Asia and Europe. We have not yet made substantial contractual commitments to establish any new facilities and we cannot assure you that we will not significantly alter or reduce our proposed expansion plans. Because of our limited experience with facilities outside of India, we are subject to additional risks including, among other things, difficulties in regulating our business globally, export requirements and restrictions, and multiple and possibly overlapping tax structures. Any of these events could harm our future performance.

Our success depends in large part upon our management team and other highly skilled professionals. If we fail to retain and attract these personnel, our business may be unable to grow and our revenues could decline, which may decrease the value of our shareholders' investment.

We are highly dependent on the senior members of our management team, including the continued efforts of our Chairman, our CEO, our COO, other executive members of the board and the management council members. Our ability to execute project engagements and to obtain new clients depends in large part on our ability to attract, train, motivate and retain highly skilled professionals, especially project managers, software engineers and other senior technical personnel. If we cannot hire and retain additional qualified personnel, our ability to bid on and obtain new projects, and to continue to expand our business will be impaired and our revenues could decline. We believe that there is significant competition for professionals with the skills necessary to perform the services we offer. We may not be able to hire and retain enough skilled and experienced employees to replace those who leave. Additionally, we may not be able to redeploy and retrain our employees to keep pace with continuing changes in technology, evolving standards and changing client preferences.

Our revenues are highly dependent upon a small number of clients.

We have historically earned, and believe that in the future too will continue to derive, a significant portion of our revenues from a limited number of corporate clients. For the six months ended September 30, 2002 and in fiscal 2002 and fiscal 2001, our largest client accounted for 5.7%, 6.1% and 7.3%, of our total revenues, and our five largest clients accounted for 23.8%, 24.1% and 26.0% of our total revenues. The volume of work we perform for specific clients is likely to vary from year to year, particularly since we are usually not the exclusive outside software service provider for our clients. Thus, a major

client in one year may not provide the same level of revenues in a subsequent year. There are a number of factors other than our performance that could cause the loss of a client and that may not be predictable. For example, in 1995, we chose to reduce significantly the services provided to our then-largest client rather than accept the price reductions and increased resources sought by the client. In other circumstances, we reduced significantly the services provided to a client when the client either changed its outsourcing strategy by moving more work in-house and reducing the number of its vendors, or replaced its existing software with packaged software supported by the licensor. As a result, if we were to lose one of our major clients or have it significantly reduce its volume of business with us, our profitability could be reduced.

Our costs could increase if the Government of India reduces or withholds tax benefits and other incentives it provides to us.

Currently, we benefit from certain tax incentives under Indian tax laws. As a result of these incentives, our operations have been subject to relatively insignificant Indian tax liabilities. These tax incentives include a 10-year tax holiday from payment of Indian corporate income taxes for the operation of our Indian facilities, all but one of which are “Export Oriented Undertakings” or located in “Software Technology Parks” or “Export Processing Zones”; and an income tax deduction of 100% for profits derived from exporting information technology services. As a result, a substantial portion of our pre-tax income has not been subject to significant tax in recent years. For the six months ended September 30, 2002 and in fiscal 2002 and 2001, without accounting for double taxation treaty set-offs, our tax benefits were \$38.6 million, \$67.3 million and \$57.3 million from such tax incentives. We are currently also eligible for exemptions from other taxes, including customs duties. The Finance Act, 2000 phases out the 10-year tax holiday over a ten-year period from fiscal 1999-2000 through fiscal 2008-2009. Our current tax holidays expire in stages by 2009. Additionally, the Finance Act, 2002 has proposed that ten percent of all income derived from services located in “Software Technology Parks” be subject to income tax for the one-year period ending March 31, 2003. For companies opting for the 100% tax deduction for profits derived from exporting information technology services, the Finance Act, 2000 phases out the income tax deduction over the next five years beginning on April 1, 2000. When our tax holiday and income tax deduction exemptions expire or terminate, our costs will increase. Additionally, the Government of India could enact similar laws in the future, which could further impair our other tax incentives.

Our failure to complete fixed-price, fixed-timeframe contracts on budget and on time may negatively affect our profitability, which could decrease the value of our shareholders’ investment.

