INFOSYS TECHNOLOGIES LTD
Form 6-K
January 20, 2004

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United States Securities and Exchange Commission

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

For the quarter ended December 31, 2003

Commission File Number: 333-72195

INFOSYS TECHNOLOGIES LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant s name into English)

Bangalore, Karnataka, India
(Jurisdiction of incorporation or organization)

Electronics City, Hosur Road, Bangalore, Karnataka, India 560 100. +91-80-852-0261
(Address of principal executive offices)

Indicate by check mark registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g 3-2(b) under the Securities Exchange Act of 1934 Yes o No x

If Yes is marked, indicate below the file number assigned to registrant in connection with Rule 12g 3-2(b).

Not Applicable

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Currency of Presentation and Certain Defined Terms

In this Quarterly Report, references to U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. References to $ or dollars or U.S. dollars are to the legal currency of the United States and references to Rs. or rupees or Indian rupees are to the legal currency of India. Our financial statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with United States Generally Accepted Accounting Principles, or U.S. GAAP. References to Indian GAAP are to Indian Generally Accepted Accounting Principles. References to a particular fiscal year are to our fiscal year ended March 31 of such year.

All references to we, us, our, Infosys or the Company shall mean Infosys Technologies Limited. Infosys is a registered trademark of Infosys Technologies Limited in the United States and India. All other trademarks or tradenames used in this Quarterly Report are the property of their respective owners.

Except as otherwise stated in this Quarterly Report, all translations from Indian Rupees to U.S. dollars are based on the noon buying rate in the City of New York on December 31, 2003, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York which was Rs. 45.55 per $1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Information contained in our website, www.infosys.com, is not part of this Quarterly Report.

Forward-looking Statements May Prove Inaccurate

In addition to historical information, this Quarterly Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such differences include but are not limited to, those discussed in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date hereof. In addition, readers should carefully review the other information in this Quarterly Report and in the Company s periodic reports and other documents filed with the Securities and Exchange Commission (SEC) from time to time.

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Part I Financial Information

Item 1. Financial Statements

Infosys Technologies Limited and subsidiaries

Consolidated balance sheets

		(Unaudited)
	March 31, 2003 (1)	December 31, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$354,362,918	$421,302,898
Investments in liquid mutual fund units		133,011,380
Trade accounts receivable, net of allowances	109,119,856	153,010,094
Deferred tax assets	288,541	472,095
Prepaid expenses and other current assets	24,384,316	35,637,535
Unbilled revenue	19,702,186	20,420,935
Total current assets	507,857,817	763,854,937
Property, plant and equipment, net	157,194,190	182,131,622
Intangible assets, net	6,471,236	
Deferred tax assets	7,264,885	6,509,330
Investments	4,613,833	1,925,167
Prepaid income taxes	4,452,678	169,688
Other assets	16,454,328	14,651,560
TOTAL ASSETS	**$704,308,967**	**$969,242,304**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 426,611	$ 342,644
Client deposits	3,208,295	21,203,634
Other accrued liabilities	46,249,269	78,656,396
Income taxes payable		14,321,236
Unearned revenue	13,202,115	18,510,857
Total current liabilities	63,086,290	133,034,767
Non-current liabilities		
Preferred stock of subsidiary 0.0005% Cumulative Convertible Preference Shares, par value $2 each, 4,375,000 preference shares Authorized, issued and outstanding 4,375,000 preference shares as of March 31, 2003 and December 31, 2003	10,000,000	10,757,408
Other non-current liabilities	5,217,758	4,427,000
Stockholders Equity		
Common stock, $0.16 par value; 100,000,000 equity shares authorized, Issued and outstanding 66,243,078 and 66,455,992 as of March 31, 2003 and December 31, 2003 respectively	8,602,909	8,626,207

Additional paid-in capital	127,042,751	144,070,027
Retained earnings	524,621,160	670,884,201
Deferred stock compensation	(2,817,066)	
Accumulated other comprehensive income	(31,444,835)	(2,557,306)
Total stockholders equity	626,004,919	821,023,129
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 704,308,967**	**$ 969,242,304**

(1) *March 31, 2003 balances were obtained from audited financial statements*

See accompanying notes to the unaudited consolidated financial statements

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Infosys Technologies Limited and subsidiaries

Unaudited consolidated statements of income

	Three months ended December 31,		Nine months ended December 31,	
	2002	**2003**	**2002**	**2003**
Revenues	**$200,014,166**	**$275,886,678**	**$537,775,974**	**$759,911,290**
Cost of revenues (including amortization of stock compensation expenses of $729,994 and $395,344 for the three months ended December 31, 2002 and 2003 and $2,189,981 and $1,653,156 for the nine months ended December 31, 2002 and 2003)	110,928,922	155,856,199	294,226,283	429,501,225
Gross profit	**89,085,244**	**120,030,479**	**243,549,691**	**330,410,065**
Operating Expenses:				
Selling and marketing expenses	14,952,660	20,827,551	40,734,946	56,243,853
General and administrative expenses	15,422,086	20,586,131	40,383,534	58,747,502
Amortization of stock compensation expense	513,954	278,343	1,541,863	1,163,910
Amortization of intangible assets	924,249	2,647,778	1,744,274	6,719,351
Total operating expenses	**31,812,949**	**44,339,803**	**84,404,617**	**122,874,616**
Operating income	**57,272,295**	**75,690,676**	**159,145,074**	**207,535,449**
Other income, net	6,907,692	8,842,133	12,538,464	24,385,839
Income before income taxes	**64,179,987**	**84,532,809**	**171,683,538**	**231,921,288**
Provision for income taxes	11,926,841	13,987,449	29,885,621	38,391,629
Net income	**$ 52,253,146**	**$ 70,545,360**	**$141,797,917**	**$193,529,659**
Earnings per equity share				
Basic	$ 0.80	$ 1.07	$ 2.16	$ 2.95
Diluted	$ 0.78	$ 1.05	$ 2.13	$ 2.91
Weighted equity shares used in computing earnings per equity share				
Basic	65,569,377	65,709,862	65,567,814	65,628,199
Diluted	66,667,561	67,181,796	66,405,932	66,557,167

