

Schedules to the Financial Statements for the year ended March 31, 2007

22 Significant accounting policies and notes on accounts

Company overview

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

22.1 Significant accounting policies

22.1.1 Basis of preparation of financial statements

The 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"), the provisions of the Companies Act, 1956 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.

22.1.2 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. Where no reliable estimate can be made, a disclosure is made as contingent liability. Actual results could differ from those estimates.

22.1.3. 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 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. Lease rentals are recognized ratably on a straight line basis over the lease term. 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.

22.1.4 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.

22.1.5 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.

22.1.6 Depreciation and amortization

Depreciation on fixed assets is applied on the straight-line basis over the useful lives of assets estimated by the Management. Depreciation for assets purchased / sold during a period is proportionately charged. Individual low cost assets (acquired for less than Rs. 5,000/-) are depreciated within a 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 other 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 |

22.1.7 Retirement benefits to employees
22.1.7.a Gratuity

Infosys provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering eligible employees. In accordance with the Payment of Gratuity Act, 1972, 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 of the balance sheet date, based upon which, the company contributes all the 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 investments as permitted by law.

22.1.7.b Superannuation

Certain employees of Infosys are also participants in a defined contribution plan. Until March 2005, the company made contributions under the superannuation plan (the Plan) to the Infosys Technologies Limited Employees' Superannuation Fund Trust. The company had no further obligations to the Plan beyond its monthly contributions. From April 1 2005, a portion of the monthly contribution amount was paid directly to the employees as an allowance and the balance amount was contributed to the trust.

22.1.7.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 Employee's 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.

22.1.8. 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.

22.1.9. 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 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.

22.1.10 Forward contracts and options in foreign currencies

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

22.1.11. 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 considered 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. Tax benefits of deductions earned on exercise of employee stock options in excess of compensation charged to profit and loss account are credited to the share premium account.

22.1.12. 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/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 issues effected prior to the approval of the financial statements by the board of directors.

22.1.13. Investments

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

22.1.14. 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 company are segregated.

22.2 Notes on accounts

Amounts in the financial statements are presented in Rupees crore, except for per share data and as otherwise stated. Certain amounts do not appear due to rounding off, and are detailed in Note 22.3. All exact amounts are stated with the suffix "/-". One crore equals 10 million.

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

22.2.1. Aggregate expenses

The aggregate amounts incurred on certain specific expenses

| Particulars | <i>in Rs. Crore</i> | |
|---|---------------------|---------------------------------|
| | 2007 | Year ended March 31, 2006 |
| Salaries and bonus including overseas staff expenses | 6,010 | 4,098 |
| Contribution to provident and other funds | 156 | 95 |
| Staff welfare | | |
| Staff welfare | 44 | 29 |
| Group health insurance and others | - | - |
| Overseas group health insurance | 104 | 51 |
| Overseas travel expenses | 390 | 302 |
| Visa charges and others | 113 | 77 |
| travelling and conveyance | 88 | 66 |
| Technical sub-contractors - subsidiaries | 633 | 367 |
| Technical sub-contractors - others | 231 | 125 |
| Software packages | | |
| for own use | 193 | 134 |
| for service delivery to clients | 25 | 29 |
| Professional charges | 160 | 120 |
| Telephone charges | 112 | 82 |
| Communication expenses | 53 | 49 |
| Power and fuel | 88 | 62 |
| Office maintenance | 95 | 66 |
| Guest house maintenance* | 2 | 1 |
| Commission and earnout charges | 24 | 26 |
| Brand building | 69 | 46 |
| Rent | 47 | 34 |
| Insurance charges | 27 | 22 |
| Computer maintenance | 21 | 19 |
| Printing and stationery | 15 | 11 |
| Consumables | 22 | 16 |
| Donations | 21 | 17 |
| Advertisements | 11 | 15 |
| Marketing expenses | 25 | 12 |
| Other miscellaneous expenses | - | - |
| Repairs to building | 23 | 16 |
| Repairs to plant and machinery | 15 | 11 |
| Rates and taxes | 25 | 9 |
| Professional membership and seminar participation fees | 9 | 9 |
| Postage and courier | 8 | 6 |
| Provision for post-sales client support and warranties | 12 | (6) |
| Books and periodicals | 5 | 5 |
| Provision for bad and doubtful debts | 24 | 9 |
| Provision for doubtful loans and advances | - | - |
| Commission to non-whole time directors | 2 | 1 |
| Sales promotion expenses | 2 | 1 |
| Freight charges | 1 | 1 |
| Bank charges and commission | 1 | 1 |
| Auditor's remuneration | - | - |
| statutory audit fees | - | - |
| certification charges | - | - |
| others | - | - |
| out-of-pocket expenses | - | - |
| Research grants | 13 | 1 |
| Miscellaneous expenses (refer to note 22.2.15) | 5 | 4 |
| | 8,924 | 6,039 |
| Fringe Benefit Tax (FBT) in India included in the above | 17 | 12 |

*for non training purposes

22.2.2. Capital commitments and contingent liabilities

| Particulars | <i>in Rs. Crore</i> | |
|--|---------------------|-------------------|
| | As at | |
| | March 31, 2007 | March 31, 2006 |
| Estimated amount of unexecuted capital contracts (net of advances and deposits) | 655 | 509 |
| Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given by those banks in favour of various government authorities and others | 2 | 2 |
| Claims against the company, not acknowledged as debts* (Net of Amount Rs. 238 (Rs. 138) crore paid to statutory authorities) | 15 | 14 |
| Forward contracts outstanding | | |
| In US\$ | US \$ 165,000,000 | US \$ 100,000,000 |
| (Equivalent approximate in Rs. crore) | 711 | 445 |
| In Euro | € 2,000,000 | - |
| (Equivalent approximate in Rs. crore) | 12 | - |
| In GBP | £5,500,000 | - |
| (Equivalent approximate in Rs. crore) | 47 | - |
| Range barrier options in US \$ | US \$ 205,000,000 | US \$ 210,000,000 |
| (Equivalent approximate in Rs. crore) | 884 | 934 |
| Euro Accelerator | € 24,000,000 | € 3,000,000 |
| (Equivalent approximate in Rs. crore) | 138 | 16 |
| Target Redemption structure (GBP) | £16,000,000 | £3,000,000 |
| (Equivalent approximate in Rs. crore) | 136 | 23 |

* Claims against the Company not acknowledged as debts include demands from Indian tax authorities for payment of additional tax of Rs. 234 crore (Rs. 135 crore), including interest of Rs. 51 crore (Rs. 33 crore), upon completion of their tax review for fiscal 2002, fiscal 2003 and fiscal 2004. The amount also includes an amount of Rs 98 crore which was settled as of April 4, 2007 against tax refunds relating to earlier years. The tax demand is mainly on account of disallowance of a portion of the deduction claimed by the company under Section 10A of the Income-tax Act. The deductible amount is determined by the ratio of "Export Turnover" to "Total Turnover". The disallowance arose from certain expenses incurred in foreign currency being reduced from Export Turnover but not reduced from Total Turnover.

