INSIGNIA FINANCIAL GROUP INC /DE/
Form 10-Q
May 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to ________

Commission File Number 1-14373

INSIGNIA FINANCIAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	56-2084290
(State of Incorporation)	(I.R.S. Employer Identification No.)
200 PARK AVENUE, NEW YORK, NEW YORK	10166
(Address of Principal Executive Offices)	(Zip Code)

(212) 984-8033
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

At May 1, 2003 the Registrant had 24,066,134 shares of common stock outstanding.

INSIGNIA FINANCIAL GROUP, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2003

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

INSIGNIA FINANCIAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

	THREE MONTHS MARCH 31	
	2003	
REVENUES		
Real estate services	$ 130,479	$
Property operations	2,300	
Equity (loss) earnings in unconsolidated ventures	(3,081)	

	129,698
COSTS AND EXPENSES	
Real estate services	132,975
Property operations	1,936
Administrative	4,830
Depreciation	3,427
Property depreciation	387
Amortization of intangibles	611
	144,166
Operating (loss) income	(14,468)
OTHER INCOME AND EXPENSES:	
Interest income	913
Interest expense	(1,926)
Other (expense) income	(74)
Property interest expense	(415)
Loss from continuing operations before income taxes	(15,970)
Income tax benefit	7,757
Loss from continuing operations	(8,213)
Discontinued operations, net of applicable taxes:	
(Loss) income from operations	(324)
Income on disposal	3,763
Loss before cumulative effect of a change in accounting principle	(4,774)
Cumulative effect of a change in accounting principle, net of applicable taxes	-
Net loss	(4,774)
Preferred stock dividends	(797)
Net loss available to common shareholders	$ (5,571)

INSIGNIA FINANCIAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
(In thousands, except per share data)
(Unaudited)

	THREE MONTHS E MARCH 31,	
	2003	
PER SHARE AMOUNTS:		
Earnings (loss) per common share - basic:		
Loss from continuing operations	$ (0.39)	$
Income from discontinued operations	0.15	
Cumulative effect of a change in accounting principle	-	
Net loss	$ (0.24)	$
Earnings (loss) per common share - diluted:		
Loss from continuing operations	$ (0.39)	$
Income from discontinued operations	0.15	
Cumulative effect of a change in accounting principle	-	
Net loss	$ (0.24)	$
Weighted average common shares and assumed conversions:		
- Basic and diluted	23,350	

See Notes to Condensed Consolidated Financial Statements.

INSIGNIA FINANCIAL GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	MARCH 31, 2003 (Unaudite
ASSETS	
Cash and cash equivalents	$ 71,716
Receivables, net	140,647
Restricted cash	24,621
Property and equipment, net	42,404
Real estate investments, net	130,881
Goodwill	253,417
Acquired intangible assets, less accumulated amortization of $55,293 (2003) and $65,276 (2002)	5,093
Deferred taxes	49,003
Other assets, net	29,723

Total assets	$ 747,505
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Accounts payable	$ 10,932
Commissions payable	45,762
Accrued incentives	13,672
Accrued and sundry	118,142
Deferred taxes	15,630
Notes payable	59,464
Real estate mortgage notes	71,903
Total liabilities	335,505
Stockholders' Equity:	
Common stock, par value $.01 per share - authorized 80,000,000 shares, 23,743,962 (2003) and 23,248,242 (2002) issued and outstanding shares, net of 1,502,600 (2003 and 2002) shares held in treasury	237
Preferred stock, par value $.01 per share - authorized 20,000,000 shares, Series A, 250,000 (2003 and 2002) and Series B, 125,000 (2003 and 2002) issued and outstanding shares	4
Additional paid-in capital	440,954
Notes receivable for common stock	(1,079)
Accumulated deficit	(21,812)
Accumulated other comprehensive loss	(6,304)
Total stockholders' equity	412,000
Total liabilities and stockholders' equity	$ 747,505

NOTE: The Balance Sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States ("GAAP") for complete financial statements.

See Notes to Condensed Consolidated Financial Statements.

INSIGNIA FINANCIAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

THRE

2003

OPERATING ACTIVITIES	
Loss from continuing operations	$ (8,213)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:	
Depreciation and amortization	4,425
Equity loss (earnings) in unconsolidated ventures	3,081
Changes in operating assets and liabilities:	
Accounts receivable	12,195
Other assets	961
Accrued incentives	(35,625)
Accounts payable and accrued expenses	1,127
Commissions payable	(17,648)
Net cash used in operating activities	(39,697)
INVESTING ACTIVITIES	
Additions to property and equipment, net	(1,983)
Distribution proceeds from sale of real estate investments	4,462
Proceeds from sale of discontinued operations	66,750
Investment in real estate	(3,271)
Increase in restricted cash	(3,540)
Net cash provided by investing activities	62,418
FINANCING ACTIVITIES	
Proceeds from issuance of common stock	207
Proceeds from exercise of stock options	3,071
Preferred stock dividends	(797)
Payment on notes payable	(67,000)
Payments on real estate mortgage notes	--
Proceeds from real estate mortgage notes	5,108
Net cash used in financing activities	(59,411)
Net cash (used in) provided by discontinued operations	(3,032)
Effect of exchange rate changes on cash	(75)
Net decrease in cash and cash equivalents	(39,797)
Cash and cash equivalents at beginning of period	111,513
Cash and cash equivalents at end of period	$ 71,716

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Business

Insignia Financial Group, Inc. ("Insignia" or the "Company"), a Delaware corporation headquartered in New York, New York, is a leading provider of international real estate and real estate financial services, with operations in the United States, United Kingdom, France, continental Europe, Asia and Latin America. Insignia's principal executive offices are located at 200 Park Avenue, New York, New York 10166, and its telephone number is (212) 984-8033.

Insignia's real estate service businesses offer a diversified array of services including commercial leasing, sales brokerage, corporate real estate consulting, property management, property development, re-development and real estate oriented financial services. In 2003, Insignia's primary real estate service businesses include the following: Insignia/ESG (United States, commercial real estate services), Insignia Richard Ellis (United Kingdom, commercial real estate services) and Insignia Bourdais (France, commercial real estate services; acquired in December 2001). Insignia also offers commercial real estate services throughout continental Europe, Asia and Latin America. Insignia's New York-based residential businesses - Insignia Douglas Elliman and Insignia Residential Group - were sold on March 14, 2003 (see further discussion under the caption "Discontinued Operations" in Note 7 of this Report).

Insignia enjoys a prominent position in the New York-London-Paris business center axis. New York, London and Paris each represent world financial capitals and key centers for international investment capital flows and business activity. These cities are prime generators of real estate activity on a worldwide basis. In addition to traditional real estate services, Insignia has historically deployed its own capital, together with the capital of third party investors, in principal real estate investments, including co-investment in existing property assets, real estate development and managed private investment funds. The Company's real estate service operations and principal real estate investment activities are more fully described below.

2. Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

3. Reclassifications

Certain amounts for the prior year have been reclassified to conform to the 2003 presentation. These reclassifications have no effect on reported net loss.

4. Significant Accounting Policies

Revenue Recognition

The Company's real estate service revenues are generally recorded when the related services are performed or at closing in the case of real estate sales.

Leasing commissions that are payable upon tenant occupancy, payment of rent or other events beyond the Company's control are recognized upon the occurrence of such events. As certain conditions to revenue recognition for leasing commissions are outside of the Company's control and are not clearly defined, judgment must be exercised in determining when such events have occurred. Revenues from tenant representation, agency leasing, investment sales and residential brokerage, which collectively comprise a substantial portion of Insignia's service revenues, are transactional in nature and therefore subject to seasonality and changes in

business and capital market conditions. As a consequence, the timing of transactions and resulting revenue recognition is difficult to predict.

Insignia's revenue from property management services is generally based upon percentages of the revenue generated by the properties that it manages. In conjunction with the provision of management services, the Company customarily employs personnel (either directly or on behalf of the property owner) to provide services solely to the properties managed. In most instances, Insignia is reimbursed by the owners of managed properties for direct payroll related costs incurred in the employment of property personnel. The aggregate amount of such payroll cost reimbursements has ranged from approximately $50.0 million to $60.0 million annually. Such payroll reimbursements are generally characterized in the Company's consolidated statements of operations as a reduction of actual expenses incurred. This characterization is based on the following factors: (i) the property owner generally has authority over hiring practices and the approval of payroll prior to payment by the Company; (ii) Insignia is the primary obligor with respect to the property personnel, but bears little or no credit risk under the terms of the management contract; (iii) reimbursement to the Company is generally completed simultaneously with payment of payroll or soon thereafter; and (iv) the Company generally earns no margin in the arrangement, obtaining reimbursement only for actual cost incurred.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates and assumptions are used in the evaluation and financial reporting for, among other things, bad debts, self-insurance liabilities, intangibles and investment valuations, deferred taxes and pension costs. Actual results could differ from those estimates under different assumptions or conditions.

Principles of Consolidation

Insignia's consolidated financial statements include the accounts of all majority-owned subsidiaries and all entities over which the Company exercises voting control. All significant intercompany balances and transactions have been eliminated. Entities in which the Company owns less than a majority interest and has substantial influence are recorded on the equity method of accounting (net of payments to certain employees in respect of equity grants or rights to proceeds).

Real Estate Investments

Insignia has invested in real estate assets and real estate related debt securities. Generally, the Company's investment strategy involves identifying investment opportunities and investing as a minority owner in entities formed to acquire such assets. The Company's minority-owned investments are generally accounted for under the equity method of accounting due to the Company's influence over the operational decisions made with respect to the real estate entities. The Company's portion of earnings in these real estate entities is reported in equity earnings in unconsolidated ventures in its consolidated statements of operations, including gains on sales of property and net of impairments. The Company's share of unrealized gains on marketable equity and debt securities available for sale is reported as a component of other comprehensive income (loss), net of tax. Income from dispositions of minority-owned development assets is reported in real estate services revenues in the Company's consolidated statements of operations. The Company's policy with respect to the timing of recognition of promoted profit participation interests in its real estate investments is to record such amounts upon collection.

Each entity in which the Company holds a real estate investment is a special purpose entity, the assets of which are subject to the obligations only of that entity. Each entity's debt, except for limited and specific guarantees and other commitments aggregating $14.0 million at March 31, 2003, is either (i) non-recourse except to the real estate assets of the subject entity (subject to limited exceptions standard in such non-recourse financing, including the misapplication of rents or environmental liabilities), or (ii) an obligation solely of such limited liability entity and thus having no recourse to other assets of the Company.

The Company provides real estate services to and receives real estate service fees from the entities comprising its principal investment activities. Such fees are generally derived from the following services: (i) property management, (ii) asset management, (iii) development management, (iv) investment management, (v) leasing, (vi) acquisition, (vii) sales and (viii) financings. With respect to fees that are currently recorded as expense by the entities, the Company includes the fees in current income, while its share as owner of such fee is reflected in the

7

income or loss from the investment entity. If the fee is capitalized by the investment entity, the Company records as income only the portion of the fee attributable to third party ownership and defers the portion attributable to its ownership.

The Company evaluates its real estate investments on a quarterly basis for evidence of impairment. Impairment losses are recognized whenever events or changes in circumstances indicate declines in value of such investments below carrying value and the related undiscounted cash flows are not sufficient to recover the asset's carrying amount. Generally, Insignia relies upon the expertise of its own property professionals to assess real estate values; however, in certain circumstances where Insignia considers its expertise limited with respect to a particular investment, third party valuations may also be obtained. Property valuations and estimates of related future cash flows are by nature subjective and will vary from actual results. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements, which could differ materially from actual results in future periods.

Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, provides accounting guidance for financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires, in most cases, that gains/losses from dispositions of investment properties and all earnings from such properties be reported as "discontinued operations." SFAS No. 144 is silent with respect to treatment of gains or losses from sales of investment property held in a joint venture. The Company has concluded that, as a matter of policy, all gains and losses realized from sales of minority owned property in its real estate co-investment program constitute earnings from a continuing line of business. Therefore, operating activity related to that investment program continues to be included in income (loss) from continuing operations. However, SFAS No. 144 requires that gains or losses from sales of consolidated properties, if material, be reported as discontinued operations. As a result, the Company's earnings from dispositions of consolidated properties would be excluded from reported income from continuing operations and included in discontinued operations, if material.

Consolidated Real Estate

At March 31, 2003, the Company consolidated three investment entities owning real estate property. These consolidated properties include a wholly-owned retail property, a wholly-owned marina-based development property and a minority-owned residential property consolidated due to general partner control. Rental revenues attributable to the Company's consolidated property operations are recognized when earned. Real estate is stated at depreciated cost. The cost of buildings and improvements include the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development property are capitalized and include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

Development Activities

At March 31, 2003, the Company held minority investments in four office properties whose development the Company has directed. A variety of costs have been incurred in the development and leasing of these properties. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development.

After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. The Company's capitalization policy on its development properties is guided by SFAS No. 34, Capitalization of Interest Costs, and SFAS No. 67, Accounting for Costs and the Initial Rental Operations of Real Estate Properties. The Company ceases capitalization when a property is held available for occupancy upon substantial completion of tenant improvements.

Foreign Currency

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. The British pound and euro represent the only foreign currencies of material operations, which collectively generated approximately 29% of the Company's service revenues for the quarter ended March 31, 2003. All currencies other than the British pound, euro and U.S. dollar have historically comprised less than 1% of Insignia's annual revenues. Revenues and expenses of all foreign subsidiaries have been translated into U.S. dollars at the average exchange rates prevailing during the periods. Assets and liabilities have been translated at the rates of

exchange at the balance sheet dates. Translation gains and losses are deferred as a separate component of stockholders' equity in accumulated other comprehensive income (loss), unless there is a sale or complete liquidation of the underlying foreign investment. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statements of operations in determining net income.

For the three months ended March 31, 2003 and 2002, respectively, European operations were translated to U.S. dollars at average exchange rates of $1.60 and $1.43 to the British pound and $1.07 and $0.87 to the euro, respectively. The assets and liabilities of the Company's European operations have been translated at exchange rates of $1.57 to the British pound and $1.08 to the euro at March 31, 2003, and were translated at exchange rates of $1.60 to the British pound and $1.05 to the euro at December 31, 2002.

Stock-Based Compensation

At March 31, 2003, the Company had four stock-based employee compensation plans. Prior to 2002, the Company accounted for those plans under the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations. Under APB Opinion No. 25, no compensation expense is recognized when the exercise price of an employee stock option equals or exceeds the market price at issuance. Effective January 1, 2002, the Company adopted the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation, prospectively to all employee awards granted, modified or settled after January 1, 2002. Insignia does not expense the value of outstanding options issued before January 1, 2002.