See accompanying notes to the unaudited consolidated financial statements

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Infosys Technologies Limited and subsidiaries

Unaudited consolidated statements of stockholders equity and comprehensive income

	Common stock		Additional paid-in capital	Comprehensive income
	Shares	Par value		
Balance as of March 31, 2002	**66,186,130**	**$8,597,001**	**$123,079,948**	
Common stock issued	43,359	4,480	2,191,234	
Cash dividends				
Income tax benefit arising on exercise of stock options			804,695	
Amortization of compensation related to stock option grants				
Comprehensive income				
Net income				$141,797,917
Other comprehensive income				
Translation adjustment				8,232,075
Comprehensive income				$150,029,992
Balance as of December 31, 2002	**66,229,489**	**$8,601,481**	**$126,075,877**	
Balance as of March 31, 2003	**66,243,078**	**$8,602,909**	**$127,042,751**	
Common stock issued	212,914	23,298	14,560,748	
Cash dividends				
Income tax benefit arising on exercise of stock options			2,466,528	
Amortization of compensation related to stock option grants				
Comprehensive income				
Net income				$193,529,659
Other comprehensive income				
Unrealized gain on investments, net of taxes				89,130
Translation adjustment				28,798,399
Comprehensive income				**$222,417,188**
Balance as of December 31, 2003	**66,455,992**	**$8,626,207**	**$144,070,027**	

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Accumulated other comprehensive income	Deferred stock compensation	Retained earnings	Total stockholders equity

Balance as of March 31, 2002	**$(45,441,148)**	**$(7,620,600)**	**$363,764,165**	**$442,379,366**
Common stock issued				2,195,714
Cash dividends			(34,013,046)	(34,013,046)
Income tax benefit arising on exercise of stock options				804,695
Amortization of compensation related to stock option grants		3,731,844		3,731,844
Comprehensive income				
Net income			141,797,917	141,797,917
Other comprehensive income				
Translation adjustment	8,232,075			8,232,075
Comprehensive income				
Balance as of December 31, 2002	**$(37,209,073)**	**$(3,888,756)**	**$471,549,036**	**$565,128,565**
Balance as of March 31, 2003	**$(31,444,835)**	**$(2,817,066)**	**$524,621,160**	**$626,004,919**
Common stock issued				14,584,046
Cash dividends			(47,266,618)	(47,266,618)
Income tax benefit arising on exercise of stock options				2,466,528
Amortization of compensation related to stock option grants		2,817,066		2,817,066
Comprehensive income				
Net income			193,529,659	193,529,659
Other comprehensive income				
Unrealized gain on investments, net of taxes	89,130			89,130
Translation adjustment	28,798,399			28,798,399
Comprehensive income				
Balance as of December 31, 2003	**$ (2,557,306)**		**$670,884,201**	**$821,023,129**

See accompanying notes to the unaudited consolidated financial statements

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Infosys Technologies Limited and subsidiaries

Unaudited consolidated statements of cash flows

	Nine months ended December 31,	
	2002	**2003**
OPERATING ACTIVITIES:		
Net income	**$ 141,797,917**	**$ 193,529,659**
Adjustments to reconcile net income to net cash provided by operating activities		
Loss on sale of property, plant and equipment	8,437	
Depreciation	26,466,706	30,717,514
Amortization of intangible assets	1,744,274	6,719,351
Provision for investments	3,219,030	1,922,070
Deferred taxes	(2,228,025)	853,268
Amortization of deferred stock compensation expense	3,731,844	2,817,066
Changes in assets and liabilities		
Trade accounts receivable	(31,876,890)	(38,665,222)
Prepaid expenses and other current assets	(3,401,291)	(154,127)
Unbilled revenue	(11,183,030)	135,986
Income taxes	(3,159,384)	20,305,900
Accounts payable	126,497	(101,250)
Client deposits	3,776,724	17,636,155
Unearned revenue	8,014,837	4,676,599
Other accrued liabilities	14,275,082	29,409,213
Net cash provided by operating activities	**151,312,728**	**269,802,182**
INVESTING ACTIVITIES:		
Expenditure on property, plant and equipment	(26,796,968)	(48,630,139)
Expenditure on intangible asset	(4,078,363)	
Proceeds from sale of property, plant and equipment	53,222	56,378
Loans to employees	(4,973,581)	3,714,929
Investments in liquid mutual fund units		(130,818,049)
Cash advanced for contemplated business combination		(11,141,603)
Net cash used in investing activities	**(35,795,690)**	**(186,818,484)**
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	2,195,714	14,584,046
Proceeds from issuance of preferred stock by subsidiary	10,000,000	
Payment of dividends	(34,013,046)	(47,153,536)
Net cash used in financing activities	**(21,817,332)**	**(32,569,490)**
Effect of exchange rate changes on cash	4,373,092	16,525,772
Net increase in cash and cash equivalents during the period	98,072,798	66,939,980
Cash and cash equivalents at the beginning of the period	210,485,940	354,362,918
Cash and cash equivalents at the end of the period	**$ 308,558,738**	**$ 421,302,898**
Supplementary information:		
Cash paid towards taxes	$ 33,014,206	$ 17,204,767

Non cash transaction (see Note 2.5)	$ 5,000,000	

See accompanying notes to the unaudited consolidated financial statements

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Infosys Technologies Limited and subsidiaries

Notes to the unaudited consolidated financial statements

1 Company overview and significant accounting policies
1.1 Company overview

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

1.2 Basis of preparation of financial statements

The accompanying consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Inter-company balances and transactions are eliminated on consolidation. All amounts are stated in U.S. dollars, except as otherwise specified.