As a core element of our business strategy, we offer a portion of our services on a fixed-price, fixed-timeframe basis, rather than on a time and- material basis. Although we use specified software engineering processes and our past project experience to reduce the risks associated with estimating, planning and performing fixed-price, fixed-timeframe projects, we bear the risk of cost overruns, completion delays and wage inflation in connection with these projects. If we fail to accurately estimate the resources and time required for a project, future wage inflation rate and currency exchange rates, or if we fail to complete our contractual obligations within the contracted timeframe, our profitability may suffer.

Disruptions in telecommunications could harm our service model, which could result in a reduction of our revenues.

A significant element of our business strategy is to continue to leverage and expand our software development centers in Bangalore, Bhubaneswar, Chennai, Hyderabad, Mangalore, Mohali, Mysore and Pune, all in India, as well as overseas. We believe that the use of a strategically located network of software development centers will provide us with cost advantages, the ability to attract highly skilled personnel in various regions of the country and the world, the ability to service clients on a regional and global basis, and the ability to provide services to our clients 24 hours a day, seven days a week. Part of our service model is to maintain active voice and data communications between our main offices in Bangalore, our clients’ offices, and our other software development and support facilities. Although we maintain redundant facilities and satellite communications links, any significant loss in our ability to transmit voice and data through satellite and telephone communications would result in a reduction of our revenues.

Intense competition in the market for IT services could affect our cost advantages, which could decrease our revenues.

The market for IT services is highly competitive. Our competitors include software companies, IT companies, large international accounting firms and their consulting affiliates, systems consulting and integration firms, other technology companies and client in-house information services departments, both international and domestic. Many of our competitors have significantly greater financial, technical and marketing resources and generate greater revenue than we do. We cannot be reasonably certain that we will be able to compete successfully against such competitors, or that we will not lose clients to such competitors. Additionally, we believe that our ability to compete also depends in part on factors outside our control, such as our ability to attract, motivate and retain skilled employees, the price at which our competitors offer comparable services, and the extent of our competitors’ responsiveness to their clients’ needs.

Wages in India have historically been lower than wages in the United States and Europe, which has been one of our competitive advantages.

Wage increases in India may prevent us from sustaining this competitive advantage and may reduce our profit margins.

Wage costs in India have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive advantages. However, wage increases in India may prevent us from sustaining this competitive advantage and may negatively affect our profit margins. We may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive. Additionally, recent and future changes in the immigration laws of the countries where our employees are working on-site at client facilities on short-term assignments may require us to compensate such employees at a minimum wage level that is higher than our current India-based wage rates. Unless we are able to continue to increase the efficiency and productivity of our employees, wage increases in the long term may reduce our profit margins.

We may be liable to our clients for damages caused by system failures, which could damage our reputation and cause us to lose customers.

Many of our contracts involve projects that are critical to the operations of our clients’ businesses, and provide benefits which may be difficult to quantify. Any failure in a client’s system could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to limit our contractual liability for damages resulting from negligent acts, errors, mistakes or omissions, in rendering our services, we cannot be assured that the limitations on liability we provide for in our service contracts will be enforceable in all cases, or that it will otherwise protect us from liability for damages. Although we maintain general liability insurance coverage, including coverage for errors or omissions, we cannot be assured that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or changes in our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirement, could reduce our operating results.

We may engage in future acquisitions, investments, strategic partnerships or other ventures that may harm our performance, dilute the holdings of our shareholders and cause us to incur debt or assume contingent liabilities.

We may acquire or make investments in complementary businesses, technologies, services or products, or enter into strategic partnerships with parties who can provide access to those assets. We may not identify suitable acquisition, investment or strategic partnership candidates, or if we do identify suitable candidates, we may not complete those transactions on terms commercially acceptable to us or at all. If we acquire another company, we could

have difficulty in assimilating that company's personnel, operations, technology and software. In addition, the key personnel of the acquired company may decide not to work for us. If we make other types of acquisitions, we could have difficulty in integrating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses. As of the date of this report, we have no agreement to enter into any material investment or acquisition transaction.

If our strategic investments fail, the write-offs on such investments could affect our profitability.