The company is contesting the demand and management, including its tax advisers, believe that its position will likely be upheld in the appellate process. No tax expense has been accrued in the financial statements for the tax demand raised. Management believes that the ultimate outcome of this proceeding will not have a material adverse effect on the company's financial position and results of operations.

The company received the order of the appellate authority, the Commissioner of Income Tax (Appeals), Bangalore for the demand pertaining to fiscal 2002 and fiscal 2003 in April 2006 and August 2006 respectively. The position of the company has been substantially upheld by the appellate authority. For fiscal 2004, the matter is pending before the Commissioner of Income tax (Appeals), Bangalore.

As of the Balance Sheet date, the company has net foreign currency exposures that are not hedged by a derivative instrument or otherwise amounting to Rs. 995 crore.

22.2.3 Quantitative details

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

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

| Particulars | <i>in Rs. Crore</i> | |
|-------------------|----------------------|------------|
| | Year ended March 31, | |
| | 2007 | 2006 |
| Capital goods | 258 | 211 |
| Software packages | 8 | 8 |
| | 266 | 219 |

22.2.5. Activity in foreign currency

| Particulars | <i>in Rs. Crore</i> | |
|---|----------------------|-------|
| | Year ended March 31, | |
| | 2007 | 2006 |
| Earnings in foreign currency (on receipts basis) | | |
| Income from software services and products | 12,143 | 8,649 |
| Interest received on deposits with banks | 13 | 6 |
| Expenditure in foreign currency (on payments basis) | | |
| Travel expenses | 363 | 285 |
| Professional charges | 70 | 47 |
| Technical sub-contractors - subsidiaries | 612 | 363 |
| Other expenditure incurred overseas for software development | 4,342 | 2,632 |
| Net earnings in foreign currency (on the receipts and payments basis) | 6,769 | 5,328 |

22.2.6. 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:

| Particulars | <i>in Rs. Crore</i> | |
|---|---------------------------------|-----------|
| | Year ended March 31, 2007 | 2006 |
| Lease rentals recognized during the period | 47 | 34 |

| Lease obligations | <i>in Rs. Crore</i> | |
|---|-------------------------|----------------|
| | As at March 31, 2007 | March 31, 2006 |
| Within one year of the balance sheet date | 32 | 24 |
| Due in a period between one year and five years | 92 | 100 |
| Due after five years | 44 | 61 |
| | 168 | 185 |

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

Fixed assets provided on operating lease to Infosys BPO, a subsidiary company, as at March 31, 2007 and March 31, 2006 :

| Particulars | <i>in Rs. Crore</i> | | |
|----------------------|---------------------|-----------------------------|-------------------|
| | Cost | Accumulated depreciation | Net book value |
| Building | 46 | 9 | 37 |
| | 33 | 5 | 28 |
| Plant and machinery | 20 | 11 | 9 |
| | 16 | 7 | 9 |
| Computers | 2 | 2 | - |
| | 2 | 2 | - |
| Furniture & fixtures | 12 | 10 | 2 |
| | 11 | 8 | 3 |
| Total | 80 | 32 | 48 |
| | 62 | 22 | 40 |

The aggregate depreciation charged on the above for the years ended March 31, 2007 and 2006 amounted to Rs 10 crore and Rs 7 crore respectively.

The company has non-cancelable operating leases on equipped premises leased to Infosys BPO. The leases extend for periods between 36 months and 58 months from the date of inception. The lease rentals received are included as a component of sale of shared services (Refer Note 22.2.7). Lease Rental commitments from Infosys BPO:

| Lease rentals | <i>in Rs. Crore</i> | |
|---|-------------------------|----------------|
| | As at March 31, 2007 | March 31, 2006 |
| Within one year of the balance sheet date | 12 | 11 |
| Due in a period between one year and five years | 4 | 17 |
| Due after five years | - | - |
| | 16 | 28 |

The rental income from Infosys BPO for the year ended March 31, 2007 amounted to Rs. 17 crore (Rs 11 crore for the year ended March 31, 2006).

22.2.7. Related party transactions

List of related parties:

| Name of the related party | Country | Holding, as at | |
|---|----------------|----------------|----------------|
| | | March 31, 2007 | March 31, 2006 |
| Infosys BPO Limited** | India | 98.92% # | 71.74% |
| Infosys Technologies (Australia), Pty Limited | Australia | 100% | 100% |
| Infosys Technologies (China) Co. Limited | China | 100% | 100% |
| Infosys Consulting, Inc. | USA | 100% | 100% |
| Infosys BPO s.r.o * | Czech Republic | 98.92% # | 71.74% |

* Infosys BPO s.r.o is a wholly owned subsidiary of Infosys BPO Ltd.

**On December 8, 2006, the shareholders of Infosys BPO Limited ("Infosys BPO") approved a buy-back of upto 1,279,963 equity shares at a fair market value of Rs.604/- per equity share. The buy-back was in accordance with Section 77A of the Indian Companies Act, 1956. Pursuant to the buy-back offer Infosys BPO bought back 1,139,469 equity shares which were subsequently cancelled on December 29, 2006. Also refer to note 22.2.16

Excludes deferred purchase of shares from shareholders of Infosys BPO of 3,60,417 shares

The details of the related party transactions entered into by the company, in addition to the lease commitments described in note 22.2.6, for the year ended March 31, 2007 and 2006 are as follows:

| Particulars | <i>in Rs. Crore</i> | |
|--|---------------------------------|------|
| | Year ended March 31, 2007 | 2006 |
| Capital transactions: | | |
| Financing transactions | | |
| Infosys China | 23 | - |
| Infosys Consulting | - | 31 |
| Rental deposit repaid | | |
| Infosys BPO | - | 2 |
| Loans | | |
| Infosys China | 8 | 14 |
| Revenue transactions: | | |
| Purchase of services | | |
| Infosys BPO (Including Infosys BPO s.r.o) | 8 | 3 |
| Infosys Australia | 397 | 239 |
| Infosys China | 37 | 10 |
| Infosys Consulting | 189 | 116 |
| Purchase of shared services including facilities and personnel | | |
| Infosys BPO (Including Infosys BPO s.r.o) | 3 | 2 |
| Interest Income | | |
| Infosys China | 1 | - |
| Sale of services | | |
| Infosys BPO (Including Infosys BPO s.r.o) | - | 1 |
| Infosys Australia | 3 | 4 |
| Infosys China | 2 | 2 |
| Infosys Consulting | 3 | 3 |
| Sale of shared services including facilities and personnel | | |
| Infosys BPO (Including Infosys BPO s.r.o) | 19 | 14 |
| Infosys Consulting | 2 | 6 |

