Annual Report 1996-97

Infosys

INFOSYS TECHNOLOGIES LIMITED

Social responsibilities of the corporate body

*If a free society cannot help the many who are poor,
it cannot save the few who are rich.*

John F. Kennedy
1917-1963

Ms. Kavitha Kadambi, an Infoscion, at work and with a spastic child.

World-class enterprises should not operate as islands in any community. Admiration for companies cannot be based solely on monetary parameteRs. Ability to relate and contribute to the environment is a necessity for the success of any commercial entity, particularly in developing countries. Failure to consider the society-at-large as a stake holder in the company will render its success ephemeral, and may become the cause for social unrest.

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D. N. Prahlad, Senior Vice President and Head - SBU-1

S. Hariharan Murthy, Business Development Manager (Boston)

K. Elangovan, Assistant Project Manager - SBU-1

The BANCS 2000 team

Ashwani K. Khurana, Executive Director and Head - BBU

Sharad K. Hegde, Senior Vice President and Head - SBU-4

Sudheer Krishnaswamy, Associate Vice President and Head
(Product Management and Marketing Group - BBU)

H. R. Binod, Manager (Customer Support - BBU)

C. Ravi, Project Manager (Development - BBU)

The Annual Report 96 team

T. V. Mohandas Pai, Senior Vice President
and Head - Finance and Administration

V. Balakrishnan, Manager - Finance

B. M. Rao, Manager - Communication Design Group

Managerial awards for 1996-97

The Multi-locational development center enabling team

N. S. Raghavan, Joint Managing Director and Head - Human Resources and E&R

T. V. Mohandas Pai, Senior Vice President and Head - Finance and Administration

S. Sanjeev Joshi, Manager - Commercial and Special Projects

C. Vijay Kumar, Manager - Resource Coordination

Sudha Kumar, Manager - Corporate Planning

U. Ramdas Kamath, Manager - Accounts and Administration

Ashok V. Arunachalam, Manager - CCS

The Accounts Receivable 96 Buster Team

Nandan M. Nilekani, Deputy Managing Director and Head - Marketing and Sales

Phaneesh Murthy, Vice President and Head - Worldwide Sales

Lifetime achievement award

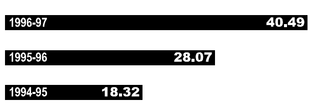
G. R. Nayak, Director (Retired) - Finance and Administration

The year at a glance

in millions except for Earnings per share

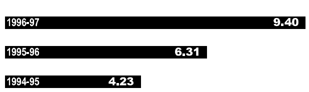
	March 31, 1997 Rs.	US$	March 31, 1996 Rs.	US$
For the year				
Total revenue	1,438.08	40.90	934.13	28.07
Exports	1,252.82	35.27	803.39	24.14
Operating profit (PBIDT)	500.58	14.09	339.54	10.20
Profit after tax (PAT) from ordinary activities	333.90	9.40	210.09	6.31
PBIDT as a percentage of total revenue	34.81% %	34.81%	36.35%	36.35
PAT as a percentage of total revenue	23.22% %	23.22%	22.49%	22.49
Earnings per share	46.00	1.30	28.94	0.87
Dividend percentage	55.00% %	55.00%	50.00%	50.00
Dividend amount	39.92	1.13	36.29	1.09
Capital investment	273.10	7.73	155.55	4.67
PAT as a percentage of average net worth	34.66% %	34.66%	29.53%	29.53
At the end of the year				
Total assets	1,128.36	31.47	840.99	25.27
Fixed assets	533.11	14.87	366.33	11.01
Working capital	541.98	15.11	411.72	12.37
Total debt	-	-	42.61	1.28
Net worth	1,128.36	31.47	798.38	23.98
Equity	72.60	2.02	72.59	2.18
Market capitalization	7,310.42	203.86	3,556.71	104.61

Figures in US$ were arrived at by converting Rupee figures at the average conversion rate for all revenue items and at closing rate for all Balance Sheet items to facilitate comparison.



Total revenue

US$ in millions



Exports

US$ in millions

Net profit

US$ in millions

Dear Shareholder,

Another successful year has come to an end. The focused and goal-oriented band of Infoscions achieved and exceeded every target they had set for themselves. Sales, exports, domestic product sales, PBIDT and PAT (from ordinary activities) grew from Rs. 93.41 crores, Rs. 80.34 crores, Rs. 8.22 crores, Rs. 33.95 crores and Rs. 21.01 crores respectively in 1995-96 to Rs. 143.81 crores, Rs. 125.28 crores, Rs. 13.94 crores, Rs. 50.06 crores and Rs. 33.39 crores respectively in 1996-97. Achieving growth without impacting quality, delivery schedule and cost is a rare phenomenon. Every Infoscion deserves your applause.

Skilled resources are in short supply at any given place in the country. Infosys believes that productivity is high when professionals operate from their own milieu. Thus, instead of transplanting professionals from their home towns to Bangalore and adding to the problems of the city, Infosys decided last year to start development centers in different parts of the country. In addition to the Mangalore center that was enabled last year, the Pune, Chennai and Bhubaneshwar centers have been operationalized this year. These centers have up-to-date physical and technological infrastructure. The decision has been taken for starting two new development centers at Bangalore.

In2000, the Infosys solution to the millennium problem, has received wide user acceptance. The order booking from the Year 2000 practice is healthy.

During the recent visit of Mr. William Henry Gates III, CEO, Microsoft, to India, Infosys announced BankAway!, an electronic banking product on the web. This is expected to be operationalized during the year. The success of BANCS 2000 has continued and the revenue from this product has increased by 83% over the previous year.

Achieving growth without impacting quality, delivery schedule and cost is a rare phenomenon

PorteNT, the Infosys solution to porting applications from platforms like OS/2 to WINDOWS NT, will be introduced during the coming year.

Infosys became the first Indian software company to demonstrate an Internet suite of products abroad. Websétu, a suite of software products for implementing web-enabled, on-line transaction processing (OLTP) systems was unveiled at the *Fall InternetWorld '96* exhibition at New York in December 1996. This is available for free downloading by Internet users.

The Infosys Annual Report for 1994-95 was voted the best in India by the Institute of Chartered Accountants of India. The readers of *AsiaMoney* magazine voted Infosys as the best managed company in India and among the best in Asia.

Ours is a country with a wide chasm between the *haves* and the *have-nots*. Most employees with quality jobs form a minority of *haves*, while most people in our society are *have-nots.* The only hope for a stable society is for the corporations and the *haves* to realize their social responsibilities towards the less fortunate ones. The Management Council has chosen *Social responsibilities of the Corporate body* as the theme for this year's annual report. We have invited three well-known personalities to give their views on this topic. We are grateful to Mr. Deepak S. Parekh, Chairman, HDFC, Prof. M. N. Srinivas, the world-famous anthropologist and Prof. Paul Shrivastava, a well-known professor in business, for taking time off from their busy schedules to write for this annual report. The Infoscion is well aware of his/her responsibility and is an enthusiast in this effort. In addition to their individual contribution towards social causes, we are glad to report three social programs that Infosys has initiated this year. These are: *Catch them young* - a program aimed at teaching algorithmic thinking and programming to school children at various centers operated by Infosys, *Train the Trainer* - an attempt to bridge the gap between the local academia and the software industry and finally, *Reach the rural* - a program to disseminate computer knowledge in Kannada to the rural folks.

Marketplace, customer, competition, collaboration, enabling, technology and employee aspiration are priority issues for the members of the Management Council (MC). We are grateful to five members of the MC who have reviewed these issues for your benefit - Mr. D. N. Prahlad on employee aspirations, Mr. Ashwani K. Khurana on customer orientation, Dr. P. Balasubramanian on technology and productivity, Mr. Phaneesh Murthy on concurrent collaboration and competition, and Dr. S. Yegneshwar on enabling strategies.

Mr. G. R. Nayak, Director (Finance and Administration), has resigned from the Board on reaching the age of superannuation, in keeping with the policy of the company. Mr. Nayak has symbolized hard work, commitment, teamwork and solidarity in everything that he did at Infosys. Mr. Nayak has been a key player in the success that Infosys has achieved so far. We, at Infosys, bid him farewell and wish him the best of everything.

The only hope for a stable society is for the corporations and the haves to realize their social responsibilities towards the less fortunate ones

Infoscions are men and women of high discipline, integrity, quality, productivity, creativity and commitment. On your behalf, on behalf of the Board of Directors and the Management Council, we place on record our appreciation and gratitude to these high achievers.

Bangalore	N. S. Raghavan	N. R. Narayana Murthy
April 8, 1997	*Joint Managing Director*	*Chairman and Managing Director*

No man is an island

Deepak Parekh

In an increasingly competitive world, firms are constantly stretched to compete for market share and improve profitability in their respective markets. In this struggle, the situational context in which firms find themselves is often overlooked. To allocate resources for objectives that are perceived to be peripheral to a single valued objective, are often perceived to be unworthy of valuable management time.

Sensitivity to the social, cultural and environmental context in which we live and work, in fact, provides important clues to business success. The closer a firm is aligned to this context, the more likely it is that the firm will have developed an internal vision that will provide a sense of direction that is needed for corporate success.

What are a firm's key concerns? An important concern is the way the firm is perceived by its current and potential investors and customeRs. This perception is likely to be a holistic one and not one derived simply from the product and services the firm provides at any given point of time. It would encompass how the firm relates to the environment, the labor practices it adopts, its response to concerns of the city or town in which it operates, its support for sports or cultural events, research to improve the quality of life and so on. The choices the firm makes will be driven by the clarity of its core value system.

Sensitivity to the social, cultural and environmental context in which we live and work, in fact, provides important clues to business success

The social responsibility of a company is to comprehend the holistic connectivities to its situation, and the connection of this situation to its business. The rest follows automatically. The greatest and most long standing charitable foundations were created by companies that understood this, very clearly, in the heyday of competitive markets of the late nineteenth and early twentieth centuries. Today, at the very least, profitable companies need to set aside a certain percentage of their annual profits to be utilized in a manner that strengthens these connectivities. By doing so, the flow of resources combined with quality intellectual inputs into the social realm, will have visible and beneficial impacts far exceeding the resources applied. We have done precisely this at HDFC for years, and will continue to do so.

Leaving a cushy, lucrative and glamorous job in a multinational bank in favor of a gruelling one in a socially-oriented corporation, is not something that an ambitious young man would do. But then, Deepak Parekh, 52 - Executive Chairman, Housing Development Finance Corporation Ltd. (HDFC) - is a rare visionary. Under his dynamic leadership, HDFC has earned almost every laurel in the corporate world including *India's best-managed company,* and has become the benchmark for *customer-orientation,* not just in India, but all over the world. A Chartered Accountant by profession, Mr. Parekh has won several awards including *The Businessman of the Year '96* from Business India and *The J R D Tata Corporate Leadership Award*.

Ecocentering corporations

Dr. Paul Shrivastava

As we enter the third millennium, the human race faces a new set of challenges. Within a few years, the world population will double to 11 billion people and production will increase twenty-fold. Global ecological changes brought about by this explosive growth will become the source of major risks and business opportunities. Environmental risks posed by global warming, ozone depletion, declining biodiversity, environmental pollution, and resource depletion will force us to fundamentally rethink our perceived notions of economic progress and growth.

Private and government corporations, as the key engines of economic production, will be challenged to simultaneously increase productivity by innovative use of information and technologies, and decrease environmental losses by creative and efficient use of natural resources. They will need to learn to make profits, while they conserve nature and improve their ecological performance.

Environmental risks... will force us to fundamentally rethink our perceived notions of economic progress and growth

Corporations can meet this challenge by ecocentering their visions, inputs, outputs, and throughput systems. Making ecology the central concern of corporate management and practices, requires us to re-evaluate nature and reassess human-nature relations. It requires managers to form new partnerships with their stakeholders — customers, suppliers, government agencies, and the public. Corporations need to develop ecologically safe products and production systems, practice recycling, reuse and renewal of resources, eliminate waste, and encourage responsible consumption. They must expand their scope of activities to address the social and ecological problems underlying poverty and deprivation at a global level. This, in my view, is the collective social responsibility of the corporate body.

Probably best known for his seminal work, *Bhopal : Anatomy of a Crisis*, Dr. Paul Shrivastava is the Howard L. Scott Professor of Management, Bucknell University, Lewisburg, USA. The author/editor of eleven books and over a hundred articles in professional journals, Dr. Shrivastava has specialized in strategic management, crisis and environmental management, and management paradigms in the global economy. He has consulted with several major, international corporations and received numerous awards.

Social responsibilities of the corporate sector

Prof. M.N. Srinivas

That the corporate sector has a responsibility to the society in which it functions, is now part of accepted wisdom, but, how widely and effectively it is practised in India is far from clear. It is necessary to restate a few obvious truths here. First, it is in the long-term interest of the corporate sector to take an active part in improving the quality of life in its immediate environment, and in the wider society. Secondly, a company must be profitable if it has to contribute to the community. However, profiteering must be shunned.

The horrors of the industrial revolution, the linkage between capitalism and colonialism in the nineteenth century, and the propaganda of utopian socialism have given the corporate world a bad image. Correcting this image requires a sharp focus on the public good by the business leadeRs.

Sensitivity to the social, cultural and environmental context in which we live and work, in fact, provides important clues to business success

Growth of the economy is a must if the corporate world has to be an enthusiastic partner in promoting the public good. To achieve growth, the politicians and bureaucrats have to initiate policies based on honesty, efficiency, transparency, merit and the larger public good. The corporate world, in turn, must contribute to the reduction, if not the elimination, of mass poverty. They should initiate schemes to provide basic amenities in villages, and improve slums in urban areas. The corporate world should play a major role in building a poverty-free and clean India.

It is unlikely that any other contemporary Indian academic can speak more authoritatively on sociology and anthropology than Prof. Srinivas. He has taught at well-known universities like Oxford, Cornell and Delhi. He has received numerous awards including Padma Bhushan, Rivers Memorial medal and Dadabhai Naoroji Prize. He is the recipient of honorary doctorates from Chicago, Nice, Mysore and Imphal universities, and is currently the J. R. D. Tata Visiting Professor at the National Institute of Advanced Studies, Bangalore, India. Prof. Srinivas is a Fellow of the British Academy, and Foreign Member of the American Philosophical Society, Philadelphia, USA.

Aspirations of a software professional

Aspirations build civilizations and take them to new heights. New inventions, conquests, birth of nations and even the man-made wonders of the world have resulted from the high aspirations of individuals, teams and countries. Aspirations vary from time to time, from country to country and milieu to milieu as, indeed, they should. Just as industrial revolution brought about a paradigm shift in the mindset of agricultural workers, the information revolution has ushered in new parameters that define the aspirations of the knowledge professionals.

Large-scale software development is metamorphosing from an art to a semi-science. The main asset of a software company is its peopleware. The success of a software company hinges on the *stretch* of imagination, creativity, hard work and commitment of its primary asset — *professionals*. Every evening, this asset walks out of the office, tired after a long-day of physical and intellectual drain. To ensure that the asset returns to the company, energetic and enthusiastic, the next morning, the company must understand the aspirations of its people and fulfill them.

The aspirations of the present-day software professional are of two types — professional and personal. The professional aspirations are generally uniform in nature across the globe. The professionals are in a hurry to create tomorrow's world today itself. They realize that knowledge is power and want to use this power to add value to the organization. They aspire for leadership derived from value addition, in an environment of rapid decision making, multicultural teams and technology. Their adrenaline flows when they receive recognition from peers and they fear being left behind in the race for creating and harnessing new technology. Thus, they revel in working on *leading-to-bleeding-edge* technology. They know that this adventure is risky, are prepared to accept any possible failures philosophically, and move on.

Aspirations build civilizations and take them to new heights

Respect and dignity are valued beyond any pecuniary benefit by the present-day professional. Recognition by the society is an important stimulant for them. Any organization that tends to take its professionals for granted, will disappear like dew on a sunny morning.

While it is fair to say that professional aspirations matter more to a software professional than personal aspirations, the latter does matter a lot more today than in the past. Our professionals have globally-valuable skills, global opportunities and, consequently, global monetary expectations. The expectation on returns to the professionals as well as on the timing of such returns have become higher. The software professionals of today, are well aware of the value they bring to the organization and are not shy of demanding a fair compensation. The abundance of information available via the Internet has only reinforced their belief that they are a chosen lot and that they deserve to be counted as such. Instant gratification, *now and here*, seems to have taken precedence over long-term monetary benefits.

The software professionals from India are enthusiastic partners in building the new India, and they are proud of the role they play in transforming this society.

Bangalore | D. N. Prahlad
April 8, 1997 | *Senior Vice President and*
Head - Strategic Business Unit-1

Creating customer champions within the company

Globalization, sophistication of customer demands, heavy competition in the marketplace and shrinking margins have increased the mortality of companies. Gaining competitive advantage through better customer service has been accepted as the *corporate mantra* for survival and success. Creating a positive spiral of customer orientation within the organization is a kernel requirement for such success.

Customer orientation transcends any monochromatic definition and synthesizes multiple objectives, all of which aim to enhance the value delivered by the organization to its customeRs. In a customer-oriented organization, every day, every employee works towards making *his/her* customer look good in front *his/her customer's customer*. This is achieved by exceeding the customer's expectation of the products/services received, with respect to quality, delivery time and cost.

Since customer orientation is best achieved by creating and fostering a customer-driven climate in the organization, it is natural that the senior management of the organization discusses, debates and enunciates the company's policy on dealing with its customeRs. Such a policy includes issues like pricing of its products and services, delivery schedules, defects, compensation for defects, liabilities, maintenance, and response time for each escalation level for responding to customer needs. Defining a clear policy and communicating it to everybody in the organization is an absolute necessity. There can be no better way to make the software professionals enthusiastic about this, than the senior management's setting an example by keeping up to the commitments made to the customer.

The task of creating a customer-oriented climate requires a customer champion — an internal person who personifies the customer's expectations and needs. Such personification comes from: constant interaction with the customer, the ability to empathize with the customer and a firm belief in the prerogative of the customer to set high expectations from the organization. Such a person will become the customer's ambassador, gently nudging everybody in the organization — from the telephone operator to the chief executive — towards customer orientation. Highly customer-focused organizations never have any dearth of champions volunteering to enhance customer satisfaction. Like any other important function in the organization, such champions need regular feedback, encouragement and recognition within the organization as well as from the customers.

Gaining competitive advantage through better customer service has been accepted as the corporate mantra for survival and success

We, at Infosys, are preparing for an era when: customers and suppliers operate seamlessly, our business goals and those of our customers would be fully aligned, and joint teams from Infosys and our customers would be championing the success of common objectives.

Bangalore
April 8, 1997

Ashwani K. Khurana
Executive Director and
Head - Banking Business Unit

Investing in technology for higher productivity

Imperatives for productivity enhancement at Infosys are: commoditization of our service offerings by our competitors, acceleration towards fixed-price, turnkey projects, intense competition for the scarce and skilled human resource in the industry, and the partitioning of development activity among several centers spread across India.

The major, internal challenges at Infosys are: communication among staff members at locations spanning continents and time zones, optimal distribution of software life cycle activities between customer and Infosys locations, forming efficient workgroups bringing together delivery, marketing and support services, aligning staff skill sets to ever-changing market needs, and establishing systems to track quality, productivity, cost, cycle times, and customer satisfaction.

The primary instruments for improving productivity at Infosys are: enhancing reuse, reducing cycle times, and improving quality. It is our belief that investments in technology provide a great leverage in helping Infosys achieve quantum leaps in quality, productivity, cycle time reduction, quick response and cost containment. As a company committed to client/server and network computing, it is our policy to provide high-powered, heterogeneous workstations with: a full complement of hardware and software, network access to powerful application servers and mainframes supporting multiple operating systems, software engineering platforms, database management systems and office productivity systems. The mission statement for networking is to connect every Infoscion with every other Infoscion, as well as with his/her customers by way of e-mail, videoconferencing and remote access to spatially distributed computeRs.

Cycle time reduction is very critical in all our operations. As an organization that has leveraged productivity from office automation and e-mail connectivity, our current focus is on workflow automation and groupware like Lotus Notes to take workgroup productivity to the next orbit.

The primary instruments for improving productivity at Infosys are: enhancing reuse, reducing cycle times, and improving quality

Internet access from the desktop helps our employees compress cycle times in retrieving the latest business and technological information. The intranet is all pervasive at Infosys, and has proved to be a veritable productivity tool. The electronic body-of-knowledge on this network helps in enhancing reuse. Most operational and strategic information systems have been put on the intranet.

Some of the software tools that are being used at Infosys are for defect data collection, estimation and enhancing reuse. These are being constantly upgraded.

At the end of the day, if we learn to leverage technology and enhance our productivity, we will survive and succeed in this game. Looking at the mindset of my professionals towards technology, I am confident that Infosys will succeed.

Bangalore
April 8, 1997

P. Balasubramanian
Senior Vice President and
Head - Strategic Business Unit-2

Can concurrent competition and collaboration survive in the technology world?

Today, very few companies can create the future single-handedly. Competing for the future is a serious business and is not for dilettantes. Success in the marketplace requires focus on identifying core competencies and leveraging them. Such focus translates to webbing the market with symbiotic relationships, crafting strategies for shaping the future of the industry and co-opting the resources of competing firms in pursuing common objectives. Thus, there is a place in the mind of the corporate strategist for co-opetition — concurrent collaboration and competition.

Competition is about enhancing marketshare. Collaboration aims at creating new opportunities and expanding the market. Collaboration takes place at two levels — horizontal and vertical. In the horizontal collaboration model, companies which are in head-to-head, tactical competition come together on a platform of mutualism to create new, expanded markets. In hi-tech industries, this is best done by creating and evolving new standards on which the companies can compete. The coming together of VISA and MasterCard to develop SET (Secure Electronic Transaction) standard for financial transactions on the Internet, is an example. The opportunity cost of not coalescing with the emerging industry standard is best illustrated by Sony's "home-stretch tumble" in promoting the *Betamax* video recording format in competition with the much-accepted *VHS* format. Such collaboration requires deep and visceral commitment to defining standards. A critical success factor in such situations is the ability of a company to convince its competitors that they have a stake in what apparently looks only like the success of the company, but is, in fact, the creation of an entire new marketspace.

The competitive mind set has to go from a militaristic view of competition to an ecosystems view.

An easier platform for horizontal collaboration is in addressing pan-industry issues with academia, government and other industries. India's NASSCOM is a good example of such collaboration.

The vertical collaboration takes place in situations where two companies competing in one technology area collaborate in another technology area at a different level in the product spectrum. Such collaborations are possible among players who have pre-eminent positions in their chosen areas of operations and use symbiotic relationships to exploit market niches. A good example is Microsoft/Intel's WINTEL standard on PCs which is in dog-eat-dog competition with Apple's Macintosh/MacOS standard while Microsoft Office products from Microsoft are the preferred office automation platform on MacOS.

Such co-opetition is possible when the competitive motivation is positive — to grow their own business while increasing the overall market size. The competitive mind set has to go from a militaristic view of competition to an ecosystems view. The business leaders have to transcend the shackles of *win-lose* and *zero-sum* syndromes. Collaboration is about creating options for the future and enhancing speed-to-market strategies. Persuasive information in collegial environments, rather than strong-arm tactics among jingoists, should be the basis for any collaboration.

In the end, let me say that only those of us that understand these concepts and implement them will survive and succeed. I have no doubt that Infosys is a good learner and implementor of such ideas.

Fremont, CA, USA
April 8, 1997

Phaneesh Murthy
Vice President and
Head - Worldwide Sales

New paradigms for quick enabling of software professionals

It is apt to say that the only *constant* in our industry is *change*. We go through frequent cycles of changes in technology, customer preferences and business practices. New professionals join us in large numbers each quarter, thus bringing about a distinct change in our cultural milieu. We operate in different cultures and countries. Hence, an environment and a paradigm for continuous learning is an absolute necessity for our survival and success.

The key ingredients for success in such environments are generic learning, reusability of such learning in specific instances, an adaptive mind set and creativity. The instruments for success are non-traditional methods of teaching to reduce response times, cycle times and effort in frequent training of professionals at multiple development locations.

Our environment calls for a model that ensures quick and effective learning of generic concepts. Quality time of the best trainers is utilized in packaging this effort. Teaching any new product features and functionality is viewed as a specific instance of the generic knowledge in the product area.

Computer-based tutorials (CBT) technology enables quick response to the unplanned training needs of small groups of professionals. Videoconferencing helps in concurrent delivery of training to professionals at multiple locations.

Our environment calls for a model that ensures quick and effective learning of generic concepts

Asynchronous methods of knowledge transfer by way of many-to-many interactions between technology experts and solution seekers, using e-mail and Internet, will help in enhancing the productivity of traineRs. Electronic bodies-of-knowledge will improve reusability and increase productivity of professionals.

Use of case studies and participation by outside trainers and internal managers help in quick and effective enabling of our professionals in project and general management areas. Productization requires that we transcend mere technical competence issues and get to understand the requirements of the marketplace, business and product support. These issues are currently the focus of our work at Infosys.

Finally, it is important to realize that a sustainable enabling model for a multi-locational organization requires learning of fundamentals, sharing of experiential knowledge by all and appropriate use of technology. The process of institutionalizing such an enabling environment has begun at Infosys. We expect this to be a major aspect of our organizational culture in the next few years, helping us to retain the competitive edge in all our markets.

Bangalore
April 8, 1997

S. Yegneshwar
Associate Vice President and
Head - Education and Research

The Board of Directors

Narayana Murthy N. R.
Chairman and Managing Director

Raghavan N. S.
Joint Managing Director

Nandan M. Nilekani
Deputy Managing Director

Gopalakrishnan S.
Deputy Managing Director

Dinesh K.
Director

Shibulal S. D.
Director

The Audit Committee

Prahlad D. N.
Chairman

Ashwani K. Khurana
Member

Balasubramanian P.
Member

Sharad K. Hegde
Member

Srinath Batni
Member

The Management Council

1. Narayana Murthy N. R.
   Chairman, Management Council
2. Mohandas Pai T. V.
   Senior Vice President and
   Head - Finance & Administration and
   Secretary , Management Council
3. Ashwani K. Khurana
   Executive Director and
   Head - Banking Business Unit
4. Balasubramanian P. Dr.
   Senior Vice President and
   Head - Strategic Business Unit-2
5. Dinesh K.
   Head - Quality, Productivity and MIS
6. Gopalakrishnan S.
   Head - Customer Delivery and Technology
7. Nandan M. Nilekani
   Head - Marketing and Sales
8. Phaneesh Murthy
   Vice President and Head - Worldwide Sales
9. Prahlad D. N.
   Senior Vice President and
   Head - Strategic Business Unit-1
10. Raghavan N. S.
    Head - Human Resources, Education & Research
11. Sharad K. Hegde
    Senior Vice President and
    Head - Technology Advancement Unit (SBU-4)
12. Shibulal S. D.
    Head - Internet Consulting Group (SBU-5)
13. Srinath Batni
    Vice President and
    Head - Strategic Business Unit-3
14. Yegneshwar S. Dr.
    Associate Vice President and
    Head - Education and Research

Adieu, GRN

In the normal scheme of things, people retiring from a company is a routine affair. But it is not so when it is a young organization, where for most people the distant future is defined as the weekend after next. Even less so when the person retiring is the first person to do so. And least of all when the person is Mr. G. R. Nayak (fondly known as GRN), Director (Finance and Administration), exiting after a glorious decade of service.

GRN joined Infosys in 1987 when it was a small company of about 100 employees. When he came on board, he was already 50 - an age when people are set in their ways and ideas. The last decade in Infosys has seen an incredible transformation from those humble beginnings into one of India's most admired companies. GRN was there, a key player at every step of the transformation. His learnability was there for all to see, whether it was grappling with technology, understanding the aspirations of people half his age, or building systems in an organization that disdained formality. He fully imbibed and was a key proponent of the Infosys value system and ideals, and proved that adaptability is not about age but about attitude.

Too often the accolades of success go to those who occupy centre stage. The contribution of all those behind the scenes, who make sure that the organization walks the talk, often goes unnoticed. GRN was one of those pillars, a rock of stability. "Leave it to Mr. Nayak" was the rallying cry whenever we faced a particularly knotty problem. And I cannot think of a single situation when he did not deliver, coming up with magical solutions when lesser mortals may have been in the throes of despair.

Most of all, GRN is a very contented man. He has often said that life - and Infosys - have dealt him more than his fair share of cards. In terms of status, power and money, he feels he has achieved it all. This realization spawned a spectacular burst of energy, focused on doing things for otheRs. There is not a soul in Infosys whose life he has not touched, be it a Homes 2000 applicant, a person who has met with an accident, or someone in personal trouble. He has made sure that as Infosys grew, the Infoscion is not just another statistic, but a flesh and blood person who needs to get married, own a car and house, and carve out a decent life - that will be his enduring legacy.

Good-bye GRN, we will miss you in Infosys.

Nandan M. Nilekani
Deputy Managing Director

Directors' report

To the Members,

Your directors have pleasure in presenting their report on the business and operations of your company for the year ended March 31, 1997.

Financial results

Rs. in crores

Year ending March 31,	1997	1996
Gross revenue	143.81	93.41
Operating profit (PBIDT)	50.06	33.95
Interest	0.61	-
Depreciation	10.52	8.63
Profit before tax from ordinary activities	38.93	25.32
Provision for tax	5.54	4.31
Profit after tax from ordinary activities	33.39	21.01
Extraordinary income	3.59	-
Net profit	36.98	21.01

Appropriation

Interim dividend paid	1.09	1.09
Dividend recommended - final	2.90	2.54
Total dividend	3.99	3.63
Transferred to capital reserve	3.59	-
Transferred to general reserve	29.40	17.38

* Rs. One crore is equal to Rs. Ten million.

Results of operations

Your company continued its impressive performance this year as well. The gross revenue has grown from Rs. 93.41 crores in 1995-96 to Rs. 143.81 crores during the current year, registering a growth rate of 53.95%. The operating profit has grown to Rs. 50.06 crores from Rs. 33.95 crores in the previous year, registering a growth rate of 47.43%. During the year, your company has absorbed the large initial costs involved in operationalizing several software development centers in various parts of India.

Bonus issue of shares

Your Directors recommend a bonus issue of shares in the ratio of 1:1. The warrants issued and outstanding under the Employees Stock Offer Plan (ESOP) are also eligible for the bonus issue. The necessary resolutions are being placed before the shareholders in the ensuing Annual General Meeting.