Awards under the Company's plans vest over five years. The cost related to stock-based employee compensation included in the determination of loss from continuing operations and net loss for the first quarters of 2003 and 2002 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS 123. The following table illustrates the pro forma effect on net income and earnings per share, for the periods indicated, as if the fair value based method had been applied to all outstanding awards in each period. The Company's pro forma information follows:

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
PRO FORMA:		
Loss from continuing operations	$ (8,374)	$ (1,492)
Net loss	(4,935)	(21,369)
PER SHARE AMOUNTS:		
Pro forma earnings per share - basic:		
Loss from continuing operations	$ (0.39)	$ (0.08)
Net loss	(0.25)	(0.94)
Pro forma earnings per share - assuming dilution:		
Loss from continuing operations	(0.39)	(0.08)
Net loss	$ (0.25)	$ (0.94)

The pro forma information has been determined as if the Company had accounted for its employee stock options, warrants and unvested restricted stock awards granted under the fair value method with fair values estimated at the date of grant using a Black-Scholes option-pricing model. Insignia did not grant any option awards during the three months ended March 31, 2003. Fair value estimates for the three months ended March 31, 2002 were based on the following weighted-average assumptions:

Risk-free interest rate	2.5%
Dividend yield	N/A
Volatility factors of the expected market price	0.45
Weighted-average expected life of the options (in years)	3.9

The Black-Scholes option valuation model was developed for use in estimating the fair value of transferable options and warrants with no vesting restrictions. This method requires the input of subjective assumptions

including the expected stock price volatility and weighted average expected life of the options. The Company's employee stock options have characteristics significantly different from those of transferable options and changes in the subjective input assumptions can materially affect the value estimate. The Black-Scholes model is not the only reliable measure that could be used to determine the fair value of employee stock options. The Company believes that any and all valuations of employee stock options will necessarily be estimates.

5. Seasonality

Seasonal factors affecting the Company are disclosed in Item 2 of this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Nature of Operations."

6. CB Richard Ellis Merger Agreement

On February 17, 2003, Insignia entered into an Agreement and Plan of Merger (the "Merger Agreement") with CBRE Holding, Inc., CB Richard Ellis Services, Inc. ("CB") and Apple Acquisition Corp., a wholly owned subsidiary of CB, pursuant to which, upon the terms and subject to the conditions set forth therein, including the approval of Insignia's stockholders, Apple Acquisition Corp. will be merged with and into Insignia (the "Merger"), with Insignia being the surviving corporation in the Merger and becoming a wholly owned subsidiary of CB. The Merger Agreement provides that Insignia's Certificate of Incorporation and the Bylaws of Apple Acquisition Corp. will be the Certificate of Incorporation and the Bylaws, respectively, of the surviving corporation. Under the Merger Agreement, at closing each share of common stock, par value $0.01 per share, of Insignia (the "Common Stock") will be converted into the right to receive $11.00 per share in cash (the "Common Merger Consideration"). In addition, Insignia has the right, but not the obligation, to sell certain real estate assets (excluding assets of the service businesses) prior to the closing of the Merger. If Insignia receives more than a specified amount of cash net proceeds (generally $45.0 million, net of expenses, plus any amounts contributed or transferred to the entities holding these assets between February 17, 2003 and the closing of the Merger) for these assets, the excess net cash proceeds will be paid to holders of Common Stock, options, warrants and unvested restricted stock as additional Common Merger Consideration, up to an additional $1.00 per share of Common Stock. Additional Common Merger Consideration above $11.00 per share will be determined based on a denominator of approximately 26,500,000 common shares, options, warrants and unvested restricted stock. As a result, excess net cash proceeds of approximately $6.6 million over the specified amount would be required for each additional $0.25 increment of Common Merger Consideration. Total net cash proceeds from asset sales necessary to achieve the maximum $1.00 of additional Common Merger Consideration would approximate $71.5 million.

The Merger Agreement further provides that all of Insignia's directors will resign immediately prior to the completion of the Merger. Following the Merger, Insignia will cease to be a reporting company under the Securities Exchange Act of 1934, as amended, and its Common Stock will cease to be traded on the New York Stock Exchange. Consummation of the Merger requires approval by Insignia's shareholders, CB's receipt of equity and debt financing, the receipt of regulatory approvals and other customary closing conditions. In connection with the Merger Agreement, several members of senior management of Insignia (who collectively own approximately 6.4% of voting shares) entered into Voting Agreements with CB and Insignia (the "Voting Agreements"), pursuant to which these individuals agreed to vote their shares in favor of approving the Merger Agreement, the Merger and the other transactions contemplated by the Merger and the Merger Agreement and to vote their shares against any acquisition proposal from a third-party.

In the first quarter of 2003, Insignia sold two minority-owned real estate assets in the ordinary course of business and continues to consider or explore potentially selling certain other existing real estate investments, as permitted by the Merger Agreement, in an effort to provide additional Common Merger Consideration to the holders of Common Stock, options, warrants and unvested restricted stock. In the event the Merger is consummated, there can be no assurance that the Company will have been able to sell certain real estate assets for aggregate net cash proceeds in excess of the amount required (generally $45.0 million, subject to increase) and which would be necessary to increase the Common Merger Consideration to more than $11.00 per share.

7. Discontinued Operations

On March 14, 2003, Insignia completed the sale of its New York-based residential businesses, Insignia Residential Group and Insignia Douglas Elliman, to Montauk Battery Realty. Montauk Battery Realty is located on Long Island, New York and its principal owners are New Valley Corp. and Dorothy Herman, chief executive officer of Prudential Long Island Realty. The total purchase price of $71.75 million was paid or is payable as follows: (i)

$66.75 million paid in cash to Insignia at the closing of the transaction; (ii) $500,000 in cash held in escrow on the closing date and up to another $500,000 held in escrow pending receipt of specified commissions; and (iii) the assumption by the buyer of up to $4.0 million in existing contingent earn-out payment obligations of Insignia Douglas Elliman. The escrowed amounts are available to secure Insignia's indemnity obligations under the purchase and sale agreement. Any amounts remaining in escrow on March 14, 2004 and not securing previously made indemnity claims will be released to Insignia.

Insignia Douglas Elliman, founded in 1911 and acquired by Insignia in June 1999, provides sales and rental services in the New York City residential cooperative, condominium and rental apartment market. Insignia Douglas Elliman also operates in upscale suburban markets in Long Island (Manhasset, Locust Valley and Port Washington/Sands Point). Insignia Douglas Elliman has approximately 950 employees, including 830 brokers, in 12 offices in the New York City area. Insignia Residential Group provides property management services. It operates the largest manager of cooperative, condominium and rental apartments in the New York metropolitan area, providing full service third-party fee management for more than 250 properties, comprising approximately 60,000 residential units. These residential businesses collectively produced service revenues in 2002, 2001 and 2000 of $133.7 million, $119.2 million and $134.1 million, respectively.

During the first quarter of 2003, Insignia recognized a net gain of approximately $3.8 million (net of $4.7 million of applicable income taxes) in connection with the sale of its residential businesses. These businesses also generated an operating loss of $324,000 on revenues of $20.5 million during the first quarter of 2003. The gain on sale and operating loss are reported as discontinued operations for financial reporting purposes. During the first quarter of 2002 these businesses generated operating income of approximately $493,000 on revenues of $27.3 million. Also, during the first quarter of 2002, Insignia recognized income on disposal of $265,000 (net of applicable taxes of $1.8 million) related to the sale of Realty One, the Company's former single-family home brokerage business. The operations and income on disposal for these businesses have been reported as discontinued operations in the first quarter of 2002.

The following tables summarize the aggregate assets and liabilities of Insignia Douglas Elliman and Insignia Residential Group at December 31, 2002 and the results of operations and income on disposal attributed to Insignia Douglas Elliman (2003), Insignia Residential Group (2003) and Realty One (2002) for the three months ended March 31, 2003 and 2002, respectively.

	DECEMBER 31, 2002
	(In thousands)
ASSETS	
Cash and cash equivalents	$ 66
Receivables	2,479
Property and equipment	11,766
Goodwill	34,117
Acquired intangible assets	11,999
Deferred taxes	3,365
Other assets	2,177
Assets of discontinued operations	65,969
LIABILITIES	
Accounts payable	2,535
Commissions payable	564
Accrued incentives	3,027
Accrued and sundry liabilities	3,256
Deferred taxes	789
Liabilities of discontinued operations	10,171
Net assets	$ 55,798

	THREE MONTHS ENDED MARCH 31, 2003	2002
	(In thousands)	
Revenues	$ 20,517	$ 27

(Loss) income from operations, net of tax benefit of $248 (2003) and tax expense of $438 (2002)	(324)	
Income on disposal, net of applicable tax expense of $4,741 (2003), and $1,809 (2002)	3,763	
Net income	$ 3,439	$

8. Goodwill and Intangible Assets

The table below reconciles the change in the carrying amount of goodwill, by operating segment, for the period from December 31, 2002 to March 31, 2003.

	COMMERCIAL	RESIDENTIAL	TOTAL
		(In thousands)	
BALANCE AS OF DECEMBER 31, 2002	$ 255,444	$ 34,117	$ 28
Adjustment for discontinued operations	-	(34,117)	(3
	255,444	-	25
Other adjustments to purchase consideration	(337)	-	
Foreign currency translation	(1,690)	-	(
BALANCE AS OF MARCH 31, 2003	$ 253,417	$ -	$ 25

The following tables present certain information on the Company's acquired intangible assets as of March 31, 2003 and December 31, 2002, respectively.

ACQUIRED INTANGIBLE ASSETS	WEIGHTED AVERAGE AMORTIZATION PERIOD	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET B
			(In thousands)	
AS OF MARCH 31, 2003				
Property management contracts	5 years	$ 52,644	$ 51,418	$
Favorable premises leases	11 years	2,520	202	
Other	3 years	5,222	3,673	
Total		$ 60,386	$ 55,293	$
AS OF DECEMBER 31, 2002				
Property management contracts	7 years	$ 72,883	$ 60,081	$ 1
Favorable premises leases	8 years	4,831	1,667	
Other	3 years	5,173	3,528	

Total	$ 82,887	$ 65,276	$ 1

All intangible assets are being amortized over their estimated useful lives with no residual value. Intangibles included in "Other" consist of customer backlog, non-compete agreements, franchise agreements and trade names. The aggregate acquired intangible amortization expense for the three months ended March 31, 2003 and 2002 totaled $611,000 and $1.5 million, respectively. This decline in amortization is attributed to property management contracts and customer backlog that were fully amortized in 2002. Amortization of favorable premises leases, totaling approximately $77,000 and $62,000 for the three months ended March 31, 2003 and 2002, respectively, is included in rental expense (included in real estate services expenses) in the Company's condensed consolidated statements of operations.

The estimated acquired intangible amortization expense, including amounts reflected in rental expense, for the fiscal year ending December 31, 2003 and for the subsequent four fiscal years through December 31, 2007 approximates $2.0 million, $700,000, $400,000, $250,000 and $150,000, respectively.

9. Real Estate Investments

Insignia, through Insignia Financial Services, has historically invested in real estate assets and real estate debt securities. Insignia has engaged in real estate investment generally through: (i) investment in operating properties through co-investments with various clients or, in limited instances, by itself; (ii) investment in and development of commercial real estate on its own behalf and through co-investments; and (iii) minority ownership in and management of private investment funds, whose investments primarily consist of securitized real estate debt. While the Company is continuing to invest in debt securities through the private investment funds, it is currently not engaged in new investments in operating properties or development assets. The Company intends to continue investment in existing property assets as needed or required by current business plans.

As of March 31, 2003, the Company's real estate investments totaled $130.9 million, consisting of the following: (i) $18.6 million in minority-owned operating properties; (ii) $88.1 million of real estate carrying value attributed to three real estate investment entities consolidated by Insignia for financial reporting purposes; (iii) $8.1 million in four minority owned office development properties; (iv) $1.7 million in a land parcel held for development; and (v) $14.4 million in minority-owned private investment funds owing debt securities. The properties owned by the consolidated investment entities are subject to mortgage debt of $71.9 million such that Insignia's equity investment in the properties totaled $21.6 million at March 31, 2003. Insignia's investment in consolidated properties includes a $19.6 million equity investment in a marina-based development property in the U.S. Virgin Islands (discussed in Note 10 "Marina-Based Development").

Insignia maintains minority-owned investments in operating real estate assets including office, retail, industrial, apartment and hotel properties. At March 31, 2003, these real estate assets consisted of approximately 5.7 million square feet of commercial property and 1,967 multi-family apartment units and hotel rooms. The Company's minority ownership interests in co-investment property range from 1% to 33%. At March 31, 2003, Insignia's co-investment partners included the following notable business entities: Citigroup, GE Investments, ING Barings, Blackacre Capital Management, Lennar, Praedium, Lone

Star Opportunity Fund, Prudential, Whitehall Street Real Estate, Walton Street and Investcorp.

Gains realized from sales of real estate by minority owned entities for the three months ended March 31, 2003 and 2002 totaled $695,000 and $972,000, respectively. During the three months ended March 31, 2003, the Company recorded impairment against its real estate investments of $3.9 million on five property assets. The impairments were based on changes subsequent to December 31, 2002 in factors including increased vacancies, lower market rental rates and decreased projections of operating cash flows which diminished prospects for recovery of the Company's full investment upon final disposition. The gains realized from real estate sales and the losses taken on impairments are included in the caption "equity earnings in unconsolidated ventures" in the Company's condensed consolidated statements of operations.

The Company's only financial obligations with respect to its real estate investments, beyond its investment, are (i) partial construction financing guarantees, backed by letters of credit, totaling $8.9 million; (ii) other letters of credit and guarantees of property debt totaling $2.8 million; and (iii) future capital commitments for capital improvements and additional asset purchases totaling $2.3 million.

Insignia maintains an incentive compensation program pursuant to which certain employees, including executive officers, participate in the profits generated by its real estate investments, through grants of either equity interests (at or about the time investments are made) or contractual rights to participate in proceeds from successful

investments. Such grants generally consist of an aggregate of 50% to 63.5% of the cash proceeds paid to Insignia after Insignia has recovered its full investment plus a 10% per annum return thereon. Such percentage includes discretionary incentive payments of 5% to 10% paid upon disposition to certain employees who contributed to the success of an investment. With respect to the private investment funds, employees are collectively entitled to share 55% to 60% of proceeds received by Insignia in respect of its promoted profits participation in those funds. Employees share only in promoted profits of the private investment funds and are not entitled to any portion of earnings on the Company's actual investment (before promotes). Gains on sales of real estate and equity earnings in unconsolidated ventures are recorded net of employee participation and discretionary incentive payments. Payments made to employees under Insignia's incentive compensation program for the three months ended March 31, 2003 and 2002 totaled $1.9 million and $1.7 million, respectively.