Details of amounts due to or due from and maximum dues from subsidiaries for the year ended March 31, 2007 and 2006 :

| Particulars | <i>in Rs. Crore</i> | |
|---|-------------------------|----------------|
| | As at March 31, 2007 | March 31, 2006 |
| Loans and advances | | |
| Infosys China | 22 | 20 |
| Maximum balances of loans and advances | | |
| Infosys BPO (Including Infosys BPO s.r.o) | 2 | 3 |
| Infosys Australia | 24 | 28 |
| Infosys China | 25 | 20 |
| Infosys Consulting | 14 | - |

During the year ended March 31, 2007, an amount of Rs. 19 crore (Rs. 13 crore for the year ended March 31, 2006) was donated to Infosys Foundation, a not-for-profit foundation, in which certain directors of the company are trustees.

22.2.8. Transactions with key management personnel

Key Management personnel comprise directors and statutory officers.

Particulars of remuneration and other benefits paid to key management personnel during the year ended March 31, 2007 and 2006 have been detailed in Schedule 22.3 since the amounts are less than a crore.

The aggregate managerial remuneration under Section 198 of the Companies Act 1956, to the directors (including managing director) is:

| Particulars | <i>in Rs. crore</i> | |
|--|---------------------|---------------------------------|
| | 2007 | Year ended March 31, 2006 |
| Whole-time directors | | |
| Salary | 1 | 2 |
| Contributions to provident and other funds | - | - |
| Perquisites and incentives | 3 | 2 |
| Total remuneration | 4 | 4 |
| Non-Whole-time directors | | |
| Commission | 2 | 1 |
| Sitting fees | - | - |
| Reimbursement of expenses | - | - |
| Total remuneration | 2 | 1 |

During the year ended March 31, 2007 and 2006, Infosys BPO has provided for commission of Rs. 0.12 and Rs 0.09 crore to a non-whole-time director of Infosys.

Computation of net profit in accordance with Section 349 of the Companies Act, 1956, and calculation of commission payable to non-whole-time directors:

| Particulars | <i>in Rs. crore</i> | |
|---|---------------------|---------------------------------|
| | 2007 | Year ended March 31, 2006 |
| Net Profit after tax from Ordinary activities | 3,777 | 2,421 |
| Add: | | |
| Whole-time directors' remuneration | 4 | 4 |
| Directors' sitting fees | - | - |
| Commission to non-whole time-directors | 2 | 1 |
| Provision for bad and doubtful debts | 24 | 9 |
| Provision for doubtful loans and advances | 1 | - |
| Provision on investments | 2 | - |
| Depreciation as per books of accounts | 469 | 409 |
| Provision for taxation | 352 | 303 |
| | 4,631 | 3,147 |
| Less: | | |
| Depreciation as envisaged under Section 350 of the Companies Act* | 469 | 409 |
| Profit of a capital nature | - | - |
| Net profit on which commission is payable | 4,162 | 2,738 |
| Commission payable to non-whole-directors: | | |
| Maximum allowed as per the Companies Act, 1956 at 1% | 42 | 27 |
| Maximum approved by the share holders (0.5%) | 21 | 14 |
| Commission approved by the Board | 2 | 1 |

* The company depreciates fixed assets based on estimated useful lives that are lower than those implicit in Schedule XIV of the Companies Act, 1956. Accordingly, the rates of depreciation used by the company are higher than the minimum prescribed by the Schedule XIV.

22.2.9. Research and development expenditure

| Particulars | <i>in Rs. Crore</i> | |
|-------------|---------------------|------------|
| | 2007 | 2006 |
| Revenue | 167 | 102 |
| | 167 | 102 |

22.2.10. Dues to small-scale industrial undertakings

As at March 31, 2007 and March 31, 2006, the company has no outstanding dues to small-scale industrial undertaking.

22.2.11. Stock option plans

The company has two stock option plans that are currently operational.

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, and is for issue of 1,17,60,000 ADSs representing 1,17,60,000 equity shares. 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 | Year ended | |
|---|------------------|------------------|
| | 2007 | 2006 |
| Options outstanding, beginning of period | 45,46,480 | 61,08,580 |
| Granted | - | - |
| Less: exercised | 22,91,213 | 13,71,404 |
| forfeited | 1,79,627 | 1,90,696 |
| Options outstanding, end of period | 20,75,640 | 45,46,480 |

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 5,28,00,000 equity shares to the employees. The compensation committee administers the 1999 Plan. Options were 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 | Year ended | |
|---|------------------|--------------------|
| | 2007 | 2006 |
| Options outstanding, beginning of period | 1,91,79,074 | 2,81,09,874 |
| Granted | 6,38,761 | - |
| Less: exercised | 1,78,08,689 | 85,97,458 |
| forfeited | 92,804 | 3,33,342 |
| Options outstanding, end of period | 19,16,342 | 1,91,79,074 |

The company has accelerated the vesting of 5,72,000 outstanding unvested options which were due to be vested in the normal course by October, 2007.

The aggregate options considered for dilution are set out in note 22.2.20

22.2.12. 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 Infosys' 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.

Infosys also has operations in a Special Economic Zone ("SEZs"). Income from SEZs are fully tax exempt for the first 5 years, 50% exempt for the next 5 years and 50% exempt for another 5 years subject to fulfilling certain conditions.

During the year ended March 31, 2006, the tax authorities in an overseas tax jurisdiction completed the assessment of income upto fiscal year 2004. Based on the assessment order, management has re-estimated its tax liabilities and written back an amount of Rs. 20 crore. The tax provision for the year is net of the write back.

The current year tax provision includes a reversal of Rs 125 crores for liability no longer required for taxes payable in various overseas jurisdictions consequent to expiry of limitation period and completion of assessment by taxation authorities.