Dividend

An interim dividend of Rs. 1.50 per share (subject to deduction of tax at source) was paid in November, 1996. Your directors now recommend a final dividend of Rs. 4.00 per share (subject to deduction of tax at source, if applicable), making in all, a total dividend of Rs. 5.50 per share for the year ended March 31, 1997. The total amount of dividend for the current year is Rs. 3.99 crores as against Rs. 3.63 crores for the previous year. The final dividend is expected to be tax free in the hands of the shareholders if the Finance Bill, 1997, is passed by the Parliament.

Increase in share capital

During the year, the issued, subscribed and paid up capital increased by Rs. 10,000 consequent to the issue of 1000 shares of Rs. 10 each, fully paid, to an employee of your company under the Employees Stock Offer Plan. The share premium also increased by Rs. 90,000 upon receipt of Rs. 90 per share towards the same.

Exports

The export revenue grew from Rs. 80.34 crores in 1995-96 to Rs. 125.28 crores this year, registering a growth rate of 55.94%. Your company continues to emphasize its focus on offshore software development, maintenance and products. Entark (Enterprise architecture, formerly known as INLEGOE) has been used successfully in several software development projects. During the year, there were 6 new installations of BANCS 2000 in Africa and Asia.

Organizational changes

A new Strategic Business Unit (SBU) - 5 was added during the year to concentrate on Internet and intranet consulting.

Productization initiatives

In2000

We are approaching the next millennium. A large part of the software developed in the world, so far, cannot handle dates beyond December 31, 1999. This lacuna has created a software refurbishing opportunity estimated by analysts at around US$ 300 billion. *In2000* is your company's solution to this problem. *In2000* was created last year and has been used extensively in providing the solution to the millennium problem. To ensure balanced growth, and insulate the company from any major changes in the marketplace, your company has taken steps to minimize its dependence on any single customer, technology or application area. As a part of this strategy, your company has decided to limit the contribution from *In2000* to 25% to 30% of total sales.

PorteNT

Your company has developed a methodology and a tool kit to port applications from OS/2 to WINDOWS NT. The industry trends indicate that this is an emerging area.

Websétu

Websétu is a suite of products for enabling Internet-based electronic commerce using traditional, On-Line Transaction Processing (OLTP) application engines. Your company demonstrated this suite of products at the *Fall InternetWorld '96* at New York in December 1996. It is available for free download from our web page on the Internet.

Domestic market

The BANCS 2000 software has performed exceedingly well in the domestic market. The unprecedented reception that it has received from the new, highly competitive private banks has reinforced the premier position of BANCS 2000 in the Indian market. There were 165 installations of BANCS 2000 as on March 31, 1997. The revenue from BANCS 2000 increased by more than 83% over the last year, and your directors are optimistic that this trend will continue in the future. BankAway! provides an Internet-enabled front-end to BANCS 2000 functions.

Overseas branches

The Cincinnati branch office was moved to Chicago to bring the sales force nearer the center of gravity of our Midwestern US business. Sales offices were opened at London in the UK and Los Angeles in the US. In addition, during the coming year, the San Francisco, New York and Boston offices will be strengthened. A sales office will be opened at Tokyo and another one in Canada.

New development centers and infrastructure

In keeping with our strategy of helping software professionals function from their own milieu, your company operationalized development centers at Pune, Chennai (Madras) and Bhubaneshwar. The erstwhile corporate office at the prestigious Manipal Center in Bangalore has become the development center for the Internet consulting group. The development center at Mangalore has been expanded. Your company has also signed the lease for a new 55,900 square feet development centre at Bangalore which is expected to become operational during June 1997.

Effective testing of the date-converted software by *In2000* requires an in-house mainframe. The demand for software development on mainframes has also received a boost since the mainframe market has had a revival during the last two yeaRs. Hence, an IBM 9672-RA4 mainframe has been purchased for our Electronics City development centre.

Quality

After completing three years as an ISO 9001/Tick IT certified company, your company went through a successful recertification audit in November 1996. Work towards Level 3/4 of the Capability Maturity Model of the Software Engineering Institute of Carnegie Mellon University, Pittsburgh, USA, is in full progress.

India's best-managed company and the Silver shield for the Best-Presented-Accounts

Your directors are happy to report on the several recognitions that have been bestowed on your company during the year. The readers of the well-known *AsiaMoney* magazine have voted your company as India's best-managed company for the year 1996. The Institute of Chartered Accountants of India awarded the Silver shield for the Best-Presented-Accounts, amongst the entries received from the non-financial, private sector companies for the year 1995, to your company. Your company also won several awards for export performance.

Continuation of presentation of Infosys accounts according to US GAAP and providing information in the format of Form 10-K of SEC and Human Resource Accounting

Last year, your company had voluntarily recast its Balance Sheet in compliance with the US GAAP and also provided, on a voluntary basis, the information mandated in Form 10-K by the Securities and Exchange Commission of USA. This exercise has been continued for the current year. These are, however, not audited. A model for the accounting of human resources was used and the resulting value of the human resources of your company was disclosed in the last year's annual report. Your company has continued this practice.

Brand Valuation

It is increasingly accepted that modern business success is largely dependent on intangible assets. The quantum of value added to a business is becoming a function of the intangible assets in the business. Last year, your company had valued its most valuable asset - its human resources. This year, your company has made an attempt to value another of its valuable assets - the "Infosys" brand. The necessary information about brand valuation is provided as additional information to the shareholders.

Employees Stock Offer Plan (ESOP)

The Employee Stock Offer Plan, initiated in 1994-95 by your company, has been a great success. Several key employees are now covered by this scheme. This year, 1,20,900 warrants were awarded to 184 employees.

Subsidiary in USA and extraordinary income due to the sale of EAGLE to the subsidiary

Your company's subsidiary in the USA, Yantra Corporation (Yantra), has completed a full year of operations. Development effort to enrich EAGLE (the product, now known as *WMSYantra*, transferred by your company to Yantra) functionally to keep up with the changing needs of the warehouse customers has been initiated by Yantra, and is expected to yield rich dividends in the future. During the year, Yantra released *WebYantra*, an Internet framework for electronic commerce for the OTR segment. The first installation of phase I of *WebYantra* was completed for a world-famous footwear manufacturer.

The necessary approvals for transferring the rights of ownership of *WMSYantra* to Yantra have been received from the Reserve Bank of India, and the transfer has been completed. This sale is worth US$ 1 million and has been paid for as 5 million common stocks in Yantra each worth US$ 0.20. *The shareholders are cautioned that this income is a onetime extraordinary income.*

Software Sourcing Company (SSC)

During the year, your directors completed the relinquishment of your company's interest in Software Sourcing Company (SSC), a joint venture with Kurt Salmon Associates, USA, after obtaining the necessary approvals from the Reserve Bank of India.

JASDIC

JASDIC Park Company is an Indo-Japanese consortium founded by Mr. Kenichi Ohmae, the world famous management strategist and author, along with a few Japanese companies and five Indian companies including your company. The purpose of JASDIC is to provide high-quality software engineering services from India to the Japanese market. This is in line with your company's strategy to diversify its geographic customer base.

Overseas subsidiaries

Last year, your directors obtained your approval for setting-up wholly-owned subsidiaries in USA, Europe and Asia-Pacific. Your directors are evaluating various proposals to identify operations which meet and align with the overall corporate vision of your company.

Investments

In line with our commitment to our shareholders, your directors have, during the year, continued with the disinvestment of the company's investments in equities of other companies. Currently, the surplus funds of your company are being invested only in short-term instruments and inter-corporate deposits of rated, financially sound companies.

NSDL

We are glad to inform you that the Board of Directors of your company have entered into an agreement with National Securities Depository Limited (NSDL) to facilitate the holding and trading of the company's shares in electronic form.

FII investment Limit

Recently, the Government of India has raised the investment limit in an Indian company for Foreign Institutional Investors/Non Resident Indians/Overseas Corporate Bodies, from 24% to 30%, subject to the approval of the Board of the investee company, and a special resolution of the shareholders of such a company. Your directors are of the opinion that it would be in the interest of the company to increase the limit of such investment to 30%. The necessary resolutions are being placed before the shareholders in the ensuing Annual General Meeting.

Social contribution

During the year, your company contributed an amount of Rs. 8.78 lakhs to the Bangalore Traffic Police, for the purchase of an ambulance and six motorcycles for better traffic management on Hosur Road, Bangalore. Your company has promoted *Infosys Foundation*, a not-for-profit trust, in furtherance of your company's commitment to the social causes of our milieu. The focus of this foundation will be to help organizations devoted to destitutes, disadvantaged people, spastics and senior citizens, and to further the cause of education and similar activities of social importance.

Fixed deposits

Your company has not accepted any deposits and, as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

Directors

According to the terms of Article 122 of the Articles of Association, Mr. Nandan M. Nilekani, retires by rotation in the forthcoming Annual General Meeting and is eligible for reappointment. Being so, he offers himself for reappointment.

During the year, Mr. S. D. Shibulal was co-opted as an additional director of the company. The necessary resolution seeking his appointment as whole-time director of the company is being placed before the shareholders for approval.

Mr. G. R. Nayak, a whole-time Director of the company in charge of Finance and Administration, resigned from directorship on March 6, 1997 on attaining superannuation. Mr. G. R. Nayak was a key player in the success of your company. On behalf of all of you, I bid him farewell and wish him a happy, healthy and prosperous retired life.

Auditor

The auditor, Mr. A. M. Bhatkal, retires at the forthcoming Annual General Meeting and has informed his inability to offer himself for reappointment due to his prior professional commitments. Hence, your company has proposed M/s. Bharat S. Raut and Company, Chartered Accountants, as the auditors for the next year and the Directors seek your approval.

Particulars of employees

As required under the provisions of section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure included in this report.

Conservation of energy, technology absorption, foreign exchange earnings and outgo

The particulars as prescribed under subsection (1)(e) of section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are set out in the annexure included in this report.

Acknowledgments

Your directors thank the customers, vendors, investors and bankers for their continued support to your company's growth. Your directors place on record their appreciation of the contribution made by the employees at all levels, who, through their competence, hard work, solidarity, cooperation and support, have enabled the company to achieve phenomenal growth during the year.

Your directors thank the Government of India, particularly the Department of Electronics, the Customs department, Software Technology Park, Bangalore, Ministry of Commerce, RBI, VSNL, the Department of Telecommunications, the state government and other governmental agencies for their support during the year, and look forward to their continued support.

For and on behalf of the Board of Directors

Bangalore
April 8, 1997

N. R. Narayana Murthy
Chairman and Managing Director

a) Particulars pursuant to Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988

1. Conservation of energy

The operations of your company involve only low energy consumption. Adequate measures have, however, been taken to reduce energy consumption by using energy efficient computer terminals and by purchase of equipment of latest technology. Your company plans to replace the existing lamps with 11 watt CFL fittings and is shifting to the use of "Electronic Ballast" to reduce the power consumption of tube lights. Your company evaluates, on an ongoing basis, new technologies and techniques to make infrastructure more energy efficient. Air-conditioners are used only in computer control center and conference rooms as a measure of energy conservation. The impact of these measures have been to enhance energy efficiency. As energy cost forms a very small part of total costs, the impact on costs is negligible.

2. Research and Development (R & D)

Research and Development is very crucial to the success of an enterprise operating in the world market. R & D in software development is a key instrument in retaining margins in these days of lingering recession and aggressive competition.

a. Specific areas for R & D at Infosys

The company carries out research in the following three areas:

- General software development: This includes issues related to improving productivity, implementing metrics, improving estimation techniques, adoption of new technologies, process improvement and tool development.
- Software maintenance, re-engineering and revitalization: These are techniques that help in extending the business value and usability of existing applications.
- Development of technologies related to the Internet: The company is looking specifically at how the Internet paradigm has changed the computing business, and how we can exploit it in our services, applications and tools.

b. Benefits derived as a result of the above R & D

The improvements in productivity of our projects and better estimates of our proposals can be directly attributed to the research undertaken in this area. The research in software re-engineering has provided the basis for the highly successful *In2000* service that has been developed by your company for the Year 2000 problem. This research has also contributed to the PorteNT service that has been created to port existing applications to the WINDOWS NT platform.

The Internet initiatives of Infosys, like high-value Internet consulting, the Websétu tools and BankAway! application, are due to the R & D efforts related to the Internet. The roadmap of BANCS 2000 is being decided based on the research into the Internet computing paradigm.

The company has developed the Websétu suite of products, which allow the development and deployment of mission-critical applications over the Internet. The company has developed tools that aid in the automation of the *In2000* and PorteNT services. The company has developed new products in the banking area, like BankAway! - an electronic banking product on the web, and a module for treasury management. In addition, BANCS 2000 has undergone significant enhancements to enable multi-currency and flexi-centralization.

c. Future plan of action

The three areas in which R & D are being carried out, continue to be the most high leverage areas for Infosys. More comprehensive and sustained efforts will be made in these areas in the coming years.

d. Expenditure on R & D for the year ending March 31,

Rs. in crores

	1997	1996
Revenue expenditure	4.40	2.61
Capital expenditure	3.03	0.57
Total R & D expenditure	7.43	3.18
R & D expenditure as a percentage of total revenue	5.17%	3.40%

3. Technology absorption, adaptation and innovation

Your company uses the latest technology available across the world for its operations. These technologies are adapted to meet its specific needs. Your company has created a Year 2000 tools group which will develop tools specifically to address the millennium problem. This enables your company to increase productivity for this type of work. The quality of the deliverables also increases, since part of the work is automated. The team currently consists of 10 people.

The Technology Advancement Unit (TAU) has enhanced Entark (originally called INLEGOE), with additional products, to create a complete suite of products called Websétu. The Websétu suite allows legacy applications to be connected to new delivery channels like Internet and intranet, creating network computing applications by reuse of existing legacy code. It also allows new, very high performance OLTP applications to be developed over Internet and intranet. Your company is one of the few companies in the world which is positioned to take advantage of the migration of legacy applications to Internet with this suite of products.

Your company is anticipating the move to workflow-based business applications in the future. In order to be ready for this move, your company is converting some of its internal MIS applications to be workflow-enabled. This requires re-engineering of business processes and use of workflow tools like InConcert, Flowmark, and Notes.

Your company has increased the use of software testing tools in its projects to increase the efficiency of the testing process. This will improve the quality of deliverables and enhance productivity by reducing rework.

4. Foreign exchange earnings and outgo

a. Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans

The company has always had a predominant export focus. In 1996-97, 87.12% of the revenue came from exports. The company has, over the years, built up a substantial direct office network all over the world. These offices are in the US, Europe and Asia, and are staffed with sales and marketing people, who directly sell the company's products and services to large international customeRs. The export thrust of the company will continue in the future. In 1997-98, the company plans to open additional offices in Canada and Japan. In addition to the customers they have in Africa, Nepal and Sri Lanka, the Banking Business Unit is planning to enter new markets in Asia.

The company has launched a plan to increase the awareness of Infosys brand and its products and services. Several Press and Public Relations exercises have been launched in the US, which will raise the awareness about the company. The company plans to take part in at least 4 international expositions on a worldwide basis to promote its products and services.

The long-term goal of the company is to be a well-respected name in the global market for its products and services, and continue to get a predominant portion of its revenue from exports.

b. Foreign exchange used and earned for the year ending March 31,

Rs. in crores

	1997	1996
Foreign exchange earnings	114.03	74.46
Foreign exchange outgo (including capital goods and imported software packages)	56.17	33.34

For and on behalf of the Board of Directors

Bangalore
April 8, 1997

N. R. Narayana Murthy
Chairman and Managing Director

Management statement

The financial statements are in full conformity with the requirements of the Companies Act, 1956 and the Generally Accepted Accounting Principles (GAAP) of India. These financial statements have also been reformatted to comply with the requirements of GAAP of the US and the SEC disclosure norms. The management of Infosys Technologies Limited accepts responsibility for the integrity and objectivity of these financial statements, as well as for estimates and judgements relating to matters not concluded by the year end. The management believes that the financial statements reflect fairly the form and substance of transactions and reasonably present the company's financial condition and results of operations. To ensure this, the company has installed a system of internal controls which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the company's established policies and procedures have been followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls.

These financial statements have been audited by Mr. A. M. Bhatkal, Chartered Accountant, the independent auditor.

The Audit Committee, at Infosys Technologies Limited, meets periodically with the Board of Directors, the internal auditors and the independent auditor to review the manner in which they are performing their responsibilities, and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, Mr. A. M. Bhatkal and the internal auditors have full and free access to members of the Audit Committee to discuss any matter of substance.

The Audit Committee for 1996-97 was :

Prahlad D. N.	-	Chairman
Ashwani K. Khurana	-	Member
Balasubramanian P.	-	Member
Sharad K. Hegde	-	Member
Srinath Batni	-	Member

Bangalore
April 8, 1997

N. R. Narayana Murthy
Chairman and Managing Director

Auditor's report

To

The shareholders,

Infosys Technologies Limited

I have audited the attached Balance Sheet of Infosys Technologies Limited, Bangalore, as at March 31, 1997 and the Profit and Loss Account of the company for the year ended on that date annexed thereto and report that in accordance with the provisions of section 227 of the Companies Act, 1956 :

1. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit.

2. In my opinion, proper books of accounts, as required by law, have been kept by the company so far as appears from my examination of those books.

3. The said Balance Sheet and Profit and Loss Account are in agreement with the books of account.

4. In my opinion, and to the best of my information and according to the explanations given to me, the said accounts read together with the notes thereon, give the information as required by the Companies Act, 1956, in the manner so required, and give a true and fair view :

    a) in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 1997, and

    b) in the case of the Profit and Loss Account, of the profit for the year ended on that date.

The required report, under the Manufacturing and Other Companies (Auditor's report) Order, 1988, is annexed herewith.

Bangalore
April 8, 1997

A. M. Bhatkal
Chartered Accountant

Annexure to Auditor's report

As required by the Manufacturing and Other Companies (Auditor's report) Order, 1988, issued by the Central Government under section 227(4A) of the Companies Act, 1956, and in terms of the information and explanations given to me, and on the basis of such checks as I considered appropriate, I report as under:

1. The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets. These fixed assets have been physically verified by the management and, in my opinion, the program of verification carried out is reasonable with regard to the size of the company and the nature of its assets, and no discrepancies have been noticed on such verification.
2. None of the fixed assets of the company have been revalued during the year.
3. a. During the year, the principal activity of the company has been that of development and production of computer software for its clients. Stocks of computer stationery, ribbons, floppies, magnetic tapes and disks, required for this activity, have been physically verified by the management at reasonable intervals during the period. Stocks of imported software, a commodity that the company trades in, have also been physically verified by the management at reasonable intervals during the year.

   b. As explained to me, the procedures for physical verification of the above referred stocks followed by the management are, in my opinion, reasonable and adequate in relation to the size of the company.

   c. No material discrepancies were noticed on physical verification of stocks as compared to book records and the same have been properly dealt with in the books of accounts.

   d. On the basis of my examination of the stock records, I am of the opinion that the valuation of stock is fair and proper and is in accordance with the normally accepted accounting principles, and is on the same basis as in the preceding year.
4. The company has not accepted any loan from companies, firms or other parties listed in the register maintained under sections 301 and 370(I-C) of the Companies Act, 1956.
5. The parties (including employees) to whom loans or advances in the nature of loans have been given by the company are repaying the principal amounts as stipulated, and are also regular in payment of interest, where applicable.
6. In my opinion, and according to the information and explanations given to me, there are adequate internal control procedures commensurate with the size of the company and the nature of its business, with regard to the purchase of components, plant and machinery, equipment and other assets.
7. During the year, the company has not purchased any stores or components exceeding Rs. 50,000 in value for each type thereof, from subsidiaries, firms, or companies, or other parties in which the directors are interested, as listed in the register maintained under section 301 of the Companies Act, 1956.
8. As explained to me, there have been no unserviceable and damaged materials during the year.
9. The company has not accepted any deposits from the public.
10. I have been given to understand that the operations in which the company is engaged do not result in any realizable scrap or by-product.
11. In my opinion, the company's present internal audit system is commensurate with its size and nature of business.

12. The Central Government has not prescribed maintenance of cost records under section 209(1)(d) of the Companies Act, 1956, for the products of the company.

13. According to the records of the company, the Provident Fund and the Employees State Insurance dues, wherever applicable, have been regularly deposited during the year with the appropriate authorities.

14. According to the information and explanations given to me, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding as at March 31, 1997, for a period of more than six months from the date they became payable.

15. According to the information and explanations given to me and on the basis of books and records of the company examined by me, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practices.

16. The company does not fall within the purview of clause(O) of section 3(1) of the Sick Industrial Companies (Special Provisions) Act, 1985.

17. In respect of the trading activities, there were no damaged goods in the possession of the company at the end of the year.

18. In respect of services rendered :

    a. The nature of service rendered is such that it does not involve consumption of material and stores.

    b. The company has a reasonable system of allocating man-hours utilized to the relative jobs, commensurate with its size and nature of its business.

    c. In my opinion, there is a reasonable system of authorization at proper levels and the related system of internal control is commensurate with the size of the company and nature of its business, on allocation of manpower to jobs.

Bangalore
April 8, 1997

A. M. Bhatkal
Chartered Accountant

Balance Sheet as at March 31,

in Rs.

	Schedule	1997	1996
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	7,25,97,500	7,25,87,500
Reserves and surplus	2	105,57,63,097	72,57,93,728
LOAN FUNDS			
Secured loans	3	-	4,26,06,235
Unsecured loans		-	-
		112,83,60,597	84,09,87,463
APPLICATION OF FUNDS			
FIXED ASSETS	4		
Gross block		71,29,16,621	46,85,74,921
Less : Depreciation		25,02,44,587	14,66,06,677
Net block		46,26,72,034	32,19,68,244
Add : Capital work-in-progress		7,04,41,980	4,43,65,797
		53,31,14,014	36,63,34,041
INVESTMENTS	5	5,32,61,960	6,29,36,812
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	6	4,10,878	16,97,058
Sundry debtors	7	18,08,89,934	11,24,96,905
Cash and bank balances	8	15,02,35,621	13,25,22,822
Loans and advances	9	38,44,14,669	29,49,38,681
		71,59,51,102	54,16,55,466
Less : Current liabilities	10	5,12,31,334	4,51,13,756
Provisions	11	12,27,35,145	8,48,25,100
NET CURRENT ASSETS		54,19,84,623	41,17,16,610
		112,83,60,597	84,09,87,463
SIGNIFICANT ACCOUNTING POLICIES NOTES ON ACCOUNTS	15		

The Schedules referred to above and the notes thereon form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in my report of even date.

A. M. Bhatkal *Chartered Accountant*	N. R. Narayana Murthy *Chairman and Managing Director*	N. S. Raghavan *Jt. Managing Director*	Nandan M. Nilekani *Dy. Managing Director*	S. Gopalakrishnan *Dy. Managing Director*
Bangalore April 8, 1997	K. Dinesh *Director*	S. D. Shibulal *Director*	T. V. Mohandas Pai *Sr. Vice-President (Finance and Administration)*	V. Viswanathan *Company Secretary*

Profit and Loss Account for the year ending March 31,

in Rs.

	Schedule	1997	1996
INCOME			
Software development services and products			
Overseas		125,28,18,659	80,33,94,508
Domestic		13,33,74,035	6,52,00,690
Sale of imported software packages		59,53,940	1,69,54,164
Other income	12	4,59,30,153	4,85,84,343
		143,80,76,787	93,41,33,705
EXPENDITURE			
Cost of imported software packages sold		37,14,984	87,36,350
Software development expenses	13	76,35,57,398	48,35,99,332
Administration and other expenses	14	15,70,33,835	7,95,01,855
Loss on sale of investments/ Provision for investments		1,31,92,752	2,27,60,000
		93,74,98,969	59,45,97,537
Operating profit (PBIDT)		50,05,77,818	33,95,36,168
Interest		61,09,715	-
Depreciation		10,51,64,884	8,63,41,651
Profit before tax		38,93,03,219	25,31,94,517
Provision for tax - earlier years		1,08,00,805	68,80,000
- current year		4,46,00,000	3,62,20,000
Profit after tax from ordinary activities		33,39,02,414	21,00,94,517
Extraordinary income		3,59,00,000	-
Net profit		36,98,02,414	21,00,94,517
AMOUNT AVAILABLE FOR APPROPRIATION		36,98,02,414	21,00,94,517
Dividend (Subject to deduction of tax at source where applicable)			
Interim		1,08,87,900	1,08,87,900
Final (proposed)		2,90,35,145	2,54,05,100
Amount transferred - capital reserve		3,59,00,000	-
- general reserve		29,39,79,369	17,38,01,517
		36,98,02,414	21,00,94,517
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS	15		

The Schedules referred to above and the notes thereon form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in my report of even date.

A. M. Bhatkal *Chartered Accountant*	N. R. Narayana Murthy *Chairman and Managing Director*	N. S. Raghavan *Jt. Managing Director*	Nandan M. Nilekani *Dy. Managing Director*	S. Gopalakrishnan *Dy. Managing Director*
Bangalore April 8, 1997	K. Dinesh *Director*	S. D. Shibulal *Director*	T. V. Mohandas Pai *Sr. Vice-President (Finance and Administration)*	V. Viswanathan *Company Secretary*

	1997	1996
		in Rs.

1. SHARE CAPITAL

	1997	1996
AUTHORIZED		
1,00,00,000 equity shares of Rs. 10 each.	10,00,00,000	10,00,00,000
ISSUED, SUBSCRIBED AND PAID UP		
72,59,600 (previous year - 72,58,600) equity shares of Rs. 10 each fully paid up. (Of the above, 49,18,300 equity shares of Rs. 10 each, fully paid up, have been issued as bonus shares by capitalization of general reserve)	7,25,96,000	7,25,86,000
Add : Forfeited shares	1,500	1,500
	7,25,97,500	7,25,87,500

2. RESERVES AND SURPLUS

	1997	1996
Capital reserve transferred from Profit and loss account	3,59,00,000	-
Share premium account as per last Balance Sheet	34,74,51,460	34,74,51,460
Add : Received during the year on conversion of warrants	90,000	-
	34,75,41,460	34,74,51,460
Investment allowance reserve (utilized) as per last Balance Sheet	9,55,800	9,55,800
Less : Transferred to general reserve	2,90,800	-
	6,65,000	9,55,800
General reserve as per last Balance Sheet	37,73,86,468	20,35,84,951
Add : Transferred during the year from Investment allowance reserve (utilized)	2,90,800	-
Add : Transferred from Profit and Loss Account	29,39,79,369	17,38,01,517
	67,16,56,637	37,73,86,468
	1,05,57,63,097	72,57,93,728

3. SECURED LOANS

	1997	1996
From Housing Development Finance Corporation Ltd. towards purchase of staff quarteRs. (Secured by equitable mortgage by deposit of title deeds of staff quarters)	-	4,26,06,235
	-	4,26,06,235

4. FIXED ASSETS

		Gross block				Depreciation				Net block	
Sl. No.	Assets	Cost as on 1.4.96	Additions during the year	Deductions during the year	Cost as on 31.3.97	As on 1.4.96	For the year	Deductions during the year	As on 31.3.97	As on 31.3.97	As on 31.3.96
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1.	Land - free-hold	-	1,89,83,650	-	1,89,83,650	-	-	-	-	1,89,83,650	-
2.	Land - lease-hold	48,51,170	5,13,590	6,51,170	47,13,590	-	-	-	-	47,13,590	48,51,170
2.	Buildings	16,74,89,430	1,76,93,961	40,000	18,51,43,391	29,16,464	41,60,035	365	70,76,134	17,80,67,257	16,45,72,966
3.	Plant and Machinery	5,63,22,571	5,60,44,266	-	11,23,66,837	1,69,96,316	1,48,93,048	-	3,18,89,364	8,04,77,473	3,93,26,255
4.	Computer systems	19,98,01,825	11,32,04,870	14,21,620	31,15,85,075	10,13,60,526	7,63,73,589	13,24,212	17,64,09,903	13,51,75,172	9,84,41,299
5.	Furniture and fixtures	3,86,29,517	4,02,26,749	-	7,88,56,266	2,48,54,009	95,54,657	-	3,44,08,666	4,44,47,600	1,37,75,508
6.	Vehicles	14,80,408	3,61,125	5,73,721	12,67,812	4,79,362	1,83,555	2,02,397	4,60,520	8,07,292	10,01,046
		46,85,74,921	24,70,28,211	26,86,511	71,29,16,621	14,66,06,677	10,51,64,884	15,26,974	25,02,44,587	46,26,72,034	32,19,68,244
	Previous year	25,32,01,097	21,96,31,126	42,57,302	46,85,74,921	6,14,51,082	8,63,41,651	11,86,056	14,66,06,677	32,19,68,244	19,17,50,015

Note : Buildings include Rs. 250 being the value of 5 shares of Rs. 50 each in Mittal Towers Premises Co-operative Society Ltd.

in Rs.

5. INVESTMENTS - at cost

TRADE (UNQUOTED)

Long-term investments

	No of Units/ Debentures/ Shares	1997	1996
Software Sourcing Company, Atlanta, USA, a partnership with Kurt Salmon Associates, USA		-	13,30,016
Wholly-owned subsidiary - Yantra Corporation a company incorporated in the USA - 75,00,000 (previous year - 25,00,000) common stock at US$ 0.20 each, fully paid, par value US$ 0.01 each		5,32,51,600	1,73,51,600
Software Services Support Education Center Ltd.	1	10	10
The Saraswat Co-operative Bank Ltd.	1,035	10,350	10,350
		5,32,61,960	1,86,91,976

NON-TRADE (QUOTED)

Current investments

		1997	1996
Mutual Funds			
Centurion Quantum Growth Fund 1993	-	-	20,00,000
Morgan Stanley Mutual Fund	-	-	43,51,350
The Alliance ’95 Fund	-	-	24,37,500
		-	87,88,850
Debentures			
Bharat Earth Movers Ltd.	-	-	1,53,000
Shaw Wallace Gelatines Ltd.	-	-	48,000
The Simbhaoli Sugar Mills Ltd.	-	-	2,75,000
Torrent Pharmaceuticals Ltd.	-	-	22,500
		-	4,98,500
Equity shares			
Absolute Aromatics Ltd.	-	-	11,70,000
Akai Impex Ltd.	-	-	4,98,000
Bal Pharma Ltd.	-	-	1,86,000
Bharat Earth Movers Ltd.	-	-	8,41,500
Binani Zinc Ltd. (partly paid)	-	-	19,57,500
Cals Ltd.	-	-	5,90,580
Centum Electronics Ltd.	-	-	73,000
Cholamandalam Investment & Finance Co. Ltd.	-	-	33,45,000
CRB Capital Markets Ltd.	-	-	51,00,000
Dai-Ichi Karkaria Ltd.	-	-	16,80,000
DCM Financial Services Ltd.	-	-	2,66,000
Dewas Metal Sections Ltd.	-	-	10,98,000
Dugar Housing Development Finance India Ltd.	-	-	37,000
Escorts Financial Services Ltd.	-	-	5,58,000
Ganesh Benzoplast Ltd.	-	-	4,83,000
GIC Housing Finance Ltd.	-	-	4,10,000
HB Portfolio Leasing Ltd.	-	-	15,99,000
Hindustan Organic Chemicals Ltd.	-	-	4,15,000

Schedules to the Balance Sheet as at March 31,

in Rs.

