

Indian GAAP

Infosys announces results for the first quarter ended June 30, 1999

New opportunities drive growth and profitability

Bangalore, India - July 9, 1999

Infosys Technologies Limited today announced a total income of Rs. 184.06 crore for the first quarter ended June 30, 1999, an 87% increase over Rs. 98.43 crore for the corresponding quarter in the previous year. Net profit from ordinary activities for the quarter was Rs. 60.61 crore, a 156% increase over Rs. 23.67 crore for the quarter ended June 30, 1998. The audited financial results according to Indian GAAP were taken on record at the Board meeting held on July 9, 1999.

During the current quarter, fluctuations in exchange rate(s), compared with the exchange rate(s) as on March 31, 1999 have led to an increase in income from software development of Rs. 3.62 crore (for the quarter ended June 30, 1998, Rs. 5.11 crore) and profit before tax of Rs. 2.03 crore (for the quarter ended June 30, 1998, Rs. 2.04 crore).

Other income of Rs. 13.79 crore for the current quarter includes Rs. 3.52 crore towards interest on deployment of funds raised through issue of American Depositary Shares (ADS) and an amount of Rs. 8.13 crore arising from exchange differences on translation of foreign currency deposits kept abroad which may be non-recurring. Excluding such exchange differences and the interest earned on funds raised through the ADS offering, the net profit is Rs. 48.96 crore, a 106.84% increase over the net profit of Rs. 23.67 crore for the quarter ended June 30, 1998.

"Growth and profitability were driven by our tapping both new and existing market opportunities", said Mr. N. R. Narayana Murthy, Chairman and CEO. "We saw clients make investments in core systems and in moving their organizations to the new e-commerce environment."

Export income for the first quarter ended June 30, 1999 was Rs. 168.62 crore, an increase of 75% over Rs. 96.38 crore for the corresponding quarter in the previous year. Export income formed 91.6% and 97.9% of total income for the quarters ended June 30, 1999 and 1998 respectively. Net profit from ordinary activities formed 32.93% and 24.05% of total income for the quarters ended June 30, 1999 and June 30, 1998 respectively.

Expansion of Services and Significant Projects Completed

In keeping with its growth strategy of focusing on the services of the future, Infosys is strengthening its solutions capabilities in e-commerce, package implementation and in specific vertical industries. Leveraging the Infosys Global Delivery Model, the Company is helping an increasing number of organizations meet their IT needs, across locations and countries.

The Global Delivery Model was used to develop an integrated human resources management system for a large computer manufacturer. The project team, distributed across three development centers in India and the customer site in the US, developed a system that provides workflow automation for day-to-day human resource transactions. This system also interfaces with several other systems, and is now being implemented worldwide by the client.

In another example of globally deployable systems, Infosys built a fixed asset management system for one of the largest food companies in the world, and is now helping the client implement this system in South America.

The Company added 19 new clients during the quarter. Several of these were in the ecommerce area including Amazon.com, EC Cubed and Value America.

Value America (www.valueamerica.com) is one of the Internet's leading online retailers. Infosys is working with Value America on several projects in enhancing customer service and in ERP implementation.

Infosys is helping CBS SportsLine (www.sportsline.com), a highly interactive sports website, in building a next-generation virtual sports store.

In a related development, Infosys entered into a strategic alliance with CyberSource Corporation (www.cybersource.com), a leading provider of real-time ecommerce transaction processing services for payment, tax calculation, risk management (including fraud screening), fulfillment management, and distribution control. The new alliance will help Infosys configure end-to-end e-commerce transaction systems for its clients as part of its overall e-commerce service.

Infosys subscribes to the belief of the Internet Engineering Task Force (IETF), that Quality of Service (QoS) can be a critical differentiator among service providers in their aim to deliver end-to-end, guaranteed IP QoS to multimedia traffic on IP networks. Infosys is currently working with a world leader on cutting-edge technology in the field of Policy-based Network Management. Infosys has developed a Policy Manager (PM) and Policy Agents based on the Common Open Policy Service (COPS) protocol to provide Policy-based Resource Management capabilities to service providers. This PM supports both Int-Serv and Diff-Serv architectures and is also designed to take care of other kinds of policies.

In a rapidly growing relationship, Infosys is helping one of the largest providers of managed healthcare services in the US manage its core business applications. This client relies on Infosys' expertise in supporting large legacy systems and reengineering them to current technologies.

In the field of commodities trading, Infosys has completed a process-reengineering project for a large grain trading company in the US. Infosys reengineered business processes and developed a new set of applications, which led to cycle time reductions of up to 75%.

Infosys has built state-of-the-art data-warehousing applications for a leading office equipment manufacturer in the US using Oracle technologies including Oracle Discoverer and Oracle Express. These applications include the operational data store, a relational online analytical processing system (ROLAP) for operational decision support, and a multidimensional online analytical processing system (MOLAP) for executive decision support.

Revenue from Year 2000 business as a proportion of total revenue declined to 12% in the quarter, as against 15% in the quarter ended March 31, 1999. E-commerce contributed to 6.4% in the quarter, as against 5.0% in the quarter ended March 31, 1999.

