

- the shares are purchased with the permission of the custodian to the ADS offering of the Indian company and are deposited with the custodian;
- the shares purchased for conversion into ADSs do not exceed the number of shares that have been released by the custodian pursuant to conversions of ADSs into equity shares under the Depositary Agreement; and
- a non-resident investor, broker, the custodian and the Depositary comply with the provisions of the 1993 Regulations and any related guidelines issued by the Central Government from time to time.

Second, the amendment to the regulations permit an issuer in India to sponsor the issue of ADSs through an overseas depository against underlying equity shares accepted from holders of its equity shares in India for offering outside of India. The sponsored issue of ADSs is possible only if the following conditions are satisfied:

- the price of the offering is determined by the managing underwriters of the offering;
- the ADS offering is approved by the FIPB;
- the ADS offering is approved by a special resolution of the shareholders of the issuer in a general meeting;
- the facility is made available to all the equity shareholders of the issuer;
- the proceeds of the offering are repatriated into India within one month of the closing of the offering;
- the sales of the existing equity shares are made in compliance with the Foreign Direct Investment Policy (as described above) in India;
- the number of shares offered by selling shareholders are subject to limits in proportion to the existing holdings of the selling shareholders when the offer is oversubscribed; and
- the offering expenses do not exceed 7% of the offering proceeds and are paid by shareholders on a pro-rata basis.

The issuer is also required to furnish a report to the RBI specifying the details of the offering, including the amount raised through the offering, the number of ADSs issued, the underlying shares offered and the percentage of equity in the issuer represented by the ADSs.

#### **Transfer of ADSs and Surrender of ADSs**

A person resident outside India may transfer the ADSs held in Indian companies to another person resident outside India without any permission. An ADS holder is permitted to surrender the ADSs held by him in an Indian company and to receive the underlying equity shares under the terms of the Deposit Agreement. Under Indian regulations, the re-deposit of these equity shares with the Depositary for ADSs may not be permitted.

#### **Government of India Approvals**

Pursuant to the RBI's regulations relating to sponsored ADS offerings, an issuer in India can sponsor the issue of ADSs through an overseas depository against underlying equity shares accepted from holders of its equity shares in India. The guidelines specify, among other conditions, that:

- the ADSs must be offered at a price determined by the lead manager of such offering;
- all equity holders may participate;
- the issuer must obtain special shareholder approval; and
- the proceeds must be repatriated to India within one month of the closure of the issue.

### **TAXATION**

#### **Indian Taxation**

**General.** The following summary is based on the law and practice of the Income-tax Act, 1961, or Income-tax Act, including the special tax regime contained in Sections 115AC and 115ACA of the Income-tax Act read with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depositary Receipt Mechanism) Scheme, 1993, or the Scheme, as amended on January 19, 2000. The Income-tax Act is amended every year by the Finance Act of the relevant year. The Finance Bill, 2007, which is pending before the Indian Parliament, has proposed certain amendments to the Income Tax Act. Some or all of the tax consequences of Sections 115AC and 115ACA may be amended or changed by future amendments to the Income-tax Act.

We believe this information is materially complete as of the date hereof. However, this summary is not intended to constitute a complete analysis of the individual tax consequences to non-resident holders or employees under Indian law for the acquisition, ownership and sale of ADSs and equity shares.

#### **EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISORS WITH RESPECT TO INDIAN AND LOCAL TAX CONSEQUENCES OF ACQUIRING, OWNING OR DISPOSING OF EQUITY SHARES OR ADSs.**

**Residence.** For purposes of the Income-tax Act, an individual is considered to be a resident of India during any fiscal year if he or she is in India in that year for a period or periods amounting to at least 182 days; or at least 60 days and, within the four preceding years has been in India for a period or periods amounting to at least 365 days.

The period of 60 days referred to above shall be read as 182 days (i) in case of a citizen of India who leaves India in a previous year for the purposes of employment outside of India or (ii) if a citizen of India or a person of Indian origin living abroad who visits India and within the four preceding years has been in India for a period or periods amounting to 365 days or more.

A company is a resident of India if it is incorporated in India or the control and the management of its affairs is situated wholly in India. Individuals and companies that are not residents of India would be treated as non-residents for purposes of the Income-tax Act.

