15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Company overview

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

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

15.1 Significant accounting policies

15.1.1 Basis of preparation of financial statements

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

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

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

The preparation of the financial statements in conformity with GAAP requires that the management of the company ("Management") make estimates and assumptions that affect the reported amounts of revenue and expenses of the period, reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as of the date of the financial statements. Examples of such estimates include expected development costs to complete software contracts, provision for doubtful debts, future obligations under employee retirement benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.

15.1.2 Revenue recognition

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

15.1.3 Expenditure

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

15.1.4 Fixed assets and capital work-in-progress

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

15.1.5 Depreciation

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

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

15.1.6 Retirement benefits to employees

15.1.6a Gratuity

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

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which, the company contributes to the Infosys Technologies Limited Employees' Gratuity Fund Trust (the "Trust"). Trustees administer contributions made to the Trust and invest in specific designated securities as mandated by law, which generally comprise central and state government bonds and debt instruments of government-owned corporations.

15.1.6b Superannuation

Apart from being covered under the Gratuity Plan described above, certain employees of Infosys are also participants of a defined contribution plan. The company makes monthly contributions under the superannuation plan (the "Plan") to the Infosys Technologies Limited Employees Superannuation Fund Trust based on a specified percentage of each covered employee's salary. The company has no further obligations to the Plan beyond its monthly contributions.

15.1.6c Provident fund

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

Infosys contributes a part of the contributions to the Infosys Technologies Limited Employees Provident Fund Trust. The remainders of the contributions are made to the Government administered provident fund. The company has no further obligations under the provident fund plan beyond its monthly contributions.

15.1.7 Research and development

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

15.1.8 Foreign currency transactions

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

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

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

15.1.9 Income tax

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

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

15.1.10 Earnings per share

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

15.1.11 Investments

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

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

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

15.2 Notes on accounts

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

15.2.1 Deferred income taxes

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

15.2.2 Capital commitments and contingent liabilities

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

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

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

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

15.2.3 Quantitative details

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

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

in Rs.

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

15.2.5 Earnings in foreign exchange (on the receipts basis)

in Rs.

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

Expenditure in foreign currency (on the payments basis)

in Rs.

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

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

in Rs.

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

15.2.6 Fixed assets

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

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

Profit/loss on disposal of fixed assets

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

15.2.7 Obligations on long-term non-cancelable operating leases

The lease rentals charged during the period and maximum obligations on long-term non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows:

in Rs.

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

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

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

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

in Rs.

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

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

15.2.9 Managerial remuneration paid to non-whole-time directors

in Rs.

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

15.2.10 Exchange differences

in Rs.

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

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

15.2.11 Research and development expenditure

in Rs.

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

15.2.12 Unearned revenue

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

15.2.13 Dues to small-scale industrial undertakings

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

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

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

15.2.15 Stock option plans

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

1994 Stock Option Plan ("the 1994 Plan")

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

1998 Stock Option Plan ("the 1998 Plan")

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

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

1999 Stock Option Plan ("the 1999 Plan")

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

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

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

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

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

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

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

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

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

in Rs.

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

15.2.17 Provision for taxation

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

15.2.18 Cash and bank balances

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

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

in Rs.

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

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

15.2.19 Loans and advances

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

Deposits with financial institutions and a body corporate comprise:

in Rs.

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

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

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

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

15.2.20 Current liabilities

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

15.2.21 Fixed assets

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

15.2.22 Transfer of intellectual property rights

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

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

15.2.23 Investments

Workadia Inc., USA

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

Other information

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

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

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

15.2.24 Segment reporting

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

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

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

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

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

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

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

Industry segments

Quarter ended June 30, 2001 *in Rs.*

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

Quarter ended June 30, 2000 *in Rs.*

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

Year ended March 31, 2001 *in Rs.*

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

Geographic segments

Quarter ended June 30, 2001 *in Rs.*

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

Quarter ended June 30, 2000 *in Rs.*

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

Year ended March 31, 2001 *in Rs.*

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

15.2.25 Related party transactions

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

The transactions with Yantra Corporation comprise sales of Rs 1,52,48,460 during the quarter ended June 30, 2001 (the quarter ended June 30, 2000 -- Rs 5,18,56,649 and the year ended March 31, 2001 -- Rs 19,64,85,967). The outstanding dues from the subsidiary are 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 are stated in schedule 7, *Loans and advances,* to the financial statements.

15.2.26 Provisions for doubtful debts

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

15.2.27 Dividends remitted in foreign currencies

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

Particulars of dividends remitted are as follows:

in Rs.

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

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

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