

**INFOSYS TECHNOLOGIES LIMITED
FINANCIAL STATEMENTS AND SCHEDULES**

YEAR ENDED MARCH 31, 2001

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FINANCIAL STATEMENTS AND SCHEDULES**

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Independent auditors' report

To the Board of Directors and Stockholders
Infosys Technologies Limited

We have audited the accompanying balance sheets of Infosys Technologies Limited as of March 31, 2001 and 2000, and the related statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Infosys Technologies Limited as of March 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1.3 in the accompanying notes to the financial statements, the accounts of Infosys Technologies Limited's wholly owned subsidiary, Yantra Corporation, which were consolidated with the financial statements of the Company prior to April 1, 1998, were accounted for by the equity method in fiscal 1999.

Bangalore
April 11, 2001

KPMG

INFOSYS TECHNOLOGIES LIMITED
BALANCE SHEETS AS OF MARCH 31,
(Expressed in United States dollars except share data)

	2001	2000
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	124,084,245	116,599,486
Trade accounts receivable, net of allowances	64,942,062	31,233,515
Deferred tax assets	1,265,142	-
Prepaid expenses and other current assets	16,452,863	11,256,295
	206,744,312	159,089,296
<i>Total current assets</i>		
Property, plant and equipment, net	119,773,030	47,554,772
Deferred tax assets	2,070,428	2,566,266
Investments	5,577,393	3,177,938
Advance income taxes	180,113	-
Other assets	8,002,543	6,894,598
	342,347,819	219,282,870
TOTAL ASSETS		
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>Current Liabilities</i>		
Accounts payable	28,082	976,840
Client deposits	1,217,737	425,724
Other accrued liabilities	21,830,484	13,835,635
Income taxes payable	-	1,878,977
Unearned revenue	7,479,815	4,029,173
	30,556,118	21,146,349
<i>Total current liabilities</i>		
<i>Stockholders' Equity and Comprehensive Income</i>		
Common stock, \$ 0.16 par value; 100,000,000 equity shares authorized, Issued and outstanding – 66,158,117 and 66,150,700 as of 2001 and 2000, respectively	8,594,106	8,593,510
Additional paid-in capital	122,017,518	121,506,726
Accumulated other comprehensive income	(28,664,972)	(14,137,933)
Deferred stock compensation	(12,517,018)	(17,598,813)
Retained earnings	222,362,067	99,773,031
	311,791,701	198,136,521
<i>Total stockholders' equity</i>		
	342,347,819	219,282,870
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		

See accompanying notes to financial statements

INFOSYS TECHNOLOGIES LIMITED
STATEMENTS OF INCOME FOR THE YEARS ENDED MARCH 31,
(Expressed in United States dollars except share data)

	2001	2000	1999
Revenues	413,850,510	203,443,754	120,955,226
Cost of revenues	213,613,744	111,080,546	65,331,006
Gross profit	<u>200,236,766</u>	<u>92,363,208</u>	<u>55,624,220</u>
Operating Expenses:			
Selling and marketing expenses	20,682,776	9,643,970	4,943,599
General and administrative expenses	36,957,609	17,102,550	11,255,456
Amortization of stock compensation expense	5,081,795	5,117,635	3,645,576
Compensation arising from stock split	-	-	12,906,962
Total operating expenses	<u>62,722,180</u>	<u>31,864,155</u>	<u>32,751,593</u>
Operating income	137,514,586	60,499,053	22,872,627
Equity in loss of deconsolidated subsidiary	-	-	(2,085,887)
Other income, net	9,505,343	9,038,792	1,536,998
Income before income taxes	<u>147,019,929</u>	<u>69,537,845</u>	<u>22,323,738</u>
Provision for income taxes	15,071,825	8,193,317	4,877,650
Net income available for common stockholders	<u>131,948,104</u>	<u>61,344,528</u>	<u>17,446,088</u>
Earnings per equity share			
Basic	2.01	0.93	0.28
Diluted	1.98	0.93	0.28
Weighted equity shares used in computing earnings per equity share			
Basic	65,771,256	65,659,625	61,378,850
Diluted	66,714,739	65,863,990	61,507,380

See accompanying notes to financial statements

INFOSYS TECHNOLOGIES LIMITED
STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME FOR THE YEARS ENDED MARCH 31,
(Expressed in United States dollars except share data)

