

**Balance Sheet as at March 31, 2006**

	Schedules	As at 31-3-2006 Rupees	As at 31-3-2005 Rupees
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Share Capital	A	150,000,000	150,000,000
Reserves and Surplus	B	1,547,529,047	1,016,750,933
		<u>1,697,529,047</u>	<u>1,166,750,933</u>
<b>Loan Funds</b>			
Secured Loans	C	1,276,286,452	804,591,602
Unsecured Loans	D	64,815,297	9,467,942
Deferred Tax Liability (net) (See Schedule O, Note 12)		1,341,101,749	814,059,544
		<u>1,488,235</u>	<u>1,760,656</u>
<b>TOTAL</b>		<u><u>3,040,119,031</u></u>	<u><u>1,982,571,133</u></u>
<b>APPLICATION OF FUNDS</b>			
<b>Tangible Assets</b>			
Gross Block	E1	1,711,299,808	1,217,107,954
Less : Depreciation		771,577,394	610,305,992
Net Block		939,722,414	606,801,962
Capital work-in-progress		<u>98,728,015</u>	<u>31,205,065</u>
		<u>1,038,450,429</u>	<u>638,007,027</u>
<b>Intangible Assets</b>			
Gross Block	E2	555,939,262	494,471,490
Less : Amortisation		414,378,398	319,697,852
Net Block		141,560,864	174,773,638
Capital work-in-progress		19,125,266	10,387,257
		<u>160,686,130</u>	<u>185,160,895</u>
<b>Investments</b>	F	7,747,114	1,140,649
<b>Current Assets, Loans and Advances</b>			
Sundry Debtors	G	1,961,497,072	1,330,449,398
Cash and Bank Balances	H	192,109,662	41,408,112
Loans and Advances	I	883,235,747	443,248,328
		<u>3,036,842,481</u>	<u>1,815,105,838</u>
<b>Less : Current Liabilities and Provisions</b>			
Current Liabilities	J	1,041,153,774	581,101,205
Provisions		162,453,349	75,742,071
		<u>1,203,607,123</u>	<u>656,843,276</u>
<b>Net Current Assets</b>		<u>1,833,235,358</u>	<u>1,158,262,562</u>
<b>TOTAL</b>		<u><u>3,040,119,031</u></u>	<u><u>1,982,571,133</u></u>
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS</b>			
As per our report attached			
<b>SHARP &amp; TANNAN</b>			
Chartered Accountants			
by the hand of		<b>Y M DEOSTHALEE</b>	Director
<b>R D KARE</b>	<b>S S PRABHUDESAI</b>	<b>V K MAGAPU</b>	Director / Manager
Partner	Company Secretary		
(Membership No. 8820)			
Place : Mumbai		Place : Mumbai	
Date : May 3, 2006		Date : May 3, 2006	