10. Marina-Based Development

In July 2002, a subsidiary of the Company acquired three contiguous parcels of property and related leasehold rights in St. Thomas, U.S. Virgin Islands, which comprise 32.3 acres of property, including 18 submerged acres with full water rights. The initial purchase price was approximately $35.0 million, paid with $18.5 million in cash and a portion of $20.0 million borrowed by the subsidiary under a non-recourse $40.0 million mortgage loan facility. The property is currently undergoing predevelopment activities together with operating activities of an existing marina. The property and its debt are consolidated in the Company's consolidated financial statements. Insignia's equity investment in the property totaled $19.6 million at March 31, 2003.

The proposed re-development envisions the creation of a world-class marina intended to enhance private and charter yacht traffic to the U.S. Virgin Islands as well as the development of commercial, retail and entertainment-oriented properties that will broaden and enhance shopping, dining and recreational options for tourists and residents. Demolition and construction activities are expected to commence as soon as final governmental approvals have been received.

In January 2003, Insignia filed the Coastal Zone Management ("CZM") development permit applications with the appropriate government agencies in St. Thomas, U.S. Virgin Islands. A public hearing on the project was held in St. Thomas on March 3, 2003. On March 13, 2003, the CZM Commission of St. Thomas unanimously approved the Company's permit applications. The Company's permits are also subject to approval and ratification by both the Governor and the Legislature of the U.S. Virgin Islands, which is anticipated to occur in May 2003.

11. Debt

	MARCH 31, 2003	DECEMBER 31, 2002
	(In thousands)	
NOTES PAYABLE		
Senior revolving credit facility	$ 28,000	$ 95,000
Subordinated credit facility	15,000	15,000
Acquisition loan notes	16,464	16,889
	59,464	126,889
REAL ESTATE MORTGAGE NOTES	71,903	66,795
TOTAL	$ 131,367	$ 193,684

The Company's debt includes outstanding borrowings under its $165.0 million senior revolving credit facility, as amended, borrowings under a $37.5 million subordinated credit facility entered into in June 2002 and acquisition loan notes issued in connection with previous acquisitions in the United Kingdom. The senior credit facility bears interest at a margin above LIBOR, which was 2.0% at March 31, 2003 and 2.5% at December 31, 2002. In March 2003, Insignia repaid $67.0 million on the senior revolving credit facility as a result of the March 14, 2003 sale of its residential businesses, lowering its outstanding balance to $28.0 million. In conjunction with the pay-down, the commitment under the senior credit facility was reduced from $230.0 million to $165.0 million. The senior revolving credit facility matures in May 2004. The subordinated credit facility borrowings, which are subordinate to Insignia's senior credit facility, bear interest at an annual rate of 11.25%, payable quarterly. Insignia may borrow the remaining $22.5 million available under this credit facility through the period ending in December 2003.

14

The subordinated debt matures in June 2009. At March 31, 2003, Insignia had over $72.0 million of availability on its credit facilities under its financial covenants and was in compliance with all covenants.

The acquisition loan notes are payable to sellers of the acquired U.K. businesses and are backed by restricted cash deposits in approximately the same amount. The loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. The real estate mortgage notes are secured solely by the property assets owned by the respective consolidated subsidiaries. Maturities on the real estate mortgage notes range from December 2004 to October 2023.

12. Earnings Per Share

The following table sets forth the computation of the numerator and denominator used to compute basic and diluted earnings from continuing operations per common share for the periods indicated. The potential dilutive shares from the conversion of preferred stock and the exercise of options, warrants and unvested restricted stock is not assumed for the quarterly periods of 2003 and 2002 because the inclusion of such shares would be antidilutive.

	THREE MONTHS ENDED MARCH 31, 2003	2002
NUMERATOR:		
Numerator for basic earnings per share - loss from continuing operations	$ (8,213)	$ (90
Effect of dilutive securities:		
Preferred stock dividends	(797)	(25
Loss from continuing operations available to common stockholders	(9,010)	(1,15
Effect of dilutive securities:		
Preferred stock dividends	--	-
Numerator for diluted earnings per share - loss from continuing operations available to common stockholders after assumed conversions	$ (9,010)	$ (1,15
DENOMINATOR:		
Denominator for basic earnings per share - weighted average common shares	23,350	22,90
Effect of dilutive securities:		
Stock options, warrants and unvested restricted stock	--	--
Convertible preferred stock	--	--
Denominator for diluted earnings per share - weighted average common shares and assumed conversions	23,350	22,90

15

13. Comprehensive Loss

The following table presents a calculation of comprehensive loss for the periods indicated.

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	(in thousands)	
Net loss	$ (4,774)	$ (20,778)
Other comprehensive losses:		
Foreign currency translation	(1,209)	(1,321)
Reclassification adjustment for realized gain	--	(50)
Total other comprehensive loss	(1,209)	(1,371)
TOTAL COMPREHENSIVE LOSS	$ (5,983)	$ (22,149)

14. Industry Segment Data

In 2003, Insignia's operating activities from continuing operations encompass only one reportable segment, commercial real estate services. The Company's residential real estate service businesses were disposed of in the first quarter of 2003 and are reported as discontinued operations. The Company's commercial service businesses offer similar products and services and are managed collectively because of the similarities between such services. These businesses provide services including tenant representation, property and asset management, agency leasing and brokerage, investment sales, development and re-development, consulting and other real estate financial services. Insignia's commercial businesses include Insignia/ESG in the United States, Insignia Richard Ellis in the United Kingdom, Insignia Bourdais in France and other businesses in continental Europe, Asia and Latin America. The following table summarizes certain geographic financial information for the periods indicated.

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	(In thousands)	
TOTAL REVENUES		
United States	$ 89,654	$ 89,749
United Kingdom	25,224	20,850
France	9,070	9,923
Other Europe	3,318	2,305
Asia and Latin America	2,432	1,200
	$ 129,698	$ 124,027
LONG-LIVED ASSETS		
United States	$ 279,478	$ 341,408
United Kingdom	113,466	104,535
France	30,002	21,887
Other Europe	7,965	4,455
Asia and Latin America	884	4,020
	$ 431,795	$ 476,305

Long-lived assets are comprised of property and equipment, real estate investments, goodwill and acquired intangible assets.

15. Contingencies

Ordinary Course of Business Claims

Insignia and certain subsidiaries are defendants in lawsuits arising in the ordinary course of business. Management does not expect that the results of any such lawsuits will have a significant adverse effect on the financial condition, results of operations or cash flows of the Company. All contingencies including unasserted claims or assessments, which are probable and the amount of loss can be reasonably estimated, are accrued in accordance with SFAS No. 5, Accounting for Contingencies.

Indemnification

In 1998, the Company's former parent entered into a Merger Agreement with Apartment Investment and Management Company ("AIMCO"), and one of AIMCO's subsidiaries, pursuant to which the former parent was merged into AIMCO. Shortly before the merger, the former parent distributed the stock of Insignia to its shareholders in a spin-off transaction. As a requirement of the Merger Agreement, Insignia entered into an Indemnification Agreement with AIMCO. In the Indemnification Agreement, Insignia agreed generally to indemnify AIMCO against all losses exceeding $9.1 million that result from: (i) breaches by the Company or former parent of representations, warranties or covenants in the Merger Agreement; (ii) actions taken by or on behalf of former parent prior to the merger; and (iii) the spin-off.

In December 2001, the Company entered into a stock purchase agreement with Real Living, Inc., the purchaser, that provided for the sale of 100% of the stock of Realty One and its affiliated companies. Such affiliated companies included First Ohio Mortgage Corporation, Inc., First Ohio Escrow Corporation, Inc. and Insignia Relocation Management, Inc. As a part of sale, the Company agreed generally to indemnify the purchaser against all losses up to the purchase price (subject to certain deductible amounts), resulting from the following: (i) breaches by the Company of any representations, warranties or covenants in the stock purchase agreement; (ii) pre-disposition obligations for goods, services, taxes or indebtedness except for those assumed by Real Living, Inc.; (iii) change of control payments made to employees of Realty One; and (iv) any third party losses arising or related to the period prior to the disposition. In addition, the Company provided an indemnification for losses incurred by Wells Fargo Home Mortgage, Inc. ("Wells Fargo") and/or the purchaser in respect of (i) mortgage loan files existing on the date of closing; (ii) fraud in the conduct of its home mortgage business; and (iii) the failure to follow standard industry practices in the home mortgage business. The aggregate loss for which the Company is potentially liable to Wells Fargo is limited to $10.0 million and the aggregate of any claims made by the purchaser and Wells Fargo shall not exceed the purchase price.

As of May 1, 2003, the Company was not aware of any matters that would give rise to a material claim under any warranties and indemnities.

Environmental

Under various federal and state environmental laws and regulations, a current or previous owner or operator of real estate may be required to investigate and remediate certain hazardous or toxic substances or petroleum-product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The owner or operator of a site may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from or at the site, including the presence of asbestos containing materials. Insurance for such matters may not be available.

The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. There can be no assurance that Insignia, or any assets owned or controlled by Insignia (as on-site property manager), currently are in compliance with all of such laws and regulations or that Insignia will not become subject to liabilities that arise in whole or in part out of any such laws, rules or regulations. The liability may be imposed even if the original actions were legal and Insignia did not know of, or was not responsible for, the presence of such hazardous or toxic substances. Insignia may also be solely responsible for the entire payment of any liability if it is subject to joint and several

liability with other responsible parties who are unable to pay. Insignia may be subject to additional liability if it fails to disclose environmental issues to a buyer or lessee of property. Management is not currently aware of any environmental liabilities that are expected to have a material adverse effect upon the operations or financial condition of the Company.

16. Equity

During the three month period ended March 31, 2003, the Company had the following changes in stockholders' equity:

a) Net loss of $4,774,000.

b) Preferred stock dividends totaling $797,000 paid in cash.

c) Exercise of stock options to purchase 449,019 shares of Insignia common stock at exercise prices ranging from $6.21 to $6.61 per share.

d) Sale of 32,731 shares of Insignia common stock, at an average price of approximately $6.16, under the Company's Employee Stock Purchase Program.

e) Issuance of 21,086 shares of Insignia common stock (market values at issue date averaging approximately $10.00 per share) for vested restricted stock awards. Accrued compensation expense relating to restricted stock totaled $104,000 for the three months ended March 31, 2003.

f) Payments of $37,000 received on notes receivable for common stock. In addition, the Company received for retirement 7,116 shares of Insignia common stock (with a market value of $10.87 per share) in satisfaction of common stock purchase notes receivable of $77,000.

g) Other comprehensive loss of $1,209,000 for the three months ended

March 31, 2003, arising from the translation of foreign net assets at lower exchange rates.

h) Stock compensation expense of $134,000 representing the estimated fair value of employee stock options issued during 2002, which is added to additional paid-in capital and charged to net income.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Insignia monitors and evaluates its financial performance using three primary measures - income from continuing operations, EBITDA and Net EBITDA. EBITDA is defined as real estate services revenues less direct expenses and administrative costs. Net EBITDA is defined as income from continuing operations before depreciation, amortization, gains (losses) on sales of real estate, real estate impairments and income taxes. Net EBITDA deducts all interest expense and includes funds from operations from real estate investments ("Real Estate FFO"). Real Estate FFO is defined as income or loss from property operations of Insignia's principal real estate investments before depreciation, gains or losses on sales of property and provisions for impairment. Real Estate FFO includes consolidated property entities and minority-owned unconsolidated co-investment entities. EBITDA, Net EBITDA and Real Estate FFO are supplemental measures of performance that are not defined by GAAP, and Insignia's usage of these terms may differ from other companies' usage of the same or similar terms. As compared to net income, these performance measures effectively eliminate the impact of non-cash charges for depreciation, amortization of intangible assets and other non-recurring expenses. Management believes presentation of these supplemental performance measures enhance a reader's understanding of the Company's operating results.

Three Months Ended March 31, 2003 and 2002

Insignia's first quarter of 2003 was highlighted by the sale of its New York-based residential businesses Insignia Douglas Elliman and Insignia Residential Group, which produced a net gain on approximately $3.8 million (after applicable taxes of $4.7 million), and the announcement of the proposed Merger of Insignia with CB. Insignia received $66.75 million in proceeds from the sale of the residential businesses, which were used to repay $67.0 million of the outstanding balance on the Company's senior revolving credit facility. The gain realized from the residential sale and the operating results for these businesses for the period from January 1, 2003 through disposition on March 14, 2003 are reported as discontinued operations for financial reporting purposes. Also, Insignia's financial results for the first quarter of 2002 have been restated to reclassify the operating results for Insignia Douglas Elliman and Insignia Residential Group as discontinued operations.

The closing of the proposed Merger with CB is expected to occur no later than July 14, 2003, unless the Merger Agreement is earlier terminated in accordance with its terms. The Merger Agreement imposes numerous limitations on the Company's ability to take actions without the consent of CB during the interim period between signing of the Merger Agreement and closing of the

Merger. For example, there are limitations on the Company's ability to enter into new material contracts, to sell, lease or otherwise dispose of material assets, to make capital expenditures, to hire new employees, brokers and independent contractors, to increase compensation or pay bonuses and to incur additional indebtedness.

The announcement of the proposed Merger has had an impact on the Company's operations, including the resignation of certain professionals and termination of certain client relationships. The Company anticipated some level of employee and client attrition prior to the Merger's consummation, and the occurrence to date has been in line with its expectations. The most adverse consequences have been confined to certain markets where there is substantial overlapping of Insignia's and CB's operations, and one major property services client. Specific examples of the adverse consequences include the following (i) the resignation of a substantial majority of the Company's personnel in Phoenix, a market in which CB maintains a leading presence; (ii) the de-stabilization of the Company's operations in Asia (CB expects to absorb and substantially pare back the Company's Asia operations following the Merger and this expectation has prompted certain employees to seek new employment opportunities and has appreciably impaired business development efforts); (iii) the loss of approximately 29.4 million square feet of property services assignments, of which approximately 24.1 million square feet is concentrated in one large portfolio. The owner of this portfolio has advised the Company of its intentions to self-manage its properties effective May 15, 2003; (iv) the loss of 120 employees, including 38 brokers in the U.S. (in markets other than Phoenix); and (v) the termination of the Company's affiliation with a local service provider in Indianapolis, IN. Other affiliates have also expressed their intention to terminate their agreements prior to the closing of the Merger.

It is possible that further losses of affiliates, employees, brokers, independent contractors and clients could take place before the closing of the Merger. In the event that the Merger Agreement is terminated by any party and the Merger is not consummated, the limitations imposed on the Company's operations during the interim period and any loss of employees, brokers, independent contractors and clients may have a material adverse effect on the Company's business and financial performance, including impeding the growth of the Company's business, hurting its competitive standing in the marketplace and resulting in a significant loss of business and corresponding revenues.

