INFOSYS TECHNOLOGIES LIMITED AND SUBSIDIARY
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH U.S. GAAP

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2002

INFOSYS TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(Expressed in United States dollars except share data)

	September 30, 2002	September 30, 2001	March 31, 2002
	(Unaudited)	(Unaudited)	(Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	278,309,589	149,392,226	210,485,940
Trade accounts receivable, net of allowances	94,986,654	71,807,005	69,017,110
Deferred tax assets	821,430	1,817,416	774,107
Prepaid expenses and other current assets	32,800,529	17,717,830	18,875,904
Total current assets	406,918,202	240,734,477	299,153,061
Property, plant and equipment, net	149,202,077	149,145,830	147,211,731
Intangible assets, net	7,154,784	–	–
Deferred tax assets	6,074,905	2,078,817	4,560,934
Investments	4,613,833	7,777,393	7,777,393
Advance income taxes	3,250,571	3,799,181	–
Other assets	14,304,031	9,860,592	12,458,615
TOTAL ASSETS	**591,518,403**	**413,396,290**	**471,161,734**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	339,912	7,843	–
Client deposits	3,539,862	980,531	2,215,001
Other accrued liabilities	37,189,116	31,483,326	22,424,646
Income taxes payable	–	–	678,703
Unearned revenue	10,812,402	6,849,878	3,464,018
Total current liabilities	51,881,292	39,321,578	28,782,368
Non-current liabilities	5,621,302	–	–
Preferred stock of subsidiary			
0.0005% Cumulative Convertible Preference par value $ 2 each, 4,375,000 preference shares Authorized, issued and outstanding – 4,375,000 preference shares as of September 30, 2002	10,000,000	–	–
Stockholders' Equity			
Common stock, $ 0.16 par value; 100,000,000 equity shares authorized, Issued and outstanding – 66,205,180, 66,160,717and 66,186,130 as of September 30, 2002 and 2001 and March 31, 2002, respectively	8,598,962	8,594,383	8,597,001
Additional paid-in capital	124,164,993	122,105,641	123,079,948
Accumulated other comprehensive income	(39,967,489)	(37,878,770)	(45,441,148)
Deferred stock compensation	(5,132,704)	(10,005,936)	(7,620,600)
Retained earnings	436,352,047	291,259,394	363,764,165
Total stockholders' equity	524,015,809	374,074,712	442,379,366
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**591,518,403**	**413,396,290**	**471,161,734**

See accompanying notes to the financial statements

INFOSYS TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF INCOME
(Expressed in United States dollars except share data)

	Three months ended September 30, 2002 (Unaudited)	Three months ended September 30, 2001 (Unaudited)	Six months ended September 30, 2002 (Unaudited)	Six months ended September 30, 2001 (Unaudited)	Year ended March 31, 2002 (Audited)
Revenues	181,446,939	137,258,134	337,761,808	267,790,892	545,051,214
Cost of revenues	96,562,599	73,051,389	181,837,374	141,466,357	290,032,232
Gross profit	84,884,340	64,206,745	155,924,434	126,324,535	255,018,982
Operating Expenses:					
Selling and marketing expenses	14,484,552	7,019,074	25,782,286	12,911,415	27,113,122
General and administrative expenses	13,102,320	10,771,278	24,961,448	23,299,156	44,348,181
Amortization of stock compensation expense	1,243,948	1,251,327	2,487,896	2,511,082	5,009,772
Amortization of intangible assets	615,904	–	820,025	–	–
Total operating expenses	29,446,724	19,041,679	54,051,655	38,721,653	76,471,075
Operating income	55,437,616	45,165,066	101,872,779	87,602,882	178,547,907
Other income, net	534,252	3,090,300	5,630,772	5,966,399	13,865,294
Income before income taxes	55,971,868	48,255,366	107,503,551	93,569,281	192,413,201
Provision for income taxes	9,271,397	6,962,947	17,958,780	13,035,503	27,946,892
Net income	**46,700,471**	**41,292,419**	**89,544,771**	**80,533,778**	**164,466,309**
Earnings per equity share					
Basic	$ 0.71	$ 0.63	$ 1.36	$ 1.23	$ 2.51
Diluted	$ 0.70	$ 0.62	$ 1.35	$ 1.22	$ 2.49
Weighted equity shares used in computing earnings per equity share					
Basic	65,567,135	65,557,784	65,657,033	65,563,317	65,556,648
Diluted	66,175,895	66,094,152	66,275,118	66,155,053	66,084,874

