Schedules to the balance sheet and profit and loss account

13 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 1000 and emerging new economy companies. Infosys' range of services includes IT consulting, IT architecture, application development, e-commerce and Internet consulting, and software maintenance. In addition, the company develops and markets certain software products. Headquartered in Bangalore, India, Infosys has 17 state-of-the-art offshore software development facilities located throughout India that enables 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.

13.1 Significant accounting policies

13.1.1 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") comprising the accounting standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956, as adopted consistently by the company. All income and expenditure having a material bearing on the financial statements are recognized on the accrual basis.

The preparation of the financial statements in conformity with GAAP requires that the management 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 contract costs to be incurred to complete software development, provision for doubtful debts, future obligations under employee retirement benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.

13.1.2 Revenue recognition

Revenue from software development on time-and-materials contracts is recognized based on software developed and billed to clients as per the terms of specific contracts. On fixed-price contracts, revenue is recognized based on milestones achieved as specified in the contracts on the percentage-of-completion basis. Revenue from rendering Annual Technical Services ("ATS") is recognized proportionately over the period in which services are rendered. Revenue from the sale of licenses for the use of software applications is recognized on transfer of the title in the user license. Interest on deployment of surplus funds is recognized using the time-proportion method, based on interest rates implicit in the transaction. Dividend income is recognized when the right to receive dividend is established. Revenue from the sale of special import licences is recognized when the licences are transferred.

13.1.3 Expenditure

The cost of software purchased for use in software development and 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. Provisions are made for all known losses and liabilities. Provisions are made for future unforeseeable factors that may affect the profit on fixed-price software development contracts. Provisions are made towards likely expenses for providing post-sales client support on fixed-price contracts. The leave encashment liability of the company is provided on the basis of an actuarial valuation.

13.1.4 Fixed assets

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 specific borrowing attributable to the acquisition of the fixed assets.

13.1.5 Capital work-in-progress

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

13.1.6 Depreciation

Depreciation on fixed assets is determined using the straight-line method based on useful lives of assets as estimated by Management. Depreciation for assets purchased/sold during the period 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
Plant and machinery	5 years
Computer equipment	2-5 years
Furniture and fixtures	5 years
Vehicles	5 years

13.1.7 Retirement benefits to employees

13.1.7a 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 or termination of employment, of an amount based on the respective employee's salary and the years of employment with the company.

The company established the Infosys Technologies Limited Employees' Gratuity Fund Trust (the "Trust") in 1997, until which the company made contributions to a gratuity plan managed by the Life Insurance Corporation of India. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which, the company contributes to the Trust. Trustees administer the contributions made to the Trust. The funds contributed to the Trust are invested in specific designated securities as mandated by law and generally comprise central and state government bonds and debt instruments of government-owned corporations.

13.1.7b 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 to the superannuation plan (the "Plan") based on a specified percentage of each covered employee's salary. The company has no further obligations under the Plan beyond its monthly contributions.

13.1.7c Provident fund

In addition to the above benefits, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary.

Infosys established a Provident Fund Trust in 1996 to which a part of the contributions are made each month. Prior thereto, the company made contributions to the provident fund plan administered by the Government of India. 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.

13.1.8 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.

13.1.9 Foreign currency transactions

Sales made to 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.

13.1.10 Investments

Trade investments refer to the investments made with the aim of enhancing the company's business interests in software development and services. The investments are classified as current investments or long-term investments. 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. Provisions are recorded for any decline in the carrying value as of the balance sheet date.

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 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.

13.1.11 Income tax

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.

13.2 Notes on accounts

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

13.2.1 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. 122,65,64,426 as at December 31, 2000. The amount of such contracts as at December 31, 1999 was Rs. 69,54,19,558 and as at March 31, 2000 was Rs. 80,31,29,007.

b. The company has outstanding guarantees and counter guarantees of Rs. 5,24,55,000 as at December 31, 2000, to various banks, in respect of the guarantees given by the banks in favor of various government authorities. The guarantees and counter guarantees outstanding as at December 31, 1999 were Rs. 1,58,84,263 and as at March 31, 2000 were Rs. 5,26,30,000.

c. Claims against the company, not acknowledged as debts, amounted to Rs. 8,75,532 as at December 31, 2000. Such claims, as at December 31, 1999 were Rs. 17,91,814 and as at March 31, 2000 were Rs. 32,89,661.

