

Infosys Ltd
Form 6-K
July 20, 2012

Form 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

For the quarter ended June 30, 2012

Commission File Number 000-25383

Infosys Limited
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

Electronics City, Hosur Road, Bangalore – 560 100, Karnataka, India. +91-80-2852-0261
(Address of principal executive offices)

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

Form 20-F Form 40-F

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) :

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 "" 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 the International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRS. 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 Limited, and, unless specifically indicated otherwise or the context indicates otherwise, our consolidated subsidiaries. "Infosys" is a registered

trademark of Infosys Limited in the United States and India. All other trademarks or trade names 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 effected are based on the fixing rate in the City of Mumbai on June 30, 2012 for cable transfers in Indian rupees as published by the Foreign Exchange Dealers' Association of India, or FEDAI, which was 55.62 per \$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

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Part I – Financial Information

Item I. Financial Statements

Infosys Limited and subsidiaries

Unaudited Consolidated Balance Sheets as of
(Dollars in millions except share data)

	Note	June 30, 2012	March 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	2.1	\$3,242	\$4,047
Available-for-sale financial assets	2.2	389	6
Investment in certificates of deposit		64	68
Trade receivables		1,240	1,156
Unbilled revenue		362	368
Prepayments and other current assets	2.4	315	300
Total current assets		5,612	5,945
Non-current assets			
Property, plant and equipment	2.5	1,009	1,063
Goodwill	2.6	183	195
Intangible assets	2.6	32	34
Available-for-sale financial assets	2.2	1	2
Investment in government bonds	2.7	9	—
Deferred income tax assets	2.16	60	62
Income tax assets	2.16	189	204
Other non-current assets	2.4	21	32
Total non-current assets		1,504	1,592
Total assets		\$7,116	\$7,537
LIABILITIES AND EQUITY			
Current liabilities			
Derivative financial instruments	2.7	\$49	\$9
Trade payables		7	5
Current income tax liabilities	2.16	254	207
Client deposits		2	3
Unearned revenue		139	107
Employee benefit obligations		102	98
Provisions	2.8	27	26
Other current liabilities	2.9	447	482
Total current liabilities		1,027	937
Non-current liabilities			
Deferred income tax liabilities	2.16	11	2
Other non-current liabilities	2.9	21	22
Total liabilities		1,059	961
Equity			
Share capital 5 (\$0.16) par value 600,000,000 equity shares authorized, issued and outstanding 571,396,851 and 571,396,401, net of 2,833,600 treasury shares each as of June 30, 2012 and March 31, 2012, respectively		64	64
Share premium		703	703
Retained earnings		6,543	6,509
Other components of equity		(1,253)	(700)
Total equity attributable to equity holders of the company		6,057	6,576
Non-controlling interests		—	—

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Total equity		6,057	6,576
Total liabilities and equity		\$7,116	\$7,537
Commitments and contingent liabilities	2.5, 2.16 and 2.20		

The accompanying notes form an integral part of the unaudited consolidated interim financial statements

Infosys Limited and subsidiaries

Unaudited Consolidated Statements of Comprehensive Income

(Dollars in millions except share and per equity share data)

	Note	Three months ended	
		June 30, 2012	June 30, 2011
Revenues		\$1,752	\$1,671
Cost of sales		1,059	1,022
Gross profit		693	649
Operating expenses:			
Selling and marketing expenses		86	89
Administrative expenses		118	125
Total operating expenses		204	214
Operating profit		489	435
Other income, net	2.13	87	99
Profit before income taxes		576	534
Income tax expense	2.16	160	150
Net profit		\$416	\$384
Other comprehensive income			
Fair value changes on available-for-sale financial asset, net of tax effect (refer note 2.2 and 2.16)		(1)	—
Exchange differences on translating foreign operations		(552)	(7)
Total other comprehensive income		\$(553)	\$(7)
Total comprehensive income		\$(137)	\$377
Profit attributable to:			
Owners of the company		\$416	\$384
Non-controlling interest		—	—
		\$416	\$384
Total comprehensive income attributable to:			
Owners of the company		\$(137)	\$377
Non-controlling interest		—	—
		\$(137)	\$377
Earnings per equity share			
Basic (\$)		0.73	0.67
Diluted (\$)		0.73	0.67
Weighted average equity shares used in computing earnings per equity share	2.17		
Basic		571,396,551	571,333,499
Diluted		571,398,141	571,396,376

The accompanying notes form an integral part of the unaudited consolidated interim financial statements

Infosys Limited and subsidiaries

Unaudited Consolidated Statements of Changes in Equity

(Dollars in millions except share data)

	Shares(*)	Share capital	Share premium	Retained earnings	Other components of equity	Total equity attributable to equity holders of the company
Balance as of April 1, 2011	571,317,959	\$64	\$702	\$5,294	\$62	\$6,122
Changes in equity for the three months ended June 30, 2011						
Shares issued on exercise of employee stock options	36,133	–	–	–	–	–
Dividends (including corporate dividend tax)	–	–	–	(297)	–	(297)
Fair value changes on available-for-sale financial assets, net of tax effect (Refer Note 2.2 and 2.16)	–	–	–	–	–	–
Net profit	–	–	–	384	–	384
Contribution to consolidated Trust corpus	–	–	–	6	–	6
Exchange differences on translating foreign operations	–	–	–	–	(7)	(7)
Balance as of June 30, 2011	571,354,092	\$64	\$702	\$5,387	\$55	\$6,208
Balance as of April 1, 2012	571,396,401	\$64	\$703	\$6,509	\$(700)	\$6,576
Changes in equity for the three months ended June 30, 2012						
Shares issued on exercise of employee stock options	450	–	–	–	–	–
Dividends (including corporate dividend tax)	–	–	–	(382)	–	(382)
Fair value changes on available-for-sale financial assets, net of tax effect (Refer Note 2.2 and 2.16)	–	–	–	–	(1)	(1)
Net profit	–	–	–	416	–	416
Exchange differences on translating foreign operations	–	–	–	–	(552)	(552)
Balance as of June 30, 2012	571,396,851	\$64	\$703	\$6,543	\$(1,253)	\$6,057

*excludes treasury shares of 2,833,600 held by consolidated trust

The accompanying notes form an integral part of the unaudited consolidated interim financial statements

Infosys Limited and subsidiaries

Unaudited Consolidated Statements of Cash Flows

(Dollars in millions)

	Note	Three months ended	
		June 30, 2012	June 30, 2011
Operating activities:			
Net profit		\$416	\$384
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	2.5 and 2.6	46	50

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Income on investments		(7)	(1)
Income tax expense	2.16	160	150
Changes in working capital			
Trade receivables		(185)	(50)
Prepayments and other assets		14	(24)
Unbilled revenue		(25)	(33)
Trade payables		3	(5)
Client deposits		(1)	(1)
Unearned revenue		41	2
Other liabilities and provisions		20	5
Cash generated from operations		482	477
Income taxes paid	2.16	(97)	(100)
Net cash provided by operating activities		385	377
Investing activities:			
Expenditure on property, plant and equipment, including changes in retention money	2.5 and 2.9	(80)	(57)
Loans to employees		(4)	(1)
Deposits placed with corporation		(2)	—
Income on available-for-sale financial assets		5	1
Investment in government bonds	2.7	(9)	—
Investment in certificates of deposit		—	(5)
Redemption of certificates of deposit		—	27
Investment in available-for-sale financial assets		(875)	(312)
Redemption of available-for-sale financial assets		488	310
Net cash used in investing activities		(477)	(37)
Financing activities:			
Contribution to trust corpus		—	6
Payment of dividends		(329)	(254)
Payment of corporate dividend tax		(53)	(42)
Net cash used in financing activities		(382)	(290)
Effect of exchange rate changes on cash and cash equivalents		(331)	(3)
Net increase in cash and cash equivalents		(474)	50
Cash and cash equivalents at the beginning	2.1	4,047	3,737
Cash and cash equivalents at the end	2.1	\$3,242	\$3,784
Supplementary information:			
Restricted cash balance	2.1	\$60	\$33

The accompanying notes form an integral part of the unaudited consolidated interim financial statement

Notes to the Unaudited Consolidated Interim Financial Statements

1. Company Overview and Significant Accounting Policies

1.1. Company overview

Infosys Limited (Infosys or the company) along with its controlled trusts, majority owned and controlled subsidiary, Infosys BPO Limited (Infosys BPO) and wholly owned and controlled subsidiaries, Infosys Technologies (Australia) Pty. Limited (Infosys Australia), Infosys Technologies (China) Co. Limited (Infosys China), Infosys Technologies S. DE R.L. de C.V. (Infosys Mexico), Infosys Technologies (Sweden) AB (Infosys Sweden), Infosys Consulting India Limited (Infosys Consulting India), Infosys Tecnologia do Brasil Ltda (Infosys Brasil), Infosys Public Services, Inc., (Infosys Public Services), and Infosys Technologies (Shanghai) Company Limited (Infosys Shanghai) is a leading global technology services company. The Infosys group of companies (the Group) provides business consulting,

technology, engineering and outsourcing services. In addition, the Group offers software products for the banking industry.

In June 2011, the name of the company was changed from “Infosys Technologies Limited” to “Infosys Limited,” following approval of the name change by the company’s board of directors, shareholders and the Indian regulatory authorities.

The company is a public limited company incorporated and domiciled in India and has its registered office at Bangalore, Karnataka, India. The company has its primary listings on the Bombay Stock Exchange and National Stock Exchange in India. The company’s American Depositary Shares representing equity shares are also listed on the NASDAQ Global Select Market. The company’s unaudited consolidated interim financial statements were authorized for issue by the company’s Board of Directors on July 20, 2012.

1.2. Basis of preparation of financial statements

These consolidated interim financial statements have been prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), under the historical cost convention on the accrual basis except for certain financial instruments and prepaid gratuity benefits which have been measured at fair values. These consolidated interim 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, 2012. Accounting policies have been applied consistently to all periods presented in these unaudited consolidated interim financial statements.

1.3 Basis of consolidation

Infosys consolidates entities which it owns or controls. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are also taken into account. Subsidiaries are consolidated from the date control commences until the date control ceases.

The financial statements of the Group companies are consolidated on a line-by-line basis and intra-group balances and transactions including unrealized gain / loss from such transactions are eliminated upon consolidation. These financial statements are prepared by applying uniform accounting policies in use at the Group. Non-controlling interests which represent part of the net profit or loss and net assets of subsidiaries that are not, directly or indirectly, owned or controlled by the company, are excluded.

1.4. Use of estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions. These estimates, judgments and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Application of accounting policies that require critical accounting estimates involving complex and subjective judgments and the use of assumptions in these financial statements have been disclosed in Note 1.5. Accounting estimates could change from period to period. Actual results could differ from those estimates. Appropriate changes in estimates are made as management becomes aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made and, if material, their effects are disclosed in the notes to the consolidated financial statements.

