

- ii) in the case of the profit and loss account, of the profit of the Company for the year ended on that date; and
- iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

As required by the Companies (Auditor's Report) Order, 2003 issued by the central government under section 227(4A) of the Companies Act, 1956, we report as under:

1 (a) The Company is maintaining proper records to show full particulars including quantitative details and situation of all fixed assets.

(b) The assets were physically verified by management during the year. In our opinion, the frequency of such verification is reasonable. We were informed that no material discrepancies were noticed on such verification.

(c) Fixed assets disposed off during the year are not substantial in relation to the Company and do not affect the going concern.

2 There are no loans either granted to or taken from companies, firms or other parties that are covered in the register maintained under section 301 of the Companies Act, 1956.

3 In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of services. In our opinion and according to the information and explanations given to us, there is no continuing failure to correct major weaknesses in internal controls.

4 ~~According to the information and explanations given to us, there are no transactions that need to be entered into the register to be maintained under section 301 of the Companies Act, 1956.~~

5 The Company has not accepted any deposits in terms of provisions of sections 58A and 58AA of the Companies Act, 1956.

6 We are of the opinion that the Company has an internal audit system commensurate with the size and the nature of its business.

7 We are informed by management that cost records are not required to be maintained by the Company.

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- 8 (a) According to the information and explanations given to us and as per the records of the Company, the Company has been regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, income tax, sales tax, wealth tax, custom duty, excise duty and other statutory dues with the appropriate authorities. According to the information and explanations given to us, there were no undisputed amounts payable in respect of provident fund, investor education and protection fund, sales tax, income tax, custom duty, wealth tax excise duty and other statutory dues were outstanding as at 31 March 2004 for a period of more than six months from the date they became payable. We were informed by management that there are no dues payable under the Employees State Insurance Act.
- (b) According to the information and explanations given to us and according to the records of the Company, there are no dues of sales tax, income tax, custom duty, wealth tax, and excise duty that have not been deposited with the appropriate authorities on account of any dispute.
- 9 There are no accumulated losses at the end of the financial year and the Company has not incurred cash losses in the current financial year or in the immediately preceding financial year.
- 10 Based on our audit procedures and the information and explanations given by management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holder.
- 11 The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.
- 12 The Company is not dealing in shares, securities, debentures and other investments.
- 13 According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- 14 To the best of our knowledge and belief and according to the information and explanations given by management, we are of the opinion that the Company has applied term loans for the purpose for which the loans were obtained.
- 15 Based on our examination and the information and explanations given by management, we are of the opinion that the funds raised by the Company on short term basis are not used for long term investment and vice-versa.

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- 16 Based on our audit procedures and the information and explanations given by management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.
- 17 Clauses (ii)(a), (ii)(b), (ii)(c), (xiii), (xviii), (xix), and (xx) of paragraph 4 of the Order are not applicable to the Company in the current year.

Sharp & Tannan
Chartered Accountants
By the hand of



R.D.Kare
Partner
(Membership no. 8820)

Place: Mumbai

Date: 22 May, 2004



LARSEN & TOUBRO INFOTECH LIMITED
BALANCE SHEET AS AT MARCH 31, 2004

| | Schedules | As at 31-3-2004 Rupees | As at 31-3-2003 Rupees |
|---|-----------|---------------------------|---------------------------|
| SOURCES OF FUNDS | | | |
| SHAREHOLDERS' FUNDS | | | |
| Share capital | A | 150,000,000 | 150,000,000 |
| Reserves and surplus | B | 812,148,742 | 689,718,801 |
| | | 962,148,742 | 839,718,801 |
| LOAN FUNDS | | | |
| Secured loans | C | 791,719,697 | 707,657,729 |
| Unsecured loans | D | 91,067,394 | 176,076,735 |
| | | 882,787,091 | 883,734,464 |
| Deferred tax liability (net) (see schedule P, note 11) | | 722,301 | 4,252,943 |
| TOTAL | | 1,845,658,134 | 1,727,706,208 |
| APPLICATION OF FUNDS | | | |
| Tangible Assets | | | |
| | E1 | | |
| Gross Block | | 932,530,788 | 895,687,017 |
| Less : Depreciation | | 496,940,784 | 414,549,041 |
| Net Block | | 435,590,004 | 481,137,976 |
| Capital work-in-progress | | 106,225,822 | 102,644,599 |
| | | 541,815,826 | 583,782,575 |
| Intangible Assets | | | |
| | E2 | | |
| Gross Block | | 424,972,753 | 328,388,005 |
| Less : Amortisation | | 200,353,997 | 97,658,852 |
| Net Block | | 224,618,756 | 230,729,153 |
| Capital work-in-progress | | 26,699,757 | 59,728,632 |
| | | 251,318,513 | 290,457,785 |
| Investments | F | 1,140,650 | 4,640,650 |
| Current assets, loans and advances | | | |
| Sundry debtors | G | 790,211,992 | 719,124,109 |
| Cash and bank balances | H | 44,013,684 | 47,961,222 |
| Loans and advances | I | 546,244,475 | 344,925,000 |
| | | 1,380,470,151 | 1,112,010,331 |
| Less : Current liabilities and provisions | J | | |
| Current liabilities | | 302,362,108 | 289,732,935 |
| Provisions | | 37,853,248 | 25,170,280 |
| | | 340,215,356 | 314,903,215 |
| Net current assets | | 1,040,254,795 | 797,107,116 |
| Deferred revenue expenditure (To the extent not written off or adjusted) | K | 11,128,350 | 51,718,082 |
| TOTAL | | 1,845,658,134 | 1,727,706,208 |

**SIGNIFICANT ACCOUNTING POLICIES
AND NOTES TO ACCOUNTS**

As per our report attached

SHARP & TANNAN

Chartered Accountants

by the hand of

R D KARE

Partner

Mumbai

Date 22 May, 2004

V K MAGAPU

Manager

S S PRABHUDESAI

Secretary

A M NAIK

Y M DEOSTHALEE

Directors

Mumbai

Date 22nd May, 2004

LARSEN & TOUBRO INFOTECH LIMITED
 PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

