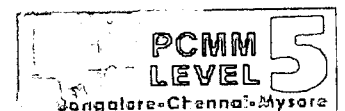
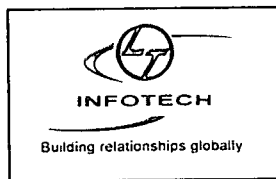


Larsen & Toubro Infotech Limited

Building Relationships Globally

Annual Accounts for the year
ended 31st March, 2005



LARSEN & TOUBRO INFOTECH LIMITED

DIRECTORS' REPORT

The Directors have pleasure in submitting the Eighth Annual Report and Accounts of Larsen & Toubro Infotech Limited for the year ended March 31, 2005.

FINANCIAL RESULTS

	Rs. Million	
	2004-05	2003-04
Total Income	5637.74	3660.29
Operating Profit (PBIDT)	803.96	422.56
Less : Interest	34.23	30.99
Less : Depreciation and amortisation	252.81	227.86
Less : Amortisation of deferred revenue expenditure	11.13	40.59
Profit Before Tax (PBT)	505.79	123.12
Less : Provision for Current Tax	31.22	4.22
Add/ Less: (Writeback) / further provision for earlier years	14.52	-
Add/ Less: (Writeback) / further provision for Deferred Tax	1.04	(3.53)
Profit After Tax (PAT)	459.01	122.43
Add : Balance brought forward from previous year	292.15	169.72
Balance available for disposal which Directors appropriate as follows :	751.16	292.15
Dividends	225.00	-
Tax on Dividend	29.41	-
Transfer to General Reserve	180.00	-
Balance to be carried forward	316.75	292.15

DIVIDEND

The Directors have paid Interim dividend of Rs. 7.50 per share on 30,000,000 Equity Shares of Rs. 5/- each

225.00 -

The Directors do not recommend any final dividend.

FINANCIAL PERFORMANCE

Total income from all sources was Rs. 5637.74 million (increase of 54% over previous year). Software exports amounted to Rs. 5374.80 million (increase of 61% over previous year).

Operating profit (PBIDT) was Rs. 803.96 million (increase of 90% over previous year). Profit before tax was Rs. 505.79 million (increase of 311% over previous year) and Profit after tax was Rs. 459.01 million (increase of 275% over previous year). Earnings per share were Rs. 15.30 per equity share of Rs.5 each.

YEAR IN RETROSPECT

The year 2004-05 witnessed an increase in the worldwide IT spending and further acceleration is expected in 2005. During the year, the Company has registered a significant growth in Exports Revenue (61%) and USA continues to be the leading destination contributing 63% to the total software exports. Offshoring has seen a rise with a shift from cost-only focus to a cost-and-quality or cost-and-business-impact focus. Companies are looking to outsource beyond non-core functions as part of a broader effort to improve profitability.

With increased competition, offshoring is becoming mainstream and getting commoditized with billing rates under constant pressure. Consolidation of small players and offshore presence of multinational or global service providers is further adding to the competition.

With the proven offshore outsourcing model and expectation of long term cost leveraging, US Companies continue large-scale outsourcing, despite local pressure to retain jobs. Servicing of engagements in the country of the client (especially USA) is becoming very restrictive and will be the major limiting factor in the growth of business.

ORGANISATION

During the past year, the Company acquired some key clients in ERP practices and Financial services and further consolidated its presence in the Manufacturing and Communications and Embedded Systems space.

The Company plans to leverage its parentage in the manufacturing IT space. 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), fine tuned Customer Relationship Management (CRM) and Manufacturing Excellence System (MES).

The Company has been able to qualify as an approved vendor in certain strategic accounts and hopes to make some breakthrough in the coming year. The Company has mapped certain key accounts with growth potential and initiatives have been undertaken to provide value-added and end-to-end solutions to such clients.

QUALITY INITIATIVES

During the year, the Company received the IT Security Certification (BS7799 standard). The Company has also launched CMMi initiative, while continuing select programmes of six-sigma implementation..

CAPITAL EXPENDITURE

As at 31st March 2005 the gross Fixed Assets stood at Rs. 1753.17 million out of which assets amounting to Rs. 354.08 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, 2005 and of the profit or loss of the Company for the year ended 31st March, 2005.
- (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. J.P. Nayak resigned from the Board of Directors of the Company on 13th August, 2004. He was a Director since 22nd February, 2001. The Directors wish to place on record their appreciation of the invaluable services rendered by him as a Director of the Company.

In the Board Meeting of the Company held on 13th August, 2004, Mr. V.K. Magapu has been appointed as a Director in casual vacancy caused by resignation of Mr. J.P. Nayak.

Mr. R.N. Mukhija was appointed as an Additional Director of the Company on 13th August, 2004 and will hold office till the conclusion of the ensuing AGM.

Mr. Y.M. Deosthalee 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. V.K. Magapu, 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.



: 5 :

ACKNOWLEDGEMENTS

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

For and on behalf of the Board

Y M DEOSTHALEE
Director

V K MAGAPU
Director

Mumbai
29th April, 2005

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, 2005.

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.

2004-05 (Rs. Million)

- (d) Total foreign exchange used and earned

Used	2645.40
Earned	5378.45

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

Management discussion and Analysis 2004-05

Financial Performance

- ❖ L&T Infotech has achieved turnover of Rs. 5637.74 million during the year 2004-05 compared to Rs. 3660.29 million achieved last year, registering an increase of 54%. (On consolidated basis, the turnover is Rs. 5790.52 million in 2004-05 compared to Rs.3778.27 million in 2003-04)
- ❖ Exports amounted to Rs. 5374.80 million as against Rs. 3339.06 million in 2003-04, an increase of 61%.
- ❖ Operating profit (PBIDT) is higher at Rs. 803.96 million as against Rs. 422.56 million in 2003-04, an increase of 90%.
- ❖ Profit after tax is Rs. 459.01 million as against Rs. 122.43 million in 2003-04, an increase of 275%.

Segments / Geographies serviced

USA continues to be the leading destination contributing 63% to the total software exports; Europe and Asia Pacific contribute 19% and 12% respectively.

57% of LTIL exports come out of onsite services and balance through offshore development centers.

Industry structure and developments

The year 2004-05 witnessed an increase in the worldwide IT spending and further acceleration is expected in 2005. Offshoring has seen a rise with a shift from cost-only focus to a cost-and-quality or cost-and-business-impact focus. Companies are looking to outsource beyond non-core functions as part of a broader effort to improve profitability.

With increased competition, offshoring is becoming mainstream and getting commoditized with billing rates under constant pressure. Consolidation of small players and offshore presence of multinational or global service providers is further adding to the competition.

With the proven offshore outsourcing model and expectation of long term cost leveraging, US Companies continue large-scale outsourcing, despite local pressure to retain jobs. Servicing of engagements in the country of the client (especially USA) is becoming very restrictive and will be the major limiting factor in the growth of business.

Organisation Outlook

During the past year the Company acquired some key clients in ERP practices and Financial services and further consolidated its presence in the Manufacturing and Communications and Embedded System space.

The Company plans to leverage its parentage in the manufacturing IT space. 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), fine tuned Customer Relationship Management (CRM) and Manufacturing Excellence System (MES).

In the Communications and Embedded System space, the Company plans to provide niche solutions in handheld and network elements and enter new territories, notably the US market.

In the Financial Services space, the Company plans to provide high-end niche solutions while also focussing on sophisticated testing facilities for the plethora of BFSI solutions constantly being created and upgraded.

In the ERP space, the Company plans to leverage its expertise to address the huge opportunities presented by the Oracle-Peoplesoft (and JD Edwards) merger while maintaining its leadership position in the SAP practice. The Company is uniquely positioned in the Peoplesoft and JD Edwards space to offer comprehensive value to the customers in their journey to Oracle space.

The Company has been able to qualify as an approved vendor in certain strategic accounts and hopes to make some breakthrough in the coming year. The Company has mapped certain key accounts with growth potential and initiatives have been undertaken to provide value-added and end-to-end solutions to such clients.

The major thrust during the coming year and beyond will be accelerated account farming i.e. increasing the revenues from existing customers.

Quality

During the year the Company received the IT Security Certification (BS7799 standard). The company has also launched CMMi initiative, while continuing select programmes of six-sigma implementation..

Human Resources

The company increased its employee strength to 3750 at the end of FY05 from 2450 at the end of FY04. The major concern in this area relates to escalating costs of resources and the associated employee separation rate.

Infrastructure

To address the requirements of a large anticipated growth, L&T has planned significant investments in infrastructure for over 5000 seats spread across various centers at Chennai, Bangalore and Mumbai. These state-of-art buildings are likely to be operational in the next 12 to 18 months.

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

* * * *

AUDITORS' REPORT TO THE MEMBERS OF LARSEN & TOUBRO INFOTECH LIMITED

We have audited the attached balance sheet of Larsen & Toubro Infotech Limited as at 31 March 2005 and the annexed profit and loss account and the cash flow statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In accordance with the provisions of section 227 of the Companies Act, 1956, we report as under:

1. As required by the Companies (Auditor's Report) Order, 2003, issued by the central government of India under section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that:
 - a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - c) the said balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - d) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in section 211 (3C) of the Companies Act, 1956; and
 - e) on the basis of written representations received from directors as on 31 March 2005, and taken on record by the board of directors, we report that none of the directors is disqualified as on 31 March 2005, from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

We report that in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the significant accounting policies in schedule M and the notes appearing thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- i) in the case of the balance sheet, of the state of the affairs of the Company as at 31 March 2005;
- 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.

Sharp & Tannan
Chartered Accountants
By the hand of

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

Place : Mumbai
Date : 29th April, 2005

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 1 of our report of even date)

- 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 status of the Company.
- 2 The Company has no inventories and hence reporting under clause 4(ii) (a), (b) and (c) is not applicable.
- 3 We are informed by management that there are no companies, firms or other parties that are required to be listed in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4(iii) (b) (c) and (d) of the Order are not applicable.
- 4 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 goods and services. Further, on the basis of our examination of the books and records of the Company and according to the information and explanations given to us, we have neither come across nor have we been informed of any continuing failure to correct major weaknesses in the aforesaid internal control procedures.
- 5 We are informed by management that there are no companies, firms or other parties that are required to be listed in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4(v) (a) and (b) of the Order are not applicable.
- 6 The Company has not accepted any deposits in terms of provisions of section 58A and 58AA of the Companies Act, 1956.
- 7 We are of the opinion that the Company has an internal audit system commensurate with the size and the nature of its business.
- 8 We are informed by management that the Company is not required to maintain cost accounts and records under section 209(1)(d) of the Companies Act, 1956.