**Taxation of Distributions.** Since April 1, 2003, dividend income is exempt from tax for shareholders. Domestic companies are currently liable to pay a dividend distribution tax at the rate of 13.75% including a surcharge on the total amount distributed as dividend. Additionally, an education cess is levied at the rate of 2% of such tax and surcharge after which the dividend distribution tax payable would be 14.03%. The Finance Bill, 2007 has proposed to increase the tax rate on dividends distributed by domestic companies to 15% and the rate of education cess to 3%. A revised dividend distribution tax of 16.995% is therefore expected to take effect with retrospective effect from April 1, 2007 once the Finance Bill, 2007 is enacted. Any distributions of additional ADSs or equity shares to resident or non-resident holders will not be subject to Indian tax.

**Minimum Alternate Tax.** The Indian Government had introduced Section 115JA to the Income Tax Act which came into effect in April 1, 1997, to bring certain zero tax companies under the ambit of a Minimum Alternative Tax, or MAT. If the taxable income of a company computed under this Act, in respect of a previous year was less than 30% of its book profits, the total income of such company chargeable to tax for the relevant previous year shall be deemed to be an amount equal to 30% of such book profits. Effective April 1, 2001, Finance Act, 2000 introduced Section 115JB, pursuant to which the income of companies eligible for tax holiday under sections 10A or 10B of the Act was exempted from MAT. The amount of income to which any of the provisions of section 10A or section 10B apply, was reduced from the book profit for the purposes of calculation of income tax payable under the aforesaid section. The Finance Bill, 2007 has proposed to include income eligible for deductions under sections 10A and 10B of the Act in the computation of book profits for the levy of MAT. The rate of MAT for domestic companies, effective April 1, 2007, would be 11.33% (including a surcharge and education cess) on the book profits. The Income tax Act provides that the MAT paid by the companies can be adjusted against its tax liability over the next five years.

**Fringe Benefits Tax.** The Finance Bill, 2007 proposes to consider any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the company free of cost or at concessional rate to its employees for the purposes of a Fringe Benefits Tax, or FBT. The value of fringe benefit will be the fair market value, or FMV, of the specified security or share on the date of exercise of the option by the employee as reduced by the amount actually paid by, or recovered from the employee in respect of such security or share. This would be applicable for options exercised on or after April 1, 2007. The benefit subject to FBT is proposed to be considered the cost of acquisition for computing capital gains tax in the hands of the employee at the time of sale of specified securities.

**Taxation of Capital Gains.** The following is a brief summary of capital gains taxation of non-resident holders and resident employees relating to the sale of ADSs and equity shares received upon conversion of ADSs. The relevant provisions are contained mainly in sections 45, 47(viia), 115AC and 115ACA, of the Income-tax Act, in conjunction with the Scheme. Effective April 1, 2002, the Finance Act, 2001 introduced a new section 115AC in place of the prevailing section 115AC of the Income-tax Act. You should consult your own tax

advisor concerning the tax consequences of your particular situation.

Capital gains arising to a non-resident investor on the transfer of the shares (whether in India or outside India to a non-resident investor) will not be liable to income tax under the provisions of the Income Tax Act in certain circumstances. Shares (including shares issuable on the conversion of the ADSs) held by the non-resident investor for a period of more than 12 months are treated as long term capital assets. If the shares are held for a period of less than 12 months from the date of conversion, the capital gains arising on the sale thereof are to be treated as short term capital gains.

Capital gains are taxed as follows:

- gains from a sale of ADSs outside India by a non-resident to another non-resident are not taxable in India;
- long-term capital gains realized by a resident from the transfer of the ADSs will be subject to tax at the rate of 10% excluding the applicable surcharge and education cess; short-term capital gains on such a transfer will be taxed at graduated rates with a maximum of 30%, excluding the applicable surcharge and education cess;
- long-term capital gains realized by a non-resident upon the sale of equity shares obtained from the conversion of ADSs are subject to tax at a rate of 10% excluding the applicable surcharge and education cess; and short-term capital gains on such a transfer will be taxed at the maximum marginal rate of tax applicable to the seller, excluding surcharges and education cess, if the sale of such equity shares is settled off a recognized stock exchange; and
- long-term capital gain realized by a non-resident upon the sale of equity shares obtained from the conversion of ADSs is exempt from tax and any short term capital gain is taxed at 10% excluding the applicable surcharge and education cess, if the sale of such equity shares is settled on a recognized stock exchange and a Securities Transaction Tax, or STT (described below), is paid on such sale.

