INFOSYS TECHNOLOGIES LTD
Form 6-K
October 25, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington , D.C. 20549

Form 6-K

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

For the quarter ended September 30, 2007
Commission File Number: 000-25383

Infosys Technologies Limited
(*Exact name of Registrant as specified in its charter*)
Not Applicable
(Translation of Registrant's name into English)

Electronics City, Hosur Road, Bangalore, Karnataka, India 560 100. 80-2852-0261
(Address of principal executive offices)

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

Form 20-Fx Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g 3-2(b) under the Securities Exchange Act of 1934

Yes o Nox

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

Not Applicable

Currency of Presentation and Certain Defined Terms

In this Quarterly

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

All references to "we," "us," "our," "Infosys" or the "Company" shall mean Infosys Technologies Limited, and,

unless specifically indicated otherwise or the context indicates otherwise, our consolidated subsidiaries. "Infosys" is a registered trademark of Infosys Technologies Limited in the United States and India. All other trademarks or tradenames used in this Quarterly Report are the property of their respective owners.

Except as otherwise stated in this Quarterly Report, all translations from Indian Rupees to U.S. dollars are based on the noon buying rate in the City of New York on September 28, 2007, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York which was Rs. 39.75 per $1.00. September 28, 2007 was the last day of the quarter ended September 30, 2007 for which the noon buying rate is available. No representation is made that the Indian rupee amounts have been,

could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Information contained in our website, www.infosys.com, is not part of this Quarterly Report.

Cautionary Note regarding Forward-Looking Statements

In addition to historical information, this Quarterly Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Quarterly Report, the words 'anticipate,' 'believe,' 'estimate,' 'expect,' 'intend,' 'project,' 'seek,' 'should,' 'will' and other similar expressions as they relate to us or our business are intended to identify

such forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such differences include but are not limited to, those discussed in the section entitled "Risk Factors" and elsewhere in this Quarterly Report, as well as the sections entitled "Risk Factors" in our Annual Report on Form 20-F for the fiscal year ended March 31, 2007 and our Quarterly Report on Form 6-K for the quarter ended June 30, 2007. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, beliefs or expectations only as of the date of this Quarterly Report. In addition, readers should carefully review the

other information in this Quarterly Report and in the Company's periodic reports and other documents filed with the Securities and Exchange Commission ("SEC") from time to time.

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Part I - Financial Information

Item 1. Financial Statements

Infosys Technologies Limited and subsidiaries

Unaudited Consolidated Balance Sheets

(Dollars in millions except per share data)

	As of	
	March 31, 2007	**September 30, 2007**
	(1)	

ASSETS		
Current Assets		
Cash and cash equivalents	$1,403	$1,837
Investments in liquid mutual fund units	6	4
Trade accounts receivable, net of allowances	565	646
Unbilled revenue	74	107
Prepaid expenses and other current assets	48	81
Deferred tax assets	2	2
Total current assets	2,098	2,677
Property, plant and equipment, net	738	914
Goodwill	128	139
Intangible assets, net	20	18
Deferred tax assets	19	29
Advance income taxes	33	75
Other assets	37	45
Total Assets	**$3,073**	**$3,897**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$6	$9
Income taxes payable	4	64
Client deposits	1	1
Unearned revenue	72	91
Other accrued liabilities	272	342
Total current liabilities	355	507
Non-current liabilities		
Other non-current liabilities	1	—
Stockholders' Equity		
Common stock, $0.16 par value 600,000,000 equity shares authorized, issued and outstanding -571,209,862 as of March 31, 2007 and September 30, 2007	64	64
Additional paid-in capital	692	694
Accumulated other comprehensive income	90	334
Retained earnings	1,871	2,298
Total stockholders' equity	2,717	3,390
Total Liabilities And Stockholders' Equity	**$3,073**	**$3,897**

(1) March 31, 2007 balances were obtained from audited financial statements

See accompanying notes to the unaudited consolidated financial statements

Infosys Technologies Limited and subsidiaries

Unaudited Consolidated Statements of Income

(Dollars in millions except per share data)

	Three months ended September 30,		**Six months ended September 30,**	
	2006	**2007**	**2006**	**2007**
Revenues	**$746**	**$1,022**	**$1,406**	**$1,950**
Cost of revenues	423	591	812	1,160
Gross profit	**323**	**431**	**594**	**790**
Operating Expenses:				

Selling and marketing expenses	48	71	93	122
General and administrative expenses	63	77	119	154
Amortization of intangible assets	1	2	1	4
Total operating expenses	112	150	213	280
Operating income	**211**	**281**	**381**	**510**
Gain on sale of long term investment	—	—	1	—
Other income, net	14	38	42	100
Income before income taxes and minority interest	**225**	**319**	**424**	**610**
Provision for income taxes	26	48	49	76
Income before minority interest	**199**	**271**	**375**	**534**
Minority interest	—	—	2	—
Net income	**$199**	**$271**	**$373**	**$534**
Earnings per equity share				
Basic	$0.36	$0.48	$0.68	$0.94
Diluted	$0.35	$0.48	$0.66	$0.94
Weighted average equity shares used in computing earnings per equity share				
Basic	551,938,696	568,376,262	550,964,911	568,376,262
Diluted	564,858,570	570,449,774	563,832,673	570,478,084

See accompanying notes to the unaudited consolidated financial statements

Infosys Technologies Limited and subsidiaries

Unaudited Consolidated Statements of Stockholders' Equity and Comprehensive Income

(Dollars in millions)

	Common stock Shares	**Common stock Par value**	**Additional paid-in capital**	**Comprehensiv incom**
Balance as of April 1, 2006	**551,109,960**	**$31**	**$410**	
Common stock issued	4,675,041	1	62	
Cash dividends	—	—	—	
Stock compensation expense	—	—	2	
Income tax benefit arising on exercise of stock options	—	—	3	
Stock split effected in the form of a bonus issue	—	30	—	
Comprehensive income				
Net income	—	—	—	$37
Other comprehensive income				
Translation adjustment	—	—	—	(58
Comprehensive income				$31
Balance as of September 30, 2006	**555,785,001**	**$62**	**$477**	
Balance as of April 1, 2007	**571,209,862**	**$64**	**$692**	
Cash dividends	—	—	—	
Stock compensation expense	—	—	2	
Comprehensive income				
Net income	—	—	—	$53
Other comprehensive income				
Defined benefit plan amendment, net of tax effect of $3 million	—	—	—	
Translation adjustment	—	—	—	23
Comprehensive income				$77

Balance as of September 30, 2007	**571,209,862**	**$64**	**$694**

See accompanying notes to the unaudited consolidated financial statements

Infosys Technologies Limited and subsidiaries

Unaudited Consolidated Statements of Cash Flows

(Dollars in millions)

	Six months ended September 30,	
	2006	**2007**
OPERATING ACTIVITIES:		
Net income	**$373**	**$534**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51	75
Minority interest	2	—
Stock compensation expense	2	2
Deferred taxes	(3)	(9)
Gain on sale of liquid mutual funds	(1)	—
Gain on sale of long term investments	(1)	—
Provision for investments	1	—
Income tax benefit arising on exercise of stock options	(2)	—
Changes in assets and liabilities		
Trade accounts receivable	(104)	(33)
Prepaid expenses and other current assets	(10)	(30)
Unbilled revenue	(27)	(26)
Accounts payable	1	3
Income taxes	16	(20)
Unearned revenue	24	13
Other accrued liabilities	27	57
Net cash provided by operating activities	**349**	**566**
Investing Activities:		
Expenditure on property, plant and equipment	(114)	(183)
Investment in liquid mutual fund units	(651)	(425)
Redemption of liquid mutual fund units	201	428
Loans to employees	2	—
Non-current deposits placed with corporations	(11)	(1)
Withdrawal of non-current deposits placed with corporations	2	—
Acquisition of minority interest in subsidiary	(116)	—
Proceeds from sale of long term investments	1	—
Net cash used in investing activities	**(686)**	**(181)**
Financing Activities:		
Proceeds from issuance of common stock on exercise of employee stock options	63	—
Payment of dividends	(265)	(107)
Income tax benefit arising on exercise of stock options	2	—
Net cash used in financing activities	**(200)**	**(107)**
Effect of exchange rate changes on cash	(24)	156
Net (decrease) / increase in cash and cash equivalents during the period	(561)	434
Cash and cash equivalents at the beginning of the period	889	1,403
Cash and cash equivalents at the end of the period	**$328**	**$1,837**
Supplementary information:		

Income taxes paid	$37	$68

See accompanying notes to the unaudited consolidated financial statements

Infosys Technologies Limited and subsidiaries

Notes to the Unaudited Consolidated Financial Statements

1 Company overview and significant accounting policies

1.1 Company overview

Infosys Technologies Limited (Infosys), along with its majority owned and controlled subsidiary, Infosys BPO Limited (Infosys BPO), formerly Progeon Limited and wholly-owned subsidiaries Infosys Technologies (Australia) Pty. Limited (Infosys Australia), Infosys Technologies (China) Co. Limited (Infosys China), formerly Infosys Technologies (Shanghai) Co. Limited, Infosys Consulting Inc. (Infosys Consulting) and Infosys Technologies S. DE R.L. de C.V. in Mexico ("Infosys Mexico") is a leading global technology services firm. The company provides end-to-end business solutions that leverage technology. The company provides solutions that span the entire software life cycle encompassing technical consulting, design, development, software re-engineering, maintenance, systems integration, package evaluation and implementation, testing and infrastructure management services. In addition, the company offers software products for the banking industry and business process management services.

1.2 Basis of preparation of financial statements and consolidation

The consolidated financial statements include Infosys and its subsidiaries (the company) and are prepared in accordance with accounting principles generally accepted in the United States of America (U. S. GAAP). Infosys consolidates entities in which it owns or controls more than 50% of the voting shares. The results of acquired businesses are included in the consolidated financial statements from the date of acquisition. Inter-company balances and transactions are eliminated on consolidation.

Unaudited interim information presented in the consolidated financial statements has been prepared by the management and, in the opinion of management, includes all adjustments of a normal and recurring nature that are necessary for the fair presentation of the financial position, results of operations and cash flows for the periods shown, and is in accordance with U.S. GAAP. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the company's Annual Report on Form 20-F for the fiscal year ended March 31, 2007.

1.3 Use of estimates

The preparation of consolidated financial statements in conformity with U. S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, accounting for costs and efforts expected to be incurred to complete performance under software development arrangements, allowance for uncollectible accounts receivable, future obligations under employee benefit plans, provisions for post-sales customer support, the useful lives of property, plant, equipment and intangible assets and income tax valuation allowances. Actual results could differ from those estimates. Appropriate changes in estimates are made as management become aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financials statements in the period in which changes are made and, if material, their effects are disclosed in the notes to the consolidated financial statements.

1.4 Revenue recognition

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

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

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

In arrangements with software development and related services and maintenance services, the company has specifically applied the guidance in paragraph 9 of EITF Issue 00-21 to determine whether the software development and related services can be considered a separate unit of accounting. The arrangements generally meet the criteria for software development and related services to be considered a separate unit of accounting. The company uses the relative fair value method to allocate revenue to maintenance services and the software development and related services. In cases where the company is unable to establish objective and reliable evidence of fair value for the software development and related services, the company has used the residual method to allocate the arrangement consideration. Maintenance revenues are recognized ratably over the term of the underlying maintenance arrangement while software development and related services revenues are recognized using the percentage-of-completion method.

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

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

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

The company accounts for volume discounts and pricing incentives to customers using the guidance in EITF Issue 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products). The discount terms in the company's arrangements with customers generally entitle the customer to discounts if the customer completes a specified cumulative level of revenue transactions. In some arrangements, the level of discount varies with increases in the levels of revenue transactions. The discounts are passed on to the customer either as check payments or as a reduction of payments due from the customer. The company recognizes discount obligations as a reduction of revenue based on the ratable allocation of the discount to each of the underlying revenue transactions that result in progress by the customer toward earning the discount. The company recognizes the liability based on its estimate of the customer's future purchases. Also, when the level of discount varies with increases in levels of revenue transactions, the company recognizes the liability based on its estimate of the customer's future purchases. If the company cannot reasonably estimate the customer's future purchases, then the liability is recorded based on the maximum potential level of discount. The company recognizes changes in the estimated amount of obligations for discounts using a cumulative catch-up adjustment. Furthermore, the company does not recognize any revenue up front for breakages immediately on the inception of an arrangement.

In accordance with EITF Issue 06-03, *How taxes collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement,* which became applicable to the company on April 1, 2007, the company discloses revenues net of sales and value-added taxes in its consolidated statement of earnings, which did not undergo a change upon the company's adoption of EITF Issue 06-03.

1.5 Cash and cash equivalents

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

1.6 Investments

Investments in non-readily marketable equity securities of other entities where the company is unable to exercise significant influence and for which there are no readily determinable fair values are recorded at cost. Declines in value judged to be other than temporary are included in earnings.

Investment securities designated as 'available for sale' are carried at their fair value. Fair value is based on quoted market prices. Temporary unrealized gains and losses, net of the related tax effect are reported as a separate component of stockholders' equity until realized. Realized gains and losses and declines in value judged to be other than temporary on available for sale securities are included in earnings.

The cost of securities sold is based on the specific identification method. Interest and dividend income are recognized when earned.

1.7 Property, plant and equipment

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

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

The cost of software purchased for internal use is accounted under SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Deposits paid towards the acquisition of these long lived assets outstanding at each balance sheet date and the cost of assets not put to use before such date are disclosed under "Capital work-in-progress". Costs of improvements that substantially extend the useful life of particular assets are capitalized. Repairs and maintenance cost are charged to earnings when incurred. The cost and related accumulated depreciation are removed from the consolidated financial statements upon sale or disposition of the asset.

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

1.8 Business combinations

Business combinations have been accounted using the purchase method under the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*. Cash and amounts of consideration that are determinable at the date of acquisition are included in determining the cost of the acquired business.

1.9 Goodwill

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is tested for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

1.10 Intangible assets

Intangible assets are amortized over their respective individual estimated useful lives on a straight-line basis. The estimated useful life of an identifiable intangible asset is based on a number of factors including the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, and known technological advances), and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

Intangible assets are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

1.11 Research and development

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

incurred under contractual arrangements with customers are accounted as cost of revenues.

1.12 Foreign currency

The functional currency of the company and Infosys BPO is the Indian rupee (Rs.). The functional currency for Infosys Australia, Infosys China and Infosys Consulting and Infosys Mexico is the respective local currency. The consolidated financial statements are reported in U.S. dollars. The translation of Rs. to U.S. dollars is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for revenue, expense and cash-flow items using a monthly average exchange rate for the respective periods. The gains or losses resulting from such translation are included in 'other comprehensive income', a separate component of stockholders' equity. The translation of the financial statements of foreign subsidiaries from the local currency to the functional currency of the company is also performed on the same basis.

Foreign-currency denominated assets and liabilities are translated into the functional currency at exchange rates in effect at the balance sheet date. The gains or losses resulting from such translation are included in earnings. Transaction gains or losses realized upon settlement of foreign currency transactions are included in determining net income for the period in which the transaction is settled. Revenue, expense and cash-flow items denominated in foreign currencies are translated into the functional currency using the exchange rate in effect on the date of the transaction.

1.13 Earnings per share

Basic earnings per share is computed by dividing net income for the period by the weighted average number of equity shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the diluted weighted average number of equity shares outstanding during the period. Diluted earnings per share reflect the potential dilution from equity shares issuable through employee stock options. The dilutive effect of employee stock options is reflected in diluted earnings per share by application of the treasury stock method. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the if-converted method. If securities have been issued by a subsidiary that enable their holders to obtain the subsidiary's common stock, the earnings of the subsidiary shall be included in the consolidated diluted earnings per share computations based on the consolidated group's holding of the subsidiary's securities.

If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse stock split, the computations of basic and diluted earnings per share are adjusted retroactively for all periods presented to reflect that change in capital structure. If such changes occur after the close of the reporting period but before issuance of the financial statements, the per-share computations for that period and any prior-period financial statements presented are based on the new number of shares.

1.14 Income taxes

Income taxes are accounted using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is not more likely than not. Changes in valuation allowance from period to period are reflected in the income statement of the period of change. Deferred taxes are not provided on the undistributed earnings of subsidiaries outside India where it is expected that the earnings of the foreign subsidiary will be permanently reinvested. Tax benefits of deductions earned on exercise of employee stock options in excess of compensation charged to earnings are credited to additional paid in capital. The

income tax provision for the interim period is based on the best estimate of the effective tax rate expected to be applicable for the full fiscal year.