Interim information presented in the consolidated financial statements has been prepared by the management without audit and, in the opinion of management, includes all adjustments of a normal recurring nature that are necessary for the fair presentation of the financial position, results of operations and cash flows for the periods shown, and is in accordance with GAAP. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the company s annual report on Form 20-F for the fiscal year ended March 31, 2003.

1.3 Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenues and expenses during the period. Examples of estimates include accounting for contract costs expected to be incurred to complete software development, allowance for uncollectible accounts receivable, future obligations under employee benefit plans, provisions for post-sales customer support and the useful lives of property, plant and equipment and intangible assets. Actual results could differ from those estimates.

1.4 Revenue recognition

The company derives revenues primarily from software development and related services, licensing of software products and from business process management services. Arrangements with customers for software development and related services are either on a fixed price, fixed timeframe or on a time and material basis.

Revenue on time-and-material contracts is recognized as the related services are performed. Revenue from the end of the last billing to the balance sheet date is recognized as unbilled revenues. Revenue from fixed-price, fixed-time frame contracts is recognized as per the percentage-of-completion method. Guidance has been drawn from paragraph 95 of Statement of Position (SOP) 97-2 to account for revenue from fixed price arrangements for software development and related services in conformity with SOP 81-1. The input (efforts expended) method has been used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. Costs and earnings in excess of billings are classified as unbilled revenue while billings in excess of costs and earnings are classified as unearned revenue. Maintenance revenue is recognized ratably over the term of the underlying maintenance agreement.

The company provides its clients with a fixed-period warranty for corrections of errors and telephone support on all its fixed-price, fixed-time frame contracts. Costs associated with such support services are accrued at the time related revenues are recorded and included in cost of revenues. The company estimates such costs based on historical experience and estimates are reviewed on a periodic basis for any material changes in assumptions and likelihood of occurrence.

In accordance with SOP 97-2, Software Revenue Recognition, license fee revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable, and the collection of the fee is probable. Arrangements to deliver our software products generally have three elements: license, implementation and Annual Technical Services (ATS). The company has applied the principles in SOP 97-2 to account for revenue from these multiple element arrangements. Vendor specific objective evidence of fair value (VSOE) has been established for ATS. VSOE is the price charged when the element is sold separately. When other services are provided in conjunction with the licensing arrangement, the revenue from such contracts are allocated to each component of the contract using the residual method, whereby revenue is deferred for the undelivered services and the residual amounts are recognized as revenue for delivered elements. In the absence of an established VSOE for implementation, the entire arrangement fee for license and implementation is recognised as the implementation is performed. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed. ATS revenue is recognised ratably over the period in which the services are rendered.

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Revenues from business process management and other services are recognized on both, the time-and-material and fixed-price, fixed-time frame bases. Revenue on time-and-material contracts is recognized as the related services are rendered. Revenue from fixed-price, fixed-time frame contracts is recognized as per the proportional performance method using an output measure of performance.

When the company receives advances for services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met.

1.5 Cash and cash equivalents

The company considers all highly liquid investments with a remaining maturity at the date of purchase / investment of three months or less to be cash equivalents. Cash and cash equivalents comprise cash, cash on deposit with banks, and deposits with corporations.

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. The company depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets are as follows:

Buildings	15 years	Plant and equipment	5 years
Furniture and fixtures	5 years	Vehicles	5 years
Computer equipment	2-5 years		

The cost of software purchased for internal use is accounted under SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Deposits paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under *Capital work-in-progress* .

1.7 Intangible assets

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 of acquired rights in software applications to range between one through two years.

1.8 Impairment of long-lived assets

The company evaluates the recoverability of its long-lived assets and certain identifiable intangibles, if any, whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed are reported at the lower of the carrying value or the fair value less the cost to sell.

1.9 Research and development

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is achieved.

1.10 Foreign currency translation

The accompanying financial statements are reported in U.S. dollars. The functional currency of the company is the Indian rupee (Rs.). The translation of Rs. to U.S. dollars is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for revenue and expense accounts using a monthly average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as *Other comprehensive income* , a separate component of stockholders equity. The method for translating expenses of overseas operations depends upon the funds used. If the payment is made from a rupee denominated bank account, the exchange rate prevailing on the date of the payment would apply. If the payment is made from a foreign currency, i.e., non-rupee denominated account, the translation into rupees is performed at the average monthly exchange rate.

1.11 Earnings per share

In accordance with Statement of Financial Accounting Standards (SFAS) 128, *Earnings Per Share*, basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for options and warrants, except where the result would be anti-dilutive. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the if-converted method.

1.12 Income taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred tax assets and liabilities is recognized as income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is uncertain. The income tax provision for the interim period is based on the best estimate of the effective tax rate expected to be applicable for the full fiscal year.

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1.13 Fair value of financial instruments

The carrying amounts reflected in the balance sheets for cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short maturities of these instruments.

1.14 Concentration of risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash equivalents, trade accounts receivable, investment securities and hedging instruments. By nature, all such financial instruments involve risk, including the credit risk of non-performance by counterparties. In management s opinion, as of March 31, 2003 and December 31, 2003, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements, if any. Exposure to credit risk is managed through credit approvals, establishing credit limits and monitoring procedures. The company s cash resources are invested with corporations, financial institutions and banks with high investment grade credit ratings. Limitations are established by the company as to the maximum amount of cash that may be invested with any such single entity.