LARSEN & TOUBRO INFOTECH LIMITED

**Profit and Loss Account for the year ended March 31, 2006**

	Schedules	2005-06 Rupees	2004-05 Rupees
<b>INCOME</b>			
Software development services and products		7,617,155,025	5,339,253,135
Overseas		316,602,372	249,686,813
Domestic		47,009,233	13,256,536
Other income	K	<u>7,980,766,629</u>	<u>5,602,196,484</u>
<b>EXPENDITURE</b>			
Software development expenses	L	5,032,229,700	3,394,687,870
Sales, administration and other expenses	M	1,822,463,846	1,403,549,640
		<u>6,854,693,546</u>	<u>4,798,237,510</u>
<b>Operating profit (PBIDT)</b>		<b>1,126,073,083</b>	<b>803,958,974</b>
Interest	N	53,017,576	34,234,582
Depreciation on tangible assets		179,689,490	133,463,523
Amortisation of intangible assets		94,680,546	119,343,855
Amortisation of deferred revenue expenditure		<u>11,128,350</u>	<u>11,128,350</u>
<b>Profit before tax (PBT)</b>		<b>798,685,471</b>	<b>505,788,664</b>
Provision for taxes		60,075,174	31,227,373
(including Rs 10,000 for wealth tax; previous year Rs. 104,000)			
Short provision for taxes in previous years		4,067,103	14,516,055
Deferred tax		(272,421)	1,038,356
Fringe Benefit Tax		33,000,000	—
<b>Profit after tax (PAT)</b>		<b>701,815,615</b>	<b>459,006,880</b>
Add : Balance brought forward from previous year		316,750,933	292,148,742
<b>Profit available for appropriation</b>		<b>1,018,566,547</b>	<b>751,155,622</b>
Less: Transfer to general reserve		300,000,000	180,000,000
<b>Profit available for distribution</b>		<b>718,566,547</b>	<b>571,155,622</b>
Interim dividend		150,000,000	225,000,000
Tax on dividend		21,037,500	29,404,689
<b>Balance to be carried forward</b>		<b>547,529,047</b>	<b>316,750,933</b>
<b>Basic and diluted earnings per share (EPS)</b>		<b>23.39</b>	<b>15.30</b>
<b>Equivalent number of shares of Rs.5 each</b>		<b>30,000,000</b>	<b>30,000,000</b>
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS</b>			

As per our report attached

**SHARP & TANNAN**  
Chartered Accountants

by the hand of

**R D KARE**  
Partner  
(Membership No. 8820)

Place : Mumbai  
Date : May 3, 2006

S-8

**S S PRABHUDESAI**  
Company Secretary

**Y M DEOSTHALEE**

Director

**V K MAGAPU**

Director / Manager

Place : Mumbai  
Date : May 3, 2006

**Cash Flow Statement for the year ended March 31, 2006**

	2005-06	2004-05
	Rupees	Rupees
<b>Cash flow from operating activities</b>		
Net profit before tax	798,685,471	505,788,664
<b>Adjustments for:</b>		
Depreciation and amortisation	274,370,036	252,807,378
Interest paid	53,017,576	34,234,583
Unrealised foreign exchange gain	(1,088,314)	28,645,730
Income from investments	(620,998)	(320,851)
Deferred revenue expenditure amortised	—	11,128,350
Cost of long term projects amortised	17,874,871	15,429,014
Cost of long term projects	—	(6,841,538)
Profit on sale of fixed assets	(2,654,861)	(10,320)
<b>Operating profit before working capital changes</b>	<b>1,139,583,781</b>	<b>840,861,010</b>
<b>Changes in working capital</b>		
Increase in trade receivables	(623,269,413)	(562,291,464)
Increase in other receivables	(473,734,972)	36,451,592
Increase in trade payables	473,715,946	314,330,805
Decrease in working capital	(623,288,438)	(211,509,067)
<b>Cash generated from operations</b>	<b>516,295,342</b>	<b>629,351,943</b>
Direct taxes paid	(33,466,312)	13,468,125
<b>Net cash from operating activities</b>	<b>482,829,030</b>	<b>642,820,068</b>
<b>Cash flow from investing activities</b>		
Purchase of fixed assets	(661,776,292)	(282,840,961)
Sale of fixed assets	14,092,480	10,320
Investments	(6,606,465)	—
Interest received	1,570,235	1,940,563
Income from investments	620,998	320,851
<b>Net cash used in investing activities</b>	<b>(652,099,044)</b>	<b>(280,569,227)</b>
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	472,042,205	9,272,453
Proceeds from intercorporate deposits	55,000,000	(78,000,000)
Financial expenses	(47,269,078)	(41,724,178)
Dividend paid	(150,000,000)	(225,000,000)
Dividend tax paid	(9,801,563)	(29,404,689)
<b>Net cash from financing activities</b>	<b>(319,971,564)</b>	<b>(364,856,414)</b>
<b>Net increase in cash and cash equivalents</b>	<b>150,701,550</b>	<b>(2,605,573)</b>
Cash and cash equivalents - 31 March 2005	41,408,112	(44,013,684)
<b>Cash and cash equivalents - 31 March 2006</b>	<b>192,109,662</b>	<b>41,408,112</b>