5. INVESTMENTS - at cost (contd.)

		1997	1996
Hindustan Petroleum Corporation Ltd.	-	-	75,48,000
India Lease Development Ltd.	-	-	15,00,000
Indian Dyestuff Industries Ltd.	-	-	14,40,000
Indo-Dutch Proteins Ltd.	-	-	1,19,000
Industrial Development Bank of India	-	-	12,74,000
Jain Plastics & Chemicals Ltd.	-	-	3,70,500
Jindal Photo Films Ltd.	-	-	2,73,000
Kandagiri Spinning Mills Ltd.	-	-	2,50,000
Kongarar Textiles Ltd.	-	-	1,17,000
Lloyds Metals & Engineers Ltd.	-	-	22,35,000
LML Ltd.	-	-	11,07,391
Noel Agritech Ltd.	-	-	1,55,000
Mafatlal Finance Company Ltd.	-	-	5,55,000
Mardia Steel Ltd.	-	-	22,55,000
Onward Technologies Ltd.	-	-	65,000
Oriental Bank of Commerce	-	-	1,44,000
Peerless Shipping & Oilfield Services Ltd.	-	-	22,52,000
Pressman Ltd.	-	-	4,29,000
Punjab Communications Ltd.	-	-	50,000
Punjab Woolcombers Ltd.	-	-	1,08,000
Recon Ltd.	-	-	3,40,000
Reliance Capital Ltd.	-	-	27,44,000
Reliance Chemotex Industries Ltd.	-	-	11,84,750
Sambandam Spinning Mills Ltd.	-	-	3,50,000
Samrat Ashoka Exports Ltd.	-	-	60,000
Samtel Electron Devices Ltd.	-	-	15,48,000
Sree Uma Parameswari Mills Ltd.	-	-	3,57,000
Sri Nachammai Cotton Mills Ltd.	-	-	2,38,000
Sterling Guaranty & Finance Ltd.	-	-	1,51,500
Sterlite Communications Ltd.	-	-	2,90,000
Stiefel Und Schuh (India) Ltd.	-	-	6,000
Suashish Diamonds Ltd.	-	-	6,43,500
Thambbi Modern Spinning Mills Ltd.	-	-	1,55,000
The Lakshmi Vilas Bank Ltd.	-	-	9,77,265
The Morarjee Goculdas Spinning & Weaving Co. Ltd.	-	-	30,16,000
The Sandesh Ltd.	-	-	2,10,000
The Simbhaoli Sugar Mills Ltd.	-	-	2,20,000
The Sri Ganapathy Mills Company Ltd.	-	-	2,70,000
Twentyfirst Century Mgmt. Services Ltd.	-	-	22,38,000
WS Telesystems Limited	-	-	1,64,000
		-	5,77,17,486
		5,32,61,960	8,56,96,812
Less : Provision for diminution in the value of investments		-	2,27,60,000
		5,32,61,960	6,29,36,812

Aggregate of quoted investments	- cost	-	6,70,04,836
	- market value		-
	4,42,49,055		
Aggregate of unquoted investments	- cost	5,32,61,960	1,73,61,960

in Rs.

	1997	1996

6. INVENTORIES

(at lower of historic cost or net realizable value, as certified by a director of the company)		
Stock of software packages	4,10,878	16,97,058
	4,10,878	16,97,058

7. SUNDRY DEBTORS

Debts outstanding for a period exceeding six months.		
Unsecured, considered good	1,37,21,193	16,47,132
Considered doubtful	60,51,160	-
Other debts - unsecured, considered good *	16,71,68,741	11,08,49,773
	18,69,41,094	11,24,96,905
Less : Provision for doubtful debts	60,51,160	-
	18,08,89,934	11,24,96,905
* Due by wholly-owned subsidiary - Yantra Corporation	52,09,782	1,81,390

8. CASH AND BANK BALANCES

Cash on hand	3,71,793	2,26,892
Balances with scheduled banks - in current accounts	7,61,80,212	3,31,53,515
- in deposit accounts	13,80,788	6,88,32,541
Balances with non-scheduled banks - in current accounts		
ABN Amro Bank, Heerlen, Netherlands	2,69,688	5,01,508
Bank of America, Milpitas, USA	2,61,51,379	8,26,102
Bank of America, Los Angeles, USA	1,20,314	-
Bank of Boston, Boston, USA	4,41,11,215	2,80,77,975
Bank of New York, New York, USA	4,55,479	4,20,672
Barclays Bank, London, UK	1,18,568	-
Fifth Third Bank, Cincinnati, USA	-	4,83,617
First Chicago Bank, Chicago, USA	6,97,786	-
Nations Bank, Dallas, USA	3,78,399	-
	15,02,35,621	13,25,22,822
Maximum balance held during the year		
ABN Amro Bank, Heerlen, Netherlands	23,09,854	15,71,780
Bank of America, Milpitas, USA	2,61,51,379	15,09,285
Bank of America, Los Angeles, USA	5,50,160	-
Bank of Boston, Boston, USA	9,54,01,211	3,36,96,659
Bank of New York, New York, USA	14,71,366	10,70,109
Barclays Bank, London, UK	9,10,642	-
Fifth Third Bank, Cincinnati, USA	10,06,347	11,56,715
First Chicago Bank, Chicago, USA	13,15,990	-
Nations Bank, Dallas, USA	9,55,534	-

in Rs.

	1997	1996

9. LOANS AND ADVANCES
(Unsecured, considered good)

	1997	1996
Bills receivable	-	1,71,20,461
Advances recoverable in cash or in kind or for value to be received	3,24,73,113	2,16,71,423
Advance income tax	12,88,19,814	7,27,72,193
Deposit with companies	13,75,46,350	12,38,32,573
Loans to employees *	3,18,48,790	1,59,57,955
Other advances	1,00,06,040	3,01,83,156
Rent and maintenance deposit	4,37,20,562	1,34,00,920
	38,44,14,669	29,49,38,681
* Due by non-director officers of the company	33,41,983	16,36,546
* Maximum amount due at any time during the year	40,97,109	17,85,113

10. CURRENT LIABILITIES

	1997	1996
Sundry creditors - for goods	39,23,181	21,52,071
- for accrued salaries and benefits	2,83,36,413	1,89,78,453
- for other liabilities	1,18,47,519	1,46,33,554
Advances received from clients	64,26,520	89,08,492
Unclaimed dividend	6,97,701	4,41,186
	5,12,31,334	4,51,13,756

11. PROVISIONS

	1997	1996
Provision for taxation	9,37,00,000	5,94,20,000
Proposed dividend	2,90,35,145	2,54,05,100
	12,27,35,145	8,48,25,100

Schedules to the Profit and Loss Account for the year ending March 31,

in Rs.

	1997	1996

12. OTHER INCOME

	1997	1996
Income from investments		
Non-trade: Current investments		
Dividends and interest	9,23,782	53,29,922
Interest received on deposits with banks and others	3,38,56,746	3,65,61,187
Tax deducted at source Rs. 63,45,868 (previous year Rs. 81,62,670)		
Profit on sale of investments	-	15,67,876
Sale of special import licenses	99,82,153	40,81,698
Miscellaneous income	11,67,472	10,43,660
	4,59,30,153	4,85,84,343

13. SOFTWARE DEVELOPMENT EXPENSES

	1997	1996
Salaries and bonus including overseas staff expenses	48,11,04,148	32,02,69,250
Staff welfare	1,86,48,239	1,39,03,438
Contribution to provident and other funds	1,65,55,699	99,41,929
Foreign tour and travel	14,18,94,247	7,31,55,589
Consumables	49,60,231	29,80,677
Cost of software packages		
- for own use	3,91,24,965	2,91,59,814
- for domestic software development	3,42,92,427	1,79,98,677
Computer maintenance	83,23,927	54,31,248
Communication expenses	1,27,18,666	1,00,55,374
Consultancy charges	59,34,849	7,03,336
	76,35,57,398	48,35,99,332

14. ADMINISTRATION AND OTHER EXPENSES

		1997	1996
Travelling and conveyance		1,71,19,697	1,61,18,355
Rent		2,41,97,505	62,40,279
Telephone charges		1,46,36,037	82,84,347
Legal and professional charges		1,55,15,046	80,68,812
Printing and stationery		1,07,86,844	69,89,257
Advertisements		88,85,080	40,63,458
Office maintenance		77,43,618	64,96,121
Repairs to building		75,45,336	26,24,982
Repairs to plant and machinery		20,76,775	2,91,033
Power and fuel		75,79,823	38,94,684
Insurance charges		16,26,528	18,65,119
Rates and taxes		41,93,982	9,11,101
Donations		13,95,132	14,17,820
Auditor's remuneration	- audit fees	1,00,000	72,000
	- tax audit	40,000	36,000
	- other services	1,08,000	1,08,000
	- out-of-pocket expenses	3,06,514	2,34,859
Bad debts written off		-	5,94,887
Provision for bad and doubtful debts		60,51,160	-
Bank charges and commission		36,42,054	14,47,780
Commission charges		4,67,850	-
Obsolete stock written off		13,05,916	-
Miscellaneous expenses		2,17,10,938	97,42,961
		15,70,33,835	7,95,01,855

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

15.1 Significant accounting policies

15.1.1 Basis for preparation of financial statements

The financial statements have been prepared under the historical cost convention in accordance with the Generally Accepted Accounting Principles (GAAP) and the provisions of the Companies Act, 1956, as adopted consistently by the company. All income and expenditure having a material bearing on the financial statements are recognized on accrual basis.

15.1.2 Revenue recognition

Revenue from software development is recognized based on software developed and billed to the clients as per the terms of specific contracts. Revenue from the sale of software products is recognized when the sale has been completed with the passing of title. In case of fixed price contracts, revenue is recognized based on the specific terms of the contract. Contractual terms with clients preclude recognition of work-in-progress. Interest on deployment of surplus funds is recognized using the time-proportion method based on interest rates implicit in the transaction. Dividend income is recognized when the right to receive dividend is established. Revenue from sale of Special Import Licenses is recognized when the licenses are actually sold.

15.1.3 Expenditure

Expenses are accounted on accrual basis and provision is made for all known losses and liabilities. Expenses incurred on development of software are charged to revenue in the same year. The cost of software purchased for use in software development is charged to revenue in the same year. The leave encashment liability of the company is provided on the basis of actuarial valuation

15.1.4 Fixed assets

Fixed assets are stated at cost of acquisition minus the accumulated depreciation. Direct costs are capitalized till the assets are ready to be put to use. These costs include financing costs relating to specific borrowing, attributable to fixed assets.

15.1.5 Capital work-in-progress

Advances paid towards acquisition of fixed assets which have not been installed or put to use, and the cost of assets not put to use, before the year end, are disclosed under capital work-in-progress.

15.1.6 Depreciation

Depreciation on fixed assets is provided using the straight-line method, based on the useful life as estimated by the management. Depreciation is charged on a pro-rata basis for assets purchased/sold during the year. Individual assets costing less than Rs. 5,000 are depreciated in full, in the year of purchase. The management's estimate of useful life for various fixed assets is given below.

Building	- Software center	28 years
	- Others	58 years
Furniture and fixtures		6 years
Computer equipment		2-5 years
Plant and machinery		6 years
Vehicles		6 years

15.1.7 Inventories

Inventories are valued at the lower of historic cost or the net realizable value. A periodic review is made of slow-moving stock, and appropriate provisions are made for anticipated losses, if any. Cost is determined using the first-in, first-out (FIFO) method.

15.1.8 Retirement benefits to employees

The company's liability towards retirement benefits in the form of provident fund, gratuity and superannuation is fully funded and charged to expenditure. Till July 1996, the company was contributing to the Employees' Provident Fund maintained under the Employees Provident Fund Scheme by the Central Government. Effective August 1996, the company has established a provident fund trust to which part of the contributions were made thereafter and the balance of the contribution is funded to the pension scheme managed by the Government. The company had a gratuity fund, maintained by the Life Insurance Corporation of India (LIC), to which contributions were made every year based upon actuarial valuation. Effective March 31, 1997, the company has contributed, on an actuarial basis, to its own gratuity fund trust in full discharge of its liabilities. The company also contributed to a superannuation fund, maintained by LIC, for its managerial staff. Effective March 31, 1997, the company has contributed to its own superannuation fund trust in full discharge of its liabilities.

15.1.9 Research and development

Expenses incurred on research and development are charged to revenue in the same year. Fixed assets purchased for research and development purposes are capitalized and depreciated as per the company's policy.

15.1.10 Foreign currency transactions

In the case of sales made to clients outside India, income is accounted on the basis of the exchange rate as on the date of transaction. Adjustments are made for any variations in the sale proceeds on conversion into Indian currency upon actual receipt. Expenditure in foreign currency is accounted at the conversion rate prevalent when such expenditure is incurred. Where realizations are deposited into and disbursements made out of a foreign currency bank account, all the transactions during the month are reported at a rate which approximates the actual rate during the period.

In the case of current assets and current liabilities expressed in foreign currency, the exchange rate prevalent at the end of the period is taken for the purposes of translation and accounting in the books. Fixed assets purchased at overseas offices are accounted on the basis of actual cost incurred at the exchange rate prevalent at the time of purchase. Depreciation is charged as per company policy. Exchange differences arising on foreign currency transactions are being recognized as income or expense in the period in which they arise. In case of forward contracts, the difference between the forward rate and the exchange rate on the date of transaction is recognized as income or expense over the life of the contract.

15.1.11 Investments

Investments are classified into current investments and long-term investments. Current investments are carried at lower of cost or fair value and provision is made to recognize any decline in the carrying value. Long-term investments are carried at cost and provision is made to recognize any decline, other than temporary, in the value of such investment. Overseas investment is carried at the original rupee cost.

15.1.12 Investment in subsidiary

The investment in the subsidiary is accounted on the cost method, whereby the company recognizes only dividends received from the subsidiary as income. In case of losses made by the subsidiary, other than temporary, adequate provision is made to recognize any decline in the value of such investment.

15.1.13 Income tax

Provision is made for income tax on a yearly basis, under the tax-payable method, based on tax liability, as computed after taking credit for allowances and exemptions. In case of matters under appeal, due to disallowances or otherwise, full provision is made when the said liabilities are accepted.

15.2 Notes on accounts

Previous year’s figures: The previous year’s figures have been recast/restated, wherever necessary to conform to current year classification.

15.2.1 Contingent liabilities

a. Estimated amount of contracts remaining to be executed on capital account and not provided for is Rs. 9,95,31,303. The amount of such contracts for the previous year was Rs. 2,95,50,060.

b. The company has outstanding guarantees for various statutory purposes amounting to Rs. 1,99,52,251. The amount of such guarantees during the previous year was Rs. 66,03,208.

c. The company has various letters of credit outstanding issued to various vendors amounting to Rs. 3,40,16,200 (previous year - Rs. 1,17,29,014).

d. Claims against the company, not acknowledged as debts, amounted to Rs. 5,80,623. Such claims for the previous year was Rs. 78,87,891.

15.2.2 Commentary on the financial statements

15.2.2.a Share capital

The company, has at present, only one class of shares. During the year, 1,000 shares have been issued on conversion of warrants issued under the Employees Stock Offer Plan (ESOP) to an employee. The said shares have been issued on the payment of Rs. 100 per share, with Rs. 90 per share being the share premium and are subject to a lock-in period. The company has 7,49,000 warrants outstanding under the ESOP which are liable to be converted into equivalent equity shares upon a payment of Rs. 100 per share, with Rs. 90 per share being the premium payable. The terms of the ESOP provide for a lock-in period. During an earlier year, the company had forfeited a sum of Rs. 1,500 received on 300 shares issued during the public offer, due to non-payment of calls.

15.2.2.b Reserves and surplus

The company has transferred to the Capital Reserve the entire profit of Rs. 3,59,00,000 earned on sale of a product to its subsidiary Yantra Corporation. The addition to the share premium account of Rs. 90,000 is due to the premium of Rs. 90 per share received upon conversion of 1000 warrants under the ESOP. As allowed under the provisions of the Income Tax Act 1961, a sum of Rs. 2,90,800 has been transferred from the Investment Allowance (Utilized) Reserve to the General reserve upon completion of the conditions of the deduction. The company has transferred the balance profit of Rs. 29,39,79,369 to the General reserve after providing for a dividend payment of Rs. 3,99,23,045.

15.2.2.c Secured loans

The company’s secured loans consisted of amount borrowed from Housing Development Finance Corporation Limited for purchase of quarters for its staff. The borrowing was for a tenure of three years with a coupon rate of 13.50% per annum. During the year, the company prepaid the loan in full, and also paid a prepayment penalty of Rs. 3,57,877. The company has no debt as on the Balance Sheet date. However, the company has cash credit limits of Rs. 5,00,00,000 from two of its bankers which it can draw upon in case of any requirement. During the year, the company applied to the Government of India for an external commercial borrowing of US$ 5 million to meet its requirements. The approval has since been received. The company has also received commitments for this funding from the bankeRs. The borrowing limits would be accessed only in case of need.

15.2.2.d Fixed assets

During the year, the company added Rs. 27,31,04,394 to its gross block consisting of Rs. 24,70,28,211 upon capitalization of assets and Rs. 2,60,76,183 as capital work-in-progress against Rs. 15,55,48,627 for the previous year. The company donated computer systems having a cost of Rs. 9,94,800 (book value Nil) to an educational institution and the same is disclosed under the heading *Deductions during the year*, under both the *Gross block* and *Depreciation*.

The capital expenditure for 1997-98 is estimated at Rs. 58 crores. The company estimates that it would be able to fund its capital acquisition program from its internal accruals and liquid funds. The company may also take recourse to borrowings to meet its capital acquisition program in case of need.

15.2.2.e Investments

The company had established its wholly-owned subsidiary, Yantra Corporation in the USA. The company had made an investment of US$ 5,00,000 (Rs. 1,73,51,600) by a cash remittance, after obtaining necessary approvals, during the previous year, towards the issue of 25,00,000 common stock at US$ 0.20 per share with a par value of US$ 0.01 per share. During the current year, the company sold a software product to Yantra Corporation for a sum of US$ 10,00,000 (Rs. 3,59,00,000). The sale was paid for by issue of 50,00,000 common stock at US$ 0.20 per share with a par value of US$ 0.01 per share. The financial statements of the subsidiary are attached herewith.

The company's investment in Software Sourcing Company, the joint venture with Kurt Salmon Associates, USA, had been relinquished during the year and the net proceeds received.

During the year, the company has made a complete disinvestment in equity instruments of other companies and a loss of Rs. 1,31,92,752 has been accounted in the Profit and Loss account, net of provisions made in the earlier yeaRs. During the previous year, a provision of Rs. 2,27,60,000 was made towards the decline in value of investments held by the company.

15.2.2.f Inventories

The company's stock of inventory consists of software products purchased for sale. A periodic review is made of slow-moving stock and appropriate provisions are made for anticipated losses, if any. During the year, obsolete stocks amounting to Rs. 13,05,916 has been written off in the profit and loss account (Previous year - Nil).

15.2.2.g Sundry debtors

The sundry debtors is Rs. 18,08,89,934 (net of provisions for bad and doubtful debts) on the Balance Sheet date as against Rs. 11,24,96,905 for the previous year. The debtors are considered good and realizable. The level of sundry debtors is normal and is in tune with business trends. Necessary provisions had been made for debts considered to be bad and doubtful. The age profile is as given below:

in %

Period in days	March 31, 1997	March 31, 1996
0 - 30	68.82%	65.50%
31 - 60	22.86%	16.61%
61 - 90	0.04%	15.41%
More than 90	8.28%	2.48%
	100.00%	100.00%

The management believes that the overall condition of sundry debtors is satisfactory. As a measure of asset utilization, debtors, as a percentage of total revenue, is 12.57% as at March 31, 1997 as compared to 12.04% as at March 31, 1996.

15.2.2.h Cash and bank balances

in Rs.

	March 31, 1997	March 31, 1996
Cash balances	3,71,793	2,26,892
Bank balances - in India	7,61,80,212	3,31,53,515
Bank balances - overseas	7,23,02,828	3,03,09,874
Fixed deposits	13,80,788	6,88,32,541
	15,02,35,621	13,25,22,822

The bank balances in India includes both rupee accounts and foreign currency accounts. It also includes Rs. 6,97,701 (previous year - Rs. 4,41,186) being the amount in the unclaimed dividend account. The bank accounts overseas are utilized to meet the overseas expenditure in foreign currency and for remittances into India. Fixed deposits of Rs, 13,80,788 for the current year are given as security towards the issue of bank guarantees.

15.2.2.i Loans and advances

Advances recoverable in cash, kind or value to be received, are primarily towards prepayments for value to be received. Advance income tax represents payments made towards tax liability pending assessment and refunds due. The company's liability towards income tax has been fully paid. Deposits with companies of Rs. 13,75,46,350 represent amounts kept with various companies as ICDs. Loans to employees are made to enable the purchase of assets by employees and to meet any emergency requirements. Other advances represent electricity deposits, telephone deposits and advances of like nature. The company has taken on lease several buildings for its software development centers in various cities and also for housing its staff upon payment of Rs. 4,37,20,562 as rental and maintenance deposit.

15.2.2.j Current liabilities

Sundry creditors for goods represent amount payable to vendors for supply of goods. Sundry creditors for accrued salaries and benefits include provision for bonus payable to the staff, and towards the company's liability for leave encashment valued on an actuarial basis. Sundry creditors for other liabilities of Rs. 1,18,47,519 represent accrual made for operational expenses. Advances received from clients denote monies received for delivery of future services. Unclaimed dividends represent dividend paid but not encashed by shareholders, and are represented by a bank balance of equivalent value.

15.2.2.k Provisions

Provisions for taxation denote estimated income tax liabilities, both in India and abroad, pending assessment. They are represented by advance tax payments towards meeting such liabilities. The provisions and the advance tax payments would be set-off upon assessment. The proposed dividend represents the final dividend recommended to the shareholders by the Board and would be paid after the Annual General Meeting.

15.2.2.l Income

The company derives its income from software services and the sale of software products. 87.12% of the company's income is from export of software services and products to various countries around the globe. Details of the geographical segmentation of income and business segment is given elsewhere in this report. The domestic software income is from sale of BANCS 2000, a software product. The company has a small trading division which deals in imported software packages. Other income, is income derived from investments of surplus funds and sale of special import licenses arising out of exports. The total income of the company grew by 53.95% during the year compared to 61.88% in the previous year.

15.2.2.m Expenditure

Employee costs constitute 35.90% of the total income during the year as compared to 36.84% in the previous year. The company spent Rs. 14,18,94,247 towards meeting the cost of travel abroad for software development and marketing. The software development cycle involves travel to meet clients abroad. As the company's business is primarily abroad, considerable expenditure is incurred towards periodic visits to clients.

The company spent a sum of Rs. 3,91,24,965 towards the cost of software packages and tools to enhance the quality of its services and to meet the needs of software development for its clients. The company's policy is to charge such purchases to revenue, in the year of purchase. The company also spent Rs. 3,42,92,427 towards the purchase of software products used in BANCS 2000 product. The company's business involves large scale use of satellite connectivity in order to be on line with its customers and a sum of Rs. 1,27,18,666 was incurred towards meeting this expenditure.

The company incurred administration and other expenses at 10.92% of its total income during the year as compared to 8.51% during the previous year. During the year, the company operationalized new centers at Chennai (Madras), Bhubaneshwar and Bangalore, and expanded the existing centers at Pune, Mangalore and Bangalore. As a result, rental costs have gone up by 287.76% from Rs. 62,40,279 to Rs. 2,41,97,505. Telephone charges and other overheads have also increased. Such heavy expenditure is expected to result in considerable benefits in future years as these development centers achieve economies of scale.

15.2.2.n Operating profits

During the year, the company earned an operating profit (profit before interest, depreciation and tax) of Rs. 50,05,77,818 being 34.81% of total income as against Rs. 33,95,36,168 at 36.35% during the previous year. The reduction in the operating profit is due to increased expenditure incurred in operationalization of several new development centeRs. The operating profit grew by 47.43% as against a growth of 53.95% in the total income.

15.2.2.o Interest

The company incurred an expenditure of Rs. 61,09,715 towards servicing the costs of the loan borrowed from HDFC. The loan was, however, prepaid during the year. During the previous year, the interest costs on the loan of Rs. 75,55,542 was capitalized as per the company's accounting policy.

15.2.2.p Depreciation

The company provided a sum of Rs. 10,51,64,884 towards depreciation on its assets as per its accounting policy.

15.2.2.q Provision for tax

The company has provided for its tax liability both in India and abroad. The company is entitled to exemptions under Sec. 80HHE and Sec. 10B of the Income tax Act 1961. The company has provided a sum of Rs. 1,08,00,805 towards tax liability of earlier years consequent to the finalization of tax assessments. The additional liability has arisen due to certain disallowances in India which is contested in appeal and additional payments abroad.

15.2.2.r Extraordinary income

During the year, the company sold the product EAGLE (now known as *WMSYantra*) to its wholly-owned subsidiary, Yantra Corporation for a consideration of Rs. 3,59,00,000 (US$ 10,00,000) and the consideration was received in the form of 50,00,000 equity shares of Yantra Corporation, at a price of US$ 0.20 each (par value US$ 0.01 each). *The income arising out of the same is shown as an "Extraordinary income" in the Profit and Loss account as it represents income arising on the sale of an asset and is non-recurring in nature.*

15.2.2.s Net profit

The net profit of the company from ordinary activities amounted to Rs. 33,39,02,414 as against Rs. 21,00,94,517 during the previous year. The company earned a net profit of 23.22% of total income as against 22.49% during the previous year. The net profit margin grew by 58.93% as against a growth of 53.95% in total income, mainly due to a slower growth in depreciation and tax. *Extraordinary income, being a non-recurring income, has not been considered for the calculation of the above percentages.*

15.2.3 Foreign exchange differences

An amount of Rs. 1,40,51,456 is included in the profit and loss account during the current year, on account of foreign exchange differences arising due to timing differences between accrual of income and receipt of the same. Exchange differences amounting to Rs. 27,34,000 pertaining to forward exchange contracts will be recognized in the next year. The company hedges its forex exposure by means of forward sales purely as a risk-containment measure.

15.2.4 Depreciation on assets costing less than Rs. 5,000 each

During the year, the company charged depreciation at one hundred percent in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 74,88,017. For the previous year, this amounted to Rs. 45,55,784.

15.2.5 Employees Stock Offer Plan (ESOP)

The company had instituted an Employees Stock Offer Plan for all eligible employees. Under the plan, warrants are issued to employees deemed eligible by the advisory board constituted for the purpose. Accordingly, 7,50,000 warrants were issued by the company to the Infosys Technologies Limited Employees Welfare Trust, to be held in trust and transferred to selected employees from time to time. The warrants are issued at Re. 1 each and entitles the holder thereof to apply for and be issued one share of the company at a price of Rs. 100 after a period of 5 years from the date of issue. The warrants and the shares to be issued thereon are subject to a lock-in period of 5 years from the date of issue. The warrants expire on September 30, 1999. The amount received on issue of warrants, amounting to Rs. 7,49,000, has been included under *Current liabilities*.

The number of warrants issued and outstanding is given below:

Year		No. of employees	No. of warrants issued and outstanding
1994		83	1,18,700
1995		117	1,39,800
1996		184	1,20,900
			3,79,400
Less	- warrants converted during the year	1	1,000
Add	- balance outstanding held by the trust		3,71,600
			7,50,000

15.2.6 Registration of lease-hold land

During the year, the registration of lease-hold land at Electronics City, Bangalore was completed.

15.2.7 Quantitative details

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

in Rs.

	1997	1996
Managerial remuneration		
The managerial remuneration paid to the Managing Directors and other whole-time directors during the last two years was :		
Salary	26,10,271	19,56,856
Contribution to provident fund and other funds	7,77,726	5,83,339
Perquisites	24,79,801	25,44,778
Imports on CIF basis		
Capital goods	13,20,37,800	5,65,38,346
Imported software packages	37,73,864	87,45,315
Expenditure in foreign currency		
Travel expenses	8,41,55,604	7,69,47,120
Professional charges	54,71,083	22,39,985
Other expenditure incurred overseas for software development	33,62,64,733	18,89,81,075
Earnings in foreign exchange		
Income from software development services and products on receipt basis	114,03,40,512	74,46,12,288

Particulars in respect of traded items (imported and other software packages)

	Qty	Rs.	Qty	Rs.
Opening stock	307	16,97,058	282	17,19,138
Purchases	957	37,73,864	2,678	87,45,315
Closing stock	118	4,10,878	307	16,97,058
Turnover	1,146	50,60,044	2,653	87,67,395

Statement of cash flows for the year ending March 31,

in Rs.

