INFOSYS TECHNOLOGIES LIMITED

Report for the first quarter ended June 30, 2001

POWERED BY INTELLECT
DRIVEN BY VALUES

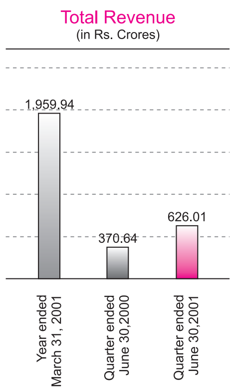
At a glance – Indian GAAP

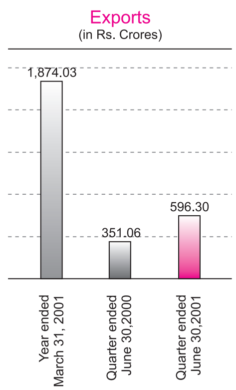
Rs. in crores, except per share data

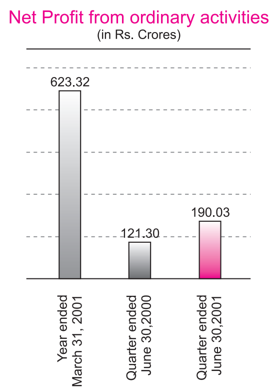
	Quarter ended June 30, 2001	Quarter ended June 30, 2000	Year ended March 31, 2001
For the period			
Total revenue	626.01	370.64	1,959.94
Export revenue	596.30	351.06	1,874.03
Operating profit (PBIDT)	254.01	152.75	808.92
Profit after tax (PAT) from ordinary activities	190.03	121.30	623.32
PBIDT as a percentage of total revenue	40.58%	41.21%	41.27%
PAT from ordinary activities as a percentage of total revenue	30.36%	32.73%	31.80%
Earnings per share from Ordinary activities*			
Basic	28.72	18.34	94.23
Diluted	28.59	18.11	93.93
Dividend per share (Rs.)	–	–	10.00
Dividend amount	–	–	66.16
Capital investment	101.74	85.84	463.35
At the end of the period			
Total assets	1,595.61	960.20	1,389.64
Fixed assets – net	623.89	275.43	557.66
Cash and cash equivalents	630.51	471.94	577.74
Working capital	910.69	648.60	797.86
Total debt	–	–	–
Net worth	1,595.61	960.20	1,389.64
Equity	33.08	33.08	33.08
Market capitalization	23,900.56	54,974.43	26,926.35

Note:
Market capitalization is calculated by considering the price at the National Stock Exchange on the shares outstanding at the period end.

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







Letter to the shareholders

Dear shareholders,

We are pleased to report on a comfortable quarter. Under Indian GAAP, revenues grew by 69% over Q1FY2001 while net profits from ordinary activities witnessed an increase of 57%. Gross employee addition for the quarter stood at 315, including 102 lateral entrants. Our relationships with *Fortune 500* and other established companies and our understanding of their decision cycles have enabled us to grow in spite of a challenging environment. In line with our risk management norms, start-up and venture-funded companies accounted for 5% of total revenues for the quarter, down from 17% in Q1FY2001. Despite capital expenditure of Rs. 101.74 crore, we have secured high free cash flows of Rs. 52.78 crore.

In light of the slowdown in the US economy, we have experienced pricing pressures from both existing and new customers, especially in new, large-scale offshore initiatives. However, we are encouraged by the intentions of most of our clients to expand the scope of their relationship with us. For instance, Toshiba Corporation has re-engaged Infosys to build the information infrastructure for its global operations across various business lines. New York Life International has entered into a worldwide expansion project with Infosys. We have also launched an availability analysis and capacity-planning exercise across multiple applications for Telstra in Australia.

Increasingly, companies are looking for higher returns on their IT investments and are therefore gravitating towards offshoring their outsourcing activities. Infosys' Global Delivery Model combines the benefits of offshore capabilities with our proven ability to deliver high-quality, high-value solutions to clients.

We added 26 new clients this quarter. Significant wins include APL, a provider of worldwide container transportation and logistic services; Burlington Northern and Santa Fe Railway Company, the second largest rail network in North America; Pinnacle West Capital Corporation, a US-based company with consolidated revenues of approximately $2 billion; Valeo, a global automotive equipment supplier; Airbus, a leading aircraft manufacturer; BHF-Bank, a German bank; Statoil ASA, a leading Scandinavian retailer of petrol and other oil products; and GreenPoint Mortgage, a specialty finance lender.

Our results for the quarter exceed the estimates given at the end of the last fiscal year. Nevertheless, since the external environment continues to be challenging, we have not revised our annual revenue growth forecast of 30% for fiscal 2002. Further, we anticipate total income for the quarter ending September 30, 2001 to be in the range of Rs. 625 crore to Rs. 640 crore. However, our plans for 1500-2000 gross employee additions in fiscal 2002 remain unchanged.

During the quarter, we invested $2.2 million in Workadia, a provider of comprehensive, customizable business intranets through browser-accessed hosted portals, along with American Express, Tibco and WestBridge Capital Partners. Workadia will also offer consulting services to help customers select and deploy their intranet applications, content and services.

We intend to reformat our Indian GAAP income statement following the functional classification methodology. We believe that this will enable a more meaningful analysis and comparison of revenues, costs and margins as well as facilitate a better understanding of our business by the financial community. The proforma profit and loss account prepared in accordance with the proposed format is provided elsewhere in this report. Starting next quarter, we intend to report our income statement in the revised format.

The jury for *The Economic Times'* Awards for Corporate Excellence 2000-01 recognized Infosys as the *Corporate Citizen of the Year*. The *Credit Lyonnais* study on corporate governance practices in emerging markets has ranked Infosys No. 2 in emerging markets and No. 1 in India. The company has been ranked No. 1 in a recent *Dataquest* survey of the top 20 Indian software companies. Infosys was ranked as having the *Best Investor Relations by an Emerging Markets Company* in the UK Awards given by *IR Magazine*.

As in the past, Infoscions participated in several conferences and published research in emerging technology areas, thereby demonstrating the company's commitment to technical thought leadership. On your behalf, we congratulate these high achievers and also extend our appreciation to fellow Infoscions for contributing to yet another successful quarter through their unstinting commitment and hard work.

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

N. R. Narayana Murthy
Chairman and Chief Executive Officer

Bangalore
July 10, 2001

Auditors' report to the members of Infosys Technologies Limited

We have audited the attached Balance Sheet of Infosys Technologies Limited (the Company) as at June 30, 2001 and the Profit and Loss Account of the Company for the quarter ended on that date, annexed thereto, and report that:

1 As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

2 Further to our comments in the Annexure referred to in paragraph 1 above:

   (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

   (b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of these books;

   (c) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;

   (d) in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report are prepared in compliance with the accounting standards referred to in Section 211(3C) of the Companies Act, 1956, to the extent applicable;

   (e) in our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:

      (i) in the case of the Balance Sheet, of the state of affairs of the Company as at June 30, 2001; and

      (ii) in the case of the Profit and Loss Account, of the profit for the quarter ended on that date.

for Bharat S Raut & Co.
Chartered Accountants

Bangalore
July 10, 2001

Balaji Swaminathan
Partner

Balance sheet as at

in Rs.

	June 30, 2001	June 30, 2000	March 31, 2001
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	33,08,05,085	33,07,58,335	33,07,92,085
Reserves and surplus	1562,52,96,675	927,12,34,168	1356,55,99,903
	1595,61,01,760	960,19,92,503	1389,63,91,988
APPLICATION OF FUNDS			
FIXED ASSETS			
Original cost	738,74,44,287	373,65,25,244	631,14,44,025
Less: Depreciation	278,86,97,454	151,26,93,565	244,13,15,982
Net book value	459,87,46,833	222,38,31,679	387,01,28,043
Add: Capital work-in-progress	164,01,15,365	53,04,58,784	170,65,04,250
	623,88,62,198	275,42,90,463	557,66,32,293
INVESTMENTS	44,44,22,821	36,16,97,129	34,11,54,821
DEFERRED TAX ASSETS	16,59,00,000	–	–
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	309,12,07,202	228,39,91,832	302,37,02,417
Cash and bank balances	446,28,93,265	426,00,41,918	385,06,10,285
Loans and advances	468,17,78,978	196,24,84,174	430,27,93,623
	1223,58,79,445	850,65,17,924	1117,71,06,325
Less: Current liabilities	154,53,25,723	116,79,86,403	134,91,81,176
Provisions	158,36,36,981	85,25,26,610	184,93,20,275
NET CURRENT ASSETS	910,69,16,741	648,60,04,911	797,86,04,874
	1595,61,01,760	960,19,92,503	1389,63,91,988

This is the Balance Sheet referred to in our report of even date.

for Bharat S Raut & Co.
Chartered Accountants

Balaji Swaminathan
Partner

N. R. Narayana Murthy
Chairman and Chief Executive Officer

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

Deepak M. Satwalekar
Director

Marti G. Subrahmanyam
Director

Jitendra Vir Singh
Director

Omkar Goswami
Director

Larry Pressler
Director

Rama Bijapurkar
Director

S. Gopalakrishnan
Deputy Managing Director

K. Dinesh
Director

Bangalore,
July 10, 2001

S. D. Shibulal
Director

T. V. Mohandas Pai
Director and Chief Financial Officer

Phaneesh Murthy
Director

Srinath Batni
Director

V. Balakrishnan
Company Secretary and Vice President – Finance

Profit and loss account for the

in Rs.

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
INCOME			
Software development services and products			
Overseas	596,30,21,488	351,05,78,423	1874,02,66,421
Domestic	16,21,65,861	4,47,21,726	26,53,92,386
Other income	13,49,39,605	15,11,07,532	59,37,14,915
	626,01,26,954	370,64,07,681	1959,93,73,722
EXPENDITURE			
Software development expenses	318,32,88,293	189,39,05,266	958,17,66,650
Administration and other expenses	53,67,64,710	28,50,11,949	177,54,70,971
Provision for investments	–	–	15,28,98,608
	372,00,53,003	217,89,17,215	1151,01,36,229
Operating profit (PBIDT)	254,00,73,951	152,74,90,466	808,92,37,493
Interest	–	–	–
Depreciation	35,48,03,492	17,73,71,717	112,89,45,152
Profit before tax and extraordinary item	218,52,70,459	135,01,18,749	696,02,92,341
Provision for taxation	28,50,00,000	13,71,00,000	72,71,00,000
Profit after tax before extraordinary item	190,02,70,459	121,30,18,749	623,31,92,341
Extraordinary item			
– transfer of intellectual property rights (net of tax)	–	5,49,44,000	5,49,44,000
Net profit after tax and extraordinary item	190,02,70,459	126,79,62,749	628,81,36,341
AMOUNT AVAILABLE FOR APPROPRIATION	190,02,70,459	126,79,62,749	628,81,36,341
Dividend			
Interim	–	–	16,53,78,418
Final	–	–	49,61,85,878
Dividend tax	–	–	8,69,94,211
Amount transferred – general reserve	–	–	553,95,77,834
Balance in Profit and Loss Account	190,02,70,459	126,79,62,749	–
	190,02,70,459	126,79,62,749	628,81,36,341
EARNINGS PER SHARE *(equity shares, par value Rs. 5 each)*			
Basic	28.72	19.17	95.06
Diluted	28.59	18.93	94.76
Number of shares used in computing earnings per share			
Basic	6,61,59,038	6,61,51,036	6,61,52,131
Diluted	6,64,65,149	6,69,81,506	6,63,58,311

This is the Profit and Loss Account
referred to in our report of even date

for Bharat S Raut & Co.
Chartered Accountants

Balaji Swaminathan
Partner

N. R. Narayana Murthy
Chairman and Chief Executive Officer

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

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Director and Chief Financial Officer

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Director

V. Balakrishnan
Company Secretary and Vice President – Finance

Bangalore,
July 10, 2001

Schedules to the profit and loss account

in Rs.

	Quarter ended June 30, 2001	Quarter ended June 30, 2000	Year ended March 31, 2001
OTHER INCOME			
Interest received on deposits with banks and others	11,80,75,060	7,56,56,319	38,46,83,890
(Tax deducted at source Rs. 1,71,06,524; Rs. 69,02,206 and Rs. 4,30,12,428 respectively)			
Miscellaneous income	42,47,253	12,75,233	73,18,542
Exchange differences *	1,26,17,292	7,41,75,980	20,17,12,483
	13,49,39,605	15,11,07,532	59,37,14,915

*arising on translation of foreign currency deposits maintained abroad includes a realized gain of Rs. Nil (quarter ended June 30, 2000 – Rs. Nil; year ended March 31, 2001 – Rs. 5,06,25,885)

	Quarter ended June 30, 2001	Quarter ended June 30, 2000	Year ended March 31, 2001
SOFTWARE DEVELOPMENT EXPENSES			
Salaries and bonus including overseas staff expenses	251,16,36,702	131,59,03,108	675,86,45,286
Staff welfare	1,97,44,018	1,51,05,488	8,46,06,310
Contribution to provident and other funds	7,02,27,003	9,49,72,021	33,45,76,308
Foreign travel expenses	32,23,60,043	30,21,47,079	147,22,11,655
Consumables	39,15,735	90,94,196	5,86,87,245
Cost of software packages for			
own use	7,99,74,683	7,54,06,306	31,85,81,751
banking product	4,00,58,029	83,50,829	5,70,13,753
Computer maintenance	1,18,19,183	1,48,09,400	7,19,42,078
Communication expenses	10,22,07,164	4,70,05,737	31,52,55,986
Consultancy charges	2,03,72,893	1,12,91,262	9,19,25,609
Provision for post-sales client support	9,72,840	(1,80,160)	1,83,20,669
	318,32,88,293	189,39,05,266	958,17,66,650
ADMINISTRATION AND OTHER EXPENSES			
Professional charges	3,84,49,342	2,55,65,071	20,40,21,385
Traveling and conveyance	4,21,84,101	2,72,52,199	18,40,64,822
Rent	6,51,19,891	3,26,94,228	16,94,82,708
Telephone charges	4,24,42,313	2,91,31,034	14,02,60,363
Office maintenance	3,35,01,582	2,73,12,516	12,84,32,642
Power and fuel	4,62,90,782	2,06,50,482	11,78,45,258
Brand building	1,86,21,284	1,09,58,146	10,52,01,392
Donations	2,42,50,825	1,58,07,369	7,21,92,883
Advertisements	61,10,666	1,13,04,298	6,30,77,831
Printing and stationery	3,14,30,676	2,50,66,901	6,25,54,206
Insurance charges	1,27,62,786	52,89,398	5,17,55,298
Repairs to building	2,21,54,234	82,54,771	3,95,22,458
Repairs to plant and machinery	49,17,486	33,86,262	2,26,54,171
Rates and taxes	89,98,658	35,64,331	1,82,17,524
Commission charges	51,76,868	22,64,589	1,79,03,784
Bank charges and commission	4,80,367	5,30,303	59,39,483
Auditor's remuneration			
audit fees	5,37,500	4,46,250	17,85,000
certification charges	–	–	2,00,000
out-of-pocket expenses	50,000	50,000	2,00,000
Bad loans and advances written off	–	–	4,141
Bad debts written off	–	–	27,70,254
Provision for doubtful loans and advances	(7,660)	(1,412)	7,11,816
Provision for bad and doubtful debts	6,93,64,922	40,87,456	19,27,45,549
Freight charges	12,09,911	5,43,906	55,72,484
Professional membership and seminar participation fees	53,52,852	28,91,627	2,17,10,613
Marketing expenses	1,53,54,280	53,23,041	4,26,87,545
Postage and courier	1,17,02,538	48,77,958	2,27,86,459
Books and periodicals	33,41,757	38,54,221	1,69,10,978
Commission to non-whole time directors	24,00,000	15,00,000	59,22,049
Sales promotion expenses	11,34,626	1,87,071	70,16,656
Transaction processing fee and filing fees	1,38,49,399	3,72,625	1,52,76,339
Research grants	25,00,000	25,00,000	1,00,00,000
Other miscellaneous expenses	70,82,724	93,47,308	2,60,44,880
	53,67,64,710	28,50,11,949	177,54,70,971
PROVISION FOR TAXATION			
Current year			
Income taxes	29,56,00,000	12,31,00,000	71,31,00,000
Deferred taxes	(1,06,00,000)	–	–
	28,50,00,000	12,31,00,000	71,31,00,000
Prior years	–	1,40,00,000	1,40,00,000
	28,50,00,000	13,71,00,000	72,71,00,000

1. Significant accounting policies and notes on accounts

Company overview

Infosys Technologies Limited ("Infosys" or "the company") is a publicly held company providing information technology ("IT") solutions principally to *Fortune 500* and other established corporations. Infosys' range of services include IT consulting and architecture, application development, e-commerce and Internet consulting, and software maintenance. In addition, the company develops and markets certain software products.

Infosys has 16 state-of-the-art offshore software development facilities located throughout India and 7 off-site software development centers and a consulting office overseas. The offshore software development facilities enable the Company to provide high quality, cost-effective services to clients in a resource-constrained environment. The company has its headquarters in Bangalore, India, and offices in the Americas, Europe and Asia that provide marketing and administrative support.

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 certain recently issued accounting standards made mandatory by the ICAI effective the current fiscal year and adopted by the company, as described below.

The ICAI has issued accounting standards on segment reporting, related party disclosures, earnings per share and accounting for taxes on income that became mandatory effective accounting periods commencing on or after April 1, 2001. The company adopted the accounting standards on segment reporting, related party disclosures and earnings per share from the year ended March 31, 2001. The standards on accounting for leases and income taxes have been adopted in the preparation of these financial statements.

The accounting standard on consolidated financial statements becomes effective from April 1, 2001 should a company consolidate its financial statements. Although Yantra Corporation, USA, is a subsidiary of Infosys as per the Companies Act, 1956, the financial statements have not been consolidated since the company does not have control as envisaged by the accounting standard on consolidated financial statements issued by the ICAI. The company does not have any investments in associates and accordingly the related accounting standard, mandatory effective April 1, 2002, does not affect these financials statements.

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 revenue 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, provision for doubtful debts, future obligations under employee retirement benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.

1.1.2 Revenue recognition

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

1.1.3 Expenditure

The cost of software user licenses purchased for software development and the rendering of IT services is charged to revenue in the year the software is acquired. Project costs in the nature of salaries, travel and other expenses incurred on fixed price contracts, where milestones are yet to be reached are classified as "Costs in excess of billings" in the balance sheet. Charges relating to non-cancelable long-term operating leases are computed on the basis of the lease rentals payable as per the relevant lease agreements. Provisions are made for all known losses and liabilities, future unforeseeable factors that may affect the profit on fixed-price software development contracts and also towards likely expenses for providing post-sales client support. The leave encashment liability of the company is provided on the basis of an actuarial valuation.

1.1.4 Fixed assets and capital work-in-progress

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Direct costs are capitalized until the assets are ready for use and include financing costs relating to any borrowing attributable to acquisition. Capital work-in-progress includes the cost of fixed assets that are not yet ready for their intended use, advances paid to acquire fixed assets and the cost of assets not put to use before the balance sheet date.

1.1.5 Depreciation

Depreciation on fixed assets is determined using the straight-line method based on useful lives of assets as estimated by the company. Depreciation for assets purchased/sold during the year is proportionately charged. Individual assets acquired for less than Rs. 5,000/- are entirely depreciated in the year of acquisition. Management estimates the useful lives for the various fixed assets as follows:

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

1.1.6 Retirement benefits to employees

1.1.6a Gratuity

In accordance with the Payment of Gratuity Act, 1972, Infosys provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which, the company 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.

1.1.6b 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. The company has no further obligations to the Plan beyond its monthly contributions.

1.1.6c 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. The company has no further obligations under the provident fund plan beyond its monthly contributions.

1.1.7 Research and development

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

1.1.8 Foreign currency transactions

Revenue from overseas clients and collections deposited in foreign currency bank accounts are recorded at the exchange rate as of the date of the respective transactions. Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Disbursements made out of foreign currency bank accounts are reported at a rate that approximates the actual monthly rate. Exchange differences are recorded when the amount actually received on sales or actually paid when expenditure is incurred is converted into Indian Rupees. The exchange differences arising on foreign currency transactions are recognized as income or expense in the period in which they arise.