As per our report attached

**SHARP & TANNAN**

Chartered Accountants

by the hand of

**R D KARE**

Partner

(Membership No. 8820)

Place : Mumbai

Date : May 3, 2006

**S S PRABHUDESAI**

Company Secretary

**Y M DEOSTHALEE**

Director

**V K MAGAPU**

Director / Manager

Place : Mumbai

Date : May 3, 2006

LARSEN & TOUBRO INFOTECH LIMITED

**Schedules forming Part of Accounts**

**SCHEDULE A**

	As at 31-3-2006	As at 31-3-2005
	Rupees	Rupees
<b>Share Capital</b>		
<b>Authorised :</b>		
3,05,00,000 Equity shares of Rs.5 each ( Previous year 3,05,00,000 of Rs. 5 each)	<u>152,500,000</u>	<u>152,500,000</u>
<b>Issued and Subscribed :</b>		
3,00,00,000 Equity Shares for Rs. 5 each ( Previous year 3,00,00,000 of Rs. 5 each)	<u>150,000,000</u>	<u>150,000,000</u>
<b>Paid up :</b>		
3,00,00,000 Equity Shares for Rs. 5 each ( Previous year 3,00,00,000 of Rs. 5 each)	<u>150,000,000</u>	<u>150,000,000</u>
All the above Equity shares (Same as previous year) are held by Larsen & Toubro Limited, the holding Company	<u>150,000,000</u>	<u>150,000,000</u>

**SCHEDULE B**

**Reserves and Surplus**

General Reserve	700,000,000	520,000,000
As per last balance sheet		
Add : Transferred from		
Profit and Loss Account	<u>300,000,000</u>	<u>180,000,000</u>
	<u>1,000,000,000</u>	<u>700,000,000</u>
Profit and Loss Account	<u>547,529,047</u>	<u>316,750,933</u>
	<u>1,547,529,047</u>	<u>1,016,750,933</u>

**SCHEDULE C**

**Secured Loans**

Term loans from bank	495,704,455	137,482,500
Other loans from banks	<u>780,581,997</u>	<u>667,109,102</u>
	<u>1,276,286,452</u>	<u>804,591,602</u>

**SCHEDULE D**

**Unsecured Loans**

Inter corporate borrowings (from holding company)	55,000,000	—
Lease finance (due within one year Rs. 4,606,761)	<u>9,815,297</u>	<u>9,467,942</u>
	<u>64,815,297</u>	<u>9,467,942</u>

**SCHEDULE E**

**Fixed Assets**

**SCHEDULE E1 – Tangible Assets – Own**

Rupees

Fixed Assets	Gross Block			Depreciation / Amortisation				Net Block		Net Block	
	As at 1-Apr-05	Additions	Deductions	As at 31-Mar-06	As at 1-Apr-05	For the Year	Deductions	Up to 31-Mar-06	As at 31-Mar-06	As at 31-Mar-05	
Buildings	133,360,561	7,994,398	—	141,354,959	22,323,348	4,332,528	—	26,655,876	114,699,083	111,037,212	
Plant and machinery	159,069,734	101,310,345	1,582,004	258,798,075	76,594,395	10,190,842	346,921	86,438,316	172,359,759	82,475,340	
Computers	469,729,277	193,483,383	—	663,212,660	304,957,493	95,164,440	—	400,121,933	263,090,726	164,771,784	
Furniture and fixtures	430,125,909	217,640,513	28,273,703	619,492,719	193,622,574	64,032,480	18,071,167	239,583,887	379,908,834	236,503,335	
Vehicles	4,811,355	—	—	4,811,355	2,852,260	613,924	—	3,466,184	1,345,171	1,959,095	
Sub Total (A)	<u>1,197,096,836</u>	<u>520,428,639</u>	<u>29,855,707</u>	<u>1,687,669,768</u>	<u>600,350,070</u>	<u>174,334,214</u>	<u>18,418,088</u>	<u>756,266,196</u>	<u>931,403,573</u>	<u>596,746,766</u>	
Tangible Assets – leased											
Computers	20,011,118	3,618,922	—	23,630,040	9,955,922	5,355,276	—	15,311,198	8,318,841	10,055,196	
Sub Total (B)	<u>20,011,118</u>	<u>3,618,922</u>	<u>—</u>	<u>23,630,040</u>	<u>9,955,922</u>	<u>5,355,276</u>	<u>—</u>	<u>15,311,198</u>	<u>8,318,841</u>	<u>10,055,196</u>	
Add: Capital work-in-progress (including Advances)									98,728,015	31,205,065	
Total Of Tangible Assets	<u>1,217,107,954</u>	<u>524,047,561</u>	<u>29,855,707</u>	<u>1,711,299,808</u>	<u>610,305,992</u>	<u>179,689,490</u>	<u>18,418,088</u>	<u>771,577,394</u>	<u>1,038,450,430</u>	<u>638,007,027</u>	
Total Of Tangible Assets (Previous Year)	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	

