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U.S. GAAP

Infosys Announces Impressive Second Quarter 1998-99 Consolidated Revenues and Income

Exports drive revenue growth

Bangalore, India – October 12, 1998 – Infosys Technologies Limited today announced consolidated revenues of $ 28.87 million for the second quarter ended September 30, 1998, an increase of 71% over $ 16.85 million reported for the corresponding quarter of the prior year. Net income totaled $ 6.16 million for the quarter ended September 30, 1998, while the net income totaled $ 3.63 million for the quarter ended September 30, 1997. Basic earnings per share were $ 0.40 for the quarter ended September 30, 1998, representing a 60% increase compared to $ 0.25 in the second quarter ended September 30, 1997.

The consolidated revenues for the first half year ended September 30, 1998, was $ 52.81 million, an increase of 78% over $ 29.64 million reported for the corresponding period of the prior year. Net income totaled $ 10.94 million, representing a 88% increase compared to $ 5.81 in the half year ended September 30, 1997. The basic earnings per share for the half year ended September 30, 1998 were $ 0.72 compared to $ 0.40 for the half year ended September 30, 1997, representing an increase of 80%.

The Board of Directors of Infosys Technologies Limited have proposed an interim dividend of $ 0.06 per share (converted at an exchange rate of Rs. 42.49 to a dollar).

“My own analysis of the dynamics of the marketplace reveals that the revenue and profitability of the Indian software export companies will continue to be healthy as in the past even though there are indications of possible economic slow-down in G-7 countries. While the growth rates of revenue and the profitability of Infosys look impressive, I would like to caution that such high growth rates are not envisaged for the remaining two quarters. Infosys expects to grow in line with the industry,” said Mr. N. R. Narayana Murthy, Chairman and Managing Director.

Yantra Corporation, the subsidiary of Infosys in the U.S., recorded a net loss of $ 0.83 million during the quarter ended September 30, 1998, which has been considered in the consolidated net income of Infosys. Research and Development expenditure of $ 0.23 million (which formed 27% of the net revenues of Yantra) and amortization of products of $ 0.08 million partially contributed to the loss. The Research and Development expenses incurred by Yantra was fully amortized as revenue expenditure during the second quarter ended September 30, 1998.

Financial Results - US GAAP
October 12, 1998
Electronics City, Hosur Road, Bangalore - 561 229.

Infosys announced in the second quarter of fiscal 1999 its plans to broaden the management team and lay the ground for further growth and globalization. The Board of Directors of Infosys Technologies Limited decided that Mr. Narayana Murthy, Chairman, Managing Director and CEO, will need to dedicate considerably more of his time to activities such as building Infosys brand equity in the global markets, dealing with international investors, expanding the physical and technological infrastructure, and looking at growth opportunities. This required Mr. Narayana Murthy to delegate most of his operating responsibilities. With this in view, Mr. Nandan M. Nilekani, currently Deputy Managing Director, will be promoted to the post of Managing Director / President and Chief Operating Officer. He will be in charge of all day-to-day operations and will report to Mr. Narayana Murthy, who will be the Chairman and CEO. The change will be effected from April 1, 1999, at the start of the next financial year.

Mr. Nandan M. Nilekani, Deputy Managing Director, said: “I am excited by this opportunity to contribute to Infosys in a new role. The last few years have seen Infosys grow by leaps and bounds, and I look forward to managing the day-to-day operations as we go forward.”

A banking technology conference and exhibition – BancIT was hosted by Infosys Technologies Limited in Bangalore on July 2 and 3, 1998. BancIT’98 provided a platform for bankers and all institutions related to the banking industry to learn about the latest banking and technology trends worldwide from visionaries and industry leaders from the global banking and IT industry. It aimed to assist banks in harnessing technology to enhance profitability and exploit new growth opportunities. BancIT’98 was partnered by leading IT companies like Sun Microsystems, Digital Equipment India Ltd., Oracle, FSS & ACI, Cisco Systems and Cincom. BancIT will be an annual event.

