#### 17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNT

#### Company overview

Infosys Technologies Limited ("company") alongwith its majority owned and controlled subsidiary, Progeon Limited ("Progeon"), (together referred to as "Infosys") is a leading global technology and services organization engaged in delivering a comprehensive range of end-to-end solutions to customers. Infosys provides solutions across entire software and process life-cycles including design, development, implementation, maintenance and management using its Global Delivery Model. Infosys offers the following services: consulting, software development, software re-engineering, systems integration, package evaluation and implementation, software maintenance and business process management ("BPM"). Infosys also provides proprietary software products for the banking industry. Progeon was incorporated on April 3, 2002.

# 17.1 Significant accounting policies

#### 17.1.1 Basis of preparation of financial statements

The consolidated financial statements are prepared in accordance with Indian Generally Accepted Accounting Principles ("GAAP") under the historical cost convention on the accruals basis. GAAP comprises mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI") and the provisions of Companies Act, 1956 insofar as applicable to the consolidated financial statements.

The consolidated financial statements are prepared in accordance with the principles and procedures laid out by the accounting standard on Consolidated Financial Statements issued by the ICAI. The financial statements of the company 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 intragroup balances and transactions and resulting unrealized gains/losses. The consolidated financial statements are prepared applying uniform accounting polices in use at the company and Progeon.

#### 17.1.2 Use of estimates

The preparation of the financial statements in conformity with GAAP requires Infosys' managements ("Management") to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of income and expenditure during the period. Examples of such estimates include accounting for contract costs expected to be incurred to complete software development, doubtful debts, future obligations under employees retirement benefit plans, income taxes, post sales customer support and the useful lives of fixed assets and intangible assets. Contingencies are recorded when it is probable that a liability has been incurred, and the amount can be reasonably estimated. Actual results could differ from those estimates.

# 17.1.3 Revenue recognition

Revenue from 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 rendered. 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, except in multiple arrangement contracts, where revenue is recognized as per the proportionate-completion method. 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.

#### 17.1.4 Expenditure

The cost of software purchased for rendering services is charged to cost of revenues in the year of acquisition. 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. Provisions for any estimated losses on uncompleted contracts are recorded in the period in which such losses become probable based on current contract estimates. Leave encashment liability is provided on the basis of an actuarial valuation.

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

Fixed assets are stated at cost, less accumulated depreciation. Direct costs are capitalized until the assets are ready for use. Capital work in-progress comprises outstanding advances paid to acquire fixed assets and the cost of fixed assets that are not yet ready for their intended use before the balance sheet date. Intangible assets are recorded at the consideration paid for acquisition.

#### 17.1.6 Depreciation and amortization

Depreciation on fixed assets is applied on the straight-line basis as per the useful lives of assets estimated by Management. Depreciation for assets purchased/sold during the period is proportionately charged. Individual low cost assets (acquired for less than Rs. 5,000/-) are entirely depreciated in the year of acquisition. Intangible assets are amortized over their 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 1-5 years

# 17.1.7 Retirement benefits to employees

#### 17.1.7a Gratuity

In accordance with the Payment of Gratuity Act, 1972, Infosys provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, 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 and as per gratuity regulations for the company and Progeon respectively. The company fully contributes all ascertained liabilities to the Infosys Technologies Limited Employees' Gratuity Fund Trust (the "Trust"). Trustees administer contributions made to the Trus t 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.

# 17.1.7b Superannuation

Certain employees of Infosys are also participants of a defined contribution plan. Infosys 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.

#### 17.1.7c 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 the provident fund plan equal to a specified percentage of the covered employee's salary.

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

# 17.1.8 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.

# 17.1.9 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 average 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 that are 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.

#### 17.1.10 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 when it is estimated that a liability due to disallowances or other matters is probable.

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.

#### 17.1.11 Earnings per share

In determining earnings per share, Infosys 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. The diluted potential equity shares are adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding 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 number of shares and potentially dilutive equity shares are adjusted for stock splits and bonus shares, as appropriate.