The company adopted Financial Accounting Standards Board Interpretation No. 48 ("FIN 48") , Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, effective April 1, 2007. Accounting and disclosures of tax positions taken or expected to be taken by the Company are based on the recognition threshold and measurement attribute prescribed by FIN 48. The Company recognizes potential interest and penalties related to unrecognized tax benefits in income tax expense.

1.15 Fair value of financial instruments

In determining the fair value of its financial instruments, the company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. The methods used to determine fair value include discounted cash flow analysis and dealer quotes. All methods of assessing fair value result in general approximation of value, and such value may never actually be realized. For all financial instrument including cash and cash equivalents, investments in liquid mutual fund units, trade accounts receivables, prepaid expenses and other current assets, accounts payable, client deposits and other accrued liabilities, the carrying amounts approximate fair value due to the short maturity of those instruments.

1.16 Concentration of risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash equivalents, trade accounts receivable, investment securities and hedging instruments. By nature, all such financial instruments involve risk, including the credit risk of non-performance by counterparties. In management's opinion, as of March 31, 2007 and September 30, 2007 there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements, if any. Exposure to credit risk is managed through credit approvals, establishing credit limits and monitoring procedures. The factors which affect the fluctuations in the company's provisions for bad debts and write offs of uncollectible accounts include the financial health and economic environment of the clients. The company specifically identifies the credit loss and then makes the provision. The company's cash resources are invested with corporations, financial institutions and banks with high investment grade credit ratings. Limits are established by the company as to the maximum amount of cash that may be invested with any such single entity.

1.17 Derivative financial instruments

The company uses derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecasted cash flows denominated in certain foreign currencies. The counterparty for these contracts is generally a bank. Although the company believes that these financial instruments constitute hedges from an economic perspective, they do not qualify for hedge accounting under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Any derivative that is either not designated a hedge, or is so designated but is ineffective per SFAS 133, is marked to market and recognized in earnings immediately and included in other income, net.

1.18 Retirement benefits to employees

1.18.1 Gratuity

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

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

The Company recognizes the funded status of a defined benefit plan in the statement of financial position as an asset or liability if the plan is overfunded or underfunded, respectively in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R. Changes in the funded status of a plan are recognized in the year in which the changes occur, and reported in comprehensive income as a separate component of stockholders' equity.

1.18.2 Superannuation

Certain employees of Infosys are also participants in a defined contribution plan. Until March 2005, the company made monthly contributions under the superannuation plan (the Plan) to the Infosys Technologies Limited Employees' Superannuation Fund Trust based on a specified percentage of each covered employee's salary. The company has no further obligations to the Plan beyond its monthly contributions. Certain employees of Infosys BPO Ltd are also eligible for superannuation benefit. Infosys BPO makes monthly provisions under the superannuation plan based on a specified percentage of each covered employee's salary. Infosys BPO has no further obligations to the superannuation plan beyond its monthly provisions which are periodically contributed to a trust fund, the corpus of which is invested with the Life Insurance Corporation of India.

Effective April 1, 2005, a portion of the monthly contribution amount was paid directly to the employees as an allowance and the balance amount was contributed to the trusts.

1.18.3 Provident fund

Eligible employees of Infosys receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee's salary. The company contributes a part of the contributions to the Infosys Technologies Limited Employees' Provident Fund Trust. The remaining portion is contributed to the government administered pension fund. The rate at which the annual interest is payable to the beneficiaries by the trust is being administered by the government. The company has an obligation to fund any shortfall on the yield of the trust's investments over the administered interest rates.

In respect of Infosys BPO, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and Infosys BPO make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a government administered provident fund.

1.19 Stock-based compensation

The company recognizes compensation expense relating to share-based payments in net income using a fair-value measurement method in accordance with FASB Statement No.123 (revised 2004) (SFAS 123R), *Share-Based Payment*. Under the fair value method, the estimated fair value of awards is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. The company includes a forfeiture estimate in the amount of compensation expense being recognized.

The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton valuation model. The expected term of an option is estimated based on the vesting term and contractual term of the option, as well as expected exercise behavior of the employee who receives the option. Expected volatility during the expected term of the option is based on historical volatility during a period equivalent to the expected term of the option and implied volatility as determined based on observed market prices of the Company's publicly traded equity shares. Expected dividends during the expected term of the option are based on recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant.

The company recorded stock compensation expense of $2 million for both six months ended September 30, 2006 and 2007.

1.20 Dividends

Final dividends on common stock are recorded as a liability on the date of declaration by the stockholders and interim dividends are recorded as a liability on the date of declaration by the board of directors.

1.21 Equity issued by subsidiaries

Changes in the proportionate share of Infosys in the equity of subsidiaries resulting from additional equity issued by the subsidiaries are accounted for as an equity transaction in consolidation.

1.22 Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No.157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 provides guidance on determination of fair value, and establishes a hierarchy to classify the source of information used in fair value measurements. The company will be required to adopt this new standard beginning in its fiscal year commencing April 1, 2008. The company is currently evaluating the requirements of SFAS 157 and has not yet determined the impact this standard may have on its consolidated financial statements.

In February 2007, the Financial Accounting Standards Board issued FASB 159, The *Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The company will be required to adopt this new standard beginning in its fiscal year commencing April 1, 2008. The company is currently evaluating the requirements of SFAS 159 and has not yet determined the impact on its consolidated financial statements.

2 Notes to the Unaudited Consolidated Financial Statements

2.1 Cash and cash equivalents

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

(Dollars in millions)

	As of,	
	March 31, 2007	**September 30, 2007**
Cash and bank deposits	$1,362	$1,530
Deposits with corporations	41	307

	$1,403	$1,837

Cash and cash equivalents as of March 31, 2007 and September 30, 2007 include restricted cash balances of $1 million and $1 million. The restrictions are primarily on account of accrued dividends.

2.2 Trade accounts receivable

Trade accounts receivable as of March 31, 2007 and September 30, 2007, net of allowance for doubtful accounts of $5 million and $10 million, amounted to $565 million and $646 million. The age profile of trade accounts receivable, net of allowances, is given below.

(In %)

	As of	
	March 31, 2007	**September 30, 2007**
Period (in days)		
0 - 30	58.6	80.9
31 - 60	36.6	6.6
61 - 90	2.1	7.9
More than 90	2.7	4.6
	100.0	100.0

2.3 Business combination

On January 2, 2004 the company acquired, for cash, 100% of the equity in Expert Information Services Pty. Limited, Australia for approximately $14 million. The acquired company was renamed as "Infosys Technologies (Australia) Pty. Limited". Additionally, a further consideration to the sellers on continued employment and meeting of defined operating and financial performance parameters had been accounted as compensation cost.

2.4 Acquisition of minority interest in Infosys BPO

During fiscal 2007 Infosys increased its share-holding in Infosys BPO by:

- acquiring 8,750,000 equity shares of Infosys BPO from Citicorp International Finance Corporation (CIFC) on June 30, 2006;
- repurchasing 1,139,469 equity shares of Infosys BPO from minority shareholders through Infosys BPO on December 29, 2006;
- acquiring 211,909 shares of Infosys BPO in January 2007 and committing to purchase 360,417 shares of Infosys BPO from minority shareholders, which will be acquired in February 2008;
- acquiring 1,737,092 options from the option holders of Infosys BPO in March 2007 by purchasing 1,218,732 options of Infosys BPO in cash and swapping 518,360 options of Infosys BPO for 151,933 Infosys options based on the relative fair values on the date of the swap.

An aggregate consideration of $148 million was paid in cash and 151,933 Infosys options were granted to the minority shareholders and options holders for consummating the above transactions. Further, an amount of $5 million was accounted as a liability in connection with the committed purchase of Infosys BPO shares entered into in January 2007. As of September 30, 2007, Infosys effectively holds 99.98% of the outstanding equity shares of Infosys BPO. Consequent to the above acquisitions a cumulative amount of $115 million was recorded as goodwill.

2.5 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

(Dollars in millions)

	As of	
	March 31, 2007	**September 30, 2007**
Rent deposits	$1	$1
Security deposits with service providers	5	6
Current portion of loans to employees	24	22
Prepaid expenses	13	9
Prepaid gratuity benefit	—	7
Mark to market gain on derivative financial instruments	4	32
Other current assets	1	4
	$48	$81

Other current assets primarily represent advance payments to vendors for the supply of goods and rendering of services. Deposits with service providers relate principally to leased telephone lines and electricity supplies.

2.6 Property, plant and equipment, net

Property, plant and equipment consist of the following:

(Dollars in millions)

	As of	
	March 31, 2007	**September 30, 2007**
Land	$39	$44
Buildings	343	409
Furniture and fixtures	136	165
Computer equipment	240	282
Plant and equipment	183	220
Capital work-in progress	224	329
	1,165	1,449
Accumulated depreciation	(427)	(535)
	$738	$914

Depreciation expense amounted to $27 million and $36 million for the three months ended September 30, 2006 and 2007, respectively. The amount of third party software expensed during the three months ended September 30, 2006 and 2007 was $11 million and $12 million, respectively. Depreciation expense amounted to $50 million and $71 million for the six months ended September 30, 2006 and 2007, respectively. The amount of third party software expensed during the six months ended September 30, 2006 and 2007 was $19 million and $23 million, respectively.

2.7 Other assets

Other assets consist of the following:

(Dollars in millions)

	As of	
	March 31, 2007	**September 30, 2007**
Non-current portion of loans to employees	$4	$3
Non-current deposits with corporations	30	35
Non-current portion of rental deposits	3	5
Others	—	2
	$37	$45

2.8 Intangible assets

Following is a summary of carrying amount of intangible assets:

(Dollars in millions)

	As of	
	March 31, 2007	**September 30, 2007**
Customer contracts		
Gross carrying value	$23	$27
Accumulated amortization	(3)	(9)
Net carrying value	$20	$18

The estimated aggregate amortization expense of intangible asset for each of the four succeeding annual fiscal periods (or portion thereof, as indicated below) as of September 30, 2007 is as detailed below.

(Dollars in millions)

Year ending March 31,	**Amortization cost**
Remainder of 2008	$4
2009	6
2010	6
2011	2
	$18

2.9 Loans to employees

The company provides loans to eligible employees in accordance with its policy. No loans have been made to employees in connection with their purchase of the company's equity securities. The employee loans are repayable over fixed periods ranging from 1 to 100 months. The annual rates of interest at which the loans have been made to employees vary between 0% through 4%. Loans aggregating $28 million and $25 million were outstanding as of March 31, 2007 and September 30, 2007.

The required repayments of employee loans outstanding as of September 30, 2007 are as detailed below.

(Dollars in millions)

Repayment in the 12 months ending September 30,	**Repayment**
2008	$22
2009	2
2010	1
	$25

The estimated fair values of the receivables for loan to employees amounted to $26 million as of March 31, 2007 and $25 million as of September 30, 2007. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to develop these estimates of fair value. Consequently, these estimates are not necessarily indicative of the amounts that the company could realize in the market.

2.10 Other accrued liabilities

Other accrued liabilities comprise the following:

(Dollars in millions)

	As of

	March 31, 2007	September 30, 2007
Accrued compensation to staff	$104	$143
Provision for post sales client support	5	8
Withholding taxes payable	42	49
Provision for expenses	106	122
Retainage	5	12
Other current liabilities	10	8
	$272	$342

Provision for expenses primarily consists of accrued expenses, relating to overseas travel expenses, cost of technical sub-contractors, telecommunication charges, rental charges, professional charges, brand building charges and office maintenance,

2.11 Employee post-retirement benefits

2.11.1 Gratuity

Net gratuity cost for the three months and six months ended September 30, 2006 and 2007 comprises the following components:

(Dollars in millions)

	Three months ended September 30,	
	2006	2007
Service cost	$3	$3
Interest cost	—	1
Expected return on assets	(1)	(1)
Actuarial (gain) / loss	—	(1)
Net gratuity cost	$2	$2

	Six months ended September 30,	
	2006	2007
Service cost	$5	$5
Interest cost	1	2
Expected return on assets	(2)	(2)
Actuarial (gain) / loss	—	(1)
Net gratuity cost	$4	$4

The company has contributed $2 million in the six months ended September 30, 2007 and does not expect to make further contributions to the gratuity trust during the remainder of fiscal 2008.

2.11.2 Superannuation

The company contributed $1 million and $3 million to the superannuation plan during the three months ended September 30, 2006 and 2007, respectively and $3 million and $6 million during the six months ended September 30, 2006 and 2007, respectively.

2.11.3 Provident fund

The company contributed $5 million and $7 million to the provident fund during the three months ended September 30, 2006 and 2007, respectively, and $9 million and $14 million during the six months ended September 30, 2006 and

2007, respectively.

2.12 Stockholders' equity

Infosys has only one class of capital stock referred to as equity shares. All references in these financial statements to number of shares, per share amounts and exercise price of stock option grants are retroactively restated to reflect the effect of bonus issue.

The rights of equity shareholders are set out below.

2.12.1 Voting

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

2.12.2 Dividends

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

2.12.3 Liquidation

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

2.12.4 Stock options

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

2.13 Non-Operating income

In fiscal 2005, the Company sold its investment in Yantra Corporation. The carrying value of the investment in Yantra Corporation was completely written down in fiscal 1999. Consideration received from the sale resulted in a gain of $11 million during fiscal 2005. Further consideration of $1 million was received during the six months ended September 30, 2006 resulting in a gain of $1 million for the period.

Other income, net, consists of the following:

(Dollars in millions)

	Three months ended September 30,	
	2006	**2007**
Interest income	$5	$36
Foreign exchange gains, net	2	—
Income from mutual fund investments	7	1
Others	—	1

	$14	$38

	Six months ended September 30,	
	2006	**2007**
Interest income	$16	$81
Foreign exchange gains, net	14	17
Income from mutual fund investments	11	1
Others	1	1
	$42	$100

2.14 Research and development

Research and development expenses were $9 million and $13 million for the three months ended September 30, 2006 and 2007, respectively, and $16 million and $27 million for the six months ended September 30, 2006 and 2007, respectively.

2.15 Employees' Stock Offer Plans (ESOP)

1998 Employees Stock Offer Plan (the 1998 Plan): The company's 1998 Plan provides for the grant of non-statutory stock options and incentive stock options to employees of the company. The establishment of the 1998 Plan was approved by the Board of Directors in December 1997 and by the stockholders in January 1998. The Government of India has approved the 1998 Plan, subject to a limit of 11,760,000 equity shares representing 11,760,000 ADS to be issued under the 1998 Plan. Unless terminated sooner, the 1998 Plan will terminate automatically in January 2008. All options under the 1998 Plan will be exercisable for equity shares represented by ADSs. The 1998 Plan is administered by a compensation committee comprising four members, all of who are independent members of the Board of Directors. All options under the 1998 Plan are exercisable for equity shares represented by ADSs. The options under the 1998 Plan vest over a period of one through four years and expire five years from the date of completion of vesting.

1999 Stock Offer Plan (the 1999 Plan): In fiscal 2000, the company instituted the 1999 Plan. The stockholders and the Board of Directors approved the 1999 Plan in June 1999. The 1999 Plan provides for the issue of 52,800,000 equity shares to employees. The 1999 Plan is administered by a compensation committee comprising four members, all of who are independent members of the Board of Directors. Under the 1999 Plan, options will be issued to employees at an exercise price, which shall not be less than the fair market value (FMV). Under the 1999 Plan, options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in a general meeting. All options under the 1999 Plan are exercisable for equity shares. The options under the 1999 Plan vest over a period of one through six years, although accelerated vesting based on performance conditions is provided in certain instances and expire over a period of 6 months through five years from the date of completion of vesting.

The activity in the 1998 Plan and 1999 Plan during the six months September 30, 2006 and 2007 are set out below.