The Merger Agreement provides generally that if it is terminated as a result of CB's breach or failure to perform its obligations, or the failure to obtain required regulatory approvals or CB's failure to complete the specified financing for the Merger by July 14, 2003, then, as our sole remedy and subject to limitations, CB has agreed to indemnify us for up to $50.0 million of our damages which are caused by (i) the termination by any of our commercial real estate services brokers or independent contractors as of February 7, 2003 of their relationship with us or (ii) the termination or substantial diminution by any of our clients as of February 7, 2003 of their commercial services relationship with us, in each case if such termination or diminution occurs between February 7, 2003 and the termination of the Merger Agreement, is a result of the proposed Merger and does not result from Insignia's breach of the Merger Agreement.

Further, the Merger Agreement provides that if Insignia can sell some or all of its real estate-related assets and receive net cash proceeds at or prior to the closing of the merger in excess of $45.0 million, subject to increase, the merger consideration would be increased by the amount of such excess, up to a maximum of an additional $1.00 per share of common stock. Insignia has solicited proposals from prospective purchasers of the real estate-related assets and, since March 2003, has been engaged in discussions with a number of potential purchasers. Insignia is continuing to negotiate with the potential purchasers of the real estate-related assets but may not enter into any definitive agreement with respect to the sale of some or all of these assets. Even if Insignia does enter into one or more such agreements, there can be no assurance that any or all the transactions contemplated by such agreements will be completed, or that they will lead to an increase in the Common Merger Consideration to be received by holders of Insignia's common stock. It is currently expected that any such agreements that might be entered into would be conditioned upon the completion of the Merger. Insignia's Board of Directors and the Special Committee of the Board have indicated that their current intention, if the Merger is not completed, is not to sell any substantial amount of the real estate-related assets at prices significantly below book values.

Insignia's consolidated service revenues totaled $130.5 million for the first quarter of 2003, representing an increase of $10.3 million, or 9%, over the corresponding period in 2002. Substantially all of the revenue increase in 2003 was attributed to Insignia's services operations in the United States and the United Kingdom. In the United States, service revenues increased by 5% to $90.4 million for the first quarter of 2003, aided by revenue growth in the Southeast, Midwest and Washington, D.C. regions over the same period of 2002. Conversely, the New York metropolitan area, the Company's largest market, saw service revenues decline by 23% as leasing transaction levels and revenue generation continued to be hindered by indecision among many corporate clients, particularly those in the financial services sector. In the United Kingdom, revenues increased by 21% over the same period of 2002 to $25.2 million in the first quarter of 2003. The revenue growth was fueled by continued strength in investment sales and consulting services in the U.K. and a 12% increase in 2003 in the average British pound currency rate which improved revenues reported in U.S. dollars by approximately $2.7 million.

In contrast to the revenue growth, Insignia's earnings from continuing operations and EBITDA from service operations for the first quarter of 2003 deteriorated from the first quarter of 2002. Insignia generated a loss from continuing operations of $8.2 million ($0.39 per diluted share) for the first quarter of 2003, compared to a loss of $901,000 ($0.05 per diluted share) for the same period of 2002. Insignia's EBITDA dropped from $3.1 million in the first quarter of 2002 to a loss of $7.3 million in the first quarter of 2003. The most significant factors contributing to the decline in the first quarter of 2003 included the following: (i) real estate impairment aggregating $3.9 million on five property assets whose prospects were adversely affected by increased vacancy rates and lower projected market rents; (ii) increased compensation expenses of the New York consulting group and payments to other key producers, each in connection with new employment agreements entered into in early 2003, of an aggregate of $3.5 million; (iii) a $600,000 increase in operating losses of the U.S. financial services unit to $1.0 million, caused by the curtailing of revenue producing activities in early 2003 in response to the announcement of the pending CB Merger; (iv) a EBITDA loss in France of $632,000, compared to an EBITDA contribution of $2.0 million for the same period of 2002, resulting primarily from a seasonal decline in service revenues; (v) an operating loss in Spain of approximately $342,000, compared to an EBITDA contribution of $166,000 in 2002, virtually entirely attributed to the costs of recently recruited staff and operating expenses of the former Arthur Andersen consulting business acquired in late 2002, which remained in the start-up phase during the first quarter of 2003; and (vi) $2.0 million in legal and other expenses incurred in connection with the proposed acquisition of Insignia by CB (included in unallocated corporate administrative expenses).

Insignia reported a net loss of $4.8 million ($0.24 per diluted share) for the first quarter of 2003, compared to a net loss of $20.8 million ($0.92 per diluted share) for the corresponding period of 2002. The 2003 first quarter net loss included, as discontinued operations, the $3.8 million residential gain on sale and the corresponding $324,000 operating loss for the period through disposition on March 14, 2003. The 2002 net loss included a goodwill impairment of $20.6 million (net of $9.4 million tax benefit) resulting from the required adoption of new accounting standards. The impairment was reported as the cumulative effect of a change in accounting principle. The first quarter of 2002 also included income from discontinued operations of $758,000, which was comprised of $493,000 of income from operations of Insignia Douglas Elliman and Insignia Residential Group and $265,000 of income on disposal from post-closing adjustments related to the January 2002 sale of Realty One, the Company's former single family home brokerage business.

21

The table below depicts the Company's operating results, in a format that highlights the above measures and reconciles them to net loss in accordance with GAAP, for the three months ended March 31, 2003 and 2002, respectively. Operating results for each quarterly period presented reflect the results of Insignia Douglas Elliman and Insignia Residential Group as discontinued operations for financial reporting purposes. Certain amounts for the three months ended March 31, 2002 have been reclassified to conform to the current presentation. Such reclassifications have no effect on reported net loss for the period. This information has been derived from the Company's condensed consolidated statements of operations for the periods then ended.

	THREE MONTHS ENDED MARCH 31, 2003	200
	(In thousands)	
REAL ESTATE SERVICES REVENUES		
United States	$ 90,435	$ 85
Europe	37,612	33
Asia and Latin America	2,432	1
Total real estate service revenues	130,479	120
COSTS AND EXPENSES		
Real estate services	132,975	114
Administrative	4,830	2
EBITDA	(7,326)	3
Real Estate FFO	507	1
Private investment fund earnings	630	
Interest income (1)	913	1
Interest expense (1)	(1,926)	(2
Other (expense) income	(74)	

NET EBITDA	(7,276)	4
Gains on sales of real estate	695	
Real estate impairment	(3,858)	
Depreciation - property and equipment	(3,427)	(3
Amortization of intangibles	(611)	(1
Depreciation - real estate (2)	(1,493)	(1
Loss from continuing operations before income taxes	(15,970)	(1
Income tax benefit	7,757	
LOSS FROM CONTINUING OPERATIONS	(8,213)	
Discontinued operations, net of taxes:		
Operating (loss) income	(324)	
Income on disposal	3,763	
Loss before cumulative effect of a change in accounting principle	(4,774)	
Cumulative effect of a change in accounting principle, net of applicable taxes	--	(20
NET LOSS	(4,774)	(20
Preferred stock dividends	(797)	
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (5,571)	$ (21

(1) Interest income and expense exclude amounts attributed to consolidated property operations. Such amounts are included in Real Estate FFO.

(2) Depreciation from real estate operations represents the depreciation attributed to consolidated real estate property entities and the portion of depreciation expense of minority-owned unconsolidated real estate owning entities.

22

Insignia's EBITDA from service operations and loss from continuing operations for the three months ended March 31, 2003 and 2002, respectively, were derived from the following sources:

	THREE MONTHS ENDED MARCH 31, 2003	2002
	(In thousands)	
SERVICES EBITDA:		
United States	$ (2,143)	$ 3,552
Europe:		
United Kingdom	1,668	1,421
France	(632)	2,039
Other Europe	(746)	(293)
Asia and Latin America	(643)	(854)
	(2,496)	5,865
Administrative	4,830	2,782
EBITDA	(7,326)	3,083

Real Estate FFO	507	1,521
Mortgage securities fund earnings	630	536
Interest income	913	1,061
Interest expense	(1,926)	(2,197)
Other (expense) income	(74)	16
NET EBITDA	(7,276)	4,020
Gains on sales of real estate	695	972
Real estate impairment	(3,858)	--
Depreciation - property and equipment	(3,427)	(3,434)
Amortization of intangibles	(611)	(1,534)
Depreciation - real estate (2)	(1,493)	(1,624)
Loss from continuing operations before income taxes	(15,970)	(1,600)
Income tax benefit	7,757	699
LOSS FROM CONTINUING OPERATIONS	$ (8,213)	$ (901)

Real Estate Services

Insignia's commercial real estate service operations include Insignia/ESG in the United States, Insignia Richard Ellis in the United Kingdom, Insignia Bourdais in France, other European subsidiaries in Germany, Italy, Belgium, the Netherlands and Spain and other subsidiaries in Asia and Latin America. Real estate services revenues totaled $130.5 million for the first quarter of 2003, representing a $10.3 million, or 9%, improvement over $120.2 million for the corresponding period of 2002. Conversely, EBITDA from commercial real estate services (excluding unallocated corporate administrative expenses) declined from $5.9 million for the first quarter of 2002 to a loss of $2.5 million for the first quarter of 2003. The Company's service operations on a geographic basis are more fully discussed below.

United States

In the United States, service revenues increased 5% to $90.4 million in the first quarter of 2003, from $85.9 million in 2002. Service EBITDA declined from $3.6 million in the first quarter of 2002 to a loss of $2.1 million in the first quarter of 2003. The decline in EBITDA despite higher revenues was primarily caused by the following factors: (i) increased compensation to the New York consulting group and other key producers resulting from new employment agreements entered into in early 2003; and (ii) losses in the financial services unit. The New York marketplace continued to be characterized by slow leasing activity, as many clients, especially those in the financial services field, deferred leasing decisions due to weak business conditions, a low-growth economy and heightened uncertainty related to the war with Iraq. The New York consulting group's new contracts guarantee annual minimum incentives of $13.5 million. The annual guarantee does not exceed the bonuses earned by the consultants in each of the years 2000, 2001 and 2002. However, the required accrual of one-fourth of the minimum in the first quarter of 2003 versus the percentage of earnings formula applicable in 2002, together with $800,000 in nonrefundable signing bonuses, caused expenses for these matters to aggregate approximately $4.7 million during

the first quarter of 2003, compared to $1.2 million for the first quarter of 2002. The 2003 first quarter performance of the financial services unit suffered from the decision in early 2003 to halt all acquisition activities and related services pertaining to the Company's principal investment programs. This action resulted in a sharp decline in acquisition related services revenues, which historically represented a significant portion of this unit's revenue generation, and a corresponding operating loss of $1.0 million for the first quarter of 2003 (up from a loss of $429,000 in 2002). The catalyst for a recovery of the U.S. business would be a return of tenant representation leasing activity levels nationwide and in New York in particular.

Europe

In Europe, service revenues increased 14% to $37.6 million in the first quarter of 2003, from $33.1 million for the same period of 2002. The majority of the revenue increase derives from increases in European currency rates, which inflated revenue production when translated to U.S. dollars for financial reporting purposes. Conversely, European services EBITDA declined significantly from $3.2 million in the first quarter of 2002 to $290,000 in the 2003 first quarter. The majority of the EBITDA decline from 2002 to 2003 stemmed primarily from losses in France, Spain and Germany. Insignia Bourdais in France experienced the most significant decline in 2003 from the same quarter of 2002. Insignia Bourdais's revenue contribution declined from $9.9 million in the first quarter of 2002 to $9.1 million in the same period of 2003 and its EBITDA contribution deteriorated from $2.0 million in 2002 to a loss of $632,000 in 2003. The decline in EBITDA in 2003 was driven primarily by lower leasing volumes and revenue generation. Actual revenue production in France declined by approximately 3 million euros in the first quarter of 2003, compared to 2002. Insignia Bourdais management believes that the decline stems primarily from a change in year-end for the French business. The 2002 first quarter was the historical fourth quarter for the French subsidiary, historically its strongest quarter. During 2002, the fiscal year was changed to the calendar year, and Insignia Bourdais produced the highest profit in its history during the 2002 fourth quarter. As a result, comparison of operating results quarter-to-quarter is difficult to interpret. In Spain, the Company produced service revenues of $1.0 million and an EBITDA loss of $342,000 for the first quarter of 2003. This result compares to service revenues of $404,000 and EBITDA of $166,000 for the same quarter of 2002. In late 2002, Insignia expanded its operations in Spain through the acquisition of the former Arthur Andersen consulting business and recruited new brokers, which was substantially responsible for the decline in EBITDA on higher revenues due to start-up expenses and delays in transaction closings. In Germany, the Company's operations suffered from an absence of leasing revenues in the first quarter of 2003, causing a EBITDA loss of $481,000 on service revenues of $276,000.

Insignia Richard Ellis continued to lead the European group in 2003, contributing $25.2 million of service revenue and $1.7 million of EBITDA, representing gains over $20.9 million of revenue and $1.4 million of EBITDA for the first quarter of 2002. The 2003 first quarter performance in the United Kingdom was aided by strength in the British pound, compared to the same period of 2002, which contributed approximately $2.7 million to service revenues when translated to U.S. dollars. Also, investment sales - the main transactional strength in the United Kingdom in 2002 - remained strong during the first quarter of 2002.

Insignia's European operating results in the first quarter of 2003 have been translated into U.S. dollars at average exchange rates of $1.60 to the British pound and $1.07 to the euro. For the same period of 2002, European operating results were translated into U.S. dollars at average exchange rates of $1.43 to the British pound and $0.87 to the euro.

Asia and Latin America

In Asia and Latin America, the Company's operations continue to experience operating losses primarily due to lingering weakness in commercial real estate markets and higher expenses. These operations incurred an EBITDA loss of

$643,000 for the first quarter of 2003 on $2.4 million of service revenues. This result represented modest improvement over the corresponding period of 2002, for which these businesses incurred an EBITDA loss of $854,000 on $1.2 million of service revenues. Despite substantially improved revenue in 2003, these businesses continued to incur operating losses due primarily to higher expenses resulting from the hiring of producers in the second half of 2002 in an effort to build a competitive presence in Tokyo, Hong Kong and Shanghai. Poor economic and real estate market conditions in virtually all Asian and Latin American markets, coupled with the uncertainty surrounding the potential acquisition of Insignia by CBRE Holding, which has begun to adversely affect transactional activity and new client service assignments, remain significant obstacles to greater revenue production and profitability.