See accompanying notes to the financial statements

INFOSYS TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Expressed in United States dollars except share data)
(Unaudited except for balances as of March 31, 2001 and 2002)

	Common stock		Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred stock compensation	Retained earnings	Total stockholders' equity
	Shares	Par value						
Balance as of March 31, 2001	**66,158,117**	**8,594,106**	**122,017,518**		**(28,664,972)**	**(12,517,018)**	**222,362,067**	**311,791,701**
Common stock issued	2,600	277	88,123		-	-	-	88,400
Cash dividends declared	-	-	-		-	-	(11,636,451)	(11,636,451)
Amortization of compensation related to stock option grants	-	-	-		-	2,511,082	-	2,511,082
Comprehensive income								
Net income	-	-	-	80,533,778	-	-	80,533,778	80,533,778
Other comprehensive income								
Translation adjustment	-	-	-	(9,213,798)	(9,213,798)	-	-	(9,213,798)
Comprehensive income				71,319,980				
Balance as of September 30, 2001	**66,160,717**	**8,594,383**	**122,105,641**		**(37,878,770)**	**(10,005,936)**	**291,259,394**	**374,074,712**
Cash dividends declared							(11,427,800)	(11,427,800)
Common stock issued	25,413	2,618	860,953		-	-	-	863,571
Amortization of compensation related to stock option grants	-	-	-		-	2,498,690	-	2,498,690
Deferred stock compensation related to stock option grants	-	-	113,354		-	(113,354)	-	-
Comprehensive income								
Net income	-	-	-	83,932,571	-	-	83,932,571	83,932,571
Other comprehensive income								
Translation adjustment				(7,562,378)	(7,562,378)	-	-	(7,562,378)
Comprehensive income				76,370,193				
Balance as of March 31, 2002	**66,186,130**	**8,597,001**	**123,079,948**		**(45,441,148)**	**(7,620,600)**	**363,764,165**	**442,379,366**

See accompanying notes to the financial statements

INFOSYS TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Expressed in United States dollars except share data)
(Unaudited except for balances as of March 31, 2001 and 2002)

	Common stock		Additional paid-in capital	Comprehensive income	Accumulated other comprehensive income	Deferred stock compensation	Retained earnings	Total stockholders' equity
	Shares	Par value						
Balance as of March 31, 2002	**66,186,130**	**8,597,001**	**123,079,948**		**(45,441,148)**	**(7,620,600)**	**363,764,165**	**442,379,366**
Common stock issued	19,050	1,961	646,906		–	–	–	648,867
Cash dividends declared	–	–	–		–	–	(16,956,889)	(16,956,889)
Amortization of compensation related to stock option grants	–	–	–		–	2,487,896	–	2,487,896
Income tax benefit arising on exercise of stock options	–	–	438,139		–	–	–	438,139
Comprehensive income								
Net income	–	–	–	89,544,771			89,544,771	89,544,771
Other comprehensive income								
Translation adjustment	–	–	–	5,473,659	5,473,659	–	–	5,473,659
Comprehensive income				95,018,430				
Balance as of September 30, 2002	**66,205,180**	**8,598,962**	**124,164,993**		**(39,967,489)**	**(5,132,704)**	**436,352,047**	**524,015,809**

See accompanying notes to the financial statements

INFOSYS TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars except share data)