| | Schedules | 2003-04 Rupees | 2002-03 Rupees |
|---|-----------|----------------------|----------------------|
| INCOME | | | |
| Software development services and products | | | |
| Overseas | | 3,339,060,442 | 2,246,851,380 |
| Domestic | | 306,968,458 | 264,961,901 |
| Other income | L | 16,573,426 | 14,770,084 |
| | | 3,662,602,326 | 2,526,583,365 |
| EXPENDITURE | | | |
| Software development expenses | M | 2,222,187,802 | 1,420,732,954 |
| Sales, administration and other expenses | N | 1,017,851,603 | 742,315,030 |
| | | 3,240,039,405 | 2,163,047,984 |
| Operating profit (PBIDT) | | 422,562,921 | 363,535,380 |
| Interest | O | 30,993,709 | 33,103,489 |
| Depreciation on tangible assets | | 125,161,222 | 107,134,423 |
| Amortisation of intangible assets | | 102,695,144 | 54,630,591 |
| Amortisation of deferred revenue expenditure | | 40,589,732 | 29,461,375 |
| Profit before tax (PBT) | | 123,123,114 | 139,205,502 |
| Provision for taxes (including Rs 200,000 for wealth tax; previous year Rs. 400,000) | | 4,223,815 | 10,448,280 |
| (Write back)/further provision for tax earlier years (net) | | - | (5,099,820) |
| Deferred tax | | (3,530,642) | 1,311,289 |
| Profit after tax (PAT) | | 122,429,941 | 132,545,753 |
| Add : Balance brought forward from previous year | | 169,718,801 | 133,725,169 |
| Profit available for appropriation | | 292,148,742 | 266,270,922 |
| Less: Transfer to general reserve | | - | 21,552,121 |
| Profit available for distribution | | 292,148,742 | 244,718,801 |
| Interim dividend | | - | 75,000,000 |
| Balance to be carried forward | | 292,148,742 | 169,718,801 |
| Basic and diluted earnings per share (EPS) | | 4.08 | 4.42 |
| Equivalent number of shares of Rs.5 each | | 30,000,000 | 30,000,000 |

**SIGNIFICANT ACCOUNTING POLICIES
 AND NOTES ON ACCOUNTS**

As per our report attached
 SHARP & TANNAN
 Chartered Accountants

V K MAGAPU
 Manager

A M NAIK

by the hand of

R D KARE
 Partner

S S PRABHUDESAI
 Secretary

Y M DEOSTHALEE
 Directors

Mumbai

Mumbai

Date 22 May 2004.

Date 22nd May, 2004

LARSEN & TOUBRO INFOTECH LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2004

| | 2003-04 Rs | 2002-03 Rs |
|---|----------------------|----------------------|
| A Cash flow from operating activities : | | |
| Net profit before tax | 123,123,114 | 139,205,502 |
| Adjustments for : | | |
| Depreciation and amortisation | 227,856,366 | 161,765,014 |
| Interest paid | 31,377,153 | 42,436,417 |
| Unrealised foreign exchange difference | 18,763,058 | 5,571,338 |
| Dividend received from subsidiary company | - | (11,966,602) |
| Income from other investments | (151,468) | (438,100) |
| Deferred revenue expenditure amortised | 40,589,732 | 29,461,375 |
| Cost of long term projects amortised | 6,285,538 | - |
| Deferred revenue expenditure | - | (81,179,457) |
| Cost of long term projects | (41,878,192) | - |
| (Profit)/loss on sale of fixed assets | 2,311,593 | 122,541 |
| Operating profit before working capital changes | 408,276,894 | 284,978,028 |
| Changes in working capital | | |
| (Increase)/decrease in trade receivables | (71,087,884) | (154,317,557) |
| (Increase)/decrease in other receivables | (177,833,388) | (111,257,340) |
| Increase/(decrease) in trade payables | 15,761,341 | 106,467,990 |
| (Increase)/decrease in working capital | (233,159,931) | (159,106,907) |
| Cash generated from operations | 175,116,963 | 125,871,121 |
| Direct taxes paid | (4,266,335) | (299,557) |
| Net cash from operating activities | 170,850,628 | 125,571,564 |
| B Cash flow from investing activities : | | |
| Purchase of fixed assets | (217,585,132) | (467,185,809) |
| Sale of fixed assets | 68,523,192 | 2,962,586 |
| Investments | 3,500,000 | (3,500,000) |
| Interest received | 383,444 | 9,332,928 |
| Dividend received from subsidiary | - | 26,883,602 |
| Dividend received from other investments | 151,468 | 403,558 |
| Net cash from investing activities | (145,027,028) | (431,103,135) |
| C Cash flow from financing activities : | | |
| Proceeds from other borrowings (net) | 91,052,626 | 296,174,464 |
| Inter corporate borrowings | (92,000,000) | 170,000,000 |
| Financial expenses | (28,823,764) | (53,161,922) |
| Dividend paid | - | (112,500,000) |
| Dividend tax paid | - | (9,945,000) |
| Net cash from financing activities | (29,771,138) | 290,567,542 |
| Net (decrease)/increase in cash and cash equivalents (A+B+C) | (3,947,538) | (14,964,029) |
| Cash and cash equivalents at the beginning of the year | 47,961,222 | 62,925,251 |
| Cash and cash equivalents at the end of the year | 44,013,684 | 47,961,222 |

Notes:


- Cash flow has been prepared under the indirect method as set out in the Accounting Standard - 3 issued by the Institute of Chartered Accountants of India.
- Purchase of fixed assets includes movements of capital work-in-progress between the beginning and end of the year
- Previous year's figures have been regrouped /reclassified wherever applicable

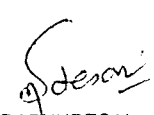
SHARP & TANNAN
Chartered Accountants

by the hand of

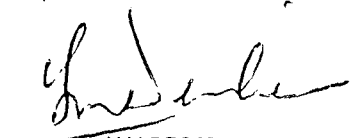

R D KARE
Partner

Mumbai
Date: 22 May, 2004.


V K MAGAPU
Manager


S S PRABHUDESAI
Secretary


A M NAIK


Y M DEOSTHALEE
Directors

Mumbai
Date: 22nd May, 2004

LARSEN & TOUBRO INFOTECH LIMITED

Schedules forming part of accounts

| | As at 31-3-2004 Rupees | As at 31-3-2003 Rupees |
|---|---------------------------|---------------------------|
| SCHEDULE A | | |
| Share capital | | |
| <i>Authorised</i> : 3,05,00,000 Equity shares of Rs.5 each (Previous year 3,00,00,000 of Rs. 5 each) | 152,500,000 | 150,000,000 |
| <i>Issued and Subscribed</i> 3,00,00,000 Equity Shares for Rs. 5 each (Previous year 3,00,00,000 of Rs. 5 each) | 150,000,000 | 150,000,000 |
| <i>Paid up</i> : 3,00,00,000 Equity Shares for Rs. 5 each (Previous year 3,00,00,000 of Rs. 5 each) | 150,000,000 | 150,000,000 |
| All the above Equity shares (Same as <i>previous year</i>) are held by Larsen and Toubro Limited, the holding Company | 150,000,000 | 150,000,000 |
| SCHEDULE B | | |
| Reserves and surplus | | |
| General reserve | | |
| As per last balance sheet | 520,000,000 | 498,447,879 |
| Add : Transferred from profit and loss account | | 21,552,121 |
| | 520,000,000 | 520,000,000 |
| Profit and loss account | 292,148,742 | 169,718,801 |
| | 812,148,742 | 689,718,801 |
| SCHEDULE C | | |
| Secured loans | | |
| Loans from banks | 791,719,697 | 707,657,729 |
| | 791,719,697 | 707,657,729 |
| SCHEDULE D | | |
| Unsecured loans | | |
| Inter corporate borrowings (from holding company) | 78,000,000 | 170,000,000 |
| Lease finance (due with in one year Rs. 3,775,004) | 13,067,394 | 6,076,735 |
| | 91,067,394 | 176,076,735 |
| SCHEDULE F | | |
| Investments (at cost, unquoted) | | |
| Long term investment | | |
| 1. fully paid equity share of Euro 25,000/- in L&T Infotech GmbH, wholly owned subsidiary | 1,140,650 | 1,140,650 |
| Current investments | | |
| Principal Asset Management Co. Ltd. - Money at call option | | 3,500,000 |
| Details of investments purchased and sold during the year (3.57,50,000 units of Rs. 10 each subscribed ; Cost Rs. 35,75,00,000) (3.92,50,000 units of Rs. 10 each sold ; Sale value Rs. 39,25,00,000) | 1,140,650 | 4,640,650 |