	Six months ended September 30, 2006		Six months ended September 30, 2007	
	Shares arising out of options	**Weighted average exercise price**	**Shares arising out of options**	**Weighted average exercise price**
1998 Plan:				
Outstanding at the beginning of the period	4,546,480	$20	2,084,124	$21

Forfeited and expired	(137,360)	$41	—	—
Exercised	(675,571)	$19	—	—
Outstanding at the end of the period	3,733,549	$19	2,084,124	$21
Exercisable at the end of the period	3,353,433	$21	2,084,124	$21
1999 Plan:				
Outstanding at the beginning of the period	19,179,074	$13	1,897,840	$26
Forfeited and expired	(53,265)	$12	(66,623)	$52
Exercised	(3,999,470)	$12	—	—
Outstanding at the end of the period	15,126,339	$13	1,831,217	$27
Exercisable at the end of the period	13,991,897	$13	1,259,079	$15

The aggregate intrinsic value of options exercised during the six months ended September 30, 2006 under 1998 Plan and 1999 Plan was $14 million and $92 million, respectively.

As of September 30, 2007, options outstanding under the 1998 Plan and 1999 Plan had an aggregate intrinsic value of $59 million and $41 million respectively and a weighted-average remaining contractual term of 1.86 years and 1.88 years respectively. As of September 30, 2007, options exercisable under the 1998 Plan and 1999 Plan had an aggregate intrinsic value of $59 million and $41 million respectively and a weighted-average remaining contractual term of 1.86 years and 1.72 years respectively.

As of September 30, 2006, options outstanding under the 1998 Plan and 1999 Plan had an aggregate intrinsic value of $104 million and $419 million respectively and a weighted-average remaining contractual term of 2.89 years and 2.65 years respectively. As of September 30, 2006, options exercisable under the 1998 Plan and 1999 Plan had an aggregate intrinsic value of $91 million and $ 385 million, respectively, and a weighted-average remaining contractual term of 2.59 years and 2.44 years, respectively.

The unamortized stock compensation expenses under the 1999 Plan as of September 30, 2007 were $3 million and the same is expected to be amortized over a weighted average period of approximately 1.43 years.

Infosys BPO's 2002 Plan (the 2002 Plan) provides for the grant of stock options to its employees and was approved by its Board of Directors and stockholders in September 2002. All options under the 2002 Plan are exercisable for equity shares. The 2002 Plan is administered by a compensation committee whose members are directors of Infosys BPO. The 2002 Plan provides for the issue of up to 5,250,000 equity shares to employees, at an exercise price, which shall not be less than the fair market value, or FMV, as determined by the compensation committee of Infosys BPO. Further, options may be issued to employees at exercise prices that are less than FMV provided that it is specifically approved by the members of Infosys BPO in a general meeting. The options issued under the 2002 Plan vest in periods ranging between one through six years, although accelerated vesting based on performance conditions is provided in certain instances.

The activity in the 2002 plan during the six months ended September 30, 2007 and 2006 are set out below:

	Six months ended September 30, 2006		**Six months ended September 30, 2007**	
	Shares arising out of options	**Weighted average exercise price**	**Shares arising Out of options**	**Weighted average exercise price**
2002 Plan:				
Outstanding at the beginning of the period	2,452,330	$3.01	2,200	$2.72
Granted	593,300	$13.16	—	—
Forfeited and expired	(241,862)	$1.21	(1,825)	$2.36

Exercised	(234,029)	$3.78	—	—
Outstanding at the end of the period	2,569,739	$5.44	375	$4.46
Exercisable at the end of the period	496,626	$2.26	375	$4.46

The weighted average fair value of options granted by Infosys BPO during the six months ended September 30, 2006 was $6.65. The aggregate intrinsic value of options exercised under the 2002 plan during the six months ended September 30, 2006 was $3 million.

As of September 30, 2007, options outstanding and exercisable under the 2002 Plan had a weighted average remaining contractual term of 0.08 years.

A recent amendment in the Indian tax legislation included the Fringe Benefit Tax (“FBT”) on Employees’ Stock Option Plan. The value of the fringe benefit is the FMV of the specified security or share on the date of vesting, determined based upon the Indian Income Tax Rules, as reduced by the amount actually paid by, or recovered from the employee in respect of such security or share. FBT liability is accrued on the date of exercise of stock options. Since no stock options have been exercised during the six months ended September 30, 2007, the company did not accrue any FBT liability.

2.16 Income taxes

The provision for income taxes in the income statement comprises:

(Dollars in millions)

	Three months ended September 30,	
	2006	**2007**
Current taxes		
Domestic taxes	$6	$18
Foreign taxes	21	27
	27	45
Deferred taxes		
Domestic taxes	—	5
Foreign taxes	(1)	(2)
	(1)	3
Aggregate taxes	**$26**	**$48**

	Six months ended September 30,	
	2006	**2007**
Current taxes		
Domestic taxes	$15	$50
Foreign taxes	37	35
	52	85
Deferred taxes		
Domestic taxes	(1)	(7)
Foreign taxes	(2)	(2)
	(3)	(9)
Aggregate taxes	**$49**	**$76**

All components of the aggregate taxes of $26 million and $48 million for the three months ended September 30, 2006 and 2007, respectively and $49 million and $76 million for the six months ended September 30, 2006 and 2007, respectively are allocated to the continuing operations of the company.

In addition to the above, tax benefits of $3 million earned on exercise of employee stock options have been credited to stockholders' equity during the six months ended September 30, 2006 and deferred taxes of $3 million arising due to amendment to the Gratuity Plan have been charged to stockholders' equity during the six months ended September 30, 2007.

Current foreign taxes for the six months ended September 30, 2007 include a credit of $13 million being liability no longer required for taxes payable (including interest) in foreign jurisdiction consequent to expiry of limitation period.

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

(Dollars in millions)

	As of	
	March 31, 2007	**September 30, 2007**
Deferred tax assets		
Property, plant and equipment	$17	$22
Loss carry forwards in subsidiary	14	20
Minimum Alternate Tax credit entitlement	—	9
Investments	1	1
Others	6	6
	38	58
Less: Valuation allowance	(15)	(21)
	23	37
Deferred tax liabilities		
Intangible asset	(2)	(3)
Others	—	(3)
Net deferred tax assets	$21	$31

In assessing the realisability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the company will realize the benefits of those deductible differences, net of the existing valuation allowance at September 30, 2007. The valuation allowance relates to investments and loss carryforwards in a subsidiary. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

The provision for foreign taxes is due to income taxes payable overseas, principally in the United States of America. The company benefits from certain significant tax incentives provided to software firms under Indian tax laws. These incentives presently include those for facilities set up under the Special Economic Zones Act, 2005 and an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as "Software Technology Parks" (the STP Tax Holiday). The Government of India has amended the tax incentives available to companies set up in designated STPs. The period of the STP Tax Holiday available to such companies is restricted to ten consecutive years, beginning from the financial year when the unit started producing computer software or April 1, 1999, whichever is earlier. The tax holidays on all facilities under STPs expire in stages by 2009. Under the Special Economic Zones Act, 2005 scheme, units in designated special economic zones which begin providing services on or after April 1, 2005 will be eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from commencement of provision of services and 50 percent of such profits or gains for a further five years. Certain tax benefits are also

available for a further five years subject to the unit meeting defined conditions.

Pursuant to the changes in the Indian Income Tax Laws, a Minimum Alternate Tax has been extended to income in respect of which a deduction may be claimed under sections 10A and 10B; consequently the company has calculated its tax liability for current domestic taxes after considering Minimum Alternate Tax (MAT). The excess tax paid under MAT provisions over and above normal tax liability can be carried forward and set off against future tax liabilities computed under normal tax provisions. The company was required to pay MAT during the six month period ended September 30, 2007, and, accordingly, as per SFAS 109, Accounting for Income Taxes, a deferred tax asset of $9 million has been recognized on the balance sheet as of September 30, 2007, which can be carried forward for a period of 5 years.

Infosys is subject to a 15% Branch Profit Tax (BPT) in the U.S. to the extent its U.S. branch's net profit during the year is greater than the increase in the net assets of the U.S. branch during the fiscal year, computed in accordance with the Internal Revenue Code. At March 31, 2007, Infosys' US branch net assets amounted to approximately $334 million. As of September 30, 2007, the company has not triggered the BPT and intends to maintain the current level of its net assets in the US, as it is consistent with its business plan. Accordingly, a BPT provision has not been recorded.

Effective April 1, 2007, the company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. As a result of the implementation of FIN 48, the company did not recognize any increase/decrease in the liability for unrecognized tax benefits related to tax positions taken in prior periods.

Upon adoption of FIN 48, the company’s policy to include interest and penalties related to gross unrecognized tax benefits within the provision for income taxes did not change. Both as of April 1, 2007 (the date of adoption of FIN 48) and as of September 30, 2007 the company had an accrual of $7 million for payment of such interest and penalties. Interest and penalties included in the provision for income taxes were not material for the six months ended September 30, 2007.

The total unrecognized tax benefits as of April 1, 2007 (the date of adoption of FIN 48) and September 30, 2007 were $120 million and $136 million respectively. Also, the total unrecognized tax benefits that, if recognized, would reduce the tax provisions by $113 million and $129 million as of April 1, 2007 and September 30, 2007, respectively, and thereby affecting the effective tax rate. As a result of statute of limitation expiring for tax year 2003-04 for U.S. federal tax and state tax jurisdictions, the company’s unrecognized tax benefits have reduced by $11 million during the six months ended September 30, 2007.

The company’s two major tax jurisdictions are India and the U.S., though the company also files tax returns in other foreign jurisdictions. In India, the assessment is not yet completed for the tax year 2004-05 and onwards. In the U.S, certain state tax returns pertaining to fiscal years 2001 to 2004 remain subject to examination. Further, U. S federal and state tax returns pertaining to fiscal year 2005 onwards are within the statute of limitation prescribed by the relevant authorities for examination.

2.17 Earnings per share

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

	Three months ended September 30,	
	2006	**2007**
Basic earnings per equity share - weighted average number of common shares outstanding excluding unallocated shares of ESOP	551,938,696	568,376,262
Effect of dilutive common equivalent shares - stock options outstanding	12,919,874	2,073,512
Diluted earnings per equity share - weighted average number of common shares and common equivalent shares outstanding	564,858,570	570,449,774

Options to purchase 128,520 shares and 78,780 shares for the three months ended September 30, 2006 and 2007, respectively under the 1998 Plan and 572,139 shares for the three months ended September 30, 2007 under the 1999 plan were not considered for calculating diluted earnings per share as their effect was anti-dilutive.

	Six months ended September 30,	
	2006	**2007**
Basic earnings per equity share - weighted average number of common shares outstanding excluding unallocated shares of ESOP	550,964,911	568,376,262
Effect of dilutive common equivalent shares - stock options outstanding	12,867,762	2,101,822
Diluted earnings per equity share - weighted average number of common shares and common equivalent shares outstanding	563,832,673	570,478,084

Options to purchase 273,508 shares and 78,780 shares for the six months ended September 30, 2006 and 2007, respectively under the 1998 Plan and 587,978 shares for the six months ended September 30, 2007 under the 1999 plan were not considered for calculating diluted earnings per share as their effect was anti-dilutive.

2.18 Derivative financial instruments

The company uses derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecasted cash flows denominated in certain foreign currencies. The counterparty for these contracts is generally a bank. Infosys held foreign exchange forward contracts of $170 million, Euro 2 million and GBP 6 million as of March 31, 2007 and $986 million, Euro 34 million and GBP 10 million of foreign exchange forward contracts as of September 30, 2007. The foreign exchange forward contracts mature between 1 to 12 months. As of March 31, 2007, the company held range barrier options of $207 million and GBP 8 million, Euro Accelerator of Euro 24 million and Target Redemption Structure of GBP 16 million. As of September 30, 2007, the company held range barrier options of $240 million and GBP 6 million, Euro Accelerator of Euro 18 million, GBP Accelerator of GBP 12 million, Target Redemption Structure of GBP 4 million, Euro Forward Extra of Euro 5 million, GBP Forward Extra of GBP 15 million and USD-INR vanilla put options of $10 million.

2.19 Segment reporting

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

Industry segments for the company are primarily financial services comprising enterprises providing banking, finance and insurance services, manufacturing enterprises, enterprises in the telecommunications (telecom) and retail industries, and others such as utilities, transportation and logistics companies. Geographic segmentation is based on business sourced from that geographic region and delivered from both on-site and off-shore. North America comprises the United States of America, Canada and Mexico; Europe includes continental Europe (both the east and the west), Ireland and the United Kingdom; and the Rest of the World comprising all other places except those mentioned above and India.

Revenue in relation to segments is categorized based on items that are individually identifiable to that segment, while expenditure is categorized in relation to the associated turnover of the segment. Allocated expenses of the geographic segments include expenses incurred for rendering services from the company's offshore software development centers and on-site expenses. Certain expenses such as depreciation, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying assets are used interchangeably. Management believes that it is not practical to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and adjusted only against the total income of the company.

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

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

2.19.1 Industry segments

(Dollars in millions)

Three months ended September 30, 2006

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	$279	$105	$141	$68	$153	$746
Identifiable operating expenses	119	45	54	29	59	306
Allocated expenses	76	28	38	18	42	202
Segmental operating income	84	32	49	21	52	238
Unallocable expenses						27
Operating income						211
Other income, net						14
Income before income taxes						225
Provision for income taxes						26
Net income						$199

Three months ended September 30, 2007

	Financial services	Manufacturing	Telecom	Retail	Others	Total
Revenues	$373	$143	$210	$127	$169	$1022
Identifiable operating expenses	151	61	79	53	70	414
Allocated expenses	105	40	59	36	49	289
Segmental operating income	117	42	72	38	50	319
Unallocable expenses						38
Operating income						281

Other income, net	38
Income before income taxes	319
Provision for income taxes	48
Net income	$271

(Dollars in millions)

Six months ended September 30, 2006						
	Financial services	**Manufacturing**	**Telecom**	**Retail**	**Others**	**Total**
Revenues	$520	$200	$258	$132	$296	$1,406
Identifiable operating expenses	229	85	97	57	120	588
Allocated expenses	143	55	70	36	82	386
Segmental operating income	148	60	91	39	94	432
Unallocable expenses						51
Operating income						381
Gain on sale of long term investment						1
Other income, net						42
Income before income taxes and minority interest						424
Provision for income taxes						49
Income before minority interest						375
Minority interest						2
Net income						$373

Six months ended September 30, 2007						
	Financial services	**Manufacturing**	**Telecom**	**Retail**	**Others**	**Total**
Revenues	$708	$269	$414	$227	$332	$1,950
Identifiable operating expenses	301	118	155	97	138	809
Allocated expenses	201	76	118	65	95	555
Segmental operating income	206	75	141	65	99	586
Unallocable expenses						76
Operating income						510
Other income, net						100
Income before income taxes						610
Provision for income taxes						76
Net income						$534

2.19.2 Geographic segments

(Dollars in millions)

Three months ended September 30, 2006					
	North America	**Europe**	**India**	**Rest of the World**	**Total**
Revenues	$475	$193	$12	$66	$746
Identifiable operating expenses	203	77	3	23	306
Allocated expenses	129	52	3	18	202
Segmental operating income	143	64	6	25	238

Unallocable expenses	27
Operating income	211
Other income, net	14
Income before income taxes	225
Provision for income taxes	26
Net income	$199

Three months ended September 30, 2007

	North America	Europe	India	Rest of the World	Total
Revenues	$639	$280	$10	$93	$1,022
Identifiable operating expenses	269	112	1	32	414
Allocated expenses	180	79	3	27	289
Segmental operating income	190	89	6	34	319
Unallocable expenses					38
Operating income					281
Other income, net					38
Income before income taxes					319
Provision for income taxes					48
Net income					$271

(Dollars in millions)

Six months ended September 30, 2006

	North America	Europe	India	Rest of the World	Total
Revenues	$897	$366	$21	$122	$1,406
Identifiable operating expenses	391	145	7	45	588
Allocated expenses	247	100	5	34	386
Segmental operating income	259	121	9	43	432
Unallocable expenses					51
Operating income					381
Gain on sale of long term investment					1
Other income, net					42
Income before income taxes and minority interest					424
Provision for income taxes					49
Income before minority interest					375
Minority interest					2
Net income					$373

Six months ended September 30, 2007

	North America	Europe	India	Rest of the World	Total
Revenues	$1,220	$528	$27	$175	$1,950
Identifiable operating expenses	527	210	6	66	809
Allocated expenses	346	150	8	51	555
Segmental operating income	347	168	13	58	586
Unallocable expenses					76
Operating income					510
Other income, net					100
Income before income taxes					610

Provision for income taxes	76
Net income	$534

2.19.3 Significant clients

No client individually accounted for more than 10% of the revenues during the three months and six months ended September 30, 2006 and 2007.