22.2.13. Cash and bank balances

Details of balances as on balance sheet dates and the maximum balances during the period with non-scheduled banks:-

| Balances with non-scheduled banks | <i>in Rs. crore</i> | |
|---|---------------------|----------------|
| | As at | |
| | March 31, 2007 | March 31, 2006 |
| In current accounts | | |
| ABN Amro Bank , Taipei, Taiwan | 2 | 1 |
| Bank of America, Palo Alto, USA | 293 | 229 |
| Citibank NA, Melbourne, Australia | 36 | 39 |
| Citibank NA, Tokyo, Japan | 1 | 1 |
| Deutsche Bank, Brussels, Belgium | 13 | 8 |
| Deutsche Bank, Frankfurt, Germany | 4 | 21 |
| Deutsche Bank, Amsterdam, Netherlands | 2 | 4 |
| Deutsche Bank, Paris, France | 3 | 1 |
| Deutsche Bank, Spain | 1 | - |
| Deutsche Bank, Zurich, Switzerland | - | 6 |
| Deutsche Bank, UK | 5 | - |
| HSBC Bank PLC, Croydon, UK | 11 | 60 |
| Royal Bank of Canada, Toronto, Canada | 7 | 4 |
| Svenska Handels Bank, Stockholm, Sweden | - | 1 |
| | 378 | 375 |

| Maximum balance with non-scheduled banks during the period | <i>in Rs. crore</i> | |
|--|---------------------|----------------|
| | Year ended | |
| | 2007 | March 31, 2006 |
| In current accounts | | |
| ABN Amro Bank , Taipei, Taiwan | 2 | 2 |
| Bank of America, Palo Alto, USA | 573 | 391 |
| Citibank NA, Melbourne, Australia | 95 | 54 |
| Citibank NA, Tokyo, Japan | 30 | 36 |
| Deutsche Bank, Brussels, Belgium | 29 | 31 |
| Deutsche Bank, Frankfurt, Germany | 31 | 38 |
| Deutsche Bank, Amsterdam, Netherlands | 5 | 8 |
| Deutsche Bank, Paris, France | 6 | 6 |
| Deutsche Bank, Spain | 1 | - |
| Deutsche Bank, Zurich, Switzerland | 13 | 14 |
| Deutsche Bank, UK | 26 | - |
| HSBC Bank PLC, Croydon, UK | 237 | 91 |
| ICICI Bank UK Ltd., London, UK | - | 35 |
| Nordbanken, Stockholm, Sweden | 2 | - |
| Royal Bank of Canada, Toronto, Canada | 15 | 16 |
| Svenska Handels Bank, Stockholm, Sweden | 1 | 2 |
| UFJ Bank, Tokyo, Japan | 34 | 28 |
| ICICI Bank - Toronto, Canada | - | 11 |

The cash and bank balances include interest accrued but not due on fixed deposits amounting to Rs. 37 crore as at March 31, 2007 (as at March 31, 2006 Rs. 25 crore).

22.2.14. Loans and advances

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

Deposits with financial institutions and body corporate:-

| Particulars | As at | |
|---|----------------|----------------|
| | March 31, 2007 | March 31, 2006 |
| <i>in Rs. crore</i> | | |
| Deposits with financial institutions and body corporate: | | |
| Housing Development Finance Corporation Limited ("HDFC") | - | 500 |
| GE Capital Services India Limited | 143 | - |
| Life Insurance Corporation of India | 132 | 80 |
| | <u>275</u> | <u>580</u> |
| Interest accrued but not due (included above) | 14 | - |

Maximum balance held as deposits with financial institutions and body corporate

| | Year ended | |
|---|------------|------|
| | 2007 | 2006 |
| <i>in Rs. crore</i> | | |
| Deposits with financial institutions and body corporate: | | |
| Housing Development Finance Corporation Limited ("HDFC") | 510 | 503 |
| GE Capital Services India Limited | 382 | 227 |
| Life Insurance Corporation of India | 132 | 106 |

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

Deposit with LIC represents amount deposited to settle employee benefit/ leave obligations as and when they arise during the normal course of business.

22.2.15. Fixed assets

Profit / (loss) on disposal of fixed assets during the years ended March 31, 2007 and 2006 is less than Rs. 1 crore and accordingly disclosed in note 22.3

Depreciation charged to the profit and loss account relating to assets costing less than Rs. 5,000/- each and other low value assets.

| | Year ended | |
|---------------------------|------------|------|
| | 2007 | 2006 |
| <i>in Rs. crore</i> | | |
| Charged during the period | 26 | 65 |

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, 2007.

22.2.16. Details of Investments

| Particulars | <i>in Rs. crore</i> | |
|---|-------------------------|----------------|
| | As at March 31, 2007 | March 31, 2006 |
| Long-term investments | | |
| CiDRA Corporation, USA | | |
| Nil (14,124) Series D convertible preferred stock at US\$ 90 each, fully paid, par value US\$ 0.01 each | - | 5 |
| Nil (72,539) Class A common stock, par value US\$ 0.001 each | - | - |
| Nil (2,139) Non voting redeemable preferred stock, par value US\$ 0.01 each | - | - |
| CyVera Corporation, USA | | |
| Nil (25,641) , Series A preferred stock par value US\$0.001 | - | - |
| OnMobile Systems Inc., (formerly Onscan Inc.) USA | | |
| 1,00,000 (1,00,000) common stock at US\$ 0.4348 each, fully paid, par value US\$ 0.001 each | - | - |
| 1,00,000 (1,00,000) Series A voting convertible preferred stock at US\$ 0.4348 each, fully paid, par value US\$ 0.001 each | - | - |
| 44,00,000 (44,00,000) Series A non-voting convertible preferred stock at US\$ 0.4348 each, fully paid, par value US\$ 0.001 each | 9 | 9 |
| M-Commerce Ventures Pte Ltd, Singapore | | |
| 100 (100) ordinary shares of Singapore \$ 1 each, fully paid, par value Singapore \$ 1 each | - | - |
| 684 (684) redeemable preference shares of Singapore \$ 1, fully paid, at a premium of Singapore \$ 1,110 per redeemable preferred stock | 2 | 2 |
| 216 (216) redeemable preference shares of Singapore \$ 1, fully paid, par value Singapore \$ 1 each | - | - |
| Illumina Inc. | | |
| Nil (758) common stock at USD 0.01 per share | - | - |
| | <u>11</u> | <u>16</u> |
| Less: Provision for investment | <u>11</u> | <u>14</u> |
| | - | <u>2</u> |