1.15 Retirement benefits to employees

1.15.1 Gratuity

In accordance with the Payment of Gratuity Act, 1972, Infosys and Progeon provide for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee s salary and the tenure of employment.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation. The company fully contributes all ascertained liabilities to the Infosys Technologies Limited Employees Gratuity Fund Trust (the Trust). Trustees administer contributions made to the Trust and contributions are invested in specific designated instruments as permitted by law and investments are also made in mutual funds that invest in the specific designated instruments.

1.15.2 Superannuation

Certain employees of Infosys are also participants of a defined contribution plan. The company makes monthly contributions under the superannuation plan (the Plan) to the Infosys Technologies Limited Employees Superannuation Fund Trust based on a specified percentage of each covered employee s salary. The company has no further obligations to the Plan beyond its monthly contributions. Certain employees of Progeon are also eligible for superannuation benefit. Progeon makes monthly provisions under the superannuation plan based on a specified percentage of each covered employee s salary. Progeon has no further obligations to the superannuation plan beyond its monthly provisions.

1.15.3 Provident fund

Eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee s salary. The company contributes a part of the contributions to the Infosys Technologies Limited Employees Provident Fund Trust. The remainders of the contributions are made to Government administered provident fund. The company has no further obligations under the provident fund plan beyond its monthly contributions.

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

1.16 Investments

The company accounts by the equity method for investments between 20% and 50% or where it is otherwise able to exercise significant influence over the operating and financial policies of the investee. Non-readily marketable equity securities for which there are no readily determinable fair values are recorded at cost. Declines in value judged to be other than temporary are included in earnings. Realized gains and losses and unrealized holding gains and losses for trading securities are included in earnings. Investment securities designated as available for sale are carried at their fair value. Fair value is based on quoted market prices. Temporary unrealized gains and losses, net of the related tax effect are reported as a separate component of stockholder s equity until realized. Realized gains and losses and declines in value judged to be other than temporary on available for sale securities are included in earnings. The cost of securities sold is based on the specific identification method. Interest and dividend income are recognized when earned.

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1.17 Stock-based compensation

The company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25* to account for its fixed stock option plans. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123.* All stock options issued to date have been accounted as a fixed stock option plan.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Nine months ended December 31,	
	2002	**2003**
Net income, as reported	$141,797,917	$193,529,659
Add: Stock-based employee compensation expense included in reported net income	3,731,844	2,817,066
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(43,311,902)	(41,222,826)
Pro forma net income	$102,217,859	$155,123,899
Earnings per share:		
Basic as reported	$ 2.16	$ 2.95
Basic pro forma	$ 1.56	$ 2.36
Diluted as reported	$ 2.13	$ 2.91
Diluted pro forma	$ 1.56	$ 2.34

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	Nine months ended December 31,	
	2002	**2003**
Dividend yield	0.2%	0.2%
Expected life	1-5 years	1-5 years
Risk free interest rate	6%	5.1%-5.7%
Volatility	60-75%	60-75%

1.18 Dividends

Dividend on common stock are recorded as a liability on the date of declaration by the stockholders.

1.19 Derivative financial instruments

The company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* as amended, when the rules became effective. The company enters into foreign exchange forward contracts where the counter party is generally a bank. The company purchases foreign exchange forward contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecasted cash flows denominated in certain foreign currencies. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS 133, as amended. Any derivative that is either not designated hedge, or is so designated but is ineffective per SFAS 133, is marked to market and recognized in earnings immediately.

1.20 Reclassifications

Certain reclassifications have been made to conform prior period data to the current presentations. These reclassifications had no effect on reported earnings.

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1.21 Recent Accounting Pronouncements

In December 2003, The Financial Accounting Standards Board (FASB) has published a revision to Interpretation 46 to clarify some of the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, and to exempt certain entities from its requirements. The additional guidance is being issued in response to input received from constituents regarding certain issues arising in implementing Interpretation 46. The revision is not expected to have any impact on the company s accounting or disclosure policies.

In December 2003, the FASB issued FASB Statement No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, that improves financial statement disclosures for defined benefit plans. The guidance is effective for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003. The company is evaluating the impact of the revision on its disclosure policies.

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2 Notes to the unaudited consolidated financial statements

2.1 Cash and cash equivalents

The cost and fair values for cash and cash equivalents are as follows:

	As of	
	March 31, 2003	December 31, 2003
Cost and fair values		
Cash and bank deposits	$283,302,326	$354,992,338
Deposits with corporations	71,060,592	66,310,560
	$354,362,918	$421,302,898

Cash and cash equivalents include restricted cash balances in the amount of $ 336,610 and $ 465,733 as of March 31, 2003 and December 31, 2003 respectively primarily on account of accrued dividends. Cash and cash equivalents as of December 31, 2003 also include $ 2,249,177 retained in escrow for a contemplated business combination (see Note 2.21).

2.2 Trade accounts receivable

Trade accounts receivable as of March 31, 2003 and December 31, 2003, net of allowance for doubtful accounts of $3,010,568 and $ 4,743,201 respectively, amounted to $109,119,856 and $ 153,010,094. The age profile of trade accounts receivable, net of allowances is given below.

	In %	
	As of	
	March 31, 2003	December 31, 2003
Period (in days)		
0 30	65.8	64.5
31 60	29.0	23.9
61 90	3.9	6.9
More than 90	1.3	4.7
	100.0	100.0

2.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	As of	
	March 31, 2003	December 31, 2003
Rent deposits	$ 2,856,226	$ 3,292,508

Security deposits with service providers	2,814,216	1,963,387
Loans to employees	12,252,004	11,541,388
Prepaid expenses	5,209,907	6,448,691
Other current assets	1,251,963	12,391,561
	$24,384,316	$35,637,535

Other current assets include advance payments to vendors for the supply of goods and rendering of services and certain costs incurred towards software. Deposits with service providers relate principally to leased telephone lines and electricity supplies. Other current assets as of December 31, 2003 include $11,141,603 advanced for a contemplated business combination (see Note 2.21).