Administrative

Administrative expenses increased by approximately $2.0 million, or 74%, over the first quarter of 2002, to $4.8 million for the first quarter of 2003. The increase was entirely attributed to approximately $2.0 million of expenses incurred for legal and other services in connection with the Company's potential acquisition by CBRE Holding. Otherwise, the absence of any executive incentive compensation in the first quarter of 2003, representing a $500,000 decline from the same period of 2002, was offset by increases in corporate liability insurance premiums and legal and other professional fees. The insurance increase was caused by both increases in coverage limits and industry-wide premiums for liability coverage.

Other Items Included in the Determination of Net EBITDA

Interest income declined 14% from approximately $1.1 million for the first quarter of 2002 to $913,000 for the first quarter of 2003. The decline was caused by lower average cash levels and interest rates on invested cash. The average rate of interest earned on invested cash in 2003 declined approximately 75 basis points from the first quarter of 2002.

Interest expense decreased 12% to $1.9 million for the first quarter of 2003. The Company benefited from declines in LIBOR borrowing rates on the senior credit facility and from the $67.0 million repayment of senior credit facility debt in connection with the March 2003 residential disposition.

Real Estate FFO from the Company's property investment portfolio declined 67% to $507,000 for the first quarter of 2003, from $1.5 million for the same period of 2002. The declines in 2003 from 2002 were primarily attributed to lost earnings from properties sold over the past year (aggregating $525,000 in 2002) and losses aggregating approximately $330,000 from development assets that have not yet leased to stabilized levels required for profitability. The development losses included a $93,000 loss from the property operations of the consolidated marina-based development in the U.S. Virgin Islands that was purchased in June 2002.

Other Items Included in the Determination of Income from Continuing Operations

Gains realized from sales of real estate in the first quarter of 2003 totaled $695,000, compared to $972,000 for the comparable period of 2002. These gains are recorded net of amounts payable to certain employees totaling $1.1 million in 2003 and $1.5 million in 2002. The 2003 gains included two asset sales by entities in which Insignia owns minority interests, including a 103,000 square foot retail shopping center located in Orlando, Florida and a 137,500 square foot office building located in Santa Rosa, California. The 2002 gain resulted from the sale by a minority owned entity of an office complex in Daly City, California. Comparisons of this type of income do not reflect performance of the investments for the comparative period, but rather the volume of asset sales in the period and the cumulative value change of the investments sold.

During the first quarter of 2003, the Company recorded impairment against its real estate investments in the aggregate amounts of $3.9 million on five minority-owned property assets. Insignia re-evaluates each real estate investment on a quarterly basis, taking into account changes in market conditions and future prospects. These impairments were based on factors including increased vacancies, lower market rental rates, decreased projections of operating cash flows and diminished prospects for recovery of the Company's full investment upon final disposition based on projected lower property asset values. There were no impairments during the first quarter of 2002.

Depreciation of property and equipment remained relatively unchanged from the first quarter of 2002 at $3.4 million for the same period of 2003. Depreciation stabilized due to lower capital spending during 2002, compared to previous years, and certain other existing property and equipment assets which have become fully depreciated.

Amortization of intangibles declined by $923,000, or 60%, to $611,000 for the first quarter of 2003, compared to the same period of 2002. The decrease was attributed substantially to certain acquired property management contracts of Insignia/ESG and customer backlog of Insignia Bourdais, portions of which became fully amortized.

Income tax benefit on continuing operations for the first quarter of 2003 increased $7.1 million over the same period of 2002 as a result of the higher pre-tax loss ($16.0 million loss in 2003, compared to a $1.6 million loss in 2002), coupled with recognition in income of $3.0 million in tax reserves established at the time of the Company's spin-off in 1998 from its former parent. The reserve provided for potential exposures for tax deductions taken for the periods prior to and including spin-off. The statute of limitations for these periods expired on March 31, 2003.

Other Factors in the Determination of Net Income

The net loss for the first quarter of 2003, totaling $4.8 million, included $3.8 million of income on disposal (net of $4.7 million of applicable taxes) of Insignia Douglas Elliman and Insignia Residential Group reported as discontinued operations for financial reporting purposes. The income on disposal was partially offset by operating losses of $324,000 (net of applicable taxes of $248,000) from these businesses for the 2003 period through disposition on March 14, 2003. The net loss for the first quarter of 2002, totaling $20.8 million, was mitigated by income in discontinued operations including the following: (i) $493,000 of operating income (net of applicable taxes of $438,000) from Insignia Douglas Elliman and Insignia Residential Group and (ii) income of $265,000 recognized as a result of post closing adjustments in connection with the January 2002 sale of Realty One. Conversely, the first quarter 2002 net loss was adversely affected by goodwill impairment of $20.6 million (net of applicable taxes of $9.4 million) pertaining to Insignia Douglas Elliman and the Company's operation in Asia. The impairment was reported in 2002 as the cumulative effect of a change in accounting principle.

LIQUIDITY AND CAPITAL RESOURCES

Insignia's liquidity and capital resources consist of its cash and cash equivalents, unused capacity under its revolving senior credit facility and $37.5 million subordinated debt facility, and cash generated by operations. The commitment on the senior credit facility was lowered from $230.0 million to $165.0 million in connection with the Company's March 2003 sale of its residential businesses.

Historically, the Company's cash on hand and operating cash flows have been utilized to fund all working capital requirements, including capital expenditures and real estate investments. The Company's credit facilities have generally been used to fund the cash portion of acquisitions of businesses. Insignia's unrestricted cash at March 31, 2003 totaled $71.7 million, representing a $39.8 million decline from $111.5 million at December 31, 2002. The decline in cash during the first quarter of 2003 is primarily the result of the payment of incentives of approximately $41.0 million in respect of the 2002 year.

Insignia's cash used in operating activities in the first quarter of 2003 totaled $39.7 million, compared to $65.9 million in the same period of 2002. The decrease in cash used in operating activities in the first quarter of 2003 was mainly attributed to lower incentive and broker commission payments, as compared to the first quarter of 2002. The Company's cash flows are most impacted by economic conditions affecting the Company's transactional revenues as well as the timing and amount of payments of brokerage commissions, annual employee incentives and other operating requirements. Significant investing and financing cash flows in the first quarter of 2003 included $66.75 million of proceeds from the sale of Insignia Douglas Elliman and Insignia Residential Group and the related $67.0 million debt repayment of the Company's senior credit facility borrowings (as noted above).

26

Debt

The Company's debt consists of borrowings under its $165.0 million senior revolving credit facility, as amended, and the $37.5 million subordinated credit facility provided by investment funds affiliated with Blackacre Capital Management, LLC ("Blackacre"), acquisition loan notes payable to sellers of the acquired U.K. businesses (fully collateralized by restricted cash deposits) and real estate mortgages secured solely by the property assets owned by three consolidated subsidiaries. The following table sets forth Insignia's total outstanding long-term debt at March 31, 2003 and December 31, 2002.

	MARCH 31, 2003	DECEMBER 31, 2002
	(In thousands)	
NOTES PAYABLE		
Senior revolving credit facility	$ 28,000	$ 95,000
Subordinated credit facility	15,000	15,000
Acquisition loan notes	16,464	16,889
	59,464	126,889
REAL ESTATE MORTGAGE NOTES	71,903	66,795
TOTAL	$ 131,367	$ 193,684

Maturities on the Company's debt range from May 2004 to October 2023. The Company also maintains a (pound)5 million line of credit in the UK for short-term working capital purposes in Europe. The Company has not borrowed on this line of credit during the past two years.

At March 31, 2003, the amount outstanding on the senior revolving credit facility was $28.0 million and the interest rate on amounts drawn was approximately 3.8%. As noted above, Insignia repaid $67.0 million on its senior revolving credit facility on March 14, 2003 in connection with the sale of the Company's residential businesses. At March 31, 2003, Insignia also had $11.0 million in outstanding letters of credit that are considered outstanding amounts under the terms of the senior revolving credit facility. Approximately $10.4 million of the letters of credit pertained to real estate investment obligations and the remainder related to office lease arrangements. The $28.0 million of borrowings represents the lowest outstanding balance under the senior revolving credit facility in almost four years. The senior revolving credit facility matures in May 2004.

Borrowings under the senior revolving credit facility bear interest at LIBOR plus a margin that varies according to the ratio of debt to consolidated EBITDA. The margin above LIBOR was 2.00% at March 31, 2003. Insignia is vulnerable to increases in interest rates as a result of either increases in LIBOR or its margin above LIBOR. A 100 basis point increase in the effective interest rate would increase interest expense by approximately $300,000 on an annual basis. The $37.5 million Blackacre credit facility is subordinate to Insignia's senior credit facility and bears interest, payable quarterly, at an annual rate of 11.25% to 12.25%, depending on the amount borrowed. The $15.0 million outstanding at March 31, 2003 under the Blackacre credit facility bears interest at 11.25% and all further borrowings will bear interest at 12.25%. Insignia may borrow the remaining $22.5 million available under the subordinated facility at any time through December 2003. The subordinated debt matures in June 2009. In conjunction with the subordinated debt agreement, the Company negotiated an amendment to its senior credit facility to permit borrowings on the Blackacre credit facility and to allow for a broader range of principal investment activities.

The Company's senior and subordinated credit agreements contain covenants concerning the maintenance of a minimum consolidated net worth, maximum total debt, maximum leverage ratios and certain other financial ratios. The most restrictive of these covenants are the leverage ratios, which are based on the ratios of total debt and senior debt to consolidated EBITDA. Under these covenants, the maximum amount of total debt outstanding cannot exceed 3.5 times EBITDA for the trailing four quarters and senior debt (all debt excluding the subordinated credit facility) outstanding cannot exceed 3.0 times EBITDA for the trailing four quarters. At March 31, 2003, Insignia had approximately $72.0 million of availability on its credit facilities under these covenants and was in compliance with all financial covenants. In the event that Insignia is acquired by CB, borrowings under the senior and subordinated credit facilities would be repaid at closing and the respective credit agreements would be terminated.

The U.K. acquisition loan notes are guaranteed by a bank, as required by the terms of the respective purchase agreements. The bank holds restricted cash deposits sufficient to repay the notes in full when due. The acquisition loan notes have a final maturity of April 2010 and are redeemable semi-annually by the note holders. The acquisition loan notes and the restricted cash are denominated in British pounds. Real estate mortgage notes, totaling $71.9 million at March 31, 2003, are secured solely by three property assets owned by consolidated subsidiaries and are non-recourse to Insignia.

Convertible Preferred Stock

At March 31, 2003, Insignia had 375,000 shares, or $37.5 million, of convertible preferred stock outstanding to investment funds affiliated with Blackacre. This convertible preferred stock includes 250,000 shares, or $25.0 million, of Series A, issued in exchange for a series of preferred stock initially issued in February 2000, and 125,000 shares, or $12.5 million, of Series B issued in June 2002. The initial preferred stock carried a 4% annual dividend and was exchanged in June 2002 in conjunction with the $12.5 million issuance for Series A convertible preferred stock. The convertible preferred stock carries an 8.5% annual dividend, payable quarterly at Insignia's option in cash or in kind. The annual dividend commitment totals approximately $3.2 million.

The convertible preferred stock has a perpetual term, although Insignia may call the preferred stock, at stated value, after June 7, 2005. In connection with the proposed Merger, Blackacre has agreed to the conversion of the convertible preferred stock into a cash amount equal to the stated value of $100.00 per share (totaling $37.5 million) plus accrued and unpaid dividends.

Real Estate Investments and Related Obligations

Insignia's real estate investments include operating real estate properties, real estate under development and investment entities investing in below investment grade or lower rated securitized real estate debt. Each of these entities is debt financed. The real estate entities in which Insignia owns a minority interest owned aggregate assets of approximately $1.0 billion and were obligated on aggregate debt of over $700.0 million at March 31, 2003. Each entity is liable only for its own debt, and such debt is substantially non-recourse other than to the asset financed.

At March 31, 2003 and December 31, 2002, the consolidated carrying value of the Company's real estate investments consisted of the following:

	MARCH 31, 2003	DECEMBER 31, 2002
	(In thousands)	
Minority interests in operating properties	$ 18,561	$ 21,109
Consolidated operating properties	46,357	46,427
Consolidated development property	41,706	38,778
Minority interests in office development properties	8,115	10,014
Land held for future development	1,726	1,726
Minority interests in real estate debt investment funds	14,416	16,081
TOTAL REAL ESTATE INVESTMENTS	$ 130,881	$ 134,135

The real estate carrying amounts of the consolidated properties were financed by real estate mortgage debt totaling $71.9 million at March 31, 2003 and $66.8 million at December 31, 2002. One of the consolidated operating properties is a minority-owned apartment complex located in New York City that is consolidated, beginning in 2002, by virtue of general partner control. Insignia's equity at book value in the consolidated properties totaled $21.6

million at March 31, 2003 and $21.7 million at December 31, 2002. The Company has no further obligations to these consolidated properties or their creditors.

Apart from the potential loss of its equity investment, totaling $64.5 million at book value in all real estate entities at March 31, 2003, Insignia's other material risks consist only of specific financial obligations it has undertaken or standard exceptions in the mortgage lending industry from the non-recourse provisions of real estate mortgage loans. The specific obligations to all real estate entities at March 31, 2003 consisted of the following:

	AMOUNT (In thousands)
Letters of credit partially backing construction loans	$ 8,900
Other letters of credit and guarantees of property debt	2,825
Future capital contributions for capital improvements	150
Future capital contributions for additional asset purchases	2,105
TOTAL OBLIGATIONS	$ 13,980

Outstanding letters of credit generally have one-year terms to maturity and bear standard renewal provisions. Other letters of credit and guarantees of property debt do not bear formal maturity dates and remain outstanding until certain conditions (such as final sale of property and funding of capital commitments) have been satisfied. The future capital contributions represent contractual equity commitments for specified activities of the respective real estate entities. Insignia, as a matter of policy, would consider advancing funds to real estate entities beyond its legal obligation as a new capital contribution subject to normal investment returns.

Each real estate entity in which Insignia holds an investment is a single purpose entity, the assets of which are subject to the obligations only of that entity. Each entity's debt, except to the extent of the letters of credit and other guarantees/commitments shown above, is either (i) non-recourse except to the real estate assets of the subjec; margin: 0; text-align: justify">

d. Property, plant and equipment

Property, plant and equipment represent a significant proportion of the asset base of the Group. The charge in respect of periodic depreciation is derived after determining an estimate of an asset’s expected useful life and the expected residual value at the end of its life. The useful lives and residual values of Group's assets are determined by management at the time the asset is acquired and reviewed periodically, including at each financial year end. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology.

