

**INFOSYS TECHNOLOGIES LIMITED**

**UNAUDITED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH U.S. GAAP**

**THREE AND NINE MONTHS ENDED DECEMBER 31, 2001**

# **INFOSYS TECHNOLOGIES LIMITED**

## **UNAUDITED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH U.S. GAAP**

**THREE AND NINE MONTHS ENDED DECEMBER 31, 2001**

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**INFOSYS TECHNOLOGIES LIMITED**  
**BALANCE SHEETS**

(Expressed in United States dollars except share data)

	December 31, 2001 (Unaudited)	December 31, 2000 (Unaudited)	March 31, 2001 (Audited)
<b>ASSETS</b>			
<i><b>Current Assets</b></i>			
Cash and cash equivalents	179,964,266	110,891,708	124,084,245
Trade accounts receivable, net of allowances	64,505,813	65,102,262	64,942,062
Deferred tax assets	2,065,475	-	1,265,142
Prepaid expenses and other current assets	18,875,165	14,306,584	16,452,863
<i><b>Total current assets</b></i>	<b>265,410,719</b>	<b>190,300,554</b>	<b>206,744,312</b>
Property, plant and equipment, net	150,661,482	97,928,035	119,773,030
Deferred tax assets	2,574,090	2,766,266	2,070,428
Investments	7,777,393	6,057,693	5,577,393
Advance income taxes	1,869,035	208,740	180,113
Other assets	11,127,466	7,237,419	8,002,543
<b>TOTAL ASSETS</b>	<b>439,420,185</b>	<b>304,498,707</b>	<b>342,347,819</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<i><b>Current Liabilities</b></i>			
Accounts payable	440	353,474	28,082
Client deposits	2,546,959	1,565,962	1,217,737
Other accrued liabilities	27,279,580	20,809,471	21,830,484
Unearned revenue	5,885,436	10,627,986	7,479,815
<i><b>Total current liabilities</b></i>	<b>35,712,415</b>	<b>33,356,893</b>	<b>30,556,118</b>
<i><b>Stockholders' Equity</b></i>			
Common stock, \$ 0.16 par value; 100,000,000 equity shares authorized, Issued and outstanding – 66,169,247, 66,152,567 and 66,158,117 as of December 31, 2001 and 2000 and March 31, 2001 respectively	8,595,270	8,593,713	8,594,106
Additional paid-in capital	122,395,526	121,683,464	122,017,518
Accumulated other comprehensive income	(39,992,215)	(29,392,947)	(28,664,972)
Deferred stock compensation	(8,771,464)	(13,776,773)	(12,517,018)
Retained earnings	321,480,653	184,034,357	222,362,067
<i><b>Total stockholders' equity</b></i>	<b>403,707,770</b>	<b>271,141,814</b>	<b>311,791,701</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>439,420,185</b>	<b>304,498,707</b>	<b>342,347,819</b>

See accompanying notes to the financial statements

**INFOSYS TECHNOLOGIES LIMITED**  
**STATEMENTS OF INCOME**

(Expressed in United States dollars except share data)

	Three months ended		Nine months ended		Year ended
	December 31, 2001	December 31, 2000	December 31, 2001	December 31, 2000	March 31, 2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>Revenues</b>	137,579,820	114,911,366	405,370,712	293,108,249	413,850,510
Cost of revenues	73,051,526	60,583,336	214,517,882	152,743,812	213,613,744
<b>Gross profit</b>	64,528,294	54,328,030	190,852,830	140,364,437	200,236,766
Operating Expenses:					
Selling and marketing expenses	6,840,680	4,752,598	19,752,095	13,944,138	20,682,776
General and administrative expenses	10,622,444	10,112,440	33,921,600	25,803,921	36,957,609
Amortization of stock compensation expense	1,234,472	1,270,448	3,745,554	3,822,040	5,081,795
Total operating expenses	18,697,596	16,135,486	57,419,249	43,570,099	62,722,180
<b>Operating income</b>	45,830,698	38,192,544	133,433,581	96,794,338	137,514,586
Other income, net	3,106,397	97,184	9,072,796	7,792,422	9,505,343
<b>Income before income taxes</b>	48,937,095	38,289,728	142,506,377	104,586,760	147,019,929
Provision for income taxes	7,288,077	4,282,892	20,323,580	10,966,366	15,071,825
<b>Net income</b>	<b>41,649,018</b>	<b>34,006,836</b>	<b>122,182,797</b>	<b>93,620,394</b>	<b>131,948,104</b>
<b>Earnings per equity share</b>					
Basic	0.64	0.52	1.86	1.43	2.01
Diluted	0.63	0.51	1.85	1.40	1.98
<b>Weighted equity shares used in computing earnings per equity share</b>					
Basic	65,545,160	65,593,767	65,557,265	65,625,556	65,771,256
Diluted	66,114,671	66,410,844	66,205,786	66,877,762	66,714,739