	Six months ended September 30, 2002 (Unaudited)	Six months ended September 30, 2001 (Unaudited)	Year ended March 31, 2002 (Audited)
OPERATING ACTIVITIES:			
Net income	89,544,771	80,533,778	164,466,309
Adjustments to reconcile net income to net cash provided by operating activities			
(Gain) / loss on sale of property, plant and equipment	24,787	(4,301)	(16,754)
Depreciation	17,386,573	15,796,701	33,608,391
Amortization	820,025	-	-
Provision for investments	3,163,560	-	
Deferred tax benefit	(1,561,294)	(560,663)	(1,999,471)
Amortization of deferred stock compensation expense	2,487,896	2,511,082	5,009,772
Changes in assets and liabilities			
Trade accounts receivable	(25,241,313)	(8,745,498)	(7,196,700)
Prepaid expenses and other current assets	(12,175,158)	(844,552)	(2,052,721)
Income taxes	(3,908,096)	(3,678,464)	869,109
Accounts payable	337,610	(19,775)	(27,382)
Client deposits	1,298,162	(207,454)	1,075,855
Unearned revenue	7,270,897	(434,738)	(3,753,943)
Other accrued liabilities	14,401,660	9,753,433	1,492,616
Net cash provided by operating activities	93,850,080	94,099,549	191,475,081
INVESTING ACTIVITIES:			
Expenditure on property, plant and equipment	(17,174,194)	(47,507,854)	(68,347,644)
Expenditure on intangible asset	(2,901,487)	-	-
Proceeds from sale of property, plant and equipment	36,366	218,995	335,079
Loans to employees	(3,796,946)	(2,897,016)	(5,547,203)
Purchase of investments	-	(2,200,000)	(2,200,000)
Net cash used in investing activities	(23,836,261)	(52,385,875)	(75,759,768)
FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	648,867	88,400	963,351
Proceeds from issuance of preferred stock by subsidiary	10,000,000	-	-
Payment of dividends	(16,641,276)	(11,476,631)	(22,902,618)
Net cash used in financing activities	(5,992,409)	(11,388,231)	(21,939,267)
Effect of exchange rate changes on cash	3,802,239	(5,017,462)	(7,374,351)
Net increase in cash and cash equivalents during the period	67,823,649	25,307,981	86,401,695
Cash and cash equivalents at the beginning of the period	210,485,940	124,084,245	124,084,245
Cash and cash equivalents at the end of the period	**278,309,589**	**149,392,226**	**210,485,940**
Supplementary information:			
Cash paid towards taxes	21,888,054	13,035,503	27,493,194
Non cash transaction	5,000,000	-	-

See accompanying notes to the financial statements

1 Company overview and significant accounting policies

1.1 Company overview

Infosys Technologies Limited ("Infosys"), a world leader in consulting and information technology services, partners with Global 2000 companies to provide business consulting, systems integration, application development and product engineering services. Through these services, Infosys enables its clients to fully exploit technology for business transformation. Clients leverage Infosys' Global Delivery Model to achieve higher quality, rapid time-to-market and cost-effective solutions. On April 3, 2002, Infosys incorporated a subsidiary, Progeon Limited ("Progeon"), to provide business process management and transition services to organizations that outsource their business processes. Infosys and Progeon (together, the "company") work closely together to provide a complete service to the client, by addressing the client's technology as well as process outsourcing needs.

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.

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 year. 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 services, licensing of software products and from business process management services. Revenue on time-and-material contracts is recognized as the related services are performed. Revenue from fixed-price, fixed-time frame contracts is recognized as per the percentage-of-completion method. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. 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.

In accordance with Statement of Position 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. 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. When the company receives advances for software development services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met. Maintenance revenue is deferred and recognized ratably over the term of the underlying maintenance agreement, generally 12 months. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed.

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, marketable securities 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
Furniture and fixtures	5 years
Computer equipment	2-5 years
Plant and equipment	5 years
Vehicles	5 years

The cost of software purchased for use in software development and services is charged to the cost of revenues at the time of acquisition. 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 two through five 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.

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.

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 their nature, all such financial instruments involve risk including the credit risk of non-performance by counterparties. In management's opinion, as of September 30, 2002, September 30, 2001 and March 31, 2002, 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 provides 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, based upon which, Infosys contributes to the Infosys Technologies Limited Employees' Gratuity Fund Trust (the "Trust"). Trustees administer contributions made to the Trust and invest in specific designated securities as mandated by law, which generally comprise central and state government bonds and debt instruments of government-owned corporations.

1.15.2 Superannuation

Apart from being covered under the Gratuity Plan described above, 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. Infosys has no further obligations to the Plan beyond its monthly contributions.