for

LARSEN & TOUBRO INFOTECH LIMITED

Schedules forming part of accounts

| | As at 31-3-2004 Rupees | As at 31-3-2003 Rupees |
|--|---------------------------|---------------------------|
| SCHEDULE G | | |
| Sundry debtors | | |
| Unsecured | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | 110,371,172 | 75,648,705 |
| Considered doubtful | 82,180,633 | 78,955,069 |
| | 192,551,805 | 154,603,774 |
| Other Debts | | |
| Considered good | | |
| - Due from subsidiary | 6,253,596 | 14,592,265 |
| - Others | 673,587,225 | 628,883,139 |
| Considered doubtful | | |
| Less : Provision for doubtful debts | 82,180,634 | 78,955,069 |
| | 790,211,992 | 719,124,109 |
| SCHEDULE H | | |
| Cash and bank balances | | |
| Cash on hand | 319,532 | 315,484 |
| Balances with scheduled banks | | |
| in current accounts (including remittances in transit) | 12,734,349 | 14,204,115 |
| Balances with non-scheduled banks | 30,959,803 | 33,441,623 |
| (see schedule P note 2) | | |
| | 44,013,684 | 47,961,222 |
| SCHEDULE I | | |
| Loans and advances | | |
| Secured : | | |
| Loans against mortgage of house property | 6,579,515 | 8,222,241 |
| Unsecured : | | |
| Unbilled revenues | 202,029,971 | 11,724,833 |
| Due from subsidiary company | 4,880,000 | 4,880,000 |
| Advances recoverable in cash or in kind | 297,162,335 | 320,097,926 |
| Cost of long term projects | 35,592,654 | |
| (see schedule P note 16) | | |
| | 546,244,475 | 344,925,000 |
| SCHEDULE J | | |
| Current Liabilities and provisions | | |
| Current Liabilities : | | |
| Sundry creditors | 253,813,164 | 164,140,610 |
| Due to holding company | 48,313,944 | 125,542,325 |
| Due to directors | 235,000 | 50,000 |
| | 302,362,108 | 289,732,935 |
| Provisions : | | |
| Taxes | 17,062,248 | 10,448,280 |
| Leave encashment | 20,791,000 | 14,722,000 |
| | 37,853,248 | 25,170,280 |
| | 340,215,356 | 314,903,216 |
| SCHEDULE K | | |
| DEFERRED REVENUE EXPENDITURE | | |
| <i>(To the extent not written off or adjusted)</i> | | |
| Restructuring expenses | | 25,751,924 |
| Expenses for SEI CMM Level 5 | 11,128,350 | 25,966,158 |
| | 11,128,350 | 51,718,082 |

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LARSEN & TOUBRO INFOTECH LIMITED

Schedules forming part of accounts

| | 2003-04 Rupees | 2002-03 Rupees |
|--|----------------------|----------------------|
| SCHEDULE L | | |
| Other income | | |
| Dividend from Subsidiary Company | - | 11,966,602 |
| Income from other investments | 151,468 | 438,100 |
| Provision no longer required | - | 1,548,000 |
| Miscellaneous income | 16,421,958 | 817,382 |
| | 16,573,426 | 14,770,084 |
| SCHEDULE M | | |
| Software development expenses | | |
| Salaries including overseas staff expenses | 1,529,168,942 | 1,146,969,414 |
| Staff welfare | 86,606,618 | 75,472,788 |
| Contribution to provident and other funds | 29,530,039 | 23,868,547 |
| Contribution to superannuation fund | 13,339,014 | 9,788,171 |
| Contribution to gratuity fund | 4,101,593 | 2,463,228 |
| Communication expenses | 93,989,557 | 30,512,643 |
| Consultancy charges | 372,413,988 | 73,400,027 |
| Cost of Software packages for own use | 32,475,211 | 24,063,373 |
| Cost of bought-out items for resale | 60,562,840 | 34,194,763 |
| | 2,222,187,802 | 1,420,732,954 |
| SCHEDULE N | | |
| Sales, Administration and other expenses | | |
| Salaries including overseas staff expenses | 326,119,536 | 226,531,197 |
| Travelling and conveyance | 160,104,341 | 129,850,319 |
| Rent (lease rent Rs. 6,705,608 ; previous year Rs. 6,705,608) | 103,190,225 | 75,077,929 |
| Telephone charges and postage | 70,648,077 | 47,201,239 |
| Legal and professional charges | 79,439,553 | 69,174,854 |
| Printing and stationery | 21,206,488 | 18,211,516 |
| Advertisement | 7,449,436 | 7,300,241 |
| Advertisement for Vacancies | 15,300,581 | 6,765,847 |
| Repairs to building | 1,147,741 | 2,591,743 |
| Repairs to computers | 7,204,691 | 8,533,841 |
| General repairs and maintenance | 35,822,558 | 26,769,620 |
| Loss on sale of Fixed Assets | 2,311,593 | 122,541 |
| Power and fuel | 38,656,205 | 24,068,778 |
| Establishment expenses | 43,980,934 | 28,844,093 |
| Insurance charges | 13,919,184 | 6,521,002 |
| Rates and taxes | 6,072,859 | 4,744,053 |
| Auditors' remuneration | 744,803 | 679,350 |
| Bad debts | 21,850,477 | - |
| Provision for doubtful debts (net) | 3,225,565 | 24,792,691 |
| Commission charges | 12,970,583 | 6,680,248 |
| Books and periodicals | 7,290,617 | 6,533,928 |
| Entertainment | 7,336,729 | 5,939,550 |
| Directors fees | 235,000 | 50,000 |
| Miscellaneous expenses | 25,338,289 | 15,330,350 |
| Amortisation of cost of long term projects | 6,285,538 | - |
| | 1,017,851,603 | 742,315,030 |
| SCHEDULE O | | |
| Interest paid on | | |
| Fixed loans | 6,035,985 | 6,503,807 |
| On others | 12,914,833 | 29,272,584 |
| Lease finance charges | 12,426,335 | 6,660,026 |
| Less : Interest received | 383,444 | 9,332,928 |
| | 30,993,709 | 33,103,489 |

10/11

Larsen & Toubro Infotech Limited

Schedules forming part of the Accounts

Schedule P

Significant Accounting Policies

1. Basis of accounting

The Company maintains its accounts on accrual basis following the historical cost convention in accordance with generally accepted accounting principles ("GAAP") and in compliance with the Accounting Standards referred to in section 211(3C) and other requirements of the Companies Act, 1956.