**Schedules forming Part of Accounts****SCHEDULE E2 – Intangible Assets**

Rupees

Fixed Assets	Gross Block			Depreciation / Amortisation				Net Block	Net Block	
	As at 1-Apr-05	Additions	Deductions	As at 31-Mar-06	As at 1-Apr-05	For the Year	Deductions	Up to 31-Mar-06	As at 31-Mar-06	As at 31-Mar-05
Leasehold Land	12,268,579	—	—	12,268,579	1,343,348	128,820	—	1,472,168	10,796,411	10,925,231
Software	384,152,911	61,467,772	—	445,620,683	274,232,004	74,941,726	—	349,173,730	96,446,953	109,920,907
Business Rights	98,050,000	—	—	98,050,000	44,122,500	19,610,000	—	63,732,500	34,317,500	53,927,500
Add: Capital work-in-progress (including Advances)									19,125,266	10,387,257
<b>Total Of Intangible Assets</b>	<b>494,471,490</b>	<b>61,467,772</b>	<b>—</b>	<b>555,939,262</b>	<b>319,697,852</b>	<b>94,680,546</b>	<b>—</b>	<b>414,378,398</b>	<b>160,686,130</b>	<b>185,160,895</b>
<b>Total Of Intangible Assets (Previous Year)</b>	<b>424,972,753</b>	<b>69,498,737</b>	<b>—</b>	<b>494,471,490</b>	<b>200,353,997</b>	<b>119,343,855</b>	<b>—</b>	<b>319,697,852</b>	<b>185,160,895</b>	<b>251,318,513</b>

Note: Electrical installations and air-conditioning equipments have been reclassified from buildings to plant and machinery. Accordingly opening balance (gross block) and depreciation of buildings is lower by Rs. 96,634,458 and Rs. 20,099,710 respectively and gross block and depreciation of plant and machinery is higher by Rs. 96,634,458 and Rs. 20,099,710 respectively.

	<b>As at 31-3-2006</b>	<b>As at 31-3-2005</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>SCHEDULE F</b>		
<b>Investments (at cost, unquoted)</b>		
Long term investment in wholly owned subsidiaries		
1, fully paid equity share of Euro 25,000/- in	<b>1,140,649</b>	<b>1,140,649</b>
Larsen & Toubro Infotech GmbH		
100, fully paid equity shares of CAD 1 each in	<b>6,606,465</b>	<b>—</b>
Larsen & Toubro Information Technology Canada Ltd.		
Details of investments purchased and sold during the year	<b>—</b>	<b>—</b>
(11,98,35,845 units of Principal Mutual Fund- Liquid Institutional Plan		
purchased and sold during the year)	<b>7,747,114</b>	<b>1,140,649</b>

