

Schedules to the Consolidated Financial Statements for the quarter and half year ended March 31, 2005

23. Significant accounting policies and notes on accounts

Company overview

Infosys Technologies Limited (Infosys or the company) along with its majority owned and controlled subsidiary, Progeon Limited, India (Progeon), and wholly owned subsidiaries Infosys Technologies (Australia) Pty. Limited (Infosys Australia), Infosys Technologies (Shanghai) Co. Limited (Infosys China) and Infosys Consulting, Inc., USA (Infosys Consulting), is a leading global information technology services group of companies ("the Group"). The Group provides end-to-end business solutions that leverage technology thus enabling its clients to enhance business performance. The Group provides solutions that span the entire software life cycle encompassing consulting, design, development, re-engineering, maintenance, systems integration and package evaluation and implementation. In addition, the Group offers software products for the banking industry and business process management services.

23.1 Significant accounting policies

23.1.1. Basis of preparation of financial statements

The accompanying 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 guidelines issued by the Securities and Exchange Board of India. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use.

Management evaluates all recently issued or revised accounting standards on an on-going basis.

The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down under the accounting standards on Consolidated Financial Statements issued by the ICAI. The financial statements of the parent company, Infosys, Progeon, Infosys China, Infosys Australia and Infosys Consulting have been combined on a line-by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealized gain/loss. The consolidated financial statements are prepared by applying uniform accounting policies in use at the Group. Minority interests have been excluded. Minority interests represent that part of the net profit or loss and net assets of subsidiaries that are not, directly or indirectly, owned or controlled by the company.

Goodwill has been recorded to the extent the cost of acquisition, comprising purchase consideration and transaction costs, exceeds the fair value of the net assets in the acquired company and will be tested for impairment on an annual basis. Exchange difference resulting from the difference due to translation of foreign currency assets and liabilities in subsidiaries is disclosed as foreign currency translation adjustment.

23.1.2. Use of estimates

The preparation of the financial statements in conformity with GAAP requires 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 financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes, post-sales customer support and the useful lives of fixed assets and intangible assets.

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Actual results could differ from those estimates.

23.1.3. Revenue recognition

Revenue from software development on fixed-price, fixed-time frame contracts where there is no uncertainty as to measurement or collectability of consideration is recognized as per the percentage of completion method. On time-and-materials contracts, revenue is recognized as the related services are rendered. Cost and earnings in excess of billings are classified as unbilled revenue while billing in excess of cost and earnings is classified as unearned revenue. Provision for estimated losses, if any on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. Annual Technical Services revenue and revenue from fixed-price maintenance contracts are 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 element contracts, where revenue is recognized as per the percentage of completion method.

Profit on sale of investments is recorded on transfer of title from the company and is determined as the difference between the sales price and the then carrying value of the investment. 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.

23.1.4. Expenditure

The cost of software purchased for use in software development and services is charged to cost of revenues in the year of acquisition. Charges relating to non-cancelable, long-term operating leases are computed primarily on the basis of the lease rentals, payable as per the relevant lease agreements. Post-sales customer support costs are estimated by management, determined on the basis of past experience. The costs provided for are carried until expiry of the related warranty period. Provisions are made for all known losses and liabilities. Leave encashment liability is determined on the basis of an actuarial valuation.

23.1.5. Fixed assets, intangible assets and capital work-in-progress

Fixed assets are stated at cost, less accumulated depreciation. Direct costs are capitalized until fixed 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 at the balance sheet date. Intangible assets are recorded at the consideration paid for acquisition.

23.1.6. Depreciation and amortization

Depreciation on fixed assets is applied on the straight-line method based on useful lives of assets as estimated by the 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 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	1-2 years

23.1.7. Retirement benefits to employees

23.1.7.a. 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 at the company and Progeon. 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 as at the balance sheet date 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 Trust and contributions are invested in specific designated instruments, as permitted by law. Investments are also made in mutual funds that invest in the specific designated instruments.