The rate of surcharge is currently 10% in the case of domestic companies and individuals whose taxable income is greater than Rs. 1,000,000. For foreign companies, the rate of surcharge is 2.5%.

Since June 1, 2006, with respect to a sale and purchase of equity shares entered into on a recognized stock exchange, (i) both the buyer and seller are required to pay a STT at the rate of 0.125% of the transaction value of the securities, if the transaction is a delivery based transaction, i.e. the transaction involves actual delivery or transfer of shares; (ii) the seller of the shares is required to pay a STT at the rate of 0.025% of the transaction value of the securities if the transaction is a non-delivery based transaction, i.e. a transaction settled without taking delivery of the shares.

Any resulting taxes may be offset by the applicable credit mechanism allowed under double tax avoidance agreements in the case of non-residents. The capital gains tax is computed by applying the appropriate tax rates to the difference between the sale price and the purchase price of the ADSs or equity shares. Under the Scheme, the purchase price of equity shares in an Indian listed company received in exchange for ADSs will be the market price of the underlying shares on the date that the Depository gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs, or the "stepped up" basis purchase price. The market price will be the price of the equity shares prevailing on the Bombay Stock Exchange Limited or the National Stock Exchange, as applicable. There is no corresponding provision under the Income-tax Act in relation to the "stepped up" basis for the purchase price of equity shares. However, the tax department in India has not denied this benefit. In the event that the tax department denies this benefit, the original purchase price of ADSs would be considered the purchase price for computing the capital gains tax.

According to the Scheme, a non-resident holder's holding period for the purposes of determining the applicable Indian capital gains tax rate relating to equity shares received in exchange for ADSs commences on the date of the notice of the redemption by the Depository to the custodian. However, the Scheme does not address this issue in the case of resident employees, and it is therefore unclear when the holding period for the purposes of determining capital gains tax commences for such a resident employee.

The Scheme provides that if the equity shares are sold on a recognized stock exchange in India against payment in Indian rupees, they will no longer be eligible for the preferential tax treatment.

It is unclear whether section 115AC and the Scheme are applicable to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon conversion of the ADSs.

It is unclear whether capital gains derived from the sale of subscription rights or other rights by a non-resident holder not entitled to an exemption under a tax treaty will be subject to Indian capital gains tax. If such subscription rights or other rights are deemed by the Indian tax authorities to be situated within India, the gains realized on the sale of such subscription rights or other rights will be subject to Indian taxation. The capital gains realized on the sale of such subscription rights or other rights, which will generally be in the nature of short-term capital gains, will be subject to tax at variable rates with a maximum rate of 40% excluding the applicable surcharge and education cess, in case of a foreign company, and 30% excluding the applicable surcharge and education cess, in case of resident employees, and non-resident individuals with taxable income over Rs. 250,000.

**Withholding Tax on Capital Gains.** Any taxable gain realized by a non-resident on the sale of ADSs or equity shares is to be withheld at the source by the buyer. However, as per the provisions of Section 196D(2) of the Income Tax Act, no withholding tax is required to be deducted from any income by way of capital gains arising to Foreign Institutional Investors as defined in Section 115AD of the Income Tax Act on the transfer of securities defined in Section 115 AD of the Income Tax Act.

**Buy-back of Securities.** Indian companies are not subject to any tax on the buy-back of their shares. However, the shareholders will be taxed on any resulting gains. We would be required to deduct tax at source according to the capital gains tax liability of a non-resident shareholder.

**Stamp Duty and Transfer Tax.** A transfer of ADSs is not subject to Indian stamp duty. A sale of equity shares in physical form by a non-resident holder will be subject to Indian stamp duty at the rate of 0.25% of the market value of the equity shares on the trade date, although customarily such tax is borne by the transferee. Shares must be traded in dematerialized form. The transfer of shares in dematerialized form is currently not subject to stamp duty.

**Wealth Tax.** The holding of the ADSs and the holding of underlying equity shares by resident and non-resident holders is not subject to Indian wealth tax. Non-resident holders are advised to consult their own tax advisors regarding this issue.