See accompanying notes to the financial statements

**INFOSYS TECHNOLOGIES LIMITED**  
**STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**

(Unaudited as of December 31, 2001 and 2000)  
(Expressed in United States dollars except share data)

	Common stock		Additional paid- in capital	Comprehensive income	Accumulated other comprehensive income	Deferred stock compensation	Retained earnings	Total stockholders' equity
	Shares	Par value						
<b>Balance as of March 31, 2000</b>	<b>66,150,700</b>	<b>8,593,510</b>	<b>121,506,726</b>		<b>(14,137,933)</b>	<b>(17,598,813)</b>	<b>99,773,031</b>	<b>198,136,521</b>
Cash dividends declared	-	-	-		-	-	(9,359,068)	(9,359,068)
Common stock issued	1,867	203	176,738		-	-	-	176,941
Amortization of compensation related to stock option grants	-	-	-		-	3,822,040	-	3,822,040
Comprehensive income								
Net income	-	-	-	93,620,394	-	-	93,620,394	93,620,394
Other comprehensive income								
Translation adjustment	-	-	-	(15,255,014)	(15,255,014)	-	-	(15,255,014)
<i>Comprehensive income</i>	-	-	-	<b>78,365,380</b>	-	-	-	-
<b>Balance as of December 31, 2000</b>	<b>66,152,567</b>	<b>8,593,713</b>	<b>121,683,464</b>		<b>(29,392,947)</b>	<b>(13,776,773)</b>	<b>184,034,357</b>	<b>271,141,814</b>
Common stock issued	5,550	393	334,054		-	-	-	334,447
Amortization of compensation related to stock option grants	-	-	-		-	1,259,755	-	1,259,755
Comprehensive income								
Net income	-	-	-	38,327,710	-	-	38,327,710	38,327,710
Other comprehensive income								
Translation adjustment	-	-	-	727,975	727,975	-	-	727,975
<i>Comprehensive income</i>				<b>39,055,685</b>				
<b>Balance as of March 31, 2001</b>	<b>66,158,117</b>	<b>8,594,106</b>	<b>122,017,518</b>		<b>(28,664,972)</b>	<b>(12,517,018)</b>	<b>222,362,067</b>	<b>311,791,701</b>

**INFOSYS TECHNOLOGIES LIMITED**  
**STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**

(Unaudited as of December 31, 2001 and 2000)  
(Expressed in United States dollars except share data)

	Common stock		Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred stock compensation	Retained earnings	Total stockholders' equity
	Shares	Par value						
<b>Balance as of March 31, 2001</b>	<b>66,158,117</b>	<b>8,594,106</b>	<b>122,017,518</b>		<b>(28,664,972)</b>	<b>(12,517,018)</b>	<b>222,362,067</b>	<b>311,791,701</b>
Common stock issued	11,130	1,164	378,008		-	-	-	379,172
Cash dividends declared	-	-	-		-	-	(23,064,211)	(23,064,211)
Amortization of compensation related to stock option grants	-	-	-		-	3,745,554	-	3,745,554
Comprehensive income								
Net income	-	-	-	122,182,797	-	-	122,182,797	122,182,797
Other comprehensive income								
Translation adjustment	-	-	-	(11,327,243)	(11,327,243)	-	-	(11,327,243)
<i>Comprehensive income</i>				<b>110,855,554</b>				
<b>Balance as of December 31, 2001</b>	<b>66,169,247</b>	<b>8,595,270</b>	<b>122,395,526</b>		<b>(39,992,215)</b>	<b>(8,771,464)</b>	<b>321,480,653</b>	<b>403,707,770</b>