	Common stock		Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred stock compensation	Loan to Trust	Retained earnings	Total stockholders' equity
	Shares	Par value							
Balance as of March 31, 1998	64,068,800	4,545,811	24,415,920		(7,042,229)	(7,831,445)	(936,365)	27,994,268	41,145,960
Stock split	-	3,800,949	-		-	-	-	(3,800,949)	-
Cash dividends declared	-	-	-		-	-	-	(3,152,863)	(3,152,863)
Common stock issued	2,070,000	245,377	70,134,623		-	-	-	-	70,380,000
ADR issue expenses			(4,108,924)						(4,108,924)
Compensation related to stock option grants	-	-	30,407,892		-	(30,407,892)	-	-	-
Amortization of compensation related to stock option grants	-	-	-		-	16,552,538	-	-	16,552,538
Comprehensive income									
Net income available for common stockholders	-	-	-	17,446,088	-	-	-	17,446,088	17,446,088
Other comprehensive income									
Translation adjustment	-	-	-	(2,058,433)	(2,058,433)	-	-	-	(2,058,433)
<i>Comprehensive income</i>	-	-	-	<u>15,387,655</u>	-	-	-	-	-
Adjustment on deconsolidation of subsidiary	-	-	-		-	-	-	2,468,831	2,468,831
Repayment of loan to Trust	-	-	-		-	-	936,365	-	936,365
Balance as of March 31, 1999	66,138,800	8,592,137	120,849,511		(9,100,662)	(21,686,799)	-	40,955,375	139,609,562
Cash dividends declared	-	-	-		-	-	-	(2,526,872)	(2,526,872)
Common stock issued	11,900	1,373	405,489		-	-	-	-	406,862
ADR issue expenses			(777,923)						(777,923)
Compensation related to stock option grants	-	-	1,029,649		-	(1,029,649)	-	-	-
Amortization of compensation related to stock option grants	-	-	-		-	5,117,635	-	-	5,117,635
Comprehensive income									
Net income available for common stockholders	-	-	-	61,344,528	-	-	-	61,344,528	61,344,528
Other comprehensive income									
Translation adjustment	-	-	-	(5,037,271)	(5,037,271)	-	-	-	(5,037,271)
<i>Comprehensive income</i>	-	-	-	<u>56,307,257</u>	-	-	-	-	-
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

INFOSYS TECHNOLOGIES LIMITED
STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME FOR THE YEARS ENDED MARCH 31,
(Expressed in United States dollars except share data)

	Common stock		Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred stock compensation	Loan to Trust	Retained earnings	Total stockholders' equity
	Shares	Par value							
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	-	-	-		-	-	-	(9,359,068)	(9,359,068)
Common stock issued	7,417	596	510,792		-	-	-	-	511,388
Amortization of compensation related to stock option grants	-	-	-		-	5,081,795	-	-	5,081,795
Comprehensive income									
Net income available for common stockholders	-	-	-	131,948,104	-	-	-	131,948,104	131,948,104
Translation adjustment				(14,527,039)	(14,527,039)	-	-	-	(14,527,039)
<i>Comprehensive income</i>				<i>117,421,065</i>					
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

See accompanying notes to financial statements

INFOSYS TECHNOLOGIES LIMITED
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31,
(Expressed in United States dollars except share data)

	2001	2000	1999
OPERATING ACTIVITIES:			
Net income	131,948,104	61,344,528	17,446,088
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
(Gain) / loss on sale of property, plant and equipment	(20,053)	(20,153)	-
Depreciation	24,527,867	12,268,169	8,521,009
Deferred tax expense / (benefit)	(769,304)	(850,891)	(625,427)
Gain on sale of investment in deconsolidated subsidiary	-	-	(620,958)
Amortization of deferred stock compensation expense	5,081,795	5,117,635	16,552,538
Loss relating to deconsolidated subsidiary	-	-	2,085,887
Provision for investments	3,480,300	-	-
<i>Changes in assets and liabilities</i>			
Trade accounts receivable	(33,708,547)	(11,176,837)	(10,113,425)
Prepaid expenses and other current assets	(2,218,954)	(2,390,039)	(2,035,203)
Income taxes	(2,059,090)	923,180	1,492,766
Accounts payable	(948,758)	901,535	(24,459)
Client deposits	792,013	407,204	(171,653)
Unearned revenue	3,450,642	(569,439)	4,598,612
Other accrued liabilities	7,957,303	5,435,835	3,015,104
Net cash provided by operating activities	137,513,318	71,390,727	40,120,879
INVESTING ACTIVITIES:			
Expenditure on property, plant and equipment	(96,775,745)	(35,926,030)	(16,123,557)
Proceeds from sale of property, plant and equipment	49,673	23,555	5,704
Loans to employees	(4,085,559)	(6,828,525)	(2,181,715)
Proceeds from sale of investment in deconsolidated subsidiary	-	-	1,500,000
Purchase of investments	(5,879,755)	(3,000,000)	(177,576)
Net cash used in investing activities	(106,691,386)	(45,731,000)	(16,977,144)
FINANCING ACTIVITIES:			
Proceeds from issuance of equity shares	511,388	406,862	70,380,000
ADR issue expenses	-	(777,923)	(4,108,924)
Payment of cash dividends	(9,321,522)	(2,526,872)	(2,371,673)
Loan to trust	-	-	936,365
Net cash (used in) provided by financing activities	(8,810,134)	(2,897,933)	64,835,768
Effect of exchange rate changes on cash	(14,527,039)	(5,037,271)	(2,058,433)
Effect of deconsolidation on cash	-	-	(2,465,372)
Net increase in cash and cash equivalents during the year	7,484,759	17,724,523	83,455,698
Cash and cash equivalents at the beginning of the year	116,599,486	98,874,963	15,419,265
Cash and cash equivalents at the end of the year	124,084,245	116,599,486	98,874,963
Supplementary information:			
Cash paid towards taxes	16,950,802	7,270,137	3,364,318