The preparation of financial statements in conformity with GAAP requires the management of the Company to make estimates and assumptions that affect the income and expense reported for the period and assets and liabilities reported as of the date of the financial statements. Examples of such estimates include the useful lives of the fixed assets, provision for doubtful debts, future obligations in respect of retirement benefit plans, etc. Actual results could vary from these estimates.

2. Revenue recognition

Revenue earned from services provided on "time and material" basis is recognised based on software developed or time spent in person hours or person weeks and billed to customers as per the terms of specific contracts.

Revenue from services performed on "fixed-price" basis is recognised using the percentage of completion method. Unbilled revenue represents value of services performed in accordance with the contract terms but not billed.

Revenue on sale of software packages is accounted on despatch to customers.

3. Retirement benefits

Contribution to provident and super-annuation funds are accounted on actual liability basis. Provision for leave encashment benefit on retirement is made on the basis of actuarial valuation. Gratuity contribution is made to the group gratuity scheme of the Life Insurance Corporation of India.

4. Fixed Assets

Tangible

Fixed Assets are stated at cost less depreciation.

Intangible

Computer software developed in-house is capitalised at cost.



5. Leases

(a) Lease transactions entered into prior to April 1, 2001:

The lease rentals in respect of such assets are charged to the profit and loss account.

(b) Lease transactions entered into on or after April 1, 2001:

- (i) Assets acquired under leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Such assets are capitalised at the inception of the lease at the lower of the fair value and the present value of minimum lease payments and a liability is created for an equivalent amount. Each lease rental is allocated between the liability and the interest cost, so as to obtain a constant periodic rate of interest on the outstanding liability for each period.
- (ii) Assets acquired under lease where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged to the profit and loss account on accrual basis.

6. Depreciation

Tangible - Owned assets

Depreciation on all assets is calculated using straight line method at rates prescribed by schedule XIV to the Companies Act, 1956, except for the following:

| | |
|--------------------------|--------|
| • Plant and machinery | 20% |
| • Computers | 30% |
| • Servers | 25% |
| • Furniture and fixtures | 10% |
| • Office equipments | 20% |
| • Motor cars | 14.14% |

Tangible - Leased assets

Assets acquired under finance leases are depreciated at the rates applicable to similar assets owned by the Company as there is reasonable certainty that the Company shall obtain ownership of the assets at the end of the lease term.

Intangible assets

The basis of amortisation of intangible assets is as follows:

| | |
|---------------------|---------------------------------------|
| • Leasehold land | over the residual period of the lease |
| • Computer software | 33.33% |
| • Business Rights | over a period of five years |

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Depreciation / amortisation on additions / disposals is calculated pro-rata from / to the month of additions / disposals.

7. Borrowing cost

Borrowing cost that are attributable to the acquisition and construction of qualifying assets are capitalised as part of cost of such assets till such time as the asset is ready for its use. A qualifying asset is one that requires a substantial period of time to get ready for its intended use. All other borrowing costs are recognised as an expense in the period in which they are incurred.

8. Deferred revenue expenditure

The expenses disclosed under Miscellaneous Expenditure are amortised as follows:

- (a) Restructuring expenses over a period of two years
- (b) Expenses incurred for obtaining SEI CMM Level 5 certification are amortised over a period of two years from completion of the exercise.

9. Foreign currency transactions

Foreign currency transactions are recorded at the rates prevailing on the date of the transaction.

Translation of foreign currency transaction of overseas branches is as under:

- revenue items at the average rate for the period;
- fixed assets and investments at the rates prevailing on the date of the transaction; and
- other assets and liabilities at year end rates.

Exchange difference on settlement / year end conversion is adjusted to:

- cost of fixed assets, if foreign currency liability pertains to fixed assets; and
- ~~profit and loss account in other cases.~~

Profit or loss on forward contracts is accounted over the period of the contract.

10. Income tax

Provision for income tax for the current year is based on the taxable profits for the year after considering tax exemptions / allowances.

Deferred tax is recognised subject to the consideration of prudence in respect of deferred tax ~~asset on timing differences being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.~~

Larsen & Toubro Infotech Limited

Notes forming part of Accounts

1. The secured loans from banks are secured against hypothecation of the Company's movable assets and accounts receivables.

2. Balances with non-scheduled banks held in :

| | | | Rs. | |
|--|-------------------|-------------------|--|-------------|
| | 31.3.04 | 31.3.03 | Max. amount outstanding during 2003-04 | 2002-03 |
| Current account | | | | |
| Citibank N.A., New Jersey (Collection) | 9,675,426 | 34,023,098 | 140,068,518 | 111,342,239 |
| Citibank N.A., New Jersey (Checking) | 487,517 | (9,277,961) | 139,110,440 | 84,541,823 |
| Citibank N.A., Paris | 1,611,631 | - | 22,740,211 | - |
| Citibank N.A., Singapore | 300,775 | - | 7,946,303 | - |
| Fleet Boston, New Jersey | 3,121,228 | - | 68,299,151 | - |
| HSBC, London (GBP) | 1,277,112 | (3,521,400) | 16,546,465 | 33,360,842 |
| HSBC, London (USD) | 2,196,549 | 355,454 | 14,517,920 | 55,930,242 |
| HSBC, London (EUR) | 186,434 | 2,878,778 | 10,214,413 | 2,667,936 |
| State Bank of India, Tokyo | 623,001 | 3,537,407 | 6,624,731 | 4,731,401 |
| State Bank of India, New Jersey | - | (6,618,857) | - | 37,524,879 |
| Tokyo Mitsubishi Bank, Tokyo | 4,235,254 | 470,441 | 10,926,400 | 6,242,344 |
| Total | 23,714,927 | 21,846,960 | | |
| Deposit account | | | | |
| Citibank N.A., New Jersey | 7,244,876 | 11,594,663 | 7,244,876 | 11,594,663 |

3. The Company is mainly engaged in the business of software development. This is not capable of being expressed in the form of generic units. Hence it is not possible to give quantitative details and information required under Paragraphs 3, 4c of part II of Schedule VI to the Companies Act, 1956.

4. The net exchange gain arising on foreign currency transactions amounting to Rs. 65,645,072 (previous year loss of Rs. 10,94,842) has been accounted under respective revenue heads.