- 9 (a) According to the information and explanations given to us and as per the records of the Company examined by us, in our opinion, the Company is 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 material statutory dues as applicable 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, income tax, sales tax, wealth tax, custom duty, excise duty and other statutory dues outstanding as at 31 March 2005 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.
- 10 The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current financial year or in the immediately preceding financial year.
- 11 According to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holder as at the balance sheet date.
- 12 The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.
- 13 The Company is not a chit fund/nidhi/mutual benefit fund/society.
- 14 The Company is not dealing in shares, securities, debentures and other investments.
- 15 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.
- 16 In our opinion and according to the information and explanations given to us, we are of the opinion that the Company has applied term loans for the purpose for which the loans were obtained.

- 17 According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, we report that no funds raised on short term basis have been used for long term investments.
- 18 The Company has not made any preferential allotment of shares during the year.
- 19 The Company did not have any outstanding secured debentures during the year. Accordingly, no securities have been created.
- 20 The Company has not raised any money by public issue during the year.
- 21 During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instances of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by management.

Sharp & Tannan
Chartered Accountants
By the hand of

Place: Mumbai
Date : 29th April, 2005

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

LARSEN & TOUBRO INFOTECH LIMITED			
BALANCE SHEET AS AT MARCH 31, 2005			
		As at 31-3-2005	As at 31-3-2004
	Schedules	Rupees	Rupees
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	A	150,000,000	150,000,000
Reserves and surplus	B	1,016,750,933	812,148,742
		1,166,750,933	962,148,742
LOAN FUNDS			
Secured loans	C	804,591,602	791,719,697
Unsecured loans	D	9,467,942	91,067,394
		814,059,544	882,787,091
Deferred tax liability (net) (see schedule P, note 11)		1,760,656	722,301
TOTAL		1,982,571,133	1,845,658,134
APPLICATION OF FUNDS			
Tangible Assets			
	E1		
Gross Block		1,217,107,954	932,530,788
Less : Depreciation		610,305,992	496,940,784
Net Block		606,801,962	435,590,004
Capital work-in-progress		31,205,065	106,225,822
		638,007,027	541,815,826
Intangible Assets			
	E2		
Gross Block		494,471,490	424,972,753
Less : Amortisation		319,697,852	200,353,997
Net Block		174,773,638	224,618,756
Capital work-in-progress		10,387,257	26,699,757
		185,160,895	251,318,513
Investments	F	1,140,649	1,140,650
Current assets, loans and advances			
Sundry debtors	G	1,330,449,398	790,211,992
Cash and bank balances	H	41,408,112	44,013,684
Loans and advances	I	443,248,328	546,244,475
		1,815,105,838	1,380,470,151
Less : Current liabilities and provisions	J		
Current liabilities		581,101,205	306,219,831
Provisions		75,742,071	33,995,526
		656,843,276	340,215,356
Net current assets		1,158,262,562	1,040,254,795
Deferred revenue expenditure	K	-	11,128,350
(To the extent not written off or adjusted)			
TOTAL		1,982,571,133	1,845,658,134
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS			
P			
As per our report attached			
SHARP & TANNAN			V K MAGAPU
Chartered Accountants			Manager / Director
by the hand of			
R D KARE	S S PRABHUDESAI		Y M DEOSTHALEE
Partner	Company Secretary		Director
(Membership No.8820)			Mumbai
Mumbai			Date : 29th April, 2005
Date: 29th April, 2005			

LARSEN & TOUBRO INFOTECH LIMITED			
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2005			
		2004-05	2003-04
	Schedules	Rupees	Rupees
INCOME			
Software development services and products			
Overseas		5,374,799,513	3,339,060,442
Domestic		249,686,813	306,968,458
Other income	L	13,256,536	14,261,833
		5,637,742,862	3,660,290,733
EXPENDITURE			
Software development expenses	M	3,395,457,370	2,222,187,802
Sales, administration and other expenses	N	1,438,326,518	1,015,540,010
		4,833,783,888	3,237,727,812
Operating profit (PBIDT)		803,958,974	422,562,921
Interest	O	34,234,582	30,993,709
Depreciation on tangible assets		133,463,523	125,161,222
Amortisation of intangible assets		119,343,855	102,695,144
Amortisation of deferred revenue expenditure		11,128,350	40,589,732
Profit before tax (PBT)		505,788,664	123,123,114
Provision for taxes		31,227,373	4,223,815
(including Rs 1,04,000 for wealth tax;previous year Rs. 200,000)			
(including Rs 1,25,715.76 paid for current year)			
Short provision for taxes in previous years		14,516,055	-
Deferred tax		1,038,356	(3,530,642)
Profit after tax (PAT)		459,006,880	122,429,941
Add : Balance brought forward from previous year		292,148,742	169,718,801
Profit available for appropriation		751,155,622	292,148,742
Less: Transfer to general reserve		180,000,000	-
Profit available for distribution		571,155,622	292,148,742
Interim dividend		225,000,000	-
Tax on dividend		29,404,689	-
Balance to be carried forward		316,750,933	292,148,742
Basic and diluted earnings per share (EPS)		15.30	4.08
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			V K MAGAPU
Chartered Accountants			Manager / Director
by the hand of			
R D KARE	S S PRABHUDESAI	Y M DEOSTHALEE	
Partner	Company Secretary	Director	
(Membership No.8820)		Mumbai	
Mumbai		Date : 29th April, 2005	
Date: 29th April, 2005			

LARSEN & TOUBRO INFOTECH LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2005

	2004-05 Rs	2003-04 Rs
A Cash flow from operating activities :		
Net profit before tax	505,788,664	123,123,114
Adjustments for :		
Depreciation and ammortisation	252,807,378	227,856,366
Interest paid	34,234,583	31,377,153
Unrealised foreign exchange difference	28,645,730	18,763,058
Dividend received from subsidiary company	-	-
Income from other investments	(320,851)	(151,468)
Deferred revenue expenditure amortised	11,128,350	40,589,732
Cost of long term projects ammortised	15,429,014	6,285,538
Deferred revenue expenditure	-	-
Cost of long term projects	(6,841,538)	(41,878,192)
(Profit)/loss on sale of fixed assets	(10,320)	2,311,593
Operating profit before working capital changes	840,861,010	408,276,894
Changes in working capital		
(Increase)/decrease in trade receivables	(562,291,464)	(71,087,884)
(Increase)/decrease in other receivables	36,451,592	(177,833,388)
Increase/(decrease) in trade payables	314,330,805	15,761,341
(Increase)/decrease in working capital	(211,509,067)	(233,159,931)
Cash generated from operations	629,351,943	175,116,963
Direct taxes paid	13,468,125	(4,266,335)
Net cash from operating activities	642,820,068	170,850,628
B Cash flow from Investing activities :		
Purchase of fixed assets	(282,840,961)	(217,585,132)
Sale of fixed assets	10,320	68,523,192
Investments	-	3,500,000
Interest received	1,940,563	383,444
Dividend received from subsidiary	-	-
Dividend received from other investments	320,851	151,468
Net cash from investing activities	(280,569,227)	(145,027,028)
C Cash flow from financing activities :		
Proceeds from other borrowings (net)	9,272,453	91,052,626
Inter corporate borrowings	(78,000,000)	(92,000,000)
Financial expenses	(41,724,178)	(28,823,764)
Dividend paid	(225,000,000)	-
Dividend tax paid	(29,404,689)	-
Net cash from financing activities	(364,856,414)	(29,771,138)
Net (decrease)/increase in cash and cash equivalents (A+B+C)	(2,605,572)	(3,947,538)
Cash and cash equivalents at the beginning of the year	44,013,684	47,961,222
Cash and cash equivalents at the end of the year	41,408,112	44,013,684

Notes:

- 1 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.
- 2 Purchase of fixed assets includes movements of capital work-in-progress between the beginning and end of the year
- 3 Previous year's figures have been regrouped /reclassified wherever applicable

As per our report attached
SHARP & TANNAN
Chartered Accountants
by the hand of

V K MAGAPU
Manager / Director

R D KARE
Partner
(Membership No. 8820)
Mumbai
Date: 29th April, 2005

S S PRABHUDESAI
Company Secretary

Y M DEOSTHALEE
Director

Mumbai
Date: 29th April, 2005

LARSEN & TOUBRO INFOTECH LIMITED		
Schedules forming part of accounts		
	As at 31-3-2005	As at 31-3-2004
	Rupees	Rupees
SCHEDULE A		
Share capital		
<i>Authorised : 3,05,00,000 Equity shares of Rs.5 each</i>		
<i>(Previous year 3,05,00,000 of Rs. 5 each)</i>		
	152,500,000	152,500,000
<i>Issued and Subscribed</i>		
3,00,00,000 Equity Shares for Rs. 5 each		
<i>(Previous year 3,00,00,000 of Rs. 5 each)</i>		
	150,000,000	150,000,000
<i>Paid up :</i>		
3,00,00,000 Equity Shares for Rs. 5 each		
<i>(Previous year 3,00,00,000 of Rs. 5 each)</i>		
	150,000,000	150,000,000
All the above Equity shares (Same as <i>previous year</i>) are held by Larsen & 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	520,000,000
Add : Transferred from profit and loss account		
	180,000,000	-
	700,000,000	520,000,000
Profit and loss account		
	316,750,933	292,148,742
	1,016,750,933	812,148,742
SCHEDULE C		
Secured loans		
Term loan from bank		
	137,482,500	-
Other loans from banks		
	667,109,102	791,719,697
	804,591,602	791,719,697
SCHEDULE D		
Unsecured loans		
Inter corporate borrowings (from holding company)		
	-	78,000,000
Lease finance (due within one year Rs. 2,973,551)		
	9,467,942	13,067,394
	9,467,942	91,067,394
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		
	1,140,649	1,140,650
	1,140,649	1,140,650