#### 17.1.12 Investments

Trade investments are investments made to enhance Infosys' business interests. Investments are either classified as current or long-term based on managements intensions at the time of purchase. 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

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 Capital commitments and contingent liabilities

	As at June 30,		As at March 31,
	2003	2002	2003
Estimated amount of unexecuted capital contracts			
(net of advances and deposits)	74.48	69.70	88.50
Outstanding guarantees and counter guarantees			
to various banks, in respect of the			
guarantees given by those banks in favor of	7.68	13.88	7.99
various government authorities and others			
Claims against the company, not acknowledged	4.36	11.19	15.17
as debts			
Forward contracts			
Outstanding			
In US\$	274,500,000	4,000,000	88,000,000
(Equivalent approximate in Rs. crore)	(1,290.47)	(19.79)	(425.87)
Unamortized income	1.13	0.13	2.46

# 17.2.2 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:

Salaries and bonus including overseas staff expenses Staff welfare Contribution to provident and other funds Overseas travel expenses	June 30, 2003 526.39 3.30	June 30, 2002 340.34	March 31, 2003
Staff welfare Contribution to provident and other funds		340.34	
Contribution to provident and other funds	3.30		1,640.12
·		1.82	8.67
hyprepas traval expenses	12.57	7.36	37.47
overseas traver expenses	54.22	47.72	219.36
Consumables	1.79	1.18	6.51
Cost of software packages for own use	13.61	9.83	56.01
Cost of software packages for service delivery to clients	9.91	6.88	13.10
Computer maintenance	2.31	1.86	9.34
Communication expenses	9.50	7.23	25.63
Consultancy charges	27.14	5.85	76.14
Provision for post-sales client support	0.17	1.97	(6.18)
Fraveling and conveyance	5.04	3.12	18.70
Rent	10.07	6.07	29.30
Telephone charges	8.42	4.71	26.80
Professional charges	8.66	8.89	49.46
Printing and stationery	2.63	2.03	6.24
Advertisements	1.12	0.81	6.20
Office maintenance	6.33	4.10	22.98
Repairs to building	1.90	1.87	7.27
Repairs to plant and machinery	1.10	1.16	4.77
Power and fuel	7.44	5.73	22.99
Brand building	5.73	7.99	29.33
nsurance charges	5.31	2.00	10.21
Rates and taxes	1.23	1.65	5.89
Commission charges	2.27	1.52	10.78
Donations	3.50	1.67	6.09
Auditor's remuneration – audit fee	0.09	0.07	0.29
- certification charges	-	-	0.03
<ul> <li>out-of-pocket expenses</li> </ul>	0.01	0.01	0.02
Provision for bad and doubtful debts	3.29	0.07	0.73
Provision for doubtful loans and advances	0.01	(0.04)	(0.07)
Bank charges and commission	0.22	0.17	0.76
Commission to non-whole time directors	0.39	0.24	1.12
Postage and courier	1.24	1.25	4.01
Books and periodicals	0.24	0.25	1.42
Freight charges	0.15	0.11	0.58
Professional membership and seminar participation fees	0.69	0.83	3.55
Recruitment and training charges	0.03	0.00	0.41
Marketing expenses	0.85	1.11	6.77
Sales promotion expenses	0.03	0.15	0.46
Fransaction processing fee and filing fees	0.11	1.25	0.40
	0.06	1.20	•
Research grants	0.06 5.17	0.20	7.10
Other miscellaneous expenses*	J.17	0.20	7.10
Preliminary expenses	744.22	491.04	2,370.36

<sup>\*</sup> Other miscellaneous expenses includes Rs. 2.48 which relates to the settlement of the lawsuit filed by Ms. Reka Maximovitch against the company and its former director, Mr. Phaneesh Murthy. The company had provided Rs. 2.40 towards this settlement in the year ended March 31, 2003.

# 17.2.3 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:

	Quarter	Year ended	
	June 30, 2003	June 30, 2002	March 31, 2003
Lease rentals paid during the period	10.07	5.52	29.30
Lease obligations	As at June 30,		As at march 31,
	2003	2002	2003
Within one year of the balance sheet date	24.81	17.04	17.93
Due in a period between one year and five years	55.82	43.25	36.00
Due after five years	7.09	6.62	7.00

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

#### 17.2.4 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 outstanding dues from Yantra Corporation as at June 30, 2002 were Rs. 0.34.