We make strategic investments in new technology start-ups in order to gain experience in niche technologies. We had invested an aggregate amount of \$2.2 million in strategic investments in fiscal 2002. However, we cannot assure you that our investments will be successful and we will benefit from such investments. The loss of any such investments could have a material adverse effect on our operating results. In fiscal 2001, we had provided for our investments in EC Cubed Inc. and Alpha Thinx Mobile Services AG. During the six months period ended September 30, 2002, we have provided in full for investments in Asia Net Media BVI Limited, JASDIC Park Company and Onmobile Inc (provided only in Indian GAAP financial statements) and partly for our investments in Workadia Inc.,

We may be unable to recoup our investment costs to develop our software products.

In the six months ended September 30, 2002 and in fiscal 2002 and 2001, we earned 4.7%, 4.0% and 2.5% of our total revenue from the sale of software products. The development of our software products requires significant investments. The markets for our primary software product are competitive and currently located in developing countries, and we cannot assure you that such a product will continue to be commercially successful. Also, we cannot assure you that any new products we develop will be commercially successful or that the costs of developing such new products will be recouped. Since software product revenues typically occur in periods subsequent to the periods in which the costs are incurred for development of such products, delayed revenues may cause periodic fluctuations of our operating results.

Our officers and directors can continue to control our board and may have interests which conflict with those of our other shareholders or holders of our ADSs.

Our officers and directors, together with members of their immediate families, in the aggregate, beneficially own approximately 24.19% of our issued equity shares. As a result, acting together, this group has the ability to exercise significant control over most matters requiring our shareholders' approval, including the election and removal of directors and significant corporate transactions. Additionally, our Articles provide that Mr. N. R. Narayana Murthy, our Chairman and one of our principal founders, shall serve as the Chairman of our board and shall not be subject to re-election as long as he and his relatives own at least 5% of our outstanding equity shares. This control could delay, defer or prevent a change in control of our company, impede a merger, consolidation, takeover or other business combination involving us, or discourage a potential acquirer from attempting to obtain control over us.

You may be restricted in your ability to exercise preemptive rights under Indian law and thereby suffer dilution of your ownership position.

Under the Indian Companies Act, 1956 or the "Indian Companies Act", a company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless such preemptive rights have been waived by three-fourths of the shares voted on the resolution. U.S. holders of ADSs may be unable to exercise preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act of 1933, as amended, or "Securities Act", is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any such registration statement as well as the perceived benefits of enabling the holders of ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We may elect not to file a registration statement related to preemptive rights otherwise available by law to you. In the case of future issuances, the new securities may be issued to our depository, which may sell the securities for your benefit. The value, if any, our depository would receive upon the sale of such securities cannot be predicted. To the extent that you are unable to exercise preemptive rights granted in respect of the equity shares represented by your ADSs, your proportional interests in our company would be reduced.

Holders of ADSs may be restricted in their ability to exercise voting rights.

At our request, the depository bank will mail to you any notice of shareholders' meeting received from us together with information explaining how to instruct the depository bank to exercise the voting rights of the securities represented by ADSs. If the depository bank receives voting instructions from you in time, it will endeavor to vote the securities represented by your ADSs in accordance with such voting instructions. However, the ability of the depository bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure that you will receive voting materials in time to enable you to return voting instructions to the depository bank in a timely manner. Securities for which no voting instructions have been received will not be voted.

Risks related to investments in Indian companies.

We are incorporated in India, and a substantial amount of our assets and our employees are located in India. Consequently, our financial performance and the market price of our ADSs will be affected by political, social and economic developments affecting India, Government of India policies, including taxation and foreign investment policies, government currency exchange control, as well as changes in exchange rates and interest rates.

Regional conflicts in South Asia could adversely affect the Indian economy, disrupt our operations and cause our business to suffer.

South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. In recent years there have been military confrontations between India and Pakistan that have occurred in the region of Kashmir. Events of this nature in the future could influence the Indian economy and could have a material adverse effect on the market for securities of Indian companies, including our ADSs, and on the market for our services.

Political instability or changes in the government in India could delay the liberalization of the Indian economy and adversely affect economic conditions in India generally, which could impact our financial results and prospects.

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators has remained significant. The Government of India has changed five times since 1996. The current Government of India, formed in October 1999, has announced policies and taken initiatives that support the continued economic liberalization policies that have been pursued by previous governments. We cannot assure you that these liberalization policies will continue in the future. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally, and our business in particular.

Indian law limits our ability to raise capital outside India and may limit the ability of others to acquire us, which could prevent us from operating our business or entering into a transaction that is in the best interests of our shareholders.