13.2.2 Quantitative details

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

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

in Rs.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31, 2000
	2000 *	1999	2000 *	1999	
Salary	44,28,013	9,73,800	1,10,70,522	29,21,400	38,00,059
Contribution to provident fund and other funds	4,79,325	3,09,780	13,49,791	9,29,340	12,08,855
Perquisites	62,31,308	11,19,870	80,59,982	26,98,239	37,32,482

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

13.2.4 Managerial remuneration paid to non-whole-time directors

in Rs.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
	2000	1999	2000	1999	2000
Commission	-	-	-	-	48,17,800
Sitting fees	40,000	34,000	1,77,000	78,000	92,000
Reimbursement of expenses	1,99,558	4,45,123	6,98,232	9,01,728	10,13,703

13.2.5 Imports on the Cost, Insurance and Freight basis

in Rs.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
	2000	1999	2000	1999	2000
Capital goods	33,87,91,131	7,31,57,517	77,08,00,573	22,70,52,455	37,47,31,691
Software packages	64,03,627	20,60,167	1,56,42,543	2,28,66,965	2,54,95,652

13.2.6 Expenditure in foreign currency (on the payments basis)

in Rs.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
	2000	1999	2000	1999	2000
Travel expenses	33,61,54,345	18,62,06,010	79,26,44,748	49,97,76,870	70,29,13,532
Professional charges	4,10,08,733	80,48,926	7,90,58,475	2,01,25,172	4,51,95,637
Other expenditure incurred overseas for software development	145,60,82,397	62,24,10,619	342,62,24,925	154,40,25,716	221,74,57,133

13.2.7 Earnings in foreign exchange (on the receipts basis)

in Rs.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
	2000	1999	2000	1999	2000
Income from software development services and products	437,33,71,715	216,85,95,849	1172,86,45,074	565,67,38,823	833,29,73,465
Interest received on deposits with banks	4,93,37,030	4,63,87,145	10,69,20,563	13,19,57,503	18,42,65,368

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

During the nine months ended December 31, 2000, the company charged depreciation at 100% in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 21,85,52,260 (previous period Rs. 6,49,71,753). For the three months ended December 31, 2000 the charge is Rs. 11,81,34,465 (previous period Rs. 4,22,62,848) and for the previous year March 31, 2000 is Rs. 13,21,59,074.

13.2.9 Exchange differences

In Rs.

	Three months ended December 31, 2000	Three months ended December 31, 1999	Nine months ended December 31, 2000	Nine months ended December 31, 1999	Year ended March 31, 2000
Gains on the translation of foreign currency deposits	3,44,48,919	(61,25,835)	20,54,46,320	9,16,32,866	9,93,27,075
Net realized and unrealized exchange gains – others	5,77,89,866	5,59,25,835	23,09,17,899	14,44,67,134	8,76,31,024
Total net realized and unrealized gains	9,22,38,785	4,98,00,000	43,63,64,219	23,61,00,000	18,69,58,099

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".

13.2.10 Research and development expenditure

In Rs.

	Three months ended December 31, 2000	Three months ended December 31, 1999	Nine months ended December 31, 2000	Nine months ended December 31, 1999	Year ended March 31, 2000
Capital	73,00,838	-	1,41,29,064	-	15,27,500
Revenue	3,87,87,821	2,27,65,340	11,04,47,197	6,16,17,330	8,07,35,940
Total research and development expenses	4,60,88,659	2,27,65,340	12,45,76,261	6,16,17,330	8,22,63,440

13.2.11 Provision for contingencies

The company had instituted a contingency plan effective October 1, 1998 and made a total provision of Rs. 9,99,00,000 to meet any possible disruption in client support due to the Year 2000 impact on the technology and communication infrastructure provided to the company by its vendors. For the year ended March 31, 2000, Rs. 2,42,29,154 was spent towards the Year 2000 transition effort, which was set off against the provision and the remainder of Rs. 7,56,70,846 was written back to the profit and loss account.