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment, if any. Costs directly attributable to acquisition are capitalized until the property, plant and equipment are ready for use, as intended by management. The Group depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets are as follows:

Buildings	22-25 years
Plant and machinery	5 years
Computer equipment	3-5 years
Furniture and fixtures	5 years
Vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed periodically, including at each financial year end. (Refer to Note 2.5)

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of assets not put to use before such date are disclosed under 'Capital work-in-progress'. Subsequent expenditures relating to property, plant and equipment is capitalized only when it is probable that future economic benefits associated with these will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance costs are recognized in net profit in the statement of comprehensive income when incurred. The cost and related accumulated depreciation are eliminated from the financial statements upon sale or retirement of the asset and the resultant gains or losses are recognized in net profit in the statement of comprehensive income. Assets to be disposed off are reported at the lower of the carrying value or the fair value less cost to sell.

1.7 Business combinations

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

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

Business combinations between entities under common control by formation of a new company is outside the scope of IFRS 3 (Revised), Business Combinations and is accounted for at carrying value.

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

1.8 Employee benefits

1.8.1 Gratuity

Infosys provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, performed by an independent actuary, at each balance sheet date using the projected unit credit method. The company fully contributes all ascertained liabilities to the Infosys Limited Employees' Gratuity Fund Trust (the "Trust"). In case of Infosys BPO and Edgeverve, contributions are made to the Infosys BPO's Employees' Gratuity Fund Trust and Edgeverve Systems Limited Employees' Gratuity Fund Trust. Trustees administer contributions made to the Trusts and contributions are invested in a scheme with Life Insurance Corporation of India as permitted by law of India.

The Group has adopted Revised IAS 19 effective April 1, 2013. Pursuant to this adoption, the Group recognizes the net obligation of a defined benefit plan in its balance sheet as an asset or liability. The amended standard requires immediate recognition of the gains and losses through re-measurements of the net defined benefit liability/ (asset) through other comprehensive income. Further it also requires the interest expense/(income) on plan assets to be considered in the Profit and Loss to be restricted to the discount rate based on the Government securities yield. The actual return of the portfolio, in excess of such yields is recognized through the other comprehensive income. The Revised IAS 19 also requires effect of any plan amendments to be recognized immediately through the net profits, in the statement of comprehensive income.

Previously, the actuarial gains and losses were charged or credited to net profit in the statement of comprehensive income in the period in which they arose and the expected return on plan assets computed based on market expectations were considered as part of the net gratuity cost.

The adoption of Revised IAS 19 Employee Benefits did not have a material impact on the consolidated financial statements.

1.8.2 Superannuation

Certain employees of Infosys are also participants in a defined contribution plan. The company has no further obligations to the Plan beyond its monthly contributions. Certain employees of Infosys BPO are also eligible for superannuation benefit. Infosys BPO has no further obligations to the superannuation plan beyond its monthly contribution which are periodically contributed to a trust fund, the corpus of which is invested with the Life Insurance Corporation of India. Certain employees of Edgeverve are also participants in the Edgeverve Systems Limited Employees Superannuation Fund Trust (the “Plan”) which is a defined contribution plan. The Company has no obligations to the Plan beyond its monthly contributions.

1.8.3 Provident fund

Eligible employees of Infosys receive benefits from a provident fund, which is a defined benefit plan. Both the employee and the company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee's salary. The company contributes a part of the contributions to the Infosys Limited Employees' Provident Fund Trust. The trust invests in specific designated instruments as permitted by Indian law. The remaining portion is contributed to the government administered pension fund. The rate at which the annual interest is payable to the beneficiaries by the trust is being administered by the government. The company has an obligation to make good the shortfall, if any, between the return from the investments of the Trust and the notified interest rate.

In respect of Infosys BPO, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and Infosys BPO make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a government administered provident fund. The company has no further obligation to the plan beyond its monthly contributions.

In respect of Edgeverve Systems Limited, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the Company make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a Government administered provident fund. The Company has no further obligations under the provident fund plan beyond its monthly contributions.

1.8.4 Compensated absences

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

1.8.5 Share-based compensation

The Group recognizes compensation expense relating to share-based payments in net profit using a fair-value measurement method in accordance with IFRS 2, Share-Based Payment. Under the fair value method, the estimated fair value of awards is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was in-substance, multiple awards with a corresponding increase to securities premium.

1.9 Earnings per equity share

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

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

1.10 Recent accounting pronouncements

1.10.1 Standards issued but not yet effective

IFRS 9 Financial Instruments: In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. IFRS 9 has fewer classification and measurement categories as compared to IAS

39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to changes in the fair value of an entity's own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity's own credit risk in the other comprehensive income. The effective date for adoption of IFRS 9 is annual periods beginning on or after January 1, 2018, though early adoption is permitted. The Group is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the condensed consolidated interim financial statements.

IFRS 15 Revenue from Contracts with Customers: In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers. The core principle of the new standard is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Further the new standard requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard permits the use of either the retrospective or cumulative effect transition method. The effective date for adoption of IFRS 15 is annual periods beginning on or after January 1, 2017, though early adoption is permitted. The Group has not yet selected a transition method and has not yet evaluated the impact of IFRS 15 on the condensed consolidated interim financial statements.

2 Notes to the unaudited condensed consolidated interim financial statements

2.1 Cash and cash equivalents

Cash and cash equivalents consist of the following:

(Dollars in millions)

	As of	
	December 31, 2014	**March 31, 2014**
Cash and bank deposits	4,429	3,729
Deposits with corporations	651	602
	5,080	**4,331**

Cash and cash equivalents as of December 31, 2014 and March 31, 2014 include restricted cash and bank balances of $57 million and $53 million, respectively. The restrictions are primarily on account of cash and bank balances held by irrevocable trusts controlled by the company, bank balances held as margin money deposits against guarantees and balances held in unpaid dividend bank accounts.

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

The table below provides details of cash and cash equivalents:

(Dollars in millions)

	As of December 31, 2014	March 31, 2014
Current accounts		
ANZ Bank, Taiwan	1	–
Banamex Bank, Mexico	2	–
Bank of America, U.S.	131	119
Bank of America, Mexico	4	1
Barclays Bank, UK	2	19
Crédit Industriel et Commercial Bank, France	1	1
China Merchants Bank	1	–
Citibank N.A., Australia	3	13
Citibank N.A., Brazil	6	6
Citibank N.A., China	10	9
Citibank N.A., Japan	3	2
Citibank N.A., India	–	1
Citibank N.A., New Zealand	1	1
Citibank N.A., South Africa	–	1
Citibank N.A., Czech Republic	1	–
Citibank N.A., EEFC (U.S. dollar account)	1	–
Commerzbank, Germany	8	1
Deutsche Bank, Belgium	1	2
Deutsche Bank, Czech Republic	1	–
Deutsche Bank, Czech Republic (U.S. dollar account)	2	2
Deutsche Bank, Czech Republic (Euro account)	2	1
Deutsche Bank, France	2	1
Deutsche Bank, Germany	6	6
Deutsche Bank, India	1	1
Deutsche Bank, Netherlands	1	3
Deutsche Bank, Philippines	–	1
Deutsche Bank, Philippines (U.S. dollar account)	1	5
Deutsche Bank, Poland	1	–
Deutsche Bank, Russia(U.S. Dollar Account)	–	2
Deutsche Bank, Singapore	–	2
Deutsche Bank, Spain	–	1
Deutsche Bank, Switzerland	1	1
Deutsche Bank, United Kingdom	10	12
Deutsche Bank-EEFC, India (Euro account)	1	1
Deutsche Bank-EEFC, India (U.S. dollar account)	3	11
Deutsche Bank-EEFC, India (Australian Dollar account)	4	1
Deutsche Bank-EEFC, India (U.K. Pound Sterling account)	2	2

HSBC Bank, Brazil	1	1
HSBC Bank, Hong Kong	7	–
ICICI Bank, India	7	6
ICICI Bank-EEFC, India (U.S. dollar account)	2	3
ING, Belgium	1	1
Nordbanken, Sweden	2	3
Punjab National Bank, India	–	2
Royal Bank of Canada, Canada	5	4
Royal Bank of Canada-EEFC, Canada (U.S. Dollar account)	1	–
Royal Bank of Scotland, China	9	6
Royal Bank of Scotland, China (U.S. Dollar account)	1	1
State Bank of India, India	–	1
Union Bank of Switzerland, Switzerland	4	–
Union Bank of Switzerland, Switzerland (Euro account)	1	–
Union Bank of Switzerland, Switzerland (USD account)	1	1
Wells Fargo Bank N.A. USA	8	–
Westpac, Australia	1	1
	265	**259**
Deposit accounts		
Andhra Bank, India	147	126
Allahabad Bank, India	148	169
Axis Bank, India	176	180
Bank of Baroda, India	262	368
Bank of India, India	477	424
Canara Bank, India	370	393
Central Bank of India, India	251	260
Citibank N.A., China	–	3
Corporation Bank, India	290	189
Deutsche Bank, Poland	25	21
HDFC, India	329	–
ICICI Bank, India	522	501
IDBI Bank, India	234	286
Indusind Bank, India	12	4
ING Vysya Bank, India	16	33
Indian Overseas Bank, India	167	120
Jammu and Kashmir Bank, India	–	4
Kotak Mahindra Bank, India	9	4
National Australia Bank Limited, Australia	16	15
Oriental Bank of Commerce, India	251	15
Punjab National Bank, India	94	13
State Bank of India, India	9	10
South Indian Bank, India	2	4
Syndicate Bank, India	96	144
Union Bank of India, India	12	3
Vijaya Bank, India	165	143
Yes Bank, India	84	38
	4,164	**3,470**
Deposits with corporations		
HDFC Limited, India	651	602
	651	**602**
Total	**5,080**	**4,331**

2.2 Available-for-sale financial assets

Investments in mutual fund units, quoted debt securities and unquoted equity securities are classified as available-for-sale financial assets.

Cost and fair value of these investments are as follows:

(Dollars in millions)

	As of December 31, 2014	**March 31, 2014**
Current		
Mutual fund units:		
Liquid mutual funds		
Cost and fair value	215	342
Fixed Maturity Plan Securities		
Cost	23	24
Gross unrealised holding gains	1	1
Fair value	24	25
	239	**367**
Non-Current		
Quoted debt securities:		
Cost	212	225
Gross unrealised holding gains/ (losses)	1	(18)
Fair value	213	207
Unquoted equity securities:		
Cost	–	–
Gross unrealised holding gains	1	1
Fair value	1	1
	214	**208**
Total available-for-sale financial assets	**453**	**575**

Mutual fund units:

Liquid mutual funds:

The fair value of liquid mutual funds as of December 31, 2014 and March 31, 2014 was $215 million and $342 million, respectively. The fair value is based on quoted price.

Fixed maturity plan securities:

The fair value of fixed maturity plan securities as of December 31, 2014 and March 31, 2014 is $24 million and $25 million, respectively. The net unrealized gain of less than $1 million, net of taxes, has been recognized in other comprehensive income for each of the three months and nine months ended December 31, 2014, respectively. The unrealized gain of less than $1 million, net of taxes of less than $1 million has been recognized in other comprehensive income for the three months and nine months ended December 31, 2013 (Refer to note 2.12).

The fair value is based on quotes reflected in actual transactions in similar instruments.

Quoted debt securities:

The fair value of quoted debt securities as of December 31, 2014 and March 31, 2014 was $213 million and $207 million, respectively. The net unrealized gain of $8 million, net of taxes of $1 million, has been recognized in other comprehensive income for the three months ended December 31, 2014. The net unrealized gain of $16 million, net of taxes of $3 million, has been recognized in other comprehensive income for the nine months ended December 31, 2014.

The net unrealized loss of $10 million and $14 million, net of taxes of less than $1 million and $1 million, has been recognized in other comprehensive income for the three months and nine months ended December 31, 2013, respectively. The fair value is based on the quoted price. (Refer to Note 2.12)

2.3 Edgeverve

Edgeverve was created as a wholly owned subsidiary to focus on developing and selling products and platforms. On April 15, 2014, the Board of Directors of Infosys has authorized the Company to execute a Business Transfer Agreement and related documents with Edgeverve, subject to securing the requisite approval from shareholders in the Annual General Meeting. Subsequently, at the AGM held on June 14, 2014, the shareholders have authorised the Board to enter into a Business Transfer Agreement and related documents with Edgeverve, with effect from July 1, 2014 or such other date as may be decided by the Board of Directors. The Company has undertaken an enterprise valuation by an independent valuer and accordingly the business has been transferred to the Company's wholly owned subsidiary for a consideration of $70 million with effect from July 1, 2014 which is settled through the issue of fully paid-up equity shares.

The transfer of assets and liabilities is accounted for at carrying values and does not have any impact on the consolidated financial statements.

2.4 Prepayments and other assets

Prepayments and other assets consist of the following:

(Dollars in millions)

	As of December 31, 2014	**March 31, 2014**
Current		
Rental deposits	3	2
Security deposits	1	2
Loans and advances to employees	33	35
Prepaid expenses [(1)]	12	19
Interest accrued and not due	18	3
Withholding taxes [(1)]	209	176
Deposit with corporation	154	163
Advance payments to vendors for supply of goods [(1)]	7	15
Premiums held in trust[(2)]	–	23
Other assets	1	2
	438	**440**
Non-current		
Loans and advances to employees	5	6
Security deposits	11	10
Deposit with corporation	9	7
Prepaid gratuity [(1)]	4	2
Prepaid expenses [(1)]	1	2
Rental Deposits	8	10
	38	**37**
	476	**477**
Financial assets in prepayments and other assets	**243**	**263**

(1) *Non-financial assets*

(2) *Represents premiums collected from policyholders and payable to insurance providers by a service provider maintaining the amounts in a fiduciary capacity (Refer to Note 2.9).*

Withholding taxes primarily consist of input tax credits. Other assets primarily represent travel advances and other recoverables. Security deposits relate principally to leased telephone lines and electricity supplies.