See accompanying notes to the financial statements

**INFOSYS TECHNOLOGIES LIMITED**  
**STATEMENTS OF CASH FLOWS**  
(Expressed in United States dollars except share data)

	Nine months ended December 31, 2001 (Unaudited)	2000 (Unaudited)	Year ended March 31, 2001 (Audited)
<b>OPERATING ACTIVITIES:</b>			
Net income	122,182,797	93,620,394	131,948,104
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
(Gain) / loss on sale of property, plant and equipment	(2,456)	(17,330)	(20,053)
Depreciation	24,402,866	16,381,961	24,527,867
Deferred tax benefit	(1,303,995)	(200,000)	(769,304)
Amortization of deferred stock compensation expense	3,745,554	3,822,040	5,081,795
Provision for investments	-	3,000,000	3,480,300
<i>Changes in assets and liabilities</i>			
Trade accounts receivable	(1,720,224)	(36,859,476)	(36,310,272)
Prepaid expenses and other current assets	(2,273,638)	(2,134,134)	(2,654,466)
Income taxes	(1,729,558)	(2,493,310)	(1,973,114)
Accounts payable	(27,114)	(573,079)	(901,961)
Client deposits	1,389,393	1,198,445	833,215
Unearned revenue	(1,368,788)	7,041,931	3,770,772
Other accrued liabilities	5,993,281	8,671,937	9,651,967
<b>Net cash provided by operating activities</b>	<b>149,288,118</b>	<b>91,459,379</b>	<b>136,664,850</b>
<b>INVESTING ACTIVITIES:</b>			
Expenditure on property, plant and equipment	(59,982,936)	(71,399,078)	(101,235,420)
Proceeds from sale of property, plant and equipment	236,642	45,465	49,676
Loans to employees	(4,169,931)	(2,578,313)	(4,932,703)
Purchase of investments	(2,200,000)	(5,879,755)	(5,879,755)
<b>Net cash used in investing activities</b>	<b>(66,116,225)</b>	<b>(79,811,681)</b>	<b>(111,998,202)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock	379,172	176,941	511,388
Payment of dividends	(23,064,211)	(9,274,887)	(9,220,142)
<b>Net cash used in financing activities</b>	<b>(22,685,039)</b>	<b>(9,097,946)</b>	<b>(8,708,754)</b>
Effect of exchange rate changes on cash	(4,606,833)	(8,257,530)	(8,473,135)
Net increase / (decrease) in cash and cash equivalents during the period	55,880,021	(5,707,778)	7,484,759
Cash and cash equivalents at the beginning of the period	124,084,245	116,599,486	116,599,486
<b>Cash and cash equivalents at the end of the period</b>	<b>179,964,266</b>	<b>110,891,708</b>	<b>124,084,245</b>
<b>Supplementary information:</b>			
Cash paid towards taxes	22,012,502	13,045,342	16,950,802

See accompanying notes to the financial statements

**INFOSYS TECHNOLOGIES LIMITED  
NOTES TO FINANCIAL STATEMENTS**

**(Unaudited as of and for the three and nine months ended December 31, 2001 and 2000)  
(Expressed in United States dollars except share data and as otherwise stated)**

**1 Company overview and significant accounting policies**

**1.1 Company overview**

Infosys, a world leader in consulting and information technology services, partners with Global 2000 companies to provide business consulting, systems integration, application development and product engineering services. Through these services, Infosys enables its clients to fully exploit technology for business transformation. Clients leverage Infosys' Global Delivery Model to achieve higher quality, rapid time-to-market and cost-effective solutions.

**1.2 Basis of preparation of financial statements**

The accompanying financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). All amounts are stated in U.S. dollars, except as otherwise specified.

**1.3 Use of estimates**

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

**1.4 Revenue recognition**

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

Revenue from licensing of software products is recognized upon shipment of products and fulfillment of acceptance terms, if any, provided that no significant vendor obligations remain and the collection of the related receivable is probable. When the company receives advances for software development services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met. Maintenance revenue is deferred and recognized ratably over the term of the underlying maintenance agreement, generally 12 months. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed.

**1.5 Cash and cash equivalents**

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



**INFOSYS TECHNOLOGIES LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**(Unaudited as of and for the three and nine months ended December 31, 2001 and 2000)**  
**(Expressed in United States dollars except share data and as otherwise stated)**

**1.6 Property, plant and equipment**

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

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

The cost of software purchased for use in software development and services is charged to the cost of revenues at the time of acquisition. The amount of third party software expensed in the nine months ended December 31, 2001 and 2000 and in fiscal 2001 was \$ 5,507,313, \$ 6,127,359 and \$ 6,979,492, respectively.

Deposits paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under "*Capital work-in-progress*".

**1.7 Impairment of long-lived assets**

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

**1.8 Research and development**

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

**1.9 Foreign currency translation**

The accompanying financial statements are reported in U.S. dollars. The functional currency of the company is the Indian rupee ("Rs."). The translation of Rs. to U.S. dollars is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date, and for revenue and expense accounts using a monthly average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as "*Other comprehensive income*", a separate component of stockholders' equity. The method for translating expenses of overseas operations depends upon the funds used. If the payment is made from a rupee denominated bank account, the exchange rate prevailing on the date of the payment would apply. If the payment is made from a foreign currency, i.e., non-rupee denominated account, the translation into rupees is performed at the average monthly exchange rate.