**SCHEDULE G****Sundry Debtors**

Unsecured

Debts outstanding for a period exceeding six months

Considered good

Considered doubtful

Other Debts

Considered good

– Due from subsidiaries

– Others

Considered doubtful

Less : Provision for doubtful debts

<b>106,435,250</b>	<b>54,927,466</b>
<b>133,517,482</b>	<b>108,666,571</b>
<b>239,952,732</b>	<b>163,594,037</b>
<b>16,366,453</b>	<b>78,627,732</b>
<b>1,838,695,370</b>	<b>1,196,894,200</b>
<b>133,517,483</b>	<b>108,666,571</b>
<b>1,961,497,072</b>	<b>1,330,449,398</b>

LARSEN & TOUBRO INFOTECH LIMITED

**Schedules forming Part of Accounts**

	<u>As at 31-3-2006</u>	<u>As at 31-3-2005</u>
	Rupees	Rupees
<b>SCHEDULE H</b>		
<b>Cash and Bank Balances</b>		
Cash on hand	1,426,455	1,857,308
Balances with scheduled banks		
in current accounts (including remittances in transit)	99,961,169	4,154,587
Balances with non-scheduled banks (see schedule O note 2)	90,722,038	35,396,217
	<u>192,109,662</u>	<u>41,408,112</u>
<b>SCHEDULE I</b>		
<b>Loans and Advances</b>		
Secured :		
Loans against mortgage of house property	5,513,873 ✓	5,994,675
Unsecured :		
Unbilled revenues	176,925,712	52,822,341
Due from subsidiary company	4,880,000	4,880,000
Advances recoverable in cash or in kind	693,213,017 ✓	359,387,672
Cost of long term projects (see schedule O note 17 )	2,703,145	20,163,640
	<u>883,235,747</u>	<u>443,248,328</u>
<b>SCHEDULE J</b>		
<b>Current Liabilities and Provisions</b>		
Current Liabilities :		
Sundry Creditors	617,413,404	452,076,727
Advance billing	40,769,445	33,036,109
Due to holding Company	382,710,924	95,748,369
Due to directors	260,000	240,000
	<u>1,041,153,774</u>	<u>581,101,205</u>
Provisions :		
Taxes	103,077,349	40,867,071
Leave encashment	59,376,000	34,875,000
	<u>162,453,349</u>	<u>75,742,071</u>
	<u>1,203,607,123</u>	<u>656,843,276</u>

**Schedules forming Part of Accounts**

	2005-06	2004-05
	Rupees	Rupees
<b>SCHEDULE K</b>		
<b>Other income</b>		
Income from investments	620,998	320,851
Provision no longer required	21,241,490	—
Gain on sale of fixed asset	2,654,861	10,320
Miscellaneous income	22,491,884	12,925,365
	<u>47,009,233</u>	<u>13,256,536</u>
<b>SCHEDULE L</b>		
<b>Software development expenses</b>		
Salaries including overseas staff expenses	3,461,961,559	2,429,922,071
Staff welfare	227,209,391	153,010,992
Contribution to provident and other funds	65,054,588	42,306,021
Contribution to superannuation fund	25,384,841	18,449,289
Contribution to gratuity fund	3,800,040	4,730,000
Communication expenses	89,952,279	98,970,872
Consultancy charges	1,028,293,723	563,636,251
Cost of Software packages for own use	44,196,666	44,595,166
Cost of bought-out items for resale	86,376,613	39,067,208
	<u>5,032,229,700</u>	<u>3,394,687,870</u>
<b>SCHEDULE M</b>		
<b>Sales, Administration and other expenses</b>		
Salaries including overseas staff expenses	584,840,650	490,144,345
Travelling and conveyance	247,971,944	174,595,822
Rent (lease rent Rs. 27,626,294 ; previous year Rs. 20,477,873 )	277,868,324	141,261,367
Telephone charges and postage	104,048,863	86,069,988
Legal and professional charges	102,090,983	91,031,397
Printing and stationery	46,392,448	26,719,443
Advertisement	17,405,111	7,314,531
Advertisement for Vacancies	24,802,540	20,735,586
Repairs to building	5,957,749	4,448,696
Repairs to computers	19,527,038	20,087,672
General repairs and maintenance	78,814,450	50,326,458
Power and fuel	80,335,962	54,040,096
Establishment expenses	40,667,392	29,198,798
Equipment hire charges	22,815,605	22,899,583
Insurance charges	33,058,519	25,860,830
Rates and taxes	14,815,026	9,954,339
Auditors' remuneration	1,201,500	875,500
Bad debts	—	36,918,376
Provision for doubtful debts (net)	24,850,912	26,485,937
Commission charges	12,955,142	14,995,360
Books and periodicals	7,392,951	7,560,385
Entertainment	16,019,386	11,304,832
Directors fees	260,000	240,000
Miscellaneous expenses	40,496,481	29,023,071
Amortisation of cost of long term projects	17,874,871	21,457,228
	<u>1,822,463,846</u>	<u>1,403,549,640</u>
<b>SCHEDULE N</b>		
<b>Interest paid on</b>		
Fixed loans	12,554,843	3,106,589
On others	39,760,394	28,338,534
Lease finance charges	2,272,574	4,730,022
Less : Interest received	1,570,235	1,940,563
	<u>53,017,576</u>	<u>34,234,582</u>