2.4 Property, plant and equipment net

Property, plant and equipment consist of the following:

	As of	
	March 31, 2003	**December 31, 2003**
Land	$ 9,948,480	$ 18,081,838
Buildings	81,114,141	95,705,338
Furniture and fixtures	43,969,763	53,475,222
Computer equipment	77,299,299	93,659,146
Plant and equipment	47,832,904	58,821,887
Vehicles	73,995	93,680
Capital work-in-progress	16,281,831	17,669,963
	276,520,413	337,507,074

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	As of	
	March 31, 2003	**December 31, 2003**
Accumulated depreciation	(119,326,223)	(155,375,452)
	$ 157,194,190	$ 182,131,622

Depreciation expense amounted to $ 26,466,706 and $ 30,717,514 for the nine months ended December 31, 2002 and 2003 respectively. The amount of third party software (for internal use) expensed during the nine months ended December 31, 2002 and 2003 was $ 9,939,369 and $ 10,749,960 respectively.

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2.5 Intangible assets

During fiscal 2003, the company acquired the intellectual property rights of Trade IQ product from IQ Financial Systems Inc., USA for its banking business unit. The consideration paid amounted to $ 3.5 million and was recorded as an intangible asset and amortized over two years being management s initial estimate of the useful life. In the same fiscal year, the company also entered into an agreement for transferring the intellectual property rights in a commercial software application product used in the design of high performance structural systems. The company is required to pay the committed consideration of $ 5.0 million within ten years of the contract date. The ownership of intellectual property in the product transfers to the company on remittance of the consideration. The committed consideration of $ 5.0 million was recorded as an intangible asset and was being amortized over management s estimate of the useful life, which was initially 5 years. During the nine months ended December 31, 2003, management revised its estimates of the remaining useful life of these intangible assets. The additional amortization for the nine months ended December 31, 2003 due to the revisions in the estimates of remaining useful life was $ 4.4 million. The recorded values of the intangible assets have been completely amortized as of December 31, 2003.

2.6 Investments

The carrying value of the Company s investments are as follows:

	Carrying Value
As of March 31, 2003	
M-Commerce Ventures Pte Ltd 80 units, each unit representing 1 Ordinary Share of S$1 each at par and 900 Redeemable Preference Shares of S$1 each at par, with a premium of S$1,110 per Redeemable Preference Share	$ 453,863
CiDRA Corporation 33,333 Series D Convertible Preferred Stock, at $90 each, fully paid, par value $0.01 each	2,999,970
Workadia Inc., USA 880,000 Series B Preferred Stock at $2.5 each, fully paid, par value $0.0005 each	660,000
Stratify, Inc. (formerly Purple Yogi Inc.) 276,243 Series D Convertible Preferred Stock, at $1.81 each fully paid, par value $0.001 each	500,000
	$4,613,833
As of December 31, 2003	
M-Commerce Ventures Pte Ltd 100 units, each unit representing 1 Ordinary Share of S$1 each at par and 774 Redeemable Preference Shares of S$1 each at par with a premium of S$1,110 per Redeemable Preference Share and 126 Redeemable Preference Shares of S$1 each at par	$ 505,116
CiDRA Corporation 33,333 Series D Convertible Preferred Stock, at $90 each, fully paid, par value $0.01 each	1,420,051
	$1,925,167

Investments in liquid mutual fund units are designated as available for sale .

2.7 Other assets

Other assets represent the non-current portion of loans to employees.

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2.8 Related parties

The company grants loans to employees for acquiring assets such as property and cars. Such loans are repayable over fixed periods ranging from 1 to 100 months. The annual rates of interest at which the loans have been made to employees vary between 0% through 4%. No loans have been made to employees in connection with equity issues.

The required repayments of loans by employees are as detailed below.

	As of	
	March 31, 2003	December 31, 2003
Year ending March/December		
2004	$12,252,004	$11,541,388
2005	4,298,780	3,899,488
2006	3,206,683	2,811,554
2007	2,416,202	2,114,012
2008	2,099,781	1,962,762
Thereafter	4,432,882	3,863,744
	$28,706,332	$26,192,948

The estimated fair values of related party receivables amounted to $24,422,419 and $ 22,666,488 as of March 31, 2003 and December 31, 2003 respectively. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to develop these estimates of fair value. Consequently, these estimates are not necessarily indicative of the amounts that the company could realize in the market.

2.9 Other accrued liabilities

Other accrued liabilities comprise the following:

	As of	
	March 31, 2003	December 31, 2003
Accrued compensation to staff	$25,382,793	$51,306,973
Accrued dividends	336,610	465,733
Provision for post sales client support	1,015,022	979,899
Withholding taxes payable	4,964,118	8,431,314
Provision for expenses	12,196,810	14,363,741
Retainage	1,120,938	1,128,961
Others	1,232,978	1,979,775
	$46,249,269	$78,656,396

2.10 Stockholders equity

Infosys has only one class of capital stock referred to as equity shares. All references in these financial statements to number of shares, per share amounts and market prices of equity shares are retroactively restated to reflect stock splits made. The rights of equity shareholders are set out below.

2.10.1 Voting

Each holder of equity shares is entitled to one vote per share. The equity shares represented by American Depositary Shares (ADS) carry similar rights to voting and dividends as the other equity shares. Two ADSs represent one underlying equity share.