1.5. Critical accounting estimates

a. Revenue recognition

The company uses the percentage-of-completion method in accounting for its fixed-price contracts. Use of the percentage-of-completion method requires the company to estimate the efforts expended to date as a proportion of the total efforts to be expended. Efforts expended have 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 expected contract estimates at the reporting date.

b. Income taxes

The company's two major tax jurisdictions are India and the U.S., though the company also files tax returns in other overseas jurisdictions. Significant judgments are involved in determining the provision for income taxes, including amount expected to be paid/recovered for uncertain tax positions. Also refer to Note 2.16.

c. Business combinations and intangible assets

Business combinations are accounted for using IFRS 3 (Revised), Business Combinations. IFRS 3 requires the identifiable intangible assets and contingent consideration to be fair valued in order to ascertain the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. Significant estimates are required to be made in determining the value of contingent consideration and intangible assets. These valuations are conducted by independent valuation experts.

1.6. Revenue recognition

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

Revenue on time-and-material contracts are 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, where there is no uncertainty as to measurement or collectability of consideration, is recognized as per the percentage-of-completion method. When there is uncertainty as to measurement or ultimate collectability revenue recognition is postponed until such uncertainty is resolved. Efforts expended have 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 arrangement.

In arrangements for software development and related services and maintenance services, the company has applied the guidance in IAS 18, Revenue, by applying the revenue recognition criteria for each separately identifiable component of a single transaction. The arrangements generally meet the criteria for considering software development and related services as separately identifiable components. For allocating the consideration, the company has measured the revenue in respect of each separable component of a transaction at its fair value, in accordance with principles given in IAS 18. The price that is regularly charged for an item when sold separately is the best evidence of its fair value. 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 a residual method to allocate the arrangement consideration. In these cases the balance of the consideration, after allocating the fair values of undelivered components of a transaction has been allocated to the delivered components for which specific fair values do not exist.

License fee revenues are recognized when the general revenue recognition criteria given in IAS 18 are met. Arrangements to deliver software products generally have three elements: license, implementation and Annual Technical Services (ATS). The company has applied the principles given in IAS 18 to account for revenues from these multiple element arrangements. Objective and reliable evidence of fair value has been established for ATS. Objective and reliable evidence of fair value is the price charged when the element is sold separately. When other services are provided in conjunction with the licensing arrangement and objective and reliable evidence of their fair values have been established, the revenue from such contracts are allocated to each component of the contract in a manner, whereby revenue is deferred for the undelivered services and the residual amounts are recognized as revenue for delivered elements. In the absence of objective and reliable evidence of fair value for implementation, the entire arrangement fee for license and implementation is recognized using the percentage-of-completion method 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.

Advances received for services and products are reported as client deposits until all conditions for revenue recognition are met.

The company accounts for volume discounts and pricing incentives to customers as a reduction of revenue based on the ratable allocation of the discounts/ incentives amount to each of the underlying revenue transaction that results in progress by the customer towards earning the discount/ incentive. 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 it is probable that the criteria for the discount will not be met, or if the amount thereof cannot be estimated reliably, then discount is not recognized until the payment is probable and the amount can be estimated reliably. The company recognizes changes in the estimated amount of obligations for discounts in the period in which the change occurs. The discounts are passed on to the customer either as direct payments or as a reduction of payments due from the customer.

The company presents revenues net of value-added taxes in its statement of comprehensive income.

1.7. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairments, if any. The direct costs are capitalized until the property, plant and equipment are ready for use, as intended by management. The company depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets for current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Advances paid towards the acquisition of property, plant and equipment 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'. Subsequent expenditures relating to property, plant and equipment is capitalized only when it is probable that future economic benefits associated with these will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance costs are recognized in net profit in the statement of comprehensive income when incurred. The cost and related accumulated depreciation are eliminated from the financial statements upon sale or retirement of the asset and the resultant gains or losses are recognized in net profit in the statement of comprehensive income. Assets to be

disposed off are reported at the lower of the carrying value or the fair value less cost to sell.

1.8. Business combinations

Business combinations have been accounted for using the acquisition method under the provisions of IFRS 3 (Revised), Business Combinations.

The cost of an acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition, which is the date on which control is transferred to the Group. The cost of acquisition also includes the fair value of any contingent consideration. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition.

Transaction costs that the Group incurs in connection with a business combination such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

1.9. Goodwill

Goodwill represents the cost of business acquisition in excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the cost of business acquisition, a gain is recognized immediately in net profit in the statement of comprehensive income. Goodwill is measured at cost less accumulated impairment losses.

1.10. Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment. Intangible assets are amortized over their respective individual estimated useful lives on a straight-line basis, from the date that they are available for use. 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.

Research costs are expensed as incurred. Software product development costs are expensed as incurred unless technical and commercial feasibility of the project is demonstrated, future economic benefits are probable, the company has an intention and ability to complete and use or sell the software and the costs can be measured reliably. The costs which can be capitalized include the cost of material, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use. Research and development costs and software development costs incurred under contractual arrangements with customers are accounted as cost of sales.

1.11. Financial instruments

Financial instruments of the Group are classified in the following categories: non-derivative financial instruments comprising of loans and receivables, available-for-sale financial assets and trade and other payables; derivative financial instruments under the category of financial assets or financial liabilities at fair value through profit or loss; share capital and treasury shares. The classification of financial instruments depends on the purpose for which those were acquired. Management determines the classification of its financial instruments at initial recognition.

a. Non-derivative financial instruments

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are measured initially at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment loss or provisions for doubtful accounts. Loans and receivables are represented by trade receivables, net of allowances for impairment, unbilled revenue, cash and cash equivalents, prepayments, certificates of deposit investment in government bonds and other assets. Cash and cash equivalents comprise cash and bank deposits and deposits with corporations. The company considers all highly liquid investments with a remaining maturity at the date of purchase of three months or less and that are readily convertible to known amounts of cash to be cash equivalents. Certificates of deposit is a negotiable money market instrument for funds deposited at a bank or other eligible financial institution for a specified time period. For these financial instruments, the carrying amounts approximate fair value due to the short maturity of these instruments.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or are not classified in any of the other categories. Available-for-sale financial assets are recognized initially at fair value plus transactions costs. Subsequent to initial recognition these are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognized directly in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net profit in the statement of comprehensive income. These are presented as current assets unless management intends to dispose off the assets after 12 months from the balance sheet date.

(iii) Trade and other payables

Trade and other payables are initially recognized at fair value, and subsequently carried at amortized cost using the effective interest method. For these financial instruments, the carrying amounts approximate fair value due to the short maturity of these instruments.

b. Derivative financial instruments

Financial assets or financial liabilities, at fair value through profit or loss.

This category has two sub-categories wherein, financial assets or financial liabilities are held for trading or are designated as such upon initial recognition. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Derivatives are categorized as held for trading unless they are designated as hedges.

The company holds derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on trade receivables and forecasted cash flows denominated in certain foreign currencies. The counterparty for these contracts is generally a bank or a financial institution. Although the company believes that these financial instruments constitute hedges from an economic perspective, they do not qualify for hedge accounting under IAS 39, Financial Instruments: Recognition and Measurement. Any derivative that is either not designated a hedge, or is so designated but is ineffective per IAS 39, is categorized as a financial asset, at fair value through profit or loss.

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in net profit in the statement of comprehensive income when incurred. Subsequent to initial recognition, derivatives are measured at fair value through profit or loss and the resulting exchange gains or losses are included in other income. Assets/ liabilities in this category are presented as current assets/current liabilities if they are either held for trading or are expected to be

realized within 12 months after the balance sheet date.

c. Share capital and treasury shares

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Treasury Shares

When any entity within the Group purchases the company's ordinary shares, the consideration paid including any directly attributable incremental cost is presented as a deduction from total equity, until they are cancelled, sold or reissued. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/ from retained earnings.

1.12. Impairment

a. Financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(i) Loans and receivables

Impairment loss in respect of loans and receivables measured at amortized cost are calculated as the difference between their carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss is recognized in net profit in the statement of comprehensive income.

(ii) Available-for-sale financial assets

Significant or prolonged decline in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value and is recognized in net profit in the statement of comprehensive income. The cumulative loss that was recognized in other comprehensive income is transferred to net profit in the statement of comprehensive income upon impairment.

b. Non-financial assets

(i) Goodwill

Goodwill is tested for impairment on an annual basis and whenever there is an indication that goodwill may be impaired, relying on a number of factors including operating results, business plans and future cash flows. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the Group's cash generating units (CGU) expected to benefit from the synergies arising from the business combination. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment occurs when the carrying amount of a CGU including the goodwill, exceeds the estimated recoverable amount of the CGU. The recoverable amount of a CGU is the higher of its fair value less cost to

sell and its value-in-use. Value-in-use is the present value of future cash flows expected to be derived from the CGU.

Total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss on goodwill is recognized in net profit in the statement of comprehensive income and is not reversed in the subsequent period.

(ii) Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the CGU to which the asset belongs.

If such assets are considered to be impaired, the impairment to be recognized in net profit in the statement of comprehensive income is measured by the amount by which the carrying value of the assets exceeds the estimated recoverable amount of the asset.

c. Reversal of impairment loss

An impairment loss for financial assets is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of impairment loss for an asset other than goodwill and available-for-sale financial assets that are equity securities is recognized in net profit in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognized in other comprehensive income.

1.13. 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 reporting date. The methods used to determine fair value include discounted cash flow analysis, available quoted market prices 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 other financial instruments, the carrying amounts approximate fair value due to the short maturity of those instruments. The fair value of securities, which do not have an active market and where it is not practicable to determine the fair values with sufficient reliability, are carried at cost less impairment.

1.14. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

a. Post sales client support

The company provides its clients with a fixed-period post sales support 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 sales. 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.

b. Onerous contracts

Provisions for onerous contracts are recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting the future obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established the Group recognizes any impairment loss on the assets associated with that contract.

1.15. Foreign currency

Functional currency

The functional currency of Infosys and Infosys BPO is the Indian rupee. The functional currencies for Infosys Australia, Infosys China, Infosys Consulting, Infosys Mexico, Infosys Sweden, Infosys Brasil, Infosys Public Services and Infosys Shanghai are the respective local currencies. These financial statements are presented in U.S. dollars (rounded off to the nearest million).

Transactions and translations

Foreign-currency denominated monetary assets and liabilities are translated into the relevant functional currency at exchange rates in effect at the balance sheet date. The gains or losses resulting from such translations are included in net profit in the statement of comprehensive income. Non-monetary assets and non-monetary liabilities denominated in a foreign currency and measured at fair value are translated at the exchange rate prevalent at the date when the fair value was determined. Non-monetary assets and non-monetary liabilities denominated in a foreign currency and measured at historical cost are translated at the exchange rate prevalent at the date of transaction.