5. Expenditure in foreign currency:

| | Rs. | |
|--|----------------------|----------------------|
| | 2003-04 | 2002-03 |
| Overseas staff costs | 1,119,988,994 | 826,063,043 |
| Foreign travel | 42,627,829 | 34,054,968 |
| Agency commission | 12,970,583 | 8,239,197 |
| Interest | 2,286,874 | 2,873,195 |
| Others (includes overseas office expenses) | 547,769,253 | 292,812,997 |
| Total | 1,725,643,532 | 1,164,043,400 |

| | | |
|-----------------------------------|----------------------|----------------------|
| 6. Earnings in foreign currency : | | Rs. |
| | 2003-04 | 2002-03 |
| Software exports | 3,339,060,442 | 2,297,585,245 |
| Interest income | 63,802 | 825,316 |
| Dividend income | - | 11,966,602 |
| Total | 3,339,124,244 | 2,310,377,163 |

| | | |
|--------------------------------------|------------------|------------------|
| 7. Manager's remuneration includes : | | Rs. |
| | 2003-04 | 2002-03 |
| Salary | 2,510,865 | 2,754,000 |
| Perquisites | 272,421 | 498,552 |
| Retirement benefits | 271,350 | 161,640 |
| Total | 3,054,636 | 3,414,192 |

The above figures do not include contribution to gratuity fund, pension scheme and leave encashment benefit.

| | | |
|--|----------------|----------------|
| 8. Auditors' remuneration (excluding service tax) and expenses charged to the accounts include : | | Rs. |
| | 2003-04 | 2002-03 |
| Audit fees | 450,000 | 400,000 |
| Tax audit fees | 180,000 | 150,000 |
| Certification fees | 111,507 | 101,850 |
| Reimbursement of expenses | 3,296 | - |
| Total | 744,803 | 651,850 |

| | | |
|---------------------------------------|-------------------|-------------------|
| 9. Value of imports on C.I.F. basis : | | Rs. |
| | 2003-04 | 2002-03 |
| Capital goods | 43,020,895 | 74,024,475 |
| Others | 25,772,483 | 1,950,363 |
| Total | 68,793,378 | 75,974,838 |

10. Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for: Rs. 16,946,938 (previous year : Rs. 19,085,957)



11. The break-up of net deferred tax liability as at March 31, 2004 is as under:

| | Deferred tax asset/(liability) as at March 31, 2003 | Current year (charge) / credit | Rs. Deferred tax asset/ (liability) as at March 31, 2004 |
|--|---|--------------------------------|--|
| Deferred tax liabilities | | | |
| • Depreciation / amortisation | (4,833,728) | (81,348) | (4,915,076) |
| • Amortisation of intangible assets | (211,054) | (52,762) | (263,816) |
| • Miscellaneous expenditure (to the extent-not-written-off/adjusted) | (1,484,311) | 1,164,927 | (319,384) |
| • Cost of long-term projects | | (1,030,628) | (1,030,628) |
| • Total | (6,529,093) | 189 | (6,528,904) |
| Deferred tax asset | | | |
| • Unabsorbed depreciation | - | 3,453,675 | 3,453,675 |
| • Provision for doubtful debts | 2,266,010 | 92,575 | 2,358,585 |
| • Others | 10,140 | (15,797) | (5,657) |
| • Total | 2,276,150 | 3,530,453 | 5,806,603 |
| Net deferred tax liability | (42,52,943) | 3,530,642 | (722,301) |

12. Sale and lease-back

In the current year, vehicles having net book value of Rs. 62,621,921 were sold at the book value and taken back on operating lease.

13. Leases

Finance Leases -

In accordance with Accounting Standard 19 "Leases" issued by the Institute of Chartered Accountants of India, the assets acquired under finance leases on or after April 1, 2001 are capitalised and a loan liability is recognised for an equivalent amount. Consequently depreciation is provided on such leases. Lease rentals paid are allocated to the liability and the interest charged to profit and loss account.

Consequently, the gross block of fixed assets is higher by Rs. 18,637,727, depreciation for the year is higher by Rs. 3,708,025 and charge to profit and loss account in respect of lease rentals is lower by Rs. 5,668,758 interest expense is higher by Rs. 1,486,460 and the profit is higher by Rs. 474,273.

Assets acquired on finance lease comprise of servers. The minimum lease rentals and their present value as at March 31, 2004 in respect of assets acquired under finance lease are as follows:

| | Rs. |
|---|-----------------------|
| Minimum lease payments | |
| - Payable not later than 1 year | 4,895,047 |
| - Payable after 1 year but not later than 5 years | 10,762,020 |
| - Total | 15,657,067 |
| Less : future finance charges | 2,589,673 |
| | <u>13,067,394</u> |
| Present value of minimum lease payments | |
| - Payable not later than 1 year | 3,775,004 |
| - Payable after 1 year but not later than 5 years | 9,292,390 |
| - Total | <u>13,067,394</u> |

ln

Operating Leases

The company has taken employee used cars under non-cancellable operating leases. The rental expense in respect of operating leases was Rs. 8,301,495 and the future rentals payable are as follows:

| | |
|---|-------------------|
| Minimum lease payments | |
| - Payable not later than 1 year | 23,042,711 |
| - Payable after 1 year but not later than 5 years | 75,964,693 |
| - Total | <u>99,007,404</u> |

14. Related party disclosure:

The related parties with whom the Company had transactions during the year are :

| Name | Relationship |
|-------------------------------|-------------------|
| Larsen & Toubro Limited | Holding company |
| Larsen & Toubro Infotech GmbH | 100% subsidiary |
| Tractor Engineers Limited | Fellow subsidiary |
| L&T Finance Limited | Fellow subsidiary |
| L&T Netcom Limited | Fellow subsidiary |

A summary of transactions with related parties is given below:

Rs.

| Transaction | Holding Co. | Subsidiary | Fellow Subsidiaries, |
|--------------------------------|---------------|---------------|----------------------|
| • Sale of services / products | 151,518,657 | 109,034,705 | 1,640,314 |
| | (146,920,554) | (101,570,843) | (1,400,000) |
| • Purchase / lease of assets | 3,202,522 | - | 73,794,881 |
| | (-) | (-) | (105,514,767) |
| • Sale of assets | - | - | 62,621,921 |
| | (-) | (-) | (-) |
| • Overheads charged by | 110,583,472 | - | - |
| | (148,182,898) | (-) | (-) |
| • Overheads charged to | 6,256,247 | - | 1,160,400 |
| | (5,074,832) | (-) | (2,744,502) |
| • Lease rent paid | - | - | 15,980,925 |
| | (-) | (-) | (8,252,026) |
| • Interest / Dividend received | - | - | - |
| | (11,918) | (11,966,602) | (-) |
| • Interest / Dividend paid | 18,312,664 | - | 1,552,039 |
| | (83,155,440) | (-) | (468,012) |
| • Unsecured loan | 78,000,000 | - | - |
| | (170,000,000) | (-) | (-) |
| • Trade receivable | - | 4,253,597 | 6,892,109 |
| | - | (19,472,265) | (3,053,622) |
| • Trade payable | 48,313,944 | - | - |
| | (125,542,325) | (-) | (16,424,467) |

Figures in brackets pertain to the previous year

No amounts were written off / provided or written back in respect of related party transactions during the year.