## ***Schedules forming Part of Accounts***

### **SCHEDULE O**

#### **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:

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



## ***Schedules forming Part of Accounts***

### 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:

- o Leasehold land over the residual period of the lease
- o Computer software 33.33%
- o 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. 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:

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

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

- o profit and loss account

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

### **9. 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.

### **10. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

Provisions are recognized for liabilities that can be measured only by using a substantial degree of estimation, if

- a) the company has a present obligation as a result of a past event,
- b) a probable outflow of resources is expected to settle the obligation and
- c) the amount of the obligation can be reliably estimated

Reimbursement expected in respect of expenditure required to settle a provision is recognized only when it is virtually certain that the reimbursement will be received.

Contingent liability is disclosed in the case of

- a) a present obligation arising from a past event when it is not probable that an outflow of resources will be required to settle the obligation
- b) a possible obligation unless the probability of outflow of resources is remote

Contingent assets are neither recognized nor disclosed.

Provisions, contingent liabilities and contingent assets are reviewed at each balance sheet date.

**Schedules forming Part of Accounts****11. NOTES FORMING PART OF ACCOUNTS**

- The secured loans from banks are secured against hypothecation of the Company's movable assets and accounts receivables.
- Balances with non-scheduled banks held in :

Rupees

	As at 31.3.06	As at 31.3.05	Max. amount outstanding during	
			2005-06	2004-05
<b>Current account</b>				
ABN Amro Bank, Amsterdam	3,124,729	–	10,418,581	–
Bank of America, New Jersey	2,140,167	6,234,769	7,089,888	6,216,954
Citibank N.A., New Jersey (Collection)	3,322,557	8,125,388	164,551,705	107,278,741
Citibank N.A., New Jersey (Checking)	10,895,946	645,351	210,322,049	64,887,968
Citibank N.A., Paris	5,323,759	6,344,499	30,193,624	17,525,364
Citibank N.A., Singapore	862,007	652,823	9,124,439	4,997,228
HSBC, London (GBP)	12,221,289	(1,117,489)	18,959,584	13,727,623
HSBC, London (USD)	18,083,316	4,488,647	55,343,291	26,510,455
HSBC, London (EUR)	4,888,839	175,112	13,767,140	9,329,044
State Bank of India, Tokyo	693,334	735,593	18,465,076	9,048,309
Tokyo Mitsubishi Bank, Tokyo	21,488,823	1,735,588	67,651,361	16,595,219
<b>Total</b>	<b>83,044,766</b>	<b>28,020,281</b>		
<b>Deposit account</b>				
Citibank N.A., New Jersey	7,677,272	7,375,936	7,677,272	7,375,936
<b>Total</b>	<b>90,722,038</b>	<b>35,396,217</b>		