See accompanying notes to financial statements

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
(Expressed in United States dollars except share data and as otherwise stated)

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 1000 and emerging companies 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 17 state-of-the-art offshore software development facilities located throughout India 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 Principles of consolidation

The financial statements of the company were consolidated with the accounts of its wholly owned subsidiary, Yantra Corporation (“Yantra”) during fiscal 1998. On October 20, 1998, the company’s voting control of Yantra declined to approximately 47%. Accordingly, the company followed the equity method of accounting for Yantra in fiscal 1999. On June 14, 1999, Yantra sold Series C Convertible Preferred Stock amounting to US\$ 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 \$ 40 million, to unrelated existing and new investors, further reducing the company’s voting control to approximately 16%.

The company owns 63% of the outstanding common shares of Yantra, but has no financial obligations or commitments to Yantra and does not intend to provide Yantra with financial support. Accordingly, the company recognized no losses of Yantra after October 20, 1998. The excess of the company’s previously recognized losses over the basis of its investments in Yantra as of October 20, 1998 were credited to retained earnings.

Yantra was incorporated in the United States in fiscal 1996 for the development of software products in the retail and distribution areas.

1.4 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.

1.5 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.

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
(Expressed in United States dollars except share data and as otherwise stated)

1.5 Revenue recognition (continued)

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 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.

1.6 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.

1.7 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 during fiscal 2001, 2000 and 1999 was \$ 6,979,492, \$ 3,816,840 and \$ 3,538,590, 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*”.

1.8 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.

1.9 Research and development

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

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
(Expressed in United States dollars except share data and as otherwise stated)

1.10 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.

1.11 Foreign currency transactions

The company generally enters into foreign exchange forward contracts to limit the effect of exchange rate changes on its foreign currency receivables. Gains and losses on these contracts are recognized as income or expense in the statements of income as incurred, over the life of the contract.

1.12 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.

1.13 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.

1.14 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.

1.15 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 March 31, 2001 and 2000, 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.

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
(Expressed in United States dollars except share data and as otherwise stated)

1.16 Retirement benefits to employees

1.16.1 *Gratuity*

In accordance with Indian law, the company 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 years of employment with the company. The company established the Infosys Technologies Limited Employees’ Group Gratuity Fund Trust (the “Gratuity Fund Trust”) on April 1, 1997. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which the company contributes to the Gratuity Fund Trust. Trustees administer the contributions made to the Gratuity Fund Trust. The funds contributed to the Gratuity Fund Trust are invested in specific securities as mandated by the law and generally consist of federal and state government bonds and the debt instruments of government-owned corporations.

1.16.2 *Superannuation*

Apart from being covered under the Gratuity Plan described above, certain employees of the company are also participants in a defined contribution plan maintained by the company. The plan is termed the superannuation plan (the “plan”) to which the company makes monthly contributions based on a specified percentage of each covered employee’s salary. The company has no further obligations under the plan beyond its monthly contributions.

1.16.3 *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 the plan, each equal to a specified percentage of each covered employee’s salary. The company established a provident fund trust in August 1996, to which a part of the contributions are made each month. The remainder of the contributions is made to the Government’s provident fund. The company has no further obligations under provident fund beyond its monthly contributions.

1.17 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. Unrealized gains and losses, net of deferred income taxes are reported as a separate component of stockholders’ equity. 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.