Fixed assets purchased at overseas offices are recorded at cost, based on the exchange rate as of the date of purchase. The charge for depreciation is determined as per the company's accounting policy.

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

1.1.9 Income tax

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax annually based on the tax liability computed after considering tax allowances and exemptions. Provisions are recorded as considered appropriate for matters under appeal due to disallowances or for other reasons.

The differences that result between the profit offered for income taxes and the profit as per the financial statements are identified and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted regulations. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

1.1.10 Earnings per share

In determining earnings per share, the company considers the net profit after tax and includes the post-tax effect of any extra-ordinary items. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share, and also the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares). The number of shares and potentially dilutive equity shares are adjusted for stock splits and bonus shares, as appropriate.

1.1.11 Investments

Trade investments refer to the investments made with the aim of enhancing the company's business interests in software development and services. Investments are either classified as current or long-term. Current investments are carried at the lower of cost and fair value. Cost for overseas investments comprises the Indian Rupee value of the consideration paid for the investment.

Long-term investments are carried at cost and provisions recorded to recognize any decline, other than temporary, in the carrying value of such investment.

The investment in the subsidiary (as per the Companies Act, 1956) is accounted on the cost method, whereby, the investment is carried at cost and the company recognizes only dividends received from the subsidiary as income in the profit and loss account. Provisions are recorded to recognize any decline, other than temporary, in the carrying value of the investment.

1.2 Notes on accounts

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

1.2.1 Deferred income taxes

Consequent to the standard on accounting for taxes on income becoming mandatory effective April 1, 2001, the company recorded the cumulative net deferred tax credit of Rs. 15,53,00,000 until April 1, 2001, as an addition to the general reserves. The deferred tax credit of Rs. 1,06,00,000 for the quarter ended June 30, 2001 is included in the provision for taxation.

1.2.2 Capital commitments and contingent liabilities

a. The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advances) is Rs. 143,18,57,443 as at June 30, 2001. The amount of such contracts as at June 30, 2000 was Rs. 118,86,56,390 and as at March 31, 2001 was Rs. 158,25,35,171.

b. The company has outstanding guarantees and counter guarantees of Rs.11,97,30,000 as at June 30, 2001, to various banks, in respect of the guarantees given by the banks in favor of various government authorities. The guarantees outstanding as at June 30, 2000 were Rs. 5,71,30,000 and as at March 31, 2001 were Rs. 6,83,05,000.

c. Claims against the company, not acknowledged as debts, amounted to Rs. 4,52,10,368 as at June 30, 2001. Such claims as at June 30, 2000 were Rs. 73,78,977 and as at March 31, 2001 Rs. 8,75,532.

d. Outstanding forward contracts amounted to US$ 35,000,000 (approximately Rs. 166,13,75,000 at quarter end exchange rates) at June 30, 2001. Such contracts as at June 30, 2000 were Rs. Nil and as at March 31, 2000 were US$ 20,000,000 (approximately Rs. 93,12,00,000 at year end exchange rates).

1.2.3 Quantitative details

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

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

in Rs.

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Capital goods	14,65,25,897	16,76,46,420	113,56,33,008
Software packages	1,66,61,395	61,84,284	1,67,88,389

1.2.5 Earnings in foreign exchange (on the receipts basis)

in Rs.

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Income from software development services and products	585,75,27,673	304,28,30,950	1708,67,49,891
Interest received on deposits with banks	1,67,51,659	5,49,26,100	19,55,81,989

Expenditure in foreign currency (on the payments basis)

in Rs.

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Travel expenses	20,90,93,035	17,70,40,100	107,69,86,908
Professional charges	3,43,03,690	72,06,920	14,63,89,491
Other expenditure incurred overseas for software development	202,09,24,973	80,78,78,995	489,94,99,776

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

in Rs.

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Net earnings in foreign exchange	360,99,57,634	210,56,31,035	1115,94,55,705

1.2.6 Fixed assets

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

During the quarter ended June 30, 2001, the company charged depreciation at 100% in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 2,85,88,155. The corresponding amount for the quarter ended June 30, 2000 was Rs. 3,40,36,128 and for the year ended March 31, 2001 was Rs. 34,99,43,502.

Profit/loss on disposal of fixed assets

The company recorded a profit of Rs. 2,93,670 on the sale of fixed assets during the quarter ended June 30, 2001. The loss charged for the quarter ended June 30, 2000 is Rs. 45,109 and the profit for the year ended March 31, 2001 was Rs. 9,17,890.

1.2.7 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:

in Rs.

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Lease rentals paid during the period/year	6,51,19,891	3,26,94,228	16,94,82,708

Lease obligations	As at June 30, 2001	2000	As at March 31, 2001
Within one year of the balance sheet date	11,10,41,975	4,43,04,530	7,30,43,980
Due in a period between one year and five years	35,80,20,475	14,82,21,361	27,71,79,409
Due after five years	4,12,29,308	4,35,12,036	14,40,05,657
	51,02,91,758	23,60,37,927	49,42,29,046

The operating lease arrangements extend for a maximum of 10 years from their respective dates of inception and relate to rented overseas premises.

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

in Rs.

	Quarter ended June 30, 2001	June 30, 2000*	Year ended March 31, 2001*
Salary	44,39,262	22,64,968	1,54,84,785
Contribution to provident fund and other funds	4,79,325	3,83,405	18,29,116
Perquisites and incentives	67,41,120	7,39,873	89,20,426

* includes the remuneration paid to three directors who were co-opted into the board on May 27, 2000.

1.2.9 Managerial remuneration paid to non-whole-time directors

in Rs.

	Quarter ended June 30, 2001	June 30, 2000	Year ended March 31, 2001
Commission	–	–	59,22,049
Sitting fees	1,30,000	1,12,000	2,57,000
Reimbursement of expenses	8,38,244	2,04,161	9,09,070

1.2.10 Exchange differences

in Rs.

	Quarter ended June 30, 2001	June 30, 2000	Year ended March 31, 2001
Gains on the translation of foreign currency deposits	1,26,17,292	7,41,75,980	20,17,12,483
Net realized and unrealized exchange gains – others	3,62,20,186	7,63,71,369	19,45,83,779
Total net realized and unrealized gains	4,88,37,478	15,05,47,349	39,62,96,262

Total realized and unrealized exchange gains comprise, gains on the translation of foreign currency deposits which is classified as "other income" and net realized and unrealized exchange gains, which are classified as "Income from software development services and products — overseas".

1.2.11 Research and development expenditure

in Rs.

	Quarter ended June 30, 2001	June 30, 2000	Year ended March 31, 2001
Capital	7,71,248	20,02,050	2,14,29,903
Revenue	3,85,05,021	3,15,82,490	14,97,08,196
Total research and development expenses	3,92,76,269	3,35,84,540	17,11,38,099

1.2.12 Unearned revenue

Unearned revenue as at June 30, 2001 amounting to Rs. 36,28,63,771 (as at June 30, 2000 – Rs. 64,25,65,243 and as at March 31, 2001 – Rs. 34,82,60,201) primarily consists of client billings on fixed-price, fixed-time-frame contracts for which the related costs have not yet been incurred.

1.2.13 Dues to small-scale industrial undertakings

As at June 30, 2001, the company had no outstanding dues to small-scale industrial undertakings (as at June 30, 2000 – Rs. Nil and as at March 31, 2001 – Rs. Nil).

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

During the year ended March 31, 1999, Infosys made an Initial Public Offering of ADS, of US$ 70,380,000, equivalent to Rs. 296,86,00,000. The issue proceeds net of expenses of Rs. 19,68,00,000 are entirely utilized as of the year ended March 31, 2001. The unutilized ADSs proceeds as at June 30, 2001 are Rs. Nil (as at June 30, 2000 – Rs. 66,13,00,000 and as at March 31, 2001 – Rs. Nil).

1.2.15 Stock option plans

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

1994 Stock Option Plan (the "1994 Plan")

As of June 30, 2001 the options to acquire 2,69,000 shares were outstanding with the Employee Welfare Trust and options to acquire 3,24,600 shares are outstanding with the employees under the 1994 Plan. These options were granted at an exercise price of Rs. 50 (post split) per option. Additionally, 14,15,000 shares earlier issued are subject to lock-in. No options were issued under this plan during the period.

1998 Stock Option Plan (the "1998 Plan")

The 1998 Plan provides for the grant of stock options to employees. The board of directors approved the 1998 Plan in December 1997 and by the shareholders in January 1998. The Government of India approved 29,40,000 ADSs representing 14,70,000 equity shares for issue under the Plan. The options may be issued at an exercise price that is not less than 90% of the fair market value of the underlying equity share on the date of the grant. The 1998 Plan automatically expires in January 2008, unless terminated earlier. All options under the 1998 Plan are exercisable for ADSs representing equity shares. A compensation committee comprising independent members of the board of directors administers the 1998 Plan.

Number of options granted, exercised and forfeited	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Options granted, beginning of period/year	15,65,506	6,89,500	6,89,500
Granted during the period/year	97,800	1,46,700	9,64,840
Exercised during the period/year	(5,200)	(1,334)	(12,434)
Forfeited during the period/year	(31,620)	(11,500)	(76,400)
Options granted, end of period/year	16,26,486	8,23,366	15,65,506
Weighted average exercise price	US$ 88.57	US$ 77.06	US$ 90.98
	Rs. 4,162	Rs. 3,440	Rs. 4,236

1999 Stock Option Plan (the "1999 Plan")

In fiscal 2000, the company instituted the 1999 Plan. The shareholders and the board of directors approved the plan in June 1999, which provides for the issue of 66,00,000 equity shares to the employees. The compensation committee administers the 1999 Plan. Options will be issued to employees at an exercise price that is not less than the fair market value.

Fair market value is the closing price of the company's shares in the stock exchange, where there is the highest trading volume on a given date and if the shares are not traded on that day, the closing price on the next trading day.

Under the 1999 Plan, options may be issued to employees at exercise prices that are less than the fair market value only if specifically approved by the members of the company in a general meeting. No approval has been sought to date in this regard.

Number of options granted, exercised and forfeited	Quarter ended		Year ended
	June 30, 2001	June 30,2000	March 31, 2001
Options granted, beginning of period/year	27,93,980	10,06,800	10,06,800
Granted during the period/year	4,15,250	6,58,650	19,57,830
Exercised during the period/year	–	–	(1,200)
Forfeited during the period/year	(41,860)	(23,600)	(1,69,450)
Options granted, end of period/year	31,67,370	16,41,850	27,93,980
Weighted average exercise price	Rs. 5,346	Rs. 4,931	Rs. 5,572

The aggregate options outstanding and considered for dilution as at June 30, 2001 are 39,80,613 (as at June 30, 2000 – 20,53,533 options and as at March 31, 2001 – 35,76,733 options).

1.2.16 Proforma disclosures relating to the Employee Stock Option Plans ("ESOPs")

The Securities and Exchange Board of India (SEBI) issued the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines in 1999, which is applicable to all stock option schemes established on or after June 19, 1999. In accordance with these guidelines, the excess of the market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the options, including up-front payments, if any, is to be recognized and amortized on a straight-line basis over the vesting period. All options under the 1998 and 1999 stock option plans have been issued at fair market value, hence there are no compensation costs.

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

Had the stock compensation costs for this stock option plan been determined as per the guidelines issued by SEBI, the company's reported net profit would have been reduced to the proforma amounts indicated below.

in Rs.

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Net profit:			
As reported	190,02,70,459	126,79,62,749	628,81,36,341
Adjusted proforma	184,11,62,755	121,14,70,502	605,55,42,584

1.2.17 Provision for taxation

The company's profits from export activities are partly deductible from taxable income. However, most of Infosys' operations are conducted through 100% Export Oriented Units ("EOU"), which are entitled to a tax holiday for a period of 10 years from the date of commencement of operations. The Government of India amended the tax incentive available to companies operating through EOUs. The tenure of tax exemption available to such companies is restricted to a maximum of 10 consecutive years commencing from the fiscal year in which the unit commences software development and expires on March 31, 2009. Additionally, export related tax deductions apart from the 100% EOU scheme earlier described are being phased out by fiscal 2004. The provision for taxation includes tax liabilities in India on the company's global income as reduced by exempt incomes and any tax liabilities arising overseas on income sourced from those countries.

1.2.18 Cash and bank balances

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

in Rs.

Balances with non-scheduled banks	As at June 30,		As at March 31,
	2001	2000	2001
In deposit account in foreign currency			
HSBC Bank Middle East, Bahrain	–	69,43,99,799	–
	–	69,43,99,799	–
In current accounts			
ABN Amro Bank, Heerlen, Netherlands	–	15,95,544	–
ABN Amro Bank, Brussels, Belgium	10,31,831	13,26,688	8,73,096
Bank of America, Concord, USA	2,15,66,340	–	27,09,344
Bank of America, Hong Kong	6,88,913	–	4,25,885
Bank of America, Los Angeles, USA	–	11,88,502	–
Bank of America, Milpitas, USA	–	3,52,03,130	23,59,820
Bank of America, Palo Alto, USA	43,94,71,834	51,53,93,175	35,70,97,922
Bank of Boston, Boston, USA	60,83,049	5,46,035	21,30,626
Bank of Melbourne, Melbourne, Australia	14,45,702	11,10,636	17,26,245
Bank of Melbourne, Victoria, Australia	3,82,761	–	5,46,759
Barclays Bank, London, UK	37,69,185	37,03,573	38,36,868
Deutsche Bank, Frankfurt, Germany	10,47,613	36,94,391	20,22,282
First Chicago Bank, Chicago, USA	–	16,42,693	–
Hong Kong Bank of Canada, Toronto, Canada	5,17,677	38,77,993	5,54,537
HSBC Bank PLC – Croydon, London	18,93,61,988	–	9,76,68,994
Michigan National Bank, Detroit, USA	–	13,58,243	–
Nations Bank, Dallas, USA	1,12,89,082	1,28,80,583	1,17,15,900
Nations Bank, Georgia, USA	–	16,88,456	–
National Bank of Sharjah, UAE	14,08,179	–	–
Nordbanken, Stockholm, Sweden	12,82,320	16,97,129	15,86,376
Nova Scotia Bank, Toronto, Canada	5,30,93,094	1,28,52,421	5,21,19,103
Seafirst Bank, Seattle, USA	–	25,84,499	–
Sanwa Bank, Tokyo, Japan	23,48,934	39,29,641	12,18,670
Summit Bank, Bridgewater, USA	35,44,309	30,99,673	14,75,012
	73,83,32,811	60,93,73,005	54,00,67,439

Maximum balance held in non-scheduled banks during the period/year	Quarter ended June 30, 2001	2000	Year ended March 31, 2001
in deposit account in foreign currency			
HSBC Bank Middle East, Bahrain	–	69,43,99,799	72,78,38,970
in current accounts			
ABN Amro Bank, Heerlen, Netherlands	–	15,95,544	15,95,544
ABN Amro Bank, Brussels, Belgium	18,31,307	16,26,311	25,10,415
Bank of America, Concord, USA	5,53,09,105	–	11,56,12,302
Bank of America, Hong Kong	10,70,247	–	11,81,752
Bank of America, Los Angeles, USA	–	50,65,143	3,08,58,501
Bank of America, Milpitas, USA	28,83,464	3,52,03,130	5,89,07,898
Bank of America, Palo Alto, USA	63,57,70,026	69,60,58,192	92,96,33,056
Bank of Boston, Boston, USA	60,98,815	28,18,994	72,15,459
Bank of Melbourne, Melbourne, Australia	27,69,994	11,56,382	17,26,245
Bank of Melbourne, Victoria, Australia	21,32,997	–	16,34,330
Barclays Bank, London, UK	38,78,448	57,24,186	3,63,48,726
Deutsche Bank, Frankfurt, Germany	56,90,413	36,94,391	36,94,391
First Chicago Bank, Chicago, USA	–	22,07,085	22,07,085
Hong Kong Bank of Canada, Toronto, Canada	5,54,537	1,01,66,688	1,01,66,688
HSBC Bank PLC – Croydon, London	24,49,63,498	–	16,51,68,657
Michigan National Bank, Detroit, USA	–	17,44,660	17,44,660
National Bank of Sharjah, UAE	14,08,179	–	–
Nations Bank, Dallas, USA	2,55,96,002	2,04,48,137	3,36,69,804
Nations Bank, Georgia, USA	–	21,33,612	21,33,612
Nordbanken, Stockholm, Sweden	17,51,168	16,97,129	23,20,446
Nova Scotia Bank, Toronto, Canada	9,66,13,821	1,28,52,421	7,57,18,591
Seafirst Bank, Seattle, USA	–	31,46,158	31,46,158
Sanwa Bank, Tokyo, Japan	1,15,86,471	48,69,517	1,40,25,843
Summit Bank, Bridgewater, USA	83,25,596	35,11,056	88,91,861

The cash and bank balances include interest accrued but not due on fixed deposits amounting to Rs. 2,69,09,484 for the quarter ended June 30, 2001 (the quarter ended June 30, 2000 – Rs. 27,33,684 and the year ended March 31, 2001 – Rs. 1,94,43,708).

1.2.19 Loans and advances

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

Deposits with financial institutions and a body corporate comprise:

in Rs.

	As at June 30, 2001	2000	As at March 31, 2001
Deposits with financial institutions:			
Housing Development Finance Corporation Limited	50,76,20,299	10,41,44,577	50,87,03,015
ICICI Limited	31,41,17,812	10,20,30,140	50,87,01,373
IDBI Limited	51,49,98,314	–	40,35,30,424
Deposits with body corporate:			
GE Capital Services India Limited	50,54,96,783	25,31,55,167	50,58,17,345
	184,22,33,208	45,93,29,884	192,67,52,157

The above amounts include interest accrued but not due amounting to Rs. 3,22,33,208 (the quarter ended June 30, 2000 – Rs. 93,29,884 and the year ended March 31, 2001 – Rs. 2,67,52,157).

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

Mr. Deepak M. Satwalekar, Director, is also Director of HDFC. Mr. N. R. Narayana Murthy, Chairman and CEO, and Prof. Marti G. Subrahmanyam, Director, are also directors in ICICI Limited. Except as directors in these financial institutions, these persons have no direct interest in these transactions.

1.2.20 Current liabilities

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

1.2.21 Fixed assets

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

1.2.22 Transfer of intellectual property rights

During the year ended March 31, 2001, the company transferred its intellectual property rights in OnScan – a web-focused wireless-enabled notification product, to OnMobile Systems, Inc. (formerly OnScan Inc.) USA, a company incubated by Infosys as part of its ongoing effort to encourage and promote budding entrepreneurs among its employees. The rights were transferred for Rs. 8,93,40,000 (US$ 2 million), received as equity, preferred voting and preferred non-voting securities in OnMobile Systems, Inc. The income of Rs. 5,49,44,000 (net of tax) arising on the transfer is disclosed as an extraordinary item in the statement of profit and loss of that year. The transaction was completed in the quarter ended June 30, 2000.

The item has not been considered in the statement of cash flows since it is a non-cash transaction except for the payment of the related income tax.

1.2.23 Investments

Workadia Inc., USA

During the quarter ended June 30, 2001, the company made a strategic investment of Rs. 10,32,68,000 comprising 4,40,000 fully paid Series "B" convertible preferred stock, par value of US$ 0.001, at US$ 5.00 each, in Workadia, Inc., USA ("Workadia"). Workadia will provide companies with comprehensive, customizable business intranets through browser accessed hosted portals and also offer consulting services to help customers select and deploy their intranet applications, content and services.

Other information

During the year ended March 31, 2001, the company made strategic investments aggregating to Rs. 26,63,94,960 in Alpha Thinx Mobile Phone Services AG, Austria ("Alpha Thinx"); Asia Net Media BVI Limited, the British Virgin Islands; CiDRA Corporation, USA ("CiDRA"); M-Commerce Ventures Pte. Limited, Singapore; and Purpleyogi Inc., USA.

Of the above investments, the company invested Rs. 13,40,08,660 in CiDRA during the quarter ended June 30, 2000. There were no provisions as of the quarter ended June 30, 2000.