The company has an alliance with SupplyChainge Inc., USA to jointly market and deliver lead-time optimization solutions. Prof. Marti G. Subrahmanyam, an External Director of the company, is also a director on the board of SupplyChainge Inc. During the quarter ended June 30, 2003, the company paid Rs 0.71 to SupplyChainge Inc. towards marketing services under this alliance. Additionally, amount receivable from SupplyChainge as at June 30, 2003 amounted to Rs 0.03, (as at June 30, 2002, Rs. 0.03 and March 31, 2003, Rs. 0.03) an amount that has been outstanding for a per iod exceeding six months and fully provided.

During the quarter ended June 30, 2003 an amount of Rs.3.50 has been donated to Infosys Foundation, a not-for-profit trust, in which certain directors of the company are trustees. Donation to the foundation for the quarter ended June 30, 2002 was Rs. 1.25 and for the year ended March 31, 2003 were Rs. 5.53.

#### 17.2.5 Transactions with Key Management personnel

Key Management Personnel comprise our directors and statutory officers.

Particulars of remuneration and other benefits provided to key management personnel: Quarters ended June 30, 2003 and 2002 and the year ended March 31, 2003

Name	Salary	Contribution to provident and other funds	Perquisites and incentives	Sitting fees	Reimbursements of expenses	Total remun eration
Chairman and Chief Mentor:						
N. R. Narayana Murthy	0.02	0.01	0.03	-	-	0.06
	0.02	0.01	0.03	-	-	0.06
	80.0	0.03	0.08	-	-	0.19
Chief Executive officer, President						
and Managing Director:						
Nandan M. Nilekani	0.02	0.01	0.04	-	-	0.07
	0.02	0.01	0.02	-	-	0.05
	0.08	0.03	0.08	-	-	0.19
Chief Operating Officer and Deputy Managing Director:						
S. Gopalakrishnan	0.02	0.01	0.03	-	-	0.06
·	0.02	0.01	0.03	-	-	0.06
	0.08	0.03	0.08	-	-	0.19
Wholetime Directors:						
K. Dinesh	0.02	0.01	0.04	-	-	0.07
	0.02	0.01	0.02	-	-	0.05
	0.08	0.03	0.08	-	-	0.19
S. D. Shibulal	0.16		0.12	-	-	0.28
	0.21	-	0.03	-	-	0.24
	1.10	-	0.15	-	-	1.25
T. V. Mohandas Pai	0.02	0.01	0.04	-	-	0.07
	0.02	0.01	0.01	_	-	0.04
	0.10	0.03	0.05	-	-	0.18
Srinath Batni	0.02	0.01	0.03	-	-	0.06
	0.02	0.01	0.01	-	-	0.04
	0.09	0.03	0.05	-	-	0.17
Phaneesh Murthy	-	-	-	-	-	
	0.30	-	0.65	-	-	0.95
	1.00	-	2.73	-	_	3.73

Name	Salary	Contribution to provident and other funds	Perquisites and incentives	Sitting fees	Reimbursements of expenses	Total remuneration
Non whole time directors						
Deepak M. Satwalekar	-	-	-	-	-	-
·	-	-	-	-	0.01	0.01
	-	-	-	0.01	0.02	0.03
Marti G. Subrahmanyam	-	-	-	-	0.01	0.01
•	-	-	-	-	0.03	0.03
	-	-	-	0.01	0.08	0.09
Philip Yeo	-	-	-	-	•	-
	-	-	-	-	-	-
	-	-	-	-	0.01	0.01
Jitendra Vir Singh	-	-	-	-	-	-
3	-	-	-		0.05	0.05
	-	-	-	0.01	0.10	0.11
Omkar Goswami	-	-	-	-	0.01	0.01
	-	-	-	-	0.01	0.01
	-	-	-	0.01	0.02	0.03
Larry Pressler	-	-	-	-	-	-
•	-	-	-	-	0.05	0.05
	-	-	-	0.01	0.10	0.11
Rama Bijapurkar	-	-	-	-	0.01	0.01
	-	-	-	-	0.01	0.01
	-	-	-	0.01	0.02	0.03
Claude Smadja	-	-	-	-	0.03	0.03
	-	-	-	-	0.02	0.02
		-	-	0.01	0.10	0.11
Sridar Iyengar	-	-	-	-	0.05	0.05
	-	-	-	-	-	-
	-	-	-	-	-	-