	1997	1996	1995
Cash flows from operation			
Profit before tax from ordinary activities	38,93,03,219	25,31,94,517	15,26,44,266
Other income	(3,47,80,528)	(4,34,58,985)	(1,68,08,475)
Depreciation, depletion and amortization	10,51,64,884	8,63,41,651	4,59,52,861
Decrease (increase) in sundry debtors	(6,83,93,029)	(3,94,05,645)	(2,97,60,515)
Decrease (increase) in inventories	12,86,180	22,080	27,71,698
Decrease (increase) in loans and advances	(11,72,37,411)	(7,27,71,164)	(2,33,14,948)
Increase (decrease) in sundry creditors	2,12,67,623	9,23,04,965	2,80,57,226
Income taxes	(5,54,00,805)	(4,31,00,000)	(1,94,00,000)
Net cash from operations	24,12,10,133	23,31,27,419	14,01,42,113
Cash flows from financing			
Cash received from issuance of share capital (net)	1,00,000	-	24,23,36,500
Proceeds of long-term borrowing (net)	(4,26,06,235)	(2,07,84,936)	6,33,91,171
Dividends paid	(3,99,23,045)	(3,62,93,000)	(2,31,39,314)
Preliminary expenses	-	-	(1,80,000)
Net cash from financing	(8,24,29,280)	(5,70,77,936)	28,24,08,357
Cash flows from investing			
Income from investments	3,47,80,528	4,34,58,985	1,68,08,475
Proceeds of sale of fixed assets	11,59,537	30,71,249	12,52,056
Purchase of fixed assets	(27,31,04,394)	(15,55,48,627)	(25,23,04,640)
Decrease (increase) in investments	6,83,34,852	(2,26,18,766)	(2,52,92.800)
Net cash from investing	(16,88,29,477)	(13,16,37,159)	(25,95,36,909)
Total increase (decrease) in cash and equivalents during the year	(1,00,48,624)	4,44,12,324	16,30,13,561
Cash and equivalents at the beginning of the year	29,78,30,595	25,34,18,271	9,04,04,710
Cash and equivalents at the end of the year	28,77,81,971	29,78,30,595	25,34,18,271

Note : During the year the company sold the software product EAGLE (now known as *WMSYantra*) to its wholly-owned subsidiary Yantra Corporation for a sum of US$ 10,00,000 (Rs. 3,59,00,000) paid for by issue of 50,00,000 common stock of Yantra Corporation. The same being a non-cash transaction, is not reflected in the cash flow statement.

I have examined the attached Cash flow statement, and the same is in accordance with the SEBI requirements and is based on and in agreement with the corresponding Profit and Loss account and Balance Sheet covered by our report of even date

For and on behalf of the Board

Bangalore
April 8, 1997

A. M. Bhatkal
Chartered Accountant

N. R. Narayana Murthy
Chairman and Managing Director

Statement of cash flows for the year ending March 31,

	1997	1996	1995
			in Rs.

Reconciliation of Balance Sheet items with cash flow items

1. Loans and advances

	1997	1996	1995
As per Balance Sheet - Schedule 9	38,44,14,669	29,49,38,681	25,23,34,937
Less : Deposits with companies and others, included in cash equivalents	(13,75,46,350)	(16,53,07,773)	(19,54,75,193)
Balance considered for preparing the Cash flow statement	24,68,68,319	12,96,30,908	5,68,59,744

2. Investments

	1997	1996	1995
As per Balance Sheet - Schedule 5	5,32,61,960	6,29,36,812	6,30,78,049
Add : Provision for investments	-	2,27,60,000	-
Less : Investment acquired for consideration other than cash	(3,59,00,000)	-	-
Balance considered for preparing the Cash flow statement	1,73,61,960	8,56,96,812	6,30,78,049

3. Additions to fixed assets

	1997	1996	1995
As per Balance Sheet - Schedule 4	24,70,28,211	21,96,31,126	17,61,22,667
Add : Closing capital work-in-progress	7,04,41,980	4,43,65,797	10,84,48,296
Less : Opening capital work-in progress	(4,43,65,797)	(10,84,48,296)	(3,22,66,323)
Balance considered for preparing the Cash flow statement	27,31,04,394	15,55,48,627	25,23,04,640

4. Cash and cash equivalents

	1997	1996	1995
As per Balance Sheet - Schedule 8	15,02,35,621	13,25,22,822	5,79,43,078
Add : Deposits with companies and others	13,75,46,350	16,53,07,773	19,54,75,193
Cash and equivalents considered for preparing the Cash flow statement	28,77,81,971	29,78,30,595	25,34,18,271

5. Current liabilities

	1997	1996	1995
As per Balance Sheet - Schedules 10 and 11	17,39,66,479	12,99,38,856	6,03,93,891
Add : Provision for investments	-	2,27,60,000	-
Balance considered for preparing the Cash flow statement	17,39,66,479	15,26,98,856	6,03,93,891

I have examined the attached Cash flow statement, and the same is in accordance with the SEBI requirements and is based on and in agreement with the corresponding Profit and Loss account and Balance Sheet covered by our report of even date

For and on behalf of the Board

Bangalore
April 8, 1997

A. M. Bhatkal
Chartered Accountant

N. R. Narayana Murthy
Chairman and Managing Director

Balance sheet abstract and company's general business profile

Registration details

Registration No.	13115
State Code	08
Balance Sheet date	31.03.1997
	Rs.

Capital raised during the year

Public issue	-
Rights issue	-
Bonus issue	-
Private placement	-

Position of mobilization and deployment of funds

Total liabilities	112,83,60,597
Total assets	112,83,60,597

Sources of funds

Paid-up capital	7,25,97,500
Reserves and surplus	105,57,63,097
Secured loans	-
Unsecured loans	-

Application of funds

Net fixed assets	53,31,14,014
Investments	5,32,61,960
Net current assets	54,19,84,623
Miscellaneous expenditure	-
Accumulated losses	-

Performance of company

Turnover	143,80,76,787
Total expenditure	104,87,73,568
Profit/ Loss before tax	38,93,03,219
Extraordinary income	3,59,00,000
Profit/ Loss after tax	36,98,02,414
Earnings per share from ordinary activities	46.00
Earnings per share including extraordinary income	50.94
Dividend rate (%)	55.00

Generic names of three principal products/ services of company

Item code no. (ITC code)	85249009.10
Product description	Computer software

A. M. Bhatkal *Chartered Accountant*	N. R. Narayana Murthy *Chairman and Managing Director*	N. S. Raghavan *Jt. Managing Director*	Nandan M. Nilekani *Dy. Managing Director*	S. Gopalakrishnan *Dy. Managing Director*
Bangalore April 8, 1997	K. Dinesh *Director*	S. D. Shibulal *Director*	T. V. Mohandas Pai *Sr. Vice-President (Finance and Administration)*	V. Viswanathan *Company Secretary*

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, and forming part of the Directors' Report for the year ended March 31, 1997

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - Designation
1.	Ajay Dubey	Associate Vice President	B.Tech. (IITK)	39	07.06.1993	15	5,12,040.00	ANZ Bank, New Zealand - *Technical Team Leader*
2. *	Amit Nigam	Assistant Project Manager	B.E., M.Tech. (IITKG)	30	20.01.1997	5	51,562.00	Duet Technologies Pvt. Ltd. *Member of Technical Staff*
3. *	Aseem Purohit	Associate Regional Sales Manager	MMS	29	17.06.1996	7	2,22,590.00	Dataline & Research Tech. India *Territory Manager*
4.	Ashok V. Arunachalam	Manager - CCS	B.Tech., MS (New Jersey)	34	17.08.1993	8	3,58,186.00	New Jersey Inst. of Technology - *Teaching Assistant*
5.	Ashwani Kumar Khurana	Executive Director	B.Tech. (IITD)	46	01.02.1994	24	6,96,360.00	Infosys Digital Systems Pvt. Ltd. - *Managing Director*
6. *	Atul Mathur	Associate Project Manager	B.Tech. Computer Science	31	01.02.1996	8	3,22,532.00	Sprint Intl. Corp. USA *Senior User Liaison & Business Development Manager*
7.	Balakrishnan V.	Manager - Finance	B.Sc., ACA, ACS, AICWA	32	02.09.1991	9	3,44,766.00	AMCO Batteries - *Senior Accounts Executive*
8.	Balasubramanian P. Dr.	Senior Vice President	M.Tech. (IITM), Ph.D (Purdue)	47	01.10.1995	24	7,38,481.00	HITEK S/W Engineers Ltd. *Technical Director*
9.	Bhandi R. G.	Associate Vice President	B.E., M.Tech. (IITK)	36	07.07.1988	13	5,37,642.00	Wipro Infotech Ltd. - *Systems Engineer*
10.	Bhashyam M. R.	Manager - Quality	M.E.	46	07.07.1995	23	4,22,661.40	Aeronautical Development Agency - *Scientist*
11. *	Bhaskar Ghosh	Project Manager	B.Sc., MBA	37	03.02.1997	15	43,054.00	Philips India Ltd.
12.	Binod H. R.	Manager - BBU	B.E.	34	02.08.1993	11	3,79,674.00	Motor Industries Company Ltd. *Senior Engineer - Technical Sales*
13.	Chandramouli J.	Project Manager	B.E.	29	15.06.1988	9	3,58,954.00	-
14. *	Deepak N. Hoshing	Project Manager	B.Tech. (IITB)	34	10.10.1996	12	1,66,498.00	Unisys Distributor in Dubai - *Senior Systems Analyst*
15. *	Devashish C. S.	Associate Project Manager	B.Tech., PGDM (IIMA)	32	01.08.1994	7	1,49,123.40	ITW Signode India Ltd. - *Marketing Manager*
16.	Dheeshjith V. G.	Project Manager	M.E. (IISc)	33	14.09.1987	9	3,62,670.00	-
17.	Dinesh K.	Director	M.Sc.	43	01.09.1981	21	7,90,273.00	Patni Computer Systems Pvt. Ltd. *Senior Software Engineer*
18. *	Eswaran Kalyanaraman	Project Manager	M.Com.	40	13.05.1996	19	3,12,893.00	CITIL, Bombay - *Consultant*
19.	Eknath Geetha Kannan	Manager - Corporate Marketing	B.Com., MBA	32	01.04.1993	8	3,11,603.00	NIIT, Coimbatore *Business Manager*
20. *	Ganesh Baliga M.	Senior Manager - E&R	M.Tech. (IITM)	37	03.12.1992	13	95,884.00	Bhoruka Steel Ltd. - *Assistant Manager - Systems*
21.	Gopalakrishnan S.	Deputy Managing Director	M.Tech. (IITM)	41	18.10.1994	17	8,04,840.00	Software Sourcing Company, Atlanta, USA *Vice President - Technical*
22.	Haragopal M.	Associate Project Manager	B.Sc., LLB, PGDM	34	08.12.1993	10	3,18,488.00	Canara Bank - *Officer*
23. *	Ian Hasan	Associate Vice President - HRD	B.A. (Hon.), PGDIR&W (XLRI)	42	01.03.1996	18	2,02,375.00	Digital Equipment (India) Ltd. *Corporate Manager - HRD*
24. *	Kanthimathinathan S.	Associate Vice President - Finance Systems	B.Tech. (IITM), PGDBM (IIMB)	44	18.05.1990	20	2,38,315.00	PSI Data Systems Ltd. *Industry Manager - Banking*
25. *	Kishore R. S.	Associate Project Manager	B.Tech. (IITM), M.Tech. (IITM)	33	16.07.1993	8	1,40,139.00	Crompton Greaves Ltd., Ahmednagar *Systems Executive*
26.	Krishnamoorthy A. S.	Associate Vice President	B.Tech. (IITM), M.Sc.	35	10.01.1986	13	4,73,882.00	Urban Transport Dev. Corp., Canada *Research Assistant*

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - Designation
27.	Mallya P. D.	Associate Vice President	M.Tech. (IITM)	42	15.12.1986	19	4,48,067.00	Bharat Heavy Electricals Ltd. *Senior Department Engineer*
28. *	Mani R. V. S.	Associate Vice President	B.Tech., MS	44	22.11.1996	18	1,85,326.00	Hindustan CIBA-GEIGY - *Head - IT*
29.	Manoj Kumar K.	Assistant Project Manager	B.Tech. (IITM)	29	01.08.1990	7	3,20,637.20	Computer Electronics Pvt. Ltd. - *Trainee Engineer*
30. *	Milind R. Ramekar	Project Manager	B.E., M.Tech. (IITK)	37	05.02.1997	14	53,902.00	Professional Computers
31.	Mohan M. M.	Senior Manager - HRD	B.Com., PGDBM	51	11.07.1992	27	3,94,878.00	Motor Industries Company Ltd. - *Assistant Officer - HRD*
32.	Mohandas Pai T. V.	Senior Vice President - Finance & Administration	B.Com., LLB, FCA	38	17.10.1994	17	6,48,927.00	Prakash Leasing Ltd. *Executive Director*
33.	Nagaraj R.N.	Banking Customer Support Manager	M.A., LLB	42	06.03.1995	21	4,21,854.00	State Bank of Hyderabad *Manager - Credit*
34.	Nandan M. Nilekani	Deputy Managing Director	B.Tech. (IITB)	41	01.09.1981	19	8,12,665.00	Patni Computer Systems Pvt. Ltd. *Assistant Project Manager*
35.	Narayana Murthy N. R.	Chairman and Managing Director	M.Tech. (IITK)	51	01.04.1982	28	9,09,720.00	Patni Computer Systems Pvt. Ltd. *Head - Software Group*
36.	Narendran K.	Associate Project Manager	B.Sc.	30	08.03.1993	9	3,32,666.00	PSI Data Systems - *Senior Software Engineer*
37. *	Nayak G. R.	Director - Finance & Administration	B.Com., Dip. in Costing & Personnel Management	60	16.10.1987	41	7,03,858.00	Dubon Project Engineering Pvt. Ltd. *Manager - Finance & Administration*
38.	Padmanabhan D.	Project Manager	B.Sc.	34	02.11.1992	13	4,21,026.00	PSI Data Systems - *Product Support Manager*
39. *	Pankaj Jalote Dr.	Vice President	B.Tech. (IITK), M.Sc., Ph.D (Univ. of Illinois, Urbana)	37	01.08.1996	12	3,73,992.00	IIT, Kanpur *Professor*
40. *	Parameswar Y.	Head - Switching Group	B.E., M.Tech. (IITK)	41	14.10.1996	17	2,03,417.00	C-DOT - *Divisional Manager*
41.	Prahlad D. N.	Senior Vice President	B.E. (IISc)	41	01.04.1989	14	8,17,610.00	Datacons Pvt. Ltd. - *Project Leader*
42.	Pravin Rao U. B.	Senior Project Manager	B.E.	35	04.08.1986	11	3,62,529.00	Indian Institute of Science - *Programmer Trainee*
43. *	Radhakrishnan V.	Project Manager	B.Sc., MMS	37	04.06.1996	16	3,13,760.00	Gulf Agency Company - *Project Manager*
44.	Raghavan N. S.	Joint Managing Director	B.E.	54	01.09.1981	33	8,58,819.00	Patni Computer Systems Pvt. Ltd. - *Assistant Manager*
45.	Raghavan S.	Project Manager	B.E.	35	16.04.1987	13	4,26,696.00	Bharat Heavy Electricals Ltd. - *Maintenance Engineer*
46. *	Rajasekhar D.	Assistant Project Manager	B.E.	33	27.07.1992	12	84,878.00	PSI Data Systems - *Systems Analyst*
47. *	Rajan N. V.	Associate Vice President - HRD	B.Sc., PGDPM (XLRI)	38	20.01.1997	14	88,413.00	Maxworth Home Ltd. *Associate Vice President (HRD & Legal)*
48.	Rajasekaran K. S.	Associate Project Manager	M.Sc.	38	08.11.1983	13	3,84,064.00	Teaching
49.	Rajiv Kuchhal	Senior Project Manager	B.Tech. (IITD)	31	05.02.1990	10	4,21,828.00	Telecommunications Consultants (I) Ltd. *Assistant Manager*
50. *	Ramaa Sivaram	Project Manager	B.Tech. (IITM)	38	27.01.1997	15	67,109.00	ITC Ltd.
51. *	Ramanand Jha	Project Manager	B.Tech., PGDBM (XLRI)	39	05.02.1997	15	50,189.00	TISCO, Jamshedpur
52.	Ramadas Kamath U.	Manager - Accounts and Administration	BBM, ACA	36	01.07.1994	12	3,44,766.00	Manipal Printers & Publ. Ltd. *Accountant*
53.	Rao B. M.	Manager - Communication Design Group	GCD	58	12.04.1993	29	3,48,414.00	Office Management Services, *Proprietor*
54.	Ravi C.	Project Manager	B.E.	31	02.05.1988	9	3,94,948.00	-
55.	Sanjeev Joshi	Manager - Commercial and Special Projects	B.E.	35	01.12.1994	12	4,00,798.00	Infosys Digital Systems Pvt. Ltd. *Manager - Marketing*
56.	Satish Bableshwar	Project Manager	B.E.	30	22.07.1988	9	3,52,022.00	-
57.	Seshan P.	Project Manager	B.E. (Hon.)	35	01.06.1993	13	3,82,730.00	Infosys Manufacturing Systems Pvt. Ltd. *Assistant Project Manager*
58.	Sharad K. Hegde	Senior Vice President	B.Tech. (IITM), PGDIE (NITIE)	39	01.07.1983	16	8,27,513.00	Patni Computer Systems Pvt. Ltd. *Software Engineer Trainee*

Sl. No.	Name	Designation	Qualification	Age	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment - Designation
59. *	Sheshadri B.C.	Business Analyst - Insurance	B.Sc., LLB, MBA	33	05.06.1996	11	2,08,378.00	The Oriental Insurance Company *Branch Manager*
60. *	Shibulal S. D.	Director	M.Sc., MS (Boston Univ.)	42	01.09.1981	21	1,69,897.00	Sun Express, USA - *IR Manager*
61. *	Shivaprasad K. G.	Senior Project Manager	B.Sc.(H), M.Sc.	41	10.06.1996	20	3,38,374.00	Oman Computer Services - *Software Dev. Manager*
62. *	Sivaraman R.	Associate Project Manager	B.Tech. (IITM), PGDM (IIMA)	41	01.04.1993	17	1,06,059.00	Mascon Tech. Services - *Systems Manager*
63.	Sridhara N. R.	Assistant Project Manager	M.Sc.	41	01.01.1984	16	3,13,865.00	Bangalore Telephones - *Technical Assistant*
64.	Srinath Batni	Vice President	M.E. (IISc)	42	15.06.1992	19	5,11,536.00	PSI Bull Limited *Sr. Manager - Mktg. Technl. Support*
65.	Srinivas Sastry N.	Associate Project Manager	B.E., PGDM (IIMA)	31	01.06.1992	10	3,19,278.00	TCS - *Systems Analyst*
66. *	Srinivasan V.	Project Manager	B.Tech. (IITD)	35	03.03.1997	11	32,834.00	Deutsche Software - *Assistant Systems Manager*
67. *	Sriram V.	Marketing Manager	B.E., PGDM (IIMA)	32	03.01.1997	9	79,259.00	Wipro - *Regional Business Manager*
68.	Subbaraya Sastry M.	Manager - MIS	B.Tech., PGDBM (IIMB)	38	13.05.1995	14	3,78,042.00	Verifone - *Manager - MIS*
69. *	Subhash B. Dhar	Project Manager	B.E., PGDBM (IIMB)	30	24.02.1997	7	31,822.00	Ravi Database Consultants (Pvt.) Ltd. *Vice President*
70.	Subramanyam G. V.	Project Manager	B.E.	30	15.06.1988	9	3,56,089.00	-
71.	Sudha Kumar	Manager - Corporate Planning	B.E., PGDBM (IIMB)	32	14.03.1994	6	3,14,215.00	AF Ferguson & Company *Consultant*
72.	Sudheer K.	Associate Vice President	B.Tech. (IITM)	36	14.11.1986	12	5,46,383.00	SONATA - *Programmer Analyst*
73.	Suneel K.	Senior Project Manager	B.E.	33	01.05.1988	11	4,04,782.60	Software Division of SICGIL - *Software Engineer*
74. *	Suresh Eapen Mathen	Associate Project Manager	B.E., PGDBM (Symbiosis, Pune)	33	02.08.1996	10	1,63,648.00	Bharat Forge Ltd., Pune *Manager - Systems*
75.	Surya Prakash K.	Associate Project Manager	B.E.	28	23.07.1990	7	3,18,078.00	-
76. *	Umesh Singh Sikka	Senior Project Manager	B.Tech. (IITM), PGDBM (XLRI)	39	10.11.1993	16	1,12,649.00	UBICS, Bangalore - *Manager - Systems*
77.	Vasudeva Rao L.	Associate Vice President	B.E.	35	01.08.1994	12	4,63,087.00	Software Sourcing Company, USA - *Project Manager*
78.	Venkataramanan T. S.	Project Manager	B.E.	32	27.11.1993	11	3,38,394.00	Tata Engineering & Locomotive Co. Ltd. *Senior Systems Officer*
79. *	Vijay Arvind Joshi	Project Manager	B.E.	37	27.05.1996	13	1,73,982.00	Mahindra British Telecom Ltd. - *Senior Consultant*
80.	Vijay Kumar C.	Manager - Resource Coordination	B.E.	35	03.11.1987	16	3,83,814.00	Self employed
81.	Yegneshwar S. Dr.	Associate Vice President - E&R	B.E. (Hon.) Ph.D (IITB)	36	06.04.1993	9	4,05,735.00	IIM, Ahmedabad *Assistant Professor*

NOTE :
1. Remuneration comprises basic salary, allowances and taxable value of perquisites.
* 2. Employed for part of the year.
3. None of the employees is related to any Director of the company.

For and on behalf of the Board

Bangalore
April 8, 1997

N. R. Narayana Murthy
Chairman and Managing Director

Statement pursuant to section 212 of the Companies Act, 1956 relating to subsidiary company

1.	Name of the subsidiary	:	Yantra Corporation
2.	Financial year ended	:	December 31, 1996
3.	Holding company's interest	:	100%
4.	Shares held by the holding company in the subsidiary	:	75,00,000 nos. of common stock at US$ 0.20 each, fully paid, par value US$ 0.01 each amounting to US$ 15,00,000 (Rs. 5,32,51,600)
5.	The net aggregate of profits or losses for the current financial year of the subsidiary so far as it concerns the members of the holding company		
	a. dealt with or provided for in the accounts of the holding company	:	Nil
	b. not dealt with or provided for in the accounts of the holding company	:	Loss : US$ 163,599 (Rs. 57,99,584)
5.	The net aggregate of profits or losses for previous financial years of the subsidiary so far as it concerns the members of the holding company		
	a. dealt with or provided for in the accounts of the holding company	:	Nil
	b. not dealt with or provided for in the accounts of the holding company	:	Loss : US$ 62,311 (Rs. 21,75,900)

Statement pursuant to section 212(5) of the Companies Act, 1956, relating to subsidiary company

1. There has been no change in the holding company's interest in the subsidiary between the end of the financial year of the subsidiary and that of the holding company.

2. There has been no material change which has occurred in respect of the following in the case of the subsidiary, between the end of the financial year of the subsidiary and that of the holding company:

   a. Fixed assets of the subsidiary

   b. Investments of the subsidiary

   c. Moneys lent by the subsidiary

   d. Moneys borrowed by the subsidiary for any purpose other than that of meeting current liabilities.

A. M. Bhatkal *Chartered Accountant*	N. R. Narayana Murthy *Chairman and Managing Director*	N. S. Raghavan *Jt. Managing Director*	Nandan M. Nilekani *Dy. Managing Director*	S. Gopalakrishnan *Dy. Managing Director*
Bangalore April 8, 1997	K. Dinesh *Director*	S. D. Shibulal *Director*	T. V. Mohandas Pai *Sr. Vice-President (Finance and Administration)*	V. Viswanathan *Company Secretary*

Corporation

(a wholly-owned subsidiary of Infosys Technologies Limited)

Financial statements

for the year ended December 31, 1996
and the period from September 22, 1995 (date of inception)
to December 31, 1995

Registered office

1209, Orange Street, City of Wilmington, New Castle County, Delaware 19801,
USA

Board of Directors

Narayana Murthy N. R.	-	Chairman
Gopalakrishnan S.	-	Vice Chairman
Devdutt Yellurkar	-	Chief Executive Officer
Mohandas Pai T. V.	-	Director
Nandan M. Nilekani	-	Director
Prahlad D. N.	-	Director
Raghavan N. S.	-	Director

Auditors

BDO Seidman, LLP
Accountants and Consultants

Dear Shareholder,

Your company completed its first full year of operation. In 1996, we aligned all the teams within Yantra to focus on a single goal - become a known player in the supply chain management software market.

Products: In 1996, the ownership of *WMSYantra* (formerly known as EAGLE) was transferred from Infosys to your company. The release of the new version of *WMSYantra* was delayed to early 1997 because we broadened the scope to appeal to a wider market. *WMSYantra* will now be available in early 1997. This impacted our license revenue stream in the short-term, but we believe it was necessary. Thomson Consumer Electronics, a world leader in consumer electronics, is currently implementing the new version of *WMSYantra* in all their warehouses in North America. The impact of the Internet on supply chain management has been considerable. We leveraged our domain expertise in supply chain management to launch a suite of Internet applications called *WebYantra*. *WebYantra* is currently under its beta implementation at The Rockport Company, a well-known footwear brand.

Services: We continue to invest in the services infrastructure required to ensure the highest levels of customer satisfaction. In 1996, we increased our investments in the Acton-based product support center, both in terms of manpower as well as hardware. We also designed a rapid product implementation methodology that will reduce product implementation time frame.

Sales and Marketing: In 1996, our goal was to establish Yantra as a known player in the market. Our marketing efforts were focused on building strong relationships with consultants, hardware and database vendors and complementary software provideRs. On the sales front, our efforts were focused on establishing a direct sales force in the US.

Management: Mr. K. Dinesh, Director, resigned from the board due to his busy schedule. Mr. N. R. Narayana Murthy, Chairman and Managing Director of Infosys Technologies Limited replaced him on the board and took over as the Chairman of the board from Mr. N. S. Raghavan.

In summary, 1996 was a year in which we laid the foundation for Yantra by enhancing our product suite to meet market demands, as well as establishing a robust support and implementation services infrastructure for our products. We have set the direction and will now focus on building the momentum. With the talent and commitment of every Yantrik, we are confident that we will achieve our goals for 1997.

Thank you for your continued support.

Acton, Massachusetts, USA
February 6, 1997

Devdutt Yellurkar
Chief Executive Officer

Independent auditors' report

To the Board of Directors and Stockholders of

Yantra Corporation

Acton, Massachusetts

We have audited the accompanying Balance Sheets of Yantra Corporation (a wholly-owned subsidiary of Infosys Technologies Limited) as of December 31, 1996 and 1995, and the related statement of operations, stockholder's equity and cash flows for the year ended December 31, 1996 and for the period from September 22, 1995 (date of inception) to December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yantra Corporation at December 31, 1996 and 1995, and the results of its operations and its cash flows for the year ended December 31, 1996 and for the period from September 22, 1995 (date of inception) to December 31, 1995 in conformity with generally accepted accounting principles.

Boston

January 31, 1997

BDO Seidman, LLP

Accountants and Consultants

Yantra Corporation
Balance Sheet as at December 31,

in US$

	1996	1995
ASSETS		
Current		
Cash and cash equivalents (Note 1)	314,773	389,607
Accounts receivable	138,616	25,650
Inventories (Notes 1 and 2)	-	1,567
Prepaid expenses	15,490	41,135
Total current assets	468,879	457,959
Property and equipment - net (Notes 1 and 3)	66,142	18,284
Other assets		
Organizational costs, net of accumulated amortization of US$ 2,235 and US$ 559, respectively (Note 1)	6,146	7,822
License (Note 4)	1,000,000	-
Total assets	1,541,167	484,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable	16,281	2,598
Accounts payable - affiliate (Note 5)	191,736	33,010
Sales tax payable	598	-
Accrued expenses	23,680	-
Accrued income tax (Notes 1 and 7)	2,907	456
Deferred revenue (Note 1)	31,875	10,312
Total liabilities	267,077	46,376
Commitments and contingencies (Note 6)		
Stockholders' equity		
Common stock, US$ 0.01 par value; 15,000,000 and 3,000,000 shares authorized; 7,500,000 and 2,500,000 shares issued and outstanding (Note 4)	75,000	25,000
Additional paid-in capital	1,425,000	475,000
Retained earnings	(225,910)	(62,311)
Total stockholders' equity	1,274,090	437,689
Total liabilities and stockholders' equity	1,541,167	484,065

See accompanying notes to financial statements

Yantra Corporation
Statement of operations

in US$

December 31,	Year Ended 1996	Three Months Ended 1995
Net revenue	984,687	25,338
Cost of sales subcontract (Note 5)	403,846	33,010
Gross profit	580,841	(7,672)
Operating expense		
General and administrative expenses	509,971	54,183
Research and development (Note 5)	243,153	-
Total operating expenses	753,124	54,183
Net loss from operations	(172,283)	(61,855)
Other income	15,525	-
Net loss before income taxes	(156,758)	(61,855)
Income taxes (Notes 1 and 7)	6,841	456
Net loss	(163,599)	(62,311)

See accompanying notes to financial statements

Statement of stockholders' equity

in US$

	Common stock Shares (No.)	Amount	Additional paid-in capital	Retained earnings	Total
Issuance of 2,500,000 shares on September 22, 1995 (date of inception)	2,500,000	25,000	475,000-	500,000	
Net loss	-	-	-	(62,311)	(62,311)
Balance, December 31, 1995	2,500,000	25,000	475,000	(62,311)	437,689
Issuance of 5,000,000 shares (Note 4)	5,000,000	50,000	950,000	-	1,000,000
Net loss	-	-	-	(163,599)	(163,599)
Balance, December 31, 1996	7,500,000	75,000	1,425,000	(225,910)	1,274,090

See accompanying notes to financial statements.

Yantra Corporation
Statement of cash flows (Note 1)

in US$

December 31,	Year ended 1996	Three months ended 1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(163,599)	(62,311)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	16,045	3,493
Changes in operating assets and liabilities		
Accounts receivable	(112,966)	(25,650)
Inventories	1,567	(1,567)
Prepaid expenses	25,645	(41,135)
Accrued expenses	23,680	-
Accounts payable	13,683	2,598
Accounts payable - affiliate	158,726	33,010
Sales tax payable	598	-
Accrued income tax	2,451	456
Deferred revenue	21,563	10,312
Net cash used by operating activities	(12,607)	(80,794)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(62,227)	(21,218)
Payments for organization cost	-	(8,381)
Net cash used by investing activities	(62,227)	(29,599)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	-	500,000
Net cash provided by financing activities	-	500,000
Increase (decrease) in cash and cash equivalents	(74,834)	389,607
Cash and cash equivalents, beginning of year	389,607	-
Cash and cash equivalents, end of year	314,773	389,607
SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION		
Cash paid during the year for		
Interest	-	-
Income taxes	8,294	-

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITY

Certain non-cash activities were excluded from the statement of cash flows. During 1996, the Company acquired all the rights, title and interest in and to the *WMSYantra* (formerly known as EAGLE) Software License in exchange for 5,000,000 shares of its common stock, US$ 0.01 par value per share, with a fair value of US$ 0.20 per share for a total of US$ 1,000,000, to Infosys Technologies Limited.