15. Segmental reporting

Segmental reporting of revenues for the Company is on the basis of the geographical location of the customers and is as under:

| | USA | Europe | Asia Pacific | India | Rest of the World | Rs. Total |
|---------|-----------------|---------------|---------------|---------------|-------------------|-----------------|
| Revenue | 2,160,754,176 | 614,110,378 | 529,177,994 | 306,968,458 | 35,197,894 | 3,646,028,900 |
| | (1,320,402,733) | (480,153,298) | (442,671,579) | (264,961,901) | (3,623,770) | (2,511,813,281) |

Fixed assets used and liabilities contracted for performing the Company's business have not been identified to any of the above reported segments as the fixed assets and services are used interchangeably among segments.

16. Cost incurred for long term projects mainly comprise of legal and employee related costs to secure long term projects. These costs are amortised over a period of two years commencing from the date of securing the project.
17. Based on the information and records available with the Company, there are no amounts payable to small-scale undertakings due for more than 30 days as at March 31, 2004.
18. Previous year's figures have been regrouped, wherever necessary, to conform to classifications of the current year.

Signatures to Schedules A to P and Notes

As per our report attached

SHARP & TANNAN



R D KARE
Partner


Mumbai

Date 22 May 2004

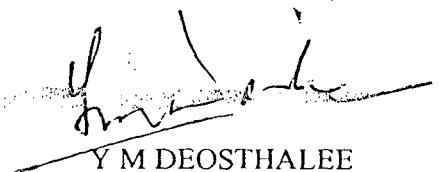




V K MAGAPU
Manager


S S PRABHUDESAI
Secretary


A M NAIK



Y M DEOSTHALEE
Directors

Mumbai

Date 22nd May, 2004

LARSEN & TOUBRO INFOTECH LIMITED

Notes forming part of accounts

19. Balance Sheet abstract and Company's general business profile

I Registration Details

Registration No. Status Code

Balance Sheet Date

II Capital Raised during the year (Amount in Rs. Thousands)

| | | | |
|----------------|---|-------------------|---|
| Public Issue @ | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Rights Issue | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| Bonus Issue | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Private Placement | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |

III Position of Mobilisation and Deployment of funds (Amount in Rs. Thousands)

| | | | |
|-------------------|---|--------------------|---|
| Total Liabilities | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Total Assets | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| Sources of Funds | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| Paid-up Capital | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Reserves & Surplus | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| Secured Loans | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Unsecured Loans | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| + - | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Deferred Tax | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| + - | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | | |

Application of Funds

| | | | |
|--------------------|---|-------------------|---|
| Net Fixed Assets | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Investments | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| Net Current Assets | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Misc. Expenditure | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |

IV Performance of Company (Amount in Rs. Thousands)

| | | | |
|-----------------------------------|---|------------------------|---|
| Turnover (including other income) | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Total Expenditure | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| + - | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Profit/Loss Before Tax | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| + - | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Profit/Loss After Tax | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |

Please tick Appropriate box + for Profit, - for Loss

| | | | |
|-----------------------------|---|-----------------|---|
| Earnings Per Share of Rs. 5 | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | Dividend Rate % | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |
| | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> | | <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> |

Signature

LARSEN & TOUBRO INFOTECH LIMITED

V Generic Names of Three Principal Products/Services of the Company
(as per monetary items)

Item Code No.
(ITC Code)

| | | | |
|---|---|--|--|
| N | A | | |
|---|---|--|--|

Product Description

| |
|----------------------|
| SOFTWARE DEVELOPMENT |
|----------------------|

As per our report attached
SHARP & TANNAN
Chartered Accountants

By the hand of



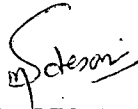
R D KARE
Partner

Mumbai

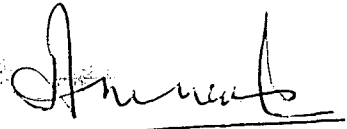
Dated: 22 May 2004



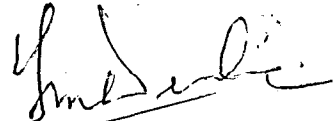
V K MAGAPU
Manager



S S PRABHUDESAI
Secretary



A M NAIK




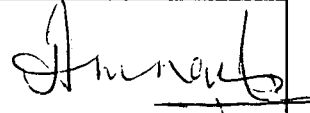
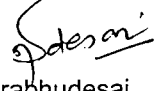
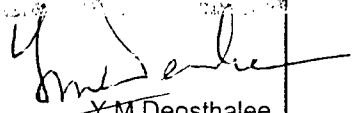
Y M DEOSTHALEE
Directors

Mumbai

Dated: 22nd May, 2004

Larsen & Toubro Infotech Limited

**Statement pursuant to Section 212 of the Companies Act, 1956
relating to subsidiary company:**

| | |
|--|-------------------------------|
| Name of the subsidiary company: | Larsen & Toubro Infotech GmbH |
| Financial year of the subsidiary company ended on: | 31/03/2004 |
| Number of Shares in the subsidiary company held by Larsen & Toubro Infotech Limited at the above date | 1 |
| The net aggregate of profits, less losses, of the subsidiary company so far as it concerns the members of Larsen & Toubro Infotech Limited : | |
| (i) Dealt with in the accounts of Larsen & Toubro Infotech Limited amounted to: | |
| (a) for the subsidiary's financial year ended 31st March, 2004 | Nil |
| (b) for previous financial years of the subsidiary since it became subsidiary of Larsen & Toubro Infotech Limited | Euro 600,000 |
| (ii) Not dealt with in the accounts of Larsen & Toubro Infotech Limited amounted to: | |
| (a) for the subsidiary's financial year ended 31st March, 2004 | Euro. 16,174 |
| (b) for previous financial years of the subsidiary since it became subsidiary of Larsen & Toubro Infotech Limited. | Euro 222,332 |
| Changes in the interest of Larsen & Toubro Infotech Limited between the end of the subsidiary's financial year and 31st March 2004 | |
| Number of shares acquired | Nil |
| Material changes between the end of the subsidiary's financial year and 31st March, 2004 | Not applicable |
| <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  V K Magapu Manager </div> <div style="text-align: center;">  A M Naik Directors </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 20px;"> <div style="text-align: center;">  S S Prabhudesai Secretary </div> <div style="text-align: center;">  Y M Deosthalee Directors </div> </div> <p style="text-align: center; margin-top: 10px;">Date : 22nd May, 2004</p> | |

LARSEN & TOUBRO INFOTECH LIMITED

DIRECTORS' REPORT

The Directors have pleasure in submitting the Seventh Annual Report and Accounts of Larsen & Toubro Infotech Limited for the year ended March 31, 2004.