23.1.7.b. 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. Certain employees of Progeon are also eligible for superannuation benefit. Progeon makes monthly provisions under the superannuation plan based on a specified percentage of each covered employee's salary. Progeon has no further obligations to the superannuation plan beyond its monthly provisions. Under the Plan, the aggregate contributions along with interest thereon are paid on the retirement, death, incapacitation or termination of an employee.

23.1.7.c. Provident fund

Eligible employees receive benefits from a provident fund, which is a defined contribution plan. Aggregate contributions along with interest thereon is paid at retirement, death, incapacitation or termination of employment. Both the employee and the company make monthly contributions to the Infosys Technologies Limited Employees' Provident Fund Trust equal to a specified percentage of the covered employee's salary. Infosys also contributes to a government administered pension fund on behalf of its employees. The interest rate payable by the trust to the beneficiaries every year is being notified by the government. The company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the notified interest rate.

In respect of Progeon, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and Progeon make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a government administered provident fund. Progeon has no further obligations under the provident fund plan beyond its monthly contributions.

The aggregate contributions along with interest thereon are paid on the retirement, death, incapacitation or termination of an employee.

23.1.8. 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.

23.1.9. 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 the daily rates. 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 Group'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.

23.1.10. Forward contracts in foreign currencies

The company uses foreign exchange forward contracts to hedge its exposure to movements in foreign exchange rates. The use of these foreign exchange forward contracts reduces the risk or cost to the company and the company does not use the foreign exchange forward contracts for trading or speculation purposes.

The company records the gain or loss on effective hedges in the foreign currency fluctuation reserve until the transactions are complete. On completion the gain or loss is transferred to the profit and loss account of that period. To designate a forward contract as an effective hedge, Management objectively evaluates and evidences with appropriate supporting documents at the inception of each contract whether the contract is effective in achieving offsetting cash flows attributable to the hedged risk. In the absence of a designation as effective hedge, a gain or loss is recognized in the profit and loss account.

23.1.11. 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. The income tax provision for the interim period is made based on the best estimate of the annual average tax rate expected to be applicable for the full fiscal year.

23.1.12. Earnings per share

In determining earnings per share, the Group considers the net profit after tax and includes the post-tax effect of any extra-ordinary/ exceptional item. 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 that 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 issued at a later date. The number of shares and potentially dilutive equity shares are adjusted for any stock splits and bonus shares issued effected prior to the approval of the financial statements by the Board of Directors.

23.1.13. Investments

Trade investments are the investments made to enhance the Group's business interests. Investments are either classified as current or long-term based on Management's intention 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.

23.1.14. Cash flow statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, investing and financing activities of the Group are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

23.2 Change in accounting policy

Accounting standard 11, "The effect of changes in foreign exchange rates", was revised with effect from April 1, 2004 and prescribes accounting for foreign exchange forward contracts based on whether these are entered into for hedging purposes or for trading /speculation purposes. Further, it has been recently clarified that the revised standard does not cover forward exchange contracts entered in to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Upto March 31, 2004, such segregation was not required and the difference between the forward rate and the exchange rate on the date of the transaction was recognized as income or expense over the life of the contract.

The Company has adopted the revised accounting standard effective April 1, 2004 to the extent applicable in respect of outstanding foreign exchange forward contracts. The foreign exchange forward contracts constitute hedges from an economic perspective, and the Company has decided to account for these foreign exchange forward contracts based on their designation as 'effective hedges' or 'not effective'. To designate a forward contract as an effective hedge, management objectively evaluates and evidences with appropriate supporting documentation at the inception of each forward contract, whether these forward contracts are effective in achieving offsetting cash flows attributable to the hedged risk or not. The gain or loss on effective hedges is recorded in the foreign currency fluctuation reserve until the hedged transactions occur and are then recognized in the profit and loss account. In the absence of designation as an effective hedge, the gain or loss is recognized in the profit and loss account.

Gains and losses on foreign exchange forward contracts are computed by multiplying the foreign currency amount of the foreign exchange forward contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period). The Company also assesses on an ongoing basis at the end of each reporting period whether hedges are designated as effective and prospectively reclassifies the hedge as necessary.