An amount of Rs. 15,28,98,608 was provided for the investments in Alpha Thinx and EC Cubed, Inc., USA, during the year ended March 31, 2001, when the investee companies filed for liquidation.

1.2.24 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 revenue and expenditure in individual segments. These are as set out in the note on significant accounting policies.

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

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

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

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

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

Industry segments

in Rs.

Quarter ended June 30, 2001	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	225,58,15,275	112,39,92,830	102,27,63,867	68,04,42,241	104,21,73,136	612,51,87,349
Identifiable operating expenses	78,15,77,975	44,60,90,828	25,93,53,742	18,15,68,558	36,55,70,440	203,41,61,543
Allocated expenses	64,61,93,970	30,20,16,064	27,48,15,915	18,28,34,341	28,00,31,170	168,58,91,460
Segmental operating income	82,80,43,330	37,58,85,938	48,85,94,210	31,60,39,342	39,65,71,526	240,51,34,346
Unallocable expenses						35,48,03,492
Operating income						205,03,30,854
Other income (expense), net						13,49,39,605
Net profit before taxes						218,52,70,459
Income taxes						28,50,00,000
Net profit after taxes						190,02,70,459

Quarter ended June 30, 2000	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	104,52,58,244	70,75,04,730	65,77,30,528	31,99,77,014	82,48,29,633	355,53,00,149
Identifiable operating expenses	44,57,33,666	25,67,43,679	18,17,52,649	12,03,85,355	27,81,28,026	128,27,43,375
Allocated expenses	26,93,70,795	17,66,76,779	16,42,47,257	7,99,04,072	20,59,74,937	89,61,73,840
Segmental operating income	33,01,53,783	27,40,84,272	31,17,30,622	11,96,87,587	34,07,26,670	137,63,82,934
Unallocable expenses						17,73,71,717
Operating income						119,90,11,217
Other income (expense), net						15,11,07,532
Net profit before taxes						135,01,18,749
Income taxes						13,71,00,000
Net profit after taxes						121,30,18,749

Year ended March 31, 2001	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	640,77,55,042	338,84,20,263	350,11,16,331	172,86,39,345	397,97,27,826	1900,56,58,807
Identifiable operating expenses	225,87,90,591	130,66,14,108	88,39,38,378	54,74,24,303	120,92,12,385	620,59,79,765
Allocated expenses	177,68,81,844	90,69,15,538	93,89,68,074	46,30,82,749	106,54,09,651	515,12,57,856
Segmental operating income	237,20,82,607	117,48,90,617	167,82,09,879	71,81,32,293	170,51,05,790	764,84,21,186
Unallocable expenses						128,18,43,760
Operating income						636,65,77,426
Other income (expense), net						59,37,14,915
Net profit before taxes						696,02,92,341
Income taxes						72,71,00,000
Net profit after taxes						623,31,92,341

Geographic segments

Quarter ended June 30, 2001	North America	Europe	India	Rest of the World	Total
Revenues	442,08,60,840	121,41,46,804	16,21,65,862	32,80,13,843	612,51,87,349
Identifiable operating expenses	142,17,68,385	43,03,39,633	4,84,21,938	13,36,31,587	203,41,61,543
Allocated expenses	120,12,05,791	32,98,99,589	6,14,83,134	9,33,02,946	168,58,91,460
Segmental operating income	179,78,86,664	45,39,07,582	5,22,60,790	10,10,79,310	240,51,34,346
Unallocable expenses					35,48,03,492
Operating income					205,03,30,854
Other income (expense), net					13,49,39,605
Net profit before taxes					218,52,70,459
Income taxes					28,50,00,000
Net profit after taxes					190,02,70,459

Quarter ended June 30, 2000	North America	Europe	India	Rest of the World	Total
Revenues	264,83,86,416	60,98,27,474	4,47,21,726	25,23,64,533	355,53,00,149
Identifiable operating expenses	94,89,69,281	22,57,03,906	1,69,12,413	9,11,57,775	128,27,43,375
Allocated expenses	66,57,79,233	15,33,04,845	1,23,54,855	6,47,34,907	89,61,73,840
Segmental operating income	103,36,37,902	23,08,18,723	1,54,54,458	9,64,71,851	137,63,82,934
Unallocable expenses					17,73,71,717
Operating income					119,90,11,217
Other income (expense), net					15,11,07,532
Net profit before taxes					135,01,18,749
Income taxes					13,71,00,000
Net profit after taxes					121,30,18,749

in Rs.

Year ended March 31, 2001	North America	Europe	India	Rest of the World	Total
Revenues	1396,90,84,594	358,05,91,607	26,53,92,386	119,05,90,220	1900,56,58,807
Identifiable operating expenses	443,71,64,129	125,44,88,260	8,95,83,246	42,47,44,130	620,59,79,765
Allocated expenses	377,03,71,740	96,78,27,796	8,59,85,652	32,70,72,668	515,12,57,856
Segmental operating income	576,15,48,725	135,82,75,551	8,98,23,488	43,87,73,422	764,84,21,186
Unallocable expenses					128,18,43,760
Operating income					636,65,77,426
Other income (expense), net					59,37,14,915
Net profit before taxes					696,02,92,341
Income taxes					72,71,00,000
Net profit after taxes					623,31,92,341

1.2.25 Related party transactions

The company entered into related party transactions during the quarter with Yantra Corporation, USA, the subsidiary of the company, and key management personnel.

The transactions with Yantra Corporation comprise sales of Rs. 1,52,48,460 during the quarter ended June 30, 2001 (the quarter ended June 30, 2000 – Rs. 5,18,56,649 and the year ended March 31, 2001 – Rs. 19,64,85,967). The outstanding dues from the subsidiary as at June 30, 2001 are Rs. 46,90,468 (as at June 30, 2000 – Rs. 1,68,19,590 and as at March 31, 2001 – Rs. 99,80,017).

Key management personnel are non-director officers of the company, who have the authority and responsibility for planning, directing and controlling the activities of the company. The loans and advances receivable from non-director officers as at June 30, 2001 are Rs. 2,04,62,199 (as at June 30, 2000 – Rs. 1,51,84,336 and as at March 31, 2001 – Rs. 1,05,74,738).

1.2.26 Provisions for doubtful debts

Periodically, the company evaluates all customer dues to the company for collectibles. The need for provisions is assessed based on various factors including collectibles of specific dues, risk perceptions of the industry in which the customer operates, general economic factors, which could effect the customer's ability to settle. The company normally provides for debtor dues outstanding for 180 days or longer. As at June 30, 2001 the company has provided for doubtful debts of Rs. 9,44,42,708 (as at June 30, 2000 – Rs. Nil and as at March 31, 2001 – Rs. 8,55,48,753) on dues from certain customers although the outstanding amounts were less than 180 days old, since the amounts were considered doubtful of recovery. The company continues pursuing the parties for recovery of the dues, in part or full.

1.2.27 Dividends remitted in foreign currencies

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

Particulars of dividends remitted are as follows:

Particulars	Number of shares to which the dividends relate	Quarter ended June 30, 2001	Quarter ended June 30, 2000	Year ended March 31,2001
Final dividend for fiscal 2000	2,081,900	–	62,11,810	62,11,810
Interim dividend for fiscal 2001	2,082,567	–	–	52,06,417
Final dividend for fiscal 2001	2,088,517	1,56,63,878	–	–
		1,56,63,878	62,11,810	1,14,18,227

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

	Quarter ended June 30, 2001	Quarter ended June 30, 2000	Year ended March 31, 2001
Number of shares considered as basic weighted average shares outstanding	6,61,59,038	6,61,51,036	6,61,52,131
Add: Effect of dilutive issues of shares/stock options	3,06,111	8,30,470	2,06,180
Number of shares considered as weighted average shares and potential shares outstanding	6,64,65,149	6,69,81,506	6,63,58,311

Statement of cash flows

in Rs.

	Quarter ended June 30, 2001	Quarter ended June 30, 2000	Year ended March 31, 2001
Cash flows from operating activities			
Profit before tax	218,52,70,459	135,01,18,749	696,02,92,341
Adjustments to reconcile profit before tax to cash provided by operating activities			
(Profit)/loss on sale of fixed assets	(2,93,670)	45,109	(9,17,890)
Depreciation and amortization	35,48,03,492	17,73,71,717	112,89,45,152
Interest income	(11,80,75,060)	(7,56,56,319)	(38,46,83,890)
Effect of deferred taxes	(1,06,00,000)	–	–
Provisions on long-term investments	–	–	15,28,98,608
Provision for e-inventing	–	(39,00,977)	–
Income taxes paid during the period/year	(37,88,96,758)	(8,66,32,475)	(85,18,05,440)
Exchange differences on translation of foreign currency deposits	(1,26,17,292)	(7,41,75,980)	(20,17,12,483)
Changes in current assets and liabilities			
Sundry debtors	(6,75,04,785)	(92,22,10,579)	(166,19,21,164)
Loans and advances	(8,94,66,842)	(8,10,46,519)	(34,72,64,731)
Current liabilities and provisions	19,71,17,386	41,34,59,784	60,92,54,409
Net cash generated by operating activities	205,97,36,930	69,73,72,510	540,30,84,912
Cash flows from financing activities			
Proceeds on exercise of stock options	41,39,313	10,01,506	2,37,85,906
Dividends paid during the period/year, including dividend tax	(54,67,96,837)	(22,02,44,213)	(42,20,05,883)
Net cash used in financing activities	(54,26,57,524)	(21,92,42,707)	(39,82,19,977)
Cash flows from investing activities			
Purchase of fixed assets and change in capital work-in-progress	(101,73,74,001)	(85,83,69,973)	(463,35,45,172)
Proceeds on disposal of fixed assets	6,34,274	50,738	22,73,671
Long-term investments in securities	(10,32,68,000)	(13,40,08,660)	(26,63,64,960)
Interest income	11,80,75,060	7,56,56,319	38,46,83,890
Net cash used in investing activities	(100,19,32,667)	(91,66,71,576)	(451,29,52,571)
Effect of exchange differences on foreign currency deposits translations	1,26,17,292	7,41,75,980	20,17,12,483
Net increase/(decrease) in cash and cash equivalents during the period/year	52,77,64,031	(36,43,65,793)	69,36,24,847
Cash and cash equivalents at the beginning of the period/year	577,73,62,442	508,37,37,595	508,37,37,595
Cash and cash equivalents at the end of the period/year	630,51,26,473	471,93,71,802	577,73,62,442

This is the Statement of Cash Flows referred to in our certificate of even date.

for Bharat S Raut & Co.
Chartered Accountants

Balaji Swaminathan *Partner*	N. R. Narayana Murthy *Chairman and Chief Executive Officer*	Nandan M. Nilekani *Managing Director, President and Chief Operating Officer*	Deepak M. Satwalekar *Director*	Marti G. Subrahmanyam *Director*	Jitendra Vir Singh *Director*
	Omkar Goswami *Director*	Larry Pressler *Director*	Rama Bijapurkar *Director*	S. Gopalakrishnan *Deputy Managing Director*	K. Dinesh *Director*
Bangalore, July 10, 2001	S. D. Shibulal *Director*	T. V. Mohandas Pai *Director and Chief Financial Officer*	Phaneesh Murthy *Director*	Srinath Batni *Director*	V. Balakrishnan *Company Secretary and Vice President – Finance*

AUDITORS' CERTIFICATE TO THE MEMBERS OF INFOSYS TECHNOLOGIES LIMITED

We have examined the cash flow statement of Infosys Technologies Limited (the company) for the quarter ended June 30, 2001. The statement has been prepared by the company in accordance with the requirements of Clause 32 of the listing agreements entered into with Indian Stock Exchanges.

for Bharat S Raut & Co.
Chartered Accountants

Balaji Swaminathan
Partner

Bangalore
July 10, 2001

Statement of cash flows

in Rs.

	Quarter ended June 30, 2001	Quarter ended June 30, 2000	Year ended March 31, 2001
INCOME TAXES PAID DURING THE PERIOD/YEAR			
Charge as per the Profit and Loss Account	28,50,00,000	13,71,00,000	72,71,00,000
Add: Tax provided on intellectual property rights transferred	–	3,43,96,000	3,43,96,000
Increase in advance income taxes	37,40,37,462	8,66,32,475	69,33,01,439
Less: Increase/(decrease) in income tax provision	(28,01,40,704)	(17,14,96,000)	(60,29,91,999)
	37,88,96,758	8,66,32,475	85,18,05,440
CHANGE IN LOANS AND ADVANCES DURING THE PERIOD/YEAR			
As per the Balance Sheet	468,17,78,978	196,24,84,174	430,27,93,623
Less: Deposits with financial institutions and body corporate, included in cash and cash equivalents	(184,22,33,208)	(45,93,29,884)	(192,67,52,157)
Advance income taxes separately considered	(161,14,35,254)	(63,07,28,828)	(123,73,97,792)
	122,81,10,516	87,24,25,462	113,86,43,674
Less: Opening balance considered	(113,86,43,674)	(79,13,78,943)	(79,13,78,943)
	8,94,66,842	8,10,46,519	34,72,64,731
CHANGE IN CURRENT LIABILITIES AND PROVISIONS DURING THE PERIOD/YEAR			
As per the Balance Sheet	312,89,62,704	202,05,13,013	319,85,01,451
Add/ Provisions separately considered in the Cash flow Statement			
(less): Income taxes	(150,91,52,445)	(79,75,15,742)	(122,90,11,741)
Provision for e-inventing	–	39,00,977	–
Dividends	–	–	(49,61,85,878)
Dividend tax	–	–	(5,06,10,959)
	161,98,10,259	122,68,98,248	142,26,92,873
Less: Opening balance considered	(142,26,92,873)	(81,34,38,464)	(81,34,38,464)
	19,71,17,386	41,34,59,784	60,92,54,409
PURCHASE OF FIXED ASSETS AND CHANGE IN CAPITAL WORK-IN-PROGRESS			
As per the Balance Sheet	108,37,62,886	89,75,14,694	349,66,44,427
Less: Opening capital work-in-progress	(170,65,04,250)	(56,96,03,505)	(56,96,03,505)
Add: Closing capital work-in-progress	164,01,15,365	53,04,58,784	170,65,04,250
	101,73,74,001	85,83,69,973	463,35,45,172
LONG-TERM INVESTMENTS IN SECURITIES DURING THE PERIOD/YEAR			
As per the Balance Sheet	44,44,22,821	36,16,97,129	34,11,54,821
Add: Provisions on investments made during the period/year	–	–	15,28,98,608
Less: Non-cash investment on transfer of intellectual property rights (refer to note 2 below)	–	(8,93,40,000)	(8,93,40,000)
	44,44,22,821	27,23,57,129	40,47,13,429
Less: Opening balance considered	(34,11,54,821)	(13,83,48,469)	(13,83,48,469)
	10,32,68,000	13,40,08,660	26,63,64,960
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR			
As per the Balance Sheet	446,28,93,265	426,00,41,918	385,06,10,285
Add: Deposits with financial institutions and body corporate, included herein	184,22,33,208	45,93,29,884	192,67,52,157
	630,51,26,473	471,93,71,802	577,73,62,442

NOTES ON THE STATEMENT OF CASH FLOWS

1. Cash flows are reported using the indirect method, whereby profit after 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.

2. During the year ended March 31, 2001, the company transferred intellectual property rights in OnScan – a web-based wireless enabled notification product, to OnMobile Systems, Inc., USA (formerly OnScan, Inc.) – a company incubated by Infosys. The product was transferred for a gross consideration of Rs. 8,93,40,000 (approximately US$ 2,000,000) that was received as equity preferred convertible voting and non-voting stock in OnMobile Systems, Inc. Accordingly the transaction is not considered in this statement of cash flows.

Proforma profit and loss account (un-audited)

The company intends to reformat its Indian GAAP income statement following the functional classification methodology. The company believes that this will enable a more meaningful analysis and comparison of revenues, costs and margins as well as facilitate a better understanding of its business by the financial community. The proforma un-audited profit and loss account prepared in accordance with the proposed format along with the current reporting format is provided in this section for the current quarter. Commencing next quarter, the Company intends to report its income statement in the proposed format. The change in the ratio analysis, in keeping with the proposed format of the profit and loss account is also attached.

PROPOSED FORMAT	*in Rs.*
Profit and loss account for the quarter ended June 30, 2001	
INCOME	
Software development services and products	
Overseas	596,30,21,488
Domestic	16,21,65,861
	612,51,87,349
SOFTWARE DEVELOPMENT EXPENSES	285,56,14,122
GROSS PROFIT	326,95,73,227
SELLING, GENERAL AND ADMINISTRATION EXPENSES	
Selling and marketing expenses	27,65,03,540
General and administration expenses	58,79,35,341
	86,44,38,881
OPERATING PROFIT	240,51,34,346
Interest	–
Depreciation	35,48,03,492
Operating profit after depreciation and interest	205,03,30,854
Other income	13,49,39,605
PROFIT BEFORE TAX	218,52,70,459
Provision for taxation	28,50,00,000
NET PROFIT AFTER TAX	190,02,70,459
AMOUNT AVAILABLE FOR APPROPRIATION	190,02,70,459
Dividend	
Interim	–
Final	–
Dividend tax	–
Balance in Profit and Loss account	190,02,70,459
	190,02,70,459
EARNINGS PER SHARE (Equity shares, par value Rs.5 each)	
Basic	28.72
Diluted	28.59
Number of shares used in computing earnings per share	
Basic	6,61,59,038
Diluted	6,64,65,149

CURRENT FORMAT	*in Rs.*
INCOME	
Software development services and products	
Overseas	596,30,21,488
Domestic	16,21,65,861
Other income	13,49,39,605
	626,01,26,954
EXPENDITURE	
Software development expenses	318,32,88,293
Administration and other expenses	53,67,64,710
	372,00,53,003
Operating profit (PBIDT)	254,00,73,951
Interest	–
Depreciation	35,48,03,492
Profit before tax	218,52,70,459
Provision for taxation	28,50,00,000
Net profit after tax	190,02,70,459
AMOUNT AVAILABLE FOR APPROPRIATION	190,02,70,459
Dividend	
Interim	–
Final	–
Dividend Tax	–
Balance in Profit and Loss account	190,02,70,459
	190,02,70,459
EARNINGS PER SHARE (Equity shares, par value Rs.5 each)	
Basic	28.72
Diluted	28.59
Number of shares used in computing earnings per share	
Basic	6,61,59,038
Diluted	6,64,65,149

Reconciliation of profit and loss account items

Software development expenses reported under current format	318,32,88,293
Less: Expenses reported under Selling and marketing, and general and administration expenses under proposed format	
Salaries and bonus including overseas staff expenses	26,71,70,368
Staff welfare	11,63,485
Contribution to provident and other funds	85,98,012
Foreign travel expenses	5,03,50,879
Other expenses	3,91,427
	32,76,74,171
Software development expenses reported under proposed format	285,56,14,122
Administration expenses reported under current format	
As reported under current format	53,67,64,710
Add: Expenses reported under software development expenses in current format	32,76,74,171
Selling, general and administration expenses reported under proposed format.	86,44,38,881

Note: *Under the current reporting format, aggregate employee costs and other costs are reported under software development expenses while under the proposed format, employee costs and other costs are reported under the respective functional heads namely software development expenses, selling and marketing, and general and administration expenses.*

Proforma ratio analysis

This section provides certain key operating ratios both under the current format and the proposed format.