1.18 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 pro forma disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

1.19 Dividends

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

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
(Expressed in United States dollars except share data and as otherwise stated)

2 Notes to the Financial Statements

2.1 Cash and cash equivalents

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

	2001	2000
Cost and fair values		
Cash and bank deposits	82,702,111	99,035,223
Deposits with corporations	41,382,134	17,564,263
	124,084,245	116,599,486

2.2 Trade accounts receivable

Trade accounts receivable, as of March 31, 2001 and 2000, net of allowance for doubtful accounts of \$ 3,902,996 and \$ 507,487, respectively amounted to \$ 64,942,062 and \$ 31,233,515, respectively. The age profile of trade accounts receivable is given below.

	2001	2000	<i>in %</i>
Period (in days)			
0 – 30	69.2	64.7	
31 – 60	26.6	31.8	
61 – 90	1.7	1.8	
More than 90	2.5	1.7	
	100.0	100.0	

Trade accounts receivable include accounts receivable from Yantra amounting to \$ 214,347 and Nil as of March 31, 2001 and 2000, respectively.

2.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	2001	2000
Rent deposits	2,484,794	1,798,738
Deposits with government organizations	945,189	721,476
Loans to employees	8,091,866	5,114,253
Prepaid expenses	4,349,913	3,602,334
Costs in excess of billings	503,694	-
Other advances	77,407	19,494
	16,452,863	11,256,295

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.

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
(Expressed in United States dollars except share data and as otherwise stated)

2.4 Property, plant and equipment – net

Property, plant and equipment consist of the following:

	2001	2000
Land	7,865,351	4,833,786
Buildings	33,871,448	13,509,409
Furniture and fixtures	21,579,707	9,156,208
Computer equipment	48,098,099	25,742,780
Plant and equipment	24,064,927	11,871,138
Vehicles	75,537	31,292
Capital work-in-progress	36,651,724	13,064,301
	<hr/>	<hr/>
	172,206,793	78,208,914
Accumulated depreciation	(52,433,763)	(30,654,142)
	<hr/>	<hr/>
	119,773,030	47,554,772

Depreciation expense amounted to \$ 24,527,867, \$ 12,268,169 and \$ 8,521,009 for fiscal 2001, 2000 and 1999, respectively.

2.5 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 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
	<hr/>	<hr/>
	5,577,393	5,577,393
As of March 31, 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
JASDIC Park Company – 480 Common Stock, at ¥ 50,000 each, fully paid, par value ¥ 50,000 each	177,576	177,576
Others	362	362
	<hr/>	<hr/>
	3,177,938	3,177,938

During the year ended March 31, 2001, EC Cubed Inc. and Alpha Thinx Mobile Services AG (“Alpha Thinx”), two companies in which Infosys had made strategic investments, filed for liquidation. Consequently, the Company made a provision for its entire investment in EC Cubed Inc. and Alpha Thinx in the amounts of \$ 3,000,000 and \$ 480,300, respectively, as there was a diminution in the value of this investment that is considered other than temporary.

2.6 Other assets

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

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
(Expressed in United States dollars except share data and as otherwise stated)

2.7 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 March 31, 2001 and 2000, amounts receivable from officers amounting to \$ 227,121 and \$ 309,835, 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.

	2001	2000
2001	-	5,114,252
2002	8,091,866	1,887,808
2003	2,517,809	1,383,397
2004	1,718,884	861,752
2005	1,033,107	696,581
2006	800,198	-
Thereafter	1,932,545	2,065,061
Total	<u>16,094,409</u>	<u>12,008,851</u>

The estimated fair values of related party receivables amounted to \$ 12,465,374 and \$ 8,959,996 as of March 31, 2001 and 2000, 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.

2.8 Other accrued liabilities

Other accrued liabilities comprise the following:

	2001	2000
Accrued compensation to staff	12,332,869	7,747,965
Accrued dividends	103,418	65,872
Provision for post sales client support	1,578,859	1,265,849
Employee withholding taxes payable	25,000	1,530,832
Others	7,790,338	3,225,117
	<u>21,830,484</u>	<u>13,835,635</u>

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
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2.9 Employee post-retirement benefits

2.9.1 *Gratuity*

The following tables set out the funded status of the Gratuity Plan and the amounts recognized in the company's financial statements in fiscal 2001, 2000 and 1999.