- 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.
- During the year Larsen & Toubro Information Technology Canada Limited became a wholly owned subsidiary of the Company.
- Expenditure in foreign currency :

	Rupees 2005-06	Rupees 2004-05
Overseas staff costs	2,257,143,630	1,746,790,236
Foreign travel	27,928,631	22,695,316
Agency commission	13,123,456	14,995,189
Interest	6,597,003	4,168,701
Others (includes overseas office expenses )	1,184,787,245	740,283,232
<b>Total</b>	<b>3,489,579,965</b>	<b>2,528,932,674</b>

- Earnings in foreign currency :

	Rupees 2005-06	Rupees 2004-05
Software exports	7,617,155,025	5,339,253,135
Other income	1,343,735	2,303,480
<b>Total</b>	<b>7,618,498,760</b>	<b>5,341,556,615</b>

**Schedules forming Part of Accounts**

7. The net exchange loss arising on foreign currency transactions amounting to Rs. 4,829,186 (previous year gain of Rs. 51,381,635) has been accounted under respective revenue heads.
8. There are no forward contracts outstanding as on March 31, 2006.
9. Auditors' remuneration (excluding service tax) charged to the accounts include:

	2005-06	Rupees 2004-05
Audit fees	700,000	640,000
Tax audit fees	280,000	219,500
Certification fees	221,500	16,000
<b>Total</b>	<b>1,201,500</b>	<b>875,500</b>

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

	2005-06	Rupees 2004-05
Capital goods	145,827,147	70,311,735
Others	14,848,948	12,433,519
<b>Total</b>	<b>160,676,094</b>	<b>82,745,254</b>

11. Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for: Rs. 100,124,377 (previous year: Rs. 45,819,526)
12. The break-up of net deferred tax liability as at March 31, 2006 is as under:

	Deferred tax asset/ (liability) as at March 31, 2005	Current year (charge) / credit	Rupees Deferred tax asset/ (liability) as at March 31, 2006
<b>Deferred tax liabilities</b>			
• Depreciation / amortisation	(2,935,895)	(801,441)	(3,737,336)
• Amortisation of intangible assets	(95,401)	126,987	31,586
• Cost of long-term projects	(339,354)	293,860	(45,494)
• Others	(7,338)	23,248	15,910
• <b>Total</b>	<b>(3,377,988)</b>	<b>(357,346)</b>	<b>(3,735,334)</b>
<b>Deferred tax asset</b>			
• Provision for doubtful debts	1,617,332	629,767	2,247,099
• <b>Total</b>	<b>1,617,332</b>	<b>629,767</b>	<b>2,247,099</b>
<b>Net deferred tax liability</b>	<b>(1,760,656)</b>	<b>272,421</b>	<b>(1,488,235)</b>

13. "Provisions, Contingent Liabilities and Contingent Assets" as per Accounting Standard 29

- a) Movement in provisions:

Particulars of disclosure	Sales tax
Balance as at April 1, 2005	Nil
Provision made during 2005-06	Rs. 4,000,000
Balance as at March 31, 2006	Rs. 4,000,000

Provision for sales tax pertains to claim made by the authorities on certain transaction of capital nature for the year 2002-03.

- b) There is no contingent liability.

**Schedules forming Part of Accounts****14. 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.

Assets acquired on finance lease comprise of servers. The minimum lease rentals and their present value as at March 31, 2006 in respect of assets acquired under finance lease are as follows:

	2005-06	Rupees 2004-05
Minimum Lease Payments		
- Payable not later than 1 year	5,577,652	3,826,902
- Payable after 1 year but not later than 5 years	5,860,017	7,171,218
Total	11,437,669	10,998,120
Less : future finance charges	1,622,372	1,530,178
	9,815,297	9,467,942
Present value of minimum lease payments		
- Payable not later than 1 year	4,608,443	2,973,551
- Payable after 1 year but not later than 5 years	5,206,854	6,494,391
Total	9,815,297	9,467,942