PROPOSED FORMAT		CURRENT FORMAT	
Ratios – Financial performance			
Export revenue / total revenue (%)	97.35	Export revenue / total revenue (%)	95.25
Domestic revenue / total revenue (%)	2.65	Domestic revenue / total revenue (%)	2.59
Software development expenses / total revenue (%)	46.62	Operating expenses / total revenue (%)	59.42
Gross profit / total revenue (%)	53.38		
Selling and marketing expenses / total revenue (%)	4.51		
General and administration expenses / total revenue (%)	9.60	Administration expenses / total revenue (%)	8.57
Employee costs / total revenue (%)	42.47	Employee costs / total revenue (%)	41.56
Operating profit / total revenue (%)	39.27	EBIDTA / total revenue (%)	40.58
Depreciation / total revenue (%)	5.79	Depreciation / total revenue (%)	5.67
Other income / total revenue (%)	2.20	Other income / total revenue (%)	2.16
Profit before tax / total revenue (%)	35.68	Profit before tax / total revenue (%)	34.91
Tax / total revenue (%)	4.65	Tax / total revenue (%)	4.55
Tax / PBT(%)	13.04	Tax / PBT(%)	13.04
PAT from ordinary activities / total revenue (%)	31.02	PAT from ordinary activities / total revenue (%)	30.36
PAT from ordinary activities / average net worth (%) (LTM)	54.15	PAT from ordinary activities / average net worth (%) (LTM)	54.15
ROCE (PBIT / average capital employed) (%) (LTM)	61.00	ROCE (PBIT / average capital employed) (%) (LTM)	61.00
Ratios – year on year growth rates*			
Export revenue (%)	70	Export revenue (%)	70
Total revenue (%)	72	Total revenue (%)	69
Software development expenses (%)	67	Operating expenses (%)	71
Gross profit (%)	77		
Selling and marketing expenses (%)	54		
General and administration expenses (%)	102		
Operating profit (%)	75	Operating profit (%)	66
Net profit from ordinary activities (%)	57	Net profit from ordinary activities (%)	57
Ratios – sequential growth rates**			
Export revenue (%)	8	Export revenue (%)	8
Total revenue (%)	9	Total revenue (%)	9
Software development expenses (%)	16	Operating expenses (%)	12
Gross profit (%)	3		
Selling and marketing expenses (%)	(8)		
General and administration expenses (%)	10		
Operating profit (%)	3	Operating profit (%)	5
Net profit from ordinary activities (%)	5	Net profit from ordinary activities (%)	5

LTM – Last Twelve Months

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

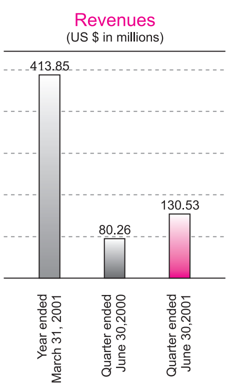
** Denotes growth compared with figures of the immediate preceding quarter.

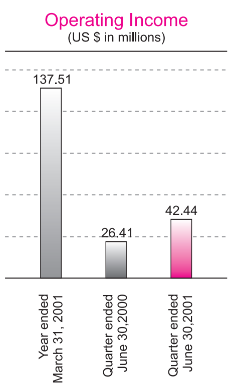
At a glance – US GAAP

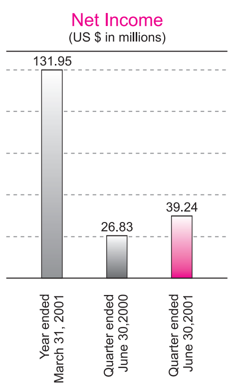
US $ millions, except as otherwise stated

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
For the period			
Revenues	130.53	80.26	413.85
Operating income	42.44	26.41	137.51
Net income	39.24	26.83	131.95
Operating income as a percentage of total revenues	32.51%	32.90 %	33.23 %
Net income as a percentage of total revenues	30.06%	33.43 %	31.88 %
Basic earnings per share ($)	0.60	0.41	2.01
Cash dividend per equity share ($)	NA	NA	0.14
Capital investments	20.56	18.15	96.78
At the end of the period			
Total assets	372.38	247.03	342.35
Property, plant and equipment – net	132.77	61.70	119.77
Cash and cash equivalents	134.18	105.76	124.08
Working capital	184.09	139.12	176.18
Total debt	–	–	–
Stockholders' equity	337.91	216.67	311.79
Common stock	8.59	8.59	8.59
Market capitalization	5,086.31	12,315.06	5,783.15

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 June 30, 2001

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-F ....x.......... 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 .... No ....x......................

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

Unless the context otherwise requires, references herein to the "company" or to "Infosys" are to Infosys Technologies Limited, a limited liability company organized under the laws of the Republic of India. 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. Yantra Corporation, a Delaware Corporation ("Yantra"), in which the company holds a minority interest, is considered a subsidiary of the company for purposes of Indian GAAP. "Infosys" is a registered trademark of the company in India and the United States. All other trademarks or tradenames used in this Quarterly Report on Form 6-K ("Quarterly Report") are the property of their respective owners.

In this Quarterly Report, references to "$" or "Dollars" or "U.S. Dollars" are to the legal currency of the United States, references to "EUR" or "Euro" (€) are to the legal currency of the European Union and references to "Rs." or "Rupees" or "Indian Rupees" are to the legal currency of India. The company's 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. Except as otherwise specified, financial information is presented in Dollars. References to a particular "fiscal" year are to the company's fiscal year ended March 31 of such year.

Unless otherwise specified herein, financial information has been converted into Dollars at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank (the "Noon Buying Rate") as of June 30, 2001, which was Rs. 47.09 per $1.00. For the convenience of the reader, this Quarterly Report contains translations of certain Indian rupee amounts into U.S. Dollars which should not be construed as a representation that such Indian Rupee or U.S. Dollar amounts referred to herein could have been, or could be, converted to U.S. Dollars or Indian Rupees, as the case may be, at any particular rate, the rates stated below, or at all. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

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

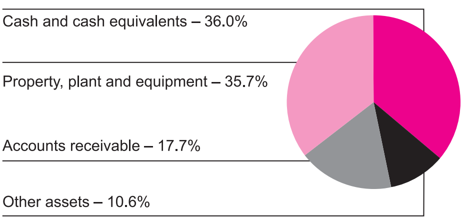
Item 1. Financial statements

Balance Sheets as of

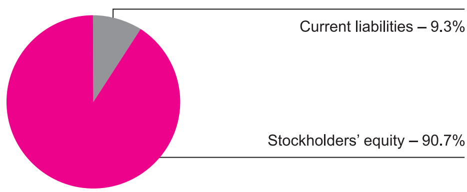
	June 30, 2001 (Unaudited)	June 30, 2000 (Unaudited)	March 31, 2001 (Audited)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 134,180,176	$ 105,756,757	$ 124,084,245
Trade accounts receivable, net of allowances	65,784,363	51,164,692	64,942,062
Deferred tax assets	1,403,963	–	1,265,142
Prepaid expenses and other current assets	17,193,033	12,566,158	16,452,863
Total current assets	218,561,535	169,487,607	206,744,312
Property, plant and equipment, net	132,769,999	61,700,055	119,773,030
Deferred tax assets	2,156,411	2,685,061	2,070,428
Investments	7,777,393	6,177,908	5,577,393
Advance income taxes	2,176,693	–	180,113
Other assets	8,942,540	6,977,423	8,002,543
TOTAL ASSETS	$ 372,384,571	$ 247,028,054	$ 342,347,819
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	$ 4,814	$ 472,473	$ 28,082
Client deposits	754,332	332,058	1,217,737
Other accrued liabilities	25,990,088	12,197,959	21,830,484
Income taxes payable	–	2,965,746	–
Unearned revenue	7,722,149	14,394,383	7,479,815
Total current liabilities	34,471,383	30,362,619	30,556,118
STOCKHOLDERS' EQUITY			
Common stock, $ 0.16 par value; 100,000,000 equity shares authorized, Issued and outstanding – 66,160,717, 66,151,367 and 66,158,117 as of June 30, 2001 and 2000 and March 31, 2001, respectively	8,594,383	8,593,585	8,594,106
Additional paid-in capital	122,105,641	121,529,268	122,017,518
Accumulated other comprehensive income	(31,496,548)	(18,765,207)	(28,664,972)
Deferred stock compensation	(11,257,263)	(16,323,017)	(12,517,018)
Retained earnings	249,966,975	121,630,806	222,362,067
Total stockholders' equity	337,913,188	216,665,435	311,791,701
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 372,384,571	$ 247,028,054	$ 342,347,819

See accompanying notes to financial statements

Assets – June 30, 2001



Liabilities and stockholder's equity – June 30, 2001



Statements of income

	Three months ended		Year ended
	June 30, 2001 (Unaudited)	June 30, 2000 (Unaudited)	March 31, 2001 (Audited)
REVENUES			
Revenues	$ 130,532,758	$ 80,257,833	$ 413,850,510
Cost of revenues	68,414,968	41,962,161	213,613,744
Gross profit	62,117,790	38,295,672	200,236,766
Operating Expenses:			
Selling and marketing expenses	5,892,341	4,197,515	20,682,776
General and administrative expenses	12,527,878	6,416,913	36,957,609
Amortization of stock compensation expense	1,259,755	1,275,796	5,081,795
Total operating expenses	19,679,974	11,890,224	62,722,180
Operating income	42,437,816	26,405,448	137,514,586
Other income, net	2,876,099	3,403,057	9,505,343
Income before income taxes	45,313,915	29,808,505	147,019,929
Provision for income taxes	6,072,556	2,976,832	15,071,825
Net income	$ 39,241,359	$ 26,831,673	$ 131,948,104
Earnings per equity share			
Basic	$ 0.60	$ 0.41	$ 2.01
Diluted	$ 0.60	$ 0.40	$ 1.98
Weighted equity shares used in computing earnings per equity share			
Basic	65,568,850	65,977,267	65,771,256
Diluted	65,809,429	67,281,919	66,714,739

See accompanying notes to financial statements

Statements of Stockholders' Equity and Comprehensive Income

(Information as of and for the three months ended June 30, 2001 and June 30, 2000 is unaudited)

	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, 2000	66,150,700	$ 8,593,510	$ 121,506,726		$ (14,137,933)	$ (17,598,813)	$ 99,773,031	$ 198,136,521
Cash dividends declared	–	–	–		–	–	(4,973,898)	(4,973,898)
Common stock issued	667	75	22,542		–	–	–	22,617
Amortization of compensation related to stock option grants	–	–	–		–	1,275,796	–	1,275,796
Comprehensive income								
Net income	–	–	–	$ 26,831,673	–	–	26,831,673	26,831,673
Other comprehensive income								
Translation adjustment	–	–	–	(4,627,274)	(4,627,274)	–	–	(4,627,274)
Comprehensive income	–	–	–	22,204,399	–	–	–	–
Balance as of June 30, 2000	66,151,367	8,593,585	121,529,268		(18,765,207)	(16,323,017)	121,630,806	216,665,435
Cash dividends declared	–	–	–		–	–	(4,385,170)	(4,385,170)
Common stock issued	6,750	521	488,250		–	–	–	488,771
Amortization of compensation related to stock option grants	–	–	–		–	3,805,999	–	3,805,999
Comprehensive income								
Net income	–	–	–	105,116,431	–	–	105,116,431	105,116,431
Other comprehensive income								
Translation adjustment	–	–	–	(9,899,765)	(9,899,765)	–	–	(9,899,765)
Comprehensive income				95,216,666				
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	–	–	–		–	1,259,755	–	1,259,755
Comprehensive income								
Net income	–	–	–	39,241,359	–	–	39,241,359	39,241,359
Other comprehensive income	–	–	–		–	–	–	–
Translation adjustment	–	–	–	(2,831,576)	(2,831,576)	–	–	(2,831,576)
Comprehensive income	–	–	–	$ 36,409,783	–	–	–	–
Balance as of June 30, 2001	66,160,717	$ 8,594,383	$ 122,105,641		$ (31,496,548)	$ (11,257,263)	$ 249,966,975	$ 337,913,188

See accompanying notes to financial statements

Statement of cash flows

	Three months ended June 30, 2001 (Unaudited)	Three months ended June 30, 2000 (Unaudited)	Year ended March 31, 2001 (Audited)
OPERATING ACTIVITIES			
Net income	$ 39,241,359	$ 26,831,673	$ 131,948,104
Adjustments to reconcile net income to net cash provided by operating activities			
(Gain) / loss on sale of property, plant and equipment	(6,323)	1,019	(20,053)
Depreciation	7,560,175	3,999,662	24,527,867
Deferred tax benefit	(224,804)	(118,795)	(769,304)
Amortization of deferred stock compensation expense	1,259,755	1,275,796	5,081,795
Provision for investments	–	–	3,480,300
Changes in assets and liabilities			
Trade accounts receivable	(842,301)	(19,931,177)	(33,708,547)
Prepaid expenses and other current assets	289,163	(474,461)	(2,218,954)
Income taxes	(1,996,580)	1,086,769	(2,059,090)
Accounts payable	(23,268)	(504,367)	(948,758)
Client deposits	(463,405)	(93,666)	792,013
Unearned revenue	242,334	10,365,210	3,450,642
Other accrued liabilities	3,853,773	(1,879,605)	7,957,303
Net cash provided by operating activities	48,889,878	20,558,058	137,513,318
INVESTING ACTIVITIES			
Expenditure on property, plant and equipment	(20,564,403)	(18,147,110)	(96,775,745)
Proceeds from sale of property, plant and equipment	13,582	1,146	49,673
Loans to employees	(1,969,330)	(918,227)	(4,085,559)
Purchase of investments	(2,200,000)	(2,999,970)	(5,879,755)
Net cash used in investing activities	(24,720,151)	(22,064,161)	(106,691,386)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	88,400	22,617	511,388
Payment of dividends	(11,330,620)	(4,731,969)	(9,321,522)
Net cash used in financing activities	(11,242,220)	(4,709,352)	(8,810,134)
Effect of exchange rate changes on cash	(2,831,576)	(4,627,274)	(14,527,039)
Net increase in cash and cash equivalents during the period	10,095,931	(10,842,729)	7,484,759
Cash and cash equivalents at the beginning of the period	124,084,245	116,599,486	116,599,486
Cash and cash equivalents at the end of the period	$ 134,180,176	$ 105,756,757	$ 124,084,245
Supplementary information			
Cash paid towards taxes	$ 8,293,940	$ 1,890,063	$ 16,950,802

See accompanying notes to financial statements

Notes to financial statements as of and for the three months ended June 30, 2001

Item 1. Company overview and significant accounting policies

1.1 Company overview

Infosys Technologies Limited ("Infosys" or the "company"), a publicly held company is an information technology ("IT") consulting and service provider, providing end-to-end consulting for global corporations. The company has partnered with several Fortune 500 and other established corporations in building their next generation information infrastructure for competitive advantage. Infosys' portfolio of services includes e-strategy consulting and solutions, large application development and enterprise integration services. Infosys also has product co-development initiatives with numerous communication and Internet infrastructure companies that are creating the building blocks for the digital economy. In addition, the company develops and markets certain software products. Headquartered in Bangalore, India, the company has 16 state-of-the-art offshore software development facilities located throughout India, six proximity development centers in the UK and the US and one global development center in Canada, that enable it to provide high quality, cost-effective services to clients in a resource-constrained environment. The company also maintains offices in North America, Europe and Asia.

1.2 Basis of preparation of financial statements

The accompanying financial statements are prepared in accordance with US Generally Accepted Accounting Principles ("GAAP"). All amounts are stated in US 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 and the useful lives of property, plant and equipment. Actual results could differ from those estimates.

1.4 Revenue recognition

The company derives its revenues primarily from software services and also from the licensing of software products. Revenue on time-and-material contracts is recognized as the related costs are incurred. Revenue from fixed-price, fixed-time frame contracts are recognized upon the achievement of specified milestones identified in the related contracts, 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 the support services are accrued at the time related revenues are recorded.

Revenue from licensing of software products is recognized upon shipment of products and fulfillment of acceptance terms, if any, provided that no significant vendor obligations remain and the collection of the related receivable is probable. 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. The amount of third party software expensed in the three months ended June 30, 2001 and June 30, 2000 and in fiscal 2001 was $ 1,704,551, $ 1,703,779 and $ 6,979,492, respectively.

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 Impairment of long-lived assets

The company evaluates the recoverability of its long-lived assets and certain identifiable intangibles, if any, whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed are reported at the lower of the carrying value or the fair value less the cost to sell.

1.8 Research and development

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is achieved. Software product development costs incurred subsequent to achieving technological feasibility are not significant and are expensed as incurred.

1.9 Foreign currency translation

The accompanying financial statements are reported in US dollars. The functional currency of the company is the Indian Rupee ("Rs."). The translation of Rs. to US 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.

1.10 Earnings per share

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 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.

1.11 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.

1.12 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.

1.13 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 June 30, 2001, June 30, 2000 and March 31, 2001, 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. 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.

1.14 Retirement benefits to employees

1.14.1 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, the company 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.

1.14.2 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. The company has no further obligations to the Plan beyond its monthly contributions.

1.14.3 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 Employee's Provident Fund Trust. The remainders of the contributions are made to the Government administered provident fund. The company has no further obligations under the provident fund plan beyond its monthly contributions.

1.15 Investments

Investments where the company controls between 20% and 50% of the voting interest are accounted for using the equity method. Investment securities in which the company controls less than 20% voting interest are currently classified as "Available-for-sale securities".

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.

1.16 Stock-based compensation

The company uses the intrinsic value-based method of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, to account for its employee stock-based compensation plan. The company has therefore adopted the proforma disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*.

1.17 Dividends

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

1.18 Derivative financial instruments

Effective April 1, 2001, Infosys adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* as amended, when the pronouncement became effective for companies with fiscal year ending March 31, 2001. SFAS 133 changes the accounting treatment of derivative contracts (including foreign exchange contracts) that are employed to manage risks. It establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a derivative instrument is designated as a hedge and if so, the type of hedge. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

1.19 Notes to the Financial Statements

1.19.1 Cash and cash equivalents

The cost and fair values for cash and cash equivalents as of June 30, 2001 and 2000 and March 31, 2001, respectively are as follows:

	As of June 30,		Year ended
	2001	2000	March 31, 2001
Cost and fair values			
Cash and bank deposits	$ 94,975,383	$ 95,467,109	$ 82,702,111
Deposits with corporations	39,204,793	10,289,648	41,382,134
	$ 134,180,176	$ 105,756,757	$ 124,084,245

1.19.2 Trade accounts receivable

Trade accounts receivable, as of June 30, 2001 and 2000 and March 31, 2001, net of allowance for doubtful accounts of $ 4,913,007, $ 587,229 and $ 3,902,996, respectively amounted to $ 65,784,363, $ 51,164,692 and $ 64,942,062, respectively. The age profile of trade accounts receivable is given below.

in %

	As of June 30,		As of March 31,
Period (in days)	2001	2000	2001
0 – 30	81.0	76.2	69.2
31 – 60	12.2	10.1	26.6
61 – 90	5.5	7.9	1.7
More than 90	1.3	5.8	2.5
	100.0	100.0	100.0

Trade accounts receivable include accounts receivable from Yantra amounting to $ 99,818, $ 376,783 and $ 214,347 as of June 30, 2001 and 2000 and March 31, 2001, respectively.

1.19.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	As of June 30, 2001	As of June 30, 2000	As of March 31, 2001
Rent deposits	$ 2,373,808	$ 1,840,268	$ 2,484,794
Deposits with government organizations	1,101,523	470,338	945,189
Loans to employees	9,121,199	5,949,654	8,091,866
Prepaid expenses	3,628,511	3,750,204	4,349,913
Costs in excess of billings	553,647	224,035	503,694
Other advances	414,345	331,659	77,407
	$ 17,193,033	$ 12,566,158	$ 16,452,863

Other advances represent advance payments to vendors for the supply of goods and rendering of services. Deposits with government organizations relate principally to leased telephone lines and electricity supplies. Costs in excess of billings represent costs incurred on fixed price contracts in respect of which milestones are yet to be achieved.

1.19.4 Property, plant and equipment – net

Property, plant and equipment consist of the following:

	As of June 30, 2001	As of June 30, 2000	As of March 31, 2001
Land	$ 7,793,377	$ 5,869,104	$ 7,865,351
Buildings	40,178,369	20,128,287	33,871,448
Furniture and fixtures	26,622,814	12,543,688	21,579,707
Computer equipment	54,466,431	30,506,203	48,098,099
Plant and equipment	28,077,279	14,625,678	24,064,927
Vehicles	74,846	30,563	75,537
Capital work-in-progress	34,903,498	11,883,037	36,651,724
	192,116,614	95,586,560	172,206,793
Accumulated depreciation	(59,346,615)	(33,886,505)	(52,433,763)
	$ 132,769,999	$ 61,700,055	$ 119,773,030

Depreciation expense amounted to $ 7,560,175, $ 3,999,662 and $ 24,527,867 for the three months ended June 30, 2001 and 2000 and fiscal 2001, respectively.