"The Company has been able to successfully migrate its skill-set to new paradigms, delivering value to clients where it matters most ", said Mr. Nandan M. Nilekani, Managing Director, President and COO.

Mr. S. Gopalakrishnan, Deputy Managing Director, said, "The Company continues to lay emphasis on attracting, enabling and retaining the best and brightest people. A learning culture permeates the organization, spurring higher value delivery to clients."

Statement on Year 2000 readiness

The Company believes that it has identified the major systems, software applications and related equipment used in connection with its internal operations that must be modified or upgraded in order to minimize the possibility of a material disruption to its business from the Year 2000 problem. The Company has converted its financial applications software to programs certified by the suppliers as Year 2000 compliant. In tests conducted to-date on other systems, the Company has not found any significant Year 2000-related problems. The Company is currently in the process of modifying and upgrading the affected non-critical systems and expects this to be completed by August 31, 1999. All these activities are carried out with internal resources and where necessary, with aid from the vendors who supplied the systems.

Although the Company maintains redundant software facilities and satellite communication links, any sustained disruption of the Company's ability to transmit voice and data through satellite and telephone communications would have a material adverse effect on the Company's business, results of operations and financial condition. Though most vendors and service providers have assured their Year 2000 readiness, certain public communication suppliers have not been able to guarantee this. The Company is keeping in touch with these suppliers to expedite their Year 2000 readiness.

All costs associated with carrying out the Company's plan to handle the Year 2000 problem are being expensed as incurred and have not been significant to date. Contingency plans are in place in the event of failure of equipment provided to the Company by external vendors such as satellite and telecommunication links. Towards this end, a provision of Rs. 3.33 crore has been made in this quarter, and the total provision made to date amounts to Rs. 9.99 crore.

The information above contains forward-looking statements which reflect the current views of the Company with respect to Year 2000 compliance of the Company's internal systems and third party suppliers, and the related costs and potential impact on the Company's financial performance. As indicated above, these assessments may ultimately prove to be inaccurate.

Liquidity and Capital Resources

Cash and cash equivalents as on June 30, 1999 were Rs. 444.72 crore, which formed 70.25% of total assets. Excluding ADS proceeds, cash and cash equivalents formed 26.4% of total assets as on June 30, 1999. Operating cash flow for the quarter ended June 30, 1999 was Rs. 54.61 crore as compared to Rs. 17.95 crore for the corresponding quarter in the previous year. Capital expenditure of Rs. 21.20 crore was incurred for the quarter as compared to Rs. 10.47 crore for the corresponding quarter in the previous year. Unearned revenue as of June 30, 1999 amounted to Rs. 22.54 crore, primarily arising out of billings for fixed-price, fixed-time-frame contracts for which related costs were not incurred during the quarter.

"Liquidity continues to be strong", said Mr. T. V. Mohandas Pai, Senior Vice President - Finance and Administration, and Chief Financial Officer. "Margins have been maintained despite the annual salary increases effected in the quarter."

Human Resources

Infosys increased its total employee strength to 3,943 as on June 30, 1999, up from 3,766 as on March 31, 1999. The strength of software personnel as on June 30, 1999 increased to 3,321 from 3,158 as on March 31, 1999. Of these 3,321 software professionals, 216 are still undergoing training and 139 belong to the Banking product group, as against 277 and 134 respectively on March 31, 1999.

Infrastructure Development

Construction of the software development center at *Infosys Park*, adjoining the Company's existing facility at Electronics City, Bangalore, is progressing well. One more block with a total built-up area of 29,600 sq.ft. and a capacity to accommodate up to 225 employees was made operational during the quarter. A food court with a total area of 42,205 sq.ft. was also commissioned during this period. *Infosys Park* now has the capacity to accommodate up to 1,440 employees on a total built-up area of 2,46,400 sq.ft.

During the quarter, the construction of *Infosys Park, Phase II* began on a plot of 14.06 acres, adjacent to the Company's headquarters in Electronics City, Bangalore. This facility, when completed, will comprise around 500,000 sq. ft. of built-up area.

The construction of Phase I of the software development facility at Pune Infotech Park, Hinjawadi, Pune is progressing well and is expected to be completed on schedule.

About the Company

Headquartered in Bangalore, India and with offices around the world, Infosys Technologies Limited is a world leader in providing IT consulting and software services to *Fortune 1000* companies. Infosys offers offshore software services such as application development, reengineering, software maintenance, Internet consulting and package implementation. The Company is ISO 9001 certified and has achieved certification at Level 4 of the Capability Maturity Model of the Software Engineering Institute (SEI-CMM).

For companies requiring application development, reengineering, maintenance, Internet development and package implementation, Infosys is an efficient and cost-effective partner. For more information, contact V. Balakrishnan, Associate Vice President (Finance) at +91-80-852-0440, e-mail him at balakv@itlinfosys.com or visit Infosys on the World Wide Web at www.itlinfosys.com for a detailed statement of results, including the Balance Sheet, Profit and Loss Account and associated schedules.