LARSEN & TOUBRO INFOTECH LIMITED

Schedules forming part of consolidated accounts

SCHEDULE E

FIXED ASSETS

Fixed and Intangible Assets	Gross Block				Depreciation / Amortisation				Net Block As at 31-Mar-05	Net Block As at 31-Mar-04
	As at 01-Apr-04	Additions	Deductions	As at 31-Mar-05	As at 01-Apr-04	For the Year	Deductions	Up to 31-Mar-05		
Schedule E1 - Tangible Assets - Own										
Buildings	173,210,325	56,784,694		229,995,019	34,489,941	7,933,117		42,423,058	187,571,961	138,720,385
Plant and machinery	59,175,554	3,334,401	74,679	62,435,276	54,125,057	2,444,307	74,679	56,494,685	5,940,591	5,050,497
Computers	377,409,931	112,235,248	19,915,902	469,729,277	253,213,024	71,660,371	19,915,902	304,957,493	164,771,784	124,196,905
Furniture and fixtures	299,478,793	130,754,850	107,734	430,125,909	147,748,680	45,981,628	107,734	193,622,574	236,503,335	151,730,115
Vehicles	4,618,458	192,897		4,811,355	2,217,930	634,330		2,852,260	1,959,095	2,400,527
Sub Total (A)	913,893,061	303,302,090	20,098,315	1,197,096,836	491,794,632	128,653,753	20,098,315	600,350,070	596,746,766	422,098,429
Tangible Assets - leased										
Computers	18,637,727	1,373,391		20,011,118	5,146,152	4,809,770		9,955,922	10,055,196	13,491,575
Sub Total (B)	18,637,727	1,373,391	-	20,011,118	5,146,152	4,809,770	-	9,955,922	10,055,136	13,491,575
Add: Capital work-in-progress (including Advances)									31,205,065	106,225,822
Total Of Tangible Assets	932,530,788	304,675,481	20,098,315	1,217,107,954	496,940,785	133,463,523	20,098,315	610,305,992	638,007,027	541,815,826
Previous Year	895,687,017	150,448,036	113,604,265	932,530,788	414,549,040	125,161,222	42,769,478	496,940,784	435,590,004	583,782,574
Schedule E2 - Intangible Assets										
Plant and machinery				-	-	-		-	-	-
Leasehold Land	12,268,579			12,268,579	1,214,528	128,820		1,343,348	10,925,231	11,054,051
Software	314,654,174	69,498,737		384,152,911	174,626,969	99,605,035		274,232,004	109,920,907	140,027,205
Business Rights	98,050,000			98,050,000	24,512,500	19,610,000		44,122,500	53,927,500	73,537,500
Add: Capital work-in-progress (including Advances)									10,387,257	26,699,757
Total Of Intangible Assets	424,972,753	69,498,737	-	494,471,490	200,353,997	119,343,855	-	319,697,852	185,160,895	251,318,513
Previous Year	328,388,005	96,584,748	-	424,972,753	97,658,853	102,695,144	-	200,353,997	251,318,513	290,457,785

LARSEN & TOUBRO INFOTECH LIMITED		
Schedules forming part of accounts		
	As at 31-3-2005	As at 31-3-2004
	Rupees	Rupees
SCHEDULE G		
Sundry debtors		
Unsecured		
Debts outstanding for a period exceeding six months		
Considered good	54,927,466	110,371,172
Considered doubtful	108,666,571	82,180,633
	163,594,037	192,551,805
Other Debts		
Considered good		
- Due from subsidiary	78,627,732	6,253,596
- Others	1,196,894,200	673,587,225
Considered doubtful		
Less : Provision for doubtful debts	108,666,571	82,180,634
	1,330,449,398	790,211,992
SCHEDULE H		
Cash and bank balances		
Cash on hand		
	1,857,308	319,532
Balances with scheduled banks		
in current accounts (including remittances in transit)	4,154,587	12,734,349
Balances with non-scheduled banks (see schedule P note 2)	35,396,217	30,959,803
	41,408,112	44,013,684
SCHEDULE I		
Loans and advances		
Secured :		
Loans against mortgage of house property	5,994,675	6,579,515
Unsecured :		
Unbilled revenues	52,822,341	202,029,971
Due from subsidiary company	4,880,000	4,880,000
Advances recoverable in cash or in kind	359,387,672	297,162,335
Cost of long term projects (see schedule P note 16)	20,163,640	35,592,654
	443,248,328	546,244,475
SCHEDULE J		
Current Liabilities and provisions		
Current Liabilities :		
Sundry creditors		
	452,076,727	255,625,497
Advance billing	33,036,109	2,045,389
Due to holding company	95,748,369	48,313,944
Due to directors	240,000	235,000
	581,101,205	306,219,830
Provisions :		
Taxes	40,867,071	13,204,525
Leave encashment	34,875,000	20,791,000
	75,742,071	33,995,525
	656,843,276	340,215,356
SCHEDULE K		
DEFERRED REVENUE EXPENDITURE		
<i>(To the extent not written off or adjusted)</i>		
Expenses for SEI CMM Level 5	-	11,128,350
	-	11,128,350

LARSEN & TOUBRO INFOTECH LIMITED		
Schedules forming part of accounts		
	2004-05	2003-04
	Rupees	Rupees
SCHEDULE L		
Other Income		
Income from investments	320,851	151,468
Gain on sale of fixed asset	10,320	(2,311,593)
Miscellaneous income	12,925,365	16,421,958
	13,256,536	14,261,833
SCHEDULE M		
Software development expenses		
Salaries including overseas staff expenses	2,429,922,071	1,529,168,942
Staff welfare	153,010,992	86,606,618
Contribution to provident and other funds	42,306,021	29,530,039
Contribution to superannuation fund	18,449,289	13,339,014
Contribution to gratuity fund	4,730,000	4,101,593
Communication expenses	99,740,372	93,989,557
Consultancy charges	563,636,251	372,413,988
Cost of Software packages for own use	44,595,166	32,475,211
Cost of bought-out items for resale	39,067,208	60,562,840
	3,395,457,370	2,222,187,802
SCHEDULE N		
Sales, Administration and other expenses		
Salaries including overseas staff expenses	490,144,345	326,119,536
Travelling and conveyance	209,372,700	160,104,341
Rent (lease rent Rs. 20,477,873 ; previous year Rs. 6,705,608)	141,261,367	103,190,225
Telephone charges and postage	86,069,988	70,648,077
Legal and professional charges	91,031,397	79,439,553
Printing and stationery	26,719,443	21,206,488
Advertisement	7,314,531	7,449,436
Advertisement for Vacancies	20,735,586	15,300,581
Repairs to building	4,448,696	1,147,741
Repairs to computers	20,087,672	7,204,691
General repairs and maintenance	50,326,458	35,822,558
Power and fuel	54,040,096	38,656,205
Establishment expenses	29,198,798	43,980,934
Equipment hire charges	22,899,583	5,230,664
Insurance charges	25,860,830	13,919,184
Rates and taxes	9,954,339	6,072,859
Auditors' remuneration	875,500	744,803
Bad debts	36,918,376	21,850,477
Provision for doubtful debts (net)	26,485,937	3,225,565
Commission charges	14,995,360	12,970,583
Books and periodicals	7,560,385	7,290,617
Entertainment	11,304,832	7,336,729
Directors fees	240,000	235,000
Miscellaneous expenses	29,023,071	20,107,625
Amortisation of cost of long term projects	21,457,228	6,285,538
	1,438,326,518	1,015,540,010
SCHEDULE O		
Interest paid on		
Fixed loans	3,106,589	6,035,985
On others	28,338,534	12,914,833
Lease finance charges	4,730,022	12,426,335
Less : Interest received	1,940,563	383,444
	34,234,582	30,993,709

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

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) 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:

- profit and loss account

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. Max. amount outstanding during	
	31.3.05	31.3.04	2004-05	2003-04
Current account				
Citibank N.A., New Jersey (Collection)	8,125,388	9,675,426	107,278,741	140,068,518
Citibank N.A., New Jersey (Checking)	645,351	487,517	64,887,968	139,110,440
Citibank N.A., Paris	6,344,499	1,611,631	17,525,364	22,740,211
Citibank N.A., Singapore	652,823	300,775	4,997,228	7,946,303
Fleet Boston, New Jersey	6,234,769	3,121,228	6,216,954	68,299,151
HSBC, London (GBP)	(1,437,108)	1,277,112	13,727,623	16,546,465
HSBC, London (USD)	4,488,647	2,196,549	26,510,455	14,517,920
HSBC, London (EUR)	175,112	186,434	9,329,044	10,214,413
State Bank of India, Tokyo	735,593	623,001	9,048,309	6,624,731
Tokyo Mitsubishi Bank, Tokyo	1,735,588	4,235,254	16,595,219	10,926,400
Total	27,675,963	23,714,927		
Deposit account				
Citibank N.A., New Jersey	7,375,936	7,244,876	7,375,936	7,244,876

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. 51,381,635 (*previous year gain of Rs. 65,645,072*) has been accounted under respective revenue heads.