1.19.5 Investments

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

	Amortized cost	Fair value
As of June 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
EC Cubed Inc. – 1,300,108 Series D Convertible Preferred Stock, at $ 2.3075 each, fully paid, par value $ 0.0001 each	–	–
Alpha Thinx Mobile Services AG – 27,790 Bearer Shares, at € 20 each, fully paid, par value € 1 each	–	–
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
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 June 30, 2000		
EC Cubed Inc. – 1,300,108 Series D Convertible Preferred Stock, at $ 2.3075 each, fully paid, par value $ 0.0001 each	3,000,000	3,000,000
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
JASDIC Park Company – 480 Common Stock, par value ¥ 50,000 each (fully paid, par value ¥ 50,000 each)	177,576	177,576
Others	362	362
	$ 6,177,908	$ 6,177,908
As of March 31, 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
EC Cubed Inc. – 1,300,108 Series D Convertible Preferred Stock, at $ 2.3075 each, fully paid, par value $ 0.0001 each	–	–
Alpha Thinx Mobile Services AG - 27,790 Bearer Shares, at € 20 each, fully paid, par value € 1 each	–	–
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
JASDIC Park Company – 480 Common Stock, at ¥ 50,000 each, fully paid, par value ¥ 50,000 each	177,576	177,576
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
	$ 5,577,393	$ 5,577,393

1.19.6 Other assets

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

1.19.7 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 June 30, 2001 and 2000 and March 31, 2001, amounts receivable from officers amounting to $ 68,489, $ 340,151 and $ 227,121, 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 June 30,		As of March 31,
	2001	2000	2001
2001	–	$ 5,949,654	–
2002	$ 9,121,199	2,013,521	$ 8,091,866
2003	2,890,179	1,431,295	2,517,809
2004	2,022,717	838,738	1,718,884
2005	1,168,246	676,932	1,033,107
2006	866,308	–	800,198
Thereafter	1,995,089	2,016,937	1,932,545
Total	$ 18,063,738	$ 12,927,077	$ 16,094,409

The estimated fair values of related party receivables amounted to $ 14,060,565, $ 9,792,923 and $ 12,465,374 as of June 30, 2001 and June 30, 2000 and March 31, 2001, respectively. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgement 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.

1.19.8 Other accrued liabilities

Other accrued liabilities comprise the following:

	As of June 30,		As of March 31,
	2001	2000	2001
Accrued compensation to staff	$ 14,754,588	$ 7,388,232	$ 12,332,869
Accrued dividends	409,249	307,801	103,418
Provision for post sales client support	1,585,115	1,232,322	1,578,859
Employee withholding taxes payable	1,741,260	152,684	25,000
Others	7,499,876	3,116,920	7,790,338
	$ 25,990,088	$ 12,197,959	$ 21,830,484

1.19.9 Employee post-retirement benefits

1.19.9.1 Superannuation

The company contributed $ 303,363, $ 209,177 and $ 796,739 to the superannuation plan in the three months ended June 30, 2001 and 2000 and fiscal 2001, respectively.

1.19.9.2 Provident fund

The company contributed $ 755,849, $ 463,866 and $ 2,339,794 to the provident fund in the three months ended June 30, 2001 and 2000 and fiscal 2001, respectively.

1.19.10 Stockholders' equity

The company 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 the company's equity shares have been retroactively restated to reflect stock splits made by the company.

1.19.11 Equity shares

1.19.11.1 Voting

Each holder of equity shares is entitled to one vote per share.

1.19.11.2 Dividends

Should the company declare and pay dividends, such dividends will be paid in Indian Rupees. The company paid cash dividends of $ 11,330,620, $ 4,731,969 and $ 9,321,522 during the three months ended June 30, 2001 and 2000 and fiscal 2001, respectively.

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.

1.19.11.3 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 shares of equity shares held by the stockholders.

1.19.11.4 Stock options

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

1.19.12 Other income, net

Other income, net, consists of the following:

	Three months ended June 30,		Year ended
	2001	2000	March 31, 2001
Interest income and others	$ 2,514,370	$ 1,684,062	$ 8,526,635
Income from sale of special import licenses	–	–	14,800
Exchange gains	144,359	1,665,744	4,444,208
Provision for investments	–	–	(3,480,300)
Others	217,370	53,251	–
	$ 2,876,099	$ 3,403,057	$ 9,505,343

1.19.13 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 June 30, 2001 and 2000 and in fiscal 2001 were $ 1,387,575, $ 738,059 and $ 3,689,822, 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 June 30,	
2002	$ 2,363,098
2003	2,534,465
2004	2,557,425
2005	1,897,524
2006	629,664
Thereafter	877,406
	$10,859,582

1.19.14 Research and development

General and administrative expenses in the accompanying statements of income include research and development expenses of $ 801,842, $ 744,453 and $ 3,610,550 for the three months ended June 30, 2001 and 2000 and fiscal 2001, respectively.

1.19.15 Employees' Stock Offer Plans ("ESOP")

1994 Employees Stock Offer Plan (the "1994 Plan"): In September 1994, the company established the 1994 Plan, which provided for the issuance of 6,000,000 warrants (as adjusted for the stock split effective June 1997, December 1998 and December 1999) to eligible employees. The warrants were issued to an employee welfare trust (the "Trust") at Rs. 0.50 each and were purchased by the Trust using the proceeds of a loan obtained from the company. The Trust holds the warrants and transfers them to eligible employees at Rs. 0.50 each. Each warrant entitles the holder to purchase one of the company's equity shares at a price of Rs. 50 per share. The warrants and the equity shares received upon the exercise of warrants are subject to a five-year aggregate vesting period from the date of issue of warrants to employees. The warrants expire upon the earlier of five years from the date of issue or September 1999. The fair market value of each warrant is the market price of the underlying equity shares on the date of the grant.

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 with the proceeds of a loan obtained from the company. In connection with the warrant exercise and the share dividend, on an adjusted basis, 3,011,200 equity shares were issued to employees of the company who exercised stock purchase rights and 2,988,800 equity shares were issued to the Trust for future issuance to employees pursuant to the 1994 Plan. Following such exercise, there were no longer any rights to purchase equity shares from the company in connection with the 1994 Plan. Only equity shares held by the Trust remained for future issues to employees, subject to vesting provisions. The equity shares acquired upon the exercise of the warrants vest entirely on completion of five years of service. The warrant holders were entitled to exercise early, but the shares received are subject to the five-year vesting period. As of June 30, 2001, the company's outstanding equity shares included 593,600 equity shares held by the Trust of which 324,600 equity shares were allotted to employees, subject to vesting provisions and are included in the earnings per share calculation. The remaining 269,000 equity shares were not considered outstanding for purposes of calculating earnings per share. The warrants allotted and the underlying equity shares are not subject to any repurchase obligations by the company.

The 1994 plan came to an end in fiscal 2000 and no further options will be issued 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 1999 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.

1.19.15 Employees' Stock Offer Plans ("ESOP") (continued)

The activity in the warrants/equity shares of the 1994, 1998 and 1999 Employees Stock Offer Plans in fiscal 2001, 2000 and 1999 are set out below.

	Three months ended June 30, 2001		Three months ended June 30, 2000		Year ended March 31, 2001	
	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 year	330,000		341,400		341,400	–
Granted	–	–	–		–	–
Forfeited	(5,400)	$ 1.15	(5,400)	$ 1.15	(10,600)	$ 1.15
Exercised	–	–	–	–	(800)	$ 1.15
Outstanding at the end of the year	324,600		336,000		330,000	
Exercisable at the end of the year	–		–		–	
Weighted-average fair value of grants during the period at less than market	–		–		–	
1998 Option plan:						
Outstanding at the beginning of the year	782,753		344,750		344,750	–
Granted	48,900	$ 143.74	73,350	$ 324.36	482,420	$ 230.88
Forfeited	(15,810)	$ 338.50	(5,750)	$ 415.72	(38,200)	$ 172.58
Exercised	(2,600)	$ 34.00	(667)	$ 34.00	(6,217)	$ 53.82
Outstanding at the end of the year	813,243		411,683		782,753	–
Exercisable at the end of the year	57,953		8,383		55,558	–
Weighted-average fair value of grants during the year	$ 143.74		$ 324.36		$ 230.88	
1999 Option plan:						
Outstanding at the beginning of the year	2,793,980		1,006,800		1,006,800	–
Granted	415,250	$ 82.91	658,650	$ 131.97	1,957,830	$ 136.68
Forfeited	(41,860)	$ 132.08	(23,600)	$ 131.89	(169,450)	$ 110.06
Exercised	–	–	–	–	(1,200)	$ 89.98
Outstanding at the end of the year	3,167,370		1,641,850		2,793,980	–
Exercisable at the end of the year	148,030		–		93,400	–
Weighted-average fair value of grants during the year		$ 82.91		$ 131.97		$ 136.68

1.19.15 Employees' Stock Offer Plan (continued)

The following table summarizes information about stock options outstanding as of June 30, 2001:

Outstanding				Exercisable	
Range of exercise prices	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of shares arising out of options	Weighted average exercise price
$ 1.15 – $ 330.00	4,305,213	2.05 years	$ 106.34	205,983	$ 106.16

1.19.16 Income taxes

The provision for income taxes comprises:

	Three months ended June 30, 2001	Three months ended June 30, 2000	Year ended March 31, 2001
Current taxes			
Domestic taxes	$ 1,330,649	$ 1,063,487	$ 5,315,961
Foreign taxes	4,966,711	2,032,140	10,525,168
	6,297,360	3,095,627	15,841,129
Deferred taxes			
Domestic taxes	(224,804)	(118,795)	(769,304)
Foreign taxes	–	–	–
	(224,804)	(118,795)	(769,304)
Aggregate taxes	$ 6,072,556	$ 2,976,832	$ 15,071,825

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:

	Three months ended June 30, 2001	Three months ended June 30, 2000	Year ended March 31, 2001
Deferred tax assets:			
Property, plant and equipment	$ 1,649,779	$ 2,685,061	$ 1,519,016
Accounts receivable	1,753,944	–	1,587,629
Investments	1,468,878	–	1,598,712
Others	200,150	226,083	217,842
	5,072,751	2,911,144	4,923,199
Less: Valuation allowance	(1,512,377)	(226,083)	(1,587,629)
Net deferred tax assets	$ 3,560,374	$ 2,685,061	$ 3,335,570

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 June 30, 2001. 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.

1.19.16 Income taxes (continued)

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.

	Three months ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Net income before taxes	$ 45,313,915	$ 29,808,505	$ 147,019,929
Enacted tax rates in India	35.70%	38.50%	39.55%
Computed expected tax expense	16,177,068	11,476,274	58,146,382
Less: Tax effect due to non-taxable export income	(15,748,798)	(11,331,368)	(57,334,527)
Others	434,990	483,675	3,437,865
Effect of tax rate change	242,585	–	(8,077)
Effect of prior period tax adjustments	–	316,111	305,014
Provision for Indian income tax	1,105,845	944,692	4,546,657
Effect of tax on foreign income	4,966,711	2,032,140	10,525,168
Aggregate taxes	$ 6,072,556	$ 2,976,832	$ 15,071,825

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 a designated Software Technology Park ("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. Additionally, the Export Deduction will be phased out equally over a period of five years starting from fiscal 2000.

1.19.17 Earnings per share

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

	Three months ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Basic earnings per equity share – weighted average number of common shares outstanding excluding unallocated shares of ESOP	65,568,850	65,977,267	65,771,256
Effect of dilutive common equivalent shares – stock options outstanding	240,579	1,304,652	943,483
Diluted earnings per equity share – weighted average number of common shares and common equivalent shares outstanding	65,809,429	67,281,919	66,714,739

1.19.18 Derivative financial instruments

Infosys generally enters into foreign exchange forward contracts to hedge the impact of the variability in exchange rates on certain accounts receivable and forecasted cash flows denominated in certain foreign currencies. Infosys held foreign exchange forward contracts of $ 35,000,000, Nil and $ 20,000,000 as of June 30, 2001, June 30, 2000 and March 31, 2001, respectively. The adoption of SFAS 133 had no significant impact on the results of operations of the company for the three months ended June 30, 2001 and the year ended March 31, 2001, respectively.

1.19.19 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 previous year, the company provided segmental disclosures based on the geographical segment. However, in the current fiscal year, 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.

1.19.19.1 Industry segments

Three months ended June 30, 2001 *in $*

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	48,071,082	23,954,996	21,796,805	14,500,826	22,209,049	130,532,758
Identifiable operating expenses	16,655,766	9,506,579	5,527,419	3,869,375	7,790,866	43,350,005
Allocated expenses	13,769,121	6,436,666	5,856,762	3,896,345	5,967,531	35,926,425
Segmental operating income	17,646,195	8,011,751	10,412,624	6,735,106	8,450,652	51,256,328
Unallocable expenses						8,818,512
Operating income						42,437,816
Other income (expense), net						2,876,099
Net income before taxes						45,313,915
Taxes						6,072,556
Net income after taxes						39,241,359

Three months ended June 30, 2000 *in $*

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	23,595,802	15,971,309	14,847,699	7,223,205	18,619,818	80,257,833
Identifiable operating expenses	9,884,110	5,693,272	4,030,351	2,669,536	6,167,468	28,444,737
Allocated expenses	6,053,398	3,968,385	3,689,202	1,794,747	4,626,458	20,132,190
Segmental operating income	7,658,294	6,309,652	7,128,146	2,758,922	7,825,892	31,680,906
Unallocable expenses						5,275,458
Operating income						26,405,448
Other income (expense), net						3,403,057
Net income before taxes						29,808,505
Taxes						2,976,832
Net income after taxes						26,831,673

Year ended March 31, 2001 *in $*

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	139,616,739	74,004,867	76,412,722	37,684,446	86,131,736	413,850,510
Identifiable operating expenses	49,021,150	28,363,069	19,219,376	11,893,574	26,233,048	134,730,217
Allocated expenses	38,589,808	19,736,596	20,423,026	10,057,009	23,189,607	111,996,046
Segmental operating income	52,005,781	25,905,202	36,770,320	15,733,863	36,709,081	167,124,247
Unallocable expenses						29,609,661
Operating income						137,514,586
Other income (expense), net						9,505,343
Net income before taxes						147,019,929
Taxes						15,071,825
Net income after taxes						131,948,104

1.19.19.2 Geographic segments

Three months ended June 30, 2001 *in $*

	North America	Europe	India	Rest of the World	Total
Revenues	94,209,426	25,877,229	3,455,705	6,990,398	130,532,758
Identifiable operating expenses	30,299,129	9,170,999	1,031,965	2,847,912	43,350,005
Allocated expenses	25,597,816	7,031,150	1,309,296	1,988,163	35,926,425
Segmental operating income	38,312,481	9,675,080	1,114,444	2,154,323	51,256,328
Unallocable expenses					8,818,512
Operating income					42,437,816
Other income (expense), net					2,876,099
Net income before taxes					45,313,915
Taxes					6,072,556
Net income after taxes					39,241,359

Three months ended June 30, 2000 *in $*

	North America	Europe	India	Rest of the World	Total
Revenues	59,785,038	13,766,329	1,013,388	5,693,078	80,257,833
Identifiable operating expenses	21,043,322	5,004,967	375,031	2,021,417	28,444,737
Allocated expenses	14,953,548	3,445,826	288,262	1,444,554	20,132,190
Segmental operating income	23,788,168	5,315,536	350,095	2,227,107	31,680,906
Unallocable expenses					5,275,458
Operating income					26,405,448
Other income (expense), net					3,403,057
Net income before taxes					29,808,505
Taxes					2,976,832
Net income after taxes					26,831,673

Year ended March 31, 2001 *in $*

	North America	Europe	India	Rest of the World	Total
Revenues	304,242,537	77,892,656	5,778,286	25,937,031	413,850,510
Identifiable operating expenses	96,358,758	27,210,316	1,943,571	9,217,572	134,730,217
Allocated expenses	82,053,059	20,951,885	1,866,259	7,124,843	111,996,046
Segmental operating income	125,830,720	29,730,455	1,968,456	9,594,616	167,124,247
Unallocable expenses					29,609,661
Operating income					137,514,586
Other income (expense), net					9,505,343
Net income before taxes					147,019,929
Taxes					15,071,825
Net income after taxes					131,948,104

1.19.19.3 Significant clients

No clients individually accounted for more than 10% of the revenues in fiscal 2001, 2000 and 1999, respectively.

1.19.20 Commitments and contingencies

The company has outstanding performance guarantees for various statutory purposes totaling $ 2,547,989, $ 1,279,794 and $ 1,126,611, as of June 30, 2001 and 2000 and March 31, 2001, respectively. These guarantees are generally provided to governmental agencies.

1.19.21 Litigation

The company is subject to legal proceedings and claims, which have arisen, in the ordinary course of its business. These 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.

1.19.22 Non-monetary transaction

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 June 30, 2001, the company's controlling interest in Onmobile Systems, Inc. was approximately 12%. 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" and "expect" and other similar expressions as they relate to the company or its business are intended to identify such forward-looking statements. The company undertakes 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 SEC, the factors discussed in the Form 20-F filed with the SEC, and those factors discussed elsewhere in this 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 the company's financial statements included herein and the notes thereto.

2.1 Overview

Infosys, an India-based IT consulting and services company formed in 1981, provides end-to-end consulting for global corporations. The company has partnered with several *Fortune 500* and emerging companies in building their next generation information infrastructure for competitive advantage. Infosys' portfolio of services includes e-strategy consulting and solutions, maintenance and re-engineering services, large application development and enterprise integration services. Infosys also has product co-development initiatives with numerous communication and Internet infrastructure companies that are creating the building blocks of the digital economy. In addition, the company develops and markets certain software products. The company utilizes an extensive offshore infrastructure including dedicated offshore software development centers ("OSDCs") to provide managed software solutions to clients worldwide. From fiscal 1997 through fiscal 2001, total revenue increased from $ 39.6 million to $ 413.8 million, the number of the company's software professionals worldwide increased from approximately 1,410 to approximately 8,660, and the number of its India-based software development centers increased from six to sixteen. The company also operationalized proximity development centers in Croydon in the UK and in Chicago, New Jersey and Phoenix in the U.S. in fiscal 2001, and one global development center in Toronto, Canada and two proximity development centers in Fremont and Boston in the U.S. in fiscal 2000.

The company's revenues are generated principally from software services provided either on a fixed-price, fixed-time frame or a time-and-materials basis. Revenues from services provided on a time-and-materials basis are recognized in the month that services are provided and related costs are incurred. Revenues from services provided on a fixed-price, fixed-time frame basis are recognized upon the achievement of specified milestones identified in the related contracts, in accordance with the percentage of completion method. Cost of completion estimates are subject to periodic revisions. Although the company has revised its project completion estimates from time to time, such revisions have not, to date, had a material adverse effect on the company's operating results or financial condition. Since the company bears the risk of cost overruns and inflation with respect to its fixed-price, fixed-time frame projects, the company's 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. The company also develops and markets certain software products, including banking software that is licensed primarily to clients in Asia and Africa. Such software products represented 3.3% of total revenue during the three months ended June 30, 2001. The company derived 72.2% of its total revenue from North America, 19.8% from Europe, 2.6% from India and 5.4% from the rest of the world during the three months ended June 30, 2001.

During the three months ended June 30, 2001 and June 30, 2000, the company derived 23.0% and 28.7% of its total revenue, respectively, from internet and e-commerce projects. Due to shorter time-to-market considerations, e-business projects necessitate higher interaction with clients. This results in a higher proportion of services being performed at client sites. Services performed at a client site typically generate higher per capita revenues, but lower gross margins, than the same quantum of services performed at the company's own facilities. Consequently, any increase in work at client sites can decrease gross margins of the company.

Cost of revenue consists, primarily, of salary and other compensation expenses, depreciation, data communication expenses, computer maintenance, cost of software purchased for internal use, certain pre-opening expenses for new software development centers, and foreign travel expenses. The company depreciates personal computers and servers over two years and mainframe computers over three years. Third party software is expensed in the period in which it is acquired.