Consequent to the change in the accounting policy, the profits for the quarter and half year ended March 31, 2005 is higher by Rs. 7.48 crore and lower by Rs. 24.78 crores respectively.

23.3 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.

The previous period's figures have been regrouped / reclassified, wherever necessary to conform to the current period's presentation.

23.3.1 Aggregate expenses

The aggregate amounts incurred on certain specific expenses:

	Quarter ended March 31,		Half year ended March 31,	
	2005	2004	2005	2004
Salaries and bonus including overseas staff expenses	923.23	664.66	1,843.96	1,295.78
Contribution to provident and other funds	27.00	15.85	50.50	30.57
Staff welfare	6.76	4.00	14.70	8.10
Overseas travel expenses	85.81	57.72	158.87	113.39
Consumables	4.18	3.76	7.14	6.41
Software packages	-	-	-	-
for own use	34.25	16.30	66.89	31.42
for service delivery to clients	2.02	1.66	5.80	3.78
Computer maintenance	3.72	3.54	7.74	6.70
Communication expenses	15.75	12.31	28.94	23.09
Technical sub-contractors	36.35	19.14	69.90	30.40
Provision for post-sales client support and warranties	18.26	0.65	12.31	0.46
Traveling and conveyance	17.79	10.10	32.41	17.65
Rent	9.55	10.68	20.39	20.00
Telephone charges	18.66	9.93	32.06	18.16
Professional charges	21.26	11.94	46.17	22.88
Printing and stationery	3.89	1.53	7.33	3.17
Advertisements	4.14	3.59	7.56	4.44
Office maintenance	14.44	10.08	25.74	17.45
Repairs to building	6.01	3.00	9.54	7.13
Repairs to plant and machinery	2.55	1.10	4.58	2.25
Power and fuel	12.46	7.27	23.58	15.18
Recruitment and training	0.66	1.07	1.44	1.07
Brand building	8.35	9.94	16.75	19.12
Insurance charges	9.25	6.87	16.71	13.20
Rates and taxes	2.12	1.79	4.23	3.47
Commission charges	9.33	1.03	16.18	4.36
Donations	4.16	3.72	12.16	7.26
Auditor's remuneration	-	-	-	-
statutory audit fees	0.17	0.36	0.47	0.45
certification charges	0.03	0.03	0.10	0.05
others	-	0.06	-	0.12
out-of-pocket expenses	0.01	0.01	0.01	0.01
Provision for bad and doubtful debts	6.19	(2.14)	12.04	1.97
Provision for doubtful loans and advances	(0.05)	0.07	(0.01)	0.01
Bank charges and commission	0.28	0.20	0.59	0.39
Commission to non-whole time directors	0.08	0.25	0.47	0.72
Postage and courier	1.38	1.18	2.34	2.03
Books and periodicals	0.85	0.48	1.37	0.92
Research grants	0.41	0.18	0.65	0.36
Freight charges	0.15	0.21	0.35	0.54
Professional membership and seminar participation fees	1.76	1.16	3.33	2.36
Marketing expenses	2.94	1.94	4.49	3.82
Sales promotion expenses	0.35	0.19	0.71	0.53
Provision for taxation	85.48	50.54	178.91	115.54
Miscellaneous expenses	4.11	2.86	7.77	3.03
	<u>1,406.09</u>	<u>950.81</u>	<u>2,757.17</u>	<u>1,859.74</u>

23.3.2. Capital commitments and contingent liabilities

	March 31, 2005	As at March 31, 2004
Estimated amount of unexecuted capital contracts (net of advances and deposits)	274.72	200.92
Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given by those banks in favor of various government authorities and others	16.18	11.58
Claims against the company, not acknowledged as debts	16.45	4.53
Forward contracts outstanding		
In US\$	US\$ 353,317,400	US\$ 149,000,000
(Equivalent approximate in Rs. crore)	(Rs 1,558.19)	(Rs. 671.14)
Unamortized income	-	3.15

During the previous year, Ms. Jennifer Griffith, a former employee, filed a lawsuit against the company and its former director, Mr. Phaneesh Murthy. The lawsuit was served on the company during the quarter ended December 31, 2003. This matter has since been settled. Pursuant to the settlement agreement, all of Ms Griffith's claims against the company has been released and the lawsuit has been dismissed with prejudice.