1.15.3 Provident fund

Eligible employees also receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Infosys contributes a part of the contributions to the Infosys Technologies Limited Employees Provident Fund Trust. The remainders of the contributions are made to the Government administered provident fund. There are 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 the company 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. The company 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. Investment securities in which the company controls less than 20% voting interest are currently classified as "Available-for-sale securities". Non-readily marketable equity securities for which there are no readily determinable fair values are recorded at cost.

Investment securities designated as "available-for-sale" are carried at their fair value. Fair value is based on quoted market prices. Unquoted securities are carried at cost, adjusted for declines in value judged to be other than temporary. Temporary unrealized gains and losses, net of the related tax effect are reported as a separate component of stockholders' 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 the statements of income. The cost of securities sold is based on the specific identification method. Interest and dividend income is recognized when earned.

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,* issued in March 2000, to account for its fixed plan stock options. 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 123. All stock options issued to date have been accounted as a fixed stock option plan.

1.18 Dividends

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

1.19 Derivative financial instruments

On April 1, 2001, the company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* as amended, when the rules became effective for companies with fiscal years ending March 31. The company enters into forward foreign exchange contracts where the counter party is generally a bank. The company purchases forward foreign exchange 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.

(Expressed in United States dollars except share data and as otherwise stated)

2 Notes to the Financial Statements

2.1 Trade accounts receivable

Trade accounts receivable, as of September 30, 2002 and 2001 and March 31, 2002, net of allowance for doubtful accounts of $ 3,000,156, $ 4,618,969 and $ 3,941,245, respectively amounted to $ 94,986,654, $ 71,807,005 and $ 69,017,110, respectively. The age profile of trade accounts receivable, net of allowances is given below.

In %

	As of September 30,		As of March 31,
	2002	**2001**	**2002**
Period (in days)			
0 – 30	68.8	74.9	69.0
31 – 60	23.4	17.2	30.0
61 – 90	5.9	7.2	0.5
More than 90	1.9	0.7	0.5
	100.0	**100.0**	**100.0**

2.2 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 loans are generally secured by the assets acquired by the employees. As of September 30, 2002 and September 30, 2001 and March 31, 2002, amounts receivable from officers amounting to $ 14,256, $ 18,868 and $ 16,529, respectively are included in prepaid expenses and other current assets, and other assets in the accompanying balance sheets.

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

	As of September 30,		As of March 31
	2002	**2001**	**2002**
2002	-	8,750,218	-
2003	10,474,064	3,119,998	8,331,779
2004	4,004,881	2,165,452	3,755,840
2005	2,917,159	1,316,536	2,670,075
2006	2,150,096	1,023,402	1,826,748
2007	1,751,621	-	1,454,086
Thereafter	3,480,274	2,235,204	2,751,866
Total	**24,778,095**	**18,610,810**	**20,790,394**

The estimated fair values of related party receivables amounted to $ 22,224,368 and $ 14,305,838 and $ 17,905,507 as of September 30, 2002 and 2001 and March 31, 2002. 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.

2.3 Preference shares of subsidiary

During the six months ended September 30, 2002, Progeon issued 4,375,000 0.0005% cumulative convertible preference shares of par value $ 2.0 per share to Citicorp International Finance Corporation ("CIFC") at a issue price of $ 2.28 (equivalent to Rs. 112) per share, in exchange for a aggregate consideration of $ 10,000,000. Unless earlier converted pursuant to an agreement in this behalf 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.

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 of 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 an dollar equivalent of Rs. 112 per preference share, as adjusted for stock dividends, combinations, splits, recapitalization and the like, in preference to any distribution of any assets of the company to the holders of equity shares.

Upon the completion of the distribution described above, the remaining assets and funds of the company available for distribution to shareholders shall be distributed among all holders of preference shares and equity shares based on the number of equity shares held by each of them (assuming a full conversion of all the preference shares).

2.4 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 $ 2,487,896, $ 2,511,082 and $ 5,009,772 for the six months ended September 30, 2002, 2001 and fiscal 2002, respectively. The 1994 plan lapsed in fiscal 2000, and consequently no further shares will be issued 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 American Depositary Shares ("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 American Depositary Shares (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 exercised for equity shares.