**1.10 Earnings per share**

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

**INFOSYS TECHNOLOGIES LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**(Unaudited as of and for the three and nine months ended December 31, 2001 and 2000)**  
**(Expressed in United States dollars except share data and as otherwise stated)**

**1.11 Income taxes**

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

**1.12 Fair value of financial instruments**

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

**1.13 Concentration of risk**

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash equivalents, trade accounts receivable, investment securities and hedging instruments. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counterparties. In management's opinion, as of December 31, 2001, December 31, 2000 and March 31, 2001, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements. Exposure to credit risk is managed through credit approvals, establishing credit limits and monitoring procedures. The company's cash resources are invested with corporations, financial institutions and banks with high investment grade credit ratings. Limitations are established by the company as to the maximum amount of cash that may be invested with any such single entity.

**1.14 Retirement benefits to employees**

**1.14.1 *Gratuity***

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

**1.14.2 *Superannuation***

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

**1.14.3 *Provident fund***

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

**INFOSYS TECHNOLOGIES LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**(Unaudited as of and for the three and nine months ended December 31, 2001 and 2000)**  
**(Expressed in United States dollars except share data and as otherwise stated)**

**1.15 Investments**

Investments where the company controls between 20% and 50% of the voting interest are accounted for using the equity method. Investment securities in which the company controls less than 20% voting interest are currently classified as "Available-for-sale securities". Non-readily marketable equity securities for which there are no readily determinable fair values are recorded at cost.

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

**1.16 Stock-based compensation**

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

**1.17 Dividends**

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

**1.18 Derivative financial instruments**

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

**1.19 Recently issued accounting standards**

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141, *Business Combinations* and SFAS 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires that all business combinations be accounted for under a single method-the purchase method. Use of the pooling-of-interests method is no longer permitted and is effective for business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment and is effective for fiscal years beginning after December 15, 2001, with earlier application permitted for entities with fiscal years beginning after March 31, 2001.

**INFOSYS TECHNOLOGIES LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**(Unaudited as of and for the three and nine months ended December 31, 2001 and 2000)**  
**(Expressed in United States dollars except share data and as otherwise stated)**

In August 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged.

In August 2001, the FASB also issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Under this standard, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Early application is encouraged.

Both SFAS 141 and 142 are not currently applicable to the operations of the company. The company is evaluating the impact of SFAS 143 and 144 on its operations.

**INFOSYS TECHNOLOGIES LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

(Unaudited as of and for the three and nine months ended December 31, 2001 and 2000)  
(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 December 31, 2001 and 2000 and March 31, 2001, respectively are as follows:

	<b>As of December 31, 2001</b>	<b>2000</b>	<b>As of March 31, 2001</b>
Cost and fair values			
Cash and bank deposits	126,620,777	78,191,662	82,702,111
Deposits with corporations	53,343,489	32,700,046	41,382,134
	<b>179,964,266</b>	<b>110,891,708</b>	<b>124,084,245</b>

Cash and cash equivalents include restricted cash balances in the amount of \$ 358,483, \$ 150,053 and \$ 103,418 as of December 31, 2001 and 2000 and March 31, 2001.

### 2.2 Trade accounts receivable

Trade accounts receivable, as of December 31, 2001 and 2000 and March 31, 2001, net of allowance for doubtful accounts of \$ 4,025,693, \$ 3,084,311 and \$ 3,902,996, respectively amounted to \$ 64,505,813, \$ 65,102,262 and \$ 64,942,062, respectively. The age profile of trade accounts receivable, net of allowances is given below.

	<b>As of December 31, 2001</b>	<b>2000</b>	<b>As of March 31, 2001</b>
Period (in days)			<i>in %</i>
0 – 30	68.9	48.3	69.2
31 – 60	26.5	37.1	26.6
61 – 90	4.6	10.2	1.7
More than 90	-	4.4	2.5
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### 2.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	<b>As of December 31, 2001</b>	<b>2000</b>	<b>As of March 31, 2001</b>
Rent deposits	2,071,632	2,226,754	2,484,794
Deposits with government organizations	1,264,146	739,465	945,189
Loans to employees	8,548,006	6,490,374	8,091,866
Prepaid expenses	5,041,519	4,497,879	4,349,913
Unbilled revenues	1,884,239	281,573	503,694
Other current assets	65,623	70,539	77,407
	<b>18,875,165</b>	<b>14,306,584</b>	<b>16,452,863</b>

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.