23.3.3. 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:-

	Quarter ended March 31, 2005	2004	Half year ended March 31, 2005	2004
Lease rentals recognized during the period	9.36	10.76	21.72	20.00
Lease obligations			As at	
	March 31, 2005		March 31, 2004	
Within one year of the balance sheet date	26.83			27.00
Due in a period between one year and five years	83.32			61.42
Due after five years	24.40			4.82
	134.55			93.24

The operating lease arrangements extend for a maximum of ten years from their respective dates of inception and relates to rented overseas premises and car rentals. Some of these lease agreements have price escalation clause.

23.3.4. Related party transactions

During the quarter and half year ended March 31, 2005, an amount of Rs. 4.00 and Rs. 7.00 respectively (Rs. 1.50 and Rs. 5.00 for the quarter and half year ended March 31, 2004 respectively) has been donated to Infosys Foundation, a not-for-profit foundation, in which certain directors of the company are trustees.

23.3.5. 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 during the quarter and half year ended March 31, 2005 and 2004 :-

Name	Salary	Contributions to provident and other funds	Perquisites and incentives	Total Remuneration
Chairman and Chief Mentor				
N R Narayana Murthy	0.03	0.01	0.04	0.08
	0.02	0.01	0.03	0.06
	0.06	0.02	0.10	0.18
	0.04	0.02	0.06	0.12
Chief Executive Officer, President and Managing Director				
Nandan M Nilekani	0.03	0.01	0.04	0.08
	0.02	0.01	0.02	0.05
	0.06	0.02	0.10	0.18
	0.04	0.02	0.05	0.11
Chief Operating Officer and Deputy Managing Director				
S Gopalakrishnan	0.03	0.01	0.04	0.08
	0.02	0.01	0.02	0.05
	0.06	0.02	0.10	0.18
	0.04	0.02	0.05	0.11
Whole-time Directors				
K Dinesh	0.03	0.01	0.04	0.08
	0.02	0.01	0.02	0.05
	0.06	0.02	0.10	0.18
	0.04	0.02	0.05	0.11
S D Shibulal	0.20	-	0.07	0.27
	0.16	-	-	0.16
	0.41	-	0.21	0.62
	0.32		0.11	0.43
T V Mohandas Pai <i>Chief Financial Officer</i>	0.04	0.01	0.10	0.15
	0.03	0.01	0.06	0.10
	0.08	0.02	0.24	0.34
	0.06	0.02	0.11	0.19
Srinath Batni	0.04	0.01	0.09	0.14
	0.03	0.01	0.05	0.09
	0.08	0.02	0.21	0.31
	0.05	0.02	0.09	0.16
Other Senior Management Personnel				
V Balakrishnan, <i>Company Secretary</i>	0.03	0.01	0.09	0.13
	0.03	0.01	0.04	0.08
	0.06	0.02	0.21	0.29
	0.06	0.02	0.12	0.20

Particulars of remuneration and other benefits paid to key management personnel during the quarter and half year ended March 31, 2005 and 2004 :-

Name	Commission	Sitting fees	Reimbursement of expenses	Total remuneration
Non-Whole time Directors				
Deepak M Satwalekar	0.04	-	-	0.04
	-	0.01	-	0.01
	0.09	-	-	0.09
	0.12	0.01	0.01	0.14
Marti G Subrahmanyam	0.01	-	-	0.01
	-	-	0.02	0.02
	0.06	0.01	0.01	0.08
	0.12	-	0.05	0.17
Philip Yeo	(0.03)	-	-	(0.03)
	-	-	-	-
	0.02	-	-	0.02
	0.12	-	-	0.12
Jitendra Vir Singh	-	-	-	-
	0.08	-	-	0.08
	-	-	-	-
	0.37	-	-	0.37
Omkar Goswami	0.01	-	-	0.01
	-	-	-	-
	0.06	-	-	0.06
	0.12	-	0.02	0.14
Larry Pressler	-	-	-	-
	-	-	-	-
	0.05	-	-	0.05
	0.12	-	-	0.12
Rama Bijapurkar	0.02	-	-	0.02
	-	0.01	-	0.01
	0.07	-	-	0.07
	0.12	0.01	0.01	0.14
Claude Smadja	0.01	-	0.03	0.04
	-	-	-	-
	0.06	-	0.06	0.12
	0.12	-	0.06	0.18
Sridar A Iyengar	0.01	-	0.04	0.05
	-	-	0.04	0.04
	0.06	-	0.06	0.12
	-	-	0.11	0.11