	2001	2000	1999
<i>Change in benefit obligations</i>			
Benefit obligations at the beginning of the year	11,043,208	10,551,069	1,804,504
Effect of changes in assumptions used	-	(2,142,149)	7,370,968
Amortization of unrecognized actuarial loss	(329,928)	(368,548)	-
Service cost	2,627,599	3,418,688	657,328
Interest cost	1,183,461	939,603	906,157
Benefits paid	(184,247)	(128,803)	(73,983)
Effect of exchange rate changes	(758,121)	(1,226,652)	(113,905)
Benefit obligations at the end of the year	13,581,972	11,043,208	10,551,069
<i>Change in plan assets</i>			
Fair value of plan assets at the beginning of the year	4,375,821	2,497,335	680,499
Effect of exchange rate changes	(468,275)	(134,018)	(48,977)
Actual return on plan assets	1,061,611	404,526	179,004
Employer contributions	5,362,995	1,736,781	1,760,792
Benefits paid	(184,247)	(128,803)	(73,983)
Plan assets at the end of the year	10,147,905	4,375,821	2,497,335
<i>Funded status</i>	(3,434,067)	(6,667,387)	(8,053,734)
Excess of actual return over estimated return on plan assets	301,791	93,716	(41,723)
Unrecognized transitional obligation	596,106	694,446	830,826
Unrecognized actuarial cost	4,216,291	3,141,732	7,252,766
(Accrued) / prepaid benefit	1,680,121	(2,737,493)	(11,865)

Net gratuity cost for fiscal 2001, 2000 and 1999 comprises the following components:

	2001	2000	1999
Service cost	2,627,599	3,418,688	657,328
Interest cost	1,183,461	939,603	906,157
Expected return on assets	(759,820)	(310,810)	(143,038)
Amortization of unrecognized transitional obligation	55,127	58,245	63,910
Amortization of unrecognized actuarial loss	329,928	368,548	-
Net gratuity cost	3,436,295	4,474,274	1,484,357

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
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2.9 Employee post-retirement benefits (continued)

2.9.1 *Gratuity (continued)*

The assumptions used in accounting for the Gratuity Plan in fiscal 2001, 2000 and 1999 are set out below.

	2001	2000	1999
Discount rate	10%	10%	10%
Rate of increase in compensation levels	9%	9%	12%
Rate of return on plan assets	10%	10%	10%

The company assesses these assumptions with its projected long-term plans of growth and prevalent industry standards.

2.9.2 *Superannuation*

The company contributed \$ 796,739, \$ 244,248 and \$ 145,051 to the superannuation plan in fiscal 2001, 2000 and 1999, respectively.

2.9.3 *Provident fund*

The company contributed \$ 2,339,794, \$ 1,198,772 and \$ 812,117 to the provident fund in fiscal 2001, 2000 and 1999, respectively.

2.10 Stockholders' equity

The company has only one class of capital stock referred to herein as equity shares. In fiscal 1999, the board of directors authorized a two-for-one stock split of the company's equity shares effected in the form of a stock dividend. Also, in November 1999, the board of directors authorized a two-for-one stock split of the company's equity shares, whereby each issued and outstanding equity share, par value \$ 0.32 each, was split into two equity shares, par value \$ 0.16 each. All references in the financial statements to number of shares, per share amounts and market prices of the company's equity shares have been retroactively restated to reflect the stock splits.

2.11 Equity shares

2.11.1 *Voting*

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

2.11.2 *Dividends*

Should the company declare and pay dividends, such dividends will be paid in Indian Rupees and pro rata from the date of holding such shares. The company paid cash dividends of \$ 9,321,522 and \$ 2,526,872 during fiscal 2001 and 2000, 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.

2.11.3 *Liquidation*

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

2.11.4 *Stock options*

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

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
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2.12 Other income, net

Other income, net, consists of the following:

	2001	2000	1999
Interest income and others	8,526,635	5,729,653	916,040
Gain on sale of investment in subsidiary	-	-	620,958
Income from sale of special import licenses	14,800	426,407	-
Exchange gains	4,444,208	2,882,732	-
Provision for investments	(3,480,300)	-	-
	9,505,343	9,038,792	1,536,998

2.13 Operating leases

The company has various operating leases for office buildings that are renewable on a periodic basis. Rental expense for operating leases in fiscal 2001, 2000 and 1999 were \$ 3,689,822, \$ 2,387,334 and \$ 1,770,413, 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 March 31,	
2002	1,568,814
2003	1,615,933
2004	1,725,610
2005	1,451,912
2006	1,159,711
Thereafter	3,092,905
	10,614,885

2.14 Research and development

General and administrative expenses in the accompanying statements of income include research and development expenses of \$ 3,610,550, \$ 1,904,123 and \$ 2,819,326 for fiscal 2001, 2000 and 1999, respectively.