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2.4 Property, plant and equipment – net

Property, plant and equipment consist of the following:

	<b>As of December 31,</b>		<b>As of March 31,</b>
	<b>2001</b>	<b>2000</b>	<b>2001</b>
Land	9,023,385	7,658,656	7,865,351
Buildings	47,180,823	27,668,822	33,871,448
Furniture and fixtures	29,863,549	15,744,158	21,579,707
Computer equipment	57,407,806	37,155,519	48,098,099
Plant and equipment	32,904,434	19,717,383	24,064,927
Vehicles	73,058	40,103	75,537
Capital work-in-progress	47,039,528	34,293,333	36,651,724
	223,492,583	142,277,974	172,206,793
Accumulated depreciation	(72,831,101)	(44,349,939)	(52,433,763)
	<b>150,661,482</b>	<b>97,928,035</b>	<b>119,773,030</b>

Depreciation expense amounted to \$ 24,402,866, \$ 16,381,961 and \$ 24,527,867 for the nine months ended December 31, 2001 and 2000 and fiscal 2001, respectively.

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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:

	Carrying cost	Fair value
<b>As of December 31, 2001</b>		
M-Commerce Ventures Pte Ltd – 70 units, each unit representing 1 Ordinary Share of S\$ 1 each at par and 9 Redeemable Preference Shares of S\$ 1 each at par, with a premium of S\$ 1,110 per Redeemable Preference Share	399,485	399,485
Asia Net Media BVI Limited – 30,000,000 Ordinary Shares at \$ 0.05 each, fully paid, par value \$ 0.01 each	1,500,000	1,500,000
EC Cubed Inc. – 1,300,108 Series D Convertible Preferred Stock, at \$ 2.3075 each, fully paid, par value \$ 0.0001 each	-	-
Alpha Thinx Mobile Services AG - 27,790 Bearer Shares, at € 20 each, fully paid, par value € 1 each	-	-
CiDRA Corporation – 33,333 Series D Convertible Preferred Stock, at \$ 90 each, fully paid, par value \$ 0.01 each	2,999,970	2,999,970
Workadia Inc., U.S.A – 2,200,000 Series B Preferred Stock at \$ 2.5 each, fully paid, par value \$ 0.0002 each	2,200,000	2,200,000
JASDIC Park Company – 480 Common Stock, at ¥ 50,000 each, (fully paid, par value ¥ 50,000 each)	177,576	177,576
Purple Yogi Inc. – 276,243 Series D Convertible Preferred Stock, at \$ 1.81 each fully paid, par value \$ 0.001 each	500,000	500,000
Others	362	362
	<b>7,777,393</b>	<b>7,777,393</b>
<b>As of December 31, 2000</b>		
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
Alpha Thinx Mobile Services AG - 27,790 Bearer Shares, at € 20 each, fully paid, par value € 1 each	480,300	480,300
EC Cubed Inc. – 1,300,108 Series D Convertible Preferred Stock, at \$ 2.3075 each, fully paid, par value \$ 0.0001 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
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
JASDIC Park Company – 480 Common Stock, at ¥ 50,000 each, fully paid, par value ¥ 50,000 each	177,576	177,576
Others	362	362
	<b>6,057,693</b>	<b>6,057,693</b>
<b>As of March 31, 2001</b>		
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
	<b>5,577,393</b>	<b>5,577,393</b>

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2.6 Other assets

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

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 December 31, 2001 and 2000 and March 31, 2001, amounts receivable from officers amounting to \$ 465,973, \$ 152,234 and \$ 227,121, respectively are included in prepaid expenses and other current assets, and other assets in the accompanying balance sheets.

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

	<b>As of December 31, 2001</b>	<b>2000</b>	<b>As of March 31, 2001</b>
2001	-	6,490,374	-
2002	8,548,006	2,332,307	8,091,866
2003	3,355,615	1,572,307	2,517,809
2004	2,267,185	929,801	1,718,884
2005	1,367,506	700,522	1,033,107
2006	1,064,996	-	800,198
Thereafter	3,072,164	1,702,482	1,932,545
Total	<b>19,675,472</b>	<b>13,727,793</b>	<b>16,094,409</b>

The estimated fair values of related party receivables amounted to \$ 14,837,206, \$ 10,566,802 and \$ 12,465,374 as of December 31, 2001 and 2000 and March 31, 2001, respectively. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgement is required to develop these estimates of fair value. Consequently, these estimates are not necessarily indicative of the amounts that the company could realize in the market.