2.20 Litigation

The company is subject to legal proceedings and claims which have arisen in the ordinary course of its business. Legal actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial position of the company.

2.21 Commitments and contingencies

The contractual commitments for capital expenditure were $158 million and $224 million as of March 31, 2007 and September 30, 2007, respectively.

The company has outstanding guarantees for performance and other statutory purposes totaling $11 million and $9 million as of March 31, 2007 and September 30, 2007, respectively. These guarantees are generally provided to governmental agencies.

2.22 Tax contingencies

During fiscal 2006, the company received a demand from the Indian taxation authorities for payment of additional tax of $30 million, including interest of $7 million, upon completion of their tax review for fiscal 2002 and fiscal 2003. Further during fiscal 2007, the company received a demand from the Indian taxation authorities for payment of additional tax of $22 million, including interest of $4 million, upon completion of their tax review for fiscal 2004. The tax demands were mainly on account of disallowance of a portion of the deduction pertaining to its taxable income under Indian law claimed by the company under Section 10A of the Income-tax Act. Deduction under Section 10A of the Income-tax Act is determined by the ratio of 'Export Turnover' to 'Total Turnover'. The disallowance mainly arose from certain expenses incurred in foreign currency being reduced from Export Turnover but not reduced from Total Turnover also.

The company is contesting the demand and management, including its tax advisers, believes that its position will more likely than not be upheld in the appellate process. No tax expense has been accrued in the financial statements for the tax demand raised. Management believes that the ultimate outcome of this proceeding will not have a material adverse effect on the company's financial position and results of operations. For the demand pertaining to fiscal 2002 and fiscal 2003, the position of the company has been substantially upheld by the appellate authority.

2.23 Amendment to the Gratuity Plan

Effective July 1, 2007, the company amended its Gratuity Plan, to suspend the voluntary defined death benefit component of the Gratuity Plan. This amendment resulted in a reduction of the company’s projected benefit obligation amounting by $9 million, which is being amortized to income on a straight-line basis over the average remaining service period of employees which is 10 years.

2.24 Subsequent event

The Board of Directors, in their meeting held on October 11, 2007 approved payment of an interim dividend of approximately $0.15 per equity share for fiscal 2008. The dividend payment is expected to result in a cash outflow of

approximately $101 million including corporate dividend tax by end of October, 2007.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, this discussion contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this discussion, the words 'anticipate,' 'believe,' 'estimate,' 'expect,' 'intend,' 'project,' 'seek,' 'should,' 'will' and other similar expressions as they relate to us or our business are intended to identify such forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such differences include but are not limited to, those discussed in the section entitled "Risk Factors" and elsewhere in this Quarterly Report, as well as the section entitled "Risk Factors" in our Annual Report on Form 20-F for the fiscal year ended March 31, 2007 and our Quarterly Report on Form 6-K for the quarter ended June 30, 2007. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Quarterly Report. The following discussion and analysis should be read in conjunction with our financial statements included herein and the notes thereto. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a leading global technology services company founded in 1981, and headquartered in Bangalore, India. We provide comprehensive end-to-end business solutions that leverage technology for our clients, including technical consulting, design, development, software re-engineering, maintenance, systems integration, package evaluation and implementation, testing and infrastructure management services. We also provide software products to the banking industry. Through Infosys BPO, we provide business process management services such as offsite customer relationship management, finance and accounting, and administration and sales order processing. Our clients rely on our solutions to enhance their business performance.

Our professionals deliver high quality solutions through our Global Delivery Model through which we divide projects into components that we execute simultaneously at client sites and at our development centers in India and around the world. We seek to optimize our cost structure by maintaining the flexibility to execute project components where it is most cost effective. Our sales, marketing and business development teams are organized to focus on specific geographies and industries and this helps us to customize our service offerings to our client's needs. Our primary geographic markets are North America, Europe and the Asia Pacific region. We serve clients in financial services, manufacturing, telecommunications, retail, utilities, logistics and other industries.

There is an increasing need for highly skilled technology professionals in the markets in which we operate. At the same time, corporations are reluctant to expand their internal IT departments and increase costs. These factors have increased corporations' reliance on their outsourced technology service providers and are expected to continue to drive future growth for outsourced technology services. Since the effective use of offshore technology services offers lower total costs of ownership of IT infrastructure, lower labor costs, improved quality and innovation, faster delivery of technology solutions and more flexibility in scheduling, corporations are increasingly turning to offshore technology service providers. India, in particular, has become a premier destination for offshore technology services. The key factors contributing to the growth of IT and IT enabled services in India include high quality delivery, significant cost benefits and availability of abundant skilled resources. Our proven Global Delivery Model, our comprehensive end to end solutions, our commitment to superior quality and process execution, our long standing client relationships and our ability to scale make us one of the leading offshore service providers in India.

There are numerous risks and challenges affecting the business. These are detailed in Item 1 of Part 2 of this Quarterly Report.

We completed our initial public offering of equity shares in India in 1993 and our initial public offering of ADSs in the United States in 1999. We completed three sponsored secondary ADS offering in the United States in August 2003, June 2005 and November 2006. We did not receive any of the proceeds from any of our sponsored secondary offerings.

On December 18, 2006 we were added to the NASDAQ-100 Index, which comprises many of the largest non-financial stocks on the NASDAQ Stock Market.

At our Annual General Meeting held on June 22, 2007, our shareholders approved a final dividend of $0.16 per equity share which has resulted in a cash outflow of $107 million, including corporate dividend tax.

Our Board of Directors, in their meeting held on October 11, 2007 approved payment of an interim dividend of approximately $0.15 per equity share for fiscal 2008. The dividend payment is expected to result in a cash outflow of approximately $101 million including corporate dividend tax by end of October, 2007.

Senior Management Changes

Mr. Nandan M. Nilekani retired from his position as Chief Executive Officer and Managing Director and assumed the position of the Co-Chairman of the Board effective June 22, 2007. Mr. S. Gopalakrishnan assumed the role of the Chief Executive Officer and Managing Director and Mr. S.D. Shibulal assumed the role of Chief Operating Officer of the Company effective June 22, 2007.

The following table sets forth our growth in revenues, net income and number of employees from fiscal 2003 to fiscal 2007:

(Dollars in millions)

	Fiscal 2003	Fiscal 2007	Compound Annual Growth Rate %
Revenues	$754	$3,090	42.3%
Net income	$195	$ 850	44.5%
Approximate number of employees at the end of the fiscal year	15,900	72,200	46.0%

As of September 30, 2007 we had approximately 80,500 employees.

The following table sets forth our growth in revenues and net income for the six months ended September 30, 2007 over the comparable period in 2006:

(Dollars in millions)

	Six months ended September 30,2006	Six months ended September 30, 2007	Percentage Change
Revenues	$1,406	$1,950	38.7%
Net income	$373	$534	43.2%

Our revenue growth is attributable to a number of factors including an increase in the size and number of projects executed primarily for existing clients, as well as an expansion in the solutions that we provide to our clients. For fiscal 2006, fiscal 2007, and the six months ended September 30, 2007, 95.0%, 95.3% and 98.6% of our revenues came from repeat business, which we define as revenue from a client who also contributed to our revenue during the prior fiscal year.

We are able to seamlessly deliver our onsite and offshore capabilities using a distributed project management methodology that we refer to as our Global Delivery Model. We divide projects into components that we execute simultaneously at client sites and at our geographically dispersed development centers in India and around the world. Our Global Delivery Model allows us to provide clients with high quality solutions in reduced time-frames enabling them to achieve operational efficiencies.

The following table sets forth our revenues by geographic segments for fiscal 2007 and the six months ended September 30, 2007:

	Percentage of Revenues	
Geographic Segments	**Fiscal 2007**	**Six months ended September 30, 2007**
North America	63.3%	62.6%
Europe	26.4%	27.1%
India	1.6%	1.4%
Rest of the World	8.7%	8.9%

Revenues

Our revenues are generated principally from technology services provided on either a time-and-materials or a fixed-price, fixed-timeframe basis. Revenues from services provided on a time-and-materials basis are recognized as the related services are performed. Revenues from services provided on a fixed-price, fixed-timeframe basis are recognized pursuant to the percentage of completion method. Most of our client contracts, including those that are on a fixed-price, fixed-timeframe basis can be terminated by clients with or without cause, without penalties and with short notice periods of between zero and 90 days. Since we collect revenues on contracts as portions of the contracts are completed, terminated contracts are only subject to collection for portions of the contract completed through the time of termination. Our contracts do not contain specific termination-related penalty provisions. In order to manage and anticipate the risk of early or abrupt contract terminations, we monitor the progress on all contracts and change orders according to their characteristics and the circumstances in which they occur. This includes a focused review of our ability and our client's ability to perform on the contract, a review of extraordinary conditions that may lead to a contract termination, as well as historical client performance considerations. Since we also bear the risk of cost overruns and inflation with respect to fixed-price, fixed-timeframe projects, our operating results could be adversely affected by inaccurate estimates of contract completion costs and dates, including wage inflation rates and currency exchange rates that may affect cost projections. Losses on contracts, if any, are provided for in full in the period when determined. Although we revise our project completion estimates from time to time, such revisions have not, to date, had a material adverse effect on our operating results or financial condition. We also generate revenue from software application products, including banking software. Such software products represented 3.5% of our total revenues for the six months ended September 30, 2007 and 3.9% of our total revenues for fiscal 2007.

We experience from time to time, pricing pressure from our clients. For example, clients often expect that as we do more business with them, they will receive volume discounts. Additionally, clients may ask for fixed-price arrangements or reduced rates. We attempt to use fixed-price arrangements for works where the specifications are complete, so individual rates are not negotiated. We are also adding new services at higher price points.

Cost of Revenues

Cost of revenues represented 59.5% and 57.5% of total revenues for the six months ended September 30, 2007 and fiscal 2007 respectively. Our cost of revenues primarily consists of salary and other compensation expenses, depreciation, overseas travel expenses, cost of software purchased for internal use, cost of technical subcontractors,

rent, data communication expenses and computer maintenance. We depreciate our personal computers and servers over two years and mainframe computers over periods of up to three years. Third party software is expensed of over the estimated useful life. Cost of revenues also includes stock compensation expenses. Beginning April 1, 2006, we adopted SFAS No.123 (revised 2004), *Share-Based Payment* using the modified prospective approach. We recorded stock-based compensation expense of $3 million and $1 million during fiscal 2007 and six months ended September 30, 2007 using the fair value recognition provisions contained in SFAS No. 123(R).

We typically assume full project management responsibility for each project that we undertake. Approximately 72.6% and 71.6% of the total billed person-months for our services during the six months ended September 30, 2007 and fiscal 2007 were performed at our global development centers in India, and the balance of the work was performed at client sites and global development centers located outside India. The proportion of work performed at our facilities and at client sites varies from quarter to quarter. We charge higher rates and incur higher compensation and other expenses for work performed at client sites and global development centers located outside India. Services performed at a client site or global development centers located outside India typically generate higher revenues per-capita at a lower gross margin than the same services performed at our facilities in India. As a result, our total revenues, cost of revenues and gross profit in absolute terms and as a percentage of revenues fluctuate from quarter to quarter based on the proportion of work performed outside India. Additionally, any increase in work performed at client sites or global development centers located outside India can decrease our gross profits. We hire subcontractors on a limited basis from time to time for our own technology development needs, and we generally do not perform subcontracted work for other technology service providers. For, six months ended September 30, 2007 and fiscal 2007, approximately 3.2% and 3.6% of our cost of revenues was attributable to cost of technical subcontractors. We do not anticipate that our subcontracting needs will increase significantly as we expand our business.

Revenues and gross profits are also affected by employee utilization rates. We define employee utilization as the proportion of total billed person months to total available person months excluding support personnel. We manage utilization by monitoring project requirements and timetables. The number of software professionals that we assign to a project will vary according to size, complexity, duration, and demands of the project. An unanticipated termination of a significant project could also cause us to experience lower utilization of technology professionals, resulting in a higher than expected number of unassigned technology professionals. In addition, we do not utilize our technology professionals when they are enrolled in training programs, particularly during our 14-week training course for new employees.

Selling and Marketing Expenses

Selling and marketing expenses represented 6.3% and 6.8% of total revenues for the six months ended September 30, 2007 and for fiscal 2007 respectively. Our selling and marketing expenses primarily consist of expenses relating to salaries and other compensation expenses of sales and marketing personnel, travel, brand building, rental for sales and marketing offices and telecommunications. We recorded stock-based compensation expense of $1 million each during fiscal 2007 and six months ended September 30, 2007, using the fair value recognition provisions contained in SFAS No. 123(R). We may increase our selling and marketing expenses as we seek to increase brand awareness among target clients and promote client loyalty and repeat business among existing clients.

General and Administrative Expenses

General and administrative expenses represented 7.9% and 8.0% of total revenues for the six months ended September 30, 2007 and for fiscal 2007 respectively. Our general and administrative expenses is comprised of expenses relating to salaries and other compensation expenses of senior management and other support personnel, travel expenses, legal and other professional fees, telecommunications, office maintenance, power and fuel charges, insurance, other miscellaneous administrative costs and provisions for doubtful accounts receivable. The factors which affect the fluctuations in our provisions for bad debts and write offs of uncollectible accounts include the financial health of our clients and of the economic environment in which they operate. We recorded stock-based compensation expense of $1

million during fiscal 2007 using the fair value recognition provisions contained in SFAS No. 123(R). For the six months ended September 30, 2007, stock-based compensation expense is not considered material.

Amortization of Intangible Assets

Our amortization of intangible assets relates to identified intangibles arising from purchase price allocations for business combinations. We amortize intangible assets over their estimated useful lives. The amortization of intangible asset was $4 million and $3 million for the six months ended September 30, 2007 and fiscal 2007 respectively.

Other Income, net

Other income / (expense), net includes interest income, income from liquid mutual fund investments, foreign currency exchange gains/(losses) including marked to market gains / (losses) on foreign exchange forward and option contracts, and provisions for losses on investments.

Functional Currency and Foreign Exchange

The functional currency of Infosys and Infosys BPO is the Indian rupee. The functional currency for Infosys Australia, Infosys China, Infosys Consulting and Infosys Mexico is the respective local currency. The financial statements included in this Quarterly Report are reported in US dollars. The translation of rupees to dollars is performed for the balance sheet accounts using the exchange rate in effect at the balance sheet date, and for revenue and expense accounts using a monthly average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as other comprehensive income/loss.

Generally, Indian law requires residents of India to repatriate any foreign currency earnings to India to control the exchange of foreign currency. More specifically, Section 8 of the Foreign Exchange Management Act, or FEMA, requires an Indian company to take all reasonable steps to realize and repatriate into India all foreign exchange earned by the company outside India, within such time periods and in the manner specified by the Reserve Bank of India, or RBI. The RBI has promulgated guidelines that require the company to repatriate any realized foreign exchange back to India, and either:

- sell it to an authorized dealer for rupees within seven days from the date of receipt of the foreign exchange;
- retain it in a foreign currency account such as an Exchange Earners Foreign Currency, or EEFC, account with an authorized dealer; or
- use it for discharge of debt or liabilities denominated in foreign exchange.

We typically collect our earnings and pay expenses denominated in foreign currencies using a dedicated foreign currency account located in the local country of operation. In order to do this, we are required to, and have obtained, special approval from the RBI to maintain a foreign currency account in overseas countries like the United States. However, the RBI approval is subject to limitations, including a requirement that we repatriate all foreign currency in the account back to India within a reasonable time, except an amount equal to our local monthly operational cost of our overseas branch and personnel. We currently pay such expenses and repatriate the remainder of the foreign currency to India on a regular basis. We have the option to retain those in an EEFC account (foreign currency denominated) or an Indian-rupee-denominated account. We convert substantially all of our foreign currency to rupees to fund operations and expansion activities in India.

Our failure to comply with these regulations could result in RBI enforcement actions against us.

Income Taxes

Our net income earned from providing software development and other services outside India is subject to tax in the country where we perform the work. Most of the tax paid in countries other than India can be applied as a credit against our Indian tax liability to the extent that the same income is subject to tax in India.