2.15 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. 1 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. 1 each. Each warrant entitles the holder to purchase one of the company's equity shares at a price of Rs. 100 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.

INFOSYS TECHNOLOGIES LIMITED
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2.15 Employees' Stock Offer Plans ("ESOP") (continued)

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 March 31, 2001, the company's outstanding equity shares included 585,200 equity shares held by the Trust of which 330,000 equity shares were allotted to employees, subject to vesting provisions and are included in the earnings per share calculation. The remaining 255,200 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 company has elected to use the intrinsic value-based method of APB 25 to account for its employee stock-based compensation plan. Accordingly, in fiscal 2001, 2000 and 1999, the company recorded deferred compensation of Nil, \$ 1,029,649 and \$ 30,407,892, respectively for the difference, on the grant date, between the exercise price and the fair value as determined by quoted market prices of the common stock underlying the warrants. The deferred compensation is amortized on a straight-line basis over the vesting period of the warrants/equity shares.

In fiscal 1999, the company declared a stock split of two equity shares for each equity share outstanding to all its stockholders including participants in the 1994 Plan in the form of a stock dividend and consequently recognized an accelerated compensation charge at the time of the stock dividend amounting to \$ 12,906,962.

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.

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

		2001	2000	1999
Net income	As reported	131,948,104	61,344,528	17,446,088
	Adjusted proforma	99,690,666	54,649,727	16,905,336
Basic earnings per share	As reported	2.01	0.93	0.28
	Adjusted proforma	1.52	0.83	0.27

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

The fair value of each warrant is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	2001	2000	1999
Dividend yield %	0.1%	0.1%	0.1%
Expected life	5 years	5 years	5 years
Risk free interest rate	10.8%	10.8%	10.8%
Volatility	44.0%	44.0%	44.0%

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.

	2001		2000		1999	
	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
<i>1994 Option plan:</i>						
Outstanding at the beginning of the year	341,400	-	328,000	-	1,037,200	-
Granted	-	-	30,000	\$ 1.15	1,984,400	\$ 0.59
Forfeited	(10,600)	\$ 1.15	(16,600)	\$ 1.15	(36,400)	\$ 0.59
Exercised	(800)	\$ 1.15	-	-	(2,657,200)	\$ 0.59
Outstanding at the end of the year	330,000		341,400		328,000	-
Exercisable at the end of the year	-		-		-	-
Weighted-average fair value of grants during the period at less than market		-		<u>\$ 35.48</u>	-	<u>\$ 18.43</u>
<i>1998 Option plan:</i>						
Outstanding at the beginning of the year	344,750	-	213,000	-	-	-
Granted	482,420	\$ 230.88	147,150	\$ 228.60	213,000	\$ 34.00
Forfeited	(38,200)	\$ 172.58	(3,500)	\$ 34.00	-	-
Exercised	(6,217)	\$ 53.82	(11,900)	\$ 34.00	-	-
Outstanding at the end of the year	782,753	-	344,750	-	213,000	-
Exercisable at the end of the year	55,558	-	18,100	-	-	-
Weighted-average fair value of grants during the year		<u>\$ 230.88</u>		<u>\$ 228.60</u>		<u>\$ 34.00</u>
<i>1999 Option plan:</i>						
Outstanding at the beginning of the year	1,006,800	-	-	-	-	-
Granted	1,957,830	\$ 136.68	1,014,500	\$ 99.12	-	-
Forfeited	(169,450)	\$ 110.06	(7,700)	\$ 127.98	-	-
Exercised	(1,200)	\$ 89.98	-	-	-	-
Outstanding at the end of the year	2,793,980	-	1,006,800	-	-	-
Exercisable at the end of the year	93,400	-	-	-	-	-
Weighted-average fair value of grants during the year		<u>\$ 136.68</u>		<u>\$ 99.12</u>		-

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2.15 Employees' Stock Offer Plan (continued)

The following table summarizes information about stock options outstanding as of March 31, 2001:

Range of exercise prices	Number of shares arising out of options	Outstanding		Exercisable	
		Weighted average remaining contractual life	Weighted average exercise price	Number of shares arising out of options	Weighted average exercise price
\$1.15 - \$ 304.04	3,906,733	2.20 years	\$ 129.89	148,958	\$ 141.77

2.16 Income taxes

The provision for income taxes comprises:

	2001	2000	1999
Current taxes			
Domestic taxes	5,315,961	2,505,952	777,351
Foreign taxes	10,525,168	6,538,256	4,725,726
	<u>15,841,129</u>	<u>9,044,208</u>	<u>5,503,077</u>
Deferred taxes			
Domestic taxes	(769,304)	(850,891)	(625,427)
Foreign taxes	-	-	-
	<u>(769,304)</u>	<u>(850,891)</u>	<u>(625,427)</u>
Aggregate taxes	<u>15,071,825</u>	<u>8,193,317</u>	<u>4,877,650</u>

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:

	2001	2000	1999
Deferred tax assets:			
Property, plant and equipment	1,519,016	2,480,883	2,315,375
Accounts receivable	1,587,629	110,000	-
Investments	1,598,712	-	-
Others	217,842	85,383	-
	<u>4,923,199</u>	<u>2,676,266</u>	<u>2,315,375</u>
Less: Valuation allowance	<u>(1,587,629)</u>	<u>(110,000)</u>	<u>(600,000)</u>
Net deferred tax assets	<u>3,335,570</u>	<u>2,566,266</u>	<u>1,715,375</u>

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 March 31, 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.

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2.16 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.

	2001	2000	1999
Net income before taxes	147,019,929	69,537,845	22,323,738
Enacted tax rates in India	39.55%	38.5%	35.0%
Computed expected tax expense	58,146,382	26,772,070	7,813,308
Less: Tax effect due to non-taxable export income	(57,334,527)	(24,019,942)	(7,680,942)
Others	3,437,865	(1,121,972)	19,558
Effect of tax rate change	(8,077)	(29,771)	-
Effect of prior period tax adjustments	305,014	54,676	-
Provision for Indian income tax	4,546,657	1,655,061	151,924
Effect of tax on foreign income	10,525,168	6,538,256	3,701,898
Effect of prior period foreign tax adjustments	-	-	1,023,828
Aggregate taxes	15,071,825	8,193,317	4,877,650

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 2001.

2.17 Earnings per share

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

	2001	2000	1999
Basic earnings per equity share – weighted average number of common shares outstanding excluding unallocated shares of ESOP	65,771,256	65,659,625	61,378,850
Effect of dilutive common equivalent shares – stock options outstanding	943,483	204,365	128,530
Diluted earnings per equity share – weighted average number of common shares and common equivalent shares outstanding	66,714,739	65,863,990	61,507,380

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2.18 Financial instruments

Foreign exchange forward contracts

The company enters into foreign exchange forward contracts to offset the foreign currency risk arising from the accounts receivable denominated in currencies other than the Indian rupee, primarily the US dollar. The counter party to the company's foreign currency forward contracts is generally a bank. Management believes that the risks or economic consequences of non-performance by the counter party are not material to its financial position or results of operations. There were no significant foreign exchange gains and losses on foreign exchange forward contracts during fiscal 2001, 2000 and 1999. As of March 31, 2001 and 2000, the company had open foreign exchange forward contracts in the amounts of \$ 20,000,000 and Nil, respectively.

2.19 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.

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2.19 Segment reporting (continued)

2.19.1 Industry segments

Year ended March 31, 2001

	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

Year ended March 31, 2000

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	61,153,566	46,770,389	31,248,637	21,637,626	42,633,536	203,443,754
Identifiable operating expenses	23,665,914	16,612,901	10,222,455	6,349,884	15,971,172	72,822,326
Allocated expenses	16,326,836	11,955,090	8,010,255	5,544,554	10,899,835	52,736,570
Segmental operating income	21,160,816	18,202,398	13,015,927	9,743,188	15,762,529	77,884,858
Unallocable expenses						17,385,805
Operating income						60,499,053
Other income (expense), net						9,038,792
Net income before taxes						69,537,845

Year ended March 31, 1999

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	28,194,176	29,715,264	17,205,400	16,614,712	29,225,674	120,955,226
Identifiable operating expenses	10,781,807	9,764,221	5,548,040	5,532,826	10,493,354	42,120,248
Allocated expenses	7,461,572	7,512,683	4,340,288	4,230,432	7,343,751	30,888,726
Segmental operating income	9,950,797	12,438,360	7,317,072	6,851,454	11,388,569	47,946,252
Unallocable expenses						25,073,625
Operating income						22,872,627
Equity in loss of deconsolidated subsidiary						(2,085,887)
Other income (expense), net						1,536,998
Net income before taxes						22,323,738

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
(Expressed in United States dollars except share data and as otherwise stated)