13.2.12 Provision for e-inventing the company

The company made a provision of Rs. 3,50,00,000 for the quarter ended September 30, 1999 towards e-inventing the company. Until March 31, 2000 the company had incurred Rs. 3,10,99,023 towards e-inventing Infosys, which was set-off against the provision earlier made. The remainder of Rs. 39,00,977 was incurred and set-off against this provision during the first quarter of the current year.

13.2.13 Unearned revenue

Unearned revenue as of December 31, 2000 amounting to Rs. 49,62,20,659 (previous period Rs. 23,11,41,772 and previous year Rs. 17,56,71,963) primarily consists of client billings on fixed-price, fixed-time-frame contracts for which the related costs have not yet been incurred.

13.2.14 Dues to small-scale industrial undertakings

As of December 31, 2000, the company had no outstanding dues to small-scale industrial undertakings (previous period Rs. nil; previous year Rs. nil).

13.2.15 Balance of unutilized money raised by issue of American Depositary Shares

During the year ended March 31, 1999, Infosys made an Initial Public Offering of American Depositary Shares ("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 were entirely utilized as of the balance sheet date. The unutilized ADS proceeds as at December 31, 2000 is Rs. nil (Rs. 140,99,00,000 as at December 31, 1999 and March 31, 2000).

13.2.16 Stock option plans

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

1994 Stock Option Plan ("the 1994 Plan")

As of December 31, 2000, options to acquire 3,32,200 shares are outstanding with the employees under the 1994 Plan. These options were granted at an exercise price of Rs. 50 per option. Additionally, the number of shares earlier issued to employees subject to lock-in-period is 16,74,800 shares.

1998 Stock Option Plan ("the 1998 Plan")

The company's 1998 Stock Option Plan ("the 1998 Plan") provides for the grant of non-statutory stock options and incentive stock options to employees. The 1998 plan was approved by the Board of Directors in December 1997 and by the company's shareholders in January 1998. The Government of India approved the 1998 Plan, subject to a limit of 14,70,000 equity shares representing 29,40,000 ADSs to be issued under the plan. A total of 16,00,000 equity shares corresponding to 32,00,000 ADSs are currently reserved for issue pursuant to the 1998 Plan. These options may be issued at an exercise price that is not less than 90% of the fair market value of the underlying equity share on the date of the grant. The 1998 Plan will terminate in January 2008, unless terminated earlier. All options under the 1998 Plan are exercisable for ADSs representing equity shares. A committee of the Board of Directors administers the 1998 Plan.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
Number of options granted, exercised and forfeited	2000	1999	2000	1999	2000
Options outstanding, beginning of period/year	8,71,466	4,19,000	6,89,500	4,19,000	4,19,000
Granted	80,800	2,32,000	3,12,800	2,32,000	2,94,300
Exercised	1,400	-	2,734	-	23,800
Forfeited	6,200	-	54,900	-	-
Options outstanding, end of period/year	9,44,666	6,51,000	9,44,666	6,51,000	6,89,500
Weighted average exercise price	US$ 86.67 (Rs. 4,046)	US$ 42.84 (Rs. 1,863)	US$ 86.67 (Rs. 4,046)	US$ 42.84 (Rs. 1,863)	US$ 58.53 (Rs. 2,552)

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 1999 Plan in June 1999. The 1999 Plan provides for the issue of 66,00,000 equity shares to the employees. The 1999 Plan is administered by a Compensation Committee comprising a maximum of seven members, the majority of whom are independent directors on the Board of Directors. Under the 1999 Plan, options will be issued to employees at an exercise price, which shall not be less than the Fair Market Value. Fair Market Value 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 Fair Market Value only if specifically approved by the members of the company in a general meeting.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
Number of options granted, exercised and forfeited	2000	1999	2000	1999	2000
Options outstanding, beginning of period/year	18,83,000	-	10,06,800	-	-
Granted	1,78,200	9,53,200	11,32,300	9,53,200	10,14,500
Exercised	500	-	500	-	-
Forfeited	48,700	2,200	1,26,600	2,200	7,700
Options outstanding, end of period/year	20,12,000	9,51,000	20,12,000	9,51,000	10,06,800
Weighted average exercise price	Rs. 5,512	Rs. 4,065	Rs. 5,512	Rs. 4,065	Rs. 4,268