FINANCIAL RESULTS

| | Rs. Million | |
|---|-------------|---------|
| | 2003-04 | 2002-03 |
| Total Income | 3662.60 | 2526.58 |
| Operating Profit (PBIDT) | 422.56 | 363.53 |
| Less : Interest | 30.99 | 33.10 |
| Less : Depreciation and amortisation | 227.86 | 161.76 |
| Less : Amortisation of deferred revenue expenditure | 40.59 | 29.46 |
| Profit Before Tax (PBT) | 123.12 | 139.21 |
| Less : Provision for Current Tax | 4.22 | 10.45 |
| Add/ Less: Writeback / further provision for earlier years | - | (5.10) |
| Add/ Less: Writeback / further provision for Deferred Tax | (3.53) | 1.31 |
| Profit After Tax (PAT) | 122.43 | 132.55 |
| Add : Balance brought forward from previous year | 169.72 | 133.72 |
| Balance available for disposal which Directors appropriate as follows : | 292.15 | 266.27 |
| Dividends | - | 75.00 |
| Tax on Dividend | - | - |
| Transfer to General Reserve | - | 21.55 |
| Balance to be carried forward | 292.15 | 169.72 |

DIVIDEND

The Directors do not recommend payment of any dividend for the year.

FINANCIAL PERFORMANCE

Total income from all sources was Rs. 3662.60 million (increase of 45% over previous year). Software exports amounted to Rs. 3339.06 million (increase of 49% over previous year).

Operating profit (PBIDT) was Rs. 422.56 million (increase of 16% over previous year). Profit before tax was Rs. 123.12 million (decrease of 12% over previous year) and Profit after tax was Rs. 122.43 million (decrease of 8% over previous year). Earnings per share were Rs. 4.08 per equity share of Rs.5 each.

YEAR IN RETROSPECT

The year 2003-04 witnessed increasing trend towards offshoring as a measure to counter the effect of global slowdown. In the second half of the year, US economy has started showing a positive outlook. With competition continuing to be intense, the billing rates have been under pressure, though they have stabilized in the wake of increased spending by large companies.

With the proven offshore outsourcing model and expectation of long term cost leveraging, US Companies continue large scale outsourcing. However, in the fear of loss of jobs various countries have been increasingly monitoring the inflow of foreign labour which is imposing restrictions on the free movement of software professionals.

QUALITY INITIATIVES

During the year, the Company achieved PCMM Level 5 Certification for three of its six development centres in India and expects to have the other centres certified by the end of next quarter. The Company has also undertaken the IT Security Certification exercise under BS7799 standard and hopes to receive the certification in the near future.

ORGANISATION

During the past year, the Company has been able to establish the following milestones :

- Worthy of being ranked among the top five Indian Information Technology Service vendors in the business arena of multi year, multi skill global delivery annuity engagements calling for extended sales cycles, significant business development expenses, significant ramp up expenses and capability to undertake risk bearing service level agreements.
- Establish international track record in end-to-end package implementation including annuity O&M contracting in multiple ERPs like SAP, Oracle and Peoplesoft – JD Edwards.
- Emerged as a vendor of choice for several Europe based companies in the mobile handset business for solutions with critical time to market cycles.

- Accelerated growth in Banking and Financial services arena, where active search has been triggered for acquisition opportunities.

During the coming year the thrust will be on presenting focussed solutions to the market in the manufacturing arena in areas like Product Life Cycle Management (PLM), Global Supply Chain Management (SCM), Multi-tier Decision Support Systems (DSS) and fine tuned Customer Relationship Management (CRM).

These milestones underscore the confidence that the Company is at an accelerated growth path in chosen lines of business.

Substantial investment has been made during the year in strengthening the sales and marketing organisation by recruiting senior industry professionals. These investments are expected to give results during the coming year.

On the strength of the parental support from L&T, the Company has been successful in securing certain long term contracts which are expected to spur the growth in the coming years. In view of this the Company is confident of significantly improving its performance in the next year.

CAPITAL EXPENDITURE

As at 31st March 2004 the gross Fixed Assets stood at Rs.1490.43 million out of which assets amounting to Rs.133.43 million were added during the year.

DEPOSITS

During the period under review, the Company has not accepted any deposits from the public.

SUBSIDIARY COMPANIES

As required under Section 212 of the Companies Act, 1956, the Audited Statement of Accounts, the Reports of the Board of Directors and Auditors of the subsidiary are annexed.

AUDITORS' REPORT

The Auditors' Report to the Shareholders does not contain any qualifications. The notes to the accounts referred to in the Auditors' Report are self-explanatory and therefore do not call for any further comments of Directors.

DISCLOSURE OF PARTICULARS

Information as per the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo is given in Annexure A forming part of this report.

PERSONNEL

The Board of Directors wishes to express its appreciation to all the employees of the Company for their outstanding contribution to the operations of the Company during the year.

The information required under Section 217 (2A) of the Companies, Act, 1956 & the rules made thereunder, are given in a separate annexure to this Report and forms part of the Report. The Report and the Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered office of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) which was introduced by the Companies (Amendment) Act, 2000, your Directors confirm that :-

- (i) In the preparation of the annual accounts, the applicable accounting standards have been followed and there has been no material departure.
- (ii) The Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st March, 2004 and of the profit or loss of the Company for the year ended 31st March, 2004.
- (iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (iv) The Directors have prepared the annual accounts on a going concern basis.

DIRECTORS

Mr. A. M. Naik retires from the Board of Directors by rotation and is eligible for re-appointment.

AUDIT COMMITTEE

The Audit Committee comprises of Mr. Y M Deosthalee, Mr. A M Naik and Mr. J P Nayak, all non-wholetime directors of the Company with Mr. Y M Deosthalee as its Chairman. The role, terms of reference, the authority and power of the Audit Committee are in conformity with the requirements of the Companies Act, 1956.

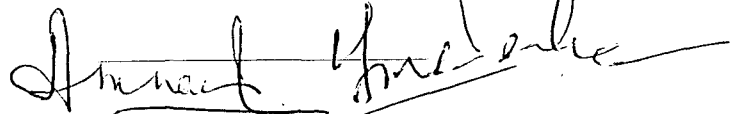
AUDITORS

The Auditors, M/s. Sharp & Tannan, hold office until the conclusion of the ensuring Annual General Meeting and are recommended for re-appointment. Certificate from the auditors has been received to the effect that their re-appointment, if made, would be within the limits prescribed under section 224 (1B) of the Companies Act, 1956.

ACKNOWLEDGEMENTS

The Directors acknowledge the invaluable support extended to the Company by the Financial Institutions, Bankers, Vendors, Suppliers and Customers.

For and on behalf of the Board

Handwritten signatures of A M NAIK and Y M DEOSTHALEE in black ink, written over a horizontal line.

A M NAIK
Director

Y M DEOSTHALEE
Director

Mumbai
22nd May, 2004

ANNEXURE - A

INFORMATION AS PER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS REPORT FOR THE YEAR ENDED 31ST MARCH, 2004.

A. Conservation of energy

- (a) Since the Company is engaged in software development, it is not a major consumer of energy.

B. Technology absorption

- (b) Efforts made in technology absorption as per Form B of the Annexure Details furnished in Form B.