2.19 Segment reporting (continued)

2.19.2 *Geographic segments*

Year ended March 31, 2001

	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					<u>147,019,929</u>

Year ended March 31, 2000

	North America	Europe	India	Rest of the World	Total
Revenues	158,723,649	30,064,939	2,912,091	11,743,075	203,443,754
Identifiable operating expenses	54,672,143	12,722,875	913,895	4,513,413	72,822,326
Allocated expenses	40,875,291	7,759,319	1,061,766	3,040,194	52,736,570
Segmental operating income	63,176,215	9,582,745	936,430	4,189,468	77,884,858
Unallocable expenses					17,385,805
Operating income					60,499,053
Other income (expense), net					9,038,792
Net income before taxes					<u>69,537,845</u>

Year ended March 31, 1999

	North America	Europe	India	Rest of the World	Total
Revenues	99,203,989	11,302,791	2,051,492	8,396,954	120,955,226
Identifiable operating expenses	33,730,337	4,539,059	695,267	3,155,585	42,120,248
Allocated expenses	25,127,762	2,879,857	670,851	2,210,256	30,888,726
Segmental operating income	40,345,890	3,883,875	685,374	3,031,113	47,946,252
Unallocable expenses					25,073,625
Operating income					22,872,627
Equity in loss of deconsolidated subsidiary					(2,085,887)
Other income (expense), net					1,536,998
Net income before taxes					<u>22,323,738</u>

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
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2.19 Segment reporting (continued)

2.19.3 *Significant clients*

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

2.20 Commitments and contingencies

The company has outstanding performance guarantees for various statutory purposes totaling \$ 1,126,611, \$ 1,207,110 and \$ 760,329 as of March 31, 2001, 2000 and 1999, respectively. These guarantees are generally provided to governmental agencies.

2.21 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.

2.22 Post balance sheet date events

The Board of Directors of the company declared a dividend of \$ 10,656,913 at their meeting held on April 11, 2001. Dividend taxes payable on the same amount to \$ 1,087,005.

2.23 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 OnScan Inc. As of March 31, 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.

2.24 Recent accounting pronouncements

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 will change 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 (OCI) 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. The company observes that the net amount reflected in current earnings under the new rules will be substantially similar to the amounts under existing accounting practice.

INFOSYS TECHNOLOGIES LIMITED
NOTES TO FINANCIAL STATEMENTS
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2.25 Unaudited quarterly financial data

	June 30	September 30	December 31	March 31	Total
2001					
Revenues	80,257,833	97,939,050	114,911,366	120,742,261	413,850,510
Operating income	26,405,448	32,196,346	38,192,544	40,720,248	137,514,586
Net income	26,831,673	32,781,886	34,006,836	38,327,710	131,948,104
Earnings per share					
Basic	0.41	0.50	0.52	0.58	2.01
Diluted	0.40	0.49	0.51	0.58	1.98
Equity share price					
High	239.97	196.08	172.05	150.19	239.97
Low	126.47	137.34	115.88	80.41	80.41
2000					
Revenues	39,728,900	47,941,680	52,158,059	63,615,115	203,443,754
Operating income	12,306,480	14,615,011	15,692,810	17,884,752	60,499,053
Net income	13,310,879	14,720,511	15,416,928	17,896,210	61,344,528
Earnings per share					
Basic	0.20	0.22	0.24	0.27	0.93
Diluted	0.20	0.22	0.24	0.27	0.93
Equity share price					
High	44.04	91.56	168.75	316.84	316.84
Low	29.29	41.69	75.92	130.74	29.29
1999					
Revenues	23,665,088	28,237,129	33,041,304	36,011,705	120,955,226
Operating income	6,049,541	8,181,651	10,810,441	(2,169,006)	22,872,627
Net income	4,775,766	6,159,382	9,581,679	(3,070,739)	17,446,088
Earnings per share					
Basic	0.08	0.10	0.15	(0.05)	0.28
Diluted	0.08	0.10	0.15	(0.05)	0.28
Equity share price					
High	14.75	15.96	17.46	40.73	40.73
Low	11.16	12.75	13.03	17.34	11.16

- The fourth quarter of fiscal 1999 include a charge of \$ 12.91 million, respectively due to compensation charges arising out of stock split.
- Changes in estimates in the fourth quarter of fiscal 2000 include a charge of \$ 2.7 million (\$ 0.04 per share resulting from a change in the estimates for gratuity calculations.
- Changes in estimates in the fourth quarter of fiscal 1999 include a charge of \$ 1 million (\$ 0.02 per share) resulting from a change in the effective income tax rate for the period.