Other senior management personnel Quarters ended June 30, 2003 and 2002 and the year ended March 31, 2003

Name	Salary	Contribution to provident and other funds	Perquisites and incentives	Total remuneration	Total loans granted	Outstanding loans and advances
Company Secretary:						
V. Balakrishnan	0.03	0.01	0.06	0.10	-	-
	0.01	0.01	0.02	0.04	-	-
	0.06	0.02	0.09	0.17	-	-

In addition, the details of the only options granted to non-w hole time directors during the Quarter ended June 30, 2003, June 30, 2002 and year ended March 31 2003 are as follows:

Date of grant	Option plan	Number of options granted	Exercise price (in Rs.)	Expiration of options
July 10, 2002	1999	2 000	3 333 65	July 9, 2012
April 10, 2003	1999	2,000	3,049.75	April 9, 2013
	July 10, 2002	July 10, 2002 1999	plan         options granted           July 10, 2002         1999         2,000	plan         options granted         (in Rs.)           July 10, 2002         1999         2,000         3,333.65

#### 17.2.6 Exchange differences

Other income includes exchange differences of Rs. 7.56 for the quarter ended June 30, 2003, the corresponding amounts for the guarter ended June 30, 2002 was Rs. 6.50 and for the year ended March 31, 2003 was Rs. 17.61.

#### 17.2.7 Research and development expenditure

	Quarter ended June 3	Quarter ended June 30,	
	2003	2002	March 31, 2003
Capital	0.08	0.07	0.67
Revenue	5.61	3.38	13.57
	5.69	3.45	14.24

### 17.2.8 Unearned revenue

Unearned revenue as at June 30, 2003 amounting to Rs. 73.83 (as at June 30, 2002, Rs. 45.15 and as at March 31, 2003 Rs. 62.75) 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 at June 30, 2003 the options to acquire 3,18,200 shares are outstanding with the employees under the 1994 Plan. The 1994 plan elapsed in fiscal year 2000 and, consequently, no further shares will be issued under this plan.

#### 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. All options have been granted at fair market value.

Number of options granted, exercised and forfeited	Quarter ende	Quarter ended June 30,		
	2003	2002	March 31,	
			2003	
Options granted, beginning of the period/year	25,03,406	22,62,494	22,62,494	
Granted during the period/ year	53,800	1,36,500	5,80,200	
Exercised during the period/ year	(12,516)	(4,800)	(89,540)	
Forfeited during the period/ year	(1,10,293)	(16,666)	(2,49,748)	
Options granted, end of period/year	24,34,397	23,77,528	25,03,406	

# 1999 Stock Option Plan ("the 1999 Plan")

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

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.

Number of options granted, exercised and forfeited	Quarter ended June 30,		Year ended
	2003	2002	March 31,
			2003
Options granted, beginning of period/year	50,61,171	46,68,815	46,68,815
Granted during the period/ year	1,51,050	66,700	6,16,850
Exercised during the period/ year	(30)	-	(12,178)
Forfeited during the period/ year	(76,430)	(39,742)	(2,12,316)
Options granted, end of period/ year	51,35,761	46,95,773	50,61,171

Note: The aggregate options considered for dilution are set out in note 17.2.19.

Progeon's 2002 Plan provides for the grant of stock options to employees of the company and was approved by the board of directors and stockholders in June 2002. All options under the 2002 Plan are exercisable for equity shares. The 2002 Plan is administered by a Compensation Committee comprising three members, all of whom are directors of the company. The 2002 Plan provides for the issue of 52,50,000 equity shares to employees, at an exercise price, which shall not be less than the Fair Market Value ("FMV") on the date of grant. 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 general meeting. The options issued under the 2002 Plan vest in periods ranging between one through six years, although accelerated vesting based on performance conditions is provided in certain instances. All options granted have been accounted for as a fixed plan.

The activity in Progeon's 2002 Plan in the year ended March2003 is set out below.