23.3.6. Research and development expenditure

	Quarter ended March 31,		Half year ended March 31,	
	2005	2004	2005	2004
Capital	-	0.75	-	1.16
Revenue	25.16	11.40	44.27	26.48
	25.16	12.15	44.27	27.64

23.3.7. Stock option plans

The company currently has three stock option plans.

1994 Stock Option Plan ("the 1994 Plan")

The 1994 plan lapsed in fiscal 2000 and consequently, no further grants have since been made.

1998 Stock Option Plan ("the 1998 Plan")

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 58,80,000 ADSs representing 58,80,000 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 100% of fair market value.

Number of options granted, exercised and forfeited during the	Quarter ended March 31,		Half year ended March 31,	
	2005	2004	2005	2004
Options outstanding, beginning of period	33,20,447	44,10,666	37,02,050	48,08,422
Granted	-	-	-	1,000
Less: exercised	2,14,153	2,47,672	5,02,032	4,47,420
forfeited	52,004	2,91,984	1,45,728	4,90,992
Options outstanding, end of period	30,54,290	38,71,010	30,54,290	38,71,010

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 2,64,00,000 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.

Number of options granted, exercised and forfeited during the	Quarter ended March 31,		Half year ended March 31,	
	2005	2004	2005	2004
Options outstanding, beginning of period	15,061,470	1,92,19,584	16,578,897	2,02,53,360
Granted	-	-	-	26,400
Less: exercised	900,092	4,92,584	2,207,847	10,40,916
forfeited	106,441	3,64,880	316,113	8,76,724
Options outstanding, end of period	1,40,54,937	1,83,62,120	1,40,54,937	1,83,62,120

The aggregate options considered for dilution are set out in note 23.3.19

The above options will automatically be adjusted for the bonus shares issued in the same proportion. The respective exercise price will also reduce in the same proportion.

Progeon's 2002 Plan provides for the grant of stock options to employees of Progeon 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 Progeon. 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 quarter and half year ended March 31, 2005 and 2004:-

Number of options granted, exercised and forfeited during the	Quarter ended March 31,		Half year ended March 31,	
	2005	2004	2005	2004
Options outstanding, beginning of period	31,71,600	26,14,425	31,80,793	24,64,925
Granted	1,07,400	5,52,900	1,61,500	7,37,400
Less: exercised	1,05,625	-	1,07,325	-
forfeited	56,857	42,700	1,18,450	77,700
Options outstanding, end of period	<u>31,16,518</u>	<u>31,24,625</u>	<u>31,16,518</u>	<u>31,24,625</u>

23.3.8. 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, applicable to stock option schemes established on or after June 19, 1999. Under these guidelines, the excess of the market price of the underlying equity shares as of the date of the grant over the exercise price of the options, 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. The company's 1994 stock option plan was established prior to the SEBI guidelines on stock options.

Had the stock compensation costs for the 1994 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 as under:

	Quarter ended March 31,		Half year ended March 31,	
	2005	2004	2005	2004
Net profit:				
As reported	<u>558.67</u>	<u>335.23</u>	<u>1,056.00</u>	<u>663.74</u>
Adjusted pro forma	558.67	335.23	1,056.00	660.67

23.3.9. Income taxes

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.

Most of the company's and all of Progeon's operations are conducted through Software Technology Parks ("STPs"). Income from STPs 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.