The options under all of the above plans vest over a period of one through five years.

(Expressed in United States dollars except share data and as otherwise stated)

2.4 Employees' Stock Offer Plans ("ESOP") (continued)

The company adopted the proforma disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation.* Had compensation cost for the company's stock-based compensation plan been determined in a manner consistent with the fair value approach described in SFAS No. 123, the company's net income and basic earnings per share as reported would have reduced to the proforma amounts indicated below.

		Six months ended September 30,		**Year ended March 31,**
		2002	**2001**	**2002**
Net income	As reported	89,544,771	80,533,778	164,466,309
	Adjusted proforma	62,844,349	55,178,895	105,181,094
Basic earnings per share	As reported	$ 1.36	$ 1.23	$ 2.51
	Adjusted proforma	$ 0.96	$ 0.84	$ 1.60
Diluted earnings per share	As reported	$ 1.35	$ 1.22	$ 2.49
	Adjusted proforma	$ 0.95	$ 0.83	$ 1.59

(Expressed in United States dollars except share data and as otherwise stated)

2.4 Employees' Stock Offer Plans ("ESOP") (continued)

The activity in the warrants/equity shares of the 1994, 1998 and 1999 Employees Stock Offer Plans in the six months ended September 30, 2002 and 2001 and fiscal 2002 are set out below.

	Six months ended September 30, 2002		**Six months ended September 30, 2001**		**Year ended March 31, 2002**	
	Shares arising out of options	**Weighted average exercise price**	**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	–	330,000	$ 1.15	330,000	–
Granted	–	–	–	–	–	
Forfeited	(1,600)	$ 1.15	(7,000)	$ 1.15	(8,600)	$ 1.15
Exercised			–		–	–
Outstanding at the end of the period	319,800	–	323,000	–	321,400	–
Exercisable at the end of the period	–		–		–	
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	–	782,753	–	782,753	–
Granted	138,850	$ 114.60	301,350	$ 92.72	454,250	$ 98.06
Forfeited	(75,558)	$ 60.47	(26,595)	$ 286.44	(77,773)	$ 240.90
Exercised	(19,050)	$ 34.00	(2,600)	$ 34.00	(27,983)	$ 44.32
Outstanding at the end of the period	1,175,489	–	1,054,908	–	1,131,247	–
Exercisable at the end of the period	202,893		60,580		164,527	–
Weighted-average fair value of grants during the period		$ 114.60		$ 92.72		$ 98.06
1999 Option plan:						
Outstanding at the beginning of the period	4,668,815	–	2,793,980	$ 124.70	2,793,980	–
Granted	338,750	$ 70.13	1,452,820	$ 63.75	2,050,500	$ 64.74
Forfeited	(107,269)	$ 94.50	(105,740)	$ 132.98	(175,635)	$ 119.23
Exercised	-	-	-	-	(30)	$ 84.95
Outstanding at the end of the period	4,900,296	–	4,141,060	–	4,668,815	–
Exercisable at the end of the period	594,507		172,699		448,530	–
Weighted-average fair value of grants during the period		$ 70.13		$ 63.64		$ 64.74

(Expressed in United States dollars except share data and as otherwise stated)

2.5 Income taxes

The provision for income taxes comprises:

	Six months ended September 30		Year ended March 31
	2002	**2001**	**2002**
Current taxes			
Domestic taxes	8,413,825	2,674,305	6,483,255
Foreign taxes	11,106,249	10,921,861	23,463,108
	19,520,074	13,596,166	29,946,363
Deferred taxes			
Domestic taxes	(918,227)	(560,663)	27,126
Foreign taxes	(643,067)	-	(2,026,597)
	(1,561,294)	(560,663)	(1,999,471)
Aggregate taxes	**17,958,780**	**13,035,503**	**27,946,892**

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:

	Six months ended September 30		Year ended March 31
	2002	**2001**	**2002**
Deferred tax assets:			
Property, plant and equipment	3,585,092	1,777,845	2,989,348
Provision for doubtful debts	1,042,908	1,781,641	1,448,407
Investments	2,489,813	1,442,477	1,571,586
	7,117,813	5,001,963	6,009,341
Less: Valuation allowance	(221,478)	(1,105,730)	(674,300)
Net deferred tax assets	**6,896,335**	**3,896,233**	**5,335,041**

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 differences at September 30, 2002. 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. A reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to the income before provision for income taxes is summarized below.