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

2.5 Property, plant and equipment

Following are the changes in the carrying value of property, plant and equipment for the three months ended December 31, 2014:

(Dollars in millions)

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
Gross Carrying value as of October 1, 2014	**248**	**863**	**301**	**471**	**173**	**5**	**266**	**2,327**
Additions	3	36	20	43	7	1	–	110
Deletions	–	–	–	(3)	(1)	–	(16)	(20)
Translation difference	(5)	(17)	(7)	(10)	(4)	(1)	(5)	(49)
Gross Carrying value as of December 31, 2014	**246**	**882**	**314**	**501**	**175**	**5**	**245**	**2,368**
Accumulated depreciation as of October 1, 2014	**(2)**	**(305)**	**(190)**	**(343)**	**(124)**	**(3)**	**–**	**(967)**
Depreciation	–	(8)	(10)	(17)	(5)	(1)	–	(41)
Accumulated depreciation on deletions	–	–	–	3	1	1	–	5
Translation difference	–	7	4	7	2	–	–	20
Accumulated depreciation as of December 31, 2014	**(2)**	**(306)**	**(196)**	**(350)**	**(126)**	**(3)**	**–**	**(983)**
Carrying value as of December 31, 2014	**244**	**576**	**118**	**151**	**49**	**2**	**245**	**1,385**
Carrying value as of October 1, 2014	**246**	**558**	**111**	**128**	**49**	**2**	**266**	**1,360**

Following are the changes in the carrying value of property, plant and equipment for the three months ended December 31, 2013:

(Dollars in millions)

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
Gross Carrying value as of October 1, 2013	**151**	**700**	**216**	**357**	**146**	**5**	**322**	**1,897**
Additions	32	44	30	34	10	–	–	150
Deletions	–	–	–	(1)	–	(1)	(26)	(28)
Translation difference	1	8	2	3	2	2	5	23
	184	**752**	**248**	**393**	**158**	**6**	**301**	**2,042**

Gross Carrying value as of December 31, 2013								
Accumulated depreciation as of October 1, 2013	**–**	**(262)**	**(150)**	**(259)**	**(103)**	**(3)**	**–**	**(777)**
Depreciation	–	(12)	(8)	(29)	(5)	(1)	–	(55)
Accumulated depreciation on deletions	–	–	–	1	–	1	–	2
Translation difference	–	(3)	(3)	(3)	(1)	–	–	(10)
Accumulated depreciation as of December 31, 2013	**–**	**(277)**	**(161)**	**(290)**	**(109)**	**(3)**	**–**	**(840)**
Carrying value as of December 31, 2013	**184**	**475**	**87**	**103**	**49**	**3**	**301**	**1,202**
Carrying value as of October 1, 2013	**151**	**438**	**66**	**98**	**43**	**2**	**322**	**1,120**

Following are the changes in the carrying value of property, plant and equipment for the nine months ended December 31, 2014:

(Dollars in millions)

	Land	**Buildings**	**Plant and machinery**	**Computer equipment**	**Furniture and fixtures**	**Vehicles**	**Capital work-in-progress**	**Total**
Gross Carrying value as of April 1, 2014	**190**	**839**	**284**	**444**	**170**	**6**	**305**	**2,238**
Additions	67	87	48	89	18	1	14	324
Deletions	–	–	(2)	(8)	(3)	(1)	(61)	(75)
Translation difference	(11)	(44)	(16)	(24)	(10)	(1)	(13)	(119)
Gross Carrying value as of December 31, 2014	**246**	**882**	**314**	**501**	**175**	**5**	**245**	**2,368**
Accumulated depreciation as of April 1, 2014	**–**	**(300)**	**(175)**	**(328)**	**(117)**	**(2)**	**–**	**(922)**
Depreciation	(2)	(23)	(32)	(45)	(18)	(1)	–	(121)
Accumulated depreciation on deletions	–	–	2	6	3	1	–	12
Translation difference	–	17	9	17	6	(1)	–	48
Accumulated depreciation as of December 31, 2014	**(2)**	**(306)**	**(196)**	**(350)**	**(126)**	**(3)**	**–**	**(983)**
Carrying value as of December 31, 2014	**244**	**576**	**118**	**151**	**49**	**2**	**245**	**1,385**
Carrying value as of April 1, 2014	**190**	**539**	**109**	**116**	**53**	**4**	**305**	**1,316**

Following are the changes in the carrying value of property, plant and equipment for the nine months ended December 31, 2013:

(Dollars in millions)

	Land	**Buildings**				**Vehicles**		**Total**

			Plant and machinery	Computer equipment	Furniture and fixtures		Capital work-in-progress	
Gross Carrying value as of April 1, 2013	**157**	**773**	**231**	**347**	**147**	**5**	**306**	**1,966**
Additions	48	74	45	88	24	1	60	340
Deletions	–	–	–	(3)	–	(1)	(26)	(30)
Translation difference	(21)	(95)	(28)	(39)	(13)	1	(39)	(234)
Gross Carrying value as of December 31, 2013	**184**	**752**	**248**	**393**	**158**	**6**	**301**	**2,042**
Accumulated depreciation as of April 1, 2013	**–**	**(275)**	**(154)**	**(240)**	**(103)**	**(3)**	**–**	**(775)**
Depreciation	–	(36)	(26)	(80)	(16)	(1)	–	(159)
Accumulated depreciation on deletions	–	–	–	3	–	1	–	4
Translation difference	–	34	19	27	10	–	–	90
Accumulated depreciation as of December 31, 2013	**–**	**(277)**	**(161)**	**(290)**	**(109)**	**(3)**	**–**	**(840)**
Carrying value as of December 31, 2013	**184**	**475**	**87**	**103**	**49**	**3**	**301**	**1,202**
Carrying value as of April 1, 2013	**157**	**498**	**77**	**107**	**44**	**2**	**306**	**1,191**

Following are the changes in the carrying value of property, plant and equipment for the fiscal 2014:

(Dollars in millions)

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
Gross Carrying value as of April 1, 2013	**157**	**773**	**231**	**347**	**147**	**5**	**306**	**1,966**
Additions	48	136	73	125	33	2	60	477
Deletions	–	–	(1)	(5)	–	(1)	(30)	(37)
Translation difference	(15)	(70)	(19)	(23)	(10)	–	(31)	(168)
Gross Carrying value as of March 31, 2014	**190**	**839**	**284**	**444**	**170**	**6**	**305**	**2,238**
Accumulated depreciation as of April 1, 2013	**–**	**(275)**	**(154)**	**(240)**	**(103)**	**(3)**	**–**	**(775)**
Depreciation	–	(49)	(35)	(109)	(21)	–	–	(214)
Accumulated depreciation on deletions	–	–	–	4	–	1	–	5
Translation difference	–	24	14	17	7	–	–	62
Accumulated depreciation as of March 31, 2014	**–**	**(300)**	**(175)**	**(328)**	**(117)**	**(2)**	**–**	**(922)**
	190	**539**	**109**	**116**	**53**	**4**	**305**	**1,316**

Carrying value as of March 31, 2014								
Carrying value as of April 1, 2013	**157**	**498**	**77**	**107**	**44**	**2**	**306**	**1,191**

During the three months ended June 30, 2014, based on internal and external technical evaluation, management reassessed the remaining useful life of assets primarily consisting of buildings and computers with effect from April 1, 2014. Accordingly the useful lives of certain assets required a change from the previous estimates.

The existing and revised useful lives are as below:

Category of assets	**Earlier useful life (Years)**	**Current useful life (Years)**
Building	15	22-25
Plant and machinery	5	5
Computer equipment	2-5	3-5
Furniture and fixtures	5	5
Vehicles	5	5

Had the Group continued with the previously assessed useful lives, charge for depreciation and cost of sales for the three months and nine months ended December 31, 2014 would have been higher by $16 million and $59 million, respectively for assets held at April 1, 2014. The revision of the useful lives will result in the following changes in the depreciation expense as compared to the original useful life of the assets:

(Dollars in millions)

Particulars	**Fiscal 2015**	**Fiscal 2016**	**After Fiscal 2016**
Increase /(decrease) in depreciation expense	(72)	(24)	96

The depreciation expense is included in cost of sales in the condensed consolidated interim statement of comprehensive income.

Carrying value of land includes $97 million and $60 million as of December 31, 2014 and March 31, 2014, respectively, towards deposits paid under certain lease-cum-sale agreements to acquire land, including agreements where the company has an option to purchase or renew the properties on expiry of the lease period.

The contractual commitments for capital expenditure were $241 million and $227 million as of December 31, 2014 and March 31, 2014, respectively.

2.6 Goodwill

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

(Dollars in millions)

	As of	
	December 31, 2014	**March 31, 2014**
Carrying value at the beginning	360	364
Translation differences	(30)	(4)
Carrying value at the end	**330**	**360**

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash generating units (CGU) or groups of CGUs, which are benefiting from the synergies of the acquisition. The chief operating decision maker reviews the goodwill for any impairment at the operating segment level, which is represented through groups of CGUs.

Effective the year ended March 31, 2014, the company reorganized its business to strengthen its focus on growing existing client relationships and increasing market share through service differentiation and operational agility. Consequent to the internal reorganization there were changes effected in the segments based on the “management approach” as defined in IFRS 8, Operating Segments. (Refer to Note 2.15). Accordingly the goodwill has been allocated to the new operating segments.

The following table presents the allocation of goodwill to operating segments:

(Dollars in millions)

Segments	**As of**	
	December 31, 2014	**March 31, 2014**
Financial services	68	75
Insurance	48	50
Manufacturing	69	76
Energy, communication and services	32	35
Resources and utilities	15	16
Life sciences and healthcare	20	22
Retail, consumer packaged goods & logistics	49	54
Growth markets	29	32
Total	**330**	**360**

The entire goodwill relating to Infosys BPO’s acquisition of McCamish has been allocated to the groups of CGUs, which are represented by the ‘Insurance’ segment.

The goodwill relating to Infosys Lodestone and Portland acquisitions has been allocated to the groups of CGUs which are represented by the entity's operating segment.

The recoverable amount of a CGU is the higher of its fair value less cost to sell and its value-in-use. The fair value of a CGU is determined based on the market capitalization. The value-in-use is determined based on specific calculations. These calculations use pre-tax cash flow projections over a period of five years, based on financial budgets approved by management and an average of the range of each assumption mentioned below. As of March 31, 2014, the estimated recoverable amount of the CGU exceeded its carrying amount. The recoverable amount was computed based on the fair value being higher than value-in-use and the carrying amount of the CGU was computed by allocating the net assets to operating segments for the purpose of impairment testing. The key assumptions used for the calculations are as follows:

	In %
Long term growth rate	8-10
Operating margins	17-20
Discount rate	13.2

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

2.7 Financial instruments

Financial Instruments by category

The carrying value and fair value of financial instruments by categories as of December 31, 2014 were as follows:

(Dollars in millions)

	Loans and receivables	**Financial assets/liabilities at fair value through profit and loss**	**Available for sale**	**Trade and other payables**	**Total carrying value/fair value**
Assets:					
Cash and cash equivalents (Refer to Note 2.1)	5,080	–	–	–	5,080
Available-for-sale financial assets (Refer to Note 2.2)	–	–	453	–	453

Trade receivables	1,437	–	–	–	1,437
Unbilled revenue	465	–	–	–	465
Prepayments and other assets (Refer to Note 2.4)	243	–	–	–	243
Derivative financial instruments	–	5	–	–	5
Total	**7,225**	**5**	**453**	–	**7,683**
Liabilities:					
Trade payables	–	–	–	28	28
Derivative financial instruments	–	5	–	–	5
Client deposits	–	–	–	4	4
Employee benefit obligation	–	–	–	165	165
Other liabilities (Refer note 2.9)	–	–	–	778	778
Total	–	**5**	–	**975**	**980**

The carrying value and fair value of financial instruments by categories as of March 31, 2014 were as follows:

(Dollars in millions)

	Loans and receivables	**Financial assets/liabilities at fair value through profit and loss**	**Available for sale**	**Trade and other payables**	**Total carrying value/fair value**
Assets:					
Cash and cash equivalents (Refer to Note 2.1)	4,331	–	–	–	4,331
Available-for-sale financial assets (Refer to Note 2.2)	–	–	575	–	575
Investment in certificates of deposit	143	–	–	–	143
Trade receivables	1,394	–	–	–	1,394
Unbilled revenue	469	–	–	–	469
Prepayments and other assets (Refer to Note 2.4)	263	–	–	–	263
Derivative financial instruments	–	36	–	–	36
Total	**6,600**	**36**	**575**	**–**	**7,211**
Liabilities:					
Trade payables	–	–	–	29	29
Client deposits	–	–	–	6	6
Employee benefit obligation	–	–	–	159	159
Other liabilities (Refer note 2.9)	–	**–**	–	687	687
Total	–	–	–	**881**	**881**

Fair value hierarchy

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

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

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

The following table presents fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

(Dollars in millions)

	As of December 31, 2014	**Fair value measurement at end of the reporting period using**		
		Level 1	**Level 2**	**Level 3**
Assets				
Available- for- sale financial asset- Investments in liquid mutual funds (Refer to Note 2.2)	215	215	–	–
Available- for- sale financial asset- Investments in fixed maturity plan securities (Refer to Note 2.2)	24	–	24	–
Available- for- sale financial asset- Investments in quoted debt securities (Refer to Note 2.2)	213	213	–	–
Available- for- sale financial asset- Investments in unquoted equity instruments (Refer to Note 2.2)	1	–	1	–
Derivative financial instruments- gain on outstanding foreign exchange forward and option contracts	5	–	5	–
Liabilities				
Derivative financial instruments- loss on outstanding foreign exchange forward and option contracts	5	–	5	–

The following table presents fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2014:

(Dollars in millions)

	As of March 31, 2014	**Fair value measurement at end**

		of the reporting period using Level 1	Level 2	Level 3
Assets				
Available- for- sale financial asset- Investments in liquid mutual funds (Refer to Note 2.2)	342	342	–	–
Available- for- sale financial asset- Investments in fixed maturity plan securities (Refer to Note 2.2)	25	–	25	–
Available- for- sale financial asset- Investments in quoted debt securities (Refer to Note 2.2)	207	207	–	–
Available- for- sale financial asset- Investments in unquoted equity instruments (Refer to Note 2.2)	1	–	1	–
Derivative financial instruments- gain on outstanding foreign exchange forward and option contracts	36	–	36	–

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

(Dollars in millions)

	Three months ended December 31,		**Nine months ended December 31,**	
	2014	**2013**	**2014**	**2013**
Interest income on deposits and certificates of deposit	109	87	318	261
Income from available-for-sale financial assets	9	9	34	27
	118	**96**	**352**	**288**

Derivative financial instruments

The Group holds derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in exchange rates on foreign currency exposure. The counterparty for these contracts is generally a bank or a financial institution. These derivative financial instruments are valued based on quoted prices for similar assets and liabilities in active markets or inputs that are directly or indirectly observable in the marketplace. The following table gives details in respect of outstanding foreign exchange forward and options contracts:

(In millions)

	As of December 31, 2014	**March 31, 2014**
Forward contracts		

In U.S. dollars	741	751
In Euro	68	64
In United Kingdom Pound Sterling	73	77
In Australian dollars	90	75
Option contracts		
In U.S. dollars	65	20

The Group recognized a net gain on derivative financial instruments of $9 million and $39 million for the three months ended December 31, 2014 and December 31, 2013, respectively, which is included under other income.

The Group recognized a net gain on derivative financial instruments of $36 million and a net loss on derivative financial instruments of $89 million for the nine months ended December 31, 2014 and December 31, 2013, respectively, which is included under other income.