2.8 Other accrued liabilities

Other accrued liabilities comprise the following:

	<b>As of December 31, 2001</b>	<b>2000</b>	<b>As of March 31, 2001</b>
Accrued compensation to staff	11,560,248	10,600,704	12,332,869
Accrued dividends	359,483	150,053	103,418
Provision for post sales client support	1,736,986	1,581,636	1,578,859
Employee withholding taxes payable	2,092,809	1,221,387	25,000
Provision for expenses	7,468,898	3,665,572	3,768,256
Retention money	3,305,421	2,924,107	2,425,439
Others	755,735	666,012	1,596,643
	<b>27,279,580</b>	<b>20,809,471</b>	<b>21,830,484</b>

2.9 Employee post-retirement benefits

2.9.1 *Superannuation*

The company contributed \$ 913,808, \$ 598,970 and \$ 796,739 to the superannuation plan in the nine months ended December 31, 2001 and 2000 and fiscal 2001, respectively.

2.9.2 *Provident fund*

The company contributed \$ 2,337,455, \$ 1,641,939 and \$ 2,339,794 to the provident fund in the nine months ended December 31, 2001 and 2000 and fiscal 2001, respectively.



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**2.10 Stockholders' equity**

The company has only one class of capital stock referred to as equity shares. All references in these financial statements to number of shares, per share amounts and market prices of the company's equity shares have been retroactively restated to reflect stock splits made by the company.

**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. 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.

**2.12 Other income, net**

Other income, net, consists of the following:

	<b>Nine months ended</b>		<b>Year ended</b>
	<b>December 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>March 31, 2001</b>
Interest income and others	7,355,707	6,252,196	8,526,635
Income from sale of special import licenses	-	14,800	14,800
Exchange gains	1,235,221	4,525,426	4,444,208
Provision for investments	-	(3,000,000)	(3,480,300)
Others	481,868	-	-
	<b>9,072,796</b>	<b>7,792,422</b>	<b>9,505,343</b>

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**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 the nine months ended December 31, 2001 and 2000 and in fiscal 2001 were \$ 3,824,111, \$ 2,505,453 and \$ 3,689,822, respectively. The operating leases can be renewed or canceled at the company's option.

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

Year ending December 31,	
2002	3,457,663
2003	3,508,402
2004	3,304,298
2005	2,486,201
2006	1,032,813
Thereafter	1,595,320
	<hr/>
	<b>15,384,697</b>
	<hr/>

**2.14 Research and development**

General and administrative expenses in the accompanying statements of income include research and development expenses of \$ 2,385,215, \$ 2,609,759 and \$ 3,610,550 for the nine months ended December 31, 2001 and 2000 and fiscal 2001, 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. 0.50 each and were purchased by the Trust using the proceeds of a loan obtained from the company. The Trust holds the warrants and transfers them to eligible employees at Rs. 0.50 each. Each warrant entitles the holder to purchase one of the company's equity shares at a price of Rs. 50 per share. The warrants and the equity shares received upon the exercise of warrants are subject to a five-year aggregate vesting period from the date of issue of warrants to employees. The warrants expire upon the earlier of five years from the date of issue or September 1999. The fair market value of each warrant is the market price of the underlying equity shares on the date of the grant.

In 1997, in anticipation of a share dividend to be declared by the company, the Trust exercised all warrants held by it and converted them into equity shares with the proceeds of a loan obtained from the company. In connection with the warrant exercise and the share dividend, on an adjusted basis, 3,011,200 equity shares were issued to employees of the company who exercised stock purchase rights and 2,988,800 equity shares were issued to the Trust for future issuance to employees pursuant to the 1994 Plan. Following such exercise, there were no longer any rights to purchase equity shares from the company in connection with the 1994 Plan. Only equity shares held by the Trust remained for future issues to employees, subject to vesting provisions. The equity shares acquired upon the exercise of the warrants vest entirely on completion of five years of service. The warrant holders were entitled to exercise early, but the shares received are subject to the five-year vesting period. As of December 31, 2001, the company's outstanding equity shares included 634,000 equity shares held by the Trust of which 323,000 equity shares were allotted to employees, subject to vesting provisions and are not included in the earnings per share calculation. The warrants allotted and the underlying equity shares are not subject to any repurchase obligations by the company.

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

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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.

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

The activity in the warrants/equity shares of the 1994, 1998 and 1999 Employees Stock Offer Plans in the nine months ended December 31, 2001 and 2000 and in fiscal 2001 are set out below.