The company assumes full project management responsibility for each project that it undertakes. Approximately 69% of the work on a project during the quarter ended June 30, 2001 was performed at the company's facilities in India, and the balance of the work was performed at the client site. The proportion of work performed at company facilities and at client sites varies from quarter to quarter. The company charges higher rates and incurs higher compensation expenses for work performed at a client site. Services performed at a client site typically generate higher revenues per capita, but lower gross margins, than the same quantum of services performed at the company's 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 company facilities and at client sites.

Revenue and gross profits are also affected by employee utilization rates. Utilization rates depend, among other factors, on the number of employees enrolled for in-house training programs, particularly the 14-week classroom training course provided to new employees. Generally a large percentage of new hires begin their training in the second quarter, utilization rates have historically been lower in the second and third quarters of a fiscal year.

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

Other income primarily includes interest income and foreign currency exchange gains.

The company also intends to substantially expand its software development infrastructure in India. The company had committed $ 30.5 million towards various capital acquisitions as of June 30, 2001. The company has not yet made contractual commitments for the majority of its budgeted capital expenditure. The company intends to spend an aggregate amount of approximately $ 60 million on various capital acquisitions for the rest of fiscal 2002 and intends to use its internal accruals to fund this expansion.

2.2 Results of operations

2.2.1 Three months ended June 30, 2001 compared to three months ended June 30, 2000

Revenues. Total revenues were $ 130.5 million for the three months ended June 30, 2001, representing an increase of 62.6% over total revenues of $ 80.3 million during the same period in the fiscal 2001. This increase is attributable to an increase in volumes of business transacted of $ 40.4 million or 50.3%, and an increase in prices at which contracts were executed in the amount of $ 9.9 million or 12.3%. Custom software development, re-engineering, maintenance and software development through Offshore Software Development Centers ("OSDC") formed a majority of the company's revenues. The increase in revenues was attributable, in part, to an increase in business from certain existing clients and from certain new clients, particularly in the insurance, banking and financial services, and retailing industries. Revenues from insurance, banking and financial services clients comprised 36.8% and 29.4% of revenues in the three months ended June 30, 2001 and 2000, respectively. Revenues from retailing clients comprised 11.1% and 9.0% of revenues in the three months ended June 30, 2001 and 2000, respectively. Net sales of Finacle™ and other products represented 3.3% of total revenues for the three months ended June 30, 2001 as compared to 2.4% in the corresponding period in fiscal 2001. Revenue from services represented 96.7% of total revenues for the three months ended June 30, 2001 as compared to 97.6% in the corresponding period in fiscal 2001. Revenue from fixed-price, fixed-time frame and time-and-materials contracts represented 27.0% and 73.0%, respectively, of total revenues in the three months ended June 30, 2001 as compared to 26.6% and 73.4%, respectively, in the three months ended June 30, 2000. Revenue from North America and Europe represented 72.2% and 19.8%, respectively, of total revenue for the three months ended June 30, 2001 as compared to 74.5% and 17.2%, respectively, during the same period in fiscal 2001.

Cost of Revenues. Cost of revenues was $ 68.4 million for the three months ended June 30, 2001, representing an increase of 63.0% over the cost of revenues of $ 42.0 million for the same period in fiscal 2001. Cost of revenues represented 52.4% and 52.3% of total revenues for the three months ended June 30, 2001 and June 30, 2000, respectively. This marginal increase in costs as a percentage of revenues was attributable to an increase in personnel costs from annual salary increments effective April 1, 2001 and increased personnel costs for new hires. This increase in personnel costs was partially offset by a decrease in foreign travel and computer maintenance expenses, which represented 2.8% and 4.9% of revenues for the three months ended June 30, 2001 and 2000, respectively as well as a decrease in overseas short-term allowances, which represented 1.9% and 4.2% of revenues for the three months ended June 30, 2001 and 2000, respectively.

Gross Profit. As a result of the foregoing, the gross profit was $ 62.1 million for the three months ended June 30, 2001 representing an increase of 62.2% over gross profit of $ 38.3 million for the three months ended June 30, 2000. As a percentage of total revenues, gross profit marginally decreased to 47.6% for the three months ended June 30, 2001 from 47.7% for the corresponding period in fiscal 2001. This marginal decrease in gross margins was attributable to an increase in personnel costs from annual salary increments effective April 1, 2001 and increased personnel costs for new hires. This increase in personnel costs was partially offset by a decrease in foreign travel and computer maintenance expenses, as well as a decrease in overseas short-term allowances.

Selling and Marketing Expenses. Sales and marketing expenses were $ 5.9 million in the three months ended June 30, 2001, an increase of 40.4% over sales and marketing expenses of $ 4.2 million in the three months ended June 30, 2000. As a percentage of total revenues, sales and marketing expenses decreased to 4.5% in the three months ended June 30, 2001 from 5.2% in the three months ended June 30, 2000. This decrease is primarily due to the benefit of scale of operations, and a reduction in advertisement and brand building expenses amounting to 0.4% of revenues for the three months ended June 30, 2001 as compared to 0.7% of revenues for the three months ended June 30, 2000. This decrease was partially offset by an increase in the number of marketing offices and sales personnel. The number of sales offices increased to 26 as of June 30, 2001, up from 22 as of June 30, 2000 and the number of sales and marketing personnel increased to122, up from 80 as of June 30, 2000.

General and Administrative Expenses. General and administrative expenses were $ 12.5 million for the three months ended June 30, 2001, representing an increase of 95.2% over general and administrative expenses of $ 6.4 million for the three months ended June 30, 2000. General and administrative expenses were 9.6% and 8.0% of total revenues for the three months ended June 30, 2001 and 2000, respectively. This increase in general and administrative expenses as a percentage of revenues was primarily attributable to an increase in the provision for doubtful debts, which comprised 1.1% of revenues during the three-month period ended June 30, 2001 as compared to 0.1% in the corresponding previous period as well as increases in management, finance, administrative and occupancy costs due to an increase in scale of operations.

Amortization of Stock Compensation Expense. Amortization of deferred stock compensation expense was $ 1.3 million in each of the three months ended June 30, 2001 and 2000, respectively. Deferred stock compensation expense reflects the continued amortization of compensation expense from stock purchase rights granted in prior periods.

Operating Income. Operating income was $ 42.4 million for the three months ended June 30, 2001, an increase of 60.6% over the operating income of $ 26.4 million for the corresponding period in fiscal 2001. As a percentage of revenues, operating income decreased to 32.5% for the three months ended June 30, 2001 from 32.9% for the corresponding period in fiscal 2001. Excluding the amortization of deferred stock compensation expense, the operating margin was 33.5% for the three months ended June 30, 2001 as compared to 34.5% for the three months ended June 30, 2000.

Other Income. Other income was $ 2.9 million for the three months ended June 30, 2001 as compared to $ 3.4 million for the corresponding period in fiscal 2001. Other income during the three months ended June 30, 2001 includes $ 0.1 million arising from exchange differences on translation of foreign currency deposits and interest income of $ 2.5 million earned on deposits of surplus funds. Other income for the three months ended June 30, 2000 includes $ 1.7 million arising from exchange differences on translation of foreign currency deposits and interest income of $ 1.7 million earned on deposits of surplus funds.

Provision for Income Taxes. Provision for income taxes was $ 6.1 million for the three months ended June 30, 2001 as compared to $ 3.0 million for the corresponding period in fiscal 2001. The company's effective tax rate increased to 13.5% for the three months ended June 30, 2001 as compared to 10.1% for the corresponding period in fiscal 2001. This increase in effective tax rate is primarily attributable to an increase in foreign taxes paid in respect of the overseas operations of the company in the three months ended June 30, 2001 as compared to the three months ended June 30, 2000 as well as an increase in taxable income earned on deposit of surplus funds. Overseas operations of the Company contribute 50.5% of revenues in the three months ended June 30, 2001 as compared to 48.3% of revenues in the three months ended June 30, 2000. Income earned from the deposit of surplus funds was $ 2.5 million and $ 1.7 million in the three months ended June 30, 2001, 2000 respectively.

Net Income. Net income was $ 39.2 million for the three months ended June 30, 2001, an increase of 46.3% over net income of $ 26.8 million for the corresponding period in fiscal 2001. As a percentage of total revenues, net income decreased to 30.1% for the three months ended June 30, 2001 from 33.4% for the corresponding period in fiscal 2001.

2.3 Liquidity and capital resources

The growth of the company has been financed largely from cash generated from operations and, to a lesser extent, from the proceeds of equity issues and borrowings. In 1993, the company raised approximately $ 4.4 million in gross aggregate proceeds from its initial public offering of equity shares on Indian stock exchanges. In 1994, the company raised an additional $ 7.7 million through private placements of its equity shares with foreign institutional investors, mutual funds, Indian domestic financial institutions and corporations. In 1999, the company raised $ 66.3 million through the issue of American Depositary Shares ("ADS"). As of June 30, 2001, the company had $ 134.2 million in cash and cash equivalents, $ 184.1 million in working capital and no outstanding bank borrowings. The company's treasury policy calls for investing only in highly rated banks, financial institutions and companies for short maturities with a limit for individual entities. The company retains the money both in rupee and foreign currency accounts. The bank balances in overseas accounts are maintained to meet the expenditure of the overseas branches in the U.S. and other countries, and to meet project-related expenditure overseas.

Net cash provided by operating activities was $ 48.9 million and $ 20.6 million in the three months ended June 30, 2001 and 2000, respectively. 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 total revenues, represented 12.6% and 15.9% as of June 30, 2001 and 2000, respectively. Further, the average days outstanding of accounts receivable has increased in the 0-30 and 31-60 aging periods and decreased in the 61-90 and greater than 90-day aging periods. The company's policy on accounts receivable includes a periodic review of all such outstanding. The company reviews the age, amount, and quality of each account receivable; the relationship with, size of, and history of the client; and the quality of service delivered by the company for the client, to determine the classification of an account receivable. Should the review so demand, the company classifies accounts receivable into secured and unsecured accounts, further sub-classified between good and doubtful accounts. The company makes provisions for all accounts receivable classified as doubtful and for all accounts receivable that are outstanding for more than 180 days. Management continues pursuing the parties for recovery of dues, in part or full.

Prepaid expenses and other current assets decreased by $ 0.3 million during the three months ended June 30, 2001 as compared to an increase of $ 0.5 million during the three months ended June 30, 2000, respectively. The decrease in the three months ended June 30, 2001 was primarily due to a decrease in rent deposits and prepaid expenses, offset partially by an increase in costs in excess of billings and other advances.

The increase in the three months ended June 30, 2000 was primarily attributable to an increase in prepaid expenses and costs in excess of billings. Costs in excess of billings represent costs incurred on fixed-price contracts in respect of which milestones are yet to be achieved.

Income taxes payable decreased by $ 2.0 million during the three months ended June 30, 2001, primarily due to higher advance tax payments made during the period, as compared to an increase of $ 1.1 million during the three months ended June 30, 2000. Other accrued liabilities increased by $ 3.8 million during the three months ended June 30, 2001 as compared to a decrease of $ 1.9 million during the three months ended June 30, 2000. The increase of $ 3.8 million in other accrued liabilities during the three months ended June 30, 2001 is primarily attributable to an increase in accrued staff compensation and employee withholding taxes payable amounting to $ 2.4 million and $ 1.6 million, respectively. The decrease of $ 1.9 million in other accrued liabilities during the three months ended June 30, 2000 is primarily attributable to a decrease in accrued staff compensation and employee withholding taxes payable amounting to $ 0.3 million and $ 1.4 million, respectively.

Unearned revenue as of June 30, 2001 was $ 7.7 million compared to $ 14.4 million as of June 30, 2000 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 was 27.0% and 26.6% of revenues for the three months ended June 30, 2001 and 2000 respectively.

Net cash used in investing activities was $ 24.7 million and $ 22.1 million in the three months ended June 30, 2001 and 2000, respectively. Net cash used in investing activities in the three months ended June 30, 2001 and 2000 consisted primarily of $ 20.6 million and $ 18.1 million, respectively, for property, plant and equipment.

Additionally, the company invested an aggregate amount of $ 2.2 million to purchase the capital stock of Workadia Inc., during the three months ended June 30, 2001. The company invested an aggregate amount of $ 3 million to purchase the capital stock of CiDRA Corporation during the three months ended June 30, 2000.

Publicly-traded Indian companies customarily pay dividends. The company paid cash dividends of $ 11.3 million and $ 4.7 million in the three months ended June 30, 2001 and 2000 respectively.

As of June 30, 2001, the company had contractual commitments for capital expenditure of $ 30.5 million. The company has not yet made contractual commitments for the majority of its budgeted capital expenditure. The company intends to spend an aggregate amount of approximately $ 60 million on various capital expenditure during fiscal 2002 and the same would be met out of the internal accruals of the company. In the opinion of the company, the working capital is sufficient for the company's present requirements.

2.4 Reconciliation between U.S. and Indian GAAP

There are material differences between financial statements prepared as per Indian and U.S. GAAP. These differences arise due to accounting for stock-based compensation and non-recognition of unrealized gains on transfers of intellectual property rights, as required by U.S. GAAP. Indian GAAP does not require amortization of deferred stock compensation and permits the recognition of unrealized gains on transfers of intellectual property rights in the financial statements. Prior to April 1, 2001, Indian GAAP did not also require provision for deferred taxes.

Reconciliation of net income	Three months ended June 30, 2001	2000
Net profit as per Indian GAAP	$ 40,501,114	$ 28,565,885
Amortization of deferred stock compensation expense under APB opinion number 25	(1,259,755)	(1,275,796)
Provision for retirement benefits to employees	–	741,000
Deferred income taxes	–	118,795
Provision for contingency / e-inventing the company	–	(87,387)
Transfer of intellectual property rights (net of tax)	–	(1,230,824)
Net income as per US GAAP	$ 39,241,359	$ 26,831,673

2.5 Investments

2.5.1 Yantra Corporation

Prior to October 20, 1998, the company owned a majority of the voting stock of Yantra. As a result, all of Yantra's operating losses through October 20, 1998 were recognized in the company's consolidated financial statements. For fiscal 1998 and fiscal 1999, Yantra's losses recognized in the company's financial statements were $ 1.6 million and $ 2.0 million, respectively. On October 20, 1998, the company sold a portion of Yantra's shares held by it, thereby reducing its interest to less than one-half of the voting stock of Yantra. As of October 20, 1998, the company owned all of the outstanding common stock of Yantra, but had no financial obligations or commitments to Yantra and did not intend to extend Yantra with any financial support. Accordingly, Yantra's results after October 20, 1998 were not recognized in the company's financial statements under U.S. GAAP. Yantra's revenues were $ 1.3 million and $ 2.0 million for fiscal 1998 and for the period ended October 20, 1998, respectively, while gross profits were $ 574,000 and $ 546,000, respectively, for these same periods. Yantra's revenues were 1.9% and 2.3% of the company's revenues for fiscal 1998 and for the period ended October 20, 1998, respectively. Its gross profits were 2.0% and 1.4% of the company's gross profits for these same periods. Yantra currently provides e-commerce operations solutions through PureEcommerce™, a scalable web-based solution that facilitates real-time transaction management across the extraprise. In June 1999, Yantra sold Series C Convertible Preferred Stock in the amount of $ 15 million to unrelated existing and new investors, reducing the company's voting control to approximately 25%. In July 2000, Yantra sold Series D Convertible Preferred Stock amounting to $ 49 million, to unrelated existing and new investors, further reducing the company's voting control to approximately 16% on a fully diluted basis.

2.5.2 Other investments

During the three months ended June 30, 2001 the company also invested in Workadia Inc. a Delaware corporation by purchasing 440,000 shares of Series B Convertible Preferred Stock, par value US$ 0.001 per share, for an aggregate investment of US $2.2 million.

2.6 Principles of currency translation

In the three months ended June 30, 2001, over 94% of the company's revenues were generated in U.S. dollars and European currencies. A majority of the company's expenses were incurred in Rupees, and the balance was incurred in U.S. dollars and European currencies. The functional currency of the company is the Indian Rupee. Revenues generated in foreign currencies are translated into Indian rupees using the exchange rate prevailing on the dates revenues are recognized. Expenses of overseas operations incurred in foreign currencies are translated into Indian rupees at either the monthly average exchange rate or the exchange rate on the date the expense is incurred, depending on the source of payment. Assets and liabilities of foreign branches held in foreign currency are translated into Indian rupees at the end of the applicable reporting period. For U.S. GAAP reporting, the financial statements are translated into U.S. 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. The company expects that a majority of its revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of the company's expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in rupees. Consequently, the company's results of operations will be adversely affected to the extent that the rupee appreciates against the U.S. dollar.

2.7 Income Tax Matters

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") beginning from the financial year when the unit started producing computer software, or March 31, 2000, whichever is earlier; 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 a designated Software Technology Park ("STP"). Such Export Deduction will be phased out equally over a period of five years starting from fiscal 2000. The benefits of these tax incentive programs have historically resulted in an effective tax rate for the company well below statutory rates. There is no assurance that the Government of India will continue to provide these incentives. The company pays corporate income tax in foreign countries on income derived from operations in those countries.

2.8 Effects of Inflation

The company's most significant costs are salaries and related benefits for its employees. Competition in India and the United States for IT professionals with the advanced technological skills necessary to perform the services offered by the company have caused wages to increase at a rate greater than the general rate of inflation. As with other IT service providers, the company must adequately anticipate wage increases and other cost increases, particularly on its long-term contracts. Historically, the company's wage costs in India have been significantly lower than prevailing wage costs in the United States for comparably-skilled employees, although wage costs in India are presently increasing at a faster rate than in the United States. There can be no assurance that the company will be able to recover cost increases through increases in the prices that it charges for its services in the United States.

2.9 Accounting Pronouncements

Effective April 1, 2001, the company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* as amended, when the pronouncement became effective for companies with fiscal year ending March 31, 2001. SFAS 133 changes the accounting treatment of derivative contracts (including foreign exchange contracts) that are employed to manage risks. It establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a derivative instrument is designated as a hedge and if so, the type of hedge. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

2.10 Risk factors

2.10.1 Management of growth

The company has experienced significant growth in recent periods. The company's revenues in the three months ended June 30, 2001 grew by 62.6% over the three months ended June 30, 2000. As of June 30, 2001, the company employed approximately 8,720 software professionals worldwide with 16 software development facilities in India, six proximity development centers in the United Kingdom and the U.S., and one global development center in Canada, as compared to approximately 5,590 with 18 facilities in India and abroad as of June 30, 2000. In fiscal 2001 and 2000, the company approved major expansions to its existing facilities and the building of new facilities. The company's growth is expected to place significant demands on its management and other resources and will require it to continue to develop and improve its 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 the company's high quality standards; and preserving the company's culture and values and its entrepreneurial environment. The company's inability to manage its growth effectively could have a material adverse effect on the quality of the company's services and projects, its ability to attract clients as well as skilled personnel, its business prospects, and its results of operations and financial condition.

2.10.2 Potential fluctuations in future operating results

Historically, the company's operating results have fluctuated, and may continue to fluctuate in future, depending on a number of factors, including: the size, timing and profitability of significant projects; the proportion of services that are performed at client sites rather than at the company's offshore facilities; the accuracy of estimates of resources and time required to complete ongoing projects, particularly projects performed under fixed-price, fixed-time frame contracts; a change in the mix of services provided to its clients or in the relative proportion of services and product revenues; the timing of tax holidays and other Government of India incentives; the effect of seasonal hiring patterns and the time required to train and productively utilize new employees; the size and timing of facilities expansion; unanticipated increases in wage rates; the company's success in expanding its sales and marketing programs; currency exchange rate fluctuations and other general economic factors. A high percentage of the company's operating expenses, particularly personnel and facilities, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number and timing of the company's projects or in employee utilization rates may cause significant variations in operating results in any particular quarter. The company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, it is possible that in some future quarter the company's operating results may be below the expectations of public market analysts and investors. In such event, the market price of the company's equity shares and ADSs are likely to be materially adversely affected.