Currently, we benefit from the tax holidays the Government of India gives to the export of software from specially designated software technology parks in India and for facilities set up under the Special Economic Zones Act, 2005. As a result of these incentives, our operations have been subject to relatively low tax liabilities. These tax incentives include a 10-year tax holiday from Indian corporate income taxes for the operation of most of our Indian facilities. As a result of these tax exemptions, a substantial portion of our pre-tax income has not been subject to significant tax in recent years. These tax incentives resulted in a decrease in our income tax expense of $136 million and $224 million for the six months ended September 30, 2007 and fiscal 2007 respectively compared to the effective tax amounts that we estimate we would have been required to pay if these incentives had not been available.

The Finance Act, 2000 phases out the ten-year tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. Accordingly, facilities set up in India on or before March 31, 2000 have a ten-year tax holiday, new facilities set up on or before March 31, 2001 have a nine-year tax holiday and so forth until March 31, 2009. After March 31, 2009, the tax holiday will no longer be available to new facilities. Our current tax holidays expire in stages by 2009. Some of our new facilities are being set up under the Special Economic Zones Act, 2005. Under this scheme, units in designated special economic zones which begin providing services on or after April 1, 2005 will be eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from commencement of provision of services and 50 percent of such profits or gains for a further five years. Certain tax benefits are also available for a further five years subject to the unit meeting defined conditions. When our tax holidays expire or terminate, our tax expense will materially increase, reducing our profitability.

As a result of such tax incentives, and a credit of $13 million for the six months ended September 30, 2007 and $29 million for fiscal 2007 being liability no longer required for taxes payable in foreign jurisdictions consequent to expiry of the limitation period and completion of assessment by taxation authorities, our effective tax rate for the six months ended September 30, 2007 and fiscal 2007 was 12.5% and 9.0% which would have been 14.6% and 12.1% without considering the credit of $13 million and $29 million, respectively. Our Indian statutory tax rate for the same period was 33.99% and 33.66%, respectively.

Pursuant to the changes in the Indian Income Tax Laws, a Minimum Alternate Tax has been extended to income in respect of which a deduction may be claimed under sections 10A and 10B; consequently, we have calculated our tax liability for current domestic taxes after considering Minimum Alternate Tax (MAT). The excess tax paid under MAT provisions over and above normal tax liability can be carried forward and set off against future tax liabilities computed under normal tax provisions. We were required to pay MAT during the six month period ended September 30, 2007, and, accordingly, as per SFAS 109, Accounting for Income Taxes, we recognized a deferred tax asset of $9 million as of September 30, 2007, which can be carried forward for a period of 5 years.

We have adopted Financial Accounting Standards Board Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, effective April 1, 2007. Our adoption of FIN 48 has had no impact on our financial statements.

Minority interest

Minority interest represents the share of minority shareholders in the profits of Infosys BPO Limited, our majority owned and consolidated subsidiary.

Results for the three months ended September 30, 2007 compared to the three months ended September 30, 2006

Revenues

The following table sets forth the growth in our revenues for the three months ended September 30, 2007 over the corresponding period in 2006:

(Dollars in millions)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Change	Percentage Change
Revenues	$746	$1,022	$276	37.0%

Revenues increased in almost all segments of our services. The increase in revenues was attributable to an increase in business from existing clients, particularly in industries such as retailing and telecommunications.

The following table sets forth our revenues by industry segments for the three months ended September 30, 2006 and September 30, 2007:

	Percentage of Revenues	
Industry Segments	**Three months ended September 30, 2006**	**Three months ended September 30, 2007**
Financial services	37.4%	36.5%
Manufacturing	14.1%	14.0%
Telecommunication	18.9%	20.5%
Retail	9.1%	12.4%
Others including utilities, logistics and services	20.5%	16.6%

Revenues from services represented 96.3% of total revenues for both three months ended September 30, 2007 and 2006. Sale of our software products represented 3.7% of our total revenues for both three months ended September 30, 2007 and 2006.

The following table sets forth the revenues from fixed-price, fixed-timeframe contracts and time-and-materials contracts as a percentage of total services revenues for the three months ended September 30, 2006 and September 30, 2007:

	Percentage of total services revenues	
	Three months ended September 30, 2006	**Three months ended September 30, 2007**
Fixed-price, fixed-timeframe contracts	26.2%	29.8%
Time-and-materials contracts	73.8%	70.2%

The following table sets forth our revenues by geographic segments for the three months ended September 30, 2006 and September 30, 2007:

Geographic Segments	Percentage of Revenues	
	Three months ended September 30, 2006	Three months ended September 30, 2007
North America	63.7%	62.5%
Europe	25.9%	27.4%
India	1.6%	1.0%
Rest of the World	8.8%	9.1%

During the three months ended September 30, 2007 the total billed person-months for our services other than business process management grew by 28.1% compared to the three months ended September 30, 2006. The onsite and offshore volume growth for our services other than business process management were 22.9% and 30.6% during the three months ended September 30, 2007 compared to the three months ended September 30, 2006. We have recently seen a slight increase in pricing on engagements with some of our customers and we expect this trend to continue. During the three months ended September 30, 2007 there was a 8.3% increase in onsite rates and a 6.9% increase in offshore rates compared to the three months ended September 30, 2006 for our services other than business process management.

Cost of revenues

The following table sets forth our cost of revenues for the three months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Change	Percentage Change
Cost of revenues	$423	$591	$168	39.7%
As a percentage of revenues	56.7%	57.8%		

The increase in our cost of revenues is mainly attributable to increases of approximately $148 million in personnel costs due to new hires and a compensation review affected in April 2007, $10 million in depreciation expenses and $5 million in travel and conveyance expenses.

Gross profit

The following table sets forth our gross profit for the three months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Change	Percentage Change
Gross profit	$323	$431	$108	33.4%
As a percentage of revenues	43.3%	42.2%		

The decrease in gross profit as a percentage of revenues from the three months ended September 30, 2006 to the three months ended September 30, 2007 is attributable to a 39.7% increase in cost of revenues during the three months ended September 30, 2007 compared to an increase of 37.0% in the revenues for the three months ended September 30, 2007.

Selling and marketing expenses

The following table sets forth our selling and marketing expenses for the three months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Change	Percentage Change
Selling and marketing expenses	$48	$71	$23	47.9%
As a percentage of revenues	6.4%	6.9%		

The number of our sales and marketing personnel increased from 506 as of September 30, 2006 to 534 as of September 30, 2007. The increase in selling and marketing expenses is mainly attributable to increases of approximately $10 million in personnel costs of selling and marketing employees on account of new hires and the compensation review affected in April 2007 and $10 million in commission and earnout charges.

General and administrative expenses

The following table sets forth our general and administrative expenses for the three months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Change	Percentage Change
General and administrative expenses	$63	$77	$14	22.2%
As a percentage of revenues	8.4%	7.5%		

The increase in general and administrative expenses was primarily attributable to an increase of approximately $6 million for personnel costs on account of new hires and the compensation review effected in April 2007 and $2 million each in telephone charges, professional charges, office maintenance charges and power and fuel charges. The factors which affect the fluctuations in our provisions for bad and doubtful debts and write offs of uncollectible accounts include the financial health of our clients and the economic environment in which they operate. No one client has contributed significantly to a loss, and we have had no significant changes in our collection policies or payment terms.

Amortization of Intangible assets

The amortization of intangible assets for the three months ended September 30, 2006 and September 30, 2007 represents $1 million and $2 million of amortization of the identified customer contract intangibles arising on the allocation of purchase price of Infosys BPO.

Operating income

The following table sets forth our operating income for the three months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Change	Percentage Change
Operating income	$211	$281	$70	33.2%
As a percentage of revenues	28.3%	27.5%		

Other income, net

The following table sets forth our other income, net for the three months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Change	Percentage Change
Other income, net	$14	$38	$24	171.4%

Other income, net, consists mainly of interest and dividend income, foreign exchange gains / (losses), net and provision for investments. Interest income and income from mutual fund investments was approximately $12 million and $37 million during the three months ended September 30, 2006 and 2007.

We recorded a gain on foreign exchange of $2 million and $1 million during the three months ended September 30, 2006 and 2007. Foreign exchange gains and losses arise from the depreciation and appreciation of the rupee against other currencies in which we transact business.

The following table sets forth the currency in which our revenues for the three months ended September 30, 2006 and September 30, 2007 are denominated:

	Percentage of Revenues	
Currency	**Three months ended September 30, 2006**	**Three months ended September 30, 2007**
U.S. dollar	75.1%	71.7%
United Kingdom Pound Sterling	12.2%	13.7%
Euro	4.8%	5.3%
Others	7.9%	9.3%

The following tables' sets forth information on the foreign exchange rates in rupees per U.S. dollar, United Kingdom Pound Sterling and Euro for the three months ended September 30, 2006 and September 30, 2007:

Currency	Three months	Three months	Appreciation /(Depreciation)

	ended September 30, 2006 (Rs.)	ended September 30, 2007 (Rs.)	in percentage
Average exchange rate during the period			
U.S. dollar	46.29	40.19	13.2%
United Kingdom Pound Sterling	87.07	81.60	6.3%
Euro	59.01	55.68	5.6%

Particulars	**Three months ended September 30, 2006 (Rs.)**	**Three months ended September 30, 2007 (Rs.)**
Exchange rate at the beginning of the period		
U.S. dollar	45.87	40.58
United Kingdom Pound Sterling	84.82	81.42
Euro	58.62	54.86
Exchange rate at the end of the period		
U.S. dollar	45.95	39.75
United Kingdom Pound Sterling	86.00	81.05
Euro	58.30	56.52
Appreciation / (Depreciation) during the period in percentage		
U.S. dollar	(0.2)%	2.0%
United Kingdom Pound Sterling	(1.4)%	0.5%
Euro	0.5%	(3.0)%

For the three months ended September 30, 2007, every percentage point depreciation/ appreciation in the exchange rate between the Indian rupee and the U.S. dollar, has affected our operating margins by approximately 0.5%. The exchange rate between the rupee and dollar has fluctuated substantially in recent years and may continue to do so in the future. We are unable to predict the impact that future fluctuations may have on our operating margins.

We have recorded gains of $4 million and $9 million on account of foreign exchange forward and option contracts for the three months ended September 30, 2006 and September 30, 2007, which are included in total foreign currency exchange gains / losses. Our accounting policy requires us to mark to market and recognize the effect in earnings immediately of any derivative that is either not designated a hedge, or is so designated but is ineffective as per SFAS 133.

Provision for income taxes

The following table sets forth our provision for income taxes and effective tax rate for the three months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Three months ended September 30, 2006	**Three months ended September 30, 2007**	**Change**	**Percentage Change**
Provision for income taxes	$26	$48	$22	84.6%
Effective tax rate	11.6%	15.0%		

The increase in the effective tax rate to 15.0% for the three months ended September 30, 2007 from 11.6% for the three months ended September 30, 2006, is mainly due to higher onsite profitability and expiry of tax holiday with respect to certain Software Technology Park (STP) units and increase in interest income which is subject to full taxes in India.

Net income

The following table sets forth our net income for the three months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Change	Percentage Change
Net income	$199	$271	$72	36.2%
As a percentage of revenues	26.7%	26.5%		

The decrease in net income as a percentage of revenues from the three months ended September 30, 2006 to September 30, 2007 is primarily attributable to a 47.9% increase in selling and marketing expenses, 22.2% increase in general and administrative expenses and 84.6% increase in provision for income taxes offset by an increase of 171.4% in other income.

Results for the six months ended September 30, 2007 compared to the six months ended September 30, 2006

Revenues

The following table sets forth the growth in our revenues for the six months ended September 30, 2007 compared to the corresponding period in 2006:

(Dollars in millions)

	Six months ended September 30, 2006	Six months ended September 30, 2007	Change	Percentage Change
Revenues	$1,406	$1,950	$544	38.7%

Revenues increased in almost all segments of our services. The increase in revenues was attributable to an increase in business from existing clients, particularly in industries such as retailing and telecommunications.

The following table sets forth our revenues by industry segments for the six months ended September 30, 2006 and September 30, 2007:

	Percentage of Revenues	
Industry Segments	**Six months ended September 30, 2006**	**Six months ended September 30, 2007**
Financial services	37.0%	36.3%
Manufacturing	14.2%	13.8%

Telecommunication	18.3%	21.2%
Retail	9.4%	11.6%
Others including utilities, logistics and services	21.1%	17.1%

Revenues from services represented 96.5% of total revenues for the six months ended September 30, 2007 as compared to 96.3% for the six months ended September 30, 2006. Sale of our software products represented 3.5% of our total revenues for the six months ended September 30, 2007 as compared to 3.7% for the six months ended September 30, 2006.

The following table sets forth the revenues from fixed-price, fixed-timeframe contracts and time-and-materials contracts as a percentage of total services revenues for the six months ended September 30, 2006 and September 30, 2007:

	Percentage of total services revenues	
	Six months ended September 30, 2006	**Six months ended September 30, 2007**
Fixed-price, fixed-timeframe contracts	26.5%	28.7%
Time-and-materials contracts	73.5%	71.3%

The following table sets forth our revenues by geographic segments for the six months ended September 30, 2006 and September 30, 2007:

	Percentage of Revenues	
Geographic Segments	**Six months ended September 30, 2006**	**Six months ended September 30, 2007**
North America	63.8%	62.6%
Europe	26.0%	27.1%
India	1.5%	1.4%
Rest of the World	8.7%	8.9%

During the six months ended September 30, 2007 the total billed person-months for our services other than business process management grew by 30.1% compared to the six months ended September 30, 2006. The onsite and offshore volume growth for our services other than business process management were 26.4% and 31.9% during the six months ended September 30, 2007 compared to the six months ended September 30, 2006. We have recently seen a slight increase in pricing on engagements with some of our customers and we expect this trend to continue. During the six months ended September 30, 2007 there was a 7.5% increase in onsite rates and a 6.1% increase in offshore rates compared to the six months ended September 30, 2006 for our services other than business process management.

Cost of revenues

The following table sets forth our cost of revenues for the six months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Six months ended September	**Six months ended September**	**Change**	**Percentage Change**

	30, 2006	30, 2007		
Cost of revenues	$812	$1,160	$348	42.9%
As a percentage of revenues	57.8%	59.5%		

The increase in our cost of revenues is mainly attributable to increases of approximately $295 million in personnel costs due to new hires and a compensation review effected in April 2007, $22 million in depreciation expenses, $12 million in traveling and conveyance, $10 million in cost of technical subcontractors and $5 million in cost of software purchased for our own use.

Gross profit

The following table sets forth our gross profit for the six months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Six months ended September 30, 2006	Six months ended September 30, 2007	Change	Percentage Change
Gross profit	$594	$790	$196	33.0%
As a percentage of revenues	42.2%	40.5%		

The decrease in gross profit as a percentage of revenues from the six months ended September 30, 2006 to the six months ended September 30, 2007 is attributable to a 42.9% increase in cost of revenues during the six months ended September 30, 2007 as against an increase of 38.7% in the revenues for the six months ended September 30, 2007.

Selling and marketing expenses

The following table sets forth our selling and marketing expenses for the six months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Six months ended September 30, 2006	Six months ended September 30, 2007	Change	Percentage Change
Selling and marketing expenses	$93	$122	$29	31.2%
As a percentage of revenues	6.6%	6.3%		

The increase in selling and marketing expenses is mainly attributable to increases of approximately $15 million in personnel costs of selling and marketing employees on account of new hires and the compensation review affected in April 2007, $9 million in commission and earn out charges and $2 million in travel and conveyance expenses.

General and administrative expenses

The following table sets forth our general and administrative expenses for the six months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Six months ended September 30, 2006	Six months ended September 30, 2007	Change	Percentage Change
General and administrative expenses	$119	$154	$35	29.4%
As a percentage of revenues	8.5%	7.9%		

The increase in general and administrative expenses was primarily attributable to an increase of approximately $12 million for personnel costs on account of new hires and the compensation review effected in April 2007, $5 million each in professional charges and power and fuel charges, $3 million each in office maintenance charges, telephone charges, and $2 million in traveling and conveyance. The factors which affect the fluctuations in our provisions for bad and doubtful debts and write offs of uncollectible accounts include the financial health of our clients and the economic environment in which they operate. No one client has contributed significantly to a loss, and we have had no significant changes in our collection policies or payment terms.

Amortization of Intangible assets

The amortization of intangible assets for the six months ended September 30, 2006 and September 30, 2007 represents $1 million and $4 million of amortization of the identified customer contract intangibles arising on the allocation of purchase price of Infosys BPO. Intangible assets were recorded post September 30, 2006 amounting to $3 million consequent to repurchase of equity shares by Infosys BPO from its minority shareholders and by Infosys purchasing equity shares from shareholders of Infosys BPO.