	Six months ended September 30		Year ended March 31
	2002	**2001**	**2002**
Net income before taxes	107,503,551	93,569,281	192,413,201
Enacted tax rates in India	36.75%	35.70%	35.70%
Computed expected tax expense	39,507,555	33,404,233	68,691,513
Less: Tax effect due to non-taxable			
income for Indian tax purposes	(38,631,010)	(32,660,107)	(67,338,527)
Others	5,917,301	1,098,544	5,014,830
Effect of tax rate change	58,685	270,972	142,565
Provision for Indian income tax	6,852,531	2,113,642	6,510,381
Effect of tax on foreign income	11,106,249	10,921,861	21,436,511
Aggregate taxes	**17,958,780**	**13,035,503**	**27,946,892**

2.5 Income taxes (continued)

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 10 consecutive years beginning from the financial year when the unit started producing computer software or March 31, 2000, whichever is earlier. The Finance Bill, 2002, which are yet to be enacted, proposes that the exempt income from an export oriented undertaking, for the year commencing April 1, 2002, be restricted to 90% of its aggregate income. Additionally, the Export Deduction will be phased out equally over a period of five years starting from fiscal 2000.

As of September 30, 2002, the accumulated undistributed earnings of the U. S. branch offices were $ 78.45 million. These earnings may attract a 15% tax imposed by the United States Internal Revenue Service on their repatriation to India. The company intends to reinvest such undistributed earnings within the United States and currently has no intent to repatriate such earnings in the foreseeable future.

2.6 Derivative financial instruments

The Company enters into forward foreign exchange 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 $ 92,000,000, $ 26,000,000 and $ 2,000,000 as of September 30, 2002 and 2001 and March 31, 2002, respectively. The foreign forward exchange contracts mature between one to six months.

2.7 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. In the year ended March 31, 2000, the company provided segmental disclosures based on the geographical segment. However, from the fiscal year ended March 31, 2001, 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.

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. 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.

Geographic segmentation is driven based on the location of the respective client. *North America* comprises the United States of America, Canada and Mexico; *Europe* includes continental Europe (both the east and the west), Ireland and the United Kingdom; and the *Rest of the World* comprising all other places except those mentioned above and *India*.

(Expressed in United States dollars except share data and as otherwise stated)

2.7 Segment reporting (continued)

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.

2.7.1 Industry segments

Six months ended September 30, 2002

	Financial services	**Manufacturing**	**Telecom**	**Retail**	**Others**	**Total**
Revenues	128,013,740	56,687,555	50,209,456	38,547,834	64,303,223	337,761,808
Identifiable operating expenses	52,959,562	23,698,477	17,139,646	12,309,458	23,868,523	129,975,666
Allocated expenses	33,917,196	13,942,755	12,351,052	9,482,195	15,869,311	85,562,509
Segmental operating income	41,136,982	19,046,323	20,718,758	16,756,181	24,565,389	122,223,633
Unallocable expenses						20,322,900
Operating income						101,900,733
Other income (expense), net						5,602,818
Net income before taxes						**107,503,551**
Taxes						17,958,780
Net income after taxes						**89,544,771**

Six months ended September 30, 2001

	Financial services	**Manufacturing**	**Telecom**	**Retail**	**Others**	**Total**
Revenues	100,520,519	47,571,396	42,782,273	30,291,606	46,625,098	267,790,892
Identifiable operating expenses	35,633,367	19,435,593	11,229,057	8,223,894	17,056,592	91,578,503
Allocated expenses	27,170,703	12,277,543	11,046,949	7,801,767	12,006,180	70,303,142
Segmental operating income	37,716,449	15,858,260	20,506,267	14,265,945	17,562,326	105,909,247
Unallocable expenses						18,306,365
Operating income						87,602,882
Other income (expense), net						5,966,399
Net income before taxes						**93,569,281**
Taxes						13,035,503
Net income after taxes						**80,533,778**