Safe Harbor Provision

Except for the historical information and discussions contained herein, statements included in this release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those that may be projected by these forward looking statements. These risks and uncertainties include, but are not limited to competition, acquisitions, attracting, recruiting and retaining highly skilled employees, technology, law and regulatory policy and managing risks associated with customer projects as well as other risks detailed in the reports filed by Infosys Technologies Limited with the Securities and Exchange Commission. Infosys undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof.

INFOSYS TECHNOLOGIES LIMITED		<i>in Rs.</i>
Balance Sheets as at June 30,	1999	1998
SOURCES OF FUNDS		
SHAREHOLDERS' FUNDS		

Share capital	33,06,95,500	16,01,73,500
Reserves and surplus	599,94,93,896	180,61,28,371
	633,01,89,396	196,63,01,871
APPLICATION OF FUNDS		
FIXED ASSETS		
Gross block	190,40,05,553	110,14,70,963
Less : Depreciation	92,02,83,178	52,44,09,843
Net block	98,37,22,375	57,70,61,120
Add : Capital work-in-progress	14,21,61,438	12,76,67,737
	112,58,83,813	70,47,28,857
INVESTMENTS	75,48,469	9,77,71,960
CURRENT ASSETS, LOANS AND ADVANCES		
Sundry debtors	106,75,75,082	51,76,21,747
Cash and bank balances	389,99,38,741	48,92,92,531
Loans and advances	123,67,02,392	42,70,26,972
	620,42,16,215	143,39,41,250
Less : Current liabilities	55,69,78,559	18,64,71,583
: Provisions	45,04,80,542	8,36,68,613
NET CURRENT ASSETS	519,67,57,114	116,38,01,054
	633,01,89,396	196,63,01,871

INFOSYS TECHNOLOGIES LIMITED		<i>in Rs.</i>
Profit and Loss Accounts for the quarter ended June 30,	1999	1998
INCOME		
Income from software development services and products		

- Overseas	168,62,11,001	96,37,87,986
- Domestic	1,64,95,994	1,14,42,086
Other income	13,79,13,245	90,25,948
- Interest and others	5,66,10,867	90,25,948
- Exchange differences	8,13,02,378	-
Total Income	184,06,20,240	98,42,56,020
EXPENDITURE		
Software development expenses	89,18,81,292	55,82,56,290
Administration and other expenses	13,61,38,961	9,99,06,913
Provision for contingencies	3,33,00,000	-
Provision for investment in subsidiary	-	1,00,00,000
Total Expenses	106,13,20,253	66,81,63,203
Operating profit (PBIDT)	77,92,99,987	31,60,92,817
Interest	-	-
Depreciation	932,18,149	4,93,63,865
Profit before tax	68,60,81,838	26,67,28,952
Provision for tax	8,00,00,000	3,00,00,000
Net profit	60,60,81,838	23,67,28,952

Segmental Analysis - By Geographical Area

	Quarter ended June 30, 1999			
	1999	%	1998	%
North America	143,64,42,265	78.0	82,44,66,018	83.8
Europe	27,92,18,538	15.2	8,07,29,002	8.2
Rest of the World	8,88,45,571	4.8	5,85,92,966	6.0
India	3,61,13,867	2.0	2,04,68,034	2.0
Total net revenue	184,06,20,241	100.0	98,42,56,020	100.0

Reconciliation of accounts as per Indian GAAP and US GAAP

	<i>Rs. in crore</i>
Net profit as per Indian GAAP accounts	60.61
Less:	
Amortization of deferred stock compensation	5.37
Deferred Income taxes	1.45
Add:	
Provision for contingencies	3.33
Net income as per US GAAP accounts	57.12

Reasons for differences in net income as per Indian GAAP and US GAAP

Amortization of deferred stock compensation

The Accounting Principles Board Opinion No. 25 of US GAAP requires the accounting of deferred stock compensation on issue of stock options to employees, being the difference between the exercise price and the fair value as determined by the quoted market prices of the common stock on the grant date.

In complying with this requirement, Infosys has charged to revenue under US GAAP an amount of Rs. 5.37 crore for the quarter ended June 30, 1999 as deferred stock compensation.

Deferred Income tax provision

US GAAP mandates that the tax element arising on timing differences in amortizing various Assets and Liabilities as per tax books and financial statements be accounted as deferred taxation and appropriate treatment be made in the income statement. There is no such requirement under Indian GAAP.

Provision for contingencies

A majority of software development work done by Infosys is carried out from India, using satellite and other telecommunication links to connect with client computers around the world. There were concerns across the world of a probable disruption in telecommunication links due to Year 2000 non-compliance by telecommunication switches or satellite systems. This is a concern for Infosys as well, even though these links are provided by major carrier networks. Such failures may result in disruption of business and may result in financial losses.

Infosys has instituted a contingency plan to meet any possible disruption in customer support due to the Year 2000 impact on the technology and communication infrastructure provided to the Company by its vendors. The Company has made a provision of Rs. 3.33 crore for the quarter ended June 30, 1999 towards such a contingency plan in the financial statements as per Indian GAAP.