Current investments - Liquid Mutual Funds

| Particulars | <i>in Rs. crore</i> | | | |
|--|-----------------------|----------------|----------------|----------------|
| | Number of units as at | | Amount as at | |
| | March 31, 2007 | March 31, 2006 | March 31, 2007 | March 31, 2006 |
| Birla Cash Plus - Institutional Premium | - | 9,94,77,727 | - | 100 |
| CanLiquid Fund - Institutional Plan | - | 5,97,28,831 | - | 60 |
| DBS Chola Liquid Institutional Plus | - | 4,63,08,937 | - | 54 |
| ING Vysya Liquid Fund Institutional Plan | - | 7,88,74,225 | - | 79 |
| Sundaram BNP Paribas Money Fund Super Institutional Plan | - | 2,96,83,287 | - | 30 |
| UTI Liquid Cash Plan Institutional Plan | - | 14,77,424 | - | 150 |
| TATA Liquid Super High Investment Fund | - | 13,31,587 | - | 150 |
| LICMF Liquid Fund | - | 55,451,349 | - | 61 |
| | | | <u>-</u> | <u>684</u> |
| At cost | | | - | 624 |
| At fair value | | | - | 60 |
| | | | <u>-</u> | <u>684</u> |

Details of investments in and disposal of securities during the year ended March 31, 2007 and 2006:-

| Particulars | in Rs. crore | |
|---|---------------------------------|--------------|
| | Year ended March 31, 2007 | 2006 |
| Investment in securities | | |
| Subsidiaries | 649 | 31 |
| Long-term investments | - | - |
| Liquid Mutual funds | 4,341 | 1,749 |
| | <u>4,990</u> | <u>1,780</u> |
| Redemption / Disposal of Investment in securities | | |
| Long-term investments | - | - |
| Liquid Mutual funds | 5,025 | 2,233 |
| | <u>5,025</u> | <u>2,233</u> |
| Net movement in investments | (35) | (453) |

Investment purchased and sold during the year ended March 31, 2007:-

| Name of the fund | in Rs. crore | | |
|--|------------------|--------------|------|
| | Face value Rs /- | Units | Cost |
| ABN Amro Cash Fund | 10 | 3,50,00,000 | 35 |
| Reliance Liquidity Fund - Treasury Plan | 10 | 33,00,48,901 | 350 |
| Birla Cash Plus Fund- Institutional Plan | 10 | 27,38,68,113 | 275 |
| Canliquid Fund - Institutional Plan | 10 | 10,94,65,609 | 110 |
| Chola Liquid Fund Institutional Plus | 10 | 4,21,87,329 | 50 |
| Deutsche Institutional Plan | 10 | 13,50,18,330 | 135 |
| Deutsche Insta Cash Plus Fund | 10 | 10,94,19,305 | 110 |
| Deutsche Money Plus Fund - Monthly Dividend Options | 10 | 3,96,41,247 | 40 |
| DSP Merrill Lynch Liquid Fund | 1,000 | 27,47,916 | 275 |
| Fidelity Cash Fund- Super Institutional Plan- Monthly Dividend | 10 | 99,06,483 | 10 |
| Grindlays Cash Fund- Institutional Plan- Periodic Dividend | 1,000 | 19,95,207 | 200 |
| HDFC Liquid Fund - Premium Plus Plan | 10 | 20,56,36,930 | 255 |
| HSBC Liquid Fund | 10 | 29,43,92,901 | 295 |
| ICICI Institutional Liquid Plan- Monthly Dividend Option | 10 | 17,94,26,871 | 180 |
| ING VVSYA Liquid Fund | 10 | 11,89,52,579 | 120 |
| JM High Liquidity Fund - Super institutional Plan | 10 | 4,94,27,945 | 50 |
| Kotak Liquid Institutional Premium | 10 | 25,39,84,801 | 255 |
| LICMF Liquid fund - Dividend Plan | 10 | 12,76,05,791 | 140 |
| Principal Liquid Option- Institutional Plan- Monthly Dividend | 10 | 19,97,77,898 | 200 |
| SBI -Magnum Institutional Income Saving | 10 | 23,18,09,110 | 245 |
| Sundaram Money Fund | 10 | 9,84,62,058 | 100 |
| Tata Liquid Super High Investment Fund- Monthly Dividend | 1,000 | 17,44,057 | 200 |
| Templeton India Treasury Mang Acct Inst Plan | 1,000 | 36,45,674 | 370 |
| UTI Liquid Cash Plan - Institutional Plan | 1,000 | 33,16,739 | 340 |

Particulars of investments made during the year ended March 31, 2007 and 2006:-

| Particulars of investee companies | in Rs. crore | |
|-----------------------------------|---------------------------------|-----------|
| | Year ended March 31, 2007 | 2006 |
| Infosys Consulting Inc., USA | 14 | 31 |
| Infosys China | 23 | - |
| Infosys BPO Ltd | 612 | - |
| | <u>649</u> | <u>31</u> |

Investment in Infosys BPO

Buyback of shares and options

In January 2007, the Company initiated the purchase of all the share and outstanding options in Infosys BPO from its shareholders and option holders comprising current and former employees of Infosys BPO. The share holders were given a choice to sell their shares at fair market value and the option-holders were given the choice to sell their options and/or swap Infosys BPO options for Infosys options at a swap ratio based on fair market value.

Consequent to this proposal Infosys has paid an aggregate of Rs 71 crore for the purchase of shares and options and granted 151,933 Infosys options under the 1999 plan valued at fair value of Rs 12 crore. Accordingly, the investment in Infosys BPO has increased by Rs 83 crore and reserves have increased by 12 crore.

Additionally, the Company has committed to a deferred share purchase with the shareholders of Infosys BPO. As per the agreement, Infosys will purchase 3,60,417 Infosys BPO shares for Rs 22 crore by February, 2008. The same will be accounted as investments on conclusion of the agreement along with the transfer of title in the shares. Upon conclusion Infosys holding in Infosys BPO would be 99.98%

Conversion of Cumulative Preference shares in Infosys BPO Ltd

Infosys BPO had issued an aggregate of 87,50,000 0.005% Cumulative Convertible Preference shares of par value Rs. 100 each to Citicorp International Finance Corporation ("CIFIC") for an aggregate consideration of Rs. 94 crore as per the shareholder's agreement as of March 31, 2005. Each preference share was convertible to one equity share of par value Rs. 10/-. On June 30, 2005 CIFIC exercised its rights under the shareholder's agreement and converted the preference shares to equity shares. Pursuant to the conversion, the equity share capital of Infosys BPO increased by Rs. 9 crore to Rs. 33 crore and the share premium increased by Rs. 79 crore to Rs. 85 crore. On June 30, 2006, the company completed the acquisition of the entire holdings (87,50,000 shares amounting to 23% of the equity on a fully diluted basis) of CIFIC in Infosys BPO for a consideration amounting to Rs. 530 crore (US\$ 115.13 million). The net consideration of Rs. 309 crore, after withholding taxes of Rs. 221 crore was remitted to CIFIC on the same date.