2.10.3 Impact of a slowdown in IT spending in the U.S.

Historically, a significant portion of the company's revenues was derived from the U.S. For example, in fiscal 2001 and 2000, approximately 70.0% and 73.8% of the company's revenues were derived from the U.S. Currently there are indications of an economic slowdown in the U.S. Accordingly, the IT services sector in the U.S. may experience some adjustment as a result of the economy. The continued growth of companies in this sector will depend upon their ability to adapt to the changes in the market and justify their customer's investments in new projects that will drive customer retention up and costs down. Consequently, the company's competitors may reduce contract prices to retain customers and win new contracts. This may affect the company's ability to win new clients and retain existing clients as well as the company's ability to sustain its current pricing strategy. An inability to retain current pricing structures, retain clients or win new client contracts may result in lower revenue growth and lower profit margins for the company. Due to all of the foregoing factors, it is possible that in some future quarter the company's operating results may be below the expectations of public market analysts and investors. In such event, the market price of the equity shares and ADSs are likely to be materially adversely affected.

2.10.4 Exposure to industry segments

The company derives a significant proportion of its revenues from certain industry segments. For example, in fiscal 2001 the company derived 33.7% and 18.4% of its revenues from the insurance, banking and financial services, and telecom industry segments respectively, as compared to 30.1% and 15.4%, respectively in fiscal 2000. There are indications that the possible economic slowdown in the U.S. may impact the growth prospects of companies that operate in various industry segments, for example, the insurance, banking and financial services, and telecom industry segments. Consequently, these companies may reduce or entirely eliminate their IT spending, or postpone decisions regarding new expenditures with respect to IT spending. The company believes that a sustained reduction or elimination in IT spending by these such companies and a longer client engagement time that such companies may adopt, may affect the company's ability to win new clients and retain existing clients as well as the company's ability to sustain its current pricing strategy. An inability to retain current pricing structures, retain clients or win new client contracts may result in lower revenue growth and lower profit margins for the company. Due to all of the foregoing factors, it is possible that in some future quarter the company's operating results may be below the expectations of public market analysts and investors. In such event, the market price of the equity shares and ADSs are likely to be materially adversely affected.

2.10.5 Exposure to start-ups and venture funded companies

Several of the company's clients are early stage, young companies with little or limited financing. For example, the company derived 10.8% of its revenues from such companies in fiscal 2001. The ability of such early stage companies to raise capital for operations and expansion plans has recently become more difficult as a result of several factors, including the U.S. capital market declines and a slowing U.S. economy. Consequently, these companies may reduce or entirely eliminate their IT spending, or postpone decisions regarding new expenditures with respect to IT spending. The company believes that a sustained reduction or elimination in IT spending by these such companies and a longer client engagement time that such companies may adopt, may affect the company's ability to win new clients and retain existing clients as well as the company's ability to sustain its current pricing strategy. An inability to retain current pricing structures, retain clients or win new client contracts may result in lower revenue growth and lower profit margins for the company. Additionally, such companies may become greater risks and not be able to adequately pay for past services rendered. Due to all of the foregoing factors, it is possible that in some future quarter the company's operating results may be below the expectations of public market analysts and investors. In such event, the market price of the equity shares and ADSs are likely to be materially adversely affected.

2.10.6 Risks related to investments in Indian securities

The company is incorporated in India and substantially all of its assets, and a substantial majority of its employees are located in India. Consequently, the company's performance may be affected by changes in exchange rates and controls, interest rates, Government of India policies, including taxation policy, as well as political, social and economic developments affecting India.

Political and economic environment. During the past decade and particularly since 1991, the Government of India has pursued policies of economic liberalization, including significant relaxations of 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. Additionally, since 1996, the Government of India has changed three times. The current Government of India, formed in October 1999, has announced policies and taken initiatives that support the continuation of the economic liberalization policies pursued by previous governments and has, in addition, set up a special IT task force to promote the IT industry. However, the speed of economic liberalization could change, and specific laws and policies affecting IT companies, foreign investment, currency exchange rates and other matters affecting investment in the company's securities could change as well. Further, there can be no assurance that the liberalization policies will continue in the future. A significant change in the Government of India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and the company's business in particular. South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries. 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 and on the business of the company.

Government of India incentives and regulation. The company benefits from a variety of incentives given to software firms in India, such as relief from import duties on hardware, a tax exemption for income derived from software exports, and tax holidays and infrastructure support for companies, such as Infosys, operating in specially designated "Software Technology Parks". There can be no assurance that these incentives will continue in future. Further, there is a risk that changes in tax rates or laws affecting foreign investment, currency exchange rates or other regulations will render the Government of India's regulatory scheme less favorable to the company and could adversely affect the market price of the company's equity shares and its ADSs. Should the regulations and incentives promulgated by the Government of India become less favorable to the company, the company's results of operations and financial condition could be adversely affected.

Restrictions on foreign investment. Foreign investment in Indian securities is generally regulated by the Foreign Exchange Management Act, 1999. In certain emerging markets, including India, Global Depositary Shares and ADSs may trade at a discount or premium, as the case may be, to the underlying shares, in part because of restrictions on foreign ownership of the underlying shares. In addition, under current Indian laws and regulations, the Depositary can accept deposits of outstanding equity shares and issue ADRs evidencing ADSs representing such equity shares provided the shares so accepted for conversion into ADSs shall not exceed the number of equity shares which were released by the custodian pursuant to conversions of ADSs into equity shares under the Depositary Agreement. Therefore, a holder of ADSs who surrenders ADSs and withdraws equity shares is not permitted subsequently to deposit such equity shares and obtain ADSs if such ADSs obtained on conversion are in excess of the ADSs originally converted or surrendered. This limited ability to convert equity shares into ADSs increases the probability that the price of the ADSs will not trade on par with the price of the equity shares as quoted on the Indian stock exchanges. Holders who seek to sell in India any equity shares withdrawn from the depositary facility and to convert the rupee proceeds from such sale into foreign currency and repatriate such foreign currency from India will have to obtain Reserve Bank of India ("RBI") approval for each such transaction. Further, under current Indian regulations and practice, the approval of the RBI is required for the sale of equity shares underlying ADSs by a non-resident of India to a resident of India as well as for renunciation of rights to a resident of India. There can be no assurance that any such approval can be obtained.

Exchange rate fluctuations. Market risks relating to the company's operations result primarily from changes in interest rates and changes in foreign exchange rates. The company's functional currency is the Indian Rupee although it transacts a major portion of its business in foreign currencies and accordingly has foreign currency exposure through its sales in the United States and purchases from overseas suppliers in U.S. dollars. In its U.S. operations, the company does not actively hedge against exchange rate fluctuations, although it may elect to do so in the future. Accordingly, changes in exchange rates may have a material adverse affect on the company's 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 affect on the company's business, operating results and financial condition. The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. During the four-year period from March 31, 1997 through March 31, 2001, the value of the rupee against the U.S. dollar declined by approximately 29.8%. For the three months ended June 30, 2001 and for fiscal 2001 and 2000, the company's U.S. dollar-denominated revenues represented 87.0%, 89.5% and 88.3%, respectively, of total revenues. The company expects that a majority of its revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of the company's expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in rupees. Consequently, the company's results of operations will be adversely affected to the extent the rupee appreciates against the U.S. dollar. The company has in the past sought to reduce the effect of exchange rate fluctuations on operating results by purchasing foreign exchange forward contracts to cover a portion of outstanding accounts receivable on a need basis. As of June 30, 2001, the company had outstanding forward contracts in the amount of $ 35,000,000. 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. The company uses these instruments only as a hedging mechanism and not for speculative purposes. There can be no assurance that the company will purchase contracts adequate to insulate itself from foreign exchange currency risks or that any such contracts will perform adequately as a hedging mechanism. Devaluation of the rupee will result in foreign currency translation losses. For example, for the three months ended June 30, 2001 and for fiscal 2001 and fiscal 2000, the company's foreign currency translation losses were approximately $ 2.8 million, $ 14.5 million and $ 5.0 million, respectively.

Fluctuations in the exchange rate between the rupee and the U.S. dollar also will affect the U.S. 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 Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of equity shares on the Indian Stock Exchanges and, as a result, are likely to affect the market prices of the ADSs in the United States, and vice versa. 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. There can be no assurance that holders will be able to convert rupee proceeds into U.S. dollars or any other currency or with respect to the rate at which any such conversion could occur.

2.10.7 Substantial investment in new facilities

As of June 30, 2001, the company had contractual commitments of $ 30.5 million for capital expenditure and has budgeted for significant expansion of infrastructure in the near future. Since such an expansion will significantly increase the company's fixed costs, the company's results of operations will be materially adversely affected if the company is unable to grow its business proportionately. Although the company has successfully developed new facilities in the past, there can be no assurance that the company will not encounter cost overruns or project delays in connection with any or all of the new facilities. Furthermore, there can be no assurance that future financing for additional facilities, whether within India or elsewhere, would be available on attractive terms or at all.

2.10.8 Restrictions on US immigration

The company's professionals who work on-site at client facilities in the United States on temporary and extended assignments are typically required to obtain visas. As of June 30, 2001, substantially all of the company's personnel in the United States were working pursuant to H-1B visas (1,280 persons) or L-1 visas (294 persons). Although there is no limit to new L-1 petitions, there is a limit to the number of new H-1B petitions that the United States Immigration and Naturalization Service may approve in any government fiscal year. In years in which this limit is reached, the company may be unable to obtain the H-1B visas necessary to bring its critical Indian IT professionals to the United States on an extended basis. The H-1B limit had recently been increased to 195,000 for the next two years ending September 30, 2002. This limit has not yet been reached by the U.S. Government for its fiscal year ended September 30, 2001 While the company anticipates that this limit will be reached prior to the end of the US government's fiscal year and has made efforts to plan accordingly, there can be no assurance that the company will continue to be able to obtain a sufficient number of H-1B visas. Changes in existing U.S. immigration laws that make it more difficult for the company to obtain H-1B and L-1 visas could impair the company's ability to compete for and provide services to clients and could have a material adverse effect on the company's results of operations and financial condition.

2.10.9 Risks related to international operations

While most of the company's software development facilities are currently located in India, the company intends to develop new software development facilities in other regions, including potentially South-East Asia, Latin America and Europe. The company has not yet made substantial contractual commitments to develop such new software development facilities, and there can be no assurance that the company will not significantly alter or reduce its proposed expansion plans. The company's lack of experience with facilities outside of India subject the company to further risk with regard to foreign regulation and overseas facilities management. Increasing the number of software development facilities and the scope of operations outside of India subjects the company to a number of risks, including, among other things, difficulties relating to administering its business globally, managing foreign operations, currency exchange rate fluctuations, restrictions against the repatriation of earnings, export requirements and restrictions, and multiple and possibly overlapping tax structures. Such developments could have a material adverse effect on the company's business, results of operations and financial condition.

2.10.10 Dependence on skilled personnel; risks of wage inflation

The company's ability to execute project engagements and to obtain new clients depends, in large part, on its ability to attract, train, motivate and retain highly skilled IT professionals, particularly project managers, software engineers and other senior technical personnel. An inability to hire and retain additional qualified personnel will impair the company's ability to bid for or obtain new projects and to continue to expand its business. The company believes that there is significant competition for IT professionals with the skills necessary to perform the services offered by the company. There can be no assurance that the company will be able to assimilate and manage new IT professionals effectively. Any increase in the attrition rates experienced by the company, particularly the rate of attrition of experienced software engineers and project managers, would adversely affect the company's results of operations and financial condition. There can be no assurance that the company will be successful in recruiting and retaining a sufficient number of replacement IT professionals with the requisite skills to replace those IT professionals who leave. Further, there can be no assurance that the company will be able to re-deploy and retrain its IT professionals to keep pace with continuing changes in IT, evolving standards and changing client preferences. Historically, the company's wage costs in India have been significantly lower than wage costs in the United States for comparably skilled IT professionals. However, wage costs in India are presently increasing at a faster rate than those in the United States. Changes in immigration laws of the countries where the company's personnel are on short-term assignments, requiring the company to pay a minimum threshold wage higher than the current wage of these personnel as a condition for obtaining visas or work permits may impact the profitability of the company. In the long-term, wage increases may have an adverse effect on the company's profit margins unless the company is able to continue increasing the efficiency and productivity of its professionals.

2.10.11 Client concentration

The company has derived, and believes that it will continue to derive, a significant portion of its revenues from a limited number of large corporate clients. For the three months ended June 30, 2001 and for fiscal 2001 and 2000, the company's largest client accounted for 6.7%, 7.3% and 7.2%, respectively, of the company's total revenues and its five largest clients accounted for 27.4%, 26.0% and 30.2%, respectively, of the company's total revenues. The volume of work performed for specific clients is likely to vary from year to year, particularly since the company is usually not the exclusive outside software service provider for its clients. Thus, a major client in one year may not provide the same level of revenues in a subsequent year. The loss of any large client could have a material adverse effect on the company's results of operations and financial condition. Since many of the contracted projects are critical to the operations of its clients' businesses, any failure to meet client expectations could result in a cancellation or non-renewal of a contract. However, there are a number of factors other than the company's performance that could cause the loss of a client and that may not be predictable. For example, in 1995, the company chose to reduce significantly the services provided to its then-largest client rather than accept the price reductions and increased company resources sought by the client. In other circumstances, the company reduced significantly the services provided to its 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. There can be no assurance that the same circumstances may not arise in future.

2.10.12 Fixed-price, fixed-time frame contracts

As a core element of its business strategy, the company continues to offer a significant portion of its services on a fixed-price, fixed-time frame basis, rather than on a time-and-materials basis. Although the company uses specified software engineering processes and its past project experience to reduce the risks associated with estimating, planning and performing fixed-price, fixed-time frame projects, the company bears the risk of cost overruns, completion delays and wage inflation in connection with these projects. The company's failure to estimate accurately the resources and time required for a project, future rates of wage inflation and currency exchange rates or its failure to complete its contractual obligations within the time frame committed could have a material adverse effect on the company's results of operations and financial condition.

2.10.13 Infrastructure and potential disruption in telecommunications

A significant element of the company's business strategy is to continue to leverage its various software development centers in Bangalore, Bhubaneswar, Chennai, Mangalore, Pune, Hyderabad, Mohali and Mysore, India and to expand the number of such centers in India as well as outside India. The company believes that the use of a strategically located network of software development centers will provide the company with cost advantages, the ability to attract highly skilled personnel in various regions, the ability to service clients on a regional and global basis, and the ability to provide 24-hour service to its clients. Pursuant to its service delivery model, the company must maintain active voice and data communication between its main offices in Bangalore, the offices of its clients, and its other software development facilities. Although the company maintains redundant software development facilities and satellite communications links, any significant loss of the company's ability to transmit voice and data through satellite and telephone communications would have a material adverse effect on the company's results of operations and financial condition.

2.10.14 Competition

The market for IT services is highly competitive. Competitors include IT services companies, large international accounting firms and their consulting affiliates, systems consulting and integration firms, temporary employment agencies, other technology companies and client in-house IS departments. Competitors include international firms as well as national, regional and local firms located in the United States, Europe and India. The company expects that future competition will increasingly include firms with operations in other countries, potentially including countries with lower personnel costs than those prevailing in India. Historically, one of the company's key competitive advantages has been a cost advantage relative to service providers in the United States and Europe. Since wage costs in India are presently increasing at a faster rate than those in the United States, the company's ability to compete effectively will become increasingly dependent on its reputation, the quality of its services, and its expertise in specific markets. Many of the company's competitors have significantly greater financial, technical and marketing resources and generate greater revenue than the company, and there can be no assurance that the company will be able to compete successfully with such competitors and will not lose existing clients to such competitors. The company believes that its ability to compete also depends in part on a number of factors outside its control, including the ability of its competitors to attract, train, motivate and retain highly skilled IT professionals, the price at which its competitors offer comparable services, and the extent of its competitors' responsiveness to client needs.

2.10.15 Dependence on key personnel

The company's success depends to a significant degree upon continued contributions of members of the company's senior management and other key research and development and sales and marketing personnel. The company generally does not enter into employment agreements with its senior management and other key personnel that provide for substantial restrictions on such persons leaving the company. The loss of any of such persons could have a material adverse effect on the company's business, financial condition and results of operations.

2.10.16 Potential liability to clients; risk of exceeding insurance coverage

Many of the company's contracts involve projects that are critical to the operations of its clients' businesses and provide benefits that may be difficult to quantify. Any failure in a client's system could result in a claim for substantial damages against the company, regardless of the company's responsibility for such failure. Although the company attempts to limit its contractual liability for damages arising from negligent acts, errors, mistakes or omissions in rendering its services, there can be no assurance the limitations of liability set forth in its service contracts will be enforceable in all instances or will otherwise protect the company from liability for damages. The company maintains general liability insurance coverage, including coverage for errors or omissions; however, there can be no assurance 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. The successful assertion of one or more large claims against the company that exceed available insurance coverage or changes in the company's insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect the company's results of operations and financial condition.

2.10.17 Risks associated with possible acquisitions

The company intends to evaluate potential acquisitions on an ongoing basis. As of the date of this Quarterly Report, however, the company has no understanding, commitment or agreement with respect to any material future acquisition. Since the company has not made any acquisitions in the past, there can be no assurance that the company will be able to identify suitable acquisition candidates available for sale at reasonable prices, consummate any acquisition, or successfully integrate any acquired business into the company's operations. Further, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel and clients, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the company's results of operations and financial condition. Under Indian law, except in certain limited circumstances, the company may not make any acquisition of, or investment in, a non-Indian company without RBI and, in most cases, Government of India approval. Even if the company does encounter an attractive acquisition candidate, there can be no assurance that RBI and, if required, Government of India approval can be obtained.

2.10.18 Risks associated with strategic investments

The company has made and continues to make strategic investments in early stage technology companies in order to gain experience in niche technologies. The company invested an aggregate of $5.9 million in strategic investments in fiscal 2001. However, there can be no assurance that the company will be successful in its investments and will benefit from such investments. The loss of any of such investments could have a material adverse effect on the company's business, financial condition and results of operations.

2.10.19 Risks associated with incubation

The company incubates employee ideas that it expects to be commercially viable. The company may incur significant expenditures until the successful commercialization of these ideas. The company may also hold equity in these incubation ventures in return for transfers of intellectual property rights related to incubated ideas. However, there can be no assurance that the company will be successful in incubating ideas, will be successful in commercializing such ideas, or will benefit from such incubation ventures. The failure of any of such incubation ventures could have a material adverse effect on the company's reputation, business, financial condition and results of operations.

2.10.20 Risks related to software product sales

The company derived 3.3%, 2.5% and 2.6% of its total revenue from the sale of software products in the three months ended June 30, 2001, fiscal 2001 and fiscal 2000, respectively. The development of the company's software products requires significant investments. The markets for the company's primary software product are competitive and currently located in developing countries, and there can be no assurance that such a product will continue to be commercially successful. In addition, there can be no assurance that any new products developed by the company will be commercially successful or that the costs of developing such new products will be recouped. A decrease in the company's product revenues or margins could adversely affect the company's results of operations and financial condition. Additionally, software product revenues typically occur in periods subsequent to the periods in which the costs are incurred for development of such products. There can be no assurance that such delayed revenues will not cause periodic fluctuations of the company's results of operations and financial condition.

2.10.21 Restrictions on exercise of preemptive rights by ADS holders

Under the Indian Companies Act, 1956 ("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 company's shareholders. 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 (the "Securities Act"), is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. The company's 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 the company considers appropriate at the time. No assurance can be given that the company would file a registration statement under these circumstances. If the company issues any such securities in the future, such securities may be issued to the Depositary, which may sell such securities for the benefit of the holders of the ADSs. There can be no assurance as to the value, if any, the Depositary would receive upon the sale of such securities. To the extent that holders of ADSs are unable to exercise preemptive rights granted in respect of the equity shares represented by their ADSs, their proportional interests in the company would be reduced.