13.2.17 Pro-forma disclosures relating to the Employee Stock Option Plans ("ESOPs")

The Securities and Exchange Board of India (SEBI) recently issued the (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 which is applicable to all stock option schemes established after June 19, 1999. In accordance with these guidelines, the excess of the market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the options, including up-front payments, if any is to be recognized and amortized on a straight line basis over the vesting period. 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.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
	2000	1999	2000	1999	2000
Net profit :					
- As reported	166,33,07,490	73,78,54,793	447,13,92,818	200,10,19,434	293,51,56,665
- Adjusted pro forma	160,39,26,704	68,17,38,506	429,74,13,557	183,51,84,658	271,34,60,717

13.2.18 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 ten years from the date of commencement of operations. The Government of India amended the tax incentive available to companies operating through EOUs. The period of tax exemption available to such companies has been restricted to 10 consecutive years, commencing from the earlier of, the fiscal year in which the unit commences software development, and March 31, 2000. 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.

13.2.19 Cash and bank balances

The cash and bank balances include interest accrued but not due on fixed deposits amounting to Rs. 1,80,15,245 for the nine month period ended December 31, 2000 (previous period Rs. 32,93,237 and previous year Rs. 94,92,514).

13.2.20 Loans and advances

"Advances recoverable in cash or in kind or for value to be received" mainly comprises prepaid travel and per-diem expenses and advances to vendors for current assets.

Deposits with financial institutions and a body corporate comprise:

in Rs.

	As at December 31,		As at March 31,
	2000	1999	2000
Deposits with financial institutions:			
Housing Development Finance Corporation Limited	51,14,87,343	25,50,22,081	25,50,19,994
ICICI Limited	50,91,88,495	18,10,98,742	25,75,52,742
Deposits with body corporate:			
G E Capital Services India Limited	50,60,89,326	25,58,23,674	25,32,29,129
	152,67,65,164	69,19,44,497	76,58,01,865

The above amounts include interest accrued but not due amounting to Rs. 2,67,65,164 (corresponding previous period Rs. 1,19,44,497 and previous year Rs. 1,58,01,865).

The financial institutions and the body corporate have AAA rating from Credit Rating and Information Services of India Limited ("CRISIL").

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.

13.2.21 Current liabilities

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

13.2.22 Fixed assets

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

13.2.23 Transfer of intellectual property rights

During the first quarter of the current fiscal, the company transferred its intellectual property rights in Onscan – a web-focused wireless-enabled notification product, to Onscan Inc., USA, a company incubated by Infosys as part of its ongoing effort to encourage and promote budding entrepreneurs among its employees. The product was transferred for a gross consideration of Rs. 8,93,40,000 (US$ 2 million), received as equity, preferred voting and preferred non-voting securities in Onscan Inc. The income arising out of the transfer of Rs. 5,49,44,000 (net of tax) is disclosed as an extraordinary item.

13.2.24 Investments

Purpleyogi Inc., USA

During the current quarter, the company made a strategic investment of Rs. 2,33,34,992 comprising 2,76,243 fully paid Series D Convertible Preferred Stock, par value of US$ 0.001 each, at US$ 1.81 each in Purpleyogi Inc., USA. Purpleyogi Inc. is a developer of infrastructure software for information management, related to empowering networks to enable next generation content management and enterprise knowledge management solutions.

M-Commerce Ventures Pte. Ltd., Singapore

Until December 31, 2000, the company has agreed to invest an aggregate amount of Singapore $ (“S$”) 1,000,000 in M-Commerce Ventures Pte. Ltd ("MCV"), a Singapore based venture fund. As at December 31, 2000, the company made an investment of Rs. 1,84,47,700 (equivalent to S$ 700,000), and acquired 70 capital units in MCV. Each unit in MCV represents one ordinary share of S$ 1 each, issued at par, and nine redeemable preference shares at a par value of S$ 1 each, with a premium of S$ 1,110 per redeemable preference share. MCV is promoted by the Economic Development Board, Singapore and intends to focus on companies offering mobile portals, personal information management and messaging, bandwidth optimization and offer key enablers of m-commerce.

EC Cubed Inc., USA

During the current quarter, EC Cubed Inc., USA, one of the companies in which Infosys had made a strategic investment, filed for liquidation. Pending the conclusion of liquidation proceedings, the company has provided for the entire amount of investment amounting to Rs. 13,08,00,000 in its income statement.