Provisions for investments

The Company evaluates all investments for any diminution in their carrying values that is other than temporary. The amount of provision made on trade investments during the year ended March 31, 2007 and 2006 amounted to Rs. 2 and Rs Nil respectively.

The company provided Rs. 1 crore and Rs. Nil during the year ended on March 31, 2007 and 2006 on revision of the carrying amount of non-trade current investments to fair value.

22.2.17. Segment reporting

The Group's operations predominantly relate to providing end-to-end business solutions that leverage technology thereby enabling clients to enhance business performance, 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 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. 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

Year ended March 31, 2007 and 2006:-

| | <i>in Rs. crore</i> | | | | | |
|---|---------------------|---------------|---------|--------|--------|--------|
| | Financial services | Manufacturing | Telecom | Retail | Others | Total |
| Revenues | 4,951 | 1,805 | 2,409 | 1,386 | 2,598 | 13,149 |
| Identifiable operating expenses | 3,197 | 1,297 | 1,414 | 956 | 2,164 | 9,028 |
| Allocated expenses | 2,139 | 767 | 1,016 | 588 | 1,111 | 5,621 |
| | 1,380 | 578 | 573 | 393 | 915 | 3,839 |
| Segmental operating income | 1,244 | 454 | 605 | 348 | 652 | 3,303 |
| | 781 | 315 | 343 | 233 | 528 | 2,200 |
| Unallocable expenses | 1,568 | 584 | 788 | 450 | 835 | 4,225 |
| | 1,036 | 404 | 498 | 330 | 721 | 2,989 |
| Operating income | | | | | | 469 |
| | | | | | | 409 |
| Other income (expense), net | | | | | | 3,756 |
| | | | | | | 2,580 |
| Net profit before tax and exceptional items | | | | | | 373 |
| | | | | | | 144 |
| Provision for taxation | | | | | | 4,129 |
| | | | | | | 2,724 |
| Net profit after tax and before exceptional items | | | | | | 352 |
| | | | | | | 303 |
| Income on sale of investments (net of taxes) | | | | | | 6 |
| | | | | | | - |
| Net profit after tax and exceptional items | | | | | | 3,783 |
| | | | | | | 2,421 |

Geographic segments

Year ended March 31, 2007 and 2006:-

| | <i>in Rs. crore</i> | | | | |
|---|---------------------|--------|-------|-------------------|--------|
| | North America | Europe | India | Rest of the World | Total |
| Revenues | 8,395 | 3,393 | 214 | 1,147 | 13,149 |
| Identifiable operating expenses | 5,921 | 2,187 | 164 | 756 | 9,028 |
| Allocated expenses | 3,636 | 1,314 | 53 | 618 | 5,621 |
| | 2,525 | 856 | 72 | 386 | 3,839 |
| Segmental operating income | 2,110 | 853 | 53 | 287 | 3,303 |
| | 1,443 | 534 | 39 | 184 | 2,200 |
| Unallocable expenses | 2,649 | 1,226 | 108 | 242 | 4,225 |
| | 1,953 | 797 | 53 | 186 | 2,989 |
| Operating income | | | | | 469 |
| | | | | | 409 |
| Other income (expense), net | | | | | 3,756 |
| | | | | | 2,580 |
| Net profit before tax and exceptional items | | | | | 373 |
| | | | | | 144 |
| Provision for taxation | | | | | 4,129 |
| | | | | | 2,724 |
| Net profit after tax and before exceptional items | | | | | 352 |
| | | | | | 303 |
| Income on sale of investments (net of taxes) | | | | | 6 |
| | | | | | - |
| Net profit after tax and exceptional items | | | | | 3,783 |
| | | | | | 2,421 |

22.2.18. 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 affect 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, 2007 the company has provided for doubtful debts of Rs. 7 crore (Rs. 2 crore as at March 31, 2006) 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.

22.2.19. Dividends remitted in foreign currencies

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 | in Rs. crore | |
|-----------------------------------|--|----------------------|------|
| | | Year ended March 31, | |
| | | 2007 | 2006 |
| Final dividend for Fiscal 2005* | 7,55,32,654 | - | 25 |
| Final dividend for Fiscal 2006* | 7,70,94,270 | 33 | - |
| Silver Jubilee special dividend* | 7,70,94,270 | 116 | - |
| Interim dividend for fiscal 2006* | 7,61,02,422 | - | 25 |
| Interim dividend for fiscal 2007 | 7,76,06,280 | 39 | - |

* Adjusted for bonus issue

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

At the annual general meeting held on June 10, 2006, the shareholders approved a 1:1 bonus issue (stock dividend) for all shareholders including the ADR holders i.e. one additional equity share for every one existing share held by the members by capitalizing a part of the general reserves. The record date for the bonus issue was July 14, 2006 and shares were allotted on July 15, 2006. All basic and diluted shares used in determining earnings per share are after considering the effect of bonus issue.

| Particulars | Year ended March 31, | |
|---|----------------------|--------------|
| | 2007 | 2006 |
| Number of shares considered as basic weighted average shares outstanding | 55,68,52,339 | 54,59,89,022 |
| Add: Effect of dilutive issues of shares/stock options | 1,24,90,355 | 1,56,67,598 |
| Number of shares considered as weighted average shares and potential shares outstanding | 56,93,42,694 | 56,16,56,620 |

22.2.21 Intellectual Property Rights

Infosys was liable to pay Aeronautical Development Agency (ADA) a maximum amount of Rs. 20 crore (US\$ 4.4 million) by June 12, 2012 through a revenue sharing arrangement towards acquisition of Intellectual Property Rights in AUTOLAY, a commercial software application product used in designing high performance structural systems. During the year Infosys foreclosed the arrangement by paying the net present value of the future revenue share amounting to Rs. 13.5 crore (US\$ 3 million). The remainder of the liability in books amounts to Rs. 6.5 crore (US\$ 1.4 million) has been written back and disclosed in Other Income.

22.2.22 Exceptional items

During the year 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 crore representing 90% of the consideration was received by the company and the balance amount was deposited in Escrow to indemnify any contractual contingencies.