**Gift Tax and Estate Duty.** Currently, there are no gift taxes or estate duties. These taxes and duties could be restored in future. Non-resident holders are advised to consult their own tax advisors regarding this issue.

**Service Tax.** Brokerage or commission paid to stock brokers in connection with the sale or purchase of shares is subject to a service tax of 12%, excluding surcharges and education cess. The stock broker is responsible for collecting the service tax from the shareholder and paying it to the relevant authority.

#### **Material United States Federal Tax Consequences**

The following is a summary of the material US federal income and estate tax consequences that may be relevant with respect to the acquisition, ownership and disposition of equity shares or ADSs and is for general information only. This summary addresses the US federal income and estate tax considerations of holders that are US holders. US holders are beneficial holders of equity shares or ADSs who are citizens or residents of the United States, or corporations (or other entities treated as corporations for US federal tax purposes) created in or under the laws of the United States or any political subdivision thereof or therein, estates, the income of which is subject to US federal income taxation regardless of its source, and trusts for which a US court exercises primary supervision and a US person has the authority to control all substantial decisions. This summary is limited to US holders who will hold equity shares or ADSs as capital assets. In addition, this summary is limited to US holders who are not resident in India for purposes of the Convention Between the Government of the United States of America and the Government of the Republic of India for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income. If a partnership holds the equity shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership holding equity shares or ADSs should consult his, her or its own tax advisor.

This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, financial institutions, dealers in securities or currencies, tax-exempt entities, persons that will hold equity shares or ADSs as a position in a 'straddle' or as part of a 'hedging' or 'conversion' transaction for tax purposes, persons that have a 'functional currency' other than the US dollar or holders of 10% or more, by voting power or value, of the shares of our company. This

summary is based on the tax laws of the United States as in effect on the date of this Annual Report and on United States Treasury Regulations in effect or, in some cases, proposed, as of the date of this Annual Report, as well as judicial and administrative interpretations thereof available on or before such date, and is based in part on the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

**EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISOR WITH RESPECT TO THE US FEDERAL, STATE, LOCAL AND NON-US TAX CONSEQUENCES OF ACQUIRING, OWNING OR DISPOSING OF EQUITY SHARES OR ADSs.**

**Ownership of ADSs.** For US federal income tax purposes, holders of ADSs will be treated as the holders of equity shares represented by such ADSs.

**Dividends.** Except for ADSs or equity shares, if any, distributed pro rata to all shareholders of our company, including holders of ADSs, the gross amount of any distributions of cash or property with respect to ADSs or equity shares (before reduction for any Indian withholding taxes) generally will be included in income by a US holder as foreign source dividend income at the time of receipt, which in the case of a US holder of ADSs generally should be the date of receipt by the Depositary, to the extent such distributions are made from the current or accumulated earnings and profits (as determined under US federal income tax principles) of our company. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate US holders. To the extent, if any, that the amount of any distribution by our company exceeds our company's current and accumulated earnings and profits (as determined under US federal income tax principles) such excess will be treated first as a tax-free return of the US holder's tax basis in the equity shares or ADSs and thereafter as capital gain.

Subject to certain limitations, dividends paid to non-corporate US holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a 'qualified foreign corporation' for United States federal income tax purposes. A qualified foreign corporation includes a foreign corporation if (1) its shares (or, according to legislative history, its ADSs) are readily tradable on an established securities market in the United States or (2) it is eligible for the benefits under a comprehensive income tax treaty with the United States. In addition, a corporation is not a qualified foreign corporation if it is a passive foreign investment company (as discussed below). The ADSs are traded on the Nasdaq Global Select Market. Due to the absence of specific statutory provisions addressing ADSs, however, there can be no assurance that we are a qualified foreign corporation solely as a result of our listing on Nasdaq. Nonetheless, we may be eligible for benefits under the comprehensive income tax treaty between India and the United States. The reduced rate of taxation will not apply to dividends received in taxable years beginning after December 31, 2010. Each US holder should consult its own tax advisor regarding the treatment of dividends and such holder's eligibility for a reduced rate of taxation.