	Shares arising out of options			
	June 30, 2003	June 30, 2002	March 31, 2003	
Outstanding at the beginning of the period	1,801,175	_	-	
Granted	_	_	1,801,175	
Forfeited	_	_	_	
Exercised	_	_	_	
Outstanding at the end of the period	1,801,175	_	1,801,175	
Exercisable at the end of the period	_	_	=	

# 17.2.10 Proforma 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.

	Quarter ended	Quarter ended June 30,	
	2003	2002	March 31, 2003
Net profit:	·		
<ul> <li>As reported</li> </ul>	278.92	215.63	954.77
<ul> <li>Adjusted pro forma</li> </ul>	273.89	209.62	931.60

# 17.2.11 Income taxes

The provision for taxation includes tax liabilities in India on Infosys' global income as reduced by exempt incomes and any tax liabilities arising overseas on income sourced from those countries.

Most of the company's and all of Progeon's 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 March31, 2009. The Finance Act 2002, states that the exempt income from EO Us 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.

# 17.2.12 Loans and advances

Deposits with financial institutions and a body corporate comprise:

	Quarter end	ed June 30,	Year ended	
	2003	2002	March 31, 2003	
Deposits with financial institutions:				
Housing Development Finance Corporation Limited (HDFC)	211.61	121.03	166.33	
Deposits with body corporate:				
GE Capital Services India Limited	171.37	120.90	171.43	
Citicorp Finance (India) Limited	-	15.01	-	
	382.98	256.94	337.76	

The above amounts include interest accrued but not due amounting to Rs. 2.99 (Rs. 1.95 for the quarter ended June 30, 2002 and Rs. 2.76 for the year end March 31, 2003).

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 a Director of HDFC. Prof. Marti G. Subrahmanyam, Director, is also a director in ICICI Bank Limited. Except as directors in these financial institutions, these directors have no direct interest in these transactions.

#### 17.2.13 Fixed Assets

The company has entered into lease-cum-sale agreements to acquire certain properties. In accordance with the terms of these agreements, the company has the option to purchase the properties on expiry of the lease period. The company has already paid 99% of the value of the properties at the time of entering into the lease-cum-sale agreements. These amounts are disclosed as "Land-leasehold" under "Fixed assets" in the financial statements. Additionally, certain land has been purchased for which the company has possession certificate for which sale deeds are yet to be executed as at June 30, 2003.

During the year ended March 31, 2003, the company entered into several arrangements to purchase Intellectual Property Rights ("IPR"). These primarily included:

The purchase of IPR in the Trade IQ, a treasury management product, from IQ Financial Systems Inc., USA ("IQFS") for a consideration of Rs. 16.97 (US\$ 3.47 million).

An agreement to purchase IPR in AUTOLAY, a commercial software application product, with the Aeronautical Development Agency, India ("ADA"). The company has a firm commitment to share revenues with ADA for a maximum of US\$ 5 million (Rs. 24.50) payable by 10 years from the contract date after which the ownership of intellectual property in AUTOLAY will transfer to the company.

Purchase of a non-exclusive global license in ILink, a signature display software, from Integra Microsystems Private Limited, for Rs. 0.65.

#### 17.2.14 Investments

Particulars of investee companies	Quarter ended	Quarter ended June 30,		
	2003	2002	March 31, 2003	
M-Commerce Ventures Pte. Limited, Singapore	0.54	0.27	0.27	

During the quarter ended June 30, 2003 the company invested Rs. 0.54 in M-Commerce Ventures Pte Limited, Singapore ("M-Commerce") for 20 ordinary shares of face value Singapore \$ ("S\$") 1/- each fully paid at par and 180 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, 2003 amounts to Rs. 2.65 (as at June 30, 2002 Rs. 2.11 and March 31, 2002, Rs. 2.11).

Current liabilities include an amount of Rs. 2.94 received from Workadia Inc. towards recovery of investment that is pending clearance from regulatory authorities for setting off against the investment.

#### 17.2.15 Unbilled revenue

Unbilled revenue as at June 30, 2003 amounts to Rs. 99.01(as at June 30, 2002 Rs. 46.58 and as at March 31, 2003 Rs. 93.64) 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

Infosys' operations predominantly relate to providing technology and services, delivered to customers globally operating in various industry segments. Accordingly, 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, energy, 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. Infosys 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 Infosys' 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. Accordingly, no disclosure relating to total segment assets and liability are made.