Indian law relating to foreign exchange management constrains our ability to raise capital outside India through the issuance of equity or convertible debt securities. Generally, any foreign investment in, or an acquisition of, an Indian company requires approval from relevant government authorities in India including the Reserve Bank of India. However, the Government of India currently does not require prior approvals for IT companies, subject to certain exceptions. Under any such exception, if the Government of India does not approve the investment or implements a limit on the foreign equity ownership of IT companies, our ability to seek and obtain additional equity investment by foreign investors will be constrained. In addition, these restrictions, if applied to us, may prevent us from entering into a transaction, such as an acquisition by a non-Indian company, which would otherwise be beneficial for our company and the holders of our equity shares and ADSs.

Indian law imposes foreign investment restrictions that limit a holder's ability to convert equity shares into ADSs, which may cause our equity shares to trade at a discount or premium to the market price of our ADSs.

Recently, the Government of India has permitted two-way fungibility of ADSs, subject however to sectoral caps and certain conditions. Additionally, investors who exchange ADSs for the underlying equity shares and are not holders of record will be required to declare to us details of the holder of record, and the holder of record will be required to disclose the details of the beneficial owner. Any investor who fails to comply with this requirement may be liable for a fine of up to Indian Rs. 1,000 for each day such failure continues. Such restrictions on foreign ownership of the underlying equity shares may cause our equity shares to trade at a discount or premium to the ADSs.

Except for limited circumstances, the Reserve Bank of India must approve the sale of equity shares underlying ADSs by a non-resident of India to a resident of India. Since currency exchange controls are in effect in India, the Reserve Bank of India will approve the price at which equity shares are transferred based on a specified formula, and a higher price per share may not be permitted. Additionally, except in certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency and then repatriate that foreign currency from India, he or she will have to obtain an additional Reserve Bank of India approval for each transaction. We cannot assure our ADS holders that any required approval from the Reserve Bank of India or any other government agency can be obtained on any terms or at all.

Our ability to acquire companies organized outside India depends on the approval of the Government of India and/or the Reserve Bank of India. Our failure to obtain approval from the Government of India and/ or the Reserve Bank of India for acquisitions of companies organized outside India may restrict our international growth, which could negatively affect our revenues.

The Ministry of Finance of the Government of India and the Reserve Bank of India must approve our acquisition of any company organized outside of India. The Government of India has recently issued a policy statement permitting acquisitions of companies organized outside India with a transaction value:

- if in cash, effective April 28, 2001 up to 100% of the proceeds from an ADSs offering; and
- if in stock, the greater of \$100 million or ten times the acquiring company's previous fiscal year's export earnings.

We cannot assure you that any required approval from the Reserve Bank of India and the Ministry of Finance or any other government agency can be obtained. Our failure to obtain approval from the Government of India for acquisitions of companies organized outside India may restrict our international growth, which could negatively affect our revenues.

The laws of India do not protect intellectual property rights to the same extent as those of the United States, and we may be unsuccessful in protecting our intellectual property rights. Unauthorized use of our intellectual property may result in development of technology, products or services which compete with our products.

Our intellectual property rights are important to our business. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property. However, the laws of India do not protect proprietary rights to the same extent as laws in the United States. Therefore, our efforts to protect our intellectual property may not be adequate. Our competitors may independently develop similar technology or duplicate our products or services. Unauthorized parties may infringe upon or misappropriate our products, services or proprietary information.

The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. We may need to litigate to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time-consuming and costly. As the number of patents, copyrights and other intellectual property rights in our industry increases, and as the coverage of these rights increase, we believe that companies in our industry will face more frequent patent infringement claims. Defense against these claims, even if not meritorious, could be expensive and divert our attention and resources from operating our company. Although there are no pending or threatened intellectual property lawsuits against us, if we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and forced to develop non-infringing technology, obtain a license or cease selling the applications or products that contain the infringing technology. We may be unable to develop non-infringing technology or to obtain a license on commercially reasonable terms, or at all.

It may be difficult for you to enforce any judgment obtained in the United States against us or our affiliates.