2.10.2 Dividends

Should the company declare and pay dividends, such dividends will be paid in Indian Rupees. Indian law mandates that any dividend be declared out of distributable profits only after the transfer of a specified percentage of net income computed in accordance with current regulations to a general reserve. Moreover, the remittance of dividends outside India is governed by Indian law on foreign exchange and is subject to applicable taxes.

2.10.3 Liquidation

In the event of liquidation of the company, the holders of common stock shall be entitled to receive any of the remaining assets of the company, after distribution of all preferential amounts. The amounts will be in proportion to the number of equity shares held by the stockholders.

2.10.4 Stock options

There are no voting, dividend or liquidation rights to the holders of warrants/options issued under the company s stock option plans.

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2.11 Share capital of Progeon

In April 2002, Progeon issued 12,250,000 equity shares of par value $0.20 per share to its holding company, Infosys, in exchange for an aggregate consideration of $2,500,000 (First Tranche subscription). In terms of the stock subscription agreement between Infosys, Citicorp International Finance Corporation (CIFC) and Progeon, Infosys is also required to subscribe to an additional 12,250,000 equity shares in Progeon.

On June 14, 2002, Progeon issued 4,375,000 0.0005% cumulative convertible preference shares to CIFC at an issue price of $2.28 (equivalent to Rs. 112) per share, in exchange for an aggregate consideration of $10,000,000. Unless earlier converted, pursuant to an agreement between the company and CIFC, these cumulative convertible preference shares shall automatically be converted into equity shares, (i) one year prior to the Initial Public Offering (IPO) date or (ii) September 30, 2005 or (iii) at the holder s option, immediately upon the occurrence of any Liquidity Event; whichever is earlier. The term Liquidity Event includes any of a decision of the Board of Directors of the company to make an IPO, merger, reconstruction, capital reorganization or other event which, in the sole opinion of the holder of the convertible preference shares, amounts to an alteration in the capital structure of the company. Each preference share is convertible into one equity share, par value $0.20 each. The dividend on the preference shares for the period ended December 31, 2003 is payable.

Each holder of these cumulative convertible preference shares is entitled to receive notice of, and to attend, any shareholders meeting and shall be entitled to vote together with holders of equity shares on any matters that affect their rights as preference shareholders including any resolution for winding up the company or for the repayment or reduction of the company s share capital.

In the event of any liquidation, dissolution or winding up of the company, either voluntary or involuntary, each holder of the preference shares will be paid a dollar equivalent of Rs. 112 per preference share, as adjusted for stock dividends, combinations, splits, recapitalizations and the like, in preference to any distribution of any assets of the company to the holders of equity shares. Indian law requires redemption of preference shares within a period of 20 years.

Upon the completion of the distribution described above, the remaining assets and funds of the company available for distribution to shareholders shall be distributed among all holders of preference shares and equity shares based on the number of equity shares held by each of them (assuming a full conversion of all the preference shares). CIFC is also required to subscribe to an additional 4,375,000 cumulative convertible preference shares in Progeon.

2.12 Other income, net

Other income, net, consists of the following:

	Nine months ended December 31,	
	2002	**2003**
Interest income	$ 11,728,239	$ 14,066,607
Income from liquid mutual fund investments		1,937,136
Exchange gains	3,528,637	10,174,551
Provision for investments	(3,219,030)	(1,922,070)
Others	500,618	129,615
	$ 12,538,464	$ 24,385,839

The provision for investments during the nine months ended December 31, 2002 included approximately $ 1.5 million for Asia Net Media BVI Limited, $0.2 million for JASDIC Park Company, $1.5 million for Workadia Inc and other miscellaneous investments. The provisions during the nine months ended December 31, 2003 include write-downs to investments in CiDRA Corporation ($1.5 million) and Stratify Inc ($0.4 million).These write-downs were required due to the non-temporary impact of adverse market conditions on these entities business models and contemporary transactions on the securities of the entities which have been indicative of their current fair value.

2.13 Research and development

General and administrative expenses in the accompanying statements of income include research and development expenses of $ 2,159,994 and $ 6,860,238 for the nine months ended December 31, 2002 and 2003 respectively.

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2.14 Employees Stock Offer Plans (ESOP)

In September 1994, the company established the 1994 plan, which provided for the issue of 6,000,000 warrants, as adjusted, to eligible employees. The warrants were issued to an employee welfare trust (the Trust). In 1997, in anticipation of a share dividend to be declared by the company, the Trust exercised all warrants held by it and converted them into equity shares. As and when the Trust issued options/stock to eligible employees, the difference between the market price and the exercise price was accounted as deferred stock compensation expense and amortized over the vesting period. Such amortized deferred compensation expense was $ 3,731,844 and $ 2,817,066 for the nine months ended December 31, 2002 and 2003 respectively. The 1994 plan lapsed in fiscal 2000, and consequently no further grants will be made to employees under this plan.

1998 Employees Stock Offer Plan (the 1998 Plan). The company s 1998 Plan provides for the grant of non-statutory stock options and incentive stock options to employees of the company. The establishment of the 1998 Plan was approved by the board of directors in December 1997 and by the stockholders in January 1998. The Government of India has approved the 1998 Plan, subject to a limit of 1,470,000 equity shares representing 2,940,000 ADS to be issued under the 1998 Plan. Unless terminated sooner, the 1998 Plan will terminate automatically in January 2008. All options under the 1998 Plan will be exercisable for equity shares represented by ADSs. The 1998 Plan is administered by a Compensation Committee comprising five members, all of who are independent directors on the board of directors. All options under the 1998 Plan are exercisable for equity shares represented by ADSs.