See accompanying notes to financial statements.

1. Summary of Accounting Policies

Business operations

Yantra Corporation (the "Company") is a Delaware Corporation formed for the purposes of developing, providing and implementing support for software products. The Company is a wholly-owned subsidiary of Infosys Technologies Limited, an Indian corporation.

Method of accounting

The company prepares the financial statement and tax returns on the accrual basis of accounting, which is the generally accepted accounting principles.

Assumptions and estimates

The preparation of financial statements is in conformity with Generally Accepted Accounting Principles (GAAP) and requires Company management to make estimates and assumptions that affect the reported accounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain company estimates and assumptions used in the preparation of the financial statements relate to accounts receivable and license. The accounts receivable reserves are reviewed by management throughout the year to assess the probability of changes in recorded estimates and assumptions. The parent company has developed a model to determine the fair value of the license, which is based on future earnings potential of the product. Actual results could differ from those estimates and assumptions.

Revenue recognition

Revenue from software development is recognized based on software developed and billed to the clients as per the terms of specific contracts. Revenue from the sale of software products is recognized when the sale has been completed with the passing of title.

Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market price. Cost is determined using the first-in, first-out (FIFO) method.

Property and equipment

Property and equipment is carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Classification	Years
Furniture and fixtures	6
Computers	3

Organization costs

Organization costs are being amortized over 60 months using the straight-line method.

Income taxes

The company follows the liability method of accounting for income taxes pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Deferred income taxes are recorded based on the temporary differences between the book and tax basis of assets and liabilities, with certain restrictive conditions for the recognition of deferred tax assets.

2. Inventories

Inventories consist of US$ 1,567 of software purchased for resale at December 31, 1995.

3. Property and equipment

Property and equipment consist of the following: *in US$*

As at December 31,	1996	1995
Furniture and fixtures	16,656	7,230
Computers	66,789	13,988
	83,445	21,218
Less accumulated depreciation	(17,303)	(2,934)
Net property and equipment	66,142	18,284

4. Licenses

During 1996, Infosys Technologies Limited (the "parent company") transferred all the rights, titles and interest in and to the *WMSYantra* (formerly known as EAGLE) software, to Yantra Corporation. The parent company developed a model to determine the fair value based on future earnings potential of the product. The fair value was determined to be US$ 1,000,000 which Yantra paid in the form of 5.0 million common shares, US$ 0.1 par value per share, with a fair value of US$ 0.20 per share.

5. Related parties

The parent company set up a Software Center ("the center"), in Infosys, Bangalore, to cater to Yantra's exclusive needs. This center is completely managed and staffed by Infosys and is located within the Infosys software development facility. The center has a number of employees, trained in Yantra's best practices and exposed to Yantra's standards, working exclusively on Yantra's products and projects. This center will be viewed as an extension to Yantra's product development facility and all prioritization of work will be decided by Yantra.

It is anticipated that the following work may be done from the offshore center :

- Product development, enhancement, upgrades, version control, etc.
- Product support including Beeper support operations
- Implementation and implementation consulting
- Documentation
- Training services

Yantra will pay Infosys a flat rate per person per month for the number of people committed and this flat rate will be calculated on the basis of the number of working days per month. The costs incurred under this contract for the year ended December 31, 1996, and the period from September 22, 1995 (date of inception) to December 31, 1995, are US$ 637,411 and US$ 33,010 respectively. In addition, during 1996, US$ 11,000 was paid to Infosys as consultancy fee.

6. Commitments and contingencies

The company leases its operating facilities under an operating lease which expires on October 14, 1998. Total rent expenses for the year ended December 31, 1996, and for the period from September 22, 1995 (date of inception) to December 31, 1995, were US$ 23,785 and US$ 2,251, respectively. Future non-cancelable operating leases with initial or remaining terms of one year or more consist of the following:

in US$

Year ending December 31,	Operating leases
1997	52,501
1998	41,667
	94,168

7. Income taxes

Deferred income tax assets and liabilities are computed annually, for differences between financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the years in which the differences are expected to affect taxable income. The depreciation differences between financial reporting and income tax reporting purposes, and the benefit of net operating loss carry forwards, are the only components of the company's deferred income tax asset (liability).

Deferred tax amounts of approximately US$ 82,000 result from utilizing the deferred depreciation differences between financial reporting and income tax reporting purposes, and benefits of net operating loss carry forwards. In recognition of the uncertainty regarding the ultimate amount of income tax benefit to be derived from the company's net operating loss carry forward, the company has provided a deferred tax asset valuation allowance.

As of December 31, 1996, the company has a net operating loss carry forward of approximately US$ 234,000 available to offset future taxable income for income tax purposes that expires through 2011.

Independent auditors’ report on supplemental material

Our audit of the 1996 and 1995 basic financial statements, included in the preceding section of this report, were performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the 1996 and 1995 basic financial statements taken as a whole.

Boston
January 31, 1997

BDO Seidman, LLP
Accountants and Consultants

Schedule of general and administrative expenses

in US$

As at December 31,	1996	1995
Professional salaries	128,360	15,000
Outside services	92,345	20,550
Travel, entertainment and vehicle expense	73,182	3,355
Reseller sublicense fees	50,715	-
Legal and professional	28,689	-
Rent	23,785	2,251
Depreciation and amortization	16,045	3,493
Advertising	14,799	-
Telephone	14,609	2,174
Payroll taxes	9,431	1,527
Insurance	8,361	936
Postage and delivery	7,142	472
Office salaries	6,250	-
Printing	5,744	-
Equipment rental	4,645	260
Office supplies and expense	4,385	1,789
Other operating expenses	3,845	988
Repairs and maintenance	3,824	320
Reseller support fees	3,144	-
Dues and subscriptions	2,802	10
Reseller inventory expense	2,367	-
Computer expenses	1,836	462
Education - training	1,339	-
Bank service charges and filing fees	1,220	371
Payroll processing	762	225
Contributions	200	-
Utilities	145	-
Total general and administrative expenses	509,971	54,183

Financial Statements

prepared in compliance with the

Generally Accepted Accounting Principles (GAAP) of the US

and the SEC Disclosure norms

Let him who expects one class of society to prosper into highest degree, while the other is in distress, try whether one side of his face can smile while the other is pinched.

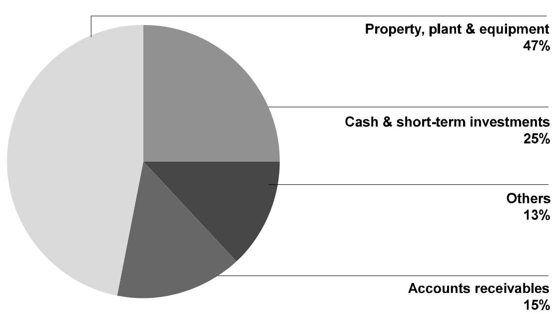
Thomas Fuller

Consolidated Balance Sheet as at March 31,

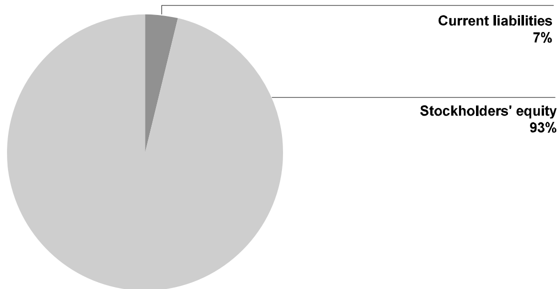
		in US$
	1997	1996
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	8,320,331	10,080,513
Accounts receivables	4,994,607	3,459,876
Inventories	11,458	51,480
Others	4,307,946	2,351,415
Total current assets	17,634,342	15,943,284
Property, plant and equipment - net	15,824,036	11,165,018
Other assets	382,395	441,104
Investments	362	79,181
Total assets	33,841,135	27,628,587
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	125,579	63,376
Accrued compensation - employees	790,196	558,190
Current portion of long-term debt	-	726,836
Other liabilities	1,367,455	1,461,416
Total current liabilities	2,283,230	2,809,818
Deferred income tax	-	456
Long-term loans	-	526,289
STOCKHOLDERS' EQUITY		
Common stock, par value; US$ 0.32 Shares authorized 10,000,000; Issued and outstanding 7,259,600	2,310,270	2,309,991
Additional paid-in-capital	11,526,688	11,524,178
Retained earnings	17,720,947	10,457,855
Total stockholders' equity	31,557,905	24,292,024
Total liabilities and stockholders' equity	33,841,135	27,628,587

The accompanying notes to consolidated financial statements are an integral part of these statements.

Assets - 1997



Liabilities and Stockholders' Equity - 1997



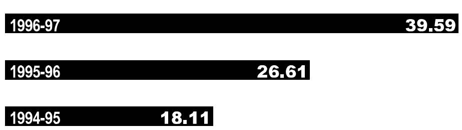
Consolidated Income statement for the year ending March 31,

in US$

	1997	1996	1995
REVENUES			
Net revenues	39,585,919	26,607,009	18,105,010
Cost of revenues	22,615,070	13,918,888	10,509,917
Gross profit	16,970,849	12,688,121	7,595,093
OPERATING EXPENSES			
Selling, general and administrative	7,010,211	4,350,710	3,354,787
Total operating expenses	7,010,211	4,350,710	3,354,787
Operating income	9,960,638	8,337,411	4,240,306
Non-operating income	1,316,208	1,460,329	746,439
Interest charges	(172,268)	-	-
Other non-operating expenses	(374,380)	-	-
Income from continuing operations before income tax and accounting changes	10,730,198	9,797,740	4,986,745
Provision for income tax	(1,016,181)	(1,324,580)	(892,593)
Income from continuing operations before accounting changes	9,714,017	8,473,160	4,094,152
Prior period items	(304,089)	(214,118)	-
Cumulative effect of accounting changes (net of tax)	-	(1,074,552)	(581,720)
Net income	9,409,928	7,184,490	3,512,432
Weighted average common stock outstanding	7,259,000	7,258,750	5,305,050*
EARNINGS PER SHARE			
Earnings before accounting changes	1.34	1.16	0.77
Cumulative effect of accounting changes	-	(0.15)	(0.11)
Prior period items	(0.04)	(0.03)	-
Net earnings per share	1.30	0.98	0.66
Fully diluted earnings per share	1.19	0.91	0.45
Dividend declared per share	0.15	0.15	0.15

The accompanying notes to consolidated financial statements are an integral part of these statements.

* Includes increase in weighted average stock due to stock split of 1:1.



Net revenue

US$ in millions

Net income

US$ in millions

Net earning per share

US$

Consolidated statement of stockholders' equity as at March 31,

	1997	1996
		in US$
COMMON STOCK		
Balance, beginning of the year	2,309,991	2,309,991
Increase due to stock splits	-	-
Common stock issued	279	-
Forfeited shares	-	-
Balance, end of the year	2,310,270	2,309,991
ADDITIONAL PAID IN CAPITAL	11,526,688	11,524,178
RETAINED EARNINGS		
Balance, beginning of the year	10,457,855	5,961,914
Net income	9,409,928	7,184,490
Decrease due to stock split	-	-
Dividends paid	(1,131,427)	(1,068,955)
Unrealized gains (loss) on investments - net	361,482	(420,876)
Translation adjustment	(1,376,891)	(1,198,718)
Balance, end of the year	17,720,947	10,457,855
Total stockholders' equity	31,557,905	24,292,024

The accompanying notes to consolidated financial statements are an integral part of these statements.

Stockholders' Equity

US$ in millions

Consolidated statement of cash flows for the year ending March 31,

	1997	1996	1995
			in US$
CASH FLOWS FROM OPERATIONS			
Net income before current income taxes	10,675,329	8,900,602	4,146,212
Non-operating income (net)	(941,828)	(1,460,329)	(746,439)
Reconciliation of net income to net cash provided by operating activities			
Depreciation, depletion and amortization	3,034,984	2,679,577	1,501,237
Current income taxes	(1,265,401)	(1,716,112)	(633,780)
Charge of intangible assets	-	-	496,820
Decrease (increase) in accounts receivables	(1,534,731)	(1,139,150)	(938,124)
Decrease (increase) in inventories	40,022	3,104	88,710
Decrease (increase) in other current assets	(1,956,531)	(1,403,336)	(361,008)
Increase (decrease) in current liabilities	(526,588)	1,134,502	1,126,793
Decrease (increase) in deferred tax	58,253	(750,056)	309,408
Net cash from operations	7,583,509	6,248,802	4,989,829
CASH FLOWS FROM FINANCING			
Net cash received from issuance of common stock	2,789	-	7,694,698
Net proceeds of long-term borrowing	(526,289)	(871,425)	1,397,714
Dividends paid	(1,131,427)	(1,068,955)	(755,940)
Net cash from financing	(1,654,927)	(1,940,380)	8,336,472
CASH FLOWS FROM INVESTING			
Decrease (increase) in investments	78,819	-	102,742
Non-operating income	941,828	1,460,329	739,262
Proceeds of sale of property, plant and equipment	33,453	57,599	48,081
Purchase of property, plant and equipment	(7,727,455)	(4,242,772)	(8,010,577)
Net cash from investing	(6,673,355)	(2,724,844)	(7,120,492)
Total increase (decrease) in cash and equivalents during the year	(744,773)	1,583,578	6,205,809
Cash and equivalents at the beginning of the year	10,080,513	10,116,529	3,914,354
Unrealized gains on short-term investments	361,482	(420,876)	59,394
Effect of translation difference	(1,376,891)	(1,198,718)	(63,028)
Cash and equivalents at the end of the year	8,320,331	10,080,513	10,116,529

Notes to financial statements

1. Significant accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention in compliance with the Generally Accepted Accounting Principles (GAAP) of the US and SEC disclosure norms. All income and expenditure having a material bearing on the financial statements are recognized on accrual basis.

1.2 Principles of consolidation

The financial statements include the accounts of Infosys Technologies Limited and its wholly-owned subsidiary, Yantra Corporation. Significant inter-company transactions and balances have been eliminated.

1.3 Estimates and assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Examples include provisions for bad debts, useful life of the assets, etc. Actual results may differ from these estimates.

1.4 Revenue recognition

Revenue from software development is recognized based on software developed and billed to the clients as per the terms of specific contracts. Revenue from the sale of software products is recognized when the sale has been completed with the passing of title. In case of fixed price contracts, revenue is recognized based on the specific terms of the contract. Contractual terms with clients preclude recognition of work-in-progress. Interest on deployment of surplus funds is recognized using the time-proportion method based on interest rates implicit in the transaction. Dividend income is recognized when the right to receive dividend is established. Revenue from sale of Special Import Licenses is recognized when the licenses are actually sold.

1.5 Expenditure

Expenses are accounted on accrual basis and provisions are made for all known losses and liabilities. Expenses incurred on development of software are charged to revenue expenditure in the same year. Software for own use is also charged to revenue in the same year. The leave encashment liability of the company is provided on the basis of actuarial valuation.

1.6 Earnings per share

Earnings per share are computed on the basis of weighted average number of common stock outstanding as on the Balance Sheet date plus the effect of outstanding stock options, using the treasury stock method.

1.7 Cash and short-term investments

The company considers short-term investments and financial assets with a maturity of three months or less, on the date of purchase, to be cash equivalents. Short-term investments are readily marketable securities, acquired through the use of temporarily idle cash and are marked to market as on the Balance Sheet date. The resulting gains and losses are accounted in the financial statements.

1.8 Property, plant and equipment

Property, plant and equipment are stated at the cost of acquisition minus the accumulated depreciation. Direct costs are capitalized till the assets are ready to be put to use. These costs include financing costs related to specific borrowing attributable to fixed assets. Advances paid towards acquisition of plant, property and equipment which have not been installed or put to use and the cost of property, plant and equipment not put to use, before the year end are disclosed under *Capital work-in-progress*.

1.9 Depreciation

Depreciation on fixed assets is provided using the straight-line method based on the useful life as estimated by the management. Depreciation is charged on a pro-rata basis for assets purchased/sold during the year. The management's estimate of useful life of various fixed assets is given below.

Building	- Software center	28 years
	- Others	58 years
Furniture and fixtures		6 years
Computer equipment		2-5 years
Plant and machinery		6 years
Vehicles		6 years

Individual assets costing less than US$ 163 are depreciated in full, in the year of purchase.

1.10 Inventories

Inventories are stated at the lower of historic cost or net realizable value. A periodic review is made of slow-moving stock and appropriate provisions are made for anticipated losses, if any. Cost is determined using the first-in, first-out (FIFO) method.

1.11 Retirement benefits to employees

The company's liability towards retirement benefits in the form of provident fund, gratuity and superannuation is fully funded and charged to expenditure. Till July 1996, the company was contributing to the Employees' Provident Fund maintained under the Employees Provident Fund Scheme by the Central Government. Effective August 1996, the company has established a provident fund trust to which part of the contributions were made thereafter and the balance of the contribution is funded to the pension scheme managed by the Government. The company had a gratuity fund, maintained by the Life Insurance Corporation of India (LIC), to which contributions were made every year based upon actuarial valuation.

Effective March 31, 1997, the company has contributed, on an actuarial basis, to its own gratuity fund trust in full discharge of its liabilities. The company also contributed to a superannuation fund, maintained by LIC, for its managerial staff. Effective March 31, 1997, the company has contributed to its own superannuation fund trust in full discharge of its liabilities.

1.12 Research and Development

Research and development costs are expensed as incurred.

1.13 Foreign currency transactions

In the case of sales made to clients outside India, income is accounted on the basis of the exchange rate as on the date of transaction. Adjustments are made for any change in the sales proceeds on conversion into Indian currency, upon actual receipt. Expenditure in foreign currency is accounted at the conversion rate prevalent when such expenditure is incurred. Where realizations are deposited into and disbursements made out of a foreign currency bank account, all the transactions during the month are reported at a rate which approximates the actual rate during the period.

In the case of current assets and liabilities, as well as receivables and payables denominated in foreign currency, the exchange rate prevalent at the end of the period is taken for purposes of translation and accounting in the books. Any overall gain or loss upon such conversion is recognized in the same period. Fixed assets purchased at overseas offices are accounted on the basis of actual cost incurred, at the exchange rate prevalent at the time of purchase. Depreciation is charged as per the company’s policy. Exchange differences arising on foreign currency transactions are being recognized as income or expense in the period in which they arise. In case of forward contracts, the difference between the forward rate and the exchange rate on the date of transaction is recognized as income or expense over the life of the contract.

1.14 Foreign currency translation

The company’s financial statements are prepared in Indian rupees, the reporting currency. These financial statements have been prepared by translating income and expenditure at the average rate during the year; current assets, current liabilities, long-term loans and accretions to the stockholders’ equity at the year-end rate; fixed assets at the rate prevalent at the time of acquisition and long-term investments at the rate prevalent at the time of investment. Depreciation is calculated on the translated value of the assets, using the useful life of the assets as estimated by the management. The difference arising on translation is disclosed as a part of *Retained earnings*.

1.15 Long-term investments

Long-term investments are carried at cost. In case of any decline, other than temporary, in the value of investments, appropriate provision is made to recognize such a decline.

1.16 Income tax

Provision is made for income tax on a yearly basis, under the tax-deferral method, based on tax liability, as computed after taking credit for allowances and exemptions. In case of matters under appeal, due to disallowances or otherwise, full provision is made when the said liabilities are accepted. Certain items of income and expenses are not reported in tax returns and financial statements in the same year. The tax effect of this difference is reported as *Deferred income tax*.

2. Notes on accounts

2.1 Reclassification

Certain items in the financial statements have been reclassified for better presentation.

2.2 Consolidation

The financial year end of the wholly-owned subsidiary, Yantra Corporation is December 31, 1996. The consolidated reports are prepared with the subsidiary's audited figures till December 31, 1996, and unaudited figures for the period January to March 1997. All the inter-company items were eliminated on consolidation.

2.3 Cash and short-term investments

in US$

	1997	1996
Cash and equivalents		
Cash and bank deposits	4,484,684	2,141,961
Certificates of deposit	-	2,024,488
Cash and equivalents	4,484,684	4,166,449
Short-term investments		
Short-term investments in debentures, units of mutual funds and common stock of other companies	-	1,301,318
Deposits in limited companies	3,835,647	3,602,941
Short-term advances	-	1,009,805
Short-term investments	3,835,647	5,914,064
Cash and short-term investments	8,320,331	10,080,513

2.4 Unrealized gains on short-term investments

The short-term investments of the company is marked to market on the Balance Sheet date. The cumulative unrealized gain or loss arising out of this is adjusted against Retained earnings and necessary provisions made for deferred taxes. An unrealized loss of US$ 420,876 (net of deferred tax), has been reduced from the retained earnings and deferred tax asset increased by US$ 358,524, during the previous year.

2.5 Accounts receivable

The accounts receivable is US$ 4.99 million on the Balance Sheet date as against US$ 3.46 million for the previous year. The receivables are considered good and realizable. The level of accounts receivables is normal and is in tune with business trends. The age profile is as given below:

in %

Period in days	1997	1996
0 - 30	69.55	65.64
31 - 60	22.04	16.64
61 - 90	0.04	15.62
More than 90	8.37	2.10
	100.00	100.00

The management believes that the overall condition of accounts receivable is satisfactory. As a measure of asset utilization, receivables, as a percentage of net revenue, is 12.62% for 1997 as compared to 13.00% in 1996.

2.6 Inventories

The company's stock of inventory consists of software products purchased for sale. A periodic review is made of slow-moving stock and appropriate provisions are made for anticipated losses, if any.

2.7 Other current assets

The other current assets represent advances paid to staff, advances paid to vendors for goods and services, deposits with various government organizations towards provision of telephones, electricity, etc.

2.8 Property, plant and equipment

in US$

	1997	1996
Land	706,032	167,683
Building	5,601,948	5,092,550
Computers	9,644,519	6,443,381
Vehicles	40,889	49,203
Plant and machinery	3,391,603	1,809,490
Furniture and fixtures	2,400,875	1,245,028
Property, plant and equipment - at cost	21,785,866	14,807,335
Less : Accumulated depreciation	7,926,190	4,947,193
Add : Capital work-in-progress	1,964,360	1,304,876
Property, plant and equipment - net	15,824,036	11,165,018

The capital expenditure for 1996-97 is approximately US$ 16.10 million. The company estimates that it would be able to fund its capital acquisition program from its internal accruals and its liquid funds. The company may also take recourse to borrowings to meet its capital acquisition program in case of need.

2.9 Interest on loans

During the last year, the company capitalized an amount of US$ 287,772, being the interest paid on the amount borrowed from the Housing Development Finance Corporation Limited, India, for construction of quarters for its staff. The same was added to Buildings and shown under Property, plant and equipment in the Balance Sheet, during the previous year. During the current year, the loan was prepaid in full.

2.10 Depreciation on assets costing less than US$ 163 each

The company charged depreciation at one hundred percent in respect of assets costing less than US$ 163 each. The depreciation on such assets for the period 1997 and 1996 amounts to US$ 211,087 and US$ 140,732 respectively.

2.11 Investments

The company established its wholly-owned subsidiary, Yantra Corporation, in 1995, in USA. The investments for the same, amounting to US$ 500,000 in cash remittance was made during the previous year. During the current year an investment of US$ 1,000,000 was made by way of sale of the product EAGLE (now known as *WMSYantra*). This has been netted off on consolidation.

The company's investment in Software Sourcing Company, the joint venture with Kurt Salmon Associates, USA was relinquished during the year and the net proceeds received.

2.12 Accounts payable

Accounts payable represent the amounts payable to various vendors towards purchase of services and goods in the normal course of business.

2.13 Accrued compensation

Accrued compensation represents the compensation payable to the employees and paid subsequent to the Balance Sheet date. It also includes provision for leave compensation to employees.

2.14 Other current liabilities

Other current liabilities include dividend payable by the company to its stockholders, amount received in advance from clients, amount received for issue of stock options and other current liabilities.

2.15 Long-term borrowings

The company's long-term borrowings consisted of amount borrowed from Housing Development Finance Corporation Limited towards purchase of quarters for its staff. The borrowing has a tenure of three years with a coupon rate of 13.50% per annum. During the year, the company prepaid the loan in full.

2.16 Stockholders' equity

The company, has at present, only one class of common stock.

During the year, 1,000 stocks have been issued on conversion of options issued under the company's Employees Stock Offer Plan (ESOP) to an employee. The said stocks have been issued on the payment of US$ 2.94 per stock, with US$ 0.32 being the par value per stock and are subject to restrictions up to full vesting.

2.17 Contingent liabilities

In the normal course of its business, the company entered into various contracts with vendors, on capital account. Moreover, there were certain claims against the company which may crystallize. The contingent liability due to this amounts to US$ 2,791,744 and US$ 1,170,792 for the periods 1997 and 1996 respectively.

2.18 Prior period items

Prior period item consists of income taxes paid for earlier years.

2.19 Financial instruments

2.19.1 Foreign exchange forward contracts

The company enters into foreign exchange forward contracts to hedge its foreign currency receivables. The gains or losses are recognized in the financial statements. These contracts are entered into in the normal course of business and the company does not hold any trading positions. The company does not use derivative financial instruments for speculative purposes.

in US$

	1997	1996
Total foreign exchange forward contracts outstanding	2,400,000	800,000

2.19.2 Letters of credit

The company has various letters of credit outstanding, issued to different vendors, amounting to US$ 948,583 and US$ 344,971 for the periods 1997 and 1996 respectively.

2.19.3 Guarantees

The company has outstanding guarantees for various statutory purposes amounting to US$ 556,393 and US$ 194,212 for the periods 1997 and 1996 respectively. These guarantees are in the nature of performance guarantees, and are subject to the risk of performance by the company.

2.20 Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of cash investments and receivables. The company's cash resources are invested in a manner so as to enhance yields keeping in mind the safety of such investments and the company's requirements of funds.

The company's cash investments are with companies with good credit ratings, financial institutions and banks. Limitations have been established as to the maximum amount of cash that may be invested with any single agency.

Credit risk with respect to trade receivables is limited due to larger customer base and quality of receivables. Accordingly, the company has no significant concentration of credit risk.

With respect to the foreign exchange forward contracts, the company's exposure is on the full amount of the foreign currency receivable on settlement. The company does not expect to incur any losses under these contracts.

2.21 Employees Stock Offer Plan (ESOP)

The company instituted an Employees Stock Offer Plan for all eligible employees. Under the plan, warrants will be issued to employees deemed eligible by the Advisory Board constituted for the purpose. Accordingly, 750,000 warrants were issued by the company to the Infosys Technologies Limited Employees Welfare Trust, to be held in trust and transferred to the selected employees from time to time. The warrants are issued at US$ 0.03 each, and entitles the holder thereof to apply for and be issued one share of the company at a price of US$ 2.94, after a period of 5 years from the date of issue. The shares vest in the employee fully 5 years after the date of issue of the warrants. During the year, 120,900 warrants were allotted to eligible employees by the trust. The warrants expire on September 30, 1999.

Financial Accounting Standard Board (FASB) had issued FASB statement no. 123 on "Accounting for stock-based compensation". If the standard had been adopted, then the compensation expense (net of deferred tax) to be charged to income statement would be US$ 746,379, US$ 367,632 and US$ 174,410 for 1997, 1996 and 1995 respectively.

2.22 Related Parties

The company entered into an agreement for software development and support with its wholly-owned subsidiary, Yantra Corporation, beginning November 1, 1995. Under this agreement, Infosys will set up an offshore software development center for Yantra Corporation, which will act as an extension of Yantra Corporation's product development facility. Yantra will pay Infosys a flat rate per person per month based on the actual efforts put in by the Infosys employees.

2.23 Leases

The company has operating leases for office buildings used by a part of its Delivery Systems and Marketing groups. Rental expense for operating leases for the periods 1997, 1996 and 1995 is US$ 679,705, US$ 186,165 and US$ 147,110 respectively. These are cancelable leases.

2.24 Non-operating income

Non-operating income consists of income derived by the company out of its treasury operations and sale of special import licences.

2.25 Income tax

The provision for income tax was composed of: *in US$*

	1997	1996
Current income tax	965,401	1,636,112
Foreign taxes	300,000	80,000
Deferred tax	(249,220)	(391,532)
Provision for income taxes	1,016,181	1,324,580

The deferred tax consists of the following:

Cumulative effect of the timing differences in capital assets	(249,220)	(391,988)
Deferred tax for subsidiary	-	456
	(249,220)	(391,532)

Differences between the Indian statutory tax rate and effective tax rates were

in %

	1997	1996
Indian statutory rate	43.00	46.00
Tax exempt income	(34.32)	(32.93)
Effective tax rate	8.68	13.07

2.26 Research and development expenses

An amount of US$ 1,239,088 was incurred during the year for research and development expenses and the same is included in Selling, general and administrative expenses in the Income statement.

2.27 Segment reporting

The geographical segment information given below is on the basis of markets and not on the source of revenue.

2.27.1 By geographical area

in US$

	1997	1996	1995
Net revenues			
Americas	31,081,349	20,099,240	13,753,779
Europe	3,256,492	3,616,272	2,457,360
Rest of the world (ROW)	641,191	423,087	436,102
India	5,923,095	3,928,739	2,204,208
	40,902,127	28,067,338	18,851,449
Income before tax			
Americas	8,216,365		
Europe	558,408		
Rest of the world (ROW)	193,833		
India	1,761,592		
	10,730,198		

More than 76% of Infosys' revenue comes from the American market and the balance predominantly from India and Europe among other markets. The dependency on a single market for substantial part of the revenue is prone to risk. Infosys has a corporate strategy of increasing its share of business from the European, Japanese and other markets, thereby reducing its predominant dependency on the American market. The company's goal is to reduce the contribution to the revenue from the Americas, to 60% (from the current 76%), by the year 2000.