Infosys Technologies Limited plans to expand its development centres at Pune and Chennai. The company signed Memoranda of Understanding (MoU) with the Government of Maharashtra on August 1, 1998 and Government of Tamilnadu on September 4, 1998. Under the MoU, the Government of Maharashtra has agreed to allot to Infosys adequate land near Pune through Maharashtra Industrial Development Corporation and provide other infrastructural facilities. The Government of Tamilnadu has agreed to allot, through ELCOT, adequate land to the Company near Chennai and provide other infrastructure facilities.

The progress on the new facility - *Infosys Park* - at Electronics City, Bangalore, adjoining the existing facility, has been satisfactory. Two modules with a total built up area of 64,000 sq.ft. and a total capacity to accommodate up to 550 employees were made operational during the quarter. This state-of-the-art facility, which is scheduled for completion by December 1999, will accommodate up to 2,000 software and support professionals. The development centre at Chennai was expanded during the quarter with the commissioning of the second office, which can accommodate up to 250 employees.

Infosys added 5 new customers during the second quarter. Infosys has signed a contract with CyberShop for developing a complete Electronic Commerce system. The system, using InterWorld’s Commerce Exchange Server, will handle all aspects of CyberShop’s business including the customer interface on the front end and order processing on the back end. CyberShop is a leading upscale online retailer and offers over 40,000 products from more than 400 manufacturers.

Infosys increased its strength of software personnel during the quarter ended September 30, 1998 to 2,662 from 2,577 at the end of June 30, 1998. The total employee strength increased to 3,167 as on September 30, 1998 from 3,022 at the end of June 30, 1998. Mr. S. Gopalakrishnan, Deputy Managing Director, said: “Maintaining quality, productivity and customer focus while growing so rapidly is a tribute to the grit and determination of the Infoscion.”

Press Release

Financial Results - US GAAP
October 12, 1998
Electronics City, Hosur Road, Bangalore - 561 229.

Infosys won the ‘Company of the Year’ award instituted as part of ‘The Economic Times Awards for Corporate Excellence 1998’. The contribution made by Infosys towards corporate excellence, in enhancing stakeholder values and in pushing the frontiers of technology was recognized by a readers’ poll and a CEOs’ poll conducted by the Times of India group. A jury comprising eminent members of Corporate India such as Mr. Deepak Parekh, chairman of HDFC; Mr. Ratan Tata, chairman of Tata Sons; Mr. Kumar Mangalam Birla, chairman of the A. V. Birla Group; Mr. G. P. Gupta, chairman of IDBI; Mr. Rajesh Shah, president of CII and Mr. Ranjit Pandit, India country head of McKinsey & Co., was unanimous in their choice of Infosys Technologies Limited as the Company of the Year.

The South Asian Federation of Accountants (SAFA) presented Infosys with ‘Award of Excellence for Best Corporate Report’ at the 13th SAFA Conference at Dhaka. Infosys was selected first in the non-financial sector. Mr. T. V. Mohandas Pai, Senior Vice President (Finance and Administration) and Chief Financial Officer, said: “This honor will spur us to work hard and continue our leadership in transparency and investor-orientation in our annual reports in the future.”

Founded in 1981 and headquartered in Bangalore, Infosys provides information technology services and solutions to many of the Fortune 500 companies around the world. Infosys provides software development and maintenance services and uses the offshore development model. Infosys also offers branded services in the areas of Telecom, Year 2000 remediation, Internet and Intranet solutions, Engineering services and products for the banking industry.

Statements made in this press release, other than those concerning historical information, should be considered forward-looking and subject to various risks and uncertainties. Actual results may differ materially from the results anticipated in these forward-looking statements.

Financial Results - US GAAP
October 12, 1998
Electronics City, Hosur Road, Bangalore - 561 229.