**Operating Leases**

The Company has taken employee used cars under non-cancellable operating leases. The rental expense in respect of operating leases was 27,626,294 (Rs. 27,022,515) and the future rentals payable are as follows:

	2005-06	Rupees 2004-05
Minimum lease payments		
- Payable not later than 1 year	38,975,397	29,157,949
- Payable after 1 year but not later than 5 years	93,613,687	69,944,863
Total	132,589,084	99,102,812

**15. 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
Larsen & Toubro Information Technology Canada Limited	100% subsidiary
Tractor Engineers Limited	Fellow subsidiary
L&T Finance Limited	Fellow subsidiary
L&T Infocity Ltd	Fellow subsidiary

## Schedules forming Part of Accounts

A summary of transactions with related parties is given below:

Transaction	Holding Co.	Subsidiaries	Rupees	
			Fellow	Subsidiaries
o Sale of services / products	112,588,323 (114,104,644)	126,389,086 (130,703,503)		2,807,500 (4,055,000)
o Purchase of goods and assets/ lease of assets	13,818,586 (13,523,053)	– –		3,618,921 (1,373,391)
o Sale of assets	16,022,420 –	– –		– –
o Purchase of services	544,680,202 (168,747,016)	30,081,021 (52,771,151)		– –
o Overheads charged by	123,450,280 (72,720,360)	– –		6,863,145 –
o Overheads charged to	26,112,985 (526,907)	– –		4,342,220 –
o Lease rent paid	– –	– –		35,603,131 (30,465,285)
o Interest / Dividend received	– –	– –		– –
o Interest / Dividend paid	150,473,558 (229,276,102)	– –		1,064,342 (1,441,044)
o Unsecured loan taken	55,000,000 –	– –		– –
o Trade receivable	– –	16,366,453 (78,627,732)		1,631,433 –
o Trade payable	382,710,924 (96,562,625)	– –		– (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.

### 16. SEGMENTAL REPORTING

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

	Rupees					Total
	USA	Europe	Asia Pacific	India	Rest of the World	
Revenue	5,341,376,202 (3,543,100,525)	1,308,808,937 (1,074,210,307)	882,187,214 (692,799,929)	316,602,371 (249,686,813)	84,782,673 (29,142,374)	7,933,757,397 (5,588,939,948)

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.

LARSEN & TOUBRO INFOTECH LIMITED

***Schedules forming Part of Accounts***

17. 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.
  18. 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, 2006.
  19. Previous year's figures have been regrouped, wherever necessary, to conform to classifications of the current year.
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LARSEN & TOUBRO INFOTECH LIMITED

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

Name of the subsidiary company:  Financial year of the subsidiary company ended on:	Larsen & Toubro Infotech GmbH 31/3/2006	Larsen & Toubro Information Technology Canada Ltd 31/3/2006
Number of Shares in the subsidiary company held by Larsen & Toubro Infotech Limited at the above date	1	100
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 March 31, 2006	Nil	Nil
(b) for previous financial years of the subsidiary since it became subsidiary of Larsen & Toubro Infotech Limited	Euro 600,000	Not Applicable
(ii) Not dealt with in the accounts of Larsen & Toubro Infotech Limited amounted to:		
(a) for the subsidiary's financial year ended March 31, 2006	Euro 70,658	(CAD 91,482)
(b) for previous financial years of the subsidiary since it became subsidiary of Larsen & Toubro Infotech Limited.	Euro 493,583	(CAD 14,390)
Changes in the interest of Larsen & Toubro Infotech Limited between the end of the subsidiary's financial year and March 31, 2006		
Number of shares acquired	Nil	Nil
Material changes between the end of the subsidiary's financial year and March 31, 2006	Not applicable	Not applicable
<p><b>S S PRABHUDESAI</b> Company Secretary</p>	<p><b>Y M DEOSTHALEE</b>  <b>V K MAGAPU</b></p>	<p>Director  Director / Manager</p>
<p>Place : Mumbai Date : May 3, 2006</p>		