2.27.2 By business segments

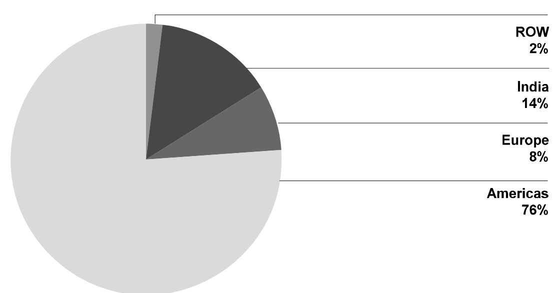
in US$

	1997	1996	1995
Net revenues			
Software products and productized services	9,545,620	3,699,946	2,406,282
Software services	29,872,720	22,397,623	15,326,536
Software trading	167,589	509,440	372,192
Treasury	1,316,198	1,460,329	746,439
	40,902,127	28,067,338	18,851,449
Income before tax			
Software products and productized services	2,504,081		
Software services	7,281,570		
Software trading	8,603		
Treasury	935,944		
	10,730,198		

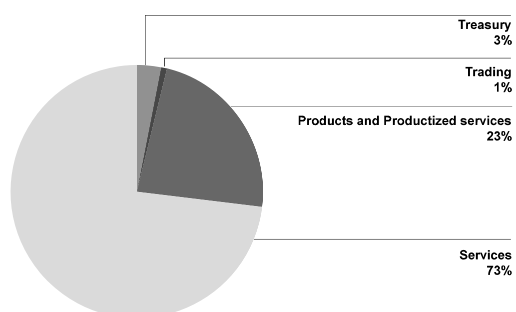
Today, a substantial part of the company's revenue comes from software services. The company aims to move up the value chain, by becoming a predominant player in the software product market. The vision of Infosys is to derive 40% of its revenue from *Products and Productized services*, by year 2000. The strategy is to use service-based skills and cash accruals to build products to suit specific needs of various market segments.

The assets are not identifiable to particular segments and can be used interchangeably between segments. Hence, the identifiable assets for each segment are not provided.

Assets - 1997



Liabilities and Stockholders' Equity - 1997



The Infosys' management is committed to global levels of transparency and disclosure. In pursuance of this, an attempt has been made to provide voluntarily, hereunder, the information, as required under Form 10-K filing requirements of the Securities and Exchange Commission of the USA. The management cautions the users that Infosys is not registered with the SEC, nor legally required to file Form 10-K and this is provided for information only.

United States
Securities and Exchange Commission

Washington, DC 20549

FORM 10-K

(Mark One)

✓ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended March 31, 1997

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition period from ——— to ———

Commission file number - Not applicable

Infosys Technologies Limited

(Exact name of registrant as specified in its charter)

State or other jurisdiction of incorporation or organization	Karnataka, India
IRS Employer identification No.	*Not applicable*
Address of the principal executive office	Electronics City, Hosur Road, Bangalore - 561 229, India.
Registrant's telephone number, including area code	91-80-8520261 (100 lines)
Securities registered pursuant to Section 12(b) of the Act	None
Securities registered pursuant to Section 12(g) of the Act	*Not applicable. The equity consists of common stock which was issued in accordance with the laws of the Republic of India.*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☐ Yes ☐ No - *Not applicable, as Infosys is not required to file any such forms with SEC, at present*.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

☐ Yes ☐ No - *Not applicable*

The aggregate market value of the common stock held by non-affiliates of the registrant as of March 31, 1997 was US$ 203,859,933.

The number of shares outstanding of the registrant's common stock as of March 31, 1997, was 7,259,600.

Part I

Item 1. Business

1.1 General

Infosys Consultants Private Limited (the "Company" or "Infosys") was incorporated in 1981 as a private limited company under The Companies Act, 1956, of the Republic of India. The name of the company was changed to Infosys Technologies Limited (the "Company" or "Infosys") in 1992 when it became a public limited company.

Infosys and its subsidiary Yantra Corporation (Yantra), collectively called the "Company" or "Infosys", specialize in customized software development, software maintenance, and in developing, selling and supporting their own products.

The vision of Infosys is to be a globally-respected software corporation employing the best-of-class people to provide the best-of-breed solutions. The business strategy is focused on :

- Establishing offshore software development centers in cost competitive economies.
- Competing on quality and productivity rather than just on cost in the domain of fixed-price, turnkey projects and maintenance of software
- Moving up the value chain by getting into products and productized services.

Today, Infosys operates in USA, Europe, Japan, the Far East, Africa and the Indian subcontinent.

Towards the end of 1992, liberalization had taken firm roots in India and the Indian software industry saw the entry of several well-known international software and IT houses. This meant the possibility of a shakeout. Further, it was clear, by then, that the only scalable model for the Indian software houses would be to establish world-class software factories with state-of-the-art technology, and software development processes, methods and tools. Thus, this period saw a transition from capital-light, on-site oriented activities to capital-heavy, India-based software development centeRs. Infosys was one of the first software companies to recognize this trend and formulate a business plan to establish a large software factory to address the needs of international clients. This activity required considerable capital and Infosys decided to have its IPO (Initial Public Offer) in February, 1993 for funding this project. The scope of this project was expanded based on the positive response received from the existing and the potential clients of Infosys. Subsequently, to further fund its capital programs, Infosys had a private placement of shares in October, 1994, and these shares were subscribed by Foreign Institutional Investors, Mutual Funds, Domestic Financial Institutions and Corporates. There was no participation from the public till the initial public offer in 1993.

1.2 Infosys service offerings and products

During the financial year 1996-97, Infosys derived 73% of its revenue from bespoke software development and maintenance, and 23% from software products and productized services. The remaining 4% formed non-operating revenue.

1.2.1 Infosys service offerings

Infosys has six service offerings and these are:

1.2.1.a Fixed-price, turnkey projects

In this model, a user organization sends out a Request-For-Proposal (RFP) and asks the vendor to bid a fixed price for the entire task which generally comprises of the full software development life cycle. Activities like requirement definition and the associated customer sign-off, design presentation, installation and rapid-reaction warranty are performed at the customer site. Design review, programming, code walkthrough, program testing, module testing, integration testing and volume testing are performed at the development center. The objective of this model is to maximize the value added by the development centers in low-cost economies.

1.2.1.b Maintenance of software

In this model, the vendor accepts complete responsibility for maintaining a suite of software on behalf of the customer. The maintenance opportunity worldwide is at least US$ 75 to US$ 90 billion dollars (Source: NASSCOM). This is also a win-win model for the client and the vendor since the client staff can transition to new development while the vendor staff functions as a virtual maintenance facility for the customer. This model is an ideal candidate for transitioning to low-cost economies, since maintenance is an area for cost reduction. Infosys was the pioneer in leveraging the time-zone difference between India and USA to provide a near-24-hour productivity in the maintenance of software for the US customeRs. Such time-zone differences also allow the customer team and the vendor team to run relays in maintaining the software. Generally, the customer and the vendor work on a productivity standard (expressed as the number of function points a programmer/analyst/project leader can maintain in a month) to create a fixed-price, turnkey framework for this activity.

1.2.1.c Offshore Software Development Centers

Infosys has popularized the concept of Offshore Software Development Centers (OSDCs). An OSDC is a dedicated software development team at Infosys, using the technology, tools, processes and methodologies unique to a customer. This results in bringing economies of scale and maximizing the residual knowledge of the customer's business. Thus, an OSDC operates like a virtual extension of the customer's software team. An OSDC is an ideal model for extending the size of a customer's software team at reduced costs and increased productivity.

1.2.1.d *In2000*

Most of the currently running software systems cannot handle dates beyond December 31, 1999. *In2000* is the Infosys solution to handle this problem. Infosys has developed a methodology and a suite of tools to effect the remedial re-engineering task with high productivity and quality. The current estimate for the worldwide market opportunity for correcting this software problem is about US$ 300 billion (Source: Gartner Group). Infosys has already started working with several customers in this area.

1.2.1.e PorteNT

PorteNT is the Infosys solution to port programs from the OS/2 platform to WINDOWS NT platform. Soon, this solution will be enhanced to include UNIX-to-WINDOWS NT porting. Industry analysts predict a huge demand for this service in the coming yeaRs.

1.2.1.f Internet, intranet and electronic commerce

Internet and intranet technologies are expected to become major opportunities in the coming yeaRs. Hence, Infosys has started a focused initiative in these areas. A strategic business unit is dedicated to this emerging opportunity area.

1.2.2 Product development

Today, most Indian software houses leverage per-hour productivity rather than Intellectual-Property-Rights (IPR)-based productivity. Per-hour productivity syndrome refers to bidding for a project based on the number of hours required to complete the project. Per-hour productivity is limited by the number of professional-hours available in the company, and the revenue is directly proportional to the number of professionals on the rolls of the company. Increase of revenue comes with the concomitant problems of growth. Thus, this is not the best method for moving up the value chain. On the other hand , IPR-based productivity is based on developing and selling products. Here, the revenue comes from the sale of licenses to users, and is therefore, not directly related to the number of development professionals employed. The average, per-capita revenue productivity from products is much higher than that from projects (per-hour productivity). The Management Council of Infosys has recognized this problem and has mounted a program to enhance the contribution from products and productized services to total sales from the current 23% to 30-40% by March 31, 2000.

The probability of success of Indian companies leveraging sales of off-the-shelf, office automation type of products is low since the success of such products is heavily marketing-and-sales-oriented, an area where India does not as yet have any competitive advantage. Thus, Infosys believes that the best route for the success of Indian software companies is to leverage the competitive advantages of India in software development and support activities. This implies that Indian software companies should acquire a critical mass of domain knowledge and leverage such knowledge to develop large, application products in niche application areas.

Infosys offers three business application packages and a technology tool - EAGLE (now known as *WMSYantra*), DMAP, BANCS 2000 and Websétu.

1.2.2.a EAGLE (now known as *WMSYantra*)

This is an on-line, flexible and scalable software package for managing warehouses. It is designed to run on open systems, with interfaces to state-of-the-art warehouse equipment. This package has already been installed at several locations in the US and Europe. The Intellectual Property Rights (IPR) of this package was transferred to the subsidiary Yantra, for US$ 1,000,000 and was paid in the form of common stocks in Yantra. The valuation for this transfer is based on the net present value of the future revenues from the product, over its product life cycle. This product also requires a substantial investment in terms of marketing and R&D, which the subsidiary will undertake in future.

1.2.2.b DMAP (Distribution Management Application Package)

This package handles the complete MIS requirements of the country distributor of a consumer product. It integrates sales forecasting, customer service, purchasing, inventory management, sales management and receivables. The package has over 600 programs and runs on an IBM AS/400. DMAP is currently installed at several customer sites in Europe. The life of this package is almost over since the market demands Internet and Client/Server-based solutions rather than midrange-system-based solutions.

1.2.2.c BANCS 2000

This is an on-line, retail and corporate banking system that offers rich functionality, portability, scalability, and flexibility for complete automation of banking operations. This package has been successfully installed at more than 168 bank branches in India, Nepal, Sri Lanka and the African continent. An Internet banking application, called BankAway!, has been added to the BANCS 2000 suite.

1.2.2.d Websétu

Websétu is a suite of tools from Infosys for enabling Internet-based electronic commerce using traditional, On-Line Transaction Processing (OLTP) application engines. In addition, an Internet consulting group has been started to focus on developing Internet and intranet solutions for our customeRs.

1.2.3 R & D investment

During the financial year ending March 31, 1997, the company spent US$ 2,092,368 on research and development activities on both capital and revenue account. This represents around 5.17% of the total revenues during the year. The corresponding spending on research and development activities for the previous two fiscal years were 3.40% and 3.50% respectively.

1.2.4 Segmental analysis of revenue

The segmental analysis of revenue is provided in pages 81 and 82 of this report.

1.3 Trademark

Infosys has applied for registering INFOSYS as a trademark in India. The company has also applied for registering ITL INFOSYS as a trademark in USA, and has initiated steps to register the trademark of its products.

1.4 Marketing channels

The company generates its sales from the following channels: the company's sales offices around the world, strategic sales partners and the Corporate Marketing group at Bangalore, India.

The worldwide sales headquarters is located at Fremont, California, USA. The branch sales offices are located at Chicago, New York, Dallas, San Francisco, Boston and Los Angeles in USA, at Maastricht in Netherlands and at London in United Kingdom. During the coming year, Infosys proposes to open two more branch offices - one each in Canada and Tokyo, Japan. Infosys is also part of JASDIC Park company - a Japanese consortium for Indian companies to enter the Japanese market.

Today, sales from Switzerland are handled by our strategic partner - Teksels S. A. In future, there are plans to leverage this channel for other territories also.

The Corporate Marketing group is responsible for starting the dialogue with prospective customers who come to Bangalore, India, for short-listing potential vendoRs. At the appropriate time, the customer-contacts are passed on to the relevant branch office.

1.5 Joint Ventures and Subsidiaries

1.5.1 Yantra Corporation

To increase the revenue contribution from products, Infosys established, in 1995, Yantra Corporation, a wholly-owned subsidiary, in USA. Yantra's objectives are to develop, sell and support software products in the retail and distribution areas.

Infosys has transferred the intellectual property rights in EAGLE (now known as *WMSYantra*), the Infosys software product solution for warehouse management, to Yantra for a consideration of US$ 1,000,000. This amount was received in the form of common stock of the subsidiary.

1.5.2 KSA-Infosys

Infosys started Software Sourcing Company (SSC), as a joint venture with Kurt Salmon Associates (KSA), a leading management consultancy company in USA, in 1987. This was intended to provide a one-stop shop for the delivery of full software life cycle services for the consumer products industry.

Since the Infosys board foresaw the possibility of conflict of interest between Yantra and SSC, the company decided to relinquish its stake in the joint venture in favor of the joint venture partner, KSA. The Company has received necessary statutory approvals and the relinquishment was completed during the year.

1.6 Environmental matters

Software development, being a pollution-free industry, is not subject to any environmental regulations in India.

1.7 Functional Groups within the company

The company is divided into ten functional groups - Delivery Systems, Marketing and Sales, Banking Business Unit, Human Resources Development (HRD), Education and Research, Quality and Productivity, Technology Infrastructure Group, Management Information Systems, Corporate Planning, and Finance and Administration (F&A). The management tree is provided on page 101 of this report.

1.7.1 The Delivery Systems Group

The Delivery Systems group is responsible for software development and maintenance as well as for operating Offshore Software Development Centers (OSDCs) for our customeRs. The group is organized in to five Strategic Business Units (SBUs), each with focused application domain(s), as well as service offering(s).

1.7.1.a Productized services

The Delivery Systems group has championed productizing several service offerings. Productizing involves: creating tools and reusability components for enhancing quality and productivity for each service, training material for quick enabling of programmers and analysts, and producing marketing and sales collateral for efficiency in selling. *In2000* and PorteNT are the two services that Infosys has productized.

1.7.1.b Strategic Business Units (SBU)

The SBU structure has been adopted to decentralize the operations for quick response to customers, to focus on developing domain expertise, and to develop the next generation of business leadeRs.

The following table describes the focus areas of each SBU:

SBU1	Manufacturing, Distribution, OTR, *In2000* champion
SBU2	Banking, Finance and Insurance, PorteNT champion
SBU3	Retailing, Telecommunication
SBU4	Middleware Technology, Websétu product and Technology Advancement
SBU5	Internet and intranet consulting and products

1.7.1.c Multi-locational development centers

A vast country like India has a sizable pool of professionals in almost every region. These professionals like to work in or near their home towns. Hence, Infosys has established new development centers at Mangalore, Chennai (South India), Pune (Western India) and Bhubaneshwar (Eastern India), in addition to the four existing development centers and the proposed one at Bangalore.

1.7.2 International Marketing and Sales group

The Marketing group handles export sales, and marketing functions. There are six sales offices in the USA and two in Europe. Infosys is also part of JASDIC, a consortium started by Mr. Kenichi Ohmae, the former head of *McKinsey and Company* in Japan. The worldwide sales activity is coordinated from the US headquarteRs. Corporate marketing has the responsibility of providing marketing support to sales staff as well as handling all potential customers who visit the corporate headquarters at Bangalore, India. The Communication Design group is also a part of Corporate Marketing and produces all corporate, business and technical documentation, and publicity material for the company

1.7.3 Banking Business Unit

This group develops, sells and supports products worldwide in the banking area. BANCS 2000, the Infosys solution to bank automation in India and the emerging world, has become the premier product in this genre.

1.7.4 Quality and Productivity group

Infosys received immediate certification to ISO 9001/TickIT in 1993 and was recertified during the year. In addition, the quality subgroup evaluates new models of quality like Capability Maturity Model (CMM), conducts pilot exercises in implementing such models and then transfers the process knowledge to the Delivery Systems group for mass implementation. The productivity subgroup develops metrics and productivity benchmarks for measuring the productivity of professionals for different activities of the software life cycle.

1.7.5 Education and Research group

The Education and Research group handles the training needs of the company. Employee productivity, technology, enabling and motivation are the focus areas of research for this subgroup.

1.7.6 Technology Infrastructure group

The Technology Infrastructure group is responsible for planning, purchasing, installing and maintaining the technology including computer hardware, software and communications equipment for the company.

1.7.7 Management Information Systems group

The MIS group develops and maintains the management information systems required internally by Infosys.

1.7.8 Human Resources Development group

The Human Resource Development (HRD) group forecasts the human resource needs of the company and recruits the needed manpower. They also have the responsibility for innovation in development, appraisal and retention schemes for the employees of the company.

1.7.9 Corporate Planning group

The Corporate Planning group has framed the Infosys vision and conducts the annual strategy sessions. They are also responsible for producing the business plan for any new initiative at Infosys. They update the five-year enterprise model for any financial implication due to new policies. They also produce simulation models and handle *What-if* analyses.

1.7.10 Finance and Administration group

The Finance and Administration group includes Corporate Finance, Facilities and General Administration subgroups. The Corporate Finance subgroup is responsible for financial aspects of the operations, financial planning, financing, investment and treasury functions of Infosys. The Facilities subgroup takes up construction and maintenance of the various Infosys office facilities. The General Administration subgroup is responsible for handling administrative and personnel-related functions.

1.8 Customers

Infosys has an array of *Fortune 500* companies on its customer list. The aim of the company is to have a portfolio of customers spread widely across application, geographical and technology areas so that Infosys has a stable revenue stream and is not affected by recession, changes in geopolitical equations, in customer preferences and technology. However, the major market for software services vendors will continue to be the Americas, which is expected to contribute about 60% to 70% of sales of Infosys in the near future.

1.9 Competition

Infosys is primarily in bespoke software development and maintenance. The competition to Infosys comes from Indian software companies, and from local software and consulting companies. Infosys believes that high learnability, constant innovation, focus on customer satisfaction, retention of employees, leveraging technology, and continuous improvement of quality and productivity are necessary to survive and succeed in the highly competitive export market. Infosys believes that a company must operate within the international bandwidth of quality and productivity before it can use cost as a competitive advantage. Thus, in the area of software products and services, Infosys has successfully competed with well-known software/consulting companies in USA, France, Switzerland, UK and Canada. However, it must be noted that Infosys operates in a high technology area, prone to rapid changes in the portfolio of playeRs.

The Indian software industry is export-focused and there are essentially three categories of software export companies. They are :

- Top-tier Indian companies with financial strength, established international market presence and investment in state-of-the-art technology. These companies have become attractive to potential customers and employees. Infosys belongs to this category. The Indian competition to Infosys comes mainly from this category of companies.
- Captive units of multinational companies whose objective is to provide a cost-competitive development center to the parent.
- Upcoming and promising Indian software companies that will become well-known in the years to come.

In the area of products in India, BANCS 2000 has become the package-of-choice for bank automation. However, there is tremendous competition from multinational software companies in this area.

1.10 Employees

The company had 1,705 employees on its rolls on March 31, 1997. Of this, 1,261 were revenue-earning software engineers, 32 were software engineer-trainees, the rest being the marketing, sales and support staff. Infosys intends to recruit another 700 employees in the coming year. The success of Infosys is highly dependent on its ability to recruit, enable, empower and retain its employees. The company has, so far, been largely successful in recruiting and retaining qualified employees. The company will continue to provide top priority to this task.

Today, the company operates in an area of rapid changes in customer business practices, preferences and technology. For companies like Infosys, the only constant factor is change. Thus, the emphasis on recruitment at Infosys is more on learnability than on experience. In addition to India’s first Employee Stock Offer Plan (ESOP), the company provides competitive salaries, congenial working environment, latest technology, full independence in operations, informal culture, and continuous training. All these translate to high retention of employees.

Item 2. Properties

The company’s corporate office consists of 220,000 sq.ft. of land with 150,000 sq.ft. of landscaped area, a 160,000 sq.ft. office with 32 conference rooms and leisure infrastructure including canteen, sports facilities, and gymnasium situated at Electronic city, Bangalore, India. This facility is owned by Infosys. The technological infrastructure at the corporate office includes over a thousand networked workstations, several Netware, UNIX and WINDOWS NT servers, systems from HP, IBM, SUN, DEC, COMPAQ, ACER and AST, videoconferencing facility, and multiple 64 kbps data communication links. A large part of the delivery systems group, corporate sales and marketing, and the corporate support services are located in this building.

The company has taken, on lease, three premises in Bangalore, India, measuring 55,900 sq.ft., 11,251 sq.ft. and 18,733 sq.ft., which are used for software development by the strategic business units. The company has also taken on lease, a premise each at Mangalore, Pune, Chennai (Madras) and Bhubaneshwar, (all these facilities are in India), measuring 14,134 sq.ft., 43,715 sq.ft., 26,626 sq.ft. and 20,600 sq.ft. respectively. These premises are used for software development.

The company owns 6,966 sq.ft. of office space situated in the business district of Bangalore, India, and this is used by the Internet consulting group. The company owns an area of 1,160 sq.ft. of office space in South Bombay (Mumbai), India, and rents a premise measuring 2,500 sq.ft. at New Delhi, India, both of which are used by the Banking Business Unit. The worldwide sales headquarters at San Francisco, USA, and sales offices at various locations in USA and Europe are rented.

The total area of operational space available for the company is around 3,61,585 sq.ft. During the year, the Company has also purchased land measuring 16,500 sq.ft. in Bangalore which can be used for its future expansion activities.

Item 3. Legal proceedings

There are no material legal proceedings pending against the company in the ordinary course of business.

Item 4. Submission of matters to a vote of security holders

The necessary information is included in the notice of Annual General Meeting to shareholders.

Part II

Item 5. Market for registrant's common stock and related stockholder matters

The company's common stock is traded on the Bombay, Bangalore and National Stock Exchanges in India. As of March 31, 1997, there were 6,414 shareholders as per the records of the company. The company paid/will pay cash dividends amounting to US$ 1,131,427 to the shareholders this year. The corresponding figure for last year was US$ 1,068,955.

Quarterly financial and market information (unaudited)

in US$

Quarter ending,	June 30	Sept. 30	Dec. 31	Mar. 31	Total
1996-97					
Net revenues	7,442,914	9,515,206	10,326,195	12,301,604	39,585,919
Operating income	1,256,265	2,766,951	2,325,208	3,612,214	9,960,638
Net income	1,153,560	2,556,025	2,497,819	3,202,524	9,409,928
Earnings per share	0.16	0.35	0.34	0.45	1.30
Common stock price per share					
High	21	21	20	33	33
Low	14	18	17	22	14
1995-96					
Net revenues	5,994,424	5,628,202	7,995,684	6,988,699	26,607,009
Operating income	1,741,605	1,153,430	3,074,712	2,367,664	8,337,411
Net income	1,672,857	1,149,032	2,534,945	1,827,656	7,184,490
Earnings per share	0.23	0.16	0.35	0.24	0.98
Common stock price per share					
High	15	14	14	15	15
Low	13	12	10	11	10
1994-95					
Net revenues	3,615,794	3,901,029	4,890,050	5,698,137	18,105,010
Operating income	584,749	310,136	1,603,216	1,742,205	4,240,306
Net income	974,263	829,486	1,112,848	595,835	3,512,432
Earnings per share	0.18	0.16	0.21	0.11	0.66
Common stock price per share					
High	27	40	19*	17	40
Low	19	19	15	13	13

* There was a 2-for-1 stock-split in October 1994.

Item 6. Selected financial data

Financial Highlights

in US$

Year ending March 31,	1993	1994	1995	1996	1997
Net revenues	5,232,967	9,534,321	18,105,010	26,607,009	39,585,919
Net income	1,298,582	2,669,727	3,512,432	7,184,490	9,409,928
Earnings per share	0.68	0.80	0.66*	0.98	1.30
Return on net revenues (%)	25	28	19	27	24
Cash and short-term investments	580,770	3,914,354	10,116,529	10,080,513	8,320,331
Total assets	3,731,997	9,897,050	23,178,521	27,628,587	33,841,135
Stockholders' equity	2,505,670	9,348,527	19,796,083	24,292,024	31,557,905

* Adjusted for a 2-for-1 stock split in October 1994.

Item 7. Management's discussion and analysis of financial condition and results of operations

7.1 Financial review - Overview

The financial statements have been prepared in compliance with the Generally Accepted Accounting Principles (GAAP) of the US and the SEC disclosure norms for listed companies. The company's stocks are listed only in India. Thus, this analysis is provided on a voluntary basis for information only. The company's financial statements have been audited in India as per the applicable Indian laws. The financial statements, given here, are based on the audited accounts and have been prepared by the management, using the available information, and applying such judgment to estimates, as deemed necessary. These have not been separately audited. The responsibility for the objectivity and integrity of the financial statements rests solely with the management.

7.1.1 Revenue

Year ending March 31,	1997	Change	1996	Change	1995
Net revenues in US$	39,585,919	49%	26,607,009	47%	18,105,010

The growth is consistent with the industry average. The predominant portion of the company's revenue is from markets outside India. The segment-wise revenue is provided on pages 81 and 82 of this report.

7.1.2 Cost of revenues

Year ending March 31,	1997	Change	1996	Change	1995
Cost of revenues in US$	22,615,070	62%	13,918,888	32%	10,509,917
Cost as a percentage of revenues	57%		52%		58%

Cost as a percentage of revenues was 57% in 1997 as against 52% during 1996. Cost of revenue has increased due to operationalization of new software development centers during the year.

7.1.3 Operating expenses

Year ending March 31,	1997	Change	1996	Change	1995
Operating expenses in US$	7,010,211	61%	4,350,710	30%	3,354,787
Operating expenses as a percentage of revenues	17%		16%		19%

The operating expenses as a percentage of revenues have increased due to operationalization of new software development centers during the year and higher R & D expenses.

7.1.4 Non-operating income

Year ending March 31,	1997	Change	1996	Change	1995
Non-operating income in US$	1,316,208	(10%)	1,460,329	96%	746,439

The primary component of non-operating income is the income derived from deployment of short-term surplus funds and income from sale of special import licenses.

7.1.5 Provision for income tax

Year ending March 31,	1997	Change	1996	Change	1995
Provision for income tax in US$	1,016,181	(23%)	1,324,580	48%	892,593

The normal Indian corporate income tax rate is 43%. In India, income from exports enjoy deduction from income tax. However, income from local sales and non-operating income is subject to normal income tax rates.

7.1.6 Net income and earnings per share

Year ending March 31,	1997	Change	1996	Change	1995
Net income in US$	9,409,928	31%	7,184,490	105%	3,512,432
Earnings per share in US$	1.30		0.98		0.66
Percentage of net income to revenues	24%		27%		19%

The percentage of net income to revenues has reduced due to operationalization of new software development centers during the year.

7.2 Financial condition

Cash and cash equivalents of the company totaled US$ 8.32 million on March 31, 1997. The portfolio is predominantly deployed in inter-corporate deposits and other short-term money-market instruments. The investments are so structured as to minimize risk and also facilitate rapid recovery in the event of immediate cash needs.

During 1994-95, Infosys invested some of its short-term surpluses in equities of other companies and mutual funds. The investments were made after evaluating the risk and return involved in the investment. But, due to market conditions, the investments had partly lost their value. In line with the commitment made by the management, the investments in equities of companies and in mutual funds were disinvested in full, during the year.

An amount of US$ 2,012,738 was borrowed from the Housing Development Finance Corporation Limited for constructing staff quarteRs. The debt was to be fully repaid by 1998. However, in view of the strong liquidity position of the company, the management has prepaid the debt in full during the year.

The company has credit lines worth US$ 1.38 million available from its bankers for working capital requirements. The company has also received a "P1+" rating for its commercial paper and an "AA" rating for its non-convertible debenture issue program, from CRISIL, India's premier credit rating agency.

Historically, cash generated from operations has been sufficient to fund all investments of the company in R&D activities and facilities expansion. As Infosys grows, investments will continue to be made in R&D

for existing and advanced areas of technology. Part of the retained earnings will also be used to acquire technology and to fund ventures and other strategic opportunities. Additions to property, plant and equipment are expected to continue, including facilities and computer systems for R&D, sales and marketing, support and administrative staff.

The company intends to fund all its capital requirements out of its own internal generation and adhere to debt as a short-term, bridging mechanism only. The management of Infosys believes that the existing cash and cash equivalents together with funds generated from operations will be sufficient to meet operating requirements in 1997-98. The capital expenditure for 1997-98 is approximately US$ 16.10 million. The company will have adequate cash reserves to meet this requirement.

During the year, the company applied to the Government of India for an External Commercial Borrowing (ECB) of US$ 5 million to meet its requirements. The approval has since been received. The company has also received commitments for this funding from the bankeRs. The borrowing limits would be assessed only in case of need.

During the year, the company declared a total dividend of US$ 1.13 million. The company will pay the dividend out of its cash surpluses after meeting its capital requirements.

7.3 Reconciliation between the US and Indian GAAP

Infosys is registered in India and, as such, needs to comply with the Indian GAAP and provisions of the Indian Companies Act. Infosys has voluntarily decided to present its financial statement based on US GAAP. There are material differences between the two financial statements due to differences in accounting.

The material differences arise due to provision for deferred taxes and valuation of short-term investments, which are marked to market and adjusted against retained earnings and consolidation of accounts of subsidiary, as required by US GAAP. Indian GAAP does not require provision for deferred taxes, consolidation of accounts of subsidiaries and only requires a provision for diminution in the value of current investments.

7.4 Reconciliation of net income

in US$

	1997	1996	1995
Net profit as per Indian GAAP (excluding extraordinary income)	9,390,263	6,290,255	4,352,965
Adjustments			
Cost of raising common stock	-	-	(485,905)
Provision for investments	-	681,437	-
Translation difference in depreciation	(58,855)	(151,424)	(95,815)
Deferred tax	249,220	391,988	(258,813)
Net income of subsidiary included on consolidation	(170,700)	(27,766)	-
Net income profit as per US GAAP	9,409,928	7,184,490	3,512,432

7.5 Outlook : issues and risks

Except for fulfilling the mandatory requirements of the Initial Public Offer (IPO), and the private placement, in the past, Infosys does not provide a forecast of future financial performance. The management is optimistic about its long-term growth prospects and the following issues and risks should be considered in evaluating its growth outlook.