23.3.10. Loans and advances

Deposits with financial institutions comprise:

	March 31, 2005	As at March 31, 2004
Housing Development Finance Corporation Limited	213.69	207.85
Life Insurance Corporation of India	66.39	-
	<u>280.08</u>	<u>207.85</u>
Interest accrued but not due (included above)	1.68	1.45

Mr. Deepak M. Satwalekar, Director, is also a Director of HDFC Limited. Except as director in this financial institution, he has no direct interest in any transactions.

23.3.11. Fixed assets

Profit / loss on disposal of fixed assets

	Quarter ended March 31,		Half year ended March 31,	
	2005	2004	2005	2004
Profit on disposal of fixed assets, included in miscellaneous income	0.19	0.02	0.20	0.03
Loss on disposal of fixed assets, included in miscellaneous expenses	(0.88)	(0.45)	(0.89)	(0.45)
Profit/(loss) on disposal of fixed assets, net	(0.69)	(0.43)	(0.69)	(0.42)

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 March 31, 2005.

During the year ended March 31, 2004, management reduced the remaining estimated useful life of the intellectual property in a commercial software application product to three months, effective August 2003 and treasury management product to two months, effective November 2003. The revised estimation represents management's present evaluation of the expected future commercial benefits from these products. The revision has resulted in an increased charge to the profit-and-loss account of Rs. 20.28 during the year ended March 31, 2004.

23.3.12. Details of Investments

Particulars of investments made by the Group during the quarter and half year ended March 31, 2005 and 2004:-

During the year ended March 31, 2004, 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. The company also received Rs 0.61 towards return of premium of S\$ 1.110/- each on 216 redeemable preference shares of face value of S\$ 1/- each during the year. Accordingly, the aggregate investment in M-Commerce as at March 31, 2005 amounts to Rs 2.04.

During the year ended March 31, 2004, the company received from CiDRA Corporation, USA (CiDRA), an amount of Rs. 6.05 in cash; 72,539 Class A common stock of par value US\$ 0.001 each of CiDRA, 2,139 Non-voting redeemable preferred stock of par value US\$ 0.01 each of CiDRA, 12,921, Series A preferred stock par value \$0.001 of CyVera Corporation, USA on a buy back offer. The company also received 12,720 Series A preferred stock par value \$0.001 of CyVera Corporation, USA, due to company's holding in CiDRA.

During the year ended March 31, 2004, Infosys received Rs. 3.22 from Workadia Inc. and Rs. 0.47 from Stratify Inc. towards recovery of the amounts invested. The remainder of the investment was written off during the year ended March 31, 2004.

Details of investments in and disposal of securities during the quarter and half year ended March 31, 2005 and 2004:-

	Quarter ended March 31,		Half year ended March 31,	
	2005	2004	2005	2004
Investment in securities	-	-	-	-
Long-term investments	-	-	-	-
Liquid Mutual funds	190.34	346.09	291.17	511.46
	190.34	346.09	291.17	511.46
Redemption / Disposal of Investment in securities	-	-	-	-
Long-term investments	-	-	-	-
Liquid Mutual funds	36.35	7.55	46.58	17.65
	36.35	7.55	46.58	17.65
Net movement in investment	153.99	338.54	244.59	493.81

23.3.13. List of subsidiaries

Name of the subsidiary	Country of incorporation	Voting power as at March 31, 2005
Progeon Limited	India	99.54%
Infosys Technologies (Australia) Pty Ltd.	Australia	100%
Infosys Technologies (Shanghai) Co. Ltd.	China	100%
Infosys Consulting Inc.	USA	100%

22.3.14. Provision for doubtful debts

Periodically, the company evaluates all customer dues to the company for collectibility. The need for provisions is assessed based on various factors including collectibility of specific dues, risk perceptions of the industry in which the customer operates, general economic factors, which could effect the customer's ability to settle. The company normally provides for debtor dues outstanding for 180 days or longer as at the balance sheet date. As at March 31, 2005 the company has provided for doubtful debts of Rs. 8.24 (Rs 4.29 as at March 31, 2004) on dues from certain customers although the outstanding amounts were less than 180 days old, since the amounts were considered doubtful of recovery. The company pursues the recovery of the dues, in part or full.