During the year ended March 31, 2007, the company received the balance amount of Rs. 5 crore on fulfillment of the Escrow obligations. Since the carrying value of the investment is nil, the entire proceeds of Rs. 5 crore (net of taxes, as applicable) has been recognized in the profit and loss account as an exceptional item.

During the year ended March 31, 2007, the company received Rs. 1 crore from CiDRA Corporation towards redemption of shares on recapitalisation. The remainder of investment was written off against provision made earlier.

22.2.23 Gratuity Plan

Effective April 1, 2006 the company adopted the revised accounting standard on employee benefits. Pursuant to the adoption, the transitional obligations of the company amounted to Rs. 9 crore. As required by the standard, the obligation has been recorded with the transfer of Rs. 9 crore to general reserves.

The following table set out the status of the gratuity plan as required under AS 15

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

| Particulars | in Rs. crores |
|---|-------------------------|
| | As at March 31, 2007 |
| Obligations at period beginning | 180 |
| Service Cost | 44 |
| Interest cost | 14 |
| Actuarial (gain)/loss | (17) |
| Benefits paid | - |
| Obligations at period end | 221 |
| Defined benefit obligation liability as at the balance sheet is wholly funded by the company | |
| Change in plan assets | |
| Plans assets at period beginning, at fair value | 167 |
| Expected return on plan assets | 16 |
| Actuarial gain/(loss) | 3 |
| Contributions | 52 |
| Benefits paid | (17) |
| Plans assets at period end, at fair value | 221 |
| Reconciliation of present value of the obligation and the fair value of the plan assets | |
| Fair value of plan assets at the end of the year | 221 |
| Present value of the defined benefit obligations at the end of the period | 221 |
| Asset recognized in the balance sheet | - |
| Gratuity cost for the period | |
| Service cost | 44 |
| Interest cost | 14 |
| Expected return on plan assets | (16) |
| Actuarial (gain)/loss | (3) |
| Net gratuity cost | 39 |
| Investment details of plan assets | |
| 100% of the plan assets are invested in debt instruments. | |
| Actual return on plan assets | 19 |
| Assumptions | |
| Interest rate | 7.99% |
| Estimated rate of return on plan assets | 7.99% |

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

22.2.24 Cash flow statement

22.2.24.a

The balance of cash and cash equivalents includes Rs. 2 crore as at March 31, 2007 (Rs. 3 crore as at March 31, 2006) set aside for payment of dividends.

22.2.24.b Restricted Cash

Deposits with financial institutions and body corporate as at March 31, 2007 include an amount of Rs. 132 crore (Rs. 80 crore as at March 31, 2006) 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".

22.3 Details of rounded off amounts

The financial statements are represented in Rs. crore as per the approval received from Department of Company Affairs "DCA" earlier. Those items which were not represented in the financial statement due to rounding off to the nearest Rs. crore are given below.

Balance Sheet Items

| Schedule | Description | in Rs. crores | |
|----------|---|-------------------------|----------------|
| | | As at March 31, 2007 | March 31, 2006 |
| 3 | Fixed assets | | |
| | Deductions/retirements | | |
| | Land - free-hold | - | 0.01 |
| | Buildings | - | 0.80 |
| | Plant and Machinery | 0.34 | - |
| | Furniture and Fixtures | 0.15 | - |
| | Depreciation & Amortization | | |
| | For the period | | |
| | Vehicles | 1.00 | 0.19 |
| 8 | Deductions/retirements | | |
| | Unsecured, considered doubtful | | |
| | Loans and advances to employees | 1.02 | 0.44 |
| | Provision for doubtful loans and advances to employees | 1.02 | 0.44 |
| 22.2.6 | Computers on operating lease to Infosys BPO | | |
| | - Net Book Value | 0.08 | 0.17 |
| 22.2.13 | Interest accrued but not due - Deposits with Financial Institutions | 0.02 | - |
| | Balances with non-scheduled banks | | |
| | - ABN Amro Bank, Copenhagen, Denmark | 0.04 | - |
| | - Bank of China, Beijing China | - | 0.02 |
| | - Citibank NA, Singapore | 0.03 | 0.19 |
| | - Citibank NA, Thailand | 0.16 | - |
| | - Citibank NA, Tokyo, Japan | - | 1.19 |
| | - Citibank NA, Sharjah, UAE | - | 0.04 |
| | -Deutsche Bank, Zurich, Switzerland | 0.21 | 6.34 |
| | - Nordbanken, Stockholm, Sweden | 0.05 | 0.09 |
| | - Svenska Handels Bank, Stockholm, Sweden | 0.01 | 0.51 |
| | - UFJ Bank, Tokyo, Japan | 0.06 | 0.09 |
| 22.2.14 | Loans & Advances | | |
| | Interest accrued but not due - Deposits with Financial Institutions | 14.00 | 0.10 |
| 22.2.16 | Long- term investments | | |
| | Onmobile (common stock) | 0.19 | 0.19 |
| | Onmobile (Series A - voting) | 0.19 | 0.19 |

Profit & Loss Items

| Schedule | Description | in Rs. crores | |
|-----------------------|---|---------------------------------|------|
| | | For the year ended March 31, | |
| | | 2007 | 2006 |
| Profit & Loss account | | | |
| 12 | Selling & Marketing expenses | | |
| | Consumables | 0.31 | 0.25 |
| | Software packages for own use | 0.50 | 0.20 |
| | Communication expenses | 0.75 | 0.58 |
| | Office maintenance | 0.26 | 0.37 |
| | Computer Maintenance | 0.09 | 0.01 |
| | Insurance charges | - | 0.02 |
| | Other Miscellaneous expenses | - | 0.66 |
| 13 | General and Administration expenses | | |
| | Provision for doubtful loans and advances | 0.56 | 0.42 |
| | Overseas group health insurance | (0.11) | - |
| | Auditor's remuneration | | |
| | Statutory audit fees | 0.46 | 0.43 |
| | Others | 0.04 | 0.03 |
| | Out of Pocket Expenses | 0.03 | 0.03 |

