

## 17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

### Company overview

Infosys Technologies Limited ("Infosys" or the "company"), a world leader in consulting and information technology ("IT") services partners with Global 2000 companies to provide business consulting, systems integration, application development, maintenance, re-engineering and product engineering services. Through these services, Infosys enables its clients to fully exploit technology for business transformation.

Progeon Limited ("Progeon" or the "subsidiary") was incorporated on April 3, 2002 in India and is a subsidiary of Infosys. The subsidiary provides business process management and transitioning services to organizations that outsource their business processes. Infosys owns all the equity shares in Progeon. The reporting date of the subsidiary coincides with that of Infosys.

Leveraging the benefits of service delivery globalization, process redesign and technology, Infosys and Progeon drive efficiency and cost effectiveness into client's business processes. The companies help customers improve their competitive positioning by managing their core business processes in addition to providing increased value.

### 17.1 Significant accounting policies

#### 17.1.1 Basis of preparation of financial statements

The consolidated 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") insofar as applicable to the consolidated financial statements.

The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under the accounting standard on Consolidated Financial Statements issued by the ICAI. This being the first year of presentation of consolidated financial statements in line with the accounting standards, prior period figures have not been provided as they are unconsolidated and therefore do not permit meaningful comparison. The financial statements of the parent company, Infosys and Progeon have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealized gains/losses. The consolidated financial statements are prepared applying uniform accounting policies in use at Infosys and Progeon.

The company has voluntarily adopted the applicable accounting standard on intangible assets, which is mandatory effective the year commencing April 1, 2003. Management has also evaluated the effect of the other recently issued accounting standards such as discontinuing operations and reporting of interests in joint ventures (although, all are not mandatory for the fiscal year ending 2003). These accounting standards do not have a material impact on the financial statements of the company.

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 income and expenses of the period, reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as of the date the financial statements are drawn up. Examples of such estimates include expected development costs to complete software contracts, provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes, provision for post sales customer support and the useful lives of fixed and intangible assets. Actual results could differ from those estimates. Contingencies are recorded when it is probable that a liability has been incurred, and the amount can be reasonably estimated.

#### 17.1.2 Revenue recognition

Revenue on fixed-price fixed-term contracts is recognized as per the proportionate-completion method. On time-and-materials contracts, revenue is recognized as the related services are performed. 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.

#### 17.1.3 Expenditure

The cost of software user licenses purchased for software development and the rendering of IT and business process management and transitioning services are charged to revenue in the year the software is acquired. 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 contracts and also towards likely expenses for providing any post-sales client support. The leave encashment liability of the company for the period/year is provided on the basis of an actuarial valuation.

#### 17.1.4 Fixed assets, intangible assets and capital work-in-progress

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Intangible assets comprise the consideration paid to acquire intellectual property rights. Direct costs are

capitalized until the assets are ready for use. Capital work-in-progress includes the cost of fixed assets that are not yet ready for their intended use and advances paid to acquire fixed assets before the balance sheet date.

#### 17.1.5 Depreciation and amortization

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 period is proportionately charged. Individual assets acquired for less than Rs. 5,000/- are entirely depreciated in the year of acquisition. Intangible assets are amortized over their respective individual estimated useful lives on a straight-line basis, commencing from the date the asset is available to the company for its use.

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
Intellectual property rights	2-5 years

#### 17.1.6 Retirement benefits to employees

##### 17.1.6a 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 for the period/year with regard to the Gratuity Plan are determined by actuarial valuation, based upon which, the company fully contributes all the ascertained liabilities 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.

##### 17.1.6b Superannuation

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.

##### 17.1.6c Provident fund

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

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

#### 17.1.7 Research and development

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

#### 17.1.8 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.

Monetary current assets and monetary 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.

#### 17.1.9 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 or substantially 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.