5. Expenditure in foreign currency :

	Rs.	
	2004-05	2003-04
Overseas staff costs	1,746,790,236	1,119,988,994
Foreign travel	57,472,194	42,627,829
Agency commission	14,995,189	12,970,583
Interest	4,168,701	2,286,874
Others (includes overseas office expenses)	739,227,711	547,769,253
Total	2,562,654,631	1,725,643,532

6: Earnings in foreign currency :

	Rs.	
	2004-05	2003-04
Software exports	5,376,148,893	3,339,060,442
Other income	2,303,480	63,802
Total	5,378,452,373	3,339,124,244

7. Manager's remuneration includes :

	Rs.	
	2004-05	2003-04
Salary	1,336,438	2,510,865
Perquisites	191,836	272,421
Retirement benefits	128,467	271,350
Total *	1,654,312	3,054,636

The remuneration for the current year is for the period upto 12.08.2004. 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.	
	2004-05	2003-04
Audit fees	450,000	450,000
Tax audit fees	219,500	180,000
Certification fees	206,000	111,507
Reimbursement of expenses	-	3,296
Total	875,500	744,803

9. Value of imports on C.I.F. basis :

	Rs.	
	2004-05	2003-04
Capital goods	70,311,735	43,020,895
Others	12,433,519	25,772,483
Total	82,745,254	68,793,378

10. Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for: Rs. 45,819,526 (*previous year : Rs. 16,946,938*)

11. The break-up of net deferred tax liability as at March 31, 2005 is as under:

	Deferred tax asset/(liability) as at March 31, 2004	Current year (charge) / credit	Rs. Deferred tax asset/ (liability) as at March 31, 2005
Deferred tax liabilities			
◦ Depreciation / amortisation	(4,915,076)	1,979,181	(2,935,895)
◦ Amortisation of intangible assets	(263,816)	168,415	(95,401)
◦ Miscellaneous expenditure (to the extent not written off /adjusted)	(319,384)	319,384	-
◦ Cost of long-term projects	(1,030,628)	691,274	(339,354)
◦ Others	(5,657)	(1,681)	(7,338)
◦ Total	(6,534,561)	3,156,573	(3,377,988)
Deferred tax asset			
◦ Unabsorbed depreciation	3,453,675	(3,453,675)	-
◦ Provision for doubtful debts	2,358,585	(741,253)	1,617,332
◦ Total	5,812,260	(4,194,928)	1,617,332
Net deferred tax liability	(722,301)	(1,038,355)	(1,760,656)

12. 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. 20,011,118 (*previous year Rs. 18,637,727*), depreciation for the year is higher by Rs. 4,809,770 (*previous year Rs. 3,708,025*) and charge to profit and loss account in respect of lease rentals is lower by Rs. 6,408,739 (*previous year Rs. 5,668,758*) interest expense is higher by Rs. 1,435,895 (*previous year Rs. 1,486,460*) and the profit is higher by Rs. 163,074 (*previous year Rs. 474,273*).

Assets acquired on finance lease comprise of servers. The minimum lease rentals and their present value as at March 31, 2005 in respect of assets acquired under finance lease are as follows:

	Rs .
Minimum lease payments	
- Payable not later than 1 year	3,826,902
- Payable after 1 year but not later than 5 years	7,171,218
- Total	<u>10,998,120</u>
Less : future finance charges	<u>1,530,178</u>
	<u>9,467,942</u>
Present value of minimum lease payments	
- Payable not later than 1 year	2,973,551
- Payable after 1 year but not later than 5 years	6,494,391
- Total	<u>9,467,942</u>

Operating Leases

The company has taken employee used cars under non-cancellable operating leases. The rental expense in respect of operating leases was 27,022,515 (Rs. 8,301,495) and the future rentals payable are as follows:

Minimum lease payments	
- Payable not later than 1 year	29,157,949
- Payable after 1 year but not later than 5 years	69,944,863
- Total	<u>99,102,812</u>

13. 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

A summary of transactions with related parties is given below:

Rs.

Transaction	Holding Co.	Subsidiary	Fellow Subsidiaries
◦ Sale of services / products	114,104,644 (151,518,657)	130,703,503 (109,034,705)	4,055,000 (1,640,314)
◦ Purchase of goods and assets/ lease of assets	13,523,053 (3,202,522)	- (-)	1,373,391 (73,794,881)
◦ Sale of assets	- (-)	- (-)	- (62,621,921)
◦ Purchase of services	168,747,016 (103,185,685)	52,771,151 (75,763,704)	- (-)
◦ Overheads charged by	72,720,360 (110,583,472)	- (-)	- (-)
◦ Overheads charged to	526,907 (6,256,247)	- (-)	- (1,160,400)
◦ Lease rent paid	- (-)	- (-)	30,465,285 (15,980,925)
◦ Interest / Dividend received	- (-)	- (-)	- (-)
◦ Interest / Dividend paid	229,276,102 (18,312,664)	- (-)	1,441,044 (1,552,039)
◦ Unsecured loan	- (78,000,000)	- (-)	- (-)
◦ Trade receivable	-	78,627,732	-
	-	(4,253,597)	(6,892,109)
◦ Trade payable	96,562,625 (48,313,944)	- (-)	5,338,294 (-)

Figures in brackets pertain to the previous year

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.

14. 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	3,578,646,903	1,074,210,307	692,799,929	249,686,813	29,142,374	5,624,486,326
	(2,160,754,176)	(614,110,378)	(529,177,994)	(306,968,458)	(35,197,894)	(3,646,028,900)

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, 2005.
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
Chartered Accountants
by the hand of

V K MAGAPU
Manager / Director

R D KARE
Partner
(Membership No.8820)
Mumbai
Date: 29th April, 2005

S S PRABHUDESAI
Company Secretary

Y M DEOSTHALEE
Director
Mumbai
Date : 29th April, 2005

LARSEN & TOUBRO INFOTECH LIMITED

Notes forming part of accounts

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

I Registration Details

Registration No.

1	1	1	0	4	6	9	3
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 Status Code

1	1
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Balance Sheet Date

3	1
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0	3
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0	5
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II Capital Raised during the year (Amount in Rs. Thousands)

Public Issue @ <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>									Rights Issue <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>								
Bonus Issue <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>									Private Placement <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>								

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

Total Liabilities <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td>1</td><td>9</td><td>8</td><td>2</td><td>5</td><td>7</td><td>1</td></tr></table>		1	9	8	2	5	7	1	Total Assets <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td>1</td><td>9</td><td>8</td><td>2</td><td>5</td><td>7</td><td>1</td></tr></table>		1	9	8	2	5	7	1
	1	9	8	2	5	7	1										
	1	9	8	2	5	7	1										
Sources of Funds																	
Paid-up Capital <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>1</td><td>5</td><td>0</td><td>0</td><td>0</td><td>0</td></tr></table>			1	5	0	0	0	0	Reserves & Surplus <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td>1</td><td>0</td><td>1</td><td>6</td><td>7</td><td>5</td><td>1</td></tr></table>		1	0	1	6	7	5	1
		1	5	0	0	0	0										
	1	0	1	6	7	5	1										
Secured Loans <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>8</td><td>0</td><td>4</td><td>5</td><td>9</td><td>2</td></tr></table>			8	0	4	5	9	2	Unsecured Loans <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td>9</td><td>4</td><td>6</td><td>8</td></tr></table>					9	4	6	8
		8	0	4	5	9	2										
				9	4	6	8										
+ - <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td>+</td><td> </td></tr></table>	+		Deferred Tax <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td>1</td><td>7</td><td>6</td><td>0</td></tr></table>					1	7	6	0						
+																	
				1	7	6	0										

Application of Funds

Net Fixed Assets <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>8</td><td>2</td><td>3</td><td>1</td><td>6</td><td>8</td></tr></table>			8	2	3	1	6	8	Investments <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td>1</td><td>1</td><td>4</td><td>1</td></tr></table>					1	1	4	1
		8	2	3	1	6	8										
				1	1	4	1										
Net Current Assets <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td>1</td><td>1</td><td>5</td><td>8</td><td>2</td><td>6</td><td>3</td></tr></table>		1	1	5	8	2	6	3	Misc. Expenditure <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>								
	1	1	5	8	2	6	3										

IV Performance of Company (Amount in Rs. Thousands)

Turnover (including other income) <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td>5</td><td>6</td><td>3</td><td>7</td><td>7</td><td>4</td><td>3</td></tr></table>		5	6	3	7	7	4	3	Total Expenditure <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td>5</td><td>1</td><td>3</td><td>1</td><td>9</td><td>5</td><td>4</td></tr></table>		5	1	3	1	9	5	4						
	5	6	3	7	7	4	3																
	5	1	3	1	9	5	4																
+ - <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td>+</td><td> </td></tr></table>	+		Profit/Loss Before Tax <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>5</td><td>0</td><td>5</td><td>7</td><td>8</td><td>9</td></tr></table>			5	0	5	7	8	9	+ - <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td>+</td><td> </td></tr></table>	+		Profit/Loss After Tax <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>4</td><td>5</td><td>9</td><td>0</td><td>0</td><td>7</td></tr></table>			4	5	9	0	0	7
+																							
		5	0	5	7	8	9																
+																							
		4	5	9	0	0	7																
Please tick Appropriate box + for Profit, - for Loss																							
Earnings Per Share of Rs. 5 <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td>R</td><td>S</td><td>1</td><td>5</td><td>P</td><td>3</td><td>0</td></tr></table>		R	S	1	5	P	3	0	Dividend Rate % <table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td>1</td><td>5</td><td>0</td></tr></table>		1	5	0										
	R	S	1	5	P	3	0																
	1	5	0																				

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		
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Product Description

SOFTWARE DEVELOPMENT

As per our report attached
SHARP & TANNAN
Chartered Accountants
By the hand of

V K MAGAPU
Manager / Director

R D KARE
Partner
(Membership No. 8820)
Mumbai
Dated: 29th April, 2005

S S PRABHUDESAI
Company Secretary

Y M DEOSTHALEE
Director
Mumbai
Dated: 29th April, 2005

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:	31-03-05	
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, 2005	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, 2005	Euro 254,077	
(b) for previous financial years of the subsidiary since it became subsidiary of Larsen & Toubro Infotech Limited.	Euro 238,506	
Changes in the interest of Larsen & Toubro Infotech Limited between the end of the subsidiary's financial year and 31st March 2005		
Number of shares acquired	Nil	
Material changes between the end of the subsidiary's financial year and 31st March, 2005	Not applicable	
		V K Magapu Manager/Director
S S Prabhudesai Company Secretary		Y M Deosthalee Director
Date : 29th April, 2005		

Larsen & Toubro Infotech GmbH

Directors' Report

The Directors have pleasure in presenting the Sixth Annual report and the audited accounts of the Company for the year ended 31st March, 2005.