Alpha Thinx Mobile Phone Services AG, Austria

During the second quarter, the company invested Rs. 2,20,98,608 (equivalent to € 555,800) and acquired 27,790 bearer shares of nominal value € 1 each, at an issue price of € 20 per share in Alpha Thinx Mobile Phone Services AG ("Alpha Thinx"), a Vienna-based company. Alpha Thinx operates in the wireless Internet space and plans to host interactive services for mobile users across Europe.

Asia Net Media BVI Ltd., the British Virgin Islands

During the second quarter, the company invested Rs. 6,84,75,000 (equivalent to US$ 1,500,000) and acquired 3,00,00,000 Ordinary Shares of par value US$ 0.01 each, at an issue price of US$ 0.05 per Ordinary Share in Asia Net Media BVI Limited ("Asia Net"). Asia Net intends to leverage under-exploited offline brands in media and entertainment by delivering them through online channels and to establish a synergistic network of companies in this space.

CiDRA Corporation, USA

During the first quarter, the company made a strategic investment of Rs. 13,40,08,660 comprising 33,333 fully paid Series D Convertible Preferred Stock, par value of US$ 0.01 each, at US$ 90 each in CiDRA Corporation, USA. CiDRA Corporation is a developer of photonic devices for high-precision wavelength management and control for next-generation optical networks.

13.2.25 Segment reporting

The company's operations predominantly relate to providing IT services, which is delivered to globally located customers.

The accounting principles that have been consistently used to record revenue, expenditure, assets and liabilities in the individual segments are as set out in the note on significant accounting policies.

While the primary segment reporting is already set out in detail in the company's balance sheet, statement of profit and loss and the various schedules and notes thereto, the secondary disclosures in relation to Revenues are as follows:

In Rs.

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
	2000	1999	2000	1999	2000
North America	401,92,65,784	182,73,81,277	1027,74,30,757	493,56,33,001	713,27,33,054
Europe	101,07,66,302	26,80,13,811	243,08,05,236	85,56,72,711	129,09,73,822
Rest of the world	32,85,91,803	19,25,10,236	84,07,03,516	39,23,29,074	52,40,04,100
India	15,67,92,365	4,73,25,253	32,96,29,820	17,10,21,495	26,69,37,092
Total	551,54,16,254	233,52,30,577	1387,85,69,329	635,46,56,281	921,46,48,068

Certain expenses such as personnel costs, communication, depreciation on plant and machinery, etc., which form a significant component of total expenses, have not being specifically allocated to these geographical segments as the underlying services are used inter-changeably between reportable segments. Management believes that it is not practicable to provide segment disclosures relating to segment costs and expenses, and consequently segment profits or losses, since detailed allocation is presently unfeasible.

Moreover, the fixed assets used in the company's business or the liabilities contracted have not been identified to any particular reportable segment as the fixed assets and services can be used inter-changeably amongst segments. Accordingly, management believes that it is currently not practicable to provide segment disclosures relating to total assets since a meaningful segregation of the available data among the various geographic segments is onerous.

13.2.26 Related party transactions

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

The transactions with Yantra comprise sales of Rs. 15,76,72,000 during the nine months ended December 31, 2000. The corresponding amounts for the nine months ended December 31, 1999 and the year ended March 31, 2000 were Rs. 7,77,25,748 and Rs. 11,40,18,372 respectively. The outstanding dues from the subsidiary as set out in schedule 5, *Sundry Debtors,* to the financial statements.

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 is stated in schedule 7, *Loans and advances,* to the financial statements.

13.2.27 Provisions for doubtful debts

Periodically management evaluates all customer dues to the company for collectibility. The need for provisions is assessed based on various factors including collectibility of specific dues, risk perceptions of the industry in which the customer operates, general economic factors, which could effect the customer's ability to settle. The company normally provides for debtor dues outstanding for 180 days or longer. In the nine months ended December 31, 2000, the company provided for doubtful debts of Rs. 5,31,11,414 (previous period Rs. nil and previous fiscal year Rs. nil) for dues from certain customers although the outstanding amounts were under 180 days old, since the amounts were considered doubtful of recovery. Management continues pursuing the parties for recovery of the dues, in part or full.