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, 2003, June 30, 2002 and year ended March 2003

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	<b>409.51</b> 281.95	<b>170.53</b> 125.67	<b>160.33</b> 116.14	<b>127.38</b> 88.56	<b>226.95</b> 152.40	<b>1,094.70</b> 764.72
	1,368.06	597.84	551.81	414.55	707.72	3,639.98
Identified operating expenses	178.23	72.75	66.94	45.51	92.49	455.92
3 1 1 1 1 1	117.42	54.07	38.63	29.23	54.10	293.45
	550.44	243.93	186.64	132.45	263.08	1,376.54
Allocated expenses	111.03	43.25	44.17	32.30	57.55	288.30
	78.38	31.03	28.68	21.87	37.63	197.59
	389.27	157.35	150.37	109.25	187.58	993.82
Segmental operating income	120.25	54.53	49.22	49.57	76.91	350.48
	86.15	40.57	48.83	37.46	60.67	273.68
	428.35	196.56	214.80	172.85	257.06	1,269.62
Unallocable expenses						45.14
						40.49
					_	190.34
Operating income						305.34
						233.19
					_	1,079.28
Other income (expense), net						25.58
						24.94
					_	76.49
Net profit before taxes						330.92
						258.13
					_	1,155.77
Income taxes						52.00
						42.50
					_	201.00
Net profit after taxes						278.92
						215.63
						954.77

# Geographic segments

Quarter ended June 30, 2003, June 30, 2002 and year ended March 2003

	North America	Europe	India	Rest of the world	Total
Revenues	817.81	190.97	23.33	62.59	1,094.70
	552.66	147.50	14.10	50.46	764.72
	2,656.47	643.35	78.57	261.59	3,639.98
Identifiable operating expenses	348.02	76.83	10.34	20.73	455.92
	216.76	54.41	5.88	16.40	293.45
	1,056.94	224.82	17.96	76.82	1,376.54
Allocated expenses	217.35	49.16	5.91	15.88	288.30
	138.80	36.78	6.04	15.97	197.59
	721.28	170.61	28.87	73.06	993.82
Segmental operating income	252.44	64.98	7.08	25.98	350.48
	197.10	56.31	2.18	18.09	273.68
	878.25	247.92	31.74	111.71	1,269.62
Unallocable expenses					45.14
					40.49
					190.34
Operating income					305.34
					233.19
					1,079.28
Other income (expense), net					25.58
					24.94
					76.49
Net profit before taxes					330.92
·					258.13
					1,155.77
Income taxes					52.00
					42.50
					201.00
Net profit after taxes					278.92
•					215.63
					954.77

#### 17.2.17 Cumulative convertible preference shares

Progeon 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, comprising Rs. 43.75 and Rs. 5.25, respectively towards preference share capital and share premium.

Unless earlier converted pursuant to an agreement in this behalf between Progeon 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 struc ture 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 Progeon, 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 Progeon 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).

#### 17.2.18 Provisions for investments

The Company evaluates all investments for any diminution in their carrying values that is other than temporary. Accordingly, the company provided for an aggregate amount of Rs. 6.35 on its long-term investments for the quarter ended June 30, 2003 which consists of Rs. 4.47 to CiDRA Corporation USA; and Rs. 1.88 to Stratify Inc. (formerly PurpleYogi Inc.), USA. In addition, the company provided for Rs. 0.01 in relation to its current investment in the JM High Liquidity Fund for the decrease in the fair value below the cost of the investment.

17.2. 19 Reconciliation of basic and diluted shares used in computing earnings per share

	Quarter ended June 30,		Year ended	
	2003	2002	March 31, 2003	
Number of shares considered as basic weighted average shares outstanding	6,62,45,174	6,61,88,530	6,62,11,068	
Add: Effect of dilutive issues of shares/stock options	2,34,193	6,07,415	6,05,753	
Number of shares considered as weighted average shares and potential shares				
outstanding	6,64,79,367	6,67,95,945	6,68,16,821	