(Expressed in United States dollars except share data and as otherwise stated)

2.7 Segment reporting (continued)

Year ended March 31, 2002

	Financial services	**Manufacturing**	**Telecom**	**Retail**	**Others**	**Total**
Revenues	199,725,558	93,404,474	85,190,054	67,027,323	99,703,805	545,051,214
Identifiable operating expenses	74,364,097	38,112,096	23,873,023	18,696,233	34,831,145	189,876,594
Allocated expenses	51,905,935	23,321,898	21,273,366	16,667,939	24,840,829	138,009,967
Segmental operating income	73,455,526	31,970,480	40,043,665	31,663,151	40,031,831	217,164,653
Unallocable expenses						38,616,746
Operating income						178,547,907
Other income (expense), net						13,865,294
Net income before taxes						**192,413,201**
Taxes						27,946,892
Net income after taxes						**164,466,309**

2.7.2 Geographic segments

Six months ended September 30, 2002

	North America	**Europe**	**India**	**Rest of the World**	**Total**
Revenues	246,881,743	60,017,683	7,488,804	23,373,578	337,761,808
Identifiable operating expenses	98,082,819	21,167,925	2,587,166	8,137,756	129,975,666
Allocated expenses	61,950,015	14,939,186	2,267,115	6,406,193	85,562,509
Segmental operating income	86,848,909	23,910,572	2,634,523	8,829,629	122,223,633
Unallocable expenses					20,322,900
Operating income					101,900,733
Other income (expense), net					5,602,818
Net income before taxes					**107,503,551**
Taxes					17,958,780
Net income after taxes					**89,544,771**

Six months ended September 30, 2001

	North America	**Europe**	**India**	**Rest of the World**	**Total**
Revenues	191,835,922	51,822,645	5,965,421	18,166,904	267,790,892
Identifiable operating expenses	64,286,137	18,905,458	2,072,447	6,314,461	91,578,503
Allocated expenses	50,042,047	13,527,498	2,022,931	4,710,666	70,303,142
Segmental operating income	77,507,738	19,389,689	1,870,043	7,141,777	105,909,247
Unallocable expenses					18,306,365
Operating income					87,602,882
Other income (expense), net					5,966,399
Net income before taxes					**93,569,281**
Taxes					13,035,503
Net income after taxes					**80,533,778**

(Expressed in United States dollars except share data and as otherwise stated)

2.7 Segment reporting (continued)

Year ended March 31, 2002

	North America	Europe	India	Rest of the World	Total
Revenues	388,168,447	106,103,448	10,735,626	40,043,693	545,051,214
Identifiable operating expenses	135,362,671	38,013,083	4,183,775	12,317,065	189,876,594
Allocated expenses	98,093,268	26,809,588	3,119,373	9,987,738	138,009,967
Segmental operating income	154,712,508	41,280,777	3,432,478	17,738,890	217,164,653
Unallocable expenses					38,616,746
Operating income					178,547,907
Other income (expense), net					13,865,294
Net income before taxes					**192,413,201**
Taxes					27,946,892
Net income after taxes					**164,466,309**

2.7.3 Significant clients

No clients individually accounted for more than 10% of the revenues in the six months ended September 30, 2002 and 2001 and fiscal 2002, respectively.

2.8 Commitments and contingencies

The company has outstanding performance guarantees for various statutory purposes totaling $ 2,866,736, $ 3,275,340 and $ 3,334,700 as of September 30, 2002 and 2001 and March 31, 2002, respectively. These guarantees are generally provided to governmental agencies.

2.9 Litigation

The company is subject to legal proceedings and claims, which have arisen, in the ordinary course of its business. In relation to a lawsuit filed against the company, management initiated voluntary settlement discussions with the plaintiff. It appears that the settlement may not be possible in the near future and the lawsuit may go to trial. No trial date is set yet. The company intends to vigorously defend this matter. However, the results of such a lawsuit are difficult to predict. As a result, an unfavorable resolution of this lawsuit could adversely impact the results of operations or the financial position of the company. Except for this one instance, legal actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial position of the company.