Infosys Technologies Limited

Consolidated Balance Sheets

in US$

	September 30, 1998 (unaudited)	September 30, 1997 (unaudited)	March 31, 1998 (audited)
ASSETS			
Current assets			
Cash and cash equivalents	21,422,988	11,533,621	15,419,265
Trade Accounts receivable, net of allowances	14,728,377	8,260,283	10,263,084
Inventories	-	11,942	-
Prepaid expenses and other current assets	5,121,512	3,467,171	3,751,289
Prepaid income taxes	-	1,070,683	536,969
Total current assets	41,272,877	24,343,700	29,970,607
Property, plant and equipment - net	20,663,189	16,423,853	16,695,503
Deferred tax assets	1,332,399	332,213	1,089,948
Investments	362	362	362
Other assets	1,852,227	788,621	1,025,605
Total assets	65,121,054	41,888,749	48,782,025
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	104,721	195,421	149,086
Customer deposits	46,852	176,576	190,173
Unearned revenue	1,957,181	-	-
Other accrued liabilities	5,408,697	2,377,121	4,979,306
Total current liabilities	7,517,451	2,749,118	5,318,565
Non-current liabilities	-	-	-
Total liabilities	7,517,451	2,749,118	5,318,565
Preferred stock of subsidiary	8,435,689	2,250,000	2,317,500
Stockholders' equity			
Common stock, $ 0.32 par value; 30,000,000 shares authorized as of September 30, 1998 and 1997 and March 31, 1998; Issued and outstanding shares - 16,017,200 as of September 30, 1998 and 1997 and March 31, 1998.	4,545,811	2,517,290	4,545,811
Additional paid-in capital	24,415,920	17,523,136	24,415,920
Accumulated other comprehensive income	(9,938,678)	(4,022,837)	(7,042,229)
Deferred compensation - Employee Stock Offer Plan	(6,908,291)	(3,039,477)	(7,831,445)
Retained earnings	37,891,786	24,951,831	27,994,268
Loan to trust	(838,634)	(1,040,312)	(936,365)
Total stockholders' equity	49,167,914	36,889,631	41,145,960
Total liabilities and stockholders' equity	65,121,054	41,888,749	48,782,025

Press Release

Financial Results - US GAAP
October 12, 1998
Electronics City, Hosur Road, Bangalore - 561 229.

Infosys Technologies Limited

Consolidated Income Statements

in US$

	Three months ended September 30,		Six months ended September 30,		Year ended March 31,
	1998 (unaudited)	1997 (unaudited)	1998 (unaudited)	1997 (unaudited)	1998 (audited)
Revenues					
Revenues	28,873,983	16,849,466	52,812,525	29,640,874	68,329,961
Cost of revenues	16,499,883	9,901,154	30,338,382	17,448,913	40,156,509
Gross profit	12,374,100	6,948,312	22,474,143	12,191,961	28,173,452
Operating expenses					
Selling, general and administrative expenses	4,546,468	3,168,703	8,965,501	5,649,818	13,225,492
Amortization of deferred stock compensation expense	461,577	234,119	923,154	468,238	2,566,613
Total operating expenses	5,008,045	3,402,822	9,888,655	6,118,056	15,792,105
Operating income	7,366,055	3,545,490	12,585,488	6,073,905	12,381,347
Other income, net	149,492	348,768	390,093	483,741	800,799
Income before income taxes	7,515,547	3,894,258	12,975,581	6,557,646	13,182,146
Provision for income taxes	1,279,836	259,889	1,930,354	753,248	770,458
Subsidiary preferred stock dividends	76,331	-	110,081	-	67,500
Net income	6,159,380	3,634,369	10,935,146	5,804,398	12,344,188
Earnings per share*					
Basic	0.40	0.25	0.72	0.40	0.83
Diluted	0.40	0.24	0.72	0.39	0.81
Weighted Equity Shares used in computing earnings per Equity Share					
Basic	15,270,000	14,519,200	15,270,000	14,519,200	14,893,572
Diluted	15,295,818	14,987,325	15,293,325	14,986,578	15,201,952

Press Release

Financial Results - US GAAP
October 12, 1998
Electronics City, Hosur Road, Bangalore - 561 229.