Operating income

The following table sets forth our operating income for the six months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Six months ended September 30, 2006	Six months ended September 30, 2007	Change	Percentage Change
Operating income	$381	$510	$129	33.9%
As a percentage of revenues	27.1%	26.2%		

Gain on sale of long term investment

In fiscal 2005, we sold our investment in Yantra Corporation and the consideration received from the sale resulted in a gain of $11 million. The carrying value of the investment in Yantra Corporation was completely written down in fiscal 1999. Further consideration of $1 million was received during the six months ended September 30, 2006, resulting in a gain of $1 million for the period. No gain on sale of long term investment was recorded during the six months ended September 30, 2007.

Other income, net

The following table sets forth our other income, net for the six months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Six months ended September 30, 2006	Six months ended September 30, 2007	Change	Percentage Change
Other income, net	$42	$100	$58	138.1%

Other income, net, consists mainly of interest and dividend income, foreign exchange gains / (losses), net and provision for investments. Interest income and income from mutual fund investments was approximately $27 million and $82 million during the six months ended September 30, 2006 and 2007.

We recorded a gain on foreign exchange of $14 million and $17 million during the six months ended September 30, 2006 and 2007. Foreign exchange gains and losses arise from the depreciation and appreciation of the rupee against other currencies in which we transact business.

The following table sets forth the currency in which our revenues for the six months ended September 30, 2006 and September 30, 2007 are denominated:

Currency	Percentage of Revenues	
	Six months ended September 30, 2006	Six months ended September 30, 2007
U.S. dollar	75.2%	71.6%
United Kingdom Pound Sterling	11.9%	13.7%
Euro	4.8%	5.1%
Others	8.1%	9.6%

The following tables sets forth information on the foreign exchange rates in rupees per U.S. dollar, United Kingdom Pound Sterling and Euro for the six months ended September 30, 2006 and September 30, 2007:

Currency	Six months ended September 30, 2006 (Rs.)	Six months ended September 30, 2007 (Rs.)	Appreciation / (Depreciation) in percentage
Average exchange rate during the period			
U.S. dollar	45.97	40.42	12.1%
United Kingdom Pound Sterling	85.72	81.37	5.1%
Euro	58.60	55.38	5.5%

Particulars	Six months ended September 30, 2006 (Rs.)	Six months ended September 30, 2007 (Rs.)
Exchange rate at the beginning of the period		
U.S. dollar	44.48	43.10
United Kingdom Pound Sterling	77.36	84.84
Euro	53.99	57.64
Exchange rate at the end of the period		
U.S. dollar	45.95	39.75
United Kingdom Pound Sterling	86.00	81.05
Euro	58.30	56.52
Appreciation / (Depreciation) during the period in percentage		
U.S. dollar	(3.3)%	7.8%
United Kingdom Pound Sterling	(11.2)%	4.5%
Euro	(8.0)%	1.9%

For the six months ended September 30, 2007, every percentage point depreciation/ appreciation in the exchange rate between the Indian rupee and the U.S. dollar, has affected our operating margins by approximately 0.5%. The exchange rate between the rupee and dollar has fluctuated substantially in recent years and may continue to do so in

the future. We are unable to predict the impact that future fluctuations may have on our operating margins.

We have recorded losses of $3 million on account of foreign exchange forward and option contracts for the six months ended September 30, 2006 while we had recorded gain of $55 million for the six months ended September 30, 2007, which are included in total foreign currency exchange gains / losses. Our accounting policy requires us to mark to market and recognize the effect in earnings immediately of any derivative that is either not designated a hedge, or is so designated but is ineffective as per SFAS 133.

Provision for income taxes

The following table sets forth our provision for income taxes and effective tax rate for the six months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Six months ended September 30, 2006	Six months ended September 30, 2007	Change	Percentage Change
Provision for income taxes	$49	$76	$27	55.1%
Effective tax rate	11.6%	12.5%		

The provision for tax for the six months ended September 30, 2007 included a credit of $13 million for liability no longer required for taxes payable in foreign jurisdictions consequent to expiry of the limitation period and completion of assessment by taxation authorities. Due to the tax credit the effective tax rate for the six months ended September 30, 2007 has decreased to 12.5% as against a rate of 14.6% computed without considering the tax credit included in the provision for taxes. The increase in the effective tax rate to 14.6% from 11.6% for the six months ended September 30, 2006, is mainly due to higher onsite profitability and expiry of tax holiday with respect to certain STP units and increase in interest income which is subject to full taxes in India.

Minority Interest

Minority interest of $2 million for the six months ended September 30, 2006 represents the share of minority shareholders in the profits of Infosys BPO, our majority owned and consolidated subsidiary. For the six months ended September 30, 2007, the minority interest charge was not considered material.

Net income

The following table sets forth our net income for the six months ended September 30, 2006 and September 30, 2007:

(Dollars in millions)

	Six months ended September 30, 2006	Six months ended September 30, 2007	Change	Percentage Change
Net income	$373	$534	$161	43.2%
As a percentage of revenues	26.5%	27.4%		

The increase in net income as a percentage of revenues from the six months ended September 30, 2006 to September 30, 2007 is attributable to a 33.0% increase in gross profit and 138.1% increase in other income, partially offset by an increase in selling and marketing expenses, general and administrative expenses and provision for income taxes by 31.2%, 29.4% and 55.1% respectively.

Liquidity and Capital Resources

Our growth has been financed largely by cash generated from operations and, to a lesser extent, from the proceeds from the sale of equity. In 1993, we raised approximately $4.4 million in gross aggregate proceeds from our initial public offering of equity shares in India. In 1994, we raised an additional $7.7 million through private placements of our equity shares with foreign institutional investors, mutual funds, Indian domestic financial institutions and corporations. On March 11, 1999, we raised $70.4 million in gross aggregate proceeds from our initial public offering of ADSs in the United States.

As of September 30, 2007, we had $2,170 million in working capital, including $1,837 million in cash and cash equivalents and no outstanding bank borrowings. We believe that our current working capital is sufficient to meet our requirements for the next twelve months. We believe that a sustained reduction in IT spending, a longer sales cycle, and a continued economic downturn in any of the various industry segments, in which we operate, could result in a decline in our revenue and negatively impact our liquidity and cash resources.

Net cash provided by operating activities was $349 million and $566 million for the six months ended September 30, 2006 and September 30, 2007. Net cash provided by operations consisted primarily of net income adjusted for depreciation and amortization, minority interest, stock compensation expenses, deferred taxes and increase in unearned revenue and other accrued liabilities, offset in part by an increase in accounts receivable, prepaid expenses and unbilled revenue.

Trade accounts receivable increased by $104 million during the six months ended September 30, 2006, compared to an increase of $33 million during the six months ended September 30, 2007. Accounts receivable as a percentage of last 12 months revenues represented 17.7% and 17.8% as of September 30, 2006 and 2007. Prepaid expenses and other current assets increased by $10 million during the six months ended September 30, 2006 and by $30 million during the six months ended September 30, 2007. There was an increase in unbilled revenues of $27 million during the six months ended September 30, 2006, compared to an increase of $26 million during the six months ended September 30, 2007. Unbilled revenues represent revenues that are recognized but not yet invoiced. Unearned revenues increased by $24 million during the six months ending September 30, 2006, compared to an increase of $13 million during the six months ending September 30, 2007. Unearned revenue resulted primarily from advance client billings on fixed-price, fixed-timeframe contracts for which related efforts have not been expended. Revenues from fixed-price, fixed-timeframe contracts and from time-and-materials contracts represented 26.5% and 73.5% of total services revenues for the six months ending September 30, 2006, as compared to 28.7% and 71.3% for the six months ending September 30, 2007. Other accrued liabilities increased by $27 million during the six months ended September 30, 2006 and by $57 million during the six months ended September 30, 2007.The change in individual line items impacting cash flows is consistent with the growth in our revenues and volume of operations.

Net cash used in investing activities was $686 million and $181 million for the six months ended September 30, 2006 and September 30, 2007. Net cash used in investing activities, relating to our acquisition of additional property, plant and equipment for the six months ended September 30, 2006 and September 30, 2007 was $114 million and $183 million. During the six months ended September 30, 2006, we invested $651 million in liquid mutual fund units, $11 million in non-current deposits with corporations and redeemed mutual fund investments of $201 million, whereas, for the six months ended September 30, 2007, we invested $425 million in liquid mutual fund units and redeemed mutual fund investments of $428 million. The proceeds realized from the redemption of mutual fund investments were used in our day to day business activities.
During fiscal 2007 we increased our share-holding in Infosys BPO by:

- acquiring 8,750,000 equity shares of Infosys BPO from Citicorp International Finance Corporation (CIFC) on June 30, 2006;
- repurchasing 1,139,469 equity shares of Infosys BPO from minority shareholders through Infosys BPO on December 29, 2006;
- acquiring 211,909 shares of Infosys BPO in January 2007 and committing to purchase 360,417 shares of Infosys BPO, from minority shareholders, which will be acquired in February 2008;

- acquiring 1,737,092 options from the option holders of Infosys BPO in March 2007 by purchasing 1,218,732 options of Infosys BPO in cash and swapping 518,360 options of Infosys BPO for 151,933 Infosys options based on the relative fair values on the date of swap.

An aggregate consideration of $148 million was paid in cash and 151,933 Infosys options were granted to the minority shareholders and options holders for consummating the above transactions. Further, an amount of $5 million was accounted as a liability in connection with the committed purchase of Infosys BPO shares entered into in January 2007. As of September 30, 2007, Infosys effectively holds 99.98% of the outstanding equity shares of Infosys BPO. Consequent to the above acquisitions a cumulative amount of $115 million was recorded as goodwill.

Previously, we provided various loans to employees including car loans, home loans, personal computer loans, telephone loans, medical loans, marriage loans, personal loans, salary advances, education loans and loans for rental deposits. These loans were provided primarily to employees in India who were not executive officers or directors. Housing and car loans were available only to middle level managers, senior managers and non-executive officers. These loans were generally collateralized against the assets of the loan and the terms of the loans ranged from 1 to 100 months.

We have discontinued fresh disbursements under all of these loan schemes except for personal loans and salary advances which we continue to provide primarily to employees in India who are not executive officers or directors. We also provide allowances for purchase of cars and houses for our middle level managers. The annual rates of interest for these loans vary between 0% and 4%. Loans aggregating $28 million and $25 million were outstanding as of March 31, 2007 and September 30, 2007.

Net cash used in financing activities was $107 million for the six months ending September 30, 2007. This comprised entirely of dividend payments of $107 million. Our shareholders at the Annual General Meeting held on June 22, 2007 approved a final dividend of approximately $0.16 per equity share, which has resulted in a cash outflow of approximately $107 million including corporate dividend tax. Net cash used in financing activities was $200 million for the six months ending September 30, 2006. This primarily comprises of $63 million of cash raised by issuance of equity shares on exercise of stock options by employees offset by dividend payments of $265 million.

As of September 30, 2007 we had contractual commitments for capital expenditure of $224 million. These commitments include approximately $200 million in domestic purchases and $24 million in imports and overseas commitments for hardware, supplies and services to support our operations generally, which we expect to be significantly completed by March 2008.

In October 2007, as part of an outsourcing agreement with a client, Philips Electronics Nederland B.V. ("Philips"), our majority owned subsidiary, Infosys BPO, acquired from Koninklijke Philips Electronics N.V. shared services centers in Poland and India engaged in the provision of finance, accounting and procurement support services to Philips' operations worldwide. In connection with this transaction, Infosys BPO has also agreed to acquire Philips' shared services center in Thailand subject to fulfillment of certain conditions precedent. Consequent to the above transaction Infosys BPO has paid a consideration of $28 million on October, 1, 2007.

We have provided information to the public regarding forward-looking guidance on our business operations.

Recent amendments to Indian Taxation Laws

A recent amendment in the Indian tax legislation included Fringe Benefit Tax (“FBT”) on Employees’ Stock Option Plan. The value of the fringe benefit is the FMV, of the specified security or share on the date of vesting, determined based upon the Indian Income Tax Rules, as reduced by the amount actually paid by, or recovered from the employee in respect of such security or share. FBT liability is accrued on the date of exercise of stock options. Since no stock options have been exercised during the last six months, we did not accrue any FBT liability in the six months ended

September 30, 2007.

Reconciliation between Indian and U.S. GAAP

All financial information in this Quarterly Report is presented in accordance with U.S. GAAP, although we also report for Indian statutory purposes under Indian GAAP. The material differences that affect us are primarily attributable to U.S. GAAP requirements for the:
• accounting for stock-based compensation under SFAS 123R and;
• amortization of intangible assets.

Reconciliation of Net Income

(Dollars in million)

	Six months ended September 30,	
	2006	**2007**
Net profit as per Indian GAAP	$376	$540
Stock compensation expenses (SFAS 123 R)	(2)	(2)
Amortization of intangible assets	(1)	(4)
Net income as per U.S. GAAP	$373	534

Item 3. Quantitative and Qualitative Disclosures about Market Risk

General

Market risk is attributable to all market sensitive financial instruments including foreign currency receivables and payables. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments.

Our exposure to market risk is a function of our revenue generating activities and any future borrowing activities in foreign currency. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. Most of our exposure to market risk arises out of our foreign currency accounts receivable.

Risk Management Procedures

We manage market risk through treasury operations. Our treasury operations' objectives and policies are approved by senior management and our audit committee. The activities of treasury operations include management of cash resources, implementing hedging strategies for foreign currency exposures, borrowing strategies, if any, and ensuring compliance with market risk limits and policies.

Components of Market Risk

Exchange rate risk : Our exposure to market risk arises principally from exchange rate risk. Even though our functional currency is the Indian rupee, we transact a major portion of our business in foreign currencies, such as the U.S. dollar, the United Kingdom Pound Sterling and the Euro. The exchange rate between the rupee and these currencies has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of our operations are adversely affected as the rupee appreciates against dollar and other foreign currencies. For the six months ended September 30, 2007 and September 30, 2006, U.S. dollar denominated revenues represented 71.6% and 75.2% of total revenues. For the same periods, revenues denominated in United Kingdom Pound Sterling represented 13.7% and 11.9% of total revenues while revenues denominated in the Euro represented 5.1% and 4.8% of total revenues. Our exchange rate risk primarily arises from our foreign currency revenues, receivables and

payables.

We use derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecasted cash flows denominated in certain foreign currencies. The counterparty for these contracts is generally a bank. We held foreign exchange forward contracts of $170 million, Euro 2 million and United Kingdom Pound Sterling 6 million as of March 31, 2007 and $986 million, Euro 34 million and GBP 10 million of foreign exchange forward contracts as of September 30, 2007. The forward exchange contracts mature between 1 to 12 months. As of March 31, 2007, the company held range barrier options of $207 million and United Kingdom Pound Sterling 8 million, Euro Accelerator of Euro 24 million and Target Redemption Structure of United Kingdom Pound Sterling 16 million. As of September 30, 2007, the company held range barrier options of $240 million and GBP 6 million, Euro Accelerator of Euro 18 million, GBP Accelerator of GBP 12 million, Target Redemption Structure of GBP 4 million, Euro Forward Extra of Euro 5 million, GBP Forward Extra of GBP 15 million and USD-INR vanilla put options of $10 million. The forward contracts typically mature within one to twelve months, must be settled on the day of maturity and may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these derivative instruments only as a hedging mechanism and not for speculative purposes. We may not purchase adequate instruments to insulate ourselves from foreign exchange currency risks. The policies of the Reserve Bank of India may change from time to time which may limit our ability to hedge our foreign currency exposures adequately. In addition, any such instruments may not perform adequately as a hedging mechanism. We may, in the future, adopt more active hedging policies, and have done so in the past.

Fair value: The fair value of our market rate risk sensitive instruments approximates their carrying value.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No.157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 provides guidance on determination of fair value, and lays down the fair value hierarchy to classify the source of information used in fair value measurements. We will be required to adopt this new standard for the fiscal year beginning April 1, 2008. We are currently evaluating the requirements of SFAS 157 and have not yet determined the impact on the consolidated financial statements.

In February 2007, the Financial Accounting Standards Board released FASB 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We will be required to adopt this new standard for the fiscal year beginning April 1, 2008. We are currently evaluating the requirements of SFAS 159 and have not yet determined the impact on the consolidated financial statements.