#### 17.1.10 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.

#### 17.1.11 Investments

Trade investments refer to the investments made to enhance the company's business interests. 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 each investment. Any dividends are recorded as income in the profit and loss account.

### 17.2 Notes on accounts

Pursuant to our application, the Department of Company Affairs in their letter of January 23, 2002 granted the company approval to present the financial statements in Rupees crore. Accordingly, all amounts in the financial statements are presented in Rupees crore, except for per share data and as otherwise stated. All exact amounts are stated with the suffix "/-". One crore equals 10 million.

#### 17.2.1 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 until April 1, 2001, as an addition to the general reserves. The deferred tax credit of Rs 0.62 for the quarter ended June 30, 2002 is included in provision for taxation for the respective period.

#### 17.2.2 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. 69.70 as at June 30, 2002.
- b. The company has outstanding guarantees and counter guarantees of Rs. 13.88 as at June 30, 2002, to various banks, in respect of the guarantees given by the banks in favor of various government authorities and others.
- c. Claims against the company, not acknowledged as debts, amounted to Rs.11.19 as at June 30, 2002.
- d. Outstanding forward contracts amounted to US\$ 4,000,000 (approximately Rs. 19.79 at quarter end exchange rates) as at June 30, 2002. Unamortized income on forward exchange contracts as at June 30, 2002 was Rs. 0.13.

### 17.2.3 Aggregate expenses

Following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under schedule VI to the Companies Act, 1956 :

	June 30, 2002
Salaries and bonus including overseas staff expenses	340.34
Staffwelfare	1.82
Contribution to provident and other funds	7.36
Foreign travel expenses	47.72
Consumables	1.18
Cost of software packages for own use	9.83
Cost of software packages for service delivery to clients	6.88
Computer maintenance	1.86
Communication expenses	7.23
Consultancy charges	5.85
Provision for post-sales client support	1.97
Traveling and conveyance	3.12
Rent	6.07
Telephone charges	4.71
Professional charges	8.89
Printing and stationery	2.03
Advertisements	0.81
Office maintenance	4.10
Repairs to building	1.87
Repairs to plant and machinery	1.16
Power and fuel	5.73
Brand building	7.99
Insurance charges	2.00
Rates and taxes	1.65
Commission charges	1.52
Donations	1.67
Auditor's remuneration – audit fees	0.07
– out-of-pocket expenses	0.01
Provision for bad and doubtful debts	0.07
Provision for doubtful loans and advances	-0.04
Bank charges and commission	0.17
Commission to non-whole time directors	0.24
Postage and courier	1.25
Books and periodicals	0.25
Freight charges	0.11
Professional membership and seminar participation fees	0.83
Marketing expenses	1.11
Sales promotion expenses	0.15
Transaction processing fee and filing fees	1.25
Other miscellaneous expenses	0.20
Preliminary expenses	0.01
	<b>491.04</b>

### 17.2.4 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:

	June 30, 2002
Lease rentals paid during the period	5.52
Lease obligations	June 30, 2002
Within one year of the balance sheet date	17.04
Due in a period between one year and five years	43.25
Due after five years	6.62

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

### 17.2.5 Related party transactions

The company entered into related party transactions during the year ended March 31, 2002 with Yantra Corporation, USA, the subsidiary of the company until February 27, 2002, and key management personnel.

The transactions with Yantra Corporation comprise sales of Rs. 4.43 during the period from April 1, 2001 until February 27, 2002. The outstanding dues from Yantra Corporation as at June 30, 2002 were Rs. 0.34.

Our policy in determining our executive officers for reporting purposes has traditionally been to include all statutory officers and all members of our Management Council. As of April 01, 2002 in line with our growth and strategic objectives, we divided our Management Council into two levels comprised of senior executives and all other members. In accordance with this policy, our directors and executive officers, which include only senior executives of our Management Council, who we believe are our key management personnel.

Particulars of managerial remuneration and other benefits provided to these key management personnel during the quarters ended June 30, 2002.