1999 Stock Offer Plan (the 1999 Plan). In fiscal 2000, the company instituted the 1999 Plan. The stockholders and the board of directors approved the 1999 Plan in June 1999. The 1999 Plan provides for the issue of 6,600,000 equity shares to employees. The 1999 Plan is administered by a Compensation Committee comprising five members, all of who are independent directors on the board of directors. Under the 1999 Plan, options will be issued to employees at an exercise price, which shall not be less than the Fair Market Value (FMV). Under the 1999 Plan, options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in a general meeting. All options under the 1999 plan are exercisable for equity shares.

The options under the 1998 Plan and 1999 Plan vest over a period of one through four years and expire 5 years from the date of completion of vesting.

The activity in the warrants / equity shares of the 1994, 1998 and 1999 ESOP are set out below.

	Nine months ended December 31,			
	2002		2003	
	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average Exercise price
1994 Option Plan				
Outstanding at the beginning of the period	321,400		318,200	
Granted				
Forfeited	(2,800)	$ 1.15	(600)	$ 1.15
Outstanding at the end of the period	318,600		317,600	
Weighted average fair value of grants during the period at less than market				
1998 Option Plan				
Outstanding at the beginning of the period	1,131,247		1,251,703	
Granted	221,900	$ 122	47,950	$ 95
Forfeited	(84,505)	$ 72	(129,470)	$ 149
Exercised	(36,887)	$ 50	(67,517)	$ 70
Outstanding at the end of the period	1,231,755		1,102,666	
Weighted-average fair value of options granted during the period	$ 32		$ 24	

1999 Option Plan				
Outstanding at the beginning of the period	4,668,815		5,061,171	
Granted	478,050	$ 75	192,800	$ 66
Forfeited	(157,961)	$ 96	(303,678)	$ 97
Exercised	(6,472)	$ 55	(145,397)	$ 68
Outstanding at the end of the period	4,982,432		4,804,896	
Weighted-average fair value of options granted during the period	$ 33		$ 29	

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The following table summarizes information about stock options outstanding as of December 31, 2003

	Options Outstanding			Options Exercisable	
Range of exercise prices per share ($)	**No. of shares arising out of options**	**Weighted average remaining contractual life in years**	**Weighted average exercise price**	**No. of shares arising out of options**	**Weighted average exercise price**
1994 Plan					
1.15	317,600	0.73	$ 1.15		
1998 Plan					
34 50	71,850	3.19	$ 34	71,850	$ 34
51-100	234,935	6.12	$ 85	38,106	$ 87
101-150	331,780	6.51	$ 124	35,485	$ 128
151-200	329,346	4.87	$ 190	154,682	$ 187
201-300	61,355	4.86	$ 240	32,100	$ 242
301-400	58,490	4.35	$ 324	35,550	$ 324
401-660	14,910	4.14	$ 515	9,210	$ 514
	1,102,666			376,983	
1999 Plan					
51-100	3,152,942	5.51	$ 75	1,262,280	$ 82
101-150	1,267,279	4.93	$ 127	524,933	$ 129
151-200	366,275	4.70	$ 166	220,935	$ 166
201-250	18,400	4.16	$ 208	11,040	$ 208
	4,804,896			2,019,188	

Progeon s 2002 Plan provides for the grant of stock options to employees of Progeon and was approved by its board of directors and stockholders in June 2002. All options under the 2002 Plan are exercisable for equity shares. The 2002 Plan is administered by a Compensation Committee comprising three members, all of whom are directors of Progeon. The 2002 Plan provides for the issue of 5,250,000 equity shares to employees, at an exercise price, which shall not be less than the FMV. Options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in general meeting. The options issued under the 2002 Plan vest in periods ranging between one through six years, although accelerated vesting based on performance conditions is provided in certain instances. All options granted have been accounted for as a fixed plan. Options to purchase 2,549,675 shares of Progeon are outstanding as of December 31, 2003. Options to purchase 813,250 shares with a weighted average exercise price of $ 0.87 per share were granted during the nine months ended December 31, 2003. The weighted average fair value of grants during the nine months ended December 31, 2003 was $ 0.38. The outstanding options have a weighted average remaining contractual life of 3.17 years and weighted average exercise price of $ 0.87. No options were exercisable as of December 31, 2003.

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2.15 Income taxes

The provision for income taxes comprises:

	Nine months ended December 31,	
	2002	2003
Current taxes:		
Domestic taxes	$13,553,644	$10,178,571
Foreign taxes	18,560,002	27,359,790
	32,113,646	37,538,361
Deferred taxes:		
Domestic taxes	(1,296,511)	1,212,292
Foreign taxes	(931,514)	(359,024)
	(2,228,025)	853,268
Aggregate taxes	$29,885,621	$38,391,629

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities, and a description of the financial statement items that created these differences are as follows:

	As of	
	March 31, 2003	December 31, 2003
Deferred tax assets:		
Property, plant and equipment	$4,719,124	$ 5,060,373
Provision for doubtful debts	1,093,701	1,170,696
Investments	2,545,761	3,059,683
	8,358,586	9,290,752
Less: Valuation allowance	(614,004)	(2,078,897)
	7,744,582	7,211,855
Deferred tax liability on foreign exchange gains	(191,156)	(180,566)
Deferred tax liability on unrealized gain on investments		(49,864)
Net deferred tax assets	$7,553,426	$ 6,981,425

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the company will realize the benefits of those deductible differences, net of the existing valuation allowance at December 31, 2003. The valuation allowance relate to provision for doubtful debts and investments. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

All deferred tax expenses / (benefits) are allocated to the continuing operations of the company.