Recently Adopted Accounting Pronouncements

Uncertainty in Income Taxes

Effective April 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. As a result of the implementation of FIN 48, we did not have to recognize any increase/decrease in the liability for unrecognized tax benefits related to tax positions taken in prior periods.

Upon adoption of FIN 48, the company's policy to include interest and penalties related to gross unrecognized tax benefits within the provision for income taxes did not change. Both as of April 1, 2007 (the date of adoption of FIN 48) and as of September 30, 2007 the company had an accrual of $7 million for payment of such interest and penalties. Interest and penalties included in the provision for income taxes were not material for the six months ended September 30, 2007.

The total unrecognized tax benefits as of April 1, 2007 (the date of adoption of FIN 48) and September 30, 2007 were $120 million and $136 million respectively. Also, the total unrecognized tax benefits that, if recognized, would reduce the tax provisions by $113 million and $129 million as of April 1, 2007 and September 30, 2007, respectively, and thereby affecting the effective tax rate. As a result of statute of limitation expiring for tax year 2003-04 for U.S. federal tax and state tax jurisdictions, the company's unrecognized tax benefits have reduced by $11 million during the six months ended September 30, 2007.

Our two major tax jurisdictions are India and the U.S., though we also file tax returns in other foreign jurisdictions. In India, the assessment is not yet completed for the tax year 2004-05 and onwards. In the U.S, certain state tax returns pertaining to fiscal years 2001 to 2004 remain subject to examination. Further, U.S. federal and state tax returns pertaining to fiscal year 2005 onwards are within the statute of limitation prescribed by the relevant authorities for examination.

Stock compensation expense

We adopted FASB Statement No.123 (revised 2004) (SFAS 123R), *Share-Based Payment*, effective April 1, 2006. This statement requires compensation expense relating to share-based payments to be recognized in net income using a fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. We elected the modified prospective method as prescribed in SFAS 123R and therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of April 1, 2006. In addition, we previously accounted for forfeitures when they occurred. Commencing at the date of adoption, we included a forfeiture estimate in the amount of compensation expense being recognized. The adoption of SFAS 123R, resulted in the recognition of stock compensation expense of $5 million for fiscal 2007.

Prior to April 1, 2006 we followed the intrinsic value-based accounting method for stock-based employee compensation plans for our fixed stock option plans based on Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation. SFAS 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans, however, as allowed by SFAS 123, we elected to continue to apply the intrinsic value-based method of accounting and adopted disclosure requirements of SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure.

Gratuity

We adopted Statement of Financial Accounting Standards ("SFAS") No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R effective March 31, 2007. Pursuant to the adoption, funded status of the defined benefit plan is recognized in the statement of financial position as an asset if the plan is over-funded or as a liability if the plan is under-funded. Changes in the funded status of a plan are required to be recognized in the year in which the changes occur, and reported in comprehensive income as a separate component of stockholders' equity. Further, certain gains and losses that were not previously recognized in the financial statements are required to be reported in comprehensive income,

and certain disclosure requirements were changed. Incremental impact of adopting SFAS No. 158 on individual line items has been disclosed in the financial statements.

Presentation of Tax Collected from Customers and Remitted to Governmental Authorities

We have applied the guidance in EITF Issue 06-03, *How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*. Our policy to represent revenues net of sales and value-added taxes in our consolidated statement of earnings did not undergo a change upon adoption of EITF Issue 06-03.

Critical Accounting Policies

We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

Estimates

We prepare financial statements in conformity with US GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We primarily make estimates related to contract costs expected to be incurred to complete development of software, allowances for doubtful accounts receivable, our future obligations under employee retirement and benefit plans, useful lives of property, plant and equipment, future income tax liabilities and contingencies and litigation.

We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

Revenue Recognition

We derive our revenues primarily from software development and related services, licensing of software products and from business process management services. We make and use significant management judgments and estimates in connection with the revenue that we recognize in any accounting period. Material differences might result in the amount and timing of our revenue for any period, if we made different judgments or utilized different estimates.

Arrangements with customers for software development and related services are either on a fixed-price, fixed-timeframe or on a time-and-material basis. Revenue on time-and-material contracts is recognized as the related services are rendered. Revenue from the end of the last billing to the balance sheet date is recognized as unbilled revenues. Maintenance revenues are recognized ratably over the term of the underlying maintenance arrangement. When the company receives advances for services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met.

Revenue from our fixed-price arrangements for software development and related services that involves significant production, modification or customization of the software, is accounted for in conformity with ARB No. 45, using the guidance in Statement of Position (SOP) 81-1, and the Accounting Standards Executive Committee's conclusion in paragraph 95 of SOP 97-2. Fixed-price arrangements, which are similar to 'contracts to design, develop, manufacture,

or modify complex aerospace or electronic equipment to a buyer's specification or to provide services related to the performance of such contracts' and 'contracts for services performed by architects, engineers, or architectural or engineering design firms', as laid out in Paragraph 13 of SOP 81-1, are also accounted for in conformity with SOP 81-1.

In the above mentioned fixed price arrangements, revenue has been recognized using the percentage-of-completion method. Costs and earnings in excess of billings are classified as unbilled revenue while billings in excess of costs and earnings are classified as unearned revenue. In measuring progress towards completion, we have selected a method that we believe is reliable and best approximates the progress to completion. The input (efforts expended) method has been used to measure progress towards completion as there is a direct relationship between hourly labor input and productivity and the method indicates the most reliable measure of progress. However, we evaluate each contract and apply judgment to ensure the existence of a relationship between hourly labor input and productivity.

At the end of every reporting period, we evaluate each project for estimated revenue and estimated efforts. Any revisions or updates to existing estimates are made wherever required by obtaining approvals from officers having the requisite authority. Management regularly reviews and evaluates the status of each contract in progress to estimate the profit or loss. As part of the review, detailed actual efforts and a realistic estimate of efforts to complete all phases of the project is compared with the details of the original estimate and the total contract price. To date, we have not had any fixed-price, fixed-timeframe contracts that resulted in a material loss. However, our policy is to establish a provision for losses on a contract as soon as losses become evident. We evaluate change orders according to their characteristics and the circumstances in which they occur. If such change orders are considered by the parties to be a normal element within the original scope of the contract, no change in the contract price is made. Otherwise, the adjustment to the contract price may be routinely negotiated. Contract revenue and costs are adjusted to reflect change orders approved by the client and us, regarding both scope and price. Changes are reflected in revenue recognition only after the change order has been approved by both parties. The same principle is also followed for escalation clauses. Costs that are incurred for a specific anticipated contract that will result in no future benefits unless the contract is obtained are not included in contract costs or deferred costs before the signing of the contract. Such costs are deferred only if the costs can be directly associated with a specific anticipated contract and if their recoverability from that contract is determined to be probable.

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

In arrangements with respect to software development and related services and maintenance services, we have specifically applied the guidance in paragraph 9 of EITF Issue 00-21 to determine whether the software development and related services can be considered a separate unit of accounting. Our arrangements generally meet the criteria for software development and related services to be considered a separate unit of accounting. We use the relative fair value method to allocate revenue to maintenance services and software development and related services. In cases where we are unable to establish objective and reliable evidence of fair value for the software development and related services, we have used the residual method to allocate the arrangement consideration. Maintenance revenues are recognized ratably over the term of the underlying maintenance arrangement while software development and related services revenues are recognized using the percentage-of-completion method.

In accordance with SOP 97-2, Software Revenue Recognition, license fee revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable, and the collection of the fee is probable. Arrangements to deliver our software product generally have three elements: license, implementation and Annual Technical Services, or ATS. We have applied the principles in SOP 97-2 to account for revenue from these multiple element arrangements. Vendor Specific Objective Evidence of fair value or VSOE has been established for ATS. VSOE is the price charged when the element is sold separately. When other services are

provided in conjunction with the licensing arrangement, the revenue from such contracts are allocated to each component of the contract using the residual method, whereby revenue is deferred for the undelivered services and the residual amounts are recognized as revenue for delivered elements. In the absence of an established VSOE for implementation, the entire arrangement fee for license and implementation is recognized as the implementation is performed. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed. ATS revenue is recognized ratably over the period in which the services are rendered.

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

We recognize revenue only on collectability being probable and hence credit losses do not have an impact on our revenue recognition policy. Fluctuations in our provisions for bad debts and write offs of uncollectible accounts depend on the financial health and economic environment governing our clients. Our provisions are based on specific identification of the credit loss. No one client has contributed significantly to credit losses. We have had no significant changes in our collection policies or payment terms.

We account for volume discounts and pricing incentives to customers using the guidance in EITF Issue 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products). The discount terms in our arrangements with customers generally entitle the customer to discounts if the customer completes a specified cumulative level of revenue transactions. In some arrangements, the level of discount varies with increases in the levels of revenue transactions. The discounts are passed on to the customer either as check payments or as a reduction of payments due from the customer. We recognize discount obligations as a reduction of revenue based on the ratable allocation of the discount to each of the underlying revenue transactions that result in progress by the customer toward earning the discount. We recognize the liability based on its estimate of the customer's future purchases. Also, when the level of discount varies with increases in levels of revenue transactions, we recognize the liability based on its estimate of the customer's future purchases. If we cannot reasonably estimate the customer's future purchases, then the liability is recorded based on the maximum potential level of discount. We recognize changes in the estimated amount of obligations for discounts using a cumulative catch-up adjustment. Furthermore, we do not recognize any revenue up front for breakages immediately on the inception of an arrangement.

EITF Issue 06-03*, How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*, became applicable as on April 1, 2007. Our policy to disclose revenues net of sales and value-added taxes in our consolidated statement of earnings did not undergo a change upon adoption of EITF Issue 06-03.

Income Tax

As part of our financial reporting process, we are required to estimate our liability for income taxes in each of the tax jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure together with an assessment of temporary differences resulting from differing treatment of items, such as depreciation on property, plant and equipment, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet.

We face challenges from domestic and foreign tax authorities regarding the amount of current taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Based on our evaluation of our tax position and the information presently available to us, we believe we have adequately accrued for exposures that do not meet the more likely than not threshold as of March 31, 2007 and September 30, 2007. To the extent we are able to prevail in matters for which accruals have been established

or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period may be materially impacted.

Our deferred tax liabilities mainly arise from taxable basis differences in intangible assets and investments in liquid mutual funds. Our deferred tax assets comprise assets arising from basis differences in depreciation on property, plant and equipment, loss carry forwards in subsidiary, MAT credit entitlement, investments for which the ultimate realization of the tax asset may be dependent on the availability of future capital gains, and provisions for doubtful accounts receivable. We assess the likelihood that our deferred tax assets will be recovered from future taxable income. This assessment takes into consideration tax planning strategies, including levels of historical taxable income and assumptions regarding the availability and character of future taxable income over the periods in which the deferred tax assets are deductible. We believe it is more likely than not that we will realize the benefits of those deductible differences, net of the existing valuation allowance at March 31, 2007 and September 30, 2007. The ultimate amount of deferred tax assets realized may be materially different from those recorded, as influenced by potential changes in income tax laws in the tax jurisdictions where we operate.

To the extent we believe that realization of a deferred tax asset is not likely, we establish a valuation allowance or increase this allowance in an accounting period and include an expense within the tax provision in our statements of income. As of March 31, 2007 and September 30, 2007, we recorded valuation allowance of $15 million and $21 million due to uncertainties related to our ability to utilize some of our deferred tax assets comprising provisions for doubtful accounts receivable, investments and losses in subsidiary. In the event that actual results differ from these estimates of valuation allowance or if we adjust these estimates in future periods, we may need to establish an additional valuation allowance, which could materially impact our financial position and results of operations.

We account for uncertainty in income taxes in the financial statements in accordance with Financial Accounting Standards Board Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes* - an interpretation of FASB Statement No. 109, Accounting for Income Taxes. The accounting and disclosures of tax positions taken or expected to be taken on a tax return are based on the recognition threshold and measurement attribute as prescribed by FIN 48. We recognize potential interest and penalties related to unrecognized tax benefits as income tax expense.

Business Combinations, Goodwill and Intangible Assets

We account for business combinations in accordance with SFAS No. 141, *Business Combinations*. Cash and amounts of consideration that are determinable at the date of acquisition are included in determining the cost of the acquired business. The accounting for contingent consideration based on earnings or other performance measures is a matter of judgment that depends on the relevant facts and circumstances. If the substance of the contingent consideration is to provide compensation for services, use of property, or profit sharing, we account for the additional consideration as an expense of the appropriate period. Otherwise, the additional consideration paid is recorded as an additional cost of the acquired business.

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. We generally seek the assistance of independent valuation experts in determining the fair value of the identifiable tangible and intangible net assets of the acquired business.

We test goodwill for impairment on an annual basis. In this process, we rely on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit will be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying

amount.

We amortize intangible assets over their respective individual estimated useful lives on a straight-line basis. Our estimates of the useful lives of identified intangible assets are based on a number of factors including the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, and known technological advances), and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

We evaluate intangible assets for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

In evaluating goodwill and intangible assets for impairment, we may seek the assistance of independent valuation experts, perform internal valuation analyses and consider other information that is publicly available. The results of our evaluation may be dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, discount rates and other variables. While we use assumptions which we believe are fair and reasonable, actual future results may differ from the estimates arrived at using the assumptions.

Off-Balance Sheet Arrangements

None.

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer believe, based on an evaluation performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, that the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are effective as of September 30, 2007 to ensure that information required to be disclosed by Infosys in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to Infosys' management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the period covered by the Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

The Company is subject to legal proceedings and claims, which have arisen in the ordinary course of its business. These legal actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial position of the Company.

Item1A. Risk factors

Risk Factors

This Quarterly Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Quarterly Report.

Risks Related to Our Company and Our Industry

Our revenues and expenses are difficult to predict and can vary significantly from period to period, which could cause our share price to decline.

Our revenues and profitability have grown rapidly in recent years and are likely to vary significantly in the future from period to period. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. It is possible that in the future some of our results of operations may be below the expectations of market analysts and our investors, which could cause the share price of our equity shares and our ADSs to decline significantly.

Factors which affect the fluctuation of our operating results include:

- the size, timing and profitability of significant projects, including large outsourcing deals;
- changes in our pricing policies or the pricing policies of our competitors;
- the proportion of services that we perform at our development centers or at our client sites;
- the effect of wage pressures, seasonal hiring patterns, attrition, and the time required to train and productively utilize new employees, particularly information technology, or IT, professionals;
- foreign currency fluctuations;
- the size and timing of facilities expansion and resulting depreciation and amortization costs;
- expenditures in connection with the submission of proposals for larger, more complex client engagements;
- unanticipated cancellations, contract terminations, deferrals of projects or delays in purchases, including those resulting from our clients' efforts to comply with regulatory requirements, or those occurring as a result of our clients reorganizing their operations;
- utilization of billable employees; and
- unanticipated variations in the duration, size and scope of our projects, as well as changes in the corporate decision-making process of our client base.

A significant part of our total operating expenses, particularly expenses related to personnel and facilities, are fixed in advance of any particular period. As a result, unanticipated variations in the number and timing of our projects or employee utilization rates, or the accuracy of our estimates of the resources required to complete ongoing projects, may cause significant variations in our operating results in any particular period.

There are also a number of factors, other than our performance, that are not within our control that could cause fluctuations in our operating results from period to period. These include:

- the duration of tax holidays or tax exemptions and the availability of other incentives from the Government of India;
- changes in regulations and taxation in India or the other countries in which we conduct business;
- currency fluctuations, particularly when the rupee appreciates in value against the US dollar, the United Kingdom Pound Sterling or the Euro, since the majority of our revenues are in these currencies and a significant part of our costs are in rupees; and
- other general economic and political factors, including, in particular, the economic conditions in the United States and Europe.

In addition, the availability of visas for working in the United States may vary substantially from quarter to quarter. Visas for working in the United States may be available during one quarter, but not another, or there may be differences in the number of visas available from one quarter to another. As such, the variable availability of visas may require us to incur significantly higher visa-related expenses in certain quarters when compared to others. For example, we incurred $16 million in costs for visas in the three months ended June 30, 2007, compared to $4 million for the three months ended September 30, 2007. Such fluctuations may affect our operating margins and profitability in certain quarters during a fiscal year.

We may not be able to sustain our previous profit margins or levels of profitability.