	Nine months ended December 31, 2001		Nine months ended December 31, 2000		Year ended March 31, 2001	
	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price
<b>1994 Option plan:</b>						
Outstanding at the beginning of the period	330,000		341,400		341,400	—
Granted	—	—	—	—	—	—
Forfeited	(7,000)	1.15	(8,400)	1.15	(10,600)	1.15
Exercised	—	1.15	(800)	1.15	(800)	1.15
Outstanding at the end of the period	323,000		332,200		330,000	
Exercisable at the end of the period	—		—		—	
Weighted-average fair value of grants during the period at less than market		—		—		—
<b>1998 Option plan:</b>						
Outstanding at the beginning of the period	782,753		344,750		344,750	—
Granted	415,425	73.68	156,400	304.03	482,420	230.88
Forfeited	(48,885)	245.04	(27,450)	132.55	(38,200)	172.58
Exercised	(11,100)	60.04	(1,367)	97.64	(6,217)	53.82
Outstanding at the end of the period	1,138,193		472,333		782,753	—
Exercisable at the end of the period	210,130		59,627		55,558	—
Weighted-average fair value of grants during the period		<u>73.68</u>		<u>304.03</u>		<u>230.88</u>
<b>1999 Option plan:</b>						
Outstanding at the beginning of the period	2,793,980		1,006,800		1,006,800	—
Granted	1,979,600	95.05	1,132,300	146.50	1,957,830	136.68
Forfeited	(133,035)	128.69	(126,600)	108.52	(169,450)	110.06
Exercised	(30)	74.29	(500)	93.67	(1,200)	89.98
Outstanding at the end of the period	4,640,515		2,012,000		2,793,980	—
Exercisable at the end of the period	363,673		90,120		93,400	—
Weighted-average fair value of grants during the period		<u>95.05</u>		<u>146.50</u>		<u>136.68</u>

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2.16 Income taxes

The provision for income taxes comprises:

	Nine months ended December 31,		Year ended
	2001	2000	March 31, 2001
Current taxes			
Domestic taxes	4,201,904	3,168,478	5,315,961
Foreign taxes	16,865,008	7,997,888	10,525,168
	21,066,912	11,166,366	15,841,129
Deferred taxes	(743,332)	(200,000)	(769,304)
Aggregate taxes	<b>20,323,580</b>	<b>10,966,366</b>	<b>15,071,825</b>

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:

	Nine months ended December 31,		Year ended March
	2001	2000	31, 2001
Deferred tax assets:			
Property, plant and equipment	2,274,931	3,400,637	1,519,016
Provision for doubtful debts	1,437,172	1,187,460	1,587,629
Investments	1,442,477	1,155,000	1,598,712
Others	-	-	217,842
	5,154,580	5,743,097	4,923,199
Less: Valuation allowance	(515,015)	(2,976,831)	(1,587,629)
Net deferred tax assets	<b>4,639,565</b>	<b>2,766,266</b>	<b>3,335,570</b>

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 December 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.

	<b>Nine months ended December 31</b>		<b>Year ended March 31</b>
	<b>2001</b>	<b>2000</b>	<b>2001</b>
Net income before taxes	142,506,377	104,586,760	147,019,929
Enacted tax rates in India	35.70%	38.50%	39.55%
Computed expected tax expense	50,874,777	40,265,903	58,146,382
Less: Tax effect due to non-taxable export income	(49,800,528)	(39,749,830)	(57,334,527)
Others	2,363,510	2,145,637	3,437,865
Effect of tax rate change	20,813	-	(8,077)
Effect of prior period tax adjustments	-	306,768	305,014
Provision for Indian income tax	3,458,572	2,968,478	4,546,657
Effect of tax on foreign income	16,865,008	7,997,888	10,525,168
Aggregate taxes	<b>20,323,580</b>	<b>10,966,366</b>	<b>15,071,825</b>

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

**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:

	<b>Nine months ended</b>		<b>Year ended</b>
	<b>December 31</b>		<b>March 31</b>
	<b>2001</b>	<b>2000</b>	<b>2001</b>
Basic earnings per equity share – weighted average number of common shares outstanding excluding unallocated shares of ESOP	65,557,265	65,625,556	65,771,256
Effect of dilutive common equivalent shares – stock options outstanding	648,521	1,252,206	943,483
Diluted earnings per equity share – weighted average number of common shares and common equivalent shares outstanding	<b>66,205,786</b>	<b>66,877,762</b>	<b>66,714,739</b>

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**2.18 Derivative financial instruments**

The Company enters into forward foreign exchange contracts where the counter party is generally a bank. The Company considers the risks of non-performance by the counter party as non-material. Infosys held foreign exchange forward contracts of \$ 20,000,000, Nil and \$ 20,000,000 as of December 31, 2001 and 2000 and March 31, 2001, respectively. The foreign forward exchange contracts mature between one to six months.