Name	Salary	Contributions to provident and other funds	Perquisites and incentives	Commission*	Sitting fees	Reimbursement of expenses	Total remuneration
<b>Chairman and Chief Mentor</b>							
N R Narayana Murthy	0.02	0.01	0.03	-	-	-	0.06
<b>Chief Executive Officer, President and Managing Director</b>							
Nandan M Nilekani	0.02	0.01	0.02	-	-	-	0.05
<b>Chief Operating Officer and Deputy Managing Director</b>							
S Gopalakrishnan	0.02	0.01	0.03	-	-	-	0.06
<b>Whole-time Directors</b>							
K Dinesh	0.02	0.01	0.02	-	-	-	0.05
S D Shibulal	0.21	-	0.03	-	-	-	0.24
T V Mohandas Pai	0.02	0.01	0.01	-	-	-	0.04
Phaneesh Murthy	0.30	-	0.65	-	-	-	0.95
Srinath Batni	0.02	0.01	0.01	-	-	-	0.04
	0.63	0.06	0.80	-	-	-	1.49
<b>Non-Wholetime Directors</b>							
Deepak M Satwalekar	-	-	-	-	-	0.01	0.01
Marti G Subrahmanyam	-	-	-	-	-	0.03	0.03
Ramesh Vangal	-	-	-	-	-	-	-
Philip Yeo	-	-	-	-	-	-	-
Jitendra Vir Singh	-	-	-	-	-	0.05	0.05
Omkar Goswami	-	-	-	-	-	0.01	0.01
Larry Pressler	-	-	-	-	-	0.05	0.05
Rama Bijapurkar	-	-	-	-	-	0.01	0.01
Claude Smajda	-	-	-	-	-	0.02	0.02
						0.18	0.18

\*An amount of Rs.0.24 provided during the quarter ended June 30, 2002

Name	Salary	Contributions to provident and other funds	Perquisites and incentives	Total remuneration	Total loans granted	Outstanding loans and advances
<b>Other Senior Management Personnel</b>						
P Balasubramaniam	0.02	0.01	0.03	0.06	-	-
Girish G Vaidya	0.02	0.01	0.06	0.09	-	0.08
Hema Ravichandar	0.01	0.01	0.01	0.03	-	-
M S S Prabhu	0.02	0.01	0.04	0.07	-	-
<i>Company Secretary</i> V Balakrishnan	0.01	0.01	0.02	0.04	-	-
	0.08	0.05	0.16	0.29	-	0.08

In addition, the details of options granted to the parties during the quarter ended June 30, 2002

Name	Date of grant	Option plan	Number of options granted	Exercise price (in Rs.)	Expiration of options
<b>Non-Wholetime Directors</b>					
Deepak M Satwalekar	April 11, 2001	1999	7,000	3,215.60	April 11, 2011
Marti G Subrahmanyam	April 11, 2001	1999	6,000	3,215.60	April 11, 2011
Philip Yeo	April 11, 2001	1999	3,000	3,215.60	April 11, 2011
Jitendra Vir Singh	April 11, 2001	1999	2,000	3,215.60	April 11, 2011
Omkar Goswami	April 11, 2001	1999	2,000	3,215.60	April 11, 2011
Larry Pressler	April 11, 2001	1999	2,000	3,215.60	April 11, 2011
Rama Bijapurkar	April 11, 2001	1999	2,000	3,215.60	April 11, 2011
Claude Smajda	-	-	-	-	-

No options were granted to any other key management personnel.

During the quarter ended June 30, 2002, an amount of Rs. 1.25 has been donated to Infosys Foundation a not-for-profit trust, in which certain directors of the company are trustees.

#### 17.2.6 Exchange differences

Other income includes exchange differences of Rs. 6.50 for the quarter ended June 30, 2002. Of this amount, the gains on translation of foreign currency deposits amounted to Rs 0.09.