Transaction gains or losses realized upon settlement of foreign currency transactions are included in determining net profit for the period in which the transaction is settled. Revenue, expense and cash-flow items denominated in foreign currencies are translated into the relevant functional currencies using the exchange rate in effect on the date of the transaction.

The translation of financial statements of the foreign subsidiaries to the functional currency of the company is performed for assets and liabilities using the exchange rate in effect at the balance sheet date and for revenue, expense and cash-flow items using the average exchange rate for the respective periods. The gains or losses resulting from such translation are included in currency translation reserves under other components of equity. When a subsidiary is disposed off, in part or in full, the relevant amount is transferred to net profit in the statement of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate in effect at the balance sheet date.

1.16. Earnings per equity share

Basic earnings per equity share is computed by dividing the net profit attributable to the equity holders of the company by the weighted average number of equity shares outstanding during the period. Diluted earnings per equity

share is computed by dividing the net profit attributable to the equity holders of the company by the weighted average number of equity shares considered for deriving basic earnings per equity share and also the weighted average number of equity shares that could have been issued upon conversion of all dilutive potential equity shares. The diluted potential equity shares are adjusted for the proceeds receivable had the equity shares been actually issued at fair value (i.e. the average market value of the outstanding equity shares). Dilutive potential equity shares are deemed converted as of the beginning of the period, unless issued at a later date. Dilutive potential equity shares are determined independently for each period presented.

The number of equity shares and potentially dilutive equity shares are adjusted retrospectively for all periods presented for any share splits and bonus shares issues including for changes effected prior to the approval of the financial statements by the Board of Directors.

1.17. Income taxes

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in net profit in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in other comprehensive income. Current income tax for current and prior periods is recognized at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred income tax assets and liabilities are recognized for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and are 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 income tax assets and liabilities is recognized as income or expense in the period that includes the enactment or the substantive enactment date. A deferred income tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized. Deferred income taxes are not provided on the undistributed earnings of subsidiaries and branches where it is expected that the earnings of the subsidiary or branch will not be distributed in the foreseeable future. The income tax provision for the interim period is made based on the best estimate of the annual average tax rate expected to be applicable for the full fiscal year. The company offsets current tax assets and current tax liabilities, where it has a legally enforceable right to set off the recognized amounts and where it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Tax benefits of deductions earned on exercise of employee share options in excess of compensation charged to income are credited to share premium.

1.18. Employee benefits

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, performed by an independent actuary, at each balance sheet date using the projected unit credit method. The company fully contributes all ascertained liabilities to the Infosys 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 a scheme with the Life Insurance Corporation as permitted by law.

The Group recognizes the net obligation of a defined benefit plan in its balance sheet as an asset or liability, respectively in accordance with IAS 19, Employee benefits. The discount rate is based on the Government securities yield. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to net profit in the statement of comprehensive income in the period in which they arise. When the computation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

1.18.2. Superannuation

Certain employees of Infosys are also participants in a defined contribution plan. The company has no further obligations to the Plan beyond its monthly contributions. Certain employees of Infosys BPO are also eligible for superannuation benefit. Infosys BPO has no further obligations to the superannuation plan beyond its monthly contribution which are periodically contributed to a trust fund, the corpus of which is invested with the Life Insurance Corporation of India.

Certain employees of Infosys Australia are also eligible for superannuation benefit. Infosys Australia has no further obligations to the superannuation plan beyond its monthly contribution.

1.18.3. Provident fund

Eligible employees of Infosys receive benefits from a provident fund, which is a defined benefit 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 Limited Employees' Provident Fund Trust. The trust invests in specific designated instruments as permitted by Indian law. 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 make good the shortfall, if any, between the return from the investments of the Trust and the notified interest rate.

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. The company has no further obligation to the plan beyond its monthly contributions.

1.18.4. Compensated absences

The Group has a policy on compensated absences which are both accumulating and non-accumulating in nature. The expected cost of accumulating compensated absences is measured based on the additional amount expected to be paid/availed as a result of the unused entitlement that has accumulated at the balance sheet date. Expense on non-accumulating compensated absences is recognized in the period in which the absences occur.

1.19. Share-based compensation

The Group recognizes compensation expense relating to share-based payments in net profit using a fair-value measurement method in accordance with IFRS 2, 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 Group 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 behaviour 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, of the 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 over the expected term.

1.20. Dividends

Final dividends on shares are recorded as a liability on the date of approval by the shareholders and interim dividends are recorded as a liability on the date of declaration by the company's Board of Directors.

1.21. Operating profit

Operating profit for the Group is computed considering the revenues, net of cost of sales, selling and marketing expenses and administrative expenses

1.22. Other income

Other income is comprised primarily of interest income and dividend income. Interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment is established.

1.23. Leases

Leases under which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. When acquired, such assets are capitalized at fair value or present value of the minimum lease payments at the inception of the lease, whichever is lower. Lease payments under operating leases are recognised as an expense on a straight line basis in net profit in the statement of comprehensive income over the lease term.

1.24 Government grants

The Group recognizes government grants only when there is reasonable assurance that the conditions attached to them shall be complied with, and the grants will be received. Government grants related to assets are treated as deferred income and are recognized in net profit in the statement of comprehensive income on a systematic and rational basis over the useful life of the asset. Government grants related to revenue are recognized on a systematic basis in net profit in the statement of comprehensive income over the periods necessary to match them with the related costs which they are intended to compensate.

1.25. Recent accounting pronouncements

1.25.1. Standards issued but not yet effective

IFRS 9 Financial Instruments: In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. The effective date for IFRS 9 is annual periods beginning on or after January 1, 2015 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an

irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to changes in the fair value of an entity's own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity's own credit risk in the other comprehensive income. The company is required to adopt IFRS 9 by accounting year commencing April 1, 2015. The company is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the consolidated financial statements.

IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities: In May 2011, the International Accounting Standards Board issued IFRS 10, IFRS 11 and IFRS 12. The effective date for IFRS 10, IFRS 11 and IFRS 12 is annual periods beginning on or after January 1, 2013 with early adoption permitted.

IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation of Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The standard provides additional guidance for the determination of control in cases of ambiguity such as franchisor franchisee relationship, de facto agent, silos and potential voting rights.

IFRS 11 Joint Arrangements determines the nature of an arrangement by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities-Non-monetary Contributions by Venturers. IFRS 11 addresses only forms of joint arrangements (joint operations and joint ventures) where there is joint control whereas IAS 31 had identified three forms of joint ventures, namely jointly controlled operations, jointly controlled assets and jointly controlled entities. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities, which is the equity method.

IFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. One major requirement of IFRS 12 is that an entity needs to disclose the significant judgments and assumptions it has made in determining:

- a. whether it has control, joint control or significant influence over another entity; and
- b. the type of joint arrangement when the joint arrangement is structured through a separate vehicle.

IFRS 12 also expands the disclosure requirements for subsidiaries with non-controlling interest, joint arrangements and associates that are individually material. IFRS 12 introduces the term "structured entity" by replacing Special Purpose entities and requires enhanced disclosures by way of nature and extent of, and changes in, the risks associated with its interests in both its consolidated and unconsolidated structured entities.

The company will be adopting IFRS 10, IFRS 11 and IFRS 12 effective April 1, 2013. The company is currently evaluating the requirements of IFRS 10, IFRS 11 and IFRS 12, and has not yet determined the impact on the consolidated financial statements.

IFRS 13 Fair Value Measurement: In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement to provide specific guidance on fair value measurement and requires enhanced disclosures for all assets and liabilities measured at fair value, and not restricted to financial assets and liabilities. The standard introduces a precise definition of fair value and a consistent measure for fair valuation across assets and liabilities,

with a few specified exceptions. The effective date for IFRS 13 is annual periods beginning on or after January 1, 2013 with early adoption permitted. The company is required to adopt IFRS 13 by accounting year commencing April 1, 2013 and is currently evaluating the requirements of IFRS 13, and has not yet determined the impact on the consolidated financial statements.

IAS 1 (Amended) Presentation of Financial Statements: In June 2011, the International Accounting Standard Board published amendments to IAS 1 Presentation of Financial Statements. The amendments to IAS 1, Presentation of Financial Statements, require companies preparing financial statements in accordance with IFRS to group items within other comprehensive income that may be reclassified to the profit or loss separately from those items which would not be recyclable in the profit or loss section of the income statement. It also requires the tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. This amendment is applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. The company is required to adopt IAS 1 (Amended) by accounting year commencing April 1, 2013. The company has evaluated the requirements of IAS 1 (Amended) and the company does not believe that the adoption of IAS 1 (Amended) will have a material effect on its consolidated financial statements.

IAS 19 (Amended) Employee Benefits: In June 2011, International Accounting Standards Board issued IAS 19 (Amended), Employee Benefits. The effective date for adoption of IAS 19 (Amended) is annual periods beginning on or after January 1, 2013, though early adoption is permitted.

IAS 19 (Amended) has eliminated an option to defer the recognition of gains and losses through re-measurements and requires such gain or loss to be recognized through other comprehensive income in the year of occurrence to reduce volatility. The amended standard requires immediate recognition of effects of any plan amendments. Further it also requires assets in profit or loss to be restricted to government bond yields or corporate bond yields, considered for valuation of Projected Benefit Obligation, irrespective of actual portfolio allocations. The actual return from the portfolio in excess of or less than such yields is recognized through other comprehensive income.

These amendments enhance the disclosure requirements for defined benefit plans by requiring information about the characteristics of defined benefit plans and risks that entities are exposed to through participation in those plans.

The amendments need to be adopted retrospectively. The company is required to adopt IAS 19 (Amended) by accounting year commencing April 1, 2013. The company is currently evaluating the requirements of IAS 19 (Amended) and has not yet determined the impact on the consolidated financial statements.

2. Notes to the consolidated interim financial statements

2.1. Cash and cash equivalents

Cash and cash equivalents consist of the following:

(Dollars in millions)

	As of	
	June 30, 2012	March 31, 2012
Cash and bank deposits	\$2,864	\$3,746
Deposits with corporations	378	301
	\$3,242	\$4,047

Cash and cash equivalents as of June 30, 2012 and March 31, 2012 include restricted cash and bank balances of \$60 million and \$52 million, respectively. The restrictions are primarily on account of cash and bank balances held by irrevocable trusts controlled by the company, bank balances held as margin money deposits against guarantees and balances held in unclaimed dividend bank accounts.

The deposits maintained by the Group with banks and corporations comprise of time deposits, which can be withdrawn by the Group at any point without prior notice or penalty on the principal.