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

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

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

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

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

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

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2.19 Segment reporting (continued)

2.19.1 Industry segments

*Nine months ended December 31, 2001*

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	147,615,021	69,386,637	63,617,079	48,997,683	75,754,292	405,370,712
Identifiable operating expenses	54,101,958	28,839,432	16,603,048	13,307,077	26,339,106	139,190,621
Allocated expenses	39,119,169	17,665,432	16,192,692	12,421,760	19,200,455	104,599,508
Segmental operating income	54,393,894	22,881,773	30,821,339	23,268,846	30,214,731	161,580,583
Unallocable expenses						28,147,002
Operating income						133,433,581
Other income (expense), net						9,072,796
<b>Net income before taxes</b>						<b>142,506,377</b>
Taxes						20,323,580
<b>Net income after taxes</b>						<b>122,182,797</b>

*Nine months ended December 31, 2000*

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	98,854,701	52,300,841	54,187,187	24,174,167	63,591,353	293,108,249
Identifiable operating expenses	35,027,880	19,653,814	14,318,585	8,796,463	19,776,525	97,573,267
Allocated expenses	27,093,541	13,834,686	14,379,300	6,383,205	16,845,911	78,536,643
Segmental operating income	36,733,280	18,812,341	25,489,302	8,994,499	26,968,917	116,998,339
Unallocable expenses						20,204,001
Operating income						96,794,338
Other income (expense), net						7,792,422
<b>Net income before taxes</b>						<b>104,586,760</b>
Taxes						10,966,366
<b>Net income after taxes</b>						<b>93,620,394</b>

*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
<b>Net income before taxes</b>						<b>147,019,929</b>
Taxes						15,071,825
<b>Net income after taxes</b>						<b>131,948,104</b>



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2.19 Segment reporting (continued)

2.19.2 *Geographic segments*

*Nine months ended December 31, 2001*

	<b>North America</b>	<b>Europe</b>	<b>India</b>	<b>Rest of the World</b>	<b>Total</b>
Revenues	289,382,482	78,551,232	8,559,625	28,877,373	405,370,712
Identifiable operating expenses	98,476,100	28,315,359	3,048,190	9,350,972	139,190,621
Allocated expenses	74,490,566	20,226,600	2,587,309	7,295,033	104,599,508
Segmental operating income	116,415,816	30,009,273	2,924,126	12,231,368	161,580,583
Unallocable expenses					28,147,002
Operating income					133,433,581
Other income (expense), net					9,072,796
<b>Net income before taxes</b>					<b>142,506,377</b>
Taxes					20,323,580
<b>Net income after taxes</b>					<b>122,182,797</b>

*Nine months ended December 31, 2000*

	<b>North America</b>	<b>Europe</b>	<b>India</b>	<b>Rest of the World</b>	<b>Total</b>
Revenues	217,779,566	53,168,697	3,756,654	18,403,332	293,108,249
Identifiable operating expenses	70,928,273	19,177,472	1,165,350	6,302,172	97,573,267
Allocated expenses	58,220,480	14,136,994	1,186,170	4,992,999	78,536,643
Segmental operating income	88,630,813	19,854,231	1,405,134	7,108,161	116,998,339
Unallocable expenses					20,204,001
Operating income					96,794,338
Other income (expense), net					7,792,422
<b>Net income before taxes</b>					<b>104,586,760</b>
Taxes					10,966,366
<b>Net income after taxes</b>					<b>93,620,394</b>

*Year ended March 31, 2001*

	<b>North America</b>	<b>Europe</b>	<b>India</b>	<b>Rest of the World</b>	<b>Total</b>
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
<b>Net income before taxes</b>					<b>147,019,929</b>
Taxes					15,071,825
<b>Net income after taxes</b>					<b>131,948,104</b>

**INFOSYS TECHNOLOGIES LIMITED  
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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 the nine months ended December 31, 2001 and 2000 and in fiscal 2001.

**2.20 Commitments and contingencies**

The company has outstanding performance guarantees for various statutory purposes totaling \$ 3,330,910, \$ 1,123,474 and \$ 1,126,611, as of December 31, 2001 and 2000 and March 31, 2001, 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 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 December 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.