Subject to certain conditions and limitations, any Indian withholding tax imposed upon distributions paid to a US holder with respect to ADSs or equity shares should be eligible for credit against the US holder's federal income tax liability. Alternatively, a US holder may claim a deduction for such amount, but only for a year in which a US holder does not claim a credit with respect to any foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, distributions on ADSs or ordinary shares generally will be 'passive category income' or 'general category income' for purposes of computing the United States foreign tax credit allowable to a US holder.

If dividends are paid in Indian rupees, the amount of the dividend distribution included in the income of a US holder will be in the US dollar value of the payments made in Indian rupees, determined at a spot exchange rate between Indian rupees and US dollars applicable to the date such dividend is included in the income of the US holder, regardless of whether the payment is in fact converted into US dollars. Generally, gain or loss, if any, resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into US dollars will be treated as US source ordinary income or loss.

**Sale or exchange of equity shares or ADSs.** A US holder generally will recognize gain or loss on the sale or exchange of equity shares or ADSs equal to the difference between the amount realized on such sale or exchange and the US holder's tax basis in the equity shares or ADSs, as the case may be. Such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the equity shares or ADSs, as the case may be, were held for more than one year. Gain or loss, if any, recognized by a US holder generally will be treated as US source passive category income or loss for US foreign tax credit purposes. Capital gains realized by a US holder upon the sale of equity shares (but not ADSs) may be subject to certain tax in India. See 'Taxation - Indian Taxation - Taxation of Capital Gains.' Due to limitations on foreign tax credits, however, a US holder may not be able to utilize any such taxes as a credit against the US holder's federal income tax liability.

**Estate taxes.** An individual shareholder who is a citizen or resident of the United States for US federal estate tax purposes will have the value of the equity shares or ADSs held by such holder included in his or her gross estate for US federal estate tax purposes. An individual holder who actually pays Indian estate tax with respect to the equity shares will, however, be entitled to credit the amount of such tax against his or her US federal estate tax liability, subject to a number of conditions and limitations.

**Backup withholding tax and information reporting requirements.**

Any dividends paid, or proceeds on a sale of, equity shares or ADSs to or by a US holder may be subject to US information reporting, and a backup withholding tax (currently at a rate of 28%) may apply unless the holder is an exempt recipient or provides a US taxpayer identification number, certifies that such holder is not subject to backup withholding and otherwise complies with any applicable backup withholding requirements. Any amount withheld under the backup withholding rules will be allowed as a refund or credit against the holder's US federal income tax, provided that the required information is furnished to the Internal Revenue Service.

**Passive foreign investment company.**

A non-US corporation generally will be classified as a passive foreign investment company for US federal income tax purposes if either:

- 75% or more of its gross income for the taxable year is passive income; or
- on average for the taxable year by value, or, if it is not a publicly traded corporation and so elects, by adjusted basis, if 50% or more of its assets produce or are held for the production of passive income.

We do not believe that we satisfy either of the tests for passive foreign investment company status for the fiscal year ending March 31, 2007. Since this determination is made on an annual basis, however, no assurance can be given that we will not be considered a passive foreign investment company in future taxable years. If we were to be a passive foreign investment company for any taxable year, US holders would be required to either:

- pay an interest charge together with tax calculated at ordinary income rates on 'excess distributions,' as the term is defined in relevant provisions of the US tax laws and on any gain on a sale or other disposition of equity shares;
- if a 'qualified electing fund election' (as the term is defined in relevant provisions of the US tax laws) is made, include in their taxable income their pro rata share of undistributed amounts of our income; or
- if the equity shares are 'marketable' and a mark-to-market election is made, mark-to-market the equity shares each taxable year and recognize ordinary gain and, to the extent of prior ordinary gain, ordinary loss for the increase or decrease in market value for such taxable year.

If we are treated as a passive foreign investment company, we do not plan to provide information necessary for the 'qualified electing fund' election.

**THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF EQUITY SHARES OR ADSs. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR CONCERNING THE TAX CONSEQUENCES TO YOU BASED ON YOUR PARTICULAR SITUATION.**

**DOCUMENTS ON DISPLAY**

This report and other information filed or to be filed by Infosys Technologies Limited can be inspected and copied at the public reference facilities maintained by the SEC at:

Judiciary Plaza  
450 Fifth Street, N.W.  
Public Reference Room  
Washington, D.C. 20549

Copies of these materials can also be obtained from the Public Reference Section of the SEC, 450th Street, N.W. Washington, D.C. 20549,