C. Foreign exchange earnings and outgo

- (c) Activities relating to exports; initiatives taken to increase exports, development of new export markets for products and services; and export plans The Company exports customised software and professional services mainly to North America, Western Europe, Japan, Korea and Singapore. The Company plans to conduct road shows in USA to promote offshore execution of software services from India. It also maintains constant contact with prospective customers for its offerings by way of participation in International Trade Fairs.

- (d) Total foreign exchange used and earned 2003-04 (Rs. Million)

| | |
|--------|---------|
| Used | 1794.44 |
| Earned | 3339.12 |

FORM B

(Disclosure of particulars with respect to Technology Absorption)
Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company : Not Applicable
2. Benefits derived as a result of the above R & D
3. Future plan of action
4. Expenditure on R & D
- a) Capital
- b) Recurring
- c) Total
- d) Total R&D expenditure as a percentage of total Turnover

Technology absorption, adaptation and innovation

1. Efforts in brief made towards technology absorption, adaptation and innovation : The Company operates Centres of Excellence in respect of emerging and existing technologies which collate, disseminate and spread knowledge to all employees in the Company. Employees are trained using state of the art methodologies, which results in better productivity. The Company has created a software component library to ensure reusability of software and consistency in implementation. These find particular use in B2B marketplace implementations where adherence to standards and compatibility with different platforms is very important.
2. Benefits derived as a result of the above efforts : Repeat business, expansion into various new technology domains and productivity improvements through use of latest software tools.

Larsen & Toubro Infotech Limited

Annexure B to the Directors' Report

Particulars of Employees as per Section 217(2A) of the Companies Act, 1956 for the year ended March 31, 2004

| Name | Age (Years) | Qualification | Experience (Years) | Date of Employment | Designation Nature of Duties | Gross Remuneration Received (Rs) | Last Employment held Previous Designation, Previous Company |
|---------------|----------------|-------------------------------------|-----------------------|-----------------------|---|--|--|
| Jeong H R | 41 | BSc(Mathematics) MBA -INTL.MRKTG | 18 | 16/06/2000 | VP-Communications & Embedded Systems | 8,979,793 | Technical Director Samsung India, S/W Operations |
| Sharma Arvind | 54 | MBA, BE | 31 | 04/06/2001 | Executive Vice President | 2,489,857 | Director Metamor Enterprise |

Notes:

1. All appointments are contractual. Other terms and conditions are as per Company's rules.
2. "Gross Remuneration" received includes Salary, Commission, Bonus, Medical Expenses, Leave Travel Assistance, House Rent Allowance/Subsidy, Taxable value of perquisites, etc and Company's contribution to Provident, Gratuity and Superannuation Funds.
3. None of the employees are related to any Director of the Company.

| LARSEN & TOUBRO INFOTECH LIMITED | | | | | | | | | | |
|---|----------------|-------------|-------------|----------------|-----------------------------|--------------|--------------|----------------|--------------------------|--------------------------|
| Schedules forming part of accounts | | | | | | | | | | |
| | Gross Block | | | | Depreciation / Amortisation | | | | Net Block As at 31-03-04 | Net Block As at 31-03-03 |
| | As at 1-Apr-03 | Additions | Disposals | As at 31-03-04 | Up to 31-3-03 | For the Year | On disposals | As at 31-03-04 | | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Schedule E1 | | | | | | | | | | |
| Tangible assets - own | | | | | | | | | | |
| Buildings | 172,622,468 | 2,952,532 | 2,364,674 | 173,210,326 | 26,312,809 | 9,050,417 | 873,285 | 34,489,941 | 138,720,385 | 146,309,659 |
| Plant and machinery | 59,711,822 | | 536,268 | 59,175,554 | 51,612,280 | 3,049,045 | 536,268 | 54,125,057 | 5,050,497 | 8,099,542 |
| Computers | 309,002,753 | 85,272,664 | 16,865,488 | 377,409,929 | 202,587,250 | 67,318,779 | 16,693,005 | 253,213,024 | 124,196,905 | 106,415,503 |
| Furniture and fixtures | 284,580,716 | 26,305,866 | 11,407,787 | 299,478,795 | 119,823,937 | 36,079,125 | 8,154,382 | 147,748,680 | 151,730,115 | 164,756,779 |
| Vehicles | 62,304,491 | 24,744,014 | 82,430,048 | 4,618,457 | 12,774,635 | 5,955,833 | 16,512,538 | 2,217,930 | 2,400,527 | 49,529,856 |
| Sub Total (A) | 838,222,250 | 139,275,076 | 113,604,265 | 913,893,061 | 413,110,911 | 121,453,199 | 42,769,478 | 491,794,632 | 422,098,429 | 475,111,339 |
| Tangible assets - leased | | | | | | | | | | |
| Computers | 7,464,767 | 11,172,960 | | 18,637,727 | 1,438,129 | 3,708,023 | | 5,146,152 | 13,491,575 | 6,026,638 |
| Sub Total (B) | 7,464,767 | 11,172,960 | | 18,637,727 | 1,438,129 | 3,708,023 | | 5,146,152 | 13,491,575 | 6,026,638 |
| Add: Capital work-in-progress (including advances) | | | | | | | | | 106,225,822 | 102,644,597 |
| Total of tangible assets | 895,687,017 | 150,448,036 | 113,604,265 | 932,530,788 | 414,549,040 | 125,161,222 | 42,769,478 | 496,940,784 | 541,815,826 | 583,782,574 |
| Previous Year | 734,663,394 | 164,826,737 | 3,803,114 | 895,687,017 | 308,150,770 | 107,134,423 | 736,152 | 414,319,041 | | |
| Schedule E2 | | | | | | | | | | |
| Intangible assets | | | | | | | | | | |
| Leasehold land | 12,268,579 | | | 12,268,579 | 1,085,708 | 128,820 | | 1,214,528 | 11,054,051 | 11,182,871 |
| Software | 218,069,426 | 96,584,748 | | 314,654,174 | 91,670,645 | 82,956,324 | | 174,626,969 | 140,027,205 | 126,398,781 |
| Business Rights | 98,050,000 | | | 98,050,000 | 4,902,500 | 19,610,000 | | 24,512,500 | 73,537,500 | 93,147,500 |
| Add: Capital work-in-progress (including advances) | | | | | | | | | 26,699,757 | 59,728,632 |
| Total of intangible assets | 328,388,005 | 96,584,748 | | 424,972,753 | 97,658,853 | 102,695,144 | | 200,353,997 | 251,318,513 | 290,457,785 |
| Previous Year | 144,775,328 | 183,633,113 | 20,436 | 328,388,005 | 43,030,532 | 54,630,590 | 2,270 | 97,658,852 | | |
| Note: Additions and Capital Work In Progress include | | | | | | | | | | |
| Rs 1,800,000 being borrowing costs capitalised in accordance with Accounting Standard -16 "Borrowing Costs" issued by Institute of Chartered Accountants of India | | | | | | | | | | |
| Rs 149,764 (net) being exchange difference | | | | | | | | | | |

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