<u>Financial Results</u>	(Amount in Euros)	
	<u>2004-05</u>	<u>2003-04</u>
Total Income	5,892,585	5,686,611
Profit before tax	311,807	242,291
Diminution in value of investment	-	113,494
Taxes (incl. prior year taxes, Nil, previous year Euro 47,370)	57,731	112,623
Profit after tax	254,076	16,174

Review of Operations

The Company registered total income of Euro 5.89 Million, marginally higher than the previous year. The profit before tax amounted to Euro 0.31 Million.

The Company has been able to sustain the competitive pressures and hopes to further improve the performance in the coming year.

Dividend

In order to conserve the resources for future business growth, the Directors do not recommend dividend for the current year.

Directors

During the year under review, Mr. Vinay Rajadhyaksha ceased to be the Director of the Company. The Board places on record its sincere appreciation of the valuable contribution made by him. Mr. Sunil Sapre has been appointed as Director in place of Mr. Vinay Rajadhyaksha.

Auditors

M/s Pohner & Von Loeben. The Auditors of the Company have indicated their willingness and are eligible for reappointment.

For and on behalf of the Board,

Karan Singh
Director

Sunil Sapre
Director

Leipzig
29th April, 2005

Larsen & Toubro Infotech GmbH

Auditors' opinion:

We have audited the annual financial statements, together with the bookkeeping system. The maintenance of the books and records and the preparation of the annual financial statements in accordance with German commercial law (and supplementary provisions in the articles of incorporation agreement) are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (German Commercial Code) and the Generally Accepted Standards for the audit of German financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) in Germany. Those Standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records as well as in the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

Munich, 29th April, 2005

Pöhner
Wirtschaftsprüfer

von Loeben
vereidigter Buchprüfer

Auditors' Report
To the members of Larsen & Toubro Infotech GmbH

The financial statements of Larsen & Toubro Infotech GmbH for the year ended 31 March 2005, being a company registered in Germany, are audited by Günther Pöhner and Christopher von Loeben and we have been furnished with their audit report dated 29 April 2005.

We are presented with the accounts in Indian Rupees prepared on the basis of the aforesaid accounts to comply with the requirements of section 212 of the Companies Act, 1956. We give our report as under:

We have audited the attached balance sheet of Larsen & Toubro Infotech GmbH as at 31 March 2005 and the annexed profit and loss account and the cash flow statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In accordance with the provisions of section 227 of the Companies Act, 1956, we report that:

- (1) As required by the Companies (Auditor's Report) Order, 2003, issued by the central government of India under sub-section (4A) of section 227 of the Companies Act, 1956, and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- (2) Further to our comments in the Annexure referred to above, we report that:
 - (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

- (b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- (c) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956; and
- (e) as regards reporting on the disqualification of directors under section 274(1)(g) of the Indian Companies Act, 1956, since the Company is registered in Germany, no reporting is required to be made under the said section.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with the significant accounting policies in schedule O and notes appearing thereon, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- 1 in the case of the balance sheet, of the state of affairs of the Company as at 31 March 2005;
- 2 in the case of the profit and loss account, of the profit for the year ended on that date; and
- 3 in the case of the cash flow statement, of the cash flows for the year ended on that date.

SHARP & TANNAN
Chartered Accountants
by the hand of

R D Kare
Partner
Membership No. 8820

Mumbai, 29th April 2005

Larsen & Toubro Infotech GmbH					
BALANCE SHEET AS AT 31ST MARCH, 2005					
		As at 31-03-2005		As at 31-03-2004	
	Schedule	EUROS	RUPEES	EUROS	RUPEES
SOURCES OF FUNDS					
SHAREHOLDERS' FUNDS					
Share Capital	A	25,000	1,140,650	25,000	1,140,650
Reserves and Surplus	B	493,583	29,803,951	238,506	14,740,802
		518,583	30,944,601	263,506	15,881,452
LOAN FUNDS					
Unsecured loans	C	110,000	4,880,000	110,000	4,880,000
		110,000	4,880,000	110,000	4,880,000
TOTAL		628,583	35,824,601	373,506	20,761,452
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	D	22,766	1,052,851	21,329	971,564
Less: Depreciation		17,205	826,549	16,084	763,139
Net Block		5,561	226,302	5,245	208,425
Investments					
Pan Health, U.S.A.	E	1	53	1	53
		1	53	1	53
Current assets, loans and advances					
Sundry debtors	F	1,398,906	79,567,629	499,983	27,593,542
Cash and bank balances	G	236,564	13,406,061	261,276	13,965,203
Loans and advances	H	1,035,918	58,705,496	400,032	21,381,724
		2,671,388	151,679,186	1,161,291	62,940,469
Less: Current liabilities and provisions					
Liabilities	I	1,646,316	93,296,710	392,769	20,993,518
Provisions	J	402,051	22,784,230	400,261	21,393,977
		2,048,367	116,080,940	793,031	42,387,495
Net current assets		623,021	35,598,246	368,260	20,552,974
TOTAL		628,583	35,824,601	373,506	20,761,452
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS					
As per our report attached		Karan Singh		Sunil Sapre	
SHARP & TANNAN		Director		Director	
Chartered Accountants					
by the hand of					
R D KARE					
Partner					
(Membership No. 8820)				Leipzig	
Mumbai				Date : 29th April, 2005	
Date : 29th April, 2005					

Larsen & Toubro Infotech GmbH					
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2005					
		2004-2005		2003-2004	
	Schedule	EUROS	RUPEES	EUROS	RUPEES
INCOME					
Software development services and products					
Overseas		315,374	17,837,556	435,623	23,602,063
Domestic		5,538,247	313,243,262	5,033,049	272,690,580
Other income	K	42,862	5,171,319	104,535	5,663,698
		5,896,483	336,252,137	5,573,207	301,956,341
EXPENDITURE					
Software development expenses	L	5,244,795	297,510,951	4,944,745	266,934,295
Sales, administration and other expenses	M	314,195	18,178,199	381,559	20,606,758
Diminution in value of investment		-	-	113,494	5,872,436
		5,558,990	315,689,150	5,439,798	293,413,489
Operating profit (PBIDT)		337,493	20,562,987	133,409	8,542,852
Interest		20,420	1,154,972	460	24,917
Depreciation on tangible assets		4,266	241,260	4,152	224,935
Profit before tax		312,807	19,166,755	128,798	8,293,000
Taxes on income	N	57,731	3,265,242	112,624	6,101,945
Profit after tax		255,076	15,901,513	16,174	2,191,055
Add: Balance brought forward from previous year		238,506	13,902,438	222,332	11,711,384
Profit available for appropriation		493,583	29,803,951	238,506	13,902,438
Less: Transferred to General Reserve		-	-	-	-
Profit available for distribution		493,583	29,803,951	238,506	13,902,438
Dividend		-	-	-	-
Balance carried to Balance Sheet		493,583	29,803,951	238,506	13,902,438
Number of equity share			1		1
Basic and diluted earnings per share (EPS)			15,901,513		2,191,055
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS					
As per our report attached		Karan Singh		Sunil Sapre	
SHARP & TANNAN		Director		Director	
Chartered Accountants					
by the hand of					
R D KARE					
Partner				Leipzig	
(Membership No. 8820)				Date : 29th April, 2005	
Mumbai					
Date : 29th April, 2005					

Larsen & Toubro Infotech GmbH				
Schedules forming part of accounts				
	As at 31-03-2005		As at 31-03-2004	
	EUROS	RUPEES	EUROS	RUPEES
SCHEDULE A				
Share Capital				
<i>Authorised: 1 equity share of EUR 25,000 each</i>	25,000	1,140,650	25,000	1,140,650
<i>Issued and Subscribed</i>				
<i>1 Equity Share of Eur 25,000 each</i>	25,000	1,140,650	25,000	1,140,650
<i>Paid up</i>				
<i>1 Equity Share of Eur 25,000 each</i>	25,000	1,140,650	25,000	1,140,650
<i>Called up</i>				
<i>1 Equity Share of Eur 25,000 each</i>				
<i>All the above Equity shares are held by Larsen & Toubro Infotech Ltd.</i>	25,000	1,140,650	25,000	1,140,650
	25,000	1,140,650	25,000	1,140,650
SCHEDULE B				
Reserves and surplus				
<i>Translation reserve</i>				838,364
<i>Profit & Loss Account</i>	493,583	29,803,951	238,506	13,902,438
	493,583	29,803,951	238,506	14,740,802
SCHEDULE C				
Unsecured Loans				
<i>Loan from Larsen & Toubro Infotech Limited, the holding company</i>	110,000	4,880,000	110,000	4,880,000
	110,000	4,880,000	110,000	4,880,000
SCHEDULE E				
<i>Investments (at cost, unquoted)</i>				
<i>100000 fully paid Equity Shares of USD 1 each in Pan Health, U.S.A.</i>	1	53	1	53
	1	53	1	53
SCHEDULE F				
Sundry Debtors				
<i>Debts outstanding for a period exceeding six months</i>				
<i>Considered good</i>	10,370	587,675	-	-
<i>Considered doubtful</i>	162,112	9,186,868	90,565	4,840,687
	172,482	9,774,543	90,565	4,840,687
Other Debts				
<i>Considered good</i>	1,373,233	77,821,140	499,983	27,593,542
<i>Considered doubtful</i>	-	-	-	-
	1,545,715	87,595,683	590,548	32,434,229
<i>Less: Provision for doubtful debts</i>	146,809	8,028,054	90,565	4,840,687
	1,398,906	79,567,629	499,983	27,593,542