23.3.15. Segment reporting

The Group's operations predominantly relate to providing IT services and Business Process Management, delivered to customers globally operating in various industry segments. Accordingly, 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 Group 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 Group 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 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 liabilities 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 March 31, 2005 and 2004

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	671.94	277.26	384.99	181.25	471.88	1,987.32
	447.94	194.19	274.82	152.17	280.33	1,349.45
Identifiable operating expenses	281.03	115.08	151.50	77.98	171.61	797.20
	198.03	83.15	105.42	58.70	125.98	571.28
Allocated expenses	175.72	70.35	92.65	43.61	141.08	523.41
	112.76	44.12	65.75	37.27	68.71	328.61
Segmental operating income	215.19	91.83	140.84	59.66	159.19	666.71
	137.15	66.92	103.65	56.20	85.64	449.56
Unallocable expenses						99.81
						64.81
Operating income						566.90
						384.75
Other income (expense), net						32.06
						1.02
Net profit before taxes						598.96
						385.77
Income taxes						85.48
						50.54
Net profit after taxes						513.48
						335.23

Half year ended March 31, 2005 and 2004

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	1,333.03	546.83	725.87	357.46	899.75	3,862.94
	917.90	373.04	468.03	304.15	543.34	2,606.46
Identifiable operating expenses	550.11	230.89	289.14	149.89	341.54	1,561.57
	394.64	163.64	184.18	116.14	235.62	1,094.22
Allocated expenses	348.94	138.13	176.97	86.22	266.43	1,016.69
	234.15	88.71	117.19	75.16	134.38	649.59
Segmental operating income	433.98	177.81	259.76	121.35	291.78	1,284.68
	289.11	120.69	166.66	112.85	173.34	862.65
Unallocable expenses						173.72
						128.56
Operating income						1,110.96
						734.09
Other income (expense), net						78.76
						45.19
Net profit before taxes						1,189.72
						779.28
Income taxes						178.91
						115.54
Net profit after taxes						1,010.81
						663.74

Geographic segments

Quarter ended March 31, 2005 and 2004

	North America	Europe	India	Rest of the World	Total
Revenues	1,270.44	462.99	39.84	214.05	1,987.32
	884.21	274.09	16.17	174.98	1,349.45
Identifiable operating expenses	520.42	173.00	10.76	93.02	797.20
	372.10	114.47	2.55	82.16	571.28
Allocated expenses	322.80	110.90	9.56	80.15	523.41
	206.00	64.52	3.68	54.80	329.00
Segmental operating income	427.22	179.09	19.52	40.88	666.71
	306.11	95.10	9.94	38.02	449.17
Unallocable expenses					99.81
					64.42
Operating income					566.90
					384.75
Other income (expense), net					32.06
					1.02
Net profit before taxes					598.96
					385.77
Income taxes					85.48
					50.54
Net profit after taxes					513.48
					335.23

Half year ended March 31, 2005 and 2004

	North America	Europe	India	Rest of the World	Total
Revenues	2,518.56	876.98	79.49	387.91	3,862.94
	1,791.16	534.52	24.13	256.65	2,606.46
Identifiable operating expenses	1,023.66	339.51	22.04	176.36	1,561.57
	751.81	217.49	5.35	119.57	1,094.22
Allocated expenses	635.93	211.92	18.83	150.01	1,016.69
	437.40	131.75	5.65	75.18	649.98
Segmental operating income	858.97	325.55	38.62	61.54	1,284.68
	601.95	185.28	13.13	61.90	862.26
Unallocable expenses					173.72
					128.17
Operating income					1,110.96
					734.09
Other income (expense), net					78.76
					45.19
Net profit before taxes					1,189.72
					779.28
Income taxes					178.91
					115.54
Net profit after taxes					1,010.81
					663.74