| | | | |
|----------|--|--------|--------|
| | Provision for Investments | 2.02 | (0.30) |
| 22.2.1 | Aggregate expenses | | |
| | Provision for doubtful loans and advances | 0.56 | 0.42 |
| | Auditor's remuneration | | |
| | Statutory audit fees | 0.48 | 0.43 |
| | Others | 0.04 | 0.03 |
| | Out of Pocket Expenses | 0.03 | 0.03 |
| 22.2.8 | Transactions with key management personnel | | |
| | Aggregate Managerial Remuneration under Section 198 of the Companies Act 1956, to the directors (including managing director) : | | |
| | Whole-time Directors : Contributions to provident and other funds | 0.30 | 0.33 |
| | Non Whole-time Directors : Sitting Fees | - | 0.05 |
| | Non Whole-time Directors : Reimbursement of Expenses | 0.50 | 0.37 |
| | Computation of Net Profit in accordance with Section 349 of the Companies Act 1956 & computation of commission payable to non whole-time directors : | | |
| | Directors' Sitting Fees | - | 0.05 |
| | Provision for doubtful loans and advances | 0.56 | 0.42 |
| | Provision for Investments | 2.02 | (0.30) |
| 22.2.9 | Research and development expenditure | | |
| | Capital expenditure | 0.01 | 0.16 |
| 22.2.13. | Maximum balance with non-scheduled banks | | |
| | - ABN Amro Bank, Copenhagen Denmark | 0.11 | - |
| | - Bank of China, Beijing China | 0.02 | 0.08 |
| | - Citibank NA, Hongkong | - | 0.47 |
| | - Citibank NA, Singapore | 0.19 | 0.37 |
| | - Citibank NA, Thailand | 0.16 | - |
| | - Citibank NA, Sharjah, UAE | 0.18 | 0.16 |
| | - Nordbanken, Stockholm, Sweden | - | 0.14 |
| 22.2.15. | Profit / (loss) on disposal of fixed assets | | |
| | Profit on disposal of fixed assets, included in miscellaneous income | 0.17 | 0.58 |
| | Loss on disposal of fixed assets, included in miscellaneous expenses | (0.05) | (0.45) |
| | Profit/(Loss) on disposal of fixed assets,net | 0.12 | 0.13 |
| | Profit & Loss Appropriation | | |
| | Dividend Tax | 0.60 | - |
| | Advance to Gratuity Trust | 0.01 | - |

| Cash Flow Statement Items | | <i>in Rs. crores</i> | |
|---------------------------|--|----------------------|----------------|
| Schedule | Description | For the year ended | |
| | | 2007 | March 31, 2006 |
| Cash flow statement | (Profit)/ loss on sale of fixed assets | 0.12 | 0.13 |
| | Provision for investments | 2.02 | (0.30) |
| | Proceeds on sale of Fixed Assets | 0.40 | - |

Transactions with key management personnel

Key management personnel comprise our directors and statutory officers:

Particulars of remuneration and other benefits paid to key management personnel during the year ended March 31, 2007 (figures in italics are corresponding to the year ended March 31, 2006) :

| Name | Salary | Contributions to provident and other funds | Perquisites and incentives | <i>in Rs. crores</i> |
|---|-------------|--|----------------------------|----------------------|
| | | | | Total Remuneration |
| Chairman and Chief Mentor | | | | |
| N R Narayana Murthy * | 0.06 | 0.02 | 0.21 | 0.29 |
| | <i>0.13</i> | <i>0.03</i> | <i>0.26</i> | <i>0.42</i> |
| Chief Executive Officer and Managing Director | | | | |
| Nandan M Nilekan | 0.16 | 0.04 | 0.33 | 0.53 |
| | <i>0.13</i> | <i>0.03</i> | <i>0.25</i> | <i>0.41</i> |
| President, Chief Operating Officer and Joint Managing Director | | | | |
| S Gopalakrishnar | 0.16 | 0.04 | 0.34 | 0.54 |
| | <i>0.13</i> | <i>0.03</i> | <i>0.26</i> | <i>0.42</i> |
| Whole-time Directors | | | | |
| K Dinesh | 0.13 | 0.04 | 0.33 | 0.50 |
| | <i>0.13</i> | <i>0.03</i> | <i>0.25</i> | <i>0.41</i> |
| S D Shibulal | 0.13 | 0.04 | 0.29 | 0.46 |
| | <i>0.70</i> | <i>0.01</i> | <i>0.31</i> | <i>1.02</i> |
| T V Mohandas Pai | 0.24 | 0.08 | 0.60 | 0.92 |
| | <i>0.19</i> | <i>0.04</i> | <i>0.53</i> | <i>0.76</i> |
| Srinath Batni | 0.20 | 0.04 | 0.50 | 0.74 |
| | <i>0.17</i> | <i>0.04</i> | <i>0.47</i> | <i>0.68</i> |
| Chief Financial Officer | | | | |
| V Balakrishnan | 0.17 | 0.05 | 0.56 | 0.78 |
| | <i>0.13</i> | <i>0.03</i> | <i>0.38</i> | <i>0.54</i> |

* Wholetime director till August 20, 2006

| Name | Commission | Sitting fees | Reimbursement of expenses | <i>in Rs. crores</i> |
|---------------------------------|-------------|--------------|---------------------------|----------------------|
| | | | | Total remuneration |
| Non-Whole time Directors | | | | |
| Deepak M Satwalekar | 0.23 | - | - | 0.23 |
| | <i>0.21</i> | - | - | <i>0.21</i> |
| Prof.Marti G Subrahmanyam | 0.21 | - | 0.11 | 0.32 |
| | <i>0.18</i> | - | <i>0.12</i> | <i>0.30</i> |
| Philip Yeo | - | - | - | - |
| | <i>0.03</i> | - | - | <i>0.03</i> |
| David L Boyles | 0.21 | - | - | 0.21 |
| | <i>0.12</i> | - | - | <i>0.12</i> |
| Dr.Omkar Goswami | 0.19 | - | 0.02 | 0.21 |
| | <i>0.18</i> | - | <i>0.01</i> | <i>0.19</i> |
| Sen. Larry Pressler | 0.04 | - | 0.03 | 0.07 |
| | <i>0.17</i> | - | - | <i>0.17</i> |
| Rama Bijapurkar | 0.21 | - | 0.01 | 0.22 |
| | <i>0.17</i> | - | - | <i>0.17</i> |
| Claude Smadja | 0.21 | - | 0.20 | 0.41 |
| | <i>0.16</i> | - | <i>0.11</i> | <i>0.27</i> |
| Sridar A Iyengar | 0.21 | - | 0.13 | 0.34 |
| | <i>0.18</i> | - | <i>0.11</i> | <i>0.29</i> |
| Jeffrey Lehman | 0.18 | - | - | 0.18 |
| | - | - | - | - |
| N R Narayana Murthy * | 0.14 | - | - | 0.14 |
| | - | - | - | - |

* Appointed as Additional Director effective August 21, 2006