We are incorporated under the laws of India and many of our directors and executive officers, and some of the experts named in this document, reside outside the United States. In addition, virtually all of our assets and the assets of many of these persons are located outside the United States. As a result, you may be unable to:

- effect service of process upon us outside India, or these persons outside the jurisdiction of their residence; or
- enforce against us in courts outside of India, or these persons outside the jurisdiction of their residence, judgments obtained in U.S. courts, including judgments predicated solely upon the federal securities laws of the United States.

We have been advised by our Indian counsel that the United States and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be enforceable in India. However, the party in whose favor such final judgment is rendered may bring a new suit in a competent court in India based on a final judgment which has been obtained in the United States. If and to the extent Indian courts are of the opinion that fairness and good faith so required, it would, under current practice, give binding effect to the final judgment which had been rendered in the United States unless such a judgment contravened principles of public policy of India.

Item 3. Quantitative and qualitative disclosure about market risk

3.1 Foreign currency market risk

This information is set forth under the caption “Exchange rate risk” under components of market risk, above, and is incorporated herein by reference.

Item 4. Controls and Procedures

4.1 Evaluation of disclosure controls and procedures.

Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 6-K, the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d – 14(c) under the Securities Exchange Act of 1934 (the “Exchange Act”) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

4.2 Change in internal controls.

There were no significant changes in the Company’s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

Part II – Other information

Item 1. Legal proceedings

On December 17, 2001, Reka Maximovitch filed an action in the Superior Court of the State of California, Alameda County against Infosys and its former officer and director, Phaneesh Murthy. Ms. Maximovitch served the complaint on the Company in June 2002. The complaint alleges that Infosys and Phaneesh Murthy sexually harassed her and terminated her employment in violation of public policy, specifically California’s public policy against sex discrimination. The complaint also asserts claims against Phaneesh Murthy for stalking and intentional infliction of emotional distress. The complaint seeks unspecified damages, as well as punitive damages and attorneys’ fees and costs. Infosys has filed an answer denying the allegations of the complaint. Infosys has asserted, and believes that it has, various defenses to the claims. The lawsuit is now in the early stages of discovery and no trial date has been set. An unfavorable resolution of this lawsuit could adversely impact Infosys’ results of operations or financial condition.

Item 2. Changes in securities and use of proceeds

None

Item 3. Default upon senior securities

None

Item 4. Submission of matters to a vote of security holders

None

Item 5. Other information

None

Item 6. Exhibits and reports

Infosys filed no reports on Form 8-K during the quarter ended September 30, 2002.

EXHIBIT INDEX

Exhibit Number	Description of Document
19.1	Infosys Quarterly report to the shareholders for the quarter ended September 30, 2002.
99.1	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes Oxley Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly organized.

Dated: October 24, 2002 INFOSYS TECHNOLOGIES LIMITED

By: /s/ Narayana N. R. Murthy

Narayana N. R. Murthy,
Chairman and Chief Mentor

/s/ Nandan M. Nilekani

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

Chief Executive Officer Certification

I, Nandan M. Nilekani, Chief Executive Officer, President and Managing Director of Infosys Technologies Limited, certify that:

1. I have reviewed this quarterly report on Form 6-K of Infosys Technologies Limited;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Nandan M. Nilekani
Chief Executive Officer,
President and Managing Director

Date: October 24, 2002

Chief Financial Officer Certification

I, T. V. Mohandas Pai, Chief Financial Officer and Director – Finance and Administration of Infosys Technologies Limited, certify that:

1. I have reviewed this quarterly report on Form 6-K of Infosys Technologies Limited;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ T. V. Mohandas Pai
Chief Financial Officer
and Director – Finance and Administration

Date: October 24, 2002

Shareholder information

1. Registered office

Electronics City, Hosur Road, Bangalore – 561 229, India
Tel.: +91-80-852 0261, Fax: +91-80-852 0362
Homepage: www.infosys.com

2. Listing on stock exchanges

In India: National Stock Exchange of India Ltd. (NSE)
The Stock Exchange, Mumbai (BSE)
Bangalore Stock Exchange Ltd. (BgSE)

Outside India: NASDAQ National Market in the United States

3. Par value of equity shares

Rs. 5 each fully paid-up

4. Registrar and share transfer agents

Share transfers in physical form and other communication regarding share certificates, dividends, change of address, etc. may be addressed to:

Karvy Consultants Limited,
Registrars and Share Transfer Agents;
T.K.N. Complex, No. 51/2, Vanivilas Road;
Opposite National College, Basavanagudi;
Bangalore 560 004, India.
Tel.: +91-80-662-1184, Fax: +91-80-662-1169
E-mail: kannans@karvy.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 National, Mumbai and Bangalore Stock Exchanges for the quarter ended September 30, 2002 are:

	NSE			BSE			BgSE		
	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.
Jul 2002	3,480	2,975	1,19,84,211	3,478	2,972	58,92,906	–	–	–
Aug	3,635	2,937	1,27,09,793	3,644	2,935	58,59,212	–	–	–
Sep	3,708	3,330	1,25,70,577	3,710	3,365	52,99,771	–	–	–
Total			3,72,64,581			1,70,51,889			
Volume traded/ shares outstanding (%)*									
September 30, 2002			58.16			26.61			–
September 30, 2001			58.29			35.94			.001

* The number of shares outstanding as of September 30, 2002 is 6,40,70,030. The equity shares underlying the American Depository Shares (ADSs) have been excluded for the purpose of this calculation.

6. Share transfer system

Shares sent for physical transfer are effected after giving a notice of 15 days to the seller for sale confirmation. The share transfer committee of the company meets as often as required.

The total number of shares transferred in physical form during the three-month period ended September 30, 2002 was NIL (quarter ended September 30, 2001 – 9,000).

7. Investors' services – complaints received

Nature of complaints	Quarter ended			
	September 30, 2002		September 30, 2001	
	Received	Attended to	Received	Attended to
Non-receipt of: Dividend warrants	41	41	52	52
Dividend in ECS mode	34	34	–	–
Split shares/bonus shares	1	1	–	–
Share certificates	–	–	1	1
Total	76	76	53	53

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, 2002 except in cases that are constrained by disputes or legal impediments.

8. Legal proceedings

There are some pending cases relating to disputes over title to shares, in which the company is made a party. However, these cases are not material in nature.

9. Categories of shareholders as on September 30

Category	2002			2001		
	No. of shareholders	Voting strength (%)	No. of shares held	No. of shareholders	Voting strength (%)	No. of shares held
Individuals	82,609	17.43	1,15,42,056	89,117	20.25	1,33,95,950
Companies	3,036	1.09	7,19,104	3,415	1.01	6,67,319
NRIs / OCBs	842	1.06	7,02,906	742	0.67	4,45,388
FII's	308	37.67	2,49,42,998	361	34.61	2,28,97,389
Mutual Funds, Banks, FIs	196	9.68	64,10,994	187	10.10	66,85,980
Founders and their families	23	28.56	1,89,07,585	23	28.92	1,91,33,460
Trusts	8	1.28	8,44,387	19	1.28	8,44,514
Equity shares underlying American Depository Shares*	1	3.23	21,35,150	1	3.16	20,90,717
Total	87,023	100.00	6,62,05,180	93,865	100.00	6,61,60,717

*Held by beneficial owners outside India

10. Financial calendar (tentative and subject to change)

Interim dividend payment	November 8, 2002
Financial reporting for the third quarter ending December 31, 2002	January 10, 2003
Financial results for the year ending March 31, 2003	April 10, 2003
Annual General Meeting for the year ending March 31, 2003	May / June 2003

11. Investors' correspondence in India

For investor matters	For queries relating to financial statements
V. Balakrishnan	T. V. Mohandas Pai
Company Secretary & Vice President – Finance	Director and Chief Financial Officer
Investors' Service Cell	Infosys Technologies Ltd.,
Infosys Technologies Ltd.,	Electronics City
Electronics City	Hosur Road, Bangalore 561 229, India
Hosur Road, Bangalore 561 229, India	Tel.: +91-80-852-0396, Fax: +91-80-852- 0754
Tel.: +91-80-852-0440, Fax: +91-80-852-0754	E-mail: mdpai@infosys.com
E-mail: balakv@infosys.com	

12. Stock Exchange Codes

Reuters code	Bridge code	Bloomberg code
INFY.BO (BSE)	IN;INF (BSE)	INFO IN (BSE)
INFY.NS (NSE)	IN;INFN (NSE)	NINFO IN (NSE)
INFY.O (NASDAQ)	US;INFY (NASDAQ)	