#### 17.2.7 Research and development expenditure

	June 30, 2002
Capital	0.07
Revenue	3.38
	<u>3.45</u>

#### 17.2.8 Unearned revenue

Unearned revenue as at June 30, 2002 amounting to Rs. 45.15 primarily consists of client billings on fixed-price, fixed-time-frame contracts for which the related costs have not yet been incurred.

#### 17.2.9 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, 2002 options to acquire 3,22,400 shares were outstanding with the Employee Welfare Trust and options to acquire 3,21,200 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, 11,73,600 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 1998 Plan was approved by the board of directors 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	June 30, 2002
Options granted, beginning of period/year	22,62,494
Granted during the period/year	1,36,500
Exercised during the period/year	(4,800)
Forfeited during the period/year	(16,666)
Options granted, end of period/year	<u>23,77,528</u>
Weighted average exercise price	US\$ 74.40 Rs 3,632/-

##### 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	June 30, 2002
Options granted, beginning of period/year	46,68,815
Granted during the period/year	66,700
Exercised during the period/year	
Forfeited during the period/year	(39,742)
Options granted, end of period/year	46,95,773
Weighted average exercise price	Rs. 4,492/-

The aggregate options outstanding and considered for dilution as at June 30, 2002 are 17,62,645.

#### 17.2.10 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.

	June 30, 2002
Net profit:	
- As reported	216.85
- Adjusted pro forma	210.84

#### 17.2.11 Provision for taxation

Most of Infosys' operations are conducted through 100% Export Oriented Units ("EOU"). Income from EOUs are tax exempt for the earlier of 10 years commencing from the fiscal year in which the unit commences software development, or March 31, 2009. The Finance Act 2002, states that the exempt income from EOUs for the year commencing April 1, 2002, is restricted to 90% of its aggregate income. Additionally, non-EOU exports are partly exempt from tax and such tax deductions 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.

#### 17.2.12 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:

	June 30, 2002
Deposits with financial institutions:	
Housing Development Finance Corporation Limited	121.03
ICICI Bank Limited	-
IDBI Limited	-
Deposits with body corporate:	
GE Capital Services India Limited	120.90
Citicorp Finance (India) Limited	15.01
	256.94

The above amounts include interest accrued but not due amounting to Rs. 1.95.

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 Limited. Prof. Marti G. Subrahmanyam, Director, is also a director in ICICI Bank Limited. Mr. N R Narayana Murthy, Chairman and Chief Mentor, was a director in ICICI Limited until March 27, 2002. Except as directors in these financial institutions, these persons have no direct interest in these transactions.

#### 17.2.13 Intangible Assets

During the quarter the company acquired the intellectual property rights of Trade IQ product from IQ Financial Systems Inc., USA for its banking group. The consideration paid amounts to Rs. 14.14 (US\$ 2.88 million). An additional US\$ 1 million (Rs 4.88 at the June 30, 2002) has been retained in escrow for payment to the seller based on the successful renewal of certain customer contracts in favor of the company. The consideration has been recorded as an intangible asset, which is being amortized over two years representing management's estimate of the useful life of the intellectual property.

The company entered into an agreement with the Aeronautical Development Agency, India ("ADA") for transferring the intellectual property rights in AUTOLAY, a commercial software application product used in the design of high performance structural systems. The company will pay the consideration in the form of a revenue share with a firm commitment of US\$ 5 million (Rs 24.50) payable within 10 years of the contract date. The ownership of intellectual property in AUTOLAY transfers to the company on remittance of the consideration to ADA. The committed consideration of Rs 24.50 has been recorded as an intangible asset and is being amortized over five years, which is management's estimate of the useful life.

#### 17.2.14 Investments

During the quarter the company invested Rs 0.27 in M-Commerce Ventures Pte Limited, Singapore ("M-Commerce") for 10 ordinary shares of face value Singapore \$ ("S\$") 1/- each fully paid at par and 90 redeemable preference shares of face value S\$ 1/- each fully paid for a premium of S\$ 1,110. Accordingly, the aggregate investment in M-Commerce as at June 30, 2002 amounts to Rs 2.11.