Our profitability could be affected by pricing pressures on our services, volatility of the rupee against the dollar and other currencies and increased wage pressures in India and onsite. Since fiscal 2003, we have incurred substantially higher selling and marketing expenses as we have invested to increase brand awareness among target clients and promote client loyalty and repeat business among existing clients. Furthermore, over the past 6 months, the rupee has appreciated substantially relative to the US dollar. The exchange rate for one dollar based on the noon buying rate in the City of New York for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York was Rs. 39.75 as of September 28, 2007, as against Rs. 43.10 as of March 30, 2007. On October 24, 2007 , the noon buying rate was Rs. 39.49 per one US dollar. The appreciation of the rupee against the dollar adversely impacted our revenues and operating results for fiscal 2007 and for the three months and half year ended September 30, 2007. In the event that the dollar does not appreciate against the rupee, or in the event that the rupee further appreciates against the dollar, the results of our operations may be further adversely affected.

We expect increased selling and marketing expenses in the future, which could result in declining profitability. In addition, while our Global Delivery Model allows us to manage costs efficiently, as the proportion of our services delivered at client sites increases, we may not be able to keep our operating costs as low in the future, which would also have an adverse impact on our profit margins.

The economic environment, pricing pressure and rising wages in India and overseas could negatively impact our revenues and operating results.

Spending on technology products and services in most parts of the world has been rising for the past few years after a two-year downward trend due to a challenging global economic environment. Our ability to maintain or increase pricing is restricted as clients often expect that as we do more business with them, they will receive volume discounts or special pricing incentives. Existing and new customers are also increasingly using third-party consultants with broad market knowledge to assist them in negotiating contractual terms. Large multinational companies are establishing larger offshore operations in India, resulting in wage pressures for Indian companies. This wage pressure is exacerbated by competition among Indian companies for qualified employees. Pricing pressures from our clients and wage pressures in India have negatively impacted our operating results. Every year, we undertake a compensation review, and, pursuant to such review, the average salaries of our employees has increased significantly on an annual basis. If economic growth slows, our utilization and billing rates for our technology professionals could be adversely affected, which may result in lower gross and operating profits.

Any inability to manage our growth could disrupt our business and reduce our profitability.

We have grown significantly in recent periods. Between March 31, 2003 and March 31, 2007 our total employees grew from approximately 15,900 to approximately 72,200. As of September 30, 2007 we had approximately 80,500 employees. In addition, in the last five years we have undertaken and continue to undertake major expansions of our existing facilities, as well as the construction of new facilities. We expect our growth to place significant demands on our management and other resources. Our growth will require us to continuously develop and improve our operational, financial and other internal controls, both in India and elsewhere. In addition, continued growth increases the challenges involved in:

- recruiting, training and retaining sufficient skilled technical, marketing and management personnel;
- adhering to and further improving our high quality and process execution standards;
- preserving our culture, values and entrepreneurial environment;
- successfully expanding the range of services offered to our clients;
- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems; and
- maintaining high levels of client satisfaction.

Our growth strategy also relies on the expansion of our operations to other parts of the world, including Europe, Australia and other parts of Asia. In October 2003, we established Infosys China and in January 2004 we acquired Infosys Australia to expand our operations in those countries. In April 2004, we formed Infosys Consulting to focus on consulting services in the United States and announced our intention to hire aggressively in the United States. In addition, we have embarked on an expansion of our business in China, and have expended significant resources in this expansion. We recently incorporated a wholly owned subsidiary and opened a development center in Mexico. In October 2007, as part of an outsourcing agreement with a client, Philips Electronics Nederland B.V. ("Philips"), our majority owned subsidiary, Infosys BPO, acquired from Koninklijke Philips Electronics N.V. shared services centers in Poland and India engaged in the provision of finance, accounting and procurement support services to Philips' operations worldwide. In connection with this transaction, Infosys BPO has also agreed to aquire Philips' shared services center in Thailand subject to fulfillment of certain conditions precedent. The costs involved in entering and establishing ourselves in new markets, and expanding such operations, may be higher than expected and we may face significant competition in these regions. Our inability to manage our expansion and related growth in these regions may have an adverse effect on our business, results of operations and financial condition.

We may face difficulties in providing end-to-end business solutions for our clients, which could lead to clients discontinuing their work with us, which in turn could harm our business.

Over the past several years, we have been expanding the nature and scope of our engagements by extending the breadth of services we offer. The success of some of our newer service offerings, such as operations and business process consulting, IT consulting, business process management, systems integration and infrastructure management, depends, in part, upon continued demand for such services by our existing and new clients and our ability to meet this demand in a cost-competitive and effective manner. Furthermore, our IT consulting business is not yet profitable, and its success in the future will depend on a number of factors. We cannot assure you that this business will become profitable in the future. In addition, our ability to effectively offer a wider breadth of end-to-end business solutions depends on our ability to attract existing or new clients to these service offerings. To obtain engagements for our end-to-end solutions, we are competing with large, well-established international consulting firms as well as other India-based technology services companies, resulting in increased competition and marketing costs. Accordingly, our new service offerings may not effectively meet client needs and we may be unable to attract existing and new clients to these service offerings.

The increased breadth of our service offerings may result in larger and more complex client projects. This will require us to establish closer relationships with our clients and potentially with other technology service providers and vendors, and require a more thorough understanding of our clients' operations. Our ability to establish these relationships will depend on a number of factors including the proficiency of our technology professionals and our management personnel.

Larger projects often involve multiple components, engagements or stages, and a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. These terminations, cancellations or delays may result from the business or financial condition of our clients or the economy generally, as opposed to factors related to the quality of our services. Cancellations or delays make it difficult to plan for project resource requirements, and resource planning inaccuracies may have a negative impact on our profitability.

Intense competition in the market for technology services could affect our cost advantages, which could reduce our share of business from clients and decrease our revenues.

The technology services market is highly competitive. Our competitors include large consulting firms, captive divisions of large multinational technology firms, infrastructure management services firms, Indian technology services firms, software companies and in-house IT departments of large corporations.

The technology services industry is experiencing rapid changes that are affecting the competitive landscape, including recent divestitures and acquisitions that have resulted in consolidation within the industry. These changes may result in larger competitors with significant resources. In addition, some of our competitors have added or announced plans to add cost-competitive offshore capabilities to their service offerings. These competitors may be able to offer their services using the offshore and onsite model more efficiently than we can. Many of these competitors are also substantially larger than us and have significant experience with international operations. We may face competition from these competitors in countries where we currently operate, as well as in countries in which we expect to expand our operations. We also expect additional competition from technology services firms with current operations in other countries, such as China and the Philippines. Many of our competitors have significantly greater financial, technical and marketing resources, generate greater revenues, have more extensive existing client relationships and technology partners and have greater brand recognition than we do. We may be unable to compete successfully against these competitors, or may lose clients to these competitors. Additionally, we believe that our ability to compete also depends in part on factors outside our control, such as the price at which our competitors offer comparable services, and the extent of our competitors' responsiveness to their clients' needs.

Our revenues are highly dependent upon a small number of clients, and the loss of any one of our major clients could significantly impact our business.

We have historically earned, and believe that in the future we will continue to earn, a significant portion of our revenues from a limited number of corporate clients. In the six months ended September 30, 2007, fiscal 2007 and fiscal 2006, our largest client accounted for 8.2%, 7.0% and 4.4% of our total revenues, and our five largest clients together accounted for 20.4%, 19.4% and 17.8% of our total revenues. The volume of work we perform for specific clients is likely to vary from year to year, particularly since we historically have not been the exclusive external technology services provider for our clients. Thus, a major client in one year may not provide the same level of revenues in a subsequent year. However, in any given year, a limited number of clients tend to contribute a significant portion of our revenues.

There are a number of factors, other than our performance, that could cause the loss of a client and that may not be predictable. In certain cases, we have significantly reduced the services provided to a client when the client either changed its outsourcing strategy by moving more work in-house or replaced its existing software with packaged software supported by the licensor. Reduced technology spending in response to a challenging economic or competitive environment may also result in our loss of a client. If we lose one of our major clients or one of our major clients significantly reduces its volume of business with us, our revenues and profitability could be reduced.

Our revenues are highly dependent on clients primarily located in the United States and Europe, as well as on clients concentrated in certain industries, and economic slowdowns or factors that affect the economic health of the United States, Europe or these industries may affect our business.

In the six months ended September 30, 2007, fiscal 2007 and fiscal 2006, approximately 62.6%, 62.3% and 63.9% of our revenues were derived from the United States. In the same periods, approximately 27.1%, 26.4% and 24.5% of our revenues were derived from Europe. If the United States or European economy weakens, our clients may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. Additionally, any recession in the United States economy will have an adverse impact on our revenues since a large portion of our revenues are derived from the United States. In

addition, in the six months ended September 30, 2007, fiscal 2007 and 2006 , we earned 36.3%, 37.4% and 36.0% of our revenues from the financial services industry, and 13.8%, 13.5% and 13.9% from the manufacturing industry. Any significant decrease in the growth of the financial services industry, or significant consolidation in that industry or decrease in growth or consolidation in other industry segments on which we focus, may reduce the demand for our services and negatively affect our revenues and profitability.

Legislation in certain of the countries in which we operate, including the United States and the United Kingdom, may restrict companies in those countries from outsourcing work overseas.

Recently, some countries and organizations have expressed concerns about a perceived association between offshore outsourcing and the loss of jobs. With the growth of offshore outsourcing receiving increasing political and media attention, especially in the United States which is our largest market, it is possible that there could be a change in the existing laws or the enactment of new legislations restricting offshore outsourcing which may adversely impact our ability to do business globally, or in the United States, especially with, government-related entities. It is also possible that private sector companies working with these governmental entities may be restricted from outsourcing projects related to government contracts or may face disincentives if they outsource certain operations.

In the United Kingdom, the Transfer of Undertakings (Protection of Employees) Regulations, or TUPE, including the recent revisions to those regulations, will allow employees who are dismissed as a result of "service provision changes", which may include outsourcing to non-UK companies, to seek compensation either from the company from which they were dismissed or from the company to which the work was transferred. This could deter UK companies from outsourcing work to us and could also result in our being held liable for redundancy payments to such workers.

Any of these events could adversely affect our revenues and operating profitability.

Our success depends largely upon our highly skilled technology professionals and our ability to hire, attract and retain these personnel.

Our ability to execute projects, to maintain our client relationships and to obtain new clients depends largely on our ability to attract, train, motivate and retain highly skilled technology professionals, particularly project managers and other mid-level professionals. If we cannot hire and retain additional qualified personnel, our ability to bid for and obtain new projects, and to continue to expand our business will be impaired and our revenues could decline. We believe that there is significant worldwide competition for technology professionals with the skills necessary to perform the services we offer. For example, in India, since 2004, hiring by technology companies has increased significantly. Excluding Infosys BPO and our other subsidiaries, we added approximately 12,500, 15,200 and 6,400 new employees, net of attrition, in fiscal 2006 and 2007 and the six months ended September 30, 2007.

Increased hiring by technology companies, particularly in India, and increasing worldwide competition for skilled technology professionals may lead to a shortage in the availability of qualified personnel in the markets in which we operate and hire. The NASSCOM-McKinsey Report 2005 estimates that by 2010, employers will require approximately 2.3 million employees in India that provide IT and IT-enabled services, but that the number of qualified professionals that are trained to provide such services will be nearly 500,000 less than the projected requirements. Of this shortfall, approximately 70% will be in the IT-enabled services industry and the balance will be in the IT services industry. A shortage in the availability of qualified IT professionals in the markets in which we operate may affect our ability to hire an adequate number of skilled and experienced technology professionals. Our inability to hire such professionals may have an adverse effect on our business, results of operations and financial condition.

Changes in policies or laws may also affect the ability of technology companies to hire, attract and retain personnel. For instance, the Finance Act, 2007 imposed a fringe benefit tax, or FBT, on companies in respect of specified securities or equity shares allotted or transferred, directly or indirectly, by the company free of cost or at a concessional rate to its employees. The imposition of FBT may discourage technology companies in India from

granting stock options to its employees. Although the Finance Act has clarified that FBT imposed on a company may be passed on to its employees, any passing on of FBT by a company to its employees may reduce the effectiveness of stock option grants in attracting and retaining employees. Any suspension of stock option grants or the passing on of FBT by us to our employees may affect our ability to hire skilled and experienced technology professionals.

Increased demand for technology professionals has also led to an increase in attrition rates. We estimate the attrition rate in the Indian technology services industry, which excludes the business process management industry, to be approximately 20% annually. Our comparable attrition rate for the six months ended September 30, 2007, fiscal 2007 and fiscal 2006 was 14.2%, 13.7%, 11.2%, without accounting for attrition in Infosys BPO or our other subsidiaries. Furthermore, attrition in the business process management industry is generally significantly higher than in the technology services industry. We may not be able to hire and retain enough skilled and experienced technology professionals to replace those who leave. Additionally, we may not be able to redeploy and retrain our technology professionals to keep pace with continuing changes in technology, evolving standards and changing client preferences. Our inability to attract and retain technology professionals may have a material adverse effect on our business, results of operations and financial condition. It is also possible that the Central Government or other State Governments in India may introduce legislation requiring employers to give preferential hiring treatment to under-represented groups. The quality of our work force is critical to our business. If any such Central or State legislation becomes effective, our ability to hire the most highly qualified technology professionals may be hindered.

Our success depends in large part upon our management team and key personnel and our ability to attract and retain them.

We are highly dependent on the senior members of our management team, including the continued efforts of our Chairman, our Chief Executive Officer, our Chief Operating Officer, our Chief Financial Officer, other executive members of the board and the management council, which consists of executive and other officers. On June 22, 2007, we effected an internal reorganization, pursuant to which our then Chief Executive Officer, Nandan M. Nilekani stepped down as Chief Executive Officer, and S. Gopalakrishnan, our former President and Chief Operating Officer, took his place. Nandan M. Nilekani continues to serve as our Deputy Chairman. S. D. Shibulal replaced Mr. Gopalakrishnan as our Chief Operating Officer effective June 22, 2007. Our future performance will be affected by any disruptions in the continued service of our executives and other officers. Competition for senior management in our industry is intense, and we may not be able to retain such senior management personnel or attract and retain new senior management personnel in the future. Furthermore, we do not maintain key man life insurance for any of the senior members of our management team or other key personnel. The loss of any member of our senior management or other key personnel may have a material adverse effect on our business, results of operations and financial condition.

Our failure to complete fixed-price, fixed-timeframe contracts within budget and on time may negatively affect our profitability.

As an element of our business strategy, we offer a portion of our services on a fixed-price, fixed-timeframe basis, rather than on a time-and-materials basis. In the six months ended September 30, 2007, fiscal 2007 and fiscal 2006, revenues from fixed-price, fixed-timeframe projects accounted for 28.7%, 26.7% and 28.1% of our total services revenues including revenues from our business process management services. Although we use our software engineering methodologies and processes and past project experience to reduce the risks associated with estimating, planning and performing fixed-price, fixed-timeframe projects, we bear the risk of cost overruns, completion delays and wage inflation in connection with these projects. If we fail to estimate accurately the resources and time required for a project, future wage inflation rates, or currency exchange rates, or if we fail to complete our contractual obligations within the contracted timeframe, our profitability may suffer.

Our client contracts can typically be terminated without cause and with little or no notice or penalty, which could negatively impact our revenues and profitability.

Our clients typically retain us on a non-exclusive, project-by-project basis. Most of our client contracts, including those that are on a fixed-price, fixed-timeframe basis, can be terminated with or without cause, with between zero and 90 days' notice and without any termination-related penalties. Additionally, our contracts with clients are typically limited to discrete projects without any commitment to a specific volume of business or future work. Our business is dependent on the decisions and actions of our clients, and there are a number of factors relating to our clients that are outside of our control which might lead to termination of a project or the loss of a client, including:

- financial difficulties for a client;
- a change in strategic priorities, resulting in a reduced level of technology spending;
- a demand for price reductions;
- a change in outsourcing strategy by moving more work to the client's in-house technology departments or to our competitors;
- the replacement by our clients of existing software with packaged software supported by licensors;
- mergers and acquisitions; and
- consolidation of technology spending by a client, whether arising out of mergers and acquisitions, or otherwise.

Our inability to control the termination of client contracts could have a negative impact on our financial condition and results of operations.

Our engagements with customers are singular in nature and do not necessarily provide for subsequent engagements.