The table below provides details of cash and cash equivalents:

(Dollars in millions)

	As of	
	June 30, 2012	March 31, 2012
Current accounts		
ABN Amro Bank, China	\$7	\$8
ABN Amro Bank, China (U.S. dollar account)	1	1
Bank of America, USA	26	117
Bank of America, Mexico	1	1
Bank of China, Shanghai (U.S. Dollar account)	1	—
Citibank N.A., Australia	33	17
Citibank N.A., Brazil	1	1
Citibank N.A, China	1	1
Citibank N.A, China (U.S. dollar account)	2	2
Citibank N.A., Japan	3	2
Citibank N.A, Czech Republic (Euro account)	—	1
Citibank N.A., New Zealand	5	2
Citibank N.A., USA	1	—
Deutsche Bank, Belgium	—	1
Deutsche Bank, Czech Republic (U.S. dollar account)	1	1
Deutsche Bank, France	1	1
Deutsche Bank, Germany	2	2
Deutsche Bank, India	—	2
Deutsche Bank, Netherlands	1	1
Deutsche Bank, Singapore	—	2
Deutsche Bank, Philippines (U.S. dollar account)	—	1
Deutsche Bank, Poland	2	—
Deutsche Bank, Poland (Euro account)	1	—
Deutsche Bank, United Kingdom	5	6
Deutsche Bank-EEFC, India (Euro account)	2	2
Deutsche Bank-EEFC, India (U.S. dollar account)	3	5
Deutsche Bank-EEFC, India (Swiss Franc account)	1	1
ICICI Bank, India	5	4
ICICI Bank-EEFC, India (U.S. dollar account)	1	6
Nordbanken, Sweden	1	1
Royal Bank of Canada, Canada	3	1
Commonwealth Bank of Australia, Australia	2	1
Bank of New Zealand	2	3
Punjab National Bank	3	—
State bank of India	1	—
National Australia Bank Limited, Australia	—	1
	\$119	\$195
Deposit accounts		

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Andhra Bank, India	\$92	\$100
Allahabad Bank, India	33	168
Axis Bank, India	114	158
Bank of America, USA	4	—
Bank of America, Mexico	4	1
Bank of Baroda, India	350	341
Bank of India, India	309	295
Bank of Maharashtra, India	85	93
Bank of China, China	—	5
Canara Bank, India	242	317
Central Bank of India, India	135	148
Citibank N.A, Brazil	1	—
Citibank N.A., China	4	5
Corporation Bank, India	9	78
DBS Bank, India	—	8
Deutsche Bank, Poland	7	8
Federal Bank, India	4	4
HDFC Bank, India	1	267
HSBC Bank, United Kingdom	—	1
ICICI Bank, India	370	296
IDBI Bank, India	162	202
ING Vysya Bank, India	—	16
Indian Overseas Bank, India	67	118
Jammu and Kashmir Bank, India	4	5
Kotak Mahindra Bank, India	19	34
National Australia Bank Limited, Australia	—	13
Oriental Bank of Commerce, India	122	140
Punjab National Bank, India	221	258
Ratnakar Bank	—	1
State Bank of Hyderabad, India	103	114
State Bank of India, India	11	12
State Bank of Mysore, India	45	49
South Indian Bank, India	11	12
Syndicate Bank, India	90	108
Union Bank of India, India	108	118
Vijaya Bank, India	2	30
Yes Bank, India	16	28
	\$2,745	\$3,551
Deposits with corporations		
HDFC Limited, India	\$378	\$301
	\$378	\$301
Total	\$3,242	\$4,047

2.2. Available-for-sale financial assets

Investments in liquid mutual fund units and unlisted equity securities are classified as available-for-sale financial assets.

Cost and fair value of investments in liquid mutual fund units and unlisted equity securities are as follows:

(Dollars in millions)

As of

June 30, 2012 March 31, 2012

Current		
Liquid mutual fund units:		
Cost and fair value	\$389	\$6
Unlisted equity securities:		
Cost	—	—
Gross unrealised holding gains	1	2
Fair value	1	2
Total available-for-sale financial assets	\$390	\$8

During fiscal 2010, Infosys sold 3,231,151 shares of OnMobile Systems Inc, U.S.A, at a price of \$3.64 per share (166.58 per share), derived from quoted prices of the underlying marketable equity securities. The total consideration amounted to \$12 million, net of taxes and transaction costs.

As of June 30, 2012, the remaining 2,154,100 shares were fair valued at \$1 million and the resultant unrealized loss of \$1 million, net of taxes of less than \$1 million has been recognized in other comprehensive income for the three months ended June 30, 2012. The fair value of \$1 million has been derived based on an agreed upon exchange ratio between these unlisted equity securities and quoted prices of the underlying marketable equity securities.

2.3. Business combinations

During fiscal 2010, Infosys BPO acquired 100% of the voting interests in McCamish Systems LLC (McCamish), a business process solutions provider based in Atlanta, Georgia, in the United States. The business acquisition was conducted by entering into a Membership Interest Purchase Agreement for a cash consideration of \$37 million and a contingent consideration of up to \$20 million. The fair values of the contingent consideration and its undiscounted value on the date of acquisition were \$9 million and \$15 million, respectively.

The payment of the contingent consideration is dependent upon the achievement of certain revenue targets and net margin targets by McCamish over a period of 4 years ending March 31, 2014. Further, in the event that McCamish signs a deal with a customer with total revenues of \$100 million or more, the aforesaid period will be extended by 2 years. The total contingent consideration can range between \$14 million and \$20 million.

During the three months ended June 30, 2012, the liability related to the contingent consideration increased by less than \$1 million due to passage of time.

The fair value of the contingent consideration is determined by discounting the estimated amount payable to the previous owners of McCamish on achievement of certain financial targets. The key inputs used for the determination of fair value of contingent consideration are the discount rate of 13.9% and the probabilities of achievement of the net margin and the revenue targets ranging from 50% to 100%.

On January 4, 2012 Infosys BPO acquired 100% of the voting interest in Portland Group Pty Ltd a strategic sourcing and category management services provider based in Australia. The business acquisition was conducted by entering into a share sale agreement for a cash consideration of \$41 million.

The Company believes that this business acquisition will strengthen Infosys BPO's capabilities and domain expertise in its sourcing and procurement practice and its service offering in the strategic sourcing and category management functions. Consequently, the excess of the purchase consideration paid over the fair value of assets acquired has been accounted for as goodwill.

The purchase price has been allocated based on management's estimates and an independent appraisal of fair values as follows:

(Dollars in millions)

Component	Acquiree's carrying amount	Fair value adjustments	Purchase price allocated
Property, plant and equipment	\$1	–	\$1
Net current assets	4	–	4
Intangible assets-Customer contracts and relationships	–	8	8
Deferred tax liabilities on intangible assets	–	(2)	(2)
	5	6	11
Goodwill			30
Total purchase price			\$41

The goodwill is not tax deductible.

The acquisition date fair value of the total consideration transferred is \$41 million in cash.

The amount of trade receivables included in net current assets acquired from the above business acquisition was \$8 million. As of June 30, 2012, the trade receivables have been fully collected.

The identified intangible customer contracts and relationships are being amortized over a period of ten years based on management's estimate of the useful life of the assets.

The transaction costs of \$1 million related to the acquisition have been included under cost of sales in the consolidated statement of comprehensive income.

2.4. Prepayments and other assets

Prepayments and other assets consist of the following:

(Dollars in millions)

	As of	
	June 30, 2012	March 31, 2012
Current		
Rental deposits	\$3	\$3
Security deposits with service providers	6	7
Loans to employees	33	32
Prepaid expenses (1)	27	10
Interest accrued and not due	9	8
Withholding taxes (1)	128	134
Deposit with corporation	98	97
Advance payments to vendors for supply of goods (1)	9	7
Other assets	2	2
	\$315	\$300
Non-current		
Loans to employees	\$1	\$1
Security deposits with service providers	6	6
Deposit with corporation	3	11
Prepaid gratuity and other benefits (1)	–	3
Prepaid expenses (1)	3	3
Rental Deposits	8	8
	\$21	\$32
	\$336	\$332

Financial assets in prepayments and other assets	\$169	\$175
(1) Non financial assets		

Withholding taxes primarily consist of input tax credits. Other assets primarily represent travel advances and other recoverable from customers. Security deposits with service providers relate principally to leased telephone lines and electricity supplies.

Deposit with corporation represents amounts deposited to settle certain employee-related obligations as and when they arise during the normal course of business.

2.5. Property, plant and equipment

Following are the changes in the carrying value of property, plant and equipment for the three months ended June 30, 2012:

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
(Dollars in millions)								
Gross Carrying value as of April 1, 2012	\$140	\$760	\$246	\$273	\$151	\$2	\$203	\$1,775
Additions	2	28	13	28	7	–	3	81
Deletions	–	–	–	–	–	–	–	–
Translation difference	(13)	(66)	(19)	(22)	(11)	–	(18)	(149)
Gross Carrying value as of June 30, 2012	129	722	240	279	147	2	188	1,707
Accumulated depreciation as of April 1, 2012	–	(241)	(156)	(214)	(100)	(1)	–	(712)
Depreciation	–	(12)	(10)	(15)	(8)	–	–	(45)
Accumulated depreciation on deletions	–	–	–	–	–	–	–	–
Translation difference	–	21	13	16	9	–	–	59
Accumulated depreciation as of June 30, 2012	–	(232)	(153)	(213)	(99)	(1)	–	(698)
Carrying value as of April 1, 2012	140	519	90	59	51	1	203	1,063
Carrying value as of June 30, 2012	\$129	\$490	\$87	\$66	\$48	\$1	\$188	\$1,009

During fiscal 2012, certain assets which were not in use having gross book value of \$112 million (carrying value nil) were retired.

Following are the changes in the carrying value of property, plant and equipment for the three months ended June 30, 2011:

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
(Dollars in millions)								

	fixtures							
Gross carrying value as of April 1, 2011	\$124	\$813	\$288	\$299	\$173	\$1	\$118	\$1,816
Additions	1	13	7	13	3	–	21	58
Deletions	–	–	–	–	–	–	–	–
Translation difference	(1)	(2)	–	(1)	1	1	–	(2)
Gross Carrying value as of June 30, 2011	124	824	295	311	177	2	139	1,872
Accumulated depreciation as of April 1, 2011	–	(219)	(166)	(240)	(105)	–	–	(730)
Depreciation	–	(13)	(13)	(14)	(9)	–	–	(49)
Accumulated depreciation on deletions	–	–	–	–	–	–	–	–
Translation difference	–	–	–	1	–	(1)	–	–
Accumulated depreciation as of June 30, 2011	–	(232)	(179)	(253)	(114)	(1)	–	(779)
Carrying value as of April 1, 2011	124	594	122	59	68	1	118	1,086
Carrying value as of June 30, 2011	\$124	\$592	\$116	\$58	\$63	\$1	\$139	\$1,093

During fiscal 2011, certain assets which were not in use having gross book value of \$107 million (carrying value nil) were retired.

The depreciation expense for the three months ended June 30, 2012, and June 30, 2011 is included in cost of sales in the consolidated statement of comprehensive income.