7.5.1 Rapid technological change

The computer software industry is characterized by rapid technological change and uncertainty in the success of new products. Infosys is committed to adapting to new technologies quickly, by redefining its investment priorities and rapidly enabling its staff to meet the new demand. The company has created expertise on various technical platforms to meet dynamic changes in technology.

7.5.2 Prices

Infosys has been able to increase its average per-capita revenue productivity by 12% during 1996-97 over the previous year. However, the future prices that the company is able to obtain for its products/services may decrease from historic levels, depending upon market and other factoRs. The long-term inflation in India is expected to be slightly more than 8% whereas it is substantially lower in countries from where Infosys derives its revenue. This differential in inflation has the potential to create pressure on the margins of the company. The strategy of the company for protecting the margins is to enhance the productivity of the professionals and to move up the value chain by increasing the contribution to sales from products and productized services. The company has initiated an action plan to achieve both these objectives.

7.5.3 Opportunities and risks including those resulting from key trends

The following key trends are likely to influence the business of Infosys:

1. *The Year 2000 problem* (addressed by *In2000*) has become a major revenue opportunity. Infosys is well positioned to use this opportunity. However, Infosys does not want the *In2000* practice to contribute more than 25% to 30% of the total sales revenue since Infosys' strategy does not permit dependence — on one product or service, or on one market which will disappear by 2000 AD — or deployment of all its manpower in one area which is not seen by employees as an emerging technology area. The emphasis on the year 2000 problem is also reducing budget allocation for new software development by our customers but this reduction does not seem to be material to Infosys.

2. *Fierce competition, eroding margins, emergence of promising software and hardware technology* have compelled user organizations worldwide to re-engineer their IT systems (despite the allocation of funds to solve the year 2000 problem). This has resulted in backlogs in software development. Such backlogs offer a big opportunity for Indian software companies. Most user organizations have moved part of their IT staff from maintenance tasks to development tasks. Thus, the maintenance opportunity has also increased for the Indian software companies.
3. *Consequent to the emergence of India as the country-of-choice for bespoke software development and maintenance*, the number of North American and European companies wanting to work with Indian software companies has increased five to six times in the last three yeaRs. Of late, several Japanese companies have shown interest in Indian software companies. This implies greater opportunity for the Indian software companies.
4. *The commoditization of our service offerings* as a consequence of price-based competition by major players in the segment, will result in eroded margins and inability of the Indian software companies to invest in updating their infrastructure and technology. The Indian software companies must constantly innovate to retain their competitive advantage.
5. *Tremendous competition for skilled resources* has resulted in unsustainable salary increases. New models of compensation must be used. Productivity must be enhanced.
6. *Move towards more interactive methods of software development* has resulted in reduced opportunities for India-based software development. Methodologies and tools which enhance interaction between the customer and the India-based development staff must be employed to provide better customer service.
7. *Emergence of lower-cost competitors* like China, which in our opinion, are still a long way from becoming serious competitors due to their inadequacy in English. Critical mass of data to substantiate the perception that China is less expensive than India in software development is still not available
8. *The fast emerging Internet* has become the most important paradigm shift of the decade. It has the potential to both change the way we do our business, as well as the way our customers conduct their business. In addition the Internet computing model is likely to be the new model of application software development. We will need to keep abreast and ahead of this phenomenon.
9. *A lot of companies are now moving towards products* and are looking for software products that meet their needs, rather than at custom development projects. This could potentially shrink the market for new software development opportunities. We have to respond by offering products as a way to hedge this trend.

7.5.4 Foreign exchange revenues

A large percentage of the company's revenues is in currencies other than the Indian rupee. As a result, the company's revenues are subject to foreign exchange rate fluctuations. The Indian rupee has slightly depreciated against the US dollar during 1997 as against its heavy depreciation (by 15% to 17%) during 1995. The Reserve Bank of India is proactively intervening both in the forward market and the spot market to keep the Indian rupee below a manageable level. Predicting the future exchange rate of the Indian rupee against the US dollar is a difficult task. This depends largely on the macro-economic policies of the Government of India. The company covers part of the risk due to exchange rate fluctuations through forward contract coveRs. Since a significant portion of the operating cost of the company is paid for directly in foreign exchange from its bank accounts abroad, the risk due to exchange rate fluctuation is reduced.

7.5.5 Accounting standards

Accounting standards promulgated by the Financial Accounting Standards Board change periodically. These changes may have an impact on the company's future reported earnings. Infosys has complied with the US GAAP requirements. It has also fully complied with the accounting standards promulgated by the Institute of Chartered Accountants of India.

7.5.6 Growth rates

The company has grown rapidly in the recent past. The growth rate in future may be less than that achieved earlier. Operating expenses may grow faster than the growth in operating income. Operating expenses are subjected to strict control to retain margins.

7.5.7 Statutory obligations

The company has established Software Technology Parks - 100% exported-oriented units - for the development of software at Electronics City, Koramangala and Manipal Center at Bangalore as well as at Mangalore, Pune, Chennai and Bhubaneshwar (all in India). All capital items purchased for these centers are eligible for 100% customs and excise duty exemption, subject to fulfillment of stipulated export obligations, namely, one and a half time the value of duty-free imports of capital goods over a period of four years and one and a half times the wage bill, on a yearly basis. The non-fulfillment of export obligations may result in penalties as stipulated by the Government which may have an impact on future profitability. The chart showing the export obligation, and the export obligation fulfilled by the company for all its STP units year-wise is given here under:

in US$

As at March 31,	Export obligation	Export obligation fulfilled	Excess/ (shortfall)	Cumulative excess/ (shortfall)
1993	101,578	98,762	(2,816)	(2,816)
1994	1,446,607	2,654,483	1,207,876	1,205,060
1995	5,318,870	5,108,028	(210,842)	994,218
1996	10,295,442	14,142,209	3,846,767	4,840,985
1997	13,984,042	19,413,034	5,428,992	10,269,977
Total	31,146,539	41,416,516	10,269,977	-

The company has completely fulfilled its export obligations as on the Balance Sheet date and is confident of fulfilling its export obligations in future. It may be noted that in the above statement, the export obligation on the import of capital goods, were considered in the year of purchase as against a period of four years allowed under the scheme.

7.5.8 Marketing investments

New investments will be made in sales and marketing initiatives to have a large portfolio of customers in different geographical regions and technologies. This may have an impact on future profitability. However, these investments will reduce risks in business.

7.5.9 Country of business

Infosys derives a substantial part of its revenue from USA. Changes in the governmental regulations in USA may adversely affect the business of Infosys. Infosys has envisaged a corporate strategy of increasing its share of business from European, Japanese and other markets, thereby reducing its predominant dependency on the American market. The company's goal is to reduce the contribution to the revenue, from the Americas, to 60% (from the current 76%) by the year 2000. The geographical area-wise segment reporting is provided in pages 81 and 82 of this report.

7.5.10 Clients

Infosys derives more than 10% of its revenue from two of its customeRs. This may cause a pressure on the margins, since such customers may demand reduction in prices based on volumes.

The Company has initiated plans to broad-base its revenue by creating a large portfolio of customers, technologies and geographical regions, to minimize the risk of dependency on only a few of its customers, for material part of its business. The company policy is to add new customers every year and develop them into million-dollar customeRs. During the year, the company added 33 new customers, of which 8 are BANCS 2000 customers.

7.5.11 Multiple Locations

Infosys believes in producing where it is most cost-effective to produce and selling where it is most profitable to sell. A key requirement for setting up a development centre is the availability of skilled professionals at competitive salaries. The company has already established software development centres at various places in India, and it is quite likely that such development centres may come up in other low-cost economies in the future. This implies that the company must have a plan to handle all issues arising out of operating in different states, countries and cultures.

The management is committed to providing a uniform work environment and being flexible to the cultural needs of the employees in different states and countries. The management is confident that such cultural variations can be used for the benefit of the organization by creating synergy between the organizational aspirations and the distinctive advantages of such variations.

7.5.12 Taxation

The economic reforms program of the Government of India has enhanced the velocity of business for companies in India. Being one of the signatories to the World Trade Organization, India is committed to reducing the import tariff levels, thereby exposing the Indian entrepreneurs to global competition.

At present, the export profits are deductible from income subject to tax in India. The government may reduce or eliminate the tax exemptions provided to Indian exporters in the near future. This may result in the export profits of the company being fully taxed, and may adversely affect the post-tax profits of the company in the future. This is expected to be tackled by increasing the per-capita revenue productivity and moving up the value chain. This is possible by increasing the contribution to revenue from products and productized services.

On a full-tax-paid basis, without any duty concessions on import of hardware and software for its operations, the company's post-tax profits for the relevant years would be,

in US$

	1997	1996	1995
Net income as per the Income statement	9,409,928	7,184,490	3,512,432
Less - Software for own use (duty concession)	31,535	55,535	286,085
- Additional depreciation on computer systems on duty concessions	1,415,076	977,962	513,304
- Reduction in non-operating income due to payment of duty	625,923	631,570	276,510
- Additional income tax to be provided on full tax basis	2,587,762	898,615	1,425,694
Adjusted net income	4,749,632	4,620,808	1,010,839
Weighted average common stock outstanding	7,259,000	7,258,750	5,305,050
Adjusted Earnings Per Share	0.65	0.64	0.19

However, it may be noted that the above is an academic exercise only and the company has provided for income tax in full in the respective years and there is no carried forward liability on this account.

7.5.13 Litigation

Litigation regarding intellectual property rights, patents and copyrights is increasing in the software industry. In addition, there are other general corporate legal risks. To date, the company has no material litigation pending against it in any court in India or abroad. The company has formulated a comprehensive risk policy to protect itself against any future litigation.

7.5.14 Contractual obligations

In the course of the business, the company enters into contracts with different customers and is obliged to perform and act according to the contractual terms and regulations. Failure to fulfill the contractual obligations arising out of such contracts may expose company to financial and other risks.

The management has taken sufficient measures to cover all of its contractual risks and does not foresee any major liability due to its non-fulfillment of any contractual terms and conditions.

7.5.15 Human Resources

The success of Infosys is dependent on its ability to recruit, enable, empower and retain its employees. The higher-than-normal retention of employees at Infosys has been possible due to the HR practices being followed by the company like employee stock options, providing competitive salaries, congenial working environment, latest technology, full independence in operations, informal culture and continuous training. However, the company may not be able to retain employees in future due to increased opportunities available to software engineers and their increased expectations.

The management is committed to continue its best HR practices and is confident of attracting, recruiting and retaining the best brains in the country for its operations.

7.5.16 Focusing on products

Software-product-based business is a high-growth and high-risk business. Infosys' strategy of focusing more on product segment may have an impact on its profitability, as the risks are quite high in this segment of business.

Infosys' product strategy is to acquire domain knowledge by working with *Fortune 500* companies and leverage such knowledge to develop large, application products in niche application areas.

Item 8. Financial statements and supplementary data

Item 9. Changes in and disagreements with accountants on accounting and financial disclosures

The independent auditor, Mr. A. M. Bhatkal, retires at the forthcoming Annual General Meeting and has informed the company of his inability to offer himself for reappointment due to his prior professional commitments. Hence, your company has proposed Bharat S. Raut and Company, a full member firm of KPMG, as the independent auditors for the next year.

The independent auditor's report for the current year, as well as for the previous two years, contained no qualification or an adverse opinion. Mr. A. M. Bhatkal has retired voluntarily due to his prior professional commitments and the change has not been necessitated due to decision by either the Audit Committee or the Board of Directors.

Part III

Item 10. Directors and executive officers of the registrant

Executive officers as of March 31, 1997

Name	Age	Position with the company
Narayana Murthy N. R.	51	Chairman and Managing Director
Ashwani K. Khurana	46	Executive Director and Head - Banking Business Unit
Balasubramanian P. Dr.	47	Senior Vice President and Head - Strategic Business Unit-2
Dinesh K.	43	Director and Head - Quality, Productivity and MIS
Gopalakrishnan S.	41	Deputy Managing Director and Head - Customer Delivery and Technology
Mohandas Pai T. V.	38	Senior Vice President and Head - Finance and Administration
Nandan M. Nilekani	41	Deputy Managing Director and Head - Marketing and Sales
Phaneesh Murthy	33	Vice President and Head - Worldwide Sales
Prahlad D. N.	41	Senior Vice President and Head - Strategic Business Unit-1
Raghavan N. S.	54	Joint Managing Director and Head - Human Resources and Education
Sharad K. Hegde	39	Senior Vice President and Head - Technology Advancement Unit (SBU-4)
Shibulal S.D.	42	Director and Head - Strategic Business Unit-5
Srinath Batni	42	Vice President and Head - Strategic Business Unit-3
Yegneshwar S. Dr.	36	Associate Vice President and Head - Education and Research

The experience and the previous employment of the above employees is provided on pages 57-59 of this report.

Information with respect to Election of Directors is provided in the notice to the Annual General Meeting attached to this report.

Item 11. Executive compensation

11.1 Cash compensation - Table 1

in US$

		Annual compensation			Long-term compensation			
			Awards			Payouts		
Name *and Principal position*	Year	Salary	Bonus	Other annual comp.	Restricted stock award(s)	Securities underlying options/ SAR's (#)	LTIP Payouts	All other components
Narayana Murthy N. R.	1997	29,159	-	-	-	-	-	-
Chairman & Managing Director	1996	32,403	-	-	-	-	-	-
	1995	25,793	-	-	-	-	-	-
Ashwani K. Khurana	1997	22,566	-	-	45,242	1,800	-	-
Executive Director	1996	19,497	-	-	-	-	-	-
	1995	15,776	-	-	76,447	6,000	-	-
Balasubramanian P. Dr.	1997	23,835	-	-	45,242	1,800	-	-
Senior Vice President	1996	12,001	-	-	35,801	3,000	-	-
	1995	-	-	-	-	-	-	-
Dinesh K.	1997	25,429	-	-	-	-	-	-
Director	1996	31,088	-	-	-	-	-	-
	1995	23,169	-	-	-	-	-	-
Gopalakrishnan S.	1997	25,965	-	-	-	-	-	-
Deputy Managing Director	1996	25,370	-	-	-	-	-	-
	1995	10,401	-	-	-	-	-	-
Mohandas Pai T. V.	1997	21,290	-	-	60,323	2,400	-	-
Senior Vice President	1996	18,711	-	-	59,669	5,000	-	-
	1995	6,394	-	-	76,447	6,000	-	-
Nandan M. Nilekani	1997	26,183	-	-	-	-	-	-
Deputy Managing Director	1996	28,422	-	-	-	-	-	-
	1995	24,016	-	-	-	-	-	-
Phaneesh Murthy	1997	1,10,000	-	-	45,242	1,800	-	-
Vice President	1996	77,000	-	-	59,669	5,000	-	-
	1995	66,028	-	-	50,965	4,000	-	-
Prahlad D. N.	1997	26,092	-	-	45,242	1,800	-	-
Senior Vice President	1996	24,898	-	-	-	-	-	-
	1995	18,127	-	-	-	-	-	-
Raghavan N. S.	1997	27,600	-	-	-	-	-	-
Joint Managing Director	1996	30,326	-	-	-	-	-	-
	1995	24,924	-	-	-	-	-	-
Sharad K. Hegde	1997	26,230	-	-	45,242	1,800	-	-
Senior Vice President	1996	22,899	-	-	-	-	-	-
	1995	19,608	-	-	-	-	-	-
Shibulal S. D.	1997	5,481	-	-	-	-	-	-
Director	1996	-	-	-	-	-	-	-
	1995	-	-	-	-	-	-	-
Srinath Batni	1997	16,457	-	-	60,323	2,400	-	-
Vice President	1996	15,601	-	-	47,735	4,000	-	-
	1995	8,714	-	-	50,965	4,000	-	-
Yegneshwar S. Dr.	1997	12,500	-	-	30,161	1,200	-	-
Associate Vice President	1996	11,137	-	-	23,868	2,000	-	-
	1995	5,647	-	-	25,482	2,000	-	-

11.2 Compensation pursuant to stock options

11.2.1 Option grants in the last fiscal year - Table 2

The following table sets forth certain information on option grants in the fiscal year 1997 to the named executive officeRs.

	Individual grants				Potential realized value at assumed annual rates of stock price appreciation for option term (US$)		
Name	Number of securities underlying options/ securities granted	% of total options/ SARs granted to employees in fiscal year	Exercise or base price ($/share)	Expiration date	0%	5%	10%
Narayana Murthy N. R.	-	-	-	-	-	-	-
Ashwani K. Khurana	1,800	1.39%	2.94	2001	45,242	56,132	68,695
Balasubramanian P. Dr.	1,800	1.39%	2.94	2001	45,242	56,132	68,695
Dinesh K.		-	-	-	-	-	-
Gopalakrishnan S.		-	-	-	-	-	-
Mohandas Pai T. V.	2,400	1.86%	2.94	2001	60,323	74,843	91,593
Nandan M. Nilekani		-	-	-	-	-	-
Phaneesh Murthy	1,800	1.39%	2.94	2001	45,242	56,132	68,695
Prahlad D. N.	1,800	1.39%	2.94	2001	45,242	56,132	68,695
Raghavan N. S.		-	-	-	-	-	-
Sharad K. Hegde	1,800	1.39%	2.94	2001	45,242	56,132	68,695
Shibulal S.D.		-	-	-	-	-	-
Srinath Batni	2,400	1.86%	2.94	2001	60,323	74,843	91,593
Yegneshwar S. Dr.	1,200	0.93%	2.94	2001	30,161	37,422	45,797

The options were issued in pursuance to the formation of the Employees Stock Offer Plan (ESOP) of Infosys. The options carry a vesting period of 5 years from the date of issue and can be converted into stock within a period of 5 years from the date of allotment of options. On conversion, such stocks will also carry restrictive covenants until the expiry of 5 years from the date of allotment of option. The exercise price can be fixed by the Board of Directors from time to time subject to the condition that the minimum exercise price should not be less than Rs. 100 (US$ 2.94). The potential realizable value at assumed annual growth rates of stock price appreciation is calculated at the minimum exercise price of Rs. 100 (US$ 2.94).

It may please be noted that the potential realizable values are based on annual rates of return specified by the Securities and Exchange Commission. Infosys management has consistently cautioned shareholders and option holders that such increases in values are based on speculative assumptions, and should not inflate expectations of the future value of their holdings.

11.2.2 Aggregated option exercises in the last fiscal year and the fiscal year-end option values - Table 3

The following table provides information on options exercised during 1997 by the named executive officers and the value of such officers' unexercised options at March 31,1997:

in US$

Name	Shares acquired on exercise	Value realized	Number of securities underlying unexercised options at the fiscal year-end		Value of unexercised In-the-money options at the fiscal year-end	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Narayana Murthy N. R.	-	-	-	-	-	-
Ashwani K. Khurana	-	-	-	7,800	-	1,96,049
Balasubramanian P. Dr.	-	-	-	4,800	-	1,20,645
Dinesh K.	-	-	-	-	-	-
Gopalakrishnan S.	-	-	-	-	-	-
Mohandas Pai T. V.	-	-	-	13,400	-	3,36,802
Nandan M. Nilekani	-	-	-	-	-	-
Phaneesh Murthy	-	-	-	10,800	-	2,71,452
Prahlad D. N.	-	-	-	1,800	-	45,242
Raghavan N. S.	-	-	-	-	-	-
Sharad K. Hegde	-	-	-	1,800	-	45,242
Shibulal S.D.	-	-	-	-	-	-
Srinath Batni	-	-	-	10,400	-	2,61,398
Yegneshwar S. Dr.	-	-	-	5,200	-	1,30,699

11.3. Compensation committee

The company does not have a compensation committee. The company's compensation policy is decided by the Human Resources Development group in consultation with the heads of various groups within the organization, and is approved by the chairman of the Board of DirectoRs. The company's compensation policy is to offer a salary package which is quite competitive and employee-friendly. The company encourages employee participation in the company's growth through an Employee Stock Offer Plan (ESOP) in which all eligible employees participate.

11.4 Performance graph

The performance graph is provided on page 104 of this report.

Item 12. Certain relationships and related transactions

This information is provided in Notes to accounts on page 81.

Part IV

Item 13. Exhibits, financial statement schedules and reports on Form 8-K

Not applicable.

Signatures

Infosys has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Bangalore, State of Karnataka, India on April 8, 1997.

Infosys Technologies Limited

N. R. Narayana Murthy
Chairman and Managing Director

Selected five-year financial data

in US$

Year ending March 31,	1993	1994	1995	1996	1997
For the year					
Revenues	5,232,967	9,534,321	18,105,010	26,607,009	39,585,919
Total expenses	3,846,851	6,935,937	13,864,704	18,269,598	29,625,281
Operating income	1,386,116	2,598,384	4,240,306	8,337,411	9,960,638
Interest charges	36,184	15,321	-	-	172,268
Non-operating income	72,224	391,362	746,439	1,460,329	1,316,208
Non-operating expenses	443	53,956	-	-	374,380
Income before taxes	1,421,713	2,920,469	4,986,745	9,797,740	10,730,198
Provision for taxes	123,131	250,742	892,593	1,324,580	1,016,181
Prior period items	-	-	-	214,118	304,089
Cumulative effect of changes in accounting policies	-	-	581,720	1,074,552	-
Net income	1,298,582	2,669,727	3,512,432	7,184,490	9,409,928
At the year					
Working capital	1,806,558	5,478,798	11,764,602	13,133,466	15,351,112
Total assets	3,731,997	9,897,050	23,178,521	27,628,587	33,841,135
Stockholders' equity	2,505,670	9,348,527	19,796,083	24,292,024	31,557,905
Common stock data					
Earnings per share	0.68	0.80	0.66	0.98	1.30
Cash and short-term investments per share	0.30	1.16	1.91	1.39	1.15
Weighted average common stock outstanding	1,912,767	3,352,100	5,305,050	7,258,750	7,259,000
Key ratios					
Current ratio	4.32	10.99	8.02	5.67	7.72
Return on revenues	25%	28%	19%	27%	24%
Return on average total assets	42%	39%	21%	28%	31%

Figures have been regrouped wherever necessary.

Management structure

N. R. Narayana Murthy
Chairman & Managing Director

N. S. Raghavan
Joint Managing Director and Head - Human Resources, Education and Research

- **N. V. Rajan** – Associate Vice President and Head - Human Resource Development
- **S. Yegneshwar** – Associate Vice President and Head - Education and Research

N. M. Nilekani
Deputy Managing Director and Head - Sales and Marketing

- **Ashwani K. Khurana** – Executive Director and Head - Banking Business Unit (SBU-6)
  - Sudheer K. – Associate Vice President
- **Phaneesh Murthy** – Vice President and Head - Worldwide Sales
- **B. M. Rao** – Manager - Communication Design Group

S. Gopalakrishnan
Deputy Managing Director and Head - Customer Delivery and Technology

- **D. N. Prahlad** – Senior Vice President and Head - SBU-1
  - R. G. Bhandi – Associate Vice President and Head - Mangalore center
  - L. Vasudeva Rao – Associate Vice President
  - Bhaskar Ghosh – Project Manager and Head - Bhubaneshwar center
- **P. Balasubramanian** – Senior Vice President and Head - SBU-2
  - Ajay Dubey – Associate Vice President and Head - Pune center
- **Srinath Batni** – Vice President and Head - SBU-3
  - A. S. Krishnamurthy – Associate Vice President
  - R. V. S. Mani – Associate Vice President and Head - Chennai center
  - Rajiv Kuchhal – Senior Project Manager and Head - Koramangala center
- **Sharad K. Hegde** – Senior Vice President and Head - Technology Advancement Unit (SBU-4)
- **S. D. Shibulal** – Director and Head - Internet Consulting (SBU-5)
- **Ashok V. Arunachalam** – Manager - Computers and Communication Services
- **P. D. Mallya** – Associate Vice President - Networking Services

T. V. Mohandas Pai
Senior Vice President and Head - Finance and Administration

- **V. Balakrishnan** – Manager - Finance
- **U. Ramadas Kamath** – Manager - Accounts and Administration
- **Sanjeev Joshi** – Manager - Commercial and Special Projects
- **C. Vijay Kumar** – Manager - Resource Coordination
- **V. Viswanathan** – Company Secretary

K. Dinesh
Director and Head - Quality, Productivity and MIS

- **Pankaj Jalote** – Vice President and Head - Quality
- **M. Subbaraya Sastry** – Manager - Management Information Systems

Sudha Kumar
Manager - Corporate Planning

SBU - Strategic Business Unit

Shareholders' information

1. Dates of book closure : May 23, 1997 to June 7, 1997 (both days inclusive)
2. Date and venue of the annual general meeting : At 3.00 p. m. on June 7, 1997, at Hotel Taj Residency, 41/3, M.G. Road, Bangalore - 560 001
3. Dividend payment : On or after June 8, 1997, but within the statutory time limit.
4. Listing on stock exchanges at : Bangalore, Bombay and National Stock Exchanges
5. Registered office : Electronics City, Hosur Road, Bangalore - 561 229, India.
6. Stock market data
   a. The Stock market data of the company is included in the computation of the BSE 200 Index and the BSE Dollex Index.
   b. Monthly high and low quotations as well as the volume of shares traded at Bangalore, Bombay and National Stock Exchanges are:

1996-97	Bangalore Highest Rs.	Bangalore Lowest Rs.	Bangalore Volume Nos.	Bombay Highest Rs.	Bombay Lowest Rs.	Bombay Volume Nos.	NSE Highest Rs.	NSE Lowest Rs.	NSE Volume Nos.
April	625.00	468.00	200	670.00	495.00	56,900	674.90	499.00	65,600
May	625.00	625.00	-	700.00	625.00	31,400	704.50	630.50	54,500
June	695.00	625.00	100	722.00	660.00	65,800	721.00	658.50	61,100
July	715.00	715.00	200	725.00	654.50	60,000	720.00	642.05	61,700
August	715.00	655.00	800	710.00	632.00	9,200	704.00	636.00	19,600
September	690.00	660.00	700	676.00	650.00	13,100	681.05	655.00	21,400
October	700.00	660.00	1,100	705.00	600.00	57,700	720.00	621.00	38,900
November	700.00	620.00	3,300	705.00	678.00	9,000	706.00	670.00	14,300
December	705.00	640.00	15,500	765.00	672.50	18,400	770.00	675.00	23,900
January	840.00	800.00	1,000	890.00	783.00	21,600	885.00	790.00	37,500
February	925.00	840.00	800	1,050.00	828.00	55,700	1,027.50	827.00	50,700
March	1,170.00	980.00	1,100	1,176.25	995.00	120,400	1,200.00	965.10	118,700

6. Share transfers and other communication regarding share certificates, dividends, and change of address, etc., may be addressed to : Karvy Consultants Limited
   Registrars and Share Transfer Agents
   No. 145/9, Girija Towers, 6th A-C Main, 30th Cross,
   Jayanagar 4th Block, Bangalore - 560 011

7. Share transfer system

   Share transfers would be registered and returned within a period of 15 days from the date of receipt, if the documents are clear in all respects. The Share Transfer Committee meets eight times a month.

   The total number of shares transferred during the year 1996-97 was 6,49,761 (previous year - 11,34,065). 62.57% of transfers (previous year - 87.02%) were completed within 15 days.

Transfer period in days	1996-97 No. of transferees (folios) New	1996-97 No. of transferees (folios) Existing	1996-97 No. of shares	1996-97 Percentage	1995-96 No. of transferees (folios) New	1995-96 No. of transferees (folios) Existing	1995-96 No. of shares	1995-96 Percentage
1 -10	245	679	2,95,059	45.41%	485	1,041	6,96,734	61.44%
11 -15	113	329	1,11,507	17.16%	189	497	2,90,146	25.58%
16 -20	98	208	91,695	14.11%	194	228	1,47,185	12.98%
* 21 -25	36	39	1,51,500	23.32%	-	-	-	-
	492	1,255	6,49,761	100.00%	868	1,766	11,34,065	100.00 %

* The delay beyond 20 days was due to the payment procedure for Interim Dividend 1996-97 and postal strike during the month of October 1996.

8. Investors' services - Complaints received during the year

	Nature of complaints	1996-97		1995-96	
		Received	Cleared	Received	Cleared
1.	Non-receipt of share certificates	75	75	68	68
2.	Non-receipt of bonus shares	2	2	24	24
3.	Letters from Stock Exchange, SEBI, etc.	8	8	10	10
4.	Non-receipt of dividend warrants	96	96	48	48
		181	181	150	150

The company has attended to most of the investors' grievances/correspondence within a period of 10 days from the date of receipt of same, during the year 1996-97.

9. Distribution of shareholding as on March 31,

No. of equity shares held	1997 No. of share-holders	1997 % of share-holders	1997 No. of shares	1997 % of share-holdings	1996 No. of share-holders	1996 % of share-holders	1996 No. of shares	1996 % of share-holdings
1 - 100	2,085	32.51	2,04,990	2.82	1,807	26.15	1,77,466	2.44
101 - 200	3,025	47.16	6,04,654	8.33	3,701	53.57	7,40,070	10.20
201 - 500	804	12.54	3,10,358	4.28	871	12.61	3,37,366	4.65
501 - 1000	254	3.96	1,90,178	2.62	282	4.08	2,09,878	2.89
1001 - 5000	150	2.34	3,38,836	4.67	158	2.29	3,48,836	4.81
5001 - 10000	22	0.34	1,74,100	2.40	18	0.26	1,44,200	1.99
10001 and above	74	1.15	54,36,484	74.88	72	1.04	53,00,784	73.02
	6,414	100.00	72,59,600	100.00	6,909	100.00	72,58,600	100.00

10. Categories of shareholders as on March 31,

Category	1997 No. of shareholders	1997 Voting strength (percentage)	1997 No. of shares held	1996 No. of shareholders	1996 Voting strength (percentage)	1996 No. of shares held
Individuals	6,186	25.24	18,32,750	6,715	28.20	20,47,300
Companies	118	3.74	2,71,300	107	3.08	2,23,300
FIIs, NRIs, OCBs	60	23.44	17,01,950	40	22.56	16,37,900
Promoters/Directors and their families	19	34.68	25,17,300	19	34.91	25,33,700
Mutual Fund, Banks, FIs	31	12.90	9,36,300	28	11.25	8,16,400
	6,414	100.00	72,59,600	6,909	100.00	72,58,600

11. Depository information

With a view to provide better service to our investors, the company became a member of the NSDL effective January 11,1997. A detailed letter explaining the methodology of using the depository has already been sent to all the shareholders.