Larsen & Toubro Infotech GmbH				
Schedules forming part of accounts				
	As at 31-03-2005		As at 31-03-2004	
	EUROS	RUPEES	EUROS	RUPEES
SCHEDULE G				
Cash and Bank balances				
Bank Balance with other banks	236,564	13,406,061	261,276	13,965,203
	236,564	13,406,061	261,276	13,965,203
SCHEDULE H				
Loans and Advances				
Unsecured, considered good				
Deposits for premises	13,857	785,284	13,857	740,664
Work in progress	779,287	44,162,194	-	-
Advances recoverable in cash or in kind	75,160	4,259,296	81,816	4,373,083
Prepaid Salary	-	-	20,339	1,087,131
VAT Prepayments	63,617	3,605,152	45,426	2,428,028
Advance Taxes	103,998	5,893,570	238,593	12,752,818
	1,035,918	58,705,496	400,032	21,381,724
SCHEDULE I				
Liabilities				
Liabilities against Larsen & Toubro Infotech Ltd.	1,387,467	78,627,732	116,999	6,253,597
Liabilities social insurances	41,197	2,334,654	38,019	2,032,107
Liabilities wage withholding tax	37,083	2,101,481	47,590	2,543,691
Liabilities employees	1,267	71,801	12,465	666,244
Liabilities others	154,742	8,769,212	187,520	8,932,580
	1,621,756	91,904,880	382,193	20,428,219
Sundry creditors	21,260	1,204,819	10,576	565,299
Interest accrued but not due on loans	3,300	187,011	-	-
	1,646,316	93,296,710	392,769	20,993,518
SCHEDULE J				
Provisions				
Provision for taxes				
Provision for municipal trade tax	343,951	19,491,703	295,751	15,807,891
Provision for corporate income tax	45,500	2,578,485	24,200	1,293,490
Provision for solidarity surcharge tax	2,500	141,675	1,300	69,485
	391,951	22,211,863	321,251	17,170,866
Accidental insurance for employees (Berufsgenossenschaft)	10,100	572,367	54,000	2,886,300
Office, business and other expenses	-	-	4,610	246,431
	10,100	572,367	79,010	4,223,111
	402,051	22,784,230	400,261	21,393,977

Larsen & Toubro Infotech GmbH				
Schedules forming part of accounts				
	2004-2005		2003-2004	
	EUROS	RUPEES	EUROS	RUPEES
SCHEDULE K				
Other Income				
Interest income	2,898	163,911	89	4,831
Other Income	36,943	2,089,477	58,642	3,177,207
Currency exchange income	2,021	114,320	45,804	2,481,660
Exchange difference on translation	1,000	2,803,611	-	-
	42,862	5,171,319	104,535	5,663,698
SCHEDULE L				
Software development services and products				
Salaries including overseas staff expenses	2,357,242	133,325,608	2,374,496	128,650,192
Staff welfare	279,623	15,815,460	280,314	15,187,434
Software development services	2,607,930	148,369,883	2,289,935	123,096,669
	5,244,795	297,510,951	4,944,745	266,934,295
SCHEDULE M				
Sales, administration and other expenses				
Travelling charges and conveyance	49,232	2,784,571	30,332	1,643,375
Car expenditures	3,033	171,522	8,183	443,372
Rent	8,978	507,792	14,521	786,765
Telephone charges	18,637	1,054,129	20,118	1,089,975
Legal and professional charges	107,039	6,054,143	53,766	2,913,025
Printing and stationery	1,148	64,946	2,170	117,570
Advertisement	-	-	8,524	461,820
Gifts	230	13,020	282	15,267
Repairs to computer	-	-	1,126	61,006
General repairs and maintenance	396	22,372	697	37,749
Power and fuel	817	46,197	409	22,160
Establishment expenses	216	12,228	432	23,390
Insurance charges	9,634	544,910	12,910	699,480
Auditor's remuneration	8,500	480,760	12,000	650,160
Provision for doubtful debts	49,152	3,187,367	90,565	4,840,687
Books and periodicals	336	19,006	258	13,981
Entertainment	1,533	86,681	1,755	95,103
Bank charges and currency exchange loss	8,827	499,228	27,917	1,512,568
Employee administration and travel cost	-	-	49,080	2,659,166
Stamps and courier	3,049	172,429	5,923	320,899
Education and training	12,750	721,140	405	21,943
Miscellaneous expenses	30,689	1,735,758	40,186	2,177,297
	314,195	18,178,199	381,559	20,606,758
SCHEDULE N				
Taxes				
Municipal trade tax	50,224	2,840,669	21,423	1,160,671
Corporate income tax	5,414	306,216	87,498	4,740,615
Solidarity surcharge tax	2,093	118,357	3,704	200,659
	57,731	3,265,242	112,624	6,101,945

Larsen & Toubro Infotech GmbH, Leipzig

Schedules forming part of the accounts

1. Legal Status

Larsen & Toubro Infotech GmbH is a company registered in Germany and is engaged in the business of software development services. It is wholly owned subsidiary of Larsen & Toubro Infotech Limited which is a company incorporated in India.

2. Significant Accounting Policies

a. Basis of preparation

The accounts have been prepared using 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. Actual results could vary from these estimates.

b. Revenue recognition

Revenue from software development is recognised based on software developed or time spent in person hours or person weeks and billed to the customer as per the terms of specific contracts.

c. Fixed assets and depreciation

Fixed Assets are stated at original purchase less accumulated depreciation. Depreciation is calculated using the straight line method over the estimated useful lives of the assets. The rate of depreciation is 25% for computer equipment which is higher than the rates specified under schedule XIV of the Companies Act, 1956.

d. Foreign currency transactions

The accounts are translated in Indian Rupees as follows :

- Share capital is retained at the initial contribution amount
- Revenue transactions are translated at the average rates.
- Current assets and current liabilities are translated at rates prevailing on the date of balance sheet.
- The resultant differences are accounted as exchange difference in the Profit & Loss Account.

- e. Tax on income for the current period is determined on the basis of taxable income and tax credits computed in accordance with the law of income tax in Germany.

3. Related Parties

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

Name	Relationship
Larsen & Toubro Infotech Limited	Holding company
Larsen & Toubro Limited	Holding company of holding company

The nature of significant related party transactions and the amounts involved are as under:

	Larsen & Toubro Infotech Ltd.	Larsen & Toubro Ltd.
Purchase of services	130,703,503 (109,034,705)	3,788,703 (-)
Sale of services	52,771,151 (75,763,704)	- (-)
Trade payable	78,627,732 (4,253,597)	3,634,530 (-)

4. Balances with non-scheduled banks

	As at 31.3.05	Rs. Max. amount outstanding at any time during the year
Current account		
Deutsche Bank	11,650,101	39,536,720
Dresdner Bank	1,755,960	6,747,317

5. The Company has not taken any asset on operating / finance lease.

6. Borrowing cost capitalised during the year : Rs. Nil

7. Auditor's remuneration charged to the accounts amounted to Rs. 480,760/- during the year (Rs. 650,160/- in previous year)

8. There are no transactions with small-scale industries during the year.

9. The Company is mainly 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.

10. Segmental reporting

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

	Germany	Rest of World	Rs. Total
Revenue	313,243,262 (272,690,580)	17,837,556 (23,602,063)	331,080,818 (296,292,643)

Application of Funds

Net Fixed Assets							
					2	2	6
Net Current Assets							
			3	5	5	9	8

Investments							
Misc. Expenditure							

IV Performance of Company (Amount in Rs. Thousands)

Turnover (including other income)							
		3	3	6	2	5	2

Total Expenditure							
		3	1	7	0	8	5

0	+	-	Profit/Loss Before Tax					+	-	Profit/Loss After Tax								
	+				1	9	1	6	7	+				1	5	9	0	2

Please tick Appropriate box + for Profit, - for Loss

Earnings Per Share							
1	5	9	0	1	5	1	4

Dividend Rate %			
N	I	L	

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
(Membership No. 8820)
Mumbai
Dated: 29th April, 2005

Karan Singh
Director

Sunil Sapre
Director

Leipzig
Dated: 29th April, 2005

**Auditors' report to the board of directors of
Larsen & Toubro Infotech Limited on consolidated financial statements**

We have examined the attached consolidated balance sheet of Larsen & Toubro Infotech Limited and its subsidiary (the Group) as at 31 March 2005, the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of the Accounting Standard (AS) 21, Consolidated Financial Statements issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Group included in the consolidated financial statements.

We report that on the basis of the information and explanations given to us and on the consideration of the separate audit report on individual audited financial statements of the Group, we are of the opinion that the said consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- a) in the case of the consolidated balance sheet, of the state of affairs of the Group as at 31 March 2005;
- b) in the case of the consolidated profit and loss account of the consolidated results of operations of the Group for the year ended on that date; and
- c) in the case of the consolidated cash flow statement, of the consolidated cash flows of the Group for the year ended on that date.

SHARP & TANNAN
Chartered Accountants
By the hand of

Place: Mumbai
Date : 29th April, 2005

R. D. Kare
Partner
Membership No. 8820

LARSEN & TOUBRO INFOTECH LIMITED			
CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2005			
		As at 31-3-2005	As at 31-3-2004
	Schedules	Rupees	Rupees
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	A	150,000,000	150,000,000
Reserves and surplus	B	1,046,554,884	826,020,095
		1,196,554,884	976,020,095
LOAN FUNDS			
Secured loans	C	804,591,602	791,719,697
Unsecured loans	D	9,467,942	91,067,394
		814,059,544	882,787,091
Deferred tax liability (net) (see schedule P, note 11)		1,760,656	722,301
TOTAL		2,012,375,084	1,859,529,487
APPLICATION OF FUNDS			
Tangible Assets			
	E1		
Gross Block		1,218,160,805	933,502,352
Less : Depreciation		611,132,541	497,703,923
Net Block		607,028,264	435,798,429
Capital work-in-progress		31,205,065	106,225,822
		638,233,329	542,024,251
Intangible Assets			
	E2		
Gross Block		494,471,490	424,972,753
Less : Amortisation		319,697,852	200,353,997
Net Block		174,773,638	224,618,756
Capital work-in-progress		10,387,257	26,699,757
		185,160,895	251,318,513
Investments	F	53	53
<i>Current assets, loans and advances</i>			
Sundry debtors	G	1,331,389,294	810,682,487
Cash and bank balances	H	54,814,173	57,978,887
Loans and advances	I	497,073,824	539,892,790
		1,883,277,291	1,408,554,164
Less : Current liabilities and provisions	J		
Current liabilities		595,770,183	298,471,730
Provisions		98,526,301	55,024,114
		694,296,484	353,495,844
Net current assets		1,188,980,807	1,055,058,320
Deferred revenue expenditure (To the extent not written off or adjusted)	K	-	11,128,350
TOTAL		2,012,375,084	1,859,529,487
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS			
As per our report attached			
SHARP & TANNAN Chartered Accountants by the hand of			V K MAGAPU Manager / Director
R D KARE Partner (Membership No. 8820) Mumbai Date: 29th April, 2005	S S PRABHUDESAI Company Secretary		Y M DEOSTHALEE Director Mumbai Date: 29th April 2005