Carrying value of land includes \$51 million and \$56 million as of June 30, 2012 and March 31, 2012, respectively, towards deposits paid under certain lease-cum-sale agreements to acquire land, including agreements where the company has an option to purchase the properties on expiry of the lease period. The company has already paid 99% of the market value of the properties prevailing at the time of entering into the lease-cum-sale agreements with the balance payable at the time of purchase.

The contractual commitments for capital expenditure were \$197 million and \$205 million as of June 30, 2012 and March 31, 2012, respectively.

2.6. Goodwill and intangible assets

Following is a summary of changes in the carrying amount of goodwill:

	(Dollars in millions)	
	As of	
	June 30, 2012	March 31, 2012
Carrying value at the beginning	\$195	\$185
Goodwill recognized on acquisition (refer to note 2.3)	–	30
Translation differences	(12)	(20)
Carrying value at the end	\$183	\$195

During the quarter ended June 30, 2011, the company internally reorganized its business to increase its client focus. Consequent to the internal reorganization, there were changes effected in the reportable segments based on the “management approach” as defined in IFRS 8, Operating Segments (Refer Note 2.19). Accordingly, the goodwill has been allocated to the new operating segments as at June 30, 2012 and March 31, 2012.

Goodwill has been allocated to the cash generating units (CGU), identified to be the operating segments as follows:
(Dollars in millions)

Segment	As of	
	June 30, 2012	March 31, 2012
Financial services and insurance (FSI)	\$81	\$85
Manufacturing enterprises (MFG)	20	22
Energy, utilities and telecommunication services (ECS)	26	28
Retail, logistics, consumer product group, life sciences enterprises (RCL)	56	60
Total	\$183	\$195

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU which are operating segments regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. The recoverable amount of a CGU is the higher of its fair value less cost to sell and its value-in-use. The fair value of a CGU is determined based on the market capitalization. The value-in-use is determined based on specific calculations. These calculations use pre-tax cash flow projections over a period of five years, based on financial budgets approved by management and an average of the range of each assumption mentioned below. As of March 31, 2012, the estimated recoverable amount of the CGU exceeded its carrying amount. The recoverable amount was computed based on the fair value being higher than value-in-use and the carrying amount of the CGU was computed by allocating the net assets to operating segments for the purpose of impairment testing. The key assumptions used for the calculations are as follows:

	In %
Long term growth rate	8-10
Operating margins ^T	17-20
Discount rate	12.7

The above discount rate is based on the Weighted Average Cost of Capital (WACC) of the company. These estimates are likely to differ from future actual results of operations and cash flows.

Following is a summary of changes in the carrying amount of acquired intangible assets:

	(Dollars in millions)	
	As of	
	June 30, 2012	March 31, 2012
Gross carrying value at the beginning	\$51	\$25
Additions through business combinations (Refer to note 2.3)	–	8
Additions	–	18
Translation differences	(2)	–
Gross carrying value at the end	\$49	\$51
Accumulated amortization at the beginning	\$17	\$14
Amortization expense	1	3
Translation differences	(1)	–
Accumulated amortization at the end	\$17	\$17
Net carrying value	\$32	\$34

The subcontracting rights of \$4 million purchased by Infosys Australia during the quarter ended June 30, 2011 pursuant to a subcontracting agreement with Telecom's Gen-I division are being amortized over a period of three years, being the management's estimate of its useful life, based on the life over which economic benefits are expected to be realized. As of June 30, 2012, the subcontracting rights have a remaining amortization period of approximately two years.

The land use rights of \$11 million acquired by Infosys Shanghai are being amortized over the initial term of 50 years. Further the government grant received for the land use right is also amortized over the initial term of 50 years. As of June 30, 2012, the land use rights have a remaining amortization period of approximately 49 years.

The intangible assets of \$3 million related to software purchase recognized by the company is amortized over a period of five years, being the management's estimate of useful life of such intangible assets. As of June 30, 2012, this intangible asset has a remaining amortization period of approximately five years.

The intangible customer contracts recognized at the time of Philips acquisition are being amortized over a period of seven years, being management's estimate of the useful life of the respective assets, based on the life over which economic benefits are expected to be realized. However, during fiscal 2010 the amortization of this intangible asset has been accelerated based on the usage pattern of the asset. As of June 30, 2012, the customer contracts have a remaining amortization period of approximately two years.

The intangible customer contracts and relationships recognized at the time of the McCamish acquisition are being amortized over a period of nine years, being management's estimate of the useful life of the respective assets, based on the life over which economic benefits are expected to be realized. As of June 30, 2012, the customer contracts and relationships have a remaining amortization period of approximately seven years.

The intangible computer software platform recognized at the time of the McCamish acquisition having a useful life of four months, being management's estimate of the useful life of the asset, based on the life over which economic benefits were expected to be realized, was fully amortized in fiscal 2010.

The aggregate amortization expense included in cost of sales for each of the three months ended June 30, 2012 and June 30, 2011 was \$1 million.

Research and development expense recognized in net profit in the consolidated statement of comprehensive income, for the three months ended June 30, 2012 and June 30, 2011 was \$39 million and \$34 million, respectively.

2.7. Financial instruments

Financial instruments by category

The carrying value and fair value of financial instruments by categories as of June 30, 2012 were as follows:

	(Dollars in millions)				
	Loans and receivables	Financial assets/liabilities at fair value through profit and loss	Available for sale	Trade and other payables	Total carrying value/fair value
Assets:					
Cash and cash equivalents (Refer Note 2.1)	\$3,242	–	–	–	\$3,242
Available-for-sale financial assets (Refer Note 2.2)	–	–	390	–	390
Investment in certificates of deposit	64	–	–	–	64

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Investment in government bonds	9	–	–	–	9
Trade receivables	1,240	–	–	–	1,240
Unbilled revenue	362	–	–	–	362
Prepayments and other assets (Refer Note 2.4)	169	–	–	–	169
Total	\$5,086	–	\$390	–	\$5,476
Liabilities:					
Derivative financial instruments	–	\$49	–	–	\$49
Trade payables	–	–	–	7	7
Client deposits	–	–	–	2	2
Employee benefit obligations	–	–	–	102	102
Other liabilities (Refer Note 2.9)	–	–	–	330	330
Liability towards acquisition of business on a discounted basis (Refer Note 2.9)	–	–	–	11	11
Total	–	\$49	–	\$452	\$501

The carrying value and fair value of financial instruments by categories as of March 31, 2012 were as follows:

(Dollars in millions)

	Loans and receivables	Financial assets/liabilities at fair value through profit and loss	Available for sale	Trade and other payables	Total carrying value/fair value
Assets:					
Cash and cash equivalents (Refer Note 2.1)	\$4,047	–	–	–	\$4,047
Available-for-sale financial assets (Refer Note 2.2)	–	–	8	–	8
Investment in certificates of deposit	68	–	–	–	68
Trade receivables	1,156	–	–	–	1,156
Unbilled revenue	368	–	–	–	368
Prepayments and other assets (Refer Note 2.4)	175	–	–	–	175
Total	\$5,814	–	\$8	–	\$5,822
Liabilities:					
Derivative financial instruments	–	\$9	–	–	\$9
Trade payables	–	–	–	5	5
Client deposits	–	–	–	3	3
Employee benefit obligations	–	–	–	98	98
Other liabilities (Refer Note 2.9)	–	–	–	384	384
Liability towards acquisition of business on a discounted basis (Refer Note 2.9)	–	–	–	11	11
Total	–	\$9	–	\$501	\$510

Fair value hierarchy

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The following table presents fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of June 30, 2012:

(Dollars in millions)

	As of June 30, 2012	Fair value measurement at end of the reporting period using		
		Level 1	Level 2	Level 3
Assets				
Available- for- sale financial asset- Investments in liquid mutual fund units (Refer Note 2.2)	\$389	\$389	–	–
Available- for- sale financial asset- Investments in unlisted equity securities (Refer Note 2.2)	\$1	–	\$1	–
Liabilities				
Derivative financial instruments- loss on outstanding foreign exchange forward and option contracts	\$49	–	\$49	–

The following table presents fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2012:

(Dollars in millions)

	As of March 31, 2012	Fair value measurement at end of the reporting period using		
		Level 1	Level 2	Level 3
Assets				
Available- for- sale financial asset- Investments in liquid mutual fund units (Refer Note 2.2)	\$6	\$6	–	–
Available- for- sale financial asset- Investments in unlisted equity securities (Refer Note 2.2)	\$2	–	\$2	–
Liabilities				
Derivative financial instruments- loss on outstanding foreign exchange forward and option contracts	\$9	–	\$9	–

Income from financial assets or liabilities that are not at fair value through profit or loss is as follows:

(Dollars in millions)

	Three months ended	
	June 30, 2012	June 30, 2011
Interest income on deposits and certificates of deposit (Refer Note 2.13)	\$88	\$87
Income from available-for-sale financial assets (Refer Note 2.13)	5	1
	\$93	\$88

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 trade receivables and forecasted cash flows denominated in certain foreign currencies. The counterparty for these contracts is generally a bank or a financial institution. These derivative financial instruments are valued based on quoted prices for similar assets and liabilities in active markets or inputs that

are directly or indirectly observable in the marketplace. The following table gives details in respect of outstanding foreign exchange forward and option contracts:

	(In millions)	
	As of	
	June 30, 2012	March 31, 2012
Forward contracts		
In U.S. dollars	945	729
In Euro	43	38
In United Kingdom Pound Sterling	41	22
In Australian dollars	20	23
Option contracts		
In U.S. dollars	30	50

The company recognized a loss on derivative financial instruments of \$64 million for the three months ended June 30, 2012 as against a gain on derivative financial instruments of \$9 million for the three months ended June 30, 2011, which is included under other income.

The foreign exchange forward and option contracts mature between 1 to 12 months. The table below analyzes the derivative financial instruments into relevant maturity groupings based on the remaining period as of the balance sheet date:

	(Dollars in millions)	
	As of	
	June 30, 2012	March 31, 2012
Not later than one month	\$126	\$68
Later than one month and not later than three months	283	155
Later than three months and not later than one year	704	666
	\$1,113	\$889

Financial risk management

Financial risk factors

The company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The company's primary focus is to foresee the unpredictability of financial markets and seek to minimize potential adverse effects on its financial performance. The primary market risk to the company is foreign exchange risk. The company uses derivative financial instruments to mitigate foreign exchange related risk exposures. The company's exposure to credit risk is influenced mainly by the individual characteristic of each customer and the concentration of risk from the top few customers. The demographics of the customer including the default risk of the industry and country in which the customer operates also has an influence on credit risk assessment.

Market risk

The company operates internationally and a major portion of the business is transacted in several currencies and consequently the company is exposed to foreign exchange risk through its sales and services in the United States and elsewhere, and purchases from overseas suppliers in various foreign currencies. 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 trade receivables and forecasted cash flows denominated in certain foreign currencies. The exchange rate between the rupee and foreign currencies has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of the company's operations are adversely affected as the Indian rupee appreciates/ depreciates against these currencies.