The provision for foreign taxes is due to income taxes payable overseas, principally in the United States of America. The company benefits from certain significant tax incentives provided to software firms under Indian tax laws. These incentives presently include: (i) an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as Software Technology Parks (the STP Tax Holiday); and (ii) a tax deduction for profits derived from exporting computer software (the Export Deduction). All but one of the company s software development facilities are located in designated Software Technology Parks (STP). The Government of India has recently amended the tax incentives available to companies set up in designated STPs. The period of the STP Tax Holiday available to such companies is restricted to ten consecutive years, beginning from the financial year when the unit started producing computer software or April 1, 1999, whichever is earlier. The Finance Act 2002 provided that the exempt income from an export oriented undertaking, for fiscal 2003 be restricted to 90% of its export income. However, this restriction is not applicable from fiscal 2004. Additionally, the Export Deduction is being phased out equally over a period of five years starting from fiscal 2000.

The company is subject to a 15% Branch Profit Tax (BPT) in the U.S. to the extent its U.S. branch s net profit during the year is greater than the increase in the net assets of the company s U.S. branch during the fiscal year, computed in accordance with the Internal Revenue Code. The company has not triggered the BPT and intends to maintain the current level of its net assets in the U.S., as it is consistent with its business plan. Accordingly, a BPT provision has not been recorded.

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2.16 Earnings per share

The following is a reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share:

	Nine months ended December 31,	
	2002	2003
Basic earnings per equity share weighted average number of common shares outstanding excluding unallocated shares of ESOP	65,567,814	65,628,199
Effect of dilutive common equivalent shares stock options outstanding	838,118	928,968
Diluted earnings per equity share weighted average number of common shares and common equivalent shares outstanding	66,405,932	66,557,167

Options to purchase 702,902 shares under the 1998 Plan and 2,840,392 shares under the 1999 Plan were not considered for calculating diluted earnings per share for the nine months ended December 31, 2003 as their effect was anti-dilutive.

2.17 Derivative financial instruments

The Company enters into foreign exchange forward contracts where the counter party is generally a bank. The Company considers the risks of non-performance by the counter party as non-material. Infosys held foreign exchange forward contracts of $88,000,000 and $ 113,750,000 as of March 31, 2003 and December 31, 2003, respectively. The foreign exchange forward contracts mature between one to six months.

2.18 Segment reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the way that public business enterprises report information about operating segments and related disclosures about products and services, geographic areas, and major customers. The company s operations predominantly relate to providing IT solutions, delivered to customers located globally, across various industry segments. The Chief Operating Decision Maker evaluates the company s performance and allocates resources based on an analysis of various performance indicators by industry classes and geographic segmentation of customers. Accordingly, revenues represented along industry classes comprise the principal 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 consistently applied to record revenue and expenditure in individual segments, and are as set out in the summary of significant accounting policies.

Industry segments for the company are primarily *financial services* comprising enterprises providing banking, finance and insurance services, *manufacturing* enterprises, enterprises in the *telecommunications (telecom)* and *retail* industries, and *others* such as utilities, transportation and logistics companies.

Geographic segmentation is based on business sourced from that geographic region and delivered from both on-site and off-shore. *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*.

Revenue in relation to segments is categorized based on items that are individually identifiable to that segment, while expenditure is categorized in relation to the associated turnover of the segment. Allocated expenses of the geographic segments include expenses incurred for rendering services the from the company s offshore software development centres and on-site expenses. 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. Management 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 adjusted only against the total income of the company.

Fixed assets used in the company s business are not identified to any of the reportable segments, as these are used interchangeably between segments. Management believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Geographical information on revenue and industry revenue information is collated based on individual customers invoiced or in relation to which the revenue is otherwise recognized.

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2.18.1 Industry segments

Nine months ended December 31, 2002

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	$203,419,872	$91,154,337	$79,168,194	$61,946,100	$102,087,471	$537,775,974
Identifiable operating expenses	81,664,228	37,057,023	26,678,891	19,558,427	38,673,125	203,631,694
Allocated expenses	56,445,056	23,557,385	20,530,951	16,009,339	26,513,650	143,056,381
Segmental operating income	65,310,588	30,539,929	31,958,352	26,378,334	36,900,696	191,087,899
Unallocable expenses						31,942,825
Operating income						159,145,074
Other income, net						12,538,464
Income before income taxes						**171,683,538**
Provision for income taxes						29,885,621
Net income						**$141,797,917**

Nine months ended December 31, 2003

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	$288,816,091	$113,256,436	$114,172,149	$89,754,981	$153,911,633	$759,911,290
Identifiable operating expenses	120,933,319	49,464,341	46,200,260	33,436,345	63,491,710	313,525,975
Allocated expenses	77,123,675	28,841,657	30,594,784	22,845,631	39,190,186	198,595,933
Segmental operating income	90,759,097	34,950,438	37,377,105	33,473,005	51,229,737	247,789,382
Unallocable expenses						40,253,933
Operating income						207,535,449
Other income, net						24,385,839
Income before income taxes						**231,921,288**
Provision for income taxes						38,391,629
Net income						**$193,529,659**

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2.18.2 Geographic segments

Nine months ended December 31, 2002

	North America	Europe	India	Rest of the World	Total
Revenues	$395,272,736	$92,863,563	$10,108,669	$39,531,006	$537,775,974
Identifiable operating expenses	156,416,246	31,914,376	3,536,136	11,764,936	203,631,694
Allocated expenses	104,085,331	24,259,358	3,495,073	11,216,619	143,056,381
Segmental operating income	134,771,159	36,689,829	3,077,460	16,549,451	191,087,899
Unallocable expenses					31,942,825
Operating income					159,145,074
Other income, net					12,538,464
Income before income taxes					**171,683,538**
Provision for income taxes					29,885,621
Net income					$**141,797,917**

Nine months ended December 31, 2003

	North America	Europe	India	Rest of the World	Total
Revenues	$558,606,344	$142,899,787	$10,784,260	$47,620,899	$759,911,290
Identifiable operating expenses	234,609,087	56,909,000	3,369,253		