#### 17.2.15 Unbilled revenue

Unbilled revenue as at June 30, 2002 amounts to Rs. 46.58 primarily comprises the revenue recognized in relation to efforts incurred on fixed-price, fixed-time-frame contracts until the balance sheet date.

#### 17.2.16 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 income 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 retail industries; and others such as utilities, transportation and logistics companies.

Income 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, 2002

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	281.95	125.67	116.14	88.56	152.40	764.72
Identified operating expenses	117.42	54.07	38.63	29.23	54.10	293.45
Allocated expenses	78.38	31.03	28.68	21.87	37.63	197.59
Segmental operating income	86.15	40.57	48.83	37.46	60.67	273.68
Unallocable expenses						40.49
Operating income						233.19
Other income (expense), net						24.94
Net profit before taxes						258.13
Income taxes						42.50
Net profit after taxes						215.63

Geographic segments

quarter ended June 30, 2002

	North America	Europe	India	Rest of the World	Total
Revenues	552.66	147.50	14.10	50.46	764.72
Identifiable operating expenses	216.76	54.41	5.88	16.40	293.45
Allocated expenses	138.80	36.78	6.04	15.97	197.59
Segmental operating income	197.10	56.31	2.18	18.09	273.68
Unallocable expenses					40.49
Operating income					233.19
Other income (expense), net					24.94
Net profit before taxes					258.13
Income taxes					42.50
Net profit after taxes					215.63

17.2.17 Particulars of dividends remitted are as follows:

Particulars	Number of shares to which the dividends relate	June 30, 2002
Final dividend for fiscal 2001	20,88,517	-
Interim dividend for fiscal 2002	20,95,517	-
Final dividend for fiscal 2002*	21,18,500	2.37
		2.37

\*Net of withholding taxes of Rs.0.28 at the rate of 10.50 %

#### 17.2.18 Cumulative convertible preference shares

The company issued 43,75,000 0.0005% cumulative convertible preference shares of par value Rs. 100 each at a premium of Rs. 12 per share to Citicorp International Finance Corporation ("Citicorp"), on June 24, 2002. The total cash consideration received was Rs. 49,00,00,000, comprising an amount of Rs. 43,75,00,000 and Rs. 5,25,00,000, respectively towards preference share capital and share premium.

Unless earlier converted pursuant to an agreement in this behalf between the Company and Citicorp, all the convertible preference shares shall automatically be converted into equity shares, (i) one year prior to the Initial Public Offering ("IPO") Date or (ii) June 30, 2005 or (iii) at the holder's option, immediately upon the occurrence of any Liquidity Event; whichever is earlier. The term "Liquidity Event" includes any decision of the Board of Directors to make an IPO, merger, reconstruction, capital reorganization or other event which, in the sole opinion of the holder of the convertible preference shares, amounts to an alteration in the capital structure of the company. Each preference share is convertible into one equity share, par value Rs. 10 each.

In the event of any liquidation, dissolution or winding up of the company, either voluntary or involuntary, each holder of the preference shares will be paid an amount of Rs. 112 per preference share, as adjusted for stock dividends, combinations, splits, recapitalization and the like, in preference to any distribution of any assets of the company to the holders of equity shares.

Upon the completion of the distribution described above, the remaining assets and funds of the company available for distribution to shareholders shall be distributed among all holders of preference shares and equity shares based on the number of equity shares held by each of them (assuming a full conversion of all the preference shares).

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

	June 30, 2002
Number of shares considered as basic weighted average shares outstanding	6,61,88,530
Add: Effect of dilutive issues of shares/stock options	6,07,415
Number of shares considered as weighted average shares and potential shares outstanding	6,67,95,945