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The following table gives details in respect of the outstanding foreign exchange forward and option contracts:

	(Dollars in millions)	
	As of	
	June 30, 2012	March 31, 2012
Aggregate amount of outstanding forward and option contracts	\$1,113	\$889
Gains / (losses) on outstanding forward and option contracts	\$(49)	\$(9)

The outstanding foreign exchange forward and option contracts as of June 30, 2012 and March 31, 2012, mature between one to twelve months.

The following table analyzes foreign currency risk from financial instruments as of June 30, 2012:

	(Dollars in millions)					
	U.S. dollars	Euro	United Kingdom Pound Sterling	Australian dollars	Other currencies	Total
Cash and cash equivalents	\$41	\$7	\$5	\$34	\$41	\$128
Trade receivables	825	121	101	107	48	1,202
Unbilled revenue	194	54	31	14	33	326
Other assets	130	4	6	2	24	166
Trade payables	(1)	(1)	–	(1)	(3)	(6)
Client deposits	(2)	–	–	–	–	(2)
Accrued expenses	(84)	(10)	–	(7)	(14)	(115)
Employee benefit obligations	(38)	(9)	(7)	(11)	(11)	(76)
Other liabilities	(251)	(49)	(2)	(7)	(14)	(323)
Net assets / (liabilities)	\$814	\$117	\$134	\$131	\$104	\$1,300

The following table analyzes foreign currency risk from financial instruments as of March 31, 2012:

	(Dollars in millions)					
	U.S. dollars	Euro	United Kingdom Pound Sterling	Australian dollars	Other currencies	Total
Cash and cash equivalents	\$137	\$11	\$7	\$16	\$32	\$203
Trade receivables	770	116	110	78	47	1,121
Unbilled revenue	201	59	24	12	31	327
Other assets	128	4	5	–	22	159
Trade payables	–	–	–	–	(2)	(2)
Client deposits	(3)	–	–	–	–	(3)
Accrued expenses	(85)	(8)	–	(1)	(13)	(107)
Employee benefit obligations	(38)	–	–	(1)	(18)	(57)
Other liabilities	(242)	(49)	(1)	(5)	(17)	(314)
Net assets / (liabilities)	\$868	\$133	\$145	\$99	\$82	\$1,327

For the three months ended June 30, 2012 and June 30, 2011, every percentage point depreciation / appreciation in the exchange rate between the Indian rupee and the U.S. dollar, has affected the company's operating margins by approximately 0.53% and 0.54%, respectively.

Sensitivity analysis is computed based on the changes in the income and expenses in foreign currency upon conversion into functional currency, due to exchange rate fluctuations between the previous reporting period and the current reporting period.

Credit risk

Credit risk refers to the risk of default on its obligation by the counterparty resulting in a financial loss. The maximum exposure to the credit risk at the reporting date is primarily from trade receivables amounting to \$1,240 million and \$1,156 million as of June 30, 2012 and March 31, 2012, respectively and unbilled revenue amounting to \$362 million and \$368 million as of June 30, 2012 and March 31, 2012, respectively. Trade receivables are typically unsecured and are derived from revenue earned from customers primarily located in the United States. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the company grants credit terms in the normal course of business.

The following table gives details in respect of percentage of revenues generated from top customer and top five customers:

	(In %)	
	Three months ended	
	June 30, 2012	June 30, 2011
Revenue from top customer	4.1	4.5
Revenue from top five customers	16.2	15.9

Financial assets that are neither past due nor impaired

Cash and cash equivalents, available-for-sale financial assets, investment in certificates of deposit and investments in government bonds are neither past due nor impaired. Cash and cash equivalents include deposits with banks and corporations with high credit-ratings assigned by international and domestic credit-rating agencies. Available-for-sale financial assets include investment in liquid mutual fund units and unlisted equity securities. Certificates of deposit represent funds deposited at a bank or other eligible financial institution for a specified time period. Investment in government bonds represents the investments made in debt securities issued by government and quasi government organizations. Of the total trade receivables, \$865 million and \$838 million as of June 30, 2012 and March 31, 2012, respectively, were neither past due nor impaired.

Financial assets that are past due but not impaired

There is no other class of financial assets that is not past due but impaired except for trade receivables of less than \$1 million each as of June 30, 2012 and March 31, 2012.

The company's credit period generally ranges from 30-45 days. The age analysis of the trade receivables have been considered from the due date. The age wise break up of trade receivables, net of allowances of \$20 million and \$17 million as of June 30, 2012 and March 31, 2012, respectively, that are past due, is given below:

(Dollars in millions)

Period (in days)	As of	
	June 30, 2012	March 31, 2012
Less than 30	\$239	\$218
31 – 60	67	37
61 – 90	39	37
More than 90	30	26
	\$375	\$318

The provision for doubtful accounts receivable for the three months ending June 30, 2012 and June 30, 2011 was \$5 million and \$6 million, respectively.

The movement in the provisions for doubtful accounts receivable is as follows:

	(Dollars in millions)		
	Three months ended		Year ended
	June 30, 2012	June 30, 2011	March 31, 2012
Balance at the beginning	\$17	\$(19)	\$19
Translation differences	(1)	–	(3)
Provisions for doubtful accounts receivable	5	6	14
Trade receivables written off	(1)	(1)	(13)
Balance at the end	\$20	\$24	\$17

Liquidity risk

As of June 30, 2012, the company had a working capital of \$4,585 million including cash and cash equivalents of \$3,242 million, available-for-sale financial assets of \$389 million and investments in certificates of deposit of \$64 million. As of March 31, 2012, the company had a working capital of \$5,008 million including cash and cash equivalents of \$4,047 million, available-for-sale financial assets of \$6 million and investments in certificates of deposit of \$68 million.

As of June 30, 2012 and March 31, 2012, the outstanding employee benefit obligations were \$102 million and \$98 million, respectively, which have been fully funded. Further, as of June 30, 2012 and March 31, 2012, the company had no outstanding bank borrowings. Accordingly, no liquidity risk is perceived.

The table below provides details regarding the contractual maturities of significant financial liabilities as of June 30, 2012:

(Dollars in millions)

Particulars	Less than 1 year	1-2 years	2-4 years	4-7 years	Total
Trade payables	\$7–	–	–	–	\$7
Client deposits	\$2 –	–	–	–	\$2
Other liabilities (Refer Note 2.9)	\$326	\$2	\$2	–	\$330
Liability towards acquisition of business on an undiscounted basis (Refer Note 2.9)	\$2	\$4	\$9	–	\$15

The table below provides details regarding the contractual maturities of significant financial liabilities as of March 31, 2012:

(Dollars in millions)

Particulars	Less than 1 year	1-2 years	2-4 years	4-7 years	Total
Trade payables	\$5	–	–	–	\$5
Client deposits	\$3	–	–	–	\$3
Other liabilities (Refer Note 2.9)	\$381	\$3	–	–	\$384
Liability towards acquisition of business on an undiscounted basis (Refer Note 2.9)	\$1	\$2	\$10	\$2	\$15

As of June 30, 2012 and March 31, 2012, the company had outstanding financial guarantees of \$4 million each towards leased premises. These financial guarantees can be invoked upon breach of any term of the lease agreement. To the company's knowledge there has been no breach of any term of the lease agreement as of June 30, 2012 and March 31, 2012.

2.8. Provisions

Provisions comprise the following:

	(Dollars in millions)	
	As of	
	June 30, 2012	March 31, 2012
Provision for post sales client support	\$27	\$26

Provision for post sales client support represents costs associated with providing sales support services which are accrued at the time of recognition of revenues and are expected to be utilized over a period of 6 months to 1 year. The movement in the provision for post sales client support is as follows:

	(Dollars in millions)		
	Three months ended		Year ended
	June 30, 2012	June 30, 2011	March 31, 2012
Balance at the beginning	\$26	\$20	\$20
Translation differences	–	(1)	(3)
Provision recognized/(reversed)	2	8	13
Provision utilized	(1)	–	(4)
Balance at the end	\$27	\$27	\$26

Provision for post sales client support for the three months ended June 30, 2012 and June 30, 2011 is included in cost of sales in the consolidated statement of comprehensive income.

2.9. Other liabilities

Other liabilities comprise the following:

	(Dollars in millions)	
	As of	
	June 30, 2012	March 31, 2012
Current		
Accrued compensation to employees	\$68	\$127
Accrued expenses	218	213
Withholding taxes payable (1)	119	100
Retainage	10	10
Unamortized negative past service cost (Refer Note 2.11.1) (1)	1	1
Liabilities of controlled trusts	27	29
Liability towards acquisition of business (Refer Note 2.3)	1	–
Others	3	2
	\$447	\$482
Non-current		
Liability towards acquisition of business (Refer Note 2.3)	\$10	\$11
Accrued expenses	2	1
Unamortized negative past service cost (Refer Note 2.11.1) (1)	2	3
Incentive accruals	2	2
Deferred income - government grant on land use rights (Refer Note 2.6) (1)	5	5
	\$21	\$22
	\$468	\$504
Financial liabilities included in other liabilities (excluding liability towards acquisition of business)	\$330	\$384
Financial liability towards acquisition of business on a discounted basis (Refer Note 2.3)	\$11	\$11
Financial liability towards acquisition of business on an undiscounted basis (Refer Note 2.3)	\$15	\$15

(1) Non financial liabilities

Accrued expenses primarily relates to cost of technical sub-contractors, telecommunication charges, legal and professional charges, brand building expenses, overseas travel expenses and office maintenance. Others include unclaimed dividend balances.