Infosys Technologies Limited

Segmental Analysis

	Three months ended September 30,				Six months ended September 30,				Fiscal year ended March 31	
	1998	%	1997	%	1998	%	1997	%	1998	%
By geographical area										
Americas	$ 23,311,996	81	$ 13,409,885	80	$ 43,592,106	83	$ 24,287,259	82	$ 56,211,753	82
Europe	3,351,752	11	1,653,449	10	5,310,718	10	2,566,955	9	6,179,621	9
Rest of the World	1,764,637	6	1,372,699	8	3,186,452	6	1,939,431	6	4,139,219	6
India	445,598	2	413,433	2	723,249	1	847,229	3	1,799,368	3
Total net revenues	$ 28,873,983	100	$ 16,849,466	100	$ 52,812,525	100	$ 29,640,874	100	$ 68,329,961	100

Financial Results - US GAAP
October 12, 1998
Electronics City, Hosur Road, Bangalore - 561 229.

Infosys Technologies Limited

Financial Highlights

(All growth percentages are comparisons
to comparable periods of 1997-98)

Revenues

Revenues were $ 28.87 million for the three months ended September 30 1998, an increase of 71% over the corresponding period of prior year. Growth in revenues was due to the growth in all sectors of the company's software services.

Operating Expenses

Cost of revenues as a per cent of net revenues decreased to 57% from 59% in the three months ended September 30, 1997, mainly due to reduced depreciation expenses.

Non-operating income

The non-operating income was $ 0.15 million in the three months ended September 30, 1998 as against $ 0.35 million in the corresponding period of prior year. The reduction is mainly due to reduction in interest rates on deployment of surplus funds.

Balance Sheet

Cash and cash equivalents totaled $ 21.42 million as on September 30, 1998, which is 33% of the total assets. The Cash and cash equivalents of $ 11.53 million as on September 30, 1997 was 27% of the total assets. The average Accounts receivables were 51 days as of September 30, 1998 and September 30, 1997.

Cash flows

The net Cash flows from operations was $ 11.64 million in the three months ended September 30, 1998 as compared to net cash flows from operations of $ 5.27 million in the corresponding period of prior year.

Financial Results - US GAAP
October 12, 1998
Electronics City, Hosur Road, Bangalore - 561 229.

Infosys Technologies Limited

Reconciliation of accounts as per Indian GAAP and U.S. GAAP

		US$ in million
Profit as per Indian GAAP accounts		6.67
Less:		
Loss from Yantra Corporation accounted	0.83	
Amortization of deferred stock compensation on issue of stock options to employees	0.46	1.29
		5.38
Add:		
Provision for investment in subsidiary	0.60	
Deferred Income tax provision	0.18	0.78
Net income as per U.S. GAAP accounts (unaudited)		6.16

Reasons for differences in net income as per Indian GAAP and U.S. GAAP

1. Loss from Yantra Corporation – The Indian GAAP does not require consolidation of accounts of subsidiaries with the parent companies. However, the U.S. GAAP mandates for consolidating the accounts of subsidiaries with the parent company for reporting purposes. During the three months ended September 30, 1998, Yantra reported revenues of $ 0.88 million and a net loss of $ 0.94 million. Research and Development expenditure of $ 0.23 million (which formed 27% of the net revenues) and amortization of products of $ 0.08 million partially contributed to the loss. A loss of $ 0.83 million incurred by Yantra is included in the above consolidated income statement after netting-off the inter-company transactions.

   Indian GAAP requires companies to only provide for any loss on investments in a subsidiary, which is other than temporary. Infosys, as a matter of prudence, has made a provision towards its investment in Yantra of $ 0.60 million in its Income Statement for the three months ended September 30, 1998, prepared as per the Indian GAAP.

2. Amortization of deferred stock compensation – The Indian GAAP does not mandate a company to recognize and amortize amounts relating to the deferred stock compensation arising on issue of stock options to employees. However, Accounting Principles Board Opinion No. 25 of U.S. GAAP requires that deferred stock compensation arising on issue of stock options to employees resulting from the difference between the exercise price and the fair value as determined by the quoted market prices of the common stock underlying the warrants on the grant date, be accounted for.

   In complying with this requirement, Infosys has charged to revenues $ 0.46 million during the three months ended September 30, 1998 as deferred stock compensation.

3. Deferred Income tax provision – U.S. GAAP mandates that the tax element arising on timing differences in amortizing various Assets and Liabilities as per the tax books and financial statements be accounted as deferred taxation and appropriate treatment has to be made in the income statement. There is no such requirement under the Indian GAAP.