13. Stock market data relating to American Depository Shares (ADSs)

- ADS* listed at NASDAQ National Market in the United States
- Ratio of ADS to equity shares 2 ADS for one equity share
- ADS symbol INFY
- The American Depository Shares issued under the ADS program of the company were listed on the NASDAQ National Market in the United States on March 11, 1999. The monthly high and low quotations as well as the volume of ADSs traded at the NASDAQ National Market for the quarter ended September 30,2002 are:

	High		Low		Volume Nos.
	\$	Rs.	\$	Rs.	
Jul 2002	57.00	2,775	48.00	2,337	16,86,500
Aug	57.75	2,802	49.50	2,402	17,03,000
Sep	60.68	2,937	53.05	2,568	14,87,300
Total					48,76,800

* 2 ADS = 1 equity share. US\$ has been converted into Indian rupees at the monthly closing rates.
The number of ADSs outstanding as on September 30,2002 was 42,70,300. The percentage of volume traded to the total float was 114.20%.

- Investor correspondence in the US may be addressed to
P. R. Ganapathy
Investor Relations Officer
Infosys Technologies Limited
34760, Campus Drive
Fremont CA 94555, USA.
Tel.: +1-510-742-3030, Mobile: +1-510-872-4412
Fax: +1-510-742-2930, E-mail: guns@infosys.com

14. ECS mandate

The company has received complaints regarding non-receipt of dividend warrants. All shareholders are requested to update their bank account details with their respective depositories urgently. This would enable the company to service its investors better. A copy of the ECS mandate form is provided elsewhere in the report. The ECS mandate form duly filled-up should be sent to the depository participant with whom the shareholder maintains his/her demat account.

15. Change of address

The company has received complaints regarding non-receipt of dividend warrants and other corporate communications. All shareholders are requested to update their current address with their respective depositories immediately. This would enable the company to service its investors better.

ELECTRONIC CLEARING SERVICE (CREDIT CLEARING)

MANDATE FORM

Shareholder's authorization to receive dividends through Electronic Credit Clearing Mechanism

1. Name of the first/sole shareholder

2. Folio No.

3. Particulars of bank account of first/sole shareholder

a. Name of the Bank

b. Branch

Address of the branch

Telephone no. of the branch

c. 9-digit code number of the Bank and Branch
appearing on the MICR cheque issued by the bank

d. Account number
(as appearing on the cheque book/passbook)

e. Account type
(S.B. account/current account or cash credit)
with code 10/11/13

f. Ledger no. / Ledger folio no.
(if appearing on the cheque book/passbook)

(In lieu of the bank certificate to be obtained as under, please attach a blank cancelled cheque, or photocopy of a cheque or the front page of the savings bank passbook issued to you by your bank, for verification of the above particulars.)

I hereby declare that the particulars given above are correct and complete. If the transaction is delayed or not effected at all for reasons of incomplete or incorrect information, I will not hold Infosys Technologies Limited responsible. I have read the option invitation letter and agree to discharge the responsibility expected of me as a participant under the scheme.

Date :

Place :

Signature of the shareholder

Certified that the particulars furnished above are correct as per our records.

Bank's Stamp

Signature of the Authorized Official

Date:

from the Bank

Note:

1. Please fill in the attached Mandate Form and send it to:
 - (i) the Depository Participant who is maintaining your demat account in case your shares are dematerialized.
 - (ii) the address of our Registrars and Share Transfer Agents, M/s. Karvy Consultants Limited, No. 51/2, T.K.N. Complex, Vanivilas Road, Opp. National College, Basavanagudi, Bangalore 560 004 in case you are holding physical share certificates.
2. Kindly note that the information provided by you should be accurate and complete in all respects and duly certified by your bank. In lieu of the bank certificate, you may attach a blank cancelled cheque or photocopy of a cheque or the front page of the Savings Bank passbook issued to you by your bank, for verification of the above particulars.
3. In case of more than one folio please complete the details on separate sheets.
4. The information provided by you will be treated confidential and would be utilised only for the purpose of effecting the payments meant for you. You also have the right to withdraw from this mode of payment by providing the Company with an advance notice of 6 weeks.



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Sharjah Airport International
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Fax : (91) 22 2846489

Bankers

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Bank of America

Company Secretary

V. Balakrishnan

Auditors

Bharat S Raut and Co.
Chartered Accountants

Independent Auditors

(US GAAP)
KPMG

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Fax : (91) 821 404200

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