2.10. Expenses by nature

	(Dollars in millions)	
	Three months ended	
	June 30, 2012	June 30, 2011
Employee benefit costs (Refer Note 2.11.4)	\$959	\$948
Depreciation and amortization charges (Refer Note 2.5 and 2.6)	46	50
Travelling costs	68	57
Consultancy and professional charges	21	18
Rates and taxes	4	3
Cost of software packages	23	22
Third party items bought for service delivery to clients	5	12
Communication costs	15	14
Cost of technical sub-contractors	53	36
Consumables	-	1
Power and fuel	10	10
Repairs and maintenance	22	24
Commission	1	1
Branding and marketing expenses	6	6
Provision for post-sales client support (Refer Note 2.8)	2	8
Provisions for doubtful accounts receivable (Refer Note 2.7)	5	6
Operating lease payments (Refer Note 2.14)	11	9
Postage and courier	1	1
Printing and stationery	1	1
Insurance charges	2	2
Others	8	7
Total cost of sales, selling and marketing expenses and administrative expenses	\$1,263	\$1,236

2.11. Employee benefits

2.11.1. Gratuity

The following tables set out the funded status of the gratuity plans and the amounts recognized in the company's financial statements as of June 30, 2012, March 31, 2012, March 31, 2011, March 31, 2010 and March 31, 2009:

	(Dollars in millions)				
	As of				
	June 30, 2012	March 31, 2012	March 31, 2011	March 31, 2010	March 31, 2009
Change in benefit obligations					
Benefit obligations at the beginning	\$118	\$108	\$72	\$52	\$56
Service cost	14	33	39	17	11
Interest cost	2	8	5	4	3
Actuarial losses/(gains)	(6)	(1)	4	(1)	-
Benefits paid	(4)	(14)	(14)	(8)	(5)
Plan amendments	-	-	-	-	-
Translation differences	(10)	(16)	2	8	(13)
Benefit obligations at the end	\$114	\$118	\$108	\$72	\$52

Change in plan assets					
Fair value of plan assets at the beginning	\$121	\$108	\$73	\$52	\$59
Expected return on plan assets	3	10	8	5	4
Actuarial (losses)/gains	–	–	–	–	–
Employer contributions	5	32	40	14	7
Benefits paid	(4)	(14)	(14)	(8)	(5)
Translation differences	(11)	(15)	1	10	(13)
Fair value of plan assets at the end	\$114	\$121	\$108	\$73	\$52
Funded status	–	\$3	–	\$1	–
Prepaid benefit	–	\$3	–	\$1	–

Net gratuity cost for the three months ended June 30, 2012 and June 30, 2011 comprises the following components:

(Dollars in millions)

	Three months ended	
	June 30, 2012	June 30, 2011
Service cost	\$14	\$16
Interest cost	2	2
Expected return on plan assets	(3)	(3)
Actuarial (gains)/loss	(6)	(2)
Plan amendments	–	–
Net gratuity cost	\$7	\$13

The net gratuity cost has been apportioned between cost of sales, selling and marketing expenses and administrative expenses on the basis of direct employee cost as follows:

(Dollars in millions)

	Three months ended	
	June 30, 2012	June 30, 2011
Cost of sales	\$6	\$12
Selling and marketing expenses	1	1
Administrative expenses	–	–
	\$7	\$13

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 negative past service cost amounting to \$9 million, which is being amortized on a straight-line basis over the average remaining service period of employees which is 10 years. The unamortized negative past service cost of \$3 million and \$4 million as of June 30, 2012 and March 31, 2012, respectively, has been included under other current and other non-current liabilities.

The weighted-average assumptions used to determine benefit obligations as of June 30, 2012, March 31, 2012, March 31, 2011, March 31, 2010 and March 31, 2009 are set out below:

	As of				
	June 30, 2012	March 31, 2012	March 31, 2011	March 31, 2010	March 31, 2009
Discount rate	8.2%	8.6%	8.0%	7.8%	7.0%
Weighted average rate of increase in compensation levels	7.3%	7.3%	7.3%	7.3%	5.1%

The weighted-average assumptions used to determine net periodic benefit cost for the three months ended June 30, 2012 and June 30, 2011 are set out below:

	Three months ended	
	June 30, 2012	June 30, 2011
Discount rate	8.6%	8.0%
Weighted average rate of increase in compensation levels	7.3%	7.3%
Rate of return on plan assets	9.5%	9.4%

The company contributes all ascertained liabilities towards gratuity to the Infosys Employees' Gratuity Fund Trust. In case of Infosys BPO, contributions are made to the Infosys BPO Employees' Gratuity Fund Trust. Trustees administer contributions made to the trust and contributions are invested in a scheme with the Life Insurance Corporation of India as permitted by Indian law. As of June 30, 2012 and March 31, 2012, the plan assets have been primarily invested in government securities.

Actual return on assets for each of the three months ended June 30, 2012 and June 30 2011 was \$3 million.

The company assesses these assumptions with its projected long-term plans of growth and prevalent industry standards. The company's overall expected long-term rate-of-return on assets has been determined based on consideration of available market information, current provisions of Indian law specifying the instruments in which investments can be made, and historical returns. Historical returns during the three months ended June 30, 2012 and June 30, 2011 have not been lower than the expected rate of return on plan assets estimated for those years. The discount rate is based on the government securities yield.

Assumptions regarding future mortality experience are set in accordance with the published statistics by the Life Insurance Corporation of India.

The company expects to contribute \$24 million to the gratuity trusts during the remainder of fiscal 2013.

2.11.2. Superannuation

The company contributed \$7 million to the superannuation plan during each of the three months ended June 30, 2012 and June 30, 2011. Superannuation contributions have been apportioned between cost of sales, selling and marketing expenses and administrative expenses on the basis of direct employee cost as follows:

	(Dollars in millions)	
	Three months ended	
	June 30, 2012	June 30, 2011
Cost of sales	\$6	\$6
Selling and marketing expenses	1	1
Administrative expenses	—	—
	\$7	\$7

2.11.3. Provident fund

The company has an obligation to fund any shortfall on the yield of the trust's investments over the administered interest rates on an annual basis. These administered rates are determined annually predominantly considering the social rather than economic factors and in most cases the actual return earned by the company has been higher in the past years. The Actuarial Society of India has issued the final guidance for measurement of provident fund liabilities during the quarter ended December 31, 2011. The actuary has accordingly provided a valuation and based on the below provided assumptions there is no shortfall as at June 30, 2012, March 31, 2012, March 31, 2011, March 31, 2010, and March 31, 2009, respectively.

The details of fund and plan asset position are given below:

(Dollars in millions)

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Particulars	As of				
	June 30, 2012	March 31, 2012	March 31, 2011	March 31, 2010	March 31, 2009
Plan assets at period end, at fair value	\$363	\$357	\$354	\$288	\$197
Present value of benefit obligation at period end	363	357	354	288	197
Asset recognized in balance sheet	–	–	–	–	–

Assumptions used in determining the present value obligation of the interest rate guarantee under the Deterministic Approach:

	As of				
	June 30, 2012	March 31, 2012	March 31, 2011	March 31, 2010	March 31, 2009
Government of India (GOI) bond yield	8.2%	8.6%	8.0%	7.8%	7.0%
Remaining term of maturity	8 years	8 years	7 years	7 years	6 years
Expected guaranteed interest rate	8.3%	8.3%	9.5%	8.5%	8.5%

The company contributed \$12 million to the provident fund during each of the three months ended June 30, 2012 and June 30, 2011.

Provident fund contributions have been apportioned between cost of sales, selling and marketing expenses and administrative expenses on the basis of direct employee cost as follows:

	(Dollars in millions)	
	Three months ended	
	June 30, 2012	June 30, 2011
Cost of sales	\$11	\$11
Selling and marketing expenses	1	1
Administrative expenses	–	–
	\$12	\$12

2.11.4. Employee benefit costs include:

	(Dollars in millions)	
	Three months ended	
	June 30, 2012	June 30, 2011
Salaries and bonus	\$933	\$915
Defined contribution plans	9	9
Defined benefit plans	17	24
	\$959	\$948

The employee benefit cost is recognized in the following line items in the consolidated statement of comprehensive income:

	(Dollars in millions)	
	Three months ended	
	June 30, 2012	June 30, 2011
Cost of sales	\$859	\$836
Selling and marketing expenses	65	71
Administrative expenses	35	41
	\$959	\$948

2.12. Equity

Share capital and share premium

The company has only one class of shares referred to as equity shares having a par value of \$0.16. The amount received in excess of the par value has been classified as share premium. Additionally, share-based compensation recognized in net profit in the consolidated statement of comprehensive income is credited to share premium. 2,833,600 shares were held by controlled trusts, each as of June 30, 2012 and March 31, 2012.

Retained earnings

Retained earnings represent the amount of accumulated earnings of the company.

Other components of equity

Other components of equity consist of currency translation and fair value changes on available-for-sale financial assets.

The company's objective when managing capital is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure so as to maximize shareholder value. In order to maintain or achieve an optimal capital structure, the company may adjust the amount of dividend payment, return capital to shareholders, issue new shares or buy back issued shares. As of June 30, 2012, the company had only one class of equity shares and had no debt. Consequent to the above capital structure there are no externally imposed capital requirements.

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

The company declares and pays dividends in Indian rupees. Indian law mandates that any dividend be declared out of accumulated distributable profits only after the transfer to a general reserve of a specified percentage of net profit computed in accordance with current regulations. The remittance of dividends outside India is governed by Indian law on foreign exchange and is subject to applicable taxes.

The amount of per share dividend recognized as distributions to equity shareholders for the three months ended June 30, 2012 and June 30, 2011 was \$0.58 (32.00) and \$0.45 (20.00) respectively. The amount of per share dividend recognized as distribution to equity shareholders for the three months ended June 30, 2012 included a special dividend of \$0.18 (10.00) per equity share, representing the tenth year in operation for Infosys BPO.

2.12.3. Liquidation

In the event of liquidation of the company, the holders of shares shall be entitled to receive any of the remaining assets of the company, after distribution of all preferential amounts. However, no such preferential amounts exist currently, other than the amounts held by irrevocable controlled trusts. The amount that would be distributed to the shareholders in the event of liquidation of the company would be in proportion to the number of equity shares held by the shareholders. For irrevocable controlled trusts, the corpus would be settled in favor of the beneficiaries.

2.12.4. Share options

There are no voting, dividend or liquidation rights to the holders of options issued under the Company's share option plans.

As of June 30, 2012 and March 31, 2012, the company had 11,233 and 11,683 shares reserved for issue under the employee stock option plans, respectively.

2.13. Other income

Other income consists of the following:

	(Dollars in millions)	
	Three months ended	
	June 30, 2012	June 30, 2011
Interest income on deposits and certificates of deposit	\$88	\$87
Exchange gains/ (losses) on forward and options contracts	(64)	9
Exchange gains/ (losses) on translation of other assets and liabilities	58	1
Income from available-for-sale financial assets/ investments	5	1
Others	–	1
	\$87	\$99

2.14. Operating leases

The company has various operating leases, mainly for office buildings, that are renewable on a periodic basis. Rental expense for operating leases was \$11 million and \$9 million for the three months ended June 30, 2012 and June 30, 2011, respectively.

The schedule of future minimum rental payments in respect of non-cancellable operating leases is set out below:
(Dollars in millions)

	As of	
	June 30, 2012	March 31, 2012
Within one year of the balance sheet date	\$34	\$31
Due in a period between one year and five years	\$65	\$55
Due after five years	\$13	\$15

The operating lease arrangements extend up to a maximum of ten years from their respective dates of inception and relate to rented overseas premises. Some of these lease agreements have price escalation clauses.

2.15. Employees' Stock Option Plans (ESOP)

1998 Employees Stock Option Plan (the 1998 Plan): The company's 1998 Plan provides for the grant of non-statutory share options and incentive share 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 shareholders 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. All options granted 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. The 1998 Plan is administered by a compensation committee comprising four members, all of whom are independent members of the Board of Directors. The term of the 1998 Plan ended on January 6, 2008, and consequently no further shares will be issued to employees under this plan.