2.10.22 Intellectual property rights

The company relies upon a combination of non-disclosure and other contractual arrangements and copyright, trade secrets and trademark laws to protect its proprietary rights. Ownership of software and associated deliverables created for clients is generally retained by or assigned to the client, and the company does not retain an interest in such software and deliverables. The company also develops foundation and application software products, or software "tools", which are licensed to clients and remain the property of the company. The company has obtained registration of INFOSYS as a trademark in India and the United States, and does not have any patents or registered copyrights in the United States. The company currently requires its IT professionals to enter into non-disclosure and assignment of rights agreements to limit use of, access to, and distribution of its proprietary information. There can be no assurance that the steps taken by the company in this regard will be adequate to deter misappropriation of proprietary information or that the company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights.

Although the company believes that its services and products do not infringe upon the intellectual property rights of others, there can be no assurance that such a claim will not be asserted against the company in the future. Assertion of such claims against the company could result in litigation, and there can be no assurance that the company would be able to prevail in such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party on commercially reasonable terms. There can be no assurance that the company will be able to protect such licenses from infringement or misuse, or prevent infringement claims against the company in connection with its licensing efforts. The company expects that the risk of infringement claims against the company will increase if more of the company's competitors are able to obtain patents for software products and processes. Any such claims, regardless of their outcome, could result in substantial cost to the company and divert management's attention from the company's operations. Any infringement claim or litigation against the company could, therefore, have a material adverse effect on the company's results of operations and financial condition.

2.10.23 Control by principal shareholders, officers and directors; anti-takeover provisions

The company's officers and directors, together with members of their immediate families, in the aggregate, beneficially own approximately 24.9% of the company's issued equity shares. As a result, such persons, acting together, will likely still have the ability to exercise significant control over most matters requiring approval by the shareholders of the company, including the election and removal of directors and significant corporate transactions. Such control by the company's officers and directors could delay, defer or prevent a change in control of the company, impede a merger, consolidation, takeover or other business combination involving the company, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the company.

The Indian Companies Act and the company's Articles of Association (the "Articles") require that: (i) at least two-thirds of the company's directors shall serve for a specified term and shall be subject to re-election by the company's shareholders at the expiration of such terms; and (ii) at least one-third of the company's directors who are subject to re-election shall be up for re-election at each annual meeting of the company's shareholders. In addition, the company's Articles provide that Mr. N. R. Narayana Murthy, one of the company's principal founders and its Chairman of the Board and Chief Executive Officer, shall serve as the company's Chairman of the Board and shall not be subject to re-election as long as he and his relatives, own at least 5% of the company's outstanding equity securities. Furthermore, any amendment to the company's Articles would require the affirmative vote of three-fourths of the company's shareholders. Finally, foreign investment in Indian companies is highly regulated. These provisions could delay, defer or prevent a change in control of the company, impede a business combination involving the company or discourage a potential acquirer from attempting to obtain control of the company.

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 fluctuations" under Item 2.10.6, Risks related to Investments in Indian securities, above, and is incorporated herein by reference.

Part II – Other information

Item 1. Legal proceedings

The company, its directors, senior executive officers and affiliates are not currently a party to any material legal proceedings.

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

a) The company held its Annual General Meeting of the Shareholders ("AGM") on June 2, 2001.

b) The following directors retired by rotation at the AGM held on June 2, 2001, were eligible for re-election, and were re-elected by a requisite majority vote:

Deepak M. Satwalekar
Ramesh Vangal
Prof. Marti G. Subrahmanyam
S. Gopalakrishnan
S. D. Shibulal

c) The following are the other directors whose term of office as a director continues after the AGM:

N. R. Narayana Murthy
Nandan M. Nilekani
K. Dinesh
Philip Yeo
T. V. Mohandas Pai
Srinath Batni
Phaneesh Murthy
Prof. Jitendra Vir Singh
Dr. Omkar Goswami
Senator Larry Pressler
Ms. Rama Bijapurkar

Item 5. Other Information

The following is a brief description of the matters voted upon at the AGM of the company held on June 2, 2001 along with votes cast for, against or withheld, as well as the number of abstentions and broker non-votes, as to each matter. The matters to be voted upon were notified to the shareholders on record and all Registered Holders of the American Depositary Receipts (the "ADRs") who were holding the ADRs as on a record date determined by the Depositary.

ORDINARY BUSINESS

Brief Description of the matter put to vote	Votes for (1) (2) (3)	Votes against/ Withheld (1) (2) (3)	Abstentions/ Broker Non-votes (1) (2) (3)
1. To receive, consider and adopt the Balance Sheet as at March 31, 2001 and the Profit & Loss Account for the year ended on that date and the Report of Directors' and Auditors' thereon.	770	1	–
2. To declare a final dividend of Rs. 7.50 per share pro-rata	770	1	–
3. To appoint a director in place of Mr. Deepak M. Satwalekar who retires by rotation and is eligible for re-election.	770	1	–
4. To appoint a director in place of Mr. Ramesh Vangal who retires by rotation and is eligible for re-election.	770	1	–
5. To appoint a director in place of Prof. Marti G. Subrahmanyam who retires by rotation and is eligible for re-election.	770	1	–
6. To appoint a director in place of Mr. S. Gopalakrishnan who retires by rotation and is eligible for re-election.	770	1	–
7. To appoint a director in place of Mr. S. D. Shibulal who retires by rotation and is eligible for re-election.	770	1	–
8. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.	770	1	–

SPECIAL BUSINESS

Brief Description of the matter put to vote	Votes for (1) (2) (3)	Votes against/ Withheld (1) (2) (3)	Abstentions/ Broker Non-votes (1) (2) (3)
9. Approval of the appointment of Mr. T. V. Mohandas Pai as a Wholetime Director for a period of five years with effect from May 27, 2000	771	–	–
10. Approval of the appointment of Mr. Srinath Batni as a Wholetime Director for a period of five years with effect from May 27, 2000	771	–	–
11. Approval of the appointment of Mr. Phaneesh Murthy as a Wholetime Director for a period of five years with effect from May 27, 2000	771	–	–
12. Approval of the appointment of Prof. Jitendra Vir Singh as a Director of the company.	771	–	–
13. Approval of the appointment of Dr. Omkar Goswami as a Director of the company.	771	–	–
14. Approval of the appointment of Senator Larry Pressler as a Director of the company.	771	–	–
15. Approval of the appointment of Ms. Rama Bijapurkar as a Director of the company.	771	–	–
16. Approval to increase the maximum limit of the investment by Foreign Institutional Investors in the equity share capital of the company from the existing 40% to 49% or such other limit as may be fixed by the Government of India or the Reserve Bank of India or any other authority.	770	1	–

(1) Under the Indian Companies Act 1956, voting is by show of hands unless a poll is demanded by a member or members present in person, or by proxy holding at least one-tenth of the total shares entitled to vote on the resolution or by those holding paid-up capital of at least Rs. 50,000. Under the Articles of the Company member present by proxy shall be entitled to vote only on a poll but not on a show of hands, unless such member is a body corporate present by a representative in which case such proxy shall have a vote on the show of hand as if he were a member.

(2) Under the Indian Companies Act and as per the Articles of the Company, on a show of hands every member present in person shall have one vote and upon a poll the voting rights of every member whether present in person or by proxy, shall be in proportion to his share of the paid-up capital of the Company.

(3) The votes represent the number of votes in a show of hands. No poll was demanded during the AGM.

Item 6. Exhibits and Reports

Infosys filed no reports on Form 8-K during the quarter ended June 30, 2001.

EXHIBIT INDEX

Exhibit Number	Description of Document
19.1	Infosys Quarterly report to the shareholders for the quarter ended June 30, 2001.

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: July 24, 2001

INFOSYS TECHNOLOGIES LIMITED

By: /s/ Narayana N. R. Murthy

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

/s/ Nandan M. Nilekani

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

Shareholder information

1. Listing on stock exchanges in India at	Bangalore Stock Exchange Ltd. (BgSE) Stock Exchange Towers, No. 51, 1st Cross, J. C. Road, Bangalore – 560 027, India Tel.: +91-80-299 5234, Fax: +91-80-299 5242 The Stock Exchange, Mumbai (BSE) Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001, India. Tel.: +91-22-265 5656 / 265 0525, Fax: +91-22-272 2037 National Stock Exchange of India Ltd. (NSE) Trade World, Senapati Bapat Marg, Lower Parel, Mumbai – 400 013, India. Tel.: +91-22-659 8235 / 36, Fax: +91-22-659 8237 / 38
2. Listing fees	Paid for all the above stock exchanges for 2001-2002
3. Listing on stock exchanges outside India	NASDAQ National Market in the United States 33 Whitehall Street, New York, NY-1004-4087 Tel.: (212) 709 2400, Fax: (212) 709 2496
4. Registered office	Electronics City, Hosur Road, Bangalore – 561 229, India. Tel.: +91-80-852 0261, Fax: +91-80-852 0362 Homepage: www.infy.com

5. Stock market data relating to shares listed in India

   a. The company's market capitalization is included in the computation of the BSE-30 Sensitive Index (Sensex), the BSE Dollex and S&P CNX NIFTY Index.

   b. Monthly high and low quotations as well as the volume of shares traded at Mumbai, National and Bangalore Stock Exchanges for the quarter ended June 30, 2001 are:

	BSE			NSE			BgSE		
	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.
April, 2001	4,226	2,721	73,13,583	4,228	2,701	1,05,60,270	4,250	2,730	10,912
May	4,334	3,601	68,63,941	4,328	3,607	1,06,32,274	4,300	3,680	5,221
June	3,969	3,135	74,11,429	3,995	3,138	1,26,84,001	3,950	3,160	4,697
Total			2,15,88,953			3,38,76,545			20,830
% of volume traded to average shares outstanding			33.70%*			52.87%*			0.03%*

*The number of shares outstanding is 6,40,70,000. The equity shares underlying the American Depositary Shares (ADSs) have been excluded for the purpose of this calculation.

6. Par value of equity shares	Rs. 5 each fully paid-up
7. Share transfers in physical form and other communication regarding share certificates, dividends, change of address etc., in India may be addressed to	Karvy Consultants Limited Registrars and Share Transfer Agents T. K. N. Complex, No. 51/2, Vanivilas Road, Opp. National College, Basavanagudi, Bangalore – 560 004, India. Tel.: +91-80-662 1184/92/93, Fax: +91-80-662 1169 E-mail: ullur@karvy.com

8. Share transfer system

   Shares sent for physical transfer are generally registered and returned within a period of 10 days from the date of receipt, if the documents are clear in all respects. The share transfer committee of the company meets as often as required.

   The total number of shares transferred in physical form during the three-month period ended June 30, 2001 was 9,800 (quarter ended June 30, 2000 – 6,636). 100.00% of transfers (quarter ended June 30, 2000 – 72.88%) were completed within 10 days.

Transfer period in days	Quarter ended June 30, 2001 No. of transferees (folios) New	Existing	No. of shares	%	2000 No. of transferees (folios) New	Existing	No. of shares	%
1– 10	13	–	9,800	100.00	7	3	4,836	72.88
11– 15	–	–	–	–	1	–	400	6.02
16– 20	–	–	–	–	3	–	1,400	21.10
21 and above	–	–	–	–	–	–	–	–
	13	–	9,800	100.00	11	3	6,636	100.00

9. Investors' services – complaints received during

Nature of complaints	Quarter ended June 30, 2001 Received	Attended to	2000 Received	Attended to
1. Non-receipt of share certificates	1	1	–	–
2. Non-receipt of bonus shares / split shares	1	1	1	1
3. Letters from Stock Exchanges, SEBI, etc.	2	2	–	–
4. Non-receipt of dividend	22	22	10	10
	26	26	11	11

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 June 30, 2001 except in cases that are constrained by disputes or legal impediments.

10. 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.

11. Distribution of shareholding as on June 30

No. of equity shares held	2001 No. of share-holders	% of share-holders	No.of shares	% of share-holding	2000 No. of share-holders	% of share-holders	No.of shares	% of share-holding
1 – 100	82,025	88.01	10,18,502	1.59	52,308	81.51	7,45,648	1.16
101 – 200	2,620	2.81	4,18,175	0.65	2,532	3.94	4,31,292	0.67
201 – 500	2,925	3.14	10,05,697	1.57	2,996	4.67	10,70,430	1.67
501 – 1000	2,353	2.52	17,20,005	2.69	2,718	4.23	20,25,170	3.16
1001 – 5000	2,578	2.77	52,93,875	8.26	2,930	4.57	61,57,016	9.61
5001 – 10000	278	0.30	20,02,763	3.13	305	0.48	21,95,063	3.43
10001and above	417	0.45	5,26,10,983	82.11	384	0.60	5,07,28,433	79.18
Shares in transit in NSDL	–	–	–	–	–	–	7,15,748	1.12
	93,196	100.00	6,40,70,000	100.00	64,173	100.00	6,40,68,800	100.00
Equity shares underlying American Depositary Shares *	1		20,90,717		1		20,82,567	
Total	93,197		6,61,60,717		64,174		6,61,51,367	

* Held by beneficial owners outside India.

12. Categories of shareholders as on June 30

Category	2001 No. of shareholders	2001 Voting strength (%)	2001 No. of shares held	2000 No. of shareholders	2000 Voting strength (%)	2000 No. of shares held
Individuals	88,652	21.84	1,44,47,652	60,592	25.50	1,68,66,371
Companies	3,221	1.17	7,74,645	2,653	1.84	12,18,249
FIIs	383	32.78	2,16,90,844	316	25.26	1,67,13,447
OCBs and NRIs	721	0.68	4,48,119	426	0.73	4,82,811
Founders and their families	23	28.98	1,91,75,110	23	29.30	1,93,80,560
Mutual Funds, Banks, FIs	196	11.39	75,33,630	163	13.14	86,91,614
Shares in transit in NSDL	–	–	–	–	1.08	7,15,748
Equity shares underlying American Depositary Shares *	1	3.16	20,90,717	1	3.15	20,82,567
Total	93,197	100.00	6,61,60,717	64,174	100.00	6,61,51,367

* Held by beneficial owners outside India.

13. Financial calendar (tentative and subject to change)

Financial reporting for the second quarter ending September 30, 2001	October 10, 2001
Interim dividend payment (if any)	November 12, 2001
Financial reporting for the third quarter ending December 31, 2001	January 10, 2002
Financial results for the year ending March 31, 2002	April 10, 2002
Annual General Meeting for the year ending March 31, 2002	June 2002

14. Investors' correspondence in India may be addressed to:
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Any queries relating to the financial statements of the company may be addressed to:
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15. Reuters code
– INFY.BO (BSE)
– INFY.NS (NSE)
– INFY.O (NASDAQ)

Bridge code
– IN;INF (BSE)
– IN;INFN (NSE)
– US;INFY (NASDAQ)

Bloomberg code
– INFO IN (BSE)
– NINFO IN (NSE)

16. Stock market data relating to American Depositary Shares (ADSs)

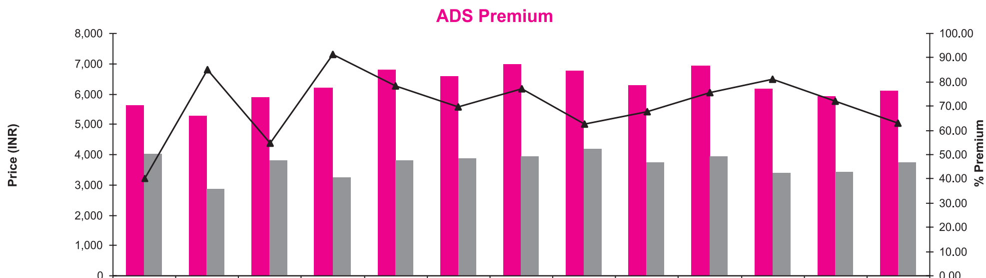
a. ADS listed at — NASDAQ National Market in the United States
b. Ratio of ADS to equity shares — 2 ADS for one equity share
c. ADS symbol — INFY
d. The American Depositary Shares issued under the ADS program of the company were listed on the NASDAQ National Market in the United States on March 11, 1999. The monthly high and low quotations as well as the volume of ADSs traded at the NASDAQ National Market for the quarter ended June 30, 2001 are:

	High		Low		Volume
	$	Rs.	$	Rs.	Nos.
April, 2001	73.95	3,464	50.65	2,372	50,97,100
May	81.50	3,826	64.35	3,021	22,49,900
June	74.60	3,505	55.69	2,617	14,19,300
Total					87,66,300
% of volume traded to total float					209.65% *

* 2 ADS = 1 equity share

$ have been converted into Indian rupees at the monthly closing rates

e. Premium of American Depositary Shares over the shares traded on the Indian stock exchanges
The ADS price quoted below is in Indian rupees and has been converted at the monthly closing rates.



	06/04	12/04	20/04	27/04	04/05	11/05	18/05	25/05	01/06	08/06	15/06	22/06	29/06
ADS Price *	5,640	5,293	5,902	6,209	6,810	6,596	6,994	6,783	6,306	6,931	6,167	5,911	6,109
NSE Share Price	4,029	2,861	3,819	3,248	3,822	3,888	3,949	4,175	3,756	3,943	3,405	3,432	3,749
% Premium	39.99	85.01	54.54	91.16	78.18	69.65	77.11	62.47	67.89	75.78	81.12	72.23	62.95

* 2 ADS = 1 equity share

f. Investor correspondence in the US may be addressed to

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g. Name and address of the depositary bank

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h. Name and address of the custodian in India

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Ratio analysis as per Indian GAAP

	Quarter ended		Year ended
	June 30, 2001	June 30, 2000	March 31, 2001
Ratios – Financial performance			
Export revenue / total revenue (%)	95.25	94.72	95.62
Domestic revenue / total revenue (%)	2.59	1.21	1.35
Other income / total revenue (%)	2.16	4.08	3.03
Employee costs / total revenue (%)	41.56	38.47	36.62
Administration expenses / total revenue (%)	8.57	7.69	9.06
Operating expenses / total revenue (%)	59.42	58.79	58.73
Depreciation / total revenue (%)	5.67	4.79	5.76
Tax / total revenue (%)	4.55	3.70	3.71
Tax / PBT (%)	13.04	10.15	10.45
EBIDTA / total revenue (%)	40.58	41.21	41.27
PAT from ordinary activities / total revenue (%)	30.36	32.73	31.80
PAT from ordinary activities / average net worth (%) (LTM)	54.15	43.51	56.08
ROCE (PBIT/Average capital employed) (%) (LTM)	61.00	49.22	62.62
Return on invested capital (%)(LTM)	91.69	97.28	105.67
Capital output ratio (LTM)	1.69	1.34	1.71
Invested capital output ratio (LTM)	2.97	3.16	3.34
Ratios – Balance sheet			
Debt-Equity ratio	–	–	–
Debtors turnover (Days)*	46	59	58
Current Ratio	3.91	4.21	3.49
Cash and cash equivalents / total assets (%)	39.52	49.15	41.57
Cash and cash equivalents / total revenue (%) (LTM)	28.46	42.59	29.48
Depreciation / average gross block (%) (LTM)	23.49	21.86	24.67
Technology investment / total revenue (%) (LTM)	6.98	6.44	7.43
Ratios – Growth**			
Export revenue (%)	70	108	115
Total revenue (%)	69	101	113
Operating expenses (%)	71	105	112
Operating profit (%)	66	96	114
Net profit from ordinary activities (%)	57	100	118
Per-share data (Period End)			
Basic earnings per share from ordinary activities (Rs.)	28.72	18.34	94.23
Basic earnings per share (including extraordinary items) (Rs.)	28.72	19.17	95.06
Cash earnings per share from ordinary activities (Rs.)	34.08	21.02	111.29
Cash earnings per share (including extraordinary items) (Rs.)	34.08	21.85	112.12
Book value (Rs.)	241.17	145.15	210.05
Price / earning (LTM)	34.54	158.60	43.19
Price / cash earnings (LTM)	29.05	134.65	36.57
Price / book value	14.98	57.25	19.38
EPS growth (%)	56.60	100.22	117.97
PE / EPS growth	0.61	1.58	0.37
Dividend per share (Rs.)	–	–	10.00

LTM – Last twelve months
* Annualized.
** Denotes growth compared with figures of the corresponding period in the previous year.

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Bank of America

Company Secretary
V. Balakrishnan

Auditors
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Chartered Accountants

Independent auditors (US GAAP)
KPMG

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