Shareholders desirious of getting further information on the depository may please write to the Company Secretary for a booklet - An investor's guide to depositories. The approximate cost of dematerialization of 1,000 shares, based on market value of Rs. 1,200 per share, would be Rs. 3,600. This includes an annual custodial fee and a onetime transaction fee. Investors are advised to verify these costs before dematerializing their shareholding.

12. Financial calendar

Annual General Meeting	June 1997
Half-yearly financial reporting for 1997-98	October 1997
Interim dividend payment (if any)	November 1997
Financial results for 1997-98	April 1998

13. Investors' complaints may be addressed to :

Mr. V. Viswanathan (e-mail address: viswav@inf.com), Company Secretary, Investors' Service Cell, Infosys Technologies Ltd., Electronics City, Hosur Road, Bangalore 561 229, India.

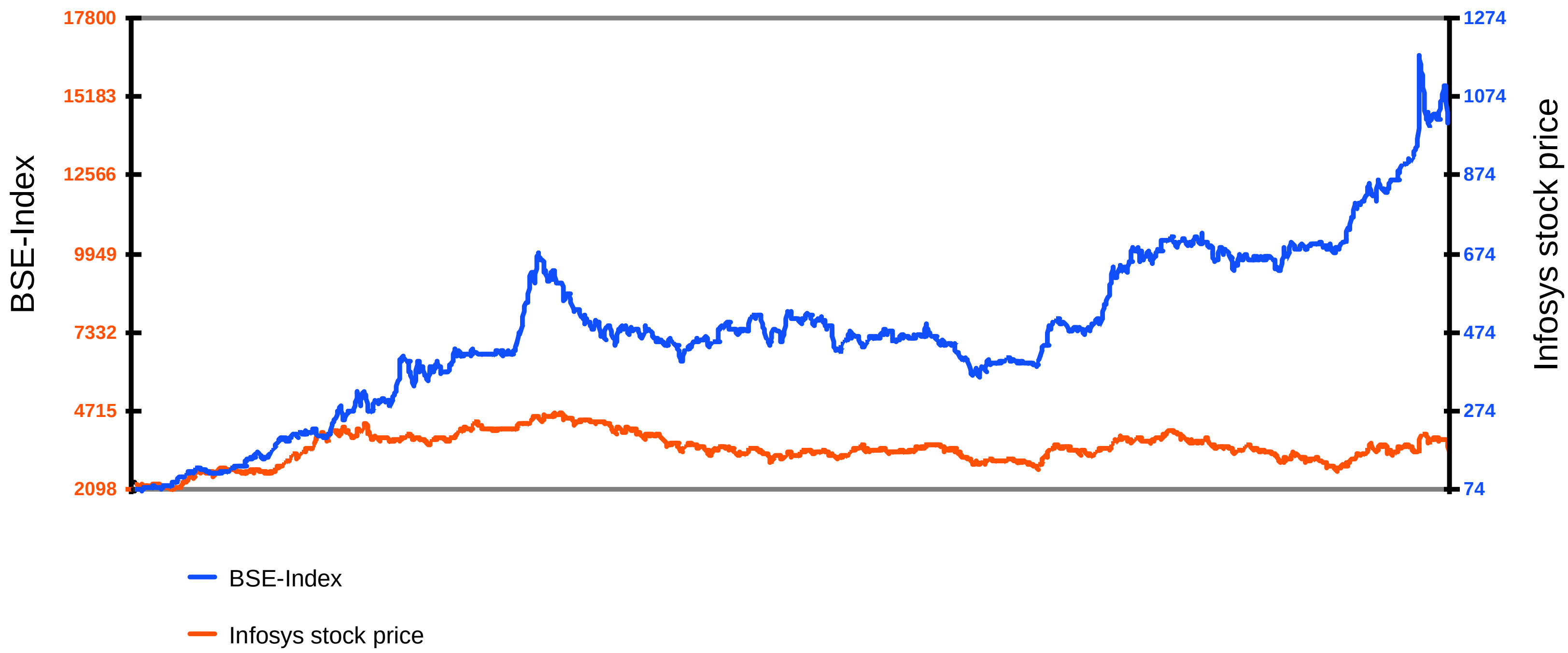
Any queries with respect to the financial statements of the company can be addressed to :

Mr. T. V. Mohandas Pai, Sr. Vice President -Finance and Administration (e-mail address: mdpai@inf.com), Infosys Technologies Limited, Electronics City, Hosur Road, Bangalore - 561229.

14. Reuters code - INFO.BO (Bombay Stock Exchange)
- INFO.NS (National Stock Exchange)

Additional information to shareholders
Share performance graph

Infosys management consistently cautions that the stock price performance shown in the graph below should not be considered indicative of Infosys' stock price in the future.



The share price has been adjusted for a bonus issue of 1:1 during October 1994.

The strength of the invisible

A Balance Sheet discloses the financial strength of a company. The financial position of an enterprise is influenced by the economic resources it controls, the financial structure, liquidity and solvency, and its capacity to adapt to changes in the environment. However, it is becoming increasingly clear that intangible assets have a significant role in defining the growth of a hi-tech company. So, quite often, the search for the added value leads us invariably back to understanding, evaluating and enhancing the intangible assets of the business.

From time to time, Infosys has used various models for evaluating assets off the Balance Sheet to bring certain advances in financial reporting from the realm of research and practices in advanced nations, to the notice of the shareholdeRs. Such an exercise also helps the Infosys management in understanding the components that make up goodwill. The aim of such modeling is to lead the debate on the Balance Sheet of the next millennium, and to evoke the corporate interest in India. The Infosys management cautions the investors that these models are still the subject of debate among researchers, and using such models and data in predicting the future of Infosys, or any other company, is risky, and that the Infosys management is not responsible for any direct, indirect or consequential losses suffered by any person using these models or data.

Last year, the management valued its most valuable off Balance Sheet asset - Human Resources. This year, the management has attempted to determine the value of another of the company's important off Balance Sheet assets - *the Infosys brand*.

Brand Valuation

A brand is much more than a trademark or a logo. It is a *Trustmark* - a promise of quality and authenticity that customers can rely on. Brand equity is the value addition provided to a product or company by its brand name. It is the financial premium that a buyer is willing to pay for the brand over a generic or less worthy brand. Brand equity is not created overnight. It is the result of relentless pursuit of quality in manufacturing, selling, service, advertising and marketing. It is the integral of customer experiences in dealing with the company and its products over a sustained period.

Corporate-branding and Service-brands are often perceived to be interchangeable. Both types of brands aim at the enhancement of confidence and the reduction of uncertainty in the quality of what the company offeRs. Therefore, companies rely heavily on the image and personality they create for their brands, to communicate these qualities to the marketplace.

The task of measuring the brand value is a complex one. Several models are available for accomplishing this. The most widely used is the Brand-earnings-multiple model. There are several variants of this model. For example, the *Financial World* magazine has used a variant of this model in the *July 1996 issue* and valued the *Microsoft* brand at US$ 5.63 billion, while the market capitalization of the company was around US$ 60 billion on the date of brand valuation.

Goodwill is a nebulous accounting concept that is defined as the premium paid to tangible assets of a company. It is an umbrella concept that transcends components like brand equity and human resources, and is the result of many corporate attributes including core competency, market leadership, copyrights, trademarks, brands, superior earning power, excellence in management, outstanding workforce, competition, longevity and so on.

The management has adapted the generic *Brand-earnings-multiple* model (given in the article on *Valuation of Trademarks and Brand names* by *Michael Birkin* in the book *Brand Valuation* edited by *John Murphy* and published by *Business Books Limited*, *London*) to value its corporate brand - *Infosys*. The methodology followed for valuing the brand is as given below :

1. Determine brand earnings

To do this,

- Determine brand profits by eliminating the non-brand profits from the total profits of the company
- Restate the historical profits at present-day values
- Provide for the cost of capital employed to produce the product
- Adjust for taxes

2. Determine the brand-strength or brand-earning multiple

Brand-strength-multiple is arrived at by a multitude of factors like leadership, stability, internationality, support and so on. The factors have been evaluated on a scale of 100, internally by the Infosys management, based on the information available within the company.

3. Compute the brand value by multiplying the brand earnings with the multiple derived in step 2 above.

The workings are as follows : *in Rs.*

	1994-95	1995-96	1996-97
PBIT	15,26,44,266	25,31,94,517	39,54,12,934
Less - non-brand income	2,05,63,654	4,37,25,909	4,13,37,138
Adjusted profit after tax	13,20,80,612	20,94,68,608	35,40,75,796
Inflation compound factor @ 8%	1.181	1.087	1.000
Present value of profits for the brand	15,60,49,873	22,76,83,270	35,40,75,796
Weightage factor	1	2	3
Weighted profits	15,60,49,873	45,53,66,540	1,06,22,27,389
Three-year aggregate weightage profits			27,89,40,634
Remuneration of capital (5% of average capital employed)			4,92,33,702
Brand-related profits			22,97,06,932
Tax at 43%			9,87,73,981
Brand earnings			13,09,32,951
Multiple-applied			13.20
Brand value			1,72,83,14,957

Assumptions

1. Total revenue excluding the other income is brand revenue, since this is an exercise to determine the brand value of Infosys as a company and not for any of its products or services.
2. Inflation is at 8% per annum.
3. 5% of the average capital employed is used for purposes other than promotion of the brand.
4. Tax rate is at 43%.
5. The earnings multiple is based on the ranking of Infosys against the industry average based on certain parameters (exercise undertaken internally and based on available information)

Thus, it is interesting to note that while Infosys has a market capitalization of Rs. 731.04 crores on March 31, 1997, the value of the brand "Infosys" is estimated at Rs. 172.83 crores.

Human Resources Accounting

The dichotomy in accounting between human and non-human capital is fundamental. The latter is recognized as an asset and is therefore recorded in the books and reported in the financial statements, whereas, the former is totally ignored by accountants. The definition of wealth as a source of income, inevitably leads to the recognition of human capital as one of several forms of wealth such as money, securities and physical capital. The basis of computing the same is as follows:

The *Lev & Schwartz* model has been used to compute the value of the human resources as at March 31, 1997. The evaluation is based on the present value of the future earnings of the employees and on the following assumptions:

1. Employee compensation includes all direct and indirect benefits earned both in India and abroad.
2. The incremental earnings based on group/age are considered.
3. The future earnings have been discounted at 27.97% (previous year - 27.36%) being the cost of capital. Beta has been assumed at 1.48 based on worldwide beta for software stocks.

Rs. in lakhs except where otherwise specified

As of March 31,	1997		1996	
	No. of employees	Value of human resources (Rs. in lakhs)	No. of employees	Value of human resources (Rs. in lakhs)
Production	1,293	227,31.10	957	161,69.93
Support - Technical	157	33,80.23	42	12,83.56
- Others	255	17,44.50	173	12,32.48
	1,705	278,55.83	1,172	186,85.97

	1997	1996
Number of employees (Nos.)	1,705	1,172
Value of human resources	278,55.23	186,85.97
Total earnings	143,80.77	93,41.34
Software revenue	139,21.47	88,55.50
Total employee cost	51,63.08	34,41.15
Value added	99,41.26	70,64.12
Net profits excluding extraordinary income	33,39.02	21,00.95
Key Ratios		
Total earnings/Human resources	0.52	0.50
Total software revenue/Human resources	0.50	0.47
Value added/ Human resources	0.36	0.37
Value of human resources per employee	16.34	15.94
Employee cost/ Human resources (%)	18.54%	18.42%
Return on human resources (%)	11.99%	11.24%

Value Added statement

Rs. in lakhs

Year ending March 31,	1997	1996
Total income	143,80.76	93,41.34
Less : Cost of imported software packages sold	37.14	87.36
Software development expenses	24,72.49	13,45.11
Administration expenses	15,70.34	8,44.75
Loss on sale of investments	3,59.53	-
Subtotal	44,39.50	22,77.22
Total value added	99,41.26	70,64.12
Applied to meet		
Personnel costs	51,63.08	34,41.15
Income tax	5,54.00	4,31.00
Provision for investments	-	2,27.60
Dividends	3,99.23	3,62.93
Interest payments	61.10	-
Retained in business	37,63.85	26,01.44
	99,41.26	70,64.12

Balance Sheet (including the intangible assets) as at March 31,1997

in Rs.

SOURCES OF FUNDS	
SHAREHOLDERS' FUNDS	
Share capital	7,25,97,500
Reserves and surplus	
- Share premium account	34,75,41,460
- Capital reserves	454,97,97,957
- Other reserves	67,23,21,637
LOAN FUNDS	
Secured loans	-
	564,22,58,554
APPLICATION OF FUNDS	
FIXED ASSETS	
Tangible assets	
- at cost	71,29,16,621
Less : Depreciation	25,02,44,587
Net block	46,26,72,034
Add : Capital work-in-progress	7,04,41,980
	53,31,14,014
Intangible assets	
- Brand Equity	172,83,14,957
- Human Resources	278,55,83,000
INVESTMENTS	5,32,61,960
CURRENT ASSETS, LOANS AND ADVANCES	
Inventories	4,10,878
Accounts receivables	18,08,89,934
Cash and bank balances	15,02,35,621
Loans and advances	38,44,14,669
	71,59,51,102
Less : Current liabilities	5,12,31,334
Provisions	12,27,35,145
Net current assets	54,19,84,623
	564,22,58,554

Note:
1. This Balance Sheet is provided for purpose of information only. The management accepts no responsibility for any direct, or indirect or consequential losses or damages suffered by any person relying on the same.
2. Capital reserves include value of brand equity and human resources.

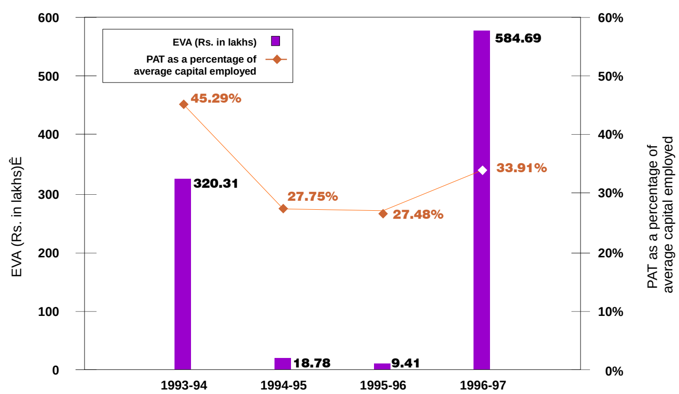
Economic-Value-Added (EVA) statement

The Economic-Value-Added, commonly called *EVA*, is a measure of the real profits of a company. It is computed by taking the spread between the rate of return on capital and the cost of capital, and then multiplying the economic book value of the capital committed to the business. Thus, it is perhaps the best measure of the performance of the company.

Economic Value Added analysis

Year ending March 31,	1994	1995	1996	1997
1. Average capital employed (Rs. in lakhs)	17,86.87	48,01.44	76,44.80	98,46.75
2. Average debt/ total capital (%)	1.12	6.60	6.93	2.16
3. Beta variant	1.42	1.48	1.48	1.48
4. Risk free debt cost (%)	13.40	14.00	14.00	13.60
5. Market premium	10.00	10.00	10.00	10.00
6. Cost of equity (%)	27.60	28.80	28.80	28.40
7. Cost of debt (post tax) (%)	8.48	6.75	7.70	7.70
8. Weighted Average Cost of Capital (WACC) (%)	27.36	27.36	27.36	27.97
9. PAT as a percentage of average capital employed (%)	45.29	27.75	27.48	33.91
10. Economic Value Added (EVA)				*Rs. in lakhs*
Operating profit (PBT excluding extraordinary income)	8,85.19	15,26.44	25,32.00	38,93.03
Less: Tax	76.00	1,94.00	4,31.00	5,54.00
Less: Cost of capital	4,88.88	13,13.66	20,91.59	27,54.34
Economic Value Added	3,20.31	18.78	9.41	5,84.69
11. Enterprise Value (Rs. in lakhs)				
Market value of equity	191,01.50	348,42.00	355,67.10	731,04.17
Add: Debt	-	6,33.91	4,26.06	-
Enterprise value	191,01.50	354,75.91	359,93.16	731,04.17
12. Ratios :				
EVA as a percentage of year end capital employed %	11.76%	0.27%	0.11%	5.18
PAT as a percentage of average capital employed - weighted average cost of capital (%)	17.93	0.39	0.13	5.94
Enterprise value/Year-end capital employed	7.01	5.16	4.28	6.48

Note: The cost of equity is calculated by using the following formula :
Return on risk free investment + expected risk premium on equity investment adjusted for the beta variant of Infosys.



Relationship between PAT as a percentage of average capital employed and Economic Value Added (EVA)

Rs. in lakhs

Additional information to shareholders (contd.)

Ratio Analysis for the year ending March 31,

	1995	1996	1997
Ratios - Financial performance			
Export turnover/total turnover (%)	88.31	86.00	87.12
Domestic turnover/total turnover (%)	5.76	6.98	9.27
Trading turnover/total turnover (%)	1.97	1.81	0.41
Other income/total turnover (%)	3.96	5.20	3.19
Manpower costs/total turnover (%)	38.48	36.84	35.90
Administration expenses/total turnover (%)	10.45	8.51	10.92
Operating expenses/total turnover (%)	65.58	61.22	64.27
Interest/total turnover (%)	0.00	0.00	0.42
Depreciation/Total turnover(%)	7.96	9.24	7.31
Tax/total turnover (%)	3.36	4.61	3.85
Tax (Current)/PBT (%)	12.71	14.31	11.46
PBIDT from ordinary activities/Total turnover (%)	34.42	36.35	34.81
PAT from ordinary activities/Total turnover (%)	23.09	22.49	23.22
PAT from ordinary activities/Average net worth (%)	29.71	29.53	34.66
ROCE (PBIT/Average capital employed) (%)	31.79	33.12	40.16
Capital output ratio	1.15	1.16	1.41
Ratios- Balance Sheet			
Debt-Equity ratio	0.10	0.05	0.00
Debtors turnover (Days)	48	46	47
Current ratio	6.38	4.17	4.12
Cash and equivalents/Total assets (%)	36.84	35.41	25.50
Depreciation for the year/Gross Block (%)	18.15	18.43	14.75
Asset turnover	0.84	1.11	1.27
Technology investment/Billable manpower (Rs.)	1,48,051	95,395	1,33,975
Technology investment/Total revenue (%)	16.73	9.81	10.59
Ratios-Growth			
Growth in export turnover (%)	85.86	57.66	55.94
Growth in total turnover (%)	91.81	61.88	53.95
Operating expenses growth (%)	88.36	51.88	63.49
Operating profit growth (%)	104.59	70.97	47.43
Net profit (from ordinary activities) growth (%)	64.66	57.68	58.93
Per-share data			
Earnings (from ordinary activities) (Rs.)	18.36*	28.94	46.00
Dividend (%)	45	50	55
Book value (Rs.)	86	110	155
Dividend payout (%)	17.37	17.27	10.80
Price/ Earnings	26.15	16.93	21.89
Dividend/Adjusted public offer price (%)	9	11	12
Market price/Adjusted public offer price (%)	911	932	2,020

* After bonus issue of 1:1

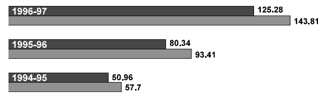
Note: Capital output ratio = Revenue from operations/Average capital employed
Asset turnover = Total revenue/Total assets

Ratio analysis

Ratio analysis is the best tool available to analyze and appreciate the financial results of a company. It enables and allows inter-company and intra-company comparison and analysis. The ratios also provide a bird's eye view of the financial condition of the company, which can be easily understood and appreciated by all.

Growth

The exports have grown by 56% during the current year as compared to 58% during the previous year. The exports are predominantly to USA, Europe, African and other South-Asian countries.



Revenue & exports
Rs. in crores

The total revenue has grown by 54% as compared to 62% during the previous year. The growth in total turnover is in line with the industry growth.

While the operating expenses have grown by 63% as compared to 52% during the previous year, the operating profits have grown by 47% as compared to 71% during the previous year. During the year, the operating profits have dropped due to operationalization of various software development centres, the benefits of which would be felt in the future.

However, the net profits have grown by 59% as compared to 58% growth during the previous year mainly due to lower depreciation and taxes.

Financial indicators

1. Return on average net worth

The return on average net worth is 34.66% during the year as compared to 29.53% during the previous year. This was possible due to strict cost control measures adopted by the company, and also due to benefits of economies of scale.

Return on average net worth
Percentage

Since the company is maintaining around 25% of its assets in liquid cash funds, where the returns are less, the above figures get distorted. If the liquid funds are adjusted against the net worth; and the revenue earned from liquid funds after tax, adjusted against the net profit, the return on average net worth stands at 44.49% during the current year.

2. Debt-equity ratio

The Debt-equity ratio has declined to Nil during the year as compared to 0.05 during the previous year. During the year, the company prepaid its existing loan with HDFC in full. This is in line with the company's policy of adhering to debt only as a short-term arrangement and to fund all its long-term needs out of its own funds generated from operations.

3. Net profit ratio

The Net profit ratio is 23.22% during the year as compared to 22.49% during the previous year. It has slightly increased due to lower charge of depreciation and taxes.

Net profit ratio
Percentage

4. Current ratio

The Current ratio is 4.12 as compared to 4.17 during the previous year. The current ratio is healthy and primarily high due to maintenance of liquid funds in tune with the company policy.

5. Capital output ratio

The Capital output ratio is 1.41 during the year as compared to 1.16 during the previous year. This increase is due to better utilization of productive assets by the company.

Capital output ratio
Percentage

Investments

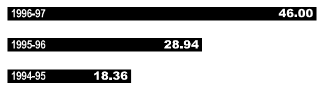
Technology investments

The technology investment to billable manpower has increased to Rs. 1,33,975 per person from Rs. 95,395 during the previous year. The technology investment to total revenue has increased to 10.59% during the year from 9.81% during the previous year.

Shareholder data

The earnings per share have increased to Rs. 46.00 from Rs. 28.94 during the previous year. This is mainly due to 59% growth in the net profits of the company, during the year. The book value of the company has also correspondingly increased to Rs. 155 per share as against Rs. 110 per share during the previous year.

The dividend payout ratio has declined to 11% of the PAT.

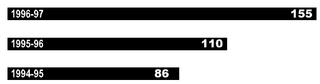


Earnings per share
Rs.

Dividend
Percentage

The Infosys' share has surpassed the market and has benefited the shareholders as a whole. The appreciation in stock price (adjusted for a bonus issue during 1994), over the IPO issue price, is more than 2020%. The overall market capitalization of the company has grown from Rs. 53.63 crores during June 1993 to Rs. 731.04 crores, as of March 1997. The dividend payout on the adjusted IPO issue price is 12% as compared to 11% during the earlier year.

The price earnings multiple, as on March 31, 1997, is around 21.89 and is well above the industry average.



Book value
Rs.

Price earnings
multiple
Rs.

Statutory obligations

The company has established Software Technology Parks - 100% exported-oriented units - for the development of software at Electronics City, Koramangala and Manipal Center at Bangalore as well as at Mangalore, Pune, Chennai and Bhubaneshwar (all in India). All capital items purchased for these centers are eligible for 100% customs and excise duty exemption, subject to fulfillment of stipulated export obligations, namely, one and a half time the value of duty-free imports of capital goods over a period of four years and one and a half times the wage bill, on a yearly basis. The non-fulfillment of export obligations may result in penalties as stipulated by the Government which may have an impact on future profitability. The chart showing the export obligation, and the export obligation fulfilled by the company for all its STP units year-wise is given here under:

in Rs.

As at March 31,	Export obligation	Export obligation fulfilled	Excess/ (shortfall)	Cumulative excess/ (shortfall)
1993	29,06,157	28,25,575	(80,582)	(80,582)
1994	4,38,46,672	8,04,57,379	3,66,10,707	3,65,30,125
1995	16,28,10,598	15,63,56,751	(64,53,847)	3,00,76,278
1996	34,32,50,026	47,15,01,260	12,82,51,234	15,83,27,512
1997	49,65,73,321	68,93,56,837	19,27,83,516	35,11,11,028
	104,93,86,774	140,04,97,802	35,11,11,028	

The total customs duty waived on both computer software and hardware imported by the company since 1993 amounts to Rs. 18.71 crores.

The company has completely fulfilled its export obligations as on the Balance Sheet date and is confident of fulfilling its export obligations in future. It may be noted that in the above statement, the export obligation on the import of capital goods, were considered in the year of purchase as against a period of four years allowed under the scheme.

Taxation

The economic reforms program of the Government of India has enhanced the velocity of business for companies in India. Being one of the signatories to the World Trade Organization, India is committed to reducing the import tariff levels, thereby exposing the Indian entrepreneurs to global competition.

At present, the export profits are deductible from income subject to tax in India. The government may reduce or eliminate the tax exemptions provided to Indian exporters in the near future. This may result in the export profits of the company being fully taxed, and may adversely affect the post-tax profits of the company in the future. This is expected to be tackled by increasing the per-capita revenue productivity and moving up the value chain. This is possible by increasing the contribution to revenue from products and productized services.

On a full-tax-paid basis, without any duty concessions on import of hardware and software for its operations, the company's post-tax profits for the relevant years would be,

in Rs.

	1997	1996	1995
Profit before tax (excluding extraordinary items)	38,93,03,219	25,31,94,517	15,26,44,266
Less - Duty waiver on software purchases	11,19,799	18,51,521	87,57,071
- Additional depreciation to be provided on duty waiver for computer systems	5,02,49,353	3,26,05,244	1,57,12,239
- Reduction in other income	2,22,26,527	2,10,56,536	84,63,986
Adjusted profit before tax	31,57,07,540	19,76,81,216	11,97,10,970
Less - Income tax on above on full tax basis	15,49,11,118	7,67,50,460	6,24,16,780
Adjusted profit after tax	16,07,96,422	12,09,30,756	5,72,94,190
Adjusted Earnings Per Share	22.15	16.66	7.89

However, it may be noted that the above is an academic exercise only and the company has provided for income tax in full in the respective years and there is no carried forward liability on this account.

Segment reporting

The geographical segment information given below is on the basis of markets and not on the source of revenue.

By geographical area

Rs. in lakhs

	1997	1996	1995
Revenues			
Americas	108,91.73	66,89.47	42,10.03
Europe	11,56.94	12,03.53	7,52.20
Rest of the world (ROW)	2,27.80	1,40.81	1,33.49
India	21,04.30	13,07.52	6,74.71
	143,80.77	93,41.33	57,70.43
Profit before tax			
Americas	29,82.64		
Europe	1,99.91		
Rest of the world (ROW)	69.15		
India	6,41.33		
	38,93.03		

More than 76% of Infosys' revenue comes from the American market and the balance predominantly from Europe among other markets. The dependency on a single market for substantial part of the revenue is prone to risk. Infosys has a corporate strategy of increasing its share of business from the European, Japanese and other markets, thereby reducing its predominant dependency on the American market. The company's goal is to reduce the contribution to the revenue from the US, to 60% (from the current 76%), by the year 2000.

By business segments

Rs. in lakhs

	1997	1996	1995
Revenues			
Software products and productized services	32,49.04	12,31.62	7,36.57
Software services	106,13.36	74,54.15	46,91.45
Software trading	59.54	1,69.55	1,13.93
Treasury	4,58.83	4,86.01	2,28.48
	143,80.77	93,41.33	57,70.43
Profit before tax			
Software products and productized services	9,58.12		
Software services	26,01.81		
Software trading	3.38		
Treasury	3,29.72		
	38,93.03		

Today, a substantial part of the company's revenue comes from software services. The company aims to move up the value chain, by becoming a predominant player in the software product market. The vision of Infosys is to derive 40% of its revenue from *Products and Productized services*, by year 2000. The strategy is to use service-based skills and cash accruals to build products to suit specific needs of various market segments.

The assets are not identifiable to particular segments and can be used interchangeably between segments. Hence, the identifiable assets for each segment are not provided.

A historical perspective

Rs. in lakhs except Per share data, Other information and ratios

Particulars	1981-82	1992-93	1993-94	1994-95	1995-96	1996-97
Revenue account						
Revenue	11.63	14,33.46	30,08.47	57,70.43	93,41.34	143,80.77
Operating profit (PBIDT)	-	4,30.12	9,70.71	19,85.97	33,95.36	50,05.78
Interest	-	9.78	4.64	-	-	61.09
Depreciation	-	36.19	80.88	4,59.53	8,63.42	10,51.64
Provision for taxation	-	33.27	76.00	1,94.00	4,31.00	5,54.00
Profit after tax from ordinary activities	3.78	3,50.88	8,09.19	13,32.44	21,00.95	33,39.02
Return on average net worth (%)	96.88	38.19	39.61	29.71	29.53	34.66
ROCE (PBIT/ average capital employed) (%)	96.88	39.61	43.14	31.79	33.12	40.16
Capital account						
Share capital	0.10	1,97.61	3,35.11	7,25.88	7,25.88	7,25.98
Reserves and surplus	3.78	6,74.47	25,35.00	55,19.92	72,57.94	105,57.63
Loan funds	-	39.92	-	6,33.91	4,26.06	-
Gross block	0.02	4,38.92	8,27.38	25,32.01	46,85.75	71,29.16
Capital investment	0.02	1,77.52	7,12.71	25,23.05	15,55.49	27,31.04
Net current assets	6.27	10,68.62	13,94.34	32,46.95	41,17.17	54,19.85
Debt - Equity ratio	-	0.05	-	0.10	0.05	-
Market capitalization	-	-	191,01.50	348,42.00	355,67.10	731,04.17
Per share data						
Earnings (Rs.)	377.77	17.76	24.15	18.35*	28.94	46.00
Dividend (%)	-	30	35	45	50	55
Book value (Rs.)	383.10	44.08	81.26	86.04*	110.00	155.00
Other information						
Number of shareholders	7	925	6,033	6,526	6,909	6,414
Credit ratings from CRISIL						
Commercial paper program	-	-	-	“P1+”	“P1+”	“PI +”
Non-convertible debenture issue	-	-	-	“AA”	“AA”	“AA”

Note :Rs. One lakh equals One hundred thousand.

* After bonus issue of 1:1

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