1999 Employees Stock Option Plan (the 1999 Plan): In fiscal 2000, the company instituted the 1999 Plan. The Board of Directors and shareholders 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 whom 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) of the underlying equity shares on the date of grant. 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 shareholders 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 term of the 1999 plan ended on June 11, 2009, and consequently no further shares will be issued to employees under this plan.

The activity in the 1998 Plan and 1999 Plan during the three months ended June 30, 2012 and June 30, 2011 are set out below.

	Three months ended June 30, 2012		Three months ended June 30, 2011	
	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price
1998 Plan:				
Outstanding at the beginning	–	–	50,070	\$15
Forfeited and expired	–	–	–	–
Exercised	–	–	(28,165)	\$15
Outstanding at the end	–	–	21,905	\$15
Exercisable at the end	–	–	21,905	\$15
1999 Plan:				
Outstanding at the beginning	11,683	\$42	48,720	\$22
Forfeited and expired	–	–	(3,800)	\$9
Exercised	450	\$39	(7,968)	\$12
Outstanding at the end	11,233	\$38	36,952	\$25
Exercisable at the end	11,233	\$38	32,697	\$22

The weighted average share price of options exercised under the 1998 Plan during the three months ended June 30, 2012 and June 30, 2011 were Nil and \$62.90, respectively. The weighted average share price of options exercised under the 1999 Plan during the three months ended June 30, 2012 and June 30, 2011 were \$44.82 and \$63.45, respectively.

The cash expected to be received upon the exercise of vested options for 1999 Plan is less than \$1 million.

The following tables summarize the information about share options outstanding and exercisable as of June 30, 2012 and March 31, 2012 under the 1999 Plan. There are no share options outstanding under the 1998 Plan as of June 30, 2012 and March 31, 2012.

Range of exercise prices per share (\$)	Options outstanding as of June 30, 2012			Options exercisable as of June 30, 2012		
	No. of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	No. of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price

1999 Plan:						
16-53	11,233	0.46	\$38	11,233	0.46	\$38
	11,233	0.46	\$38	11,233	0.46	\$38

Range of exercise prices per share (\$)	Options outstanding as of March 31, 2012			Options exercisable as of March 31, 2012		
	No. of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	No. of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price
1999 Plan:						
16-53	11,683	0.71	\$42	7,429	0.71	\$42
	11,683	0.71	\$42	7,429	0.71	\$42

The share-based compensation recorded for the three months ended June 30, 2012 and June 30, 2011 was Nil.

2.16. Income taxes

Income tax expense in the consolidated statement of comprehensive income comprises:

	(Dollars in millions)	
	Three months ended	
	June 30, 2012	June 30, 2011
Current taxes		
Domestic taxes	\$134	\$108
Foreign taxes	25	42
	\$159	\$150
Deferred taxes		
Domestic taxes	\$1	—
Foreign taxes	—	—
	\$1	—
Income tax expense	\$160	\$150

Entire deferred income tax for the three months ended June 30, 2012 relates to origination and reversal of temporary differences.

For the three months ended June 30, 2012 and June 30, 2011, a reversal of a deferred tax liability of less than \$1 million and \$1 million, respectively, relating to an available-for-sale financial asset, has been recognized in other comprehensive income.

The company, as an Indian resident, is required to pay taxes in India on the company's entire global income in accordance with Section 5 of the Indian Income Tax Act, 1961, which taxes are reflected as domestic taxes. The income on which domestic taxes are imposed are not restricted to the income generated from the "India" geographic segment. The geographical segment disclosures on revenue in note 2.19.2 are solely based on the location of customers and do not reflect the geographies where the actual delivery or revenue-related efforts occur. As such, amounts applicable to domestic income taxes and foreign income taxes will not necessarily correlate to the proportion of revenue generated from India and other geographical segments as per the geographic segment disclosure set forth in note 2.19.2.

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A reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to the income before income taxes is summarized below:

	(Dollars in millions)	
	Three months ended	
	June 30, 2012	June 30, 2011
Profit before income taxes	\$576	\$534
Enacted tax rates in India	32.45%	32.45%
Computed expected tax expense	\$187	\$173
Tax effect due to non-taxable income for Indian tax purposes	(47)	(49)
Overseas taxes	18	24
Effect of exempt income	(2)	-
Effect of unrecognized deferred tax assets	3	1
Effect of non-deductible expenses	1	-
Others	-	1
Income tax expense	\$160	\$150

The applicable Indian statutory tax rate for fiscal 2013 and fiscal 2012 is 32.45%.

The foreign tax expense 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 include those for facilities set up under the Special Economic Zones Act, 2005 and software development facilities designated as "Software Technology Parks" (the STP Tax Holiday). The STP Tax Holiday was available for ten consecutive years, beginning from the financial year when the unit started producing computer software or April 1, 1999, whichever is earlier. The Indian Government, through the Finance Act, 2009, had extended the tax holiday for the STP units until fiscal 2011. The tax holiday for all of our STP units expired as of March 31, 2011. Under the Special Economic Zones Act, 2005 scheme, units in designated special economic zones which begin providing services on or after April 1, 2005 are 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 period of five years subject to the unit meeting defined conditions.

As a result of these tax incentives, a portion of the company's pre-tax income has not been subject to significant tax in recent years. These tax incentives resulted in a decrease in the company's income tax expense of \$47 million and \$49 million for the three months ended June 30, 2012 and June 30, 2011, respectively, compared to the effective tax amounts that the company estimates it would have been required to pay if these incentives had not been available. The per share effect of these tax incentives for three months ended June 30, 2012 and June 30, 2011, was \$0.08 and \$0.09, respectively.

The company is subject to a 15% Branch Profit Tax (BPT) in the U.S. to the extent its U.S. branch's net profit during the year is greater than the increase in the net assets of the U.S. branch during the fiscal year, computed in accordance with the Internal Revenue Code. As of March 31, 2012, Infosys' U.S. branch net assets amounted to approximately \$658 million. As of June 30, 2012, the company has provided for branch profit tax of \$53 million for its U.S branch, as the company estimates that these branch profits are expected to be distributed in the foreseeable future.

Deferred income tax liabilities have not been recognized on temporary differences amounting to \$330 million and \$316 million as of June 30, 2012 and March 31, 2012, respectively, associated with investments in subsidiaries and branches as it is probable that the temporary differences will not reverse in the foreseeable future.

The gross movement in the current income tax asset/ (liability) for the three months ended June 30, 2012 and June 30, 2011 is as follows:

(Dollars in millions)

	Three months ended	
	June 30, 2012	June 30, 2011
Net current income tax asset/ (liability) at the beginning	\$(3)	\$40
Translation differences	–	(2)
Income tax paid	97	100
Current income tax expense (Refer Note 2.16)	(159)	(150)
Net current income tax asset/ (liability) at the end	\$(65)	\$(12)

The tax effects of significant temporary differences that resulted in deferred income tax assets and liabilities are as follows:

	(Dollars in millions)	
	As of	
	June 30, 2012	March 31, 2012
Deferred income tax assets		
Property, plant and equipment	\$55	\$58
Minimum alternate tax credit carry-forwards	8	11
Computer software	7	7
Trade receivables	4	4
Compensated absences	22	25
Accrued compensation to employees	6	6
Others	3	5
Total deferred income tax assets	\$105	\$115
Deferred income tax liabilities		
Temporary difference related to branch profits	\$(53)	\$(53)
Intangibles	(3)	(3)
Total deferred income tax liabilities	\$(56)	\$(56)
Deferred income tax assets to be recovered after 12 months	\$81	\$88
Deferred income tax assets to be recovered within 12 months	24	27
Total deferred income tax assets	\$105	\$115
Deferred income tax liability to be settled after 12 months	\$(38)	\$(42)
Deferred income tax liability to be settled within 12 months	(18)	(14)
Total deferred income tax liabilities	\$(56)	\$(56)

Deferred tax assets and deferred tax liabilities have been offset wherever the company has a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

In assessing the realizability of deferred income tax assets, management considers whether some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income 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 income 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 income tax assets are deductible, management believes that the company will realize the benefits of those deductible differences. The amount of the deferred income 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 gross movement in the deferred income tax account for the three months ended June 30, 2012 and June 30, 2011 is as follows:

(Dollars in millions)

	Three months ended	
	June 30, 2012	June 30, 2011
Net deferred income tax asset at the beginning	\$60	\$85
Translation differences	(10)	—
Credits relating to temporary differences	(1)	—
Temporary difference on available-for-sale financial asset	—	—
Net deferred income tax asset at the end	\$49	\$85

The credits relating to temporary differences during the three months ended June 30, 2012 and June 30, 2011 are primarily on account of amortization of computer software, trade receivables and property, plant and equipment.

Pursuant to the enacted changes in the Indian Income Tax Laws effective April 1, 2007, a Minimum Alternate Tax (MAT) had been extended to income in respect of which a deduction could be claimed under section 10A of the Income Tax Act for STP units. Further, the Finance Act, 2011, which became effective April 1, 2011, extended MAT to SEZ operating and SEZ developer units also. Consequent to the enacted changes, Infosys BPO has calculated its tax liability for current domestic taxes after considering MAT. The excess tax paid under MAT provisions being over and above regular tax liability can be carried forward and set off against future tax liabilities computed under regular tax provisions. Infosys BPO was required to pay MAT, and, accordingly, a deferred income tax asset of \$8 million and \$11 million has been recognized on the balance sheet of the company as of June 30, 2012 and March 31, 2012, respectively, which can be carried forward for a period of ten years from the year of recognition.

The company has received demands from the Indian income tax authorities for payments of additional taxes totalling \$214 million, including interest of \$62 million upon completion of their tax review for fiscal 2005, fiscal 2006, fiscal 2007 and fiscal 2008. These income tax demands are mainly on account of disallowance of a portion of the deduction claimed by the company under Section 10A of the Income Tax Act. The deductible amount is determined by the ratio of export turnover to total turnover. The disallowance arose from certain expenses incurred in foreign currency being reduced from export turnover but not reduced from total turnover. The tax demand for fiscal 2007 and fiscal 2008 also includes disallowance of portion of profit earned outside India from the STP units and disallowance of profits earned from SEZ units. The matter for fiscal 2005, fiscal 2006, fiscal 2007 and fiscal 2008 are pending before the Commissioner of Income tax (Appeals) Bangalore. The company is contesting the demand and the management including its tax advisors believes that its position will likely be upheld in the appellate process. The 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.

2.17. Earnings per equity 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	
	June 30, 2012	June 30, 2011
Basic earnings per equity share - weighted average number of equity shares outstanding(1)	571,396,551	571,333,499
Effect of dilutive common equivalent shares - share options outstanding	1,590	62,877
Diluted earnings per equity share - weighted average number of equity shares and common equivalent shares outstanding	571,398,141	571,396,376

(1) Excludes treasury shares

For the three months ended June 30, 2012 and June 30, 2011 there were no outstanding options to purchase equity shares which had an anti-dilutive effect.

2.18. Related party transactions