LARSEN & TOUBRO INFOTECH LIMITED			
CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2005			
		2004-05	2003-04
	Schedules	Rupees	Rupees
INCOME			
Software development services and products			
Overseas		5,522,405,677	3,450,746,126
Domestic		249,686,813	306,968,458
Other income	L	18,427,855	20,558,290
		5,790,520,345	3,778,272,874
EXPENDITURE			
Software development expenses	M	3,509,493,667	2,304,515,137
Sales, administration and other expenses	N	1,456,473,632	1,037,507,927
Diminution in value of investment			5,872,436
		4,965,967,299	3,347,895,500
Operating profit (PBIDT)		24,553,046	430,377,374
Interest	O	35,389,554	31,013,794
Depreciation on tangible assets		133,704,783	125,386,157
Amortisation of intangible assets		119,343,855	102,695,144
Amortisation of deferred revenue expenditure		11,128,350	40,589,732
Profit before tax (PBT)		524,986,504	130,692,547
Provision for taxes		34,492,615	10,325,760
(including Rs 1,04,000 for wealth tax; previous year Rs. 200,000)			
(including Rs 1,25,715.76 paid for current year)			
Short provision for taxes in previous years		14,516,055	-
Deferred tax		1,038,356	(3,530,642)
Profit after tax (PAT)		474,939,478	123,897,429
Add : Balance brought forward from previous year		306,020,095	182,122,666
Profit available for appropriation		780,959,573	306,020,095
Less: Transfer to general reserve		180,000,000	-
Profit available for distribution		600,959,573	306,020,095
Interim dividend		225,000,000	-
Tax on dividend		29,404,689	
Balance to be carried forward		346,554,884	306,020,095
Basic and diluted earnings per share (EPS)		15.83	4.13
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			V K MAGAPU
Chartered Accountants			Manager / Director
by the hand of			
R D KARE	S S PRABHUDESAI	Y M DEOSTHALEE	
Partner	Company Secretary	Director	
(Membership No. 8820)		Mumbai	
Mumbai		Date: 29th April 2005	
Date 29th April, 2005			

LARSEN & TOUBRO INFOTECH LIMITED
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31,2005

	2004-05 Rs	2003-04 Rs
A Cash flow from operating activities :		
Net profit before tax	524,986,504	130,692,547
Adjustments for :		
Depreciation and amortisation	253,048,638	228,081,301
Interest paid	35,389,554	31,013,794
Unrealised foreign exchange difference	12,739,832	35,103,602
Dividend received from subsidiary company	-	-
Income from other investments	(484,762)	(151,468)
Diminution in value of investment	-	5,872,436
Deferred revenue expenditure amortised	11,128,350	40,589,732
Cost of long term projects amortised	15,429,014	6,285,538
Deferred revenue expenditure	-	-
Cost of long term projects	(6,841,538)	(41,878,192)
(Profit)/loss on sale of fixed assets	(10,320)	2,311,593
Operating profit before working capital changes	845,385,272	437,920,883
Changes in working capital		
(Increase)/decrease in trade receivables	(548,861,108)	(104,305,433)
(Increase)/decrease in other receivables	18,927,472	(151,887,217)
Increase/(decrease) in trade payables	316,931,485	(9,286,619)
(Increase)/decrease in working capital	(213,002,151)	(265,479,269)
Cash generated from operations	632,383,121	172,441,614
Direct taxes paid	11,128,003	(4,099,014)
Net cash from operating activities	643,511,124	168,342,600
B Cash flow from investing activities :		
Purchase of fixed assets	(283,100,098)	(217,849,669)
Sale of fixed assets	10,320	68,523,194
Investments	-	3,500,000
Interest received	1,940,563	388,275
Dividend received from subsidiary	-	-
Dividend received from other investments	484,762	151,468
Net cash from investing activities	(280,664,453)	(145,286,732)
C Cash flow from financing activities :		
Proceeds from other borrowings (net)	9,272,453	91,052,627
Inter corporate borrowings	(78,000,000)	(92,000,000)
Financial expenses	(42,879,149)	(28,465,236)
Dividend paid	(225,000,000)	-
Dividend tax paid	(29,404,689)	-
Net cash from financing activities	(366,011,385)	(29,412,609)
Net (decrease)/increase in cash and cash equivalents (A+B+C)	(3,164,714)	(6,356,741)
Cash and cash equivalents at the beginning of the year	57,978,887	64,335,628
Cash and cash equivalents at the end of the year	54,814,173	57,978,887

Notes:

- 1 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.
- 2 Purchase of fixed assets includes movements of capital work-in-progress between the beginning and end of the year
- 3 Previous year's figures have been regrouped /reclassified wherever applicable

As per our report attached
SHARP & TANNAN
Chartered Accountants
by the hand of

V K MAGAPU
Manager / Director

R D KARE
Partner
(Membership No. 8820)
Mumbai
Date: 29th April, 2005

S S PRABHUDESAI
Company Secretary

Y M DEOSTHALEE
Director
Mumbai
Date: 29th April, 2005

LARSEN & TOUBRO INFOTECH LIMITED		
Schedules forming part of consolidated accounts		
	As at 31-3-2005	As at 31-3-2004
	Rupees	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	152,500,000
<i>Issued and Subscribed</i>		
3,00,00,000 Equity Shares for Rs. 5 each	150,000,000	150,000,000
(Previous year 3,00,00,000 of Rs. 5 each)		
<i>Paid up</i> :		
3,00,00,000 Equity Shares for Rs. 5 each	150,000,000	150,000,000
(Previous year 3,00,00,000 of Rs. 5 each)		
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	520,000,000
Add : Transferred from profit and loss account	180,000,000	
	700,000,000	520,000,000
Profit and loss account	346,554,884	306,020,095
	1,046,554,884	826,020,095
SCHEDULE C		
Secured loans		
Term loan from bank	137,482,500	-
Other loans from banks	667,109,102	791,719,697
	804,591,602	791,719,697
SCHEDULE D		
Unsecured loans		
Inter corporate borrowings (from holding company)	-	78,000,000
Lease finance (due with in one year Rs. 2,973,551)	9,467,942	13,067,394
	9,467,942	91,067,394

LARSEN & TOUBRO INFOTECH LIMITED

Schedules forming part of consolidated accounts

SCHEDULE E

FIXED ASSETS

Fixed and Intangible Assets	Gross Block				Depreciation / Amortisation				Net Block As at 31-Mar-05	Net Block As at 31-Mar-04
	As at 01-Apr-04	Additions	Deductions	As at 31-Mar-05	As at 01-Apr-04	For the Year	Deductions	Up to 31-Mar-05		
Schedule E1 - Tangible Assets - Own										
Buildings	173,210,325	56,784,694		229,995,019	34,489,941	7,933,117		42,423,058	187,571,961	138,720,385
Plant and machinery	59,175,554	3,334,401	74,679	62,435,276	54,125,057	2,444,307	74,679	56,494,685	5,940,591	5,050,497
Computers	378,381,495	112,494,385	20,093,752	470,782,128	253,976,163	71,901,631	20,093,752	305,784,042	164,998,086	124,196,905
Furniture and fixtures	299,478,793	130,754,850	107,734	430,125,909	147,748,680	45,981,628	107,734	193,622,574	236,503,335	151,730,115
Vehicles	4,618,458	192,897		4,811,355	2,217,930	634,330		2,852,260	1,959,095	2,400,527
Sub Total (A)	914,864,625	303,561,227	20,276,165	1,198,149,687	492,557,771	128,895,013	20,276,165	601,176,619	596,973,068	422,098,429
Tangible Assets - leased										
Computers	18,637,727	1,373,391		20,011,118	5,146,152	4,809,770		9,955,922	10,055,196	13,491,575
Sub Total (B)	18,637,727	1,373,391	-	20,011,118	5,146,152	4,809,770	-	9,955,922	10,055,196	13,491,575
Add: Capital work-in-progress (including Advances)									31,205,065	106,225,822
Total Of Tangible Assets	933,502,352	304,934,618	20,276,165	1,218,160,805	497,703,924	133,704,783	20,276,165	611,132,541	638,233,329	541,815,826
Previous Year	895,687,017	150,448,036	113,604,265	932,530,788	414,549,040	125,161,222	42,769,478	496,940,784	435,590,004	583,782,574
Schedule E2 - Intangible Assets										
Leasehold Land	12,268,579			12,268,579	1,214,528	128,820		1,343,348	10,925,231	11,054,051
Software	314,654,174	69,498,737		384,152,911	174,626,969	99,605,035		274,232,004	109,920,907	140,027,205
Business Rights	98,050,000			98,050,000	24,512,500	19,610,000		44,122,500	53,927,500	73,537,500
Add: Capital work-in-progress (including Advances)									10,387,257	26,699,757
Total Of Intangible Assets	424,972,753	69,498,737	-	494,471,490	200,353,997	119,343,855	-	319,697,852	185,160,895	251,318,513
Previous Year	328,388,005	96,584,748	-	424,972,753	97,658,853	102,695,144	-	200,353,997	251,318,513	290,457,785

LARSEN & TOUBRO INFOTECH LIMITED		
Schedules forming part of consolidated accounts		
	As at 31-3-2005	As at 31-3-2004
	Rupees	Rupees
SCHEDULE F		
Investments (at cost,unquoted)		
Long term investment		
100,000 fully paid equity shares of USD 1 each in Pan Health USA		
As per last balance sheet	53	5,872,489
Less : diminution in value	-	5,872,436
	53	53
	53	53
SCHEDULE G		
Sundry debtors		
Unsecured		
Debts outstanding for a period exceeding six months		
Considered good	55,515,140	110,371,172
Considered doubtful	117,853,439	87,021,320
	173,368,579	197,392,492
Other Debts		
Considered good		
- Others	1,274,715,340	700,311,316
Considered doubtful	-	-
Less : Provision for doubtful debts	116,694,625	87,021,321
	1,331,389,294	810,682,487
SCHEDULE H		
Cash and bank balances		
Cash on hand		
	15,263,369	319,532
Balances with scheduled banks		
in current accounts (including remittances in transit)	4,154,587	12,734,349
Balances with non-scheduled banks (see schedule P note 2)	35,396,217	44,925,006
	54,814,173	57,978,887