23.3.16. Dividends remitted in foreign currencies

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

Particulars of dividends remitted:-

Particulars	Number of shares to which the dividends relate	Quarter ended March 31, 2005	2004	Half year ended March 31, 2005	2004
Interim dividend for fiscal 2004	51,78,450	-	-	-	7.51
Interim dividend for fiscal 2005	2,12,44,988	-	-	10.62	-

23.3.17. Cumulative convertible preference shares

Progeon issued 87,50,000 0.0005% cumulative convertible preference shares of par value Rs. 100 each in two equal tranches to Citicorp International Finance Corporation ("Citicorp"), on June 24, 2002 and March 31, 2004 in accordance with the shareholder's agreement. The total cash consideration received was Rs. 93.80, comprising an amount of Rs. 87.50 and Rs. 6.30, 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 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 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).

23.3.18. Provisions for investments

The Company evaluates all investments for any diminution in their carrying values that is other than temporary. The company made a provision of Rs. nil and Rs. nil during the quarter and half year ended March 31, 2005 (Rs. 0.42 and Rs 2.88 during the quarter and half year ended March 31, 2004) on trade investments.

The company provided Rs. 0.23 and Rs. (0.16) during the quarter and half year ended March 31, 2005 (Rs. 0.37 and Rs. 0.20 during the quarter and half year ended March 31, 2004) on revision of the carrying amount of non-trade current investments to fair value.

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

At the annual general meeting held on June 12, 2004, the shareholders approved the issue of bonus shares in the ratio of three bonus shares for each share. The record date for the bonus issue was July 2, 2004 and the shares were allotted on July 3, 2004. All basic and diluted shares used in determining earnings per share are after considering the effect of bonus issue

	Quarter ended March 31, 2005	2004	Half year ended March 31, 2005	2004
Number of shares considered as basic weighted average shares outstanding	27,00,94,432	26,62,62,848	26,94,34,087	26,58,91,148
Add: Effect of dilutive issues of shares/stock options	83,01,987	53,48,856	83,42,941	51,59,688
Number of shares considered as weighted average shares and potential shares outstanding	27,83,96,419	27,16,11,704	27,77,77,028	27,10,50,836

23.3.20. Exceptional item

During the period ended March 31, 2005 the company sold its entire investment in Yantra Corporation, USA ("Yantra") for a total consideration of US\$ 12.57 million. An amount of Rs 49.48 representing 90% of the consideration has been received by the company and the balance amounts has been deposited in Escrow to indemnify any contractual contingencies. The unutilised balance in the escrow account, if any, is eligible for release in April, 2006. The income arising thereof amounted to Rs 45.19 (net of taxes) is disclosed separately as exceptional item.

The carrying value of the company's investment was Rs Nil since a provision of Rs 7.06 had been made in earlier years to recognise losses incurred by Yantra in excess of the company's contribution to capital. Accordingly the realised gain on disposal of investment of Rs 45.19, net of taxes of Rs 4.29 has been recognised in the profit and loss account and being of a non recurring nature has been disclosed in the statement of profit and loss account as an "Exceptional Item".

23.3.21. Cash flow statement

23.3.21.a

The balance of cash and cash equivalents includes Rs. 3.33 as at March 31, 2005 (Rs. 1.98 as at March 31, 2004) set aside for payment of dividends. Also, an amount of Rs. nil has been retained in escrow as at March 31, 2005 (Rs. 0.04 as at March 31, 2004).

23.3.21.b.

During the year ended March 31, 2005, Infosys issued bonus shares at the ratio of three equity shares for each equity share in India and a stock dividend of two ADSs for each ADS in USA. The ratio of shares to ADS was also changed from 1:2 to 1:1. Consequently, the share capital of the company stands increased by Rs. 100.30. The bonus shares were issued by capitalization of general reserves.

23.3.21.c

Deposits with financial institutions and body corporate as at March 31, 2005 include an amount of Rs. 66.39 deposited with Life Insurance Corporation of India to settle employee benefit/ leave obligations as and when they arise during the normal course of business. This amount is considered as restricted cash and is hence not considered Cash and cash equivalents.