LARSEN & TOUBRO INFOTECH LIMITED		
Schedules forming part of consolidated accounts		
	As at 31-3-2005	As at 31-3-2004
	Rupees	Rupees
SCHEDULE I		
Loans and advances		
Secured :		
Loans against mortgage of house property	5,994,675	6,579,515
Unsecured :		
Unbilled revenues	96,984,535	202,029,971
Advances recoverable in cash or in kind	373,930,974	295,690,650
Cost of long term projects (see schedule P note 16)	20,163,640	35,592,654
	497,073,824	539,892,790
SCHEDULE J		
Current Liabilities and provisions		
Current Liabilities :		
Sundry creditors	466,745,705	247,877,397
Advance billing	33,036,109	2,045,389
Due to holding company	95,748,369	48,313,944
Due to directors	240,000	235,000
	595,770,183	298,471,730
Provisions :		
Taxes	63,651,301	34,233,114
Leave encashment	34,875,000	20,791,000
	98,526,301	55,024,114
	694,296,484	353,495,844
SCHEDULE K		
DEFERRED REVENUE EXPENDITURE		
<i>(To the extent not written off or adjusted)</i>		
Expenses for SEI CMM Level 5	-	11,128,350
	-	11,128,350

LARSEN & TOUBRO INFOTECH LIMITED		
Schedules forming part of consolidated accounts		
	2004-05	2003-04
	Rupees	Rupees
SCHEDULE L		
Other income		
Income from other investments	484,762	151,468
Gain on sale of fixed asset	10,320	-
Miscellaneous income	17,932,773	20,406,822
	18,427,855	20,558,290
SCHEDULE M		
Software development expenses		
Salaries including overseas staff expenses	2,528,142,908	1,596,308,843
Staff welfare	168,826,452	101,794,052
Contribution to provident and other funds	42,306,021	29,530,039
Contribution to superannuation fund	18,449,289	13,339,014
Contribution to gratuity fund	4,730,000	4,101,593
Communication expenses	99,740,372	93,989,557
Consultancy charges	563,636,251	372,413,988
Cost of Software packages for own use	44,595,166	32,475,211
Cost of bought-out items for resale	39,067,208	60,562,840
	3,509,493,667	2,304,515,137
SCHEDULE N		
Sales, Administration and other expenses		
Salaries including overseas staff expenses	490,144,345	326,119,536
Travelling and conveyance	212,328,793	164,850,254
Rent (lease rent Rs. 20,477,873 ; previous year Rs. 6,705,608)	141,769,159	103,976,990
Telephone charges and postage	87,296,546	71,738,052
Legal and professional charges	97,085,540	82,352,578
Printing and stationery	26,784,389	21,324,058
Advertisement	7,314,531	7,911,256
Advertisement for Vacancies	20,735,586	15,300,581
Repairs to building	4,448,696	1,147,741
Repairs to computers	20,087,672	7,265,697
General repairs and maintenance	50,348,830	35,860,307
Loss on sale of Fixed Assets	-	2,311,593
Power and fuel	54,086,293	38,678,365
Establishment expenses	29,211,026	44,004,324
Equipment hire charges	22,899,583	
Insurance charges	26,405,740	14,618,664
Rates and taxes	9,954,339	6,072,859
Auditors' remuneration	1,356,260	1,394,963
Bad debts	36,918,376	21,850,477
Provision for doubtful debts (net)	29,673,304	8,066,252
Commission charges	14,995,360	12,970,583
Books and periodicals	7,579,391	7,304,598
Entertainment	11,391,513	7,431,832
Directors fees	240,000	235,000
Miscellaneous expenses	31,961,132	28,435,829
Amortisation of cost of long term projects	21,457,228	6,285,538
	1,456,473,632	1,037,507,927
SCHEDULE O		
Interest paid on		
Fixed loans	3,106,589	6,035,985
On others	29,493,506	12,939,749
Lease finance charges	4,730,022	12,426,335
Less : Interest received	1,940,563	388,275
	35,389,554	31,013,794

Larsen & Toubro Infotech Limited

Schedules forming part of the Consolidated 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

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) 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:

- profit and loss account

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 Consolidated Accounts

1. Basis of preparation

- a) The Consolidated Financial Statements (CFS) are prepared in accordance with Accounting Standard 21- Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.
- b) The notes and significant accounting policies are intended to serve as a guide for better understanding of the group's financial position. In this respect, the company has disclosed such notes and policies, which represent the needed disclosure.

2. The company has a wholly owned subsidiary, Larsen & Toubro Infotech GmbH, which is incorporated in Germany

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

4. The break-up of net deferred tax liability as at March 31, 2005 is as under:

	Deferred tax asset/(liability) as at March 31, 2004	Current year (charge) / credit	Rs. Deferred tax asset/ (liability) as at March 31, 2005
Deferred tax liabilities			
• Depreciation / amortisation	(4,915,076)	1,979,181	(2,935,895)
• Amortisation of intangible assets	(263,816)	168,415	(95,401)
• Miscellaneous expenditure (to the extent not written off /adjusted)	(319,384)	319,384	-
• Cost of long-term projects	(1,030,628)	691,274	(339,354)
• Others	(5,657)	(1,681)	(7,338)
• Total	(6,534,561)	3,156,573	(3,377,988)
Deferred tax asset			
• Unabsorbed depreciation	3,453,675	(3,453,675)	-
• Provision for doubtful debts	2,358,585	(741,253)	1,617,332
• Total	5,812,260	(4,194,928)	1,617,332
Net deferred tax liability	(722,301)	(1,038,355)	(1,760,656)

5. Related party disclosure:

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

Name	Relationship
Larsen & Toubro Limited	Holding company
Tractor Engineers Limited	Fellow subsidiary
L&T Finance Limited	Fellow subsidiary

A summary of transactions with related parties is given below:

Transaction	Rs.	
	Holding Co.	Fellow Subsidiaries
• Sale of services / products	114,104,644 (151,518,657)	4,055,000 (1,640,314)
• Purchase of goods and assets/ lease of assets	13,523,053 (3,202,522)	1,373,391 (73,794,881)
• Sale of assets	- (-)	- (62,621,921)
• Purchase of services	168,747,016 (103,185,685)	- (-)
• Overheads charged by	72,720,360 (110,583,472)	- (-)
• Overheads charged to	526,907 (6,256,247)	- (1,160,400)
• Lease rent paid	- (-)	30,465,285 (15,980,925)
• Interest / Dividend paid	229,276,102 (18,312,664)	1,441,044 (1,552,039)
• Unsecured loan	- (78,000,000)	- (-)
• Trade receivable	-	- (6,892,109)
• Trade payable	96,562,625 (48,313,944)	5,338,294 (-)

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.

6. 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. 20,011,118 (*previous year Rs. 18,637,727*), depreciation for the year is higher by Rs. 4,809,770 (*previous year Rs. 3,708,025*) and charge to profit and loss account in respect of lease rentals is lower by Rs. 6,408,739 (*previous year Rs. 5,668,758*) interest expense is higher by Rs. 1,435,895 (*previous year Rs. 1,486,460*) and the profit is higher by Rs. 163,074 (*previous year Rs. 474,273*).

Assets acquired on finance lease comprise of servers. The minimum lease rentals and their present value as at March 31, 2005 in respect of assets acquired under finance lease are as follows:

	Rs.
Minimum lease payments	
- Payable not later than 1 year	3,826,902
- Payable after 1 year but not later than 5 years	7,171,218
- Total	<u>10,998,120</u>
	Rs.
Less : future finance charges	1,530,178
	<u>9,467,942</u>
Present value of minimum lease payments	
- Payable not later than 1 year	2,973,551
- Payable after 1 year but not later than 5 years	6,494,391
- Total	<u>9,467,942</u>

Operating Leases

The company has taken employee used cars under non-cancellable operating leases. The rental expense in respect of operating leases was 27,022,515 (Rs. 8,301,495) and the future rentals payable are as follows:

	Rs.
Minimum lease payments	
- Payable not later than 1 year	29,157,949
- Payable after 1 year but not later than 5 years	69,944,863
- Total	<u>99,102,812</u>

7. 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	3,578,646,903	1,211,565,391	703,051,391	249,686,813	29,142,374	5,772,092,872
	(2,160,754,176)	(810,674,430)	(529,177,994)	(306,968,458)	(35,197,894)	(3,842,592,952)

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.

8. 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.

9. 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
Chartered Accountants
by the hand of

V K MAGAPU
Manager / Director

R D KARE
Partner
(Membership No.8820)
Mumbai
Date: 29th April, 2005

S S PRABHUDESAI
Company Secretary

Y M DEOSTHALEE
Director
Mumbai
Date : 29th April, 2005

4500

AUDITORS' REPORT TO THE MEMBERS OF LARSEN & TOUBRO INFOTECH LIMITED

We have audited the attached balance sheet of Larsen & Toubro Infotech Limited as at 31 March 2004 and the annexed profit and loss account and the cash flow statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.



Larsen & Toubro Infotech Limited

'National Implementation Partner'	mySAP.com
'TIBCO Alliance Partner'	The Power of Now™
'Member – Partner World for Developers'	
'Systems Integration Partner'	The Leader in Integration Software Solutions
'Microsoft Gold Certified Partner'	
'Alliance Consulting Partner'	
'Systems Integration Partner'	
'Systems Integration Partner'	
Member of 'ORACLE Partner Program'	BIG BUSINESS • SMALL BUSINESS • ALL BUSINESS
'Certified Consulting Partner'	
'Implementation Partner'	Computer Associates™
'Technology Partner'	
'Alliance and Channel Partners'	