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

(Dollars in millions)

	As of	
	December 31, 2014	**March 31, 2014**
Not later than one month	256	198
Later than one month and not later than three months	502	467
Later than three months and not later than one year	318	393
	1,076	**1,058**

Financial risk management

Financial risk factors

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

Market risk

The Group operates internationally and a major portion of the business is transacted in several currencies and consequently the Group is exposed to foreign exchange risk through its sales and services in the United States and elsewhere, and purchases from overseas suppliers in various foreign currencies. The Group uses derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in exchange rates on foreign currency exposures. The exchange rate between the rupee and foreign currencies has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of the Group's operations are adversely affected as the Indian rupee appreciates / depreciates against these currencies.

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

(Dollars in millions)

	As of December 31, 2014	**March 31, 2014**
Aggregate amount of outstanding forward and option contracts	1,076	1,058
Gains on outstanding forward and option contracts	5	36
Loss on outstanding forward and option contracts	5	-

The outstanding foreign exchange forward and option contracts as of December 31, 2014 and March 31, 2014, mature within twelve months.

The following table analyzes foreign currency risk from financial instruments as of December 31, 2014:

(Dollars in millions)

	U.S. dollars	**Euro**	**United Kingdom Pound Sterling**	**Australian dollars**	**Other currencies**	**Total**
Cash and cash equivalents	149	23	14	23	87	296
Trade receivables	945	190	85	79	84	1,383
Unbilled revenue	279	54	21	24	36	414
Other assets	12	4	2	2	11	31
Trade payables	(9)	(2)	–	(1)	(12)	(24)
Client deposits	(2)	–	–	–	(2)	(4)
Accrued expenses	(109)	(24)	(11)	(4)	(24)	(172)
Employee benefit obligation	(67)	(7)	(6)	(23)	(16)	(119)
Other liabilities	(98)	(18)	(7)	(9)	(91)	(223)
Net assets / (liabilities)	**1,100**	**220**	**98**	**91**	**73**	**1,582**

The following table analyzes foreign currency risk from financial instruments as of March 31, 2014:

(Dollars in millions)

	U.S. dollars	**Euro**	**United Kingdom Pound Sterling**	**Australian dollars**	**Other currencies**	**Total**
Cash and cash equivalents	144	17	33	30	63	287
Trade receivables	898	182	102	87	75	1,344
Unbilled revenue	271	64	22	32	41	430
Other assets	12	6	2	2	9	31
Trade payables	(3)	(3)	(2)	–	(16)	(24)
Client deposits	(3)	(3)	–	–	–	(6)
Accrued expenses	(127)	(26)	(10)	(6)	(31)	(200)
Employee benefit obligation	(64)	(12)	(7)	(22)	(16)	(121)
Other liabilities	(75)	(5)	–	(9)	(50)	(139)
Net assets / (liabilities)	**1,053**	**220**	**140**	**114**	**75**	**1,602**

For the three months ended December 31, 2014 and December 31, 2013, every percentage point depreciation / appreciation in the exchange rate between the Indian rupee and the U.S. dollar has affected the company's incremental operating margins by approximately 0.52% and 0.46%, respectively.

For the nine months ended December 31, 2014 and December 31, 2013, every percentage point depreciation / appreciation in the exchange rate between the Indian rupee and the U.S. dollar has affected the company's incremental operating margins by approximately 0.53% and 0.46%, respectively.

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

Credit risk

Credit risk refers to the risk of default on its obligation by the counterparty resulting in a financial loss. The maximum exposure to the credit risk at the reporting date is primarily from trade receivables amounting to $1,437 million and $1,394 million as of December 31, 2014 and March 31, 2014, respectively and unbilled revenue amounting to $465 million and $469 million as of December 31, 2014 and March 31, 2014, respectively. Trade receivables are typically unsecured and are derived from revenue earned from customers primarily located in the United States. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Group grants credit terms in the normal course of business.

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

(In %)

	Three months ended December 31,		**Nine months ended December 31,**	
	2014	**2013**	**2014**	**2013**
Revenue from top customer	3.2	3.7	3.3	3.9
Revenue from top five customers	13.3	14.1	13.5	14.5

Financial assets that are neither past due nor impaired

Cash and cash equivalents and available-for-sale financial assets are neither past due nor impaired. Cash and cash equivalents include deposits with banks and corporations with high credit-ratings assigned by international and domestic credit-rating agencies. Available-for-sale financial assets include investment in mutual fund units, quoted debt securities and unquoted equity securities. Certificates of deposit represent funds deposited at a bank or other eligible financial institution for a specified time period. Investment in quoted debt securities represents the investments made in debt securities issued by government and quasi government organizations. Of the total trade receivables, $1,050 million and $1,064 million as of December 31, 2014 and March 31, 2014, respectively, were neither past due nor impaired.

There is no other class of financial assets that is not past due but impaired except for trade receivables of $4 million and $3 million as of December 31, 2014 and March 31, 2014, respectively.

Financial assets that are past due but not impaired

The Group's credit period generally ranges from 30-60 days. The age analysis of the trade receivables have been considered from the due date. The age-wise break up of trade receivables, net of allowances of $50 million and $33 million as of December 31, 2014 and March 31, 2014, respectively, that are past due, is given below:

(Dollars in millions)

Period (in days)	**As of**	
	December 31, 2014	**March 31, 2014**
Less than 30	248	229
31 – 60	72	42
61 – 90	35	21

More than 90	32	38
	387	**330**

The reversal of provision for doubtful trade receivable for the three months ended December 31, 2014 was $6 million. The provision for doubtful trade receivables for the nine months ended December 31, 2014 was $22 million.

The provisions for doubtful trade receivables for the three months and nine months ended December 31, 2013 was $3 million and $16 million, respectively.

The movement in the provisions for doubtful trade receivables is as follows:

(Dollars in millions)

	Three months ended December 31,		**Nine months ended December 31,**		**Year ended March 31,**
	2014	**2013**	**2014**	**2013**	**2014**
Balance at the beginning	62	26	36	17	17
Translation differences	(2)	1	(3)	–	–
Provisions for doubtful trade receivables	(6)	3	22	16	23
Trade receivables written off	–	(1)	(1)	(4)	(4)
Balance at the end	**54**	**29**	**54**	**29**	**36**

Liquidity risk

As of December 31, 2014, the Group had a working capital of $5,869 million including cash and cash equivalents of $5,080 million and current available-for-sale financial assets of $239 million. As of March 31, 2014, the Group had a working capital of $5,656 million including cash and cash equivalents of $4,331 million, current available-for-sale financial assets of $367 million and investment in certificates of deposit of $143 million.

As of December 31, 2014 and March 31, 2014, the outstanding employee benefit obligations were $165 million and $159 million, respectively, which have been fully funded. Further, as of December 31, 2014 and March 31, 2014, the Group had no outstanding bank borrowings. Accordingly, no liquidity risk is perceived.

The table below provides details regarding the contractual maturities of significant financial liabilities as of December 31, 2014:

(Dollars in millions)

Particulars	**Less than 1 year**	**1-2 years**	**2-4 years**	**4-7 years**	**Total**
Trade payables	28	–	–	–	28
Client deposits	4	–	–	–	4
Other liabilities (excluding liabilities towards acquisition and incentive accruals - Refer Note 2.9)	711	–	–	–	711
Incentive accruals on an undiscounted basis (Refer note 2.9)	–	–	1	2	3
Liability towards acquisitions on an undiscounted basis (Refer Note 2.9)	75	–	–	–	75

The table below provides details regarding the contractual maturities of significant financial liabilities as of March 31, 2014:

(Dollars in millions)

Particulars	**Less than 1 year**	**1-2 years**	**2-4 years**	**4-7 years**	**Total**
Trade payables	29	–	–	–	29
Client deposits	6	–	–	–	6
Other liabilities (excluding liabilities towards acquisition and incentive accruals - Refer Note 2.9)	640	–	–	–	640
Incentive accruals on an undiscounted basis (Refer note 2.9)	–	4	–	–	4
Liability towards acquisitions on an undiscounted basis (Refer Note 2.9)	–	55	–	–	55

As of December 31, 2014 and March 31, 2014, the Group had outstanding financial guarantees of $7 million and $6 million, respectively, towards leased premises. These financial guarantees can be invoked upon breach of any term of the lease agreement. To the Group’s knowledge there has been no breach of any term of the lease agreement as of December 31, 2014 and March 31, 2014.

Offsetting of financial assets and financial liabilities

The Group offsets a financial asset and a financial liability when it currently has a legally enforceable right to set off the recognised amounts and the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table provides quantitative information about offsetting of derivative financial assets and derivative financial liabilities:

(Dollars in millions)

	As of December 31, 2014		March 31, 2014	
	Derivative financial asset	**Derivative financial liability**	**Derivative financial asset**	**Derivative financial liability**
Gross amount of recognised financial asset/liability	6	(6)	36	–
Amount set off	(1)	1	–	–
Net amount presented in balance sheet	**5**	**(5)**	**36**	**–**

2.8 Provisions

Provisions comprise the following:

(Dollars in millions)

	As of December 31, 2014	March 31, 2014
Provision for post sales client support and other provisions	71	63
Provision towards visa related matters (Refer to Note 2.16)	–	–
	71	**63**

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

(Dollars in millions)

	Three months ended December 31, 2014	Nine months ended December 31, 2014
Balance at the beginning	66	63
Translation differences	1	(1)
Provision recognized/(reversed)	6	17
Provision utilized	(2)	(8)
Balance at the end	**71**	**71**

Provision for post sales client support and other provisions for the three months and nine months ended December 31, 2014 and December 31, 2013 is included in cost of sales in the condensed consolidated interim statement of comprehensive income.

Provision towards visa related matters amounting to $35 million (including legal costs) was created and paid during the year ended March 31, 2014.

As of December 31, 2014 and March 31, 2014, claims against the Company, not acknowledged as debts, net of amounts paid (excluding demands from Indian income tax authorities- Refer to Note 2.12) amounted to $28 million (178 crore) and $27 million (163 crore), respectively.

2.9 Other liabilities

Other liabilities comprise the following:

(Dollars in millions)

	As of December 31, 2014	March 31, 2014
Current		
Accrued compensation to employees	359	266
Accrued expenses	306	308
Withholding taxes payable [1]	186	152
Retainage	8	14
Liabilities of controlled trusts	24	25
Premiums held in trust [2]	–	23
Accrued gratuity	1	–
Liability towards acquisition of business	65	–
Others	13	4
	962	**792**
Non-current		
Liability towards acquisition of business	–	43
Incentive accruals	2	4
Deferred income - government grant on land use rights [1]	8	7
	10	**54**
	972	**846**
Financial liabilities included in other liabilities	778	687
Financial liability towards acquisitions on an undiscounted basis	75	55
Financial liability towards incentive accruals on an undiscounted basis	3	4

(1) *Non financial liabilities*

(2) *Represents premiums collected from policyholders and payable to insurance providers by a service provider maintaining the amounts in fiduciary capacity (Refer to Note 2.4).*

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

2.10 Employee benefits

The Group has adopted Revised IAS 19 with effect from April 1, 2013. The impact on account of the revision in accounting policy is a reduction in retained earnings by $6 million and an increase in other comprehensive income by $9 million. The reduction in retained earnings by $6 million includes a write back of unamortised negative past service cost of $3 million.

2.11 Employees' Stock Option Plans (ESOP)

2011 RSU Plan (the 2011 Plan): The Company has a 2011 RSU Plan which provides for the grant of restricted stock units (RSUs) to eligible employees of the Company. The Board of Directors recommended establishment of the 2011 Plan to the shareholders on August 30, 2011 and the shareholders approved the recommendation of the Board of Directors on October 17, 2011 through a postal ballot. The maximum aggregate number of shares that may be awarded under the Plan is 5,667,200 shares (currently held by the Infosys Limited Employees' Welfare Trust and adjusted for bonus shares issued) and the plan shall continue in effect for a term of 10 years from the date of initial grant under the plan. The RSUs will be issued at par value of the equity share. The 2011 Plan is administered by the Management Development and Compensation Committee (the "Committee") and through the Infosys Limited Employees' Welfare Trust (the "Trust"). The Committee is comprised of independent members of the Board of Directors.

On August 21, 2014, The Company made a grant of 22,794 restricted stock units to Dr. Vishal Sikka, Chief Executive Officer and Managing Director. However, Dr. Sikka, as of that date, was eligible to receive 27,067 RSUs. The Company corrected the error on January 9, 2015 by granting the differential RSUs. The RSUs will vest over a period of four years from the date of the grant in the proportions specified in the award agreement and expire seven days from the date of vesting. The RSUs will vest subject to achievement of certain key performance indicators as set forth in the award agreement for each applicable year of the vesting tranche and continued employment through each vesting date.

The activity in the 2011 Plan during the three months and nine months ended December 31, 2014 is set out below:

Particulars	**Three months ended December 31, 2014**		**Nine months ended December 31, 2014**	
	Shares arising out of options	**Weighted average exercise price ($)**	**Shares arising out of options**	**Weighted average exercise price ($)**
2011 Plan:				
Outstanding at the beginning*	54,134	0.08	–	–
Granted*	–	–	54,134	0.08
Forfeited and expired	–	–	–	–
Exercised	–	–	–	–
Outstanding at the end	**54,134**	**0.08**	**54,134**	**0.08**

Exercisable at the end	–	–	–	–

* *adjusted for bonus issue (Refer to Note 2.19)*

The weighted average remaining contractual life of RSUs outstanding as of December 31, 2014 under the 2011 Plan was 2.64 years.

The fair value of each RSU is estimated on the date of grant using the Black-Scholes-Merton valuation model. The expected term of the RSU is estimated based on the vesting term and contractual term of the RSU, as well as expected exercise behaviour of the employee who receives the RSU. Expected volatility during the expected term of the RSU is based on historical volatility of the observed market prices of the Company's publicly traded equity shares during a period equivalent to the expected term of the RSU.

The fair value of each RSU is estimated on the date of grant using the Black-Scholes-Merton model with the following assumptions:

Particulars	**Nine months ended December 31, 2014**
Weighted average share price ($)	58
Exercise price ($)	0.08
Expected volatility (%)	30 – 37
Expected life of the option (years)	1 – 4
Expected dividends (%)	1.84
Risk-free interest rate (%)	8 – 9

The weighted average fair value of RSUs on grant date was approximately $55.

During each of the three months and nine months ended December 31, 2014, the Company recorded an employee compensation expense of less than $1 million in the condensed consolidated interim statement of comprehensive income.

2.12 Income taxes

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

(Dollars in millions)

	Three months ended December 31,		Nine months ended December 31,	
	2014	**2013**	**2014**	**2013**
Current taxes				
Domestic taxes	159	156	478	433
Foreign taxes	42	32	132	83
	201	**188**	**610**	**516**
Deferred taxes				
Domestic taxes	5	(12)	3	(19)
Foreign taxes	–	4	(6)	(15)
	5	**(8)**	**(3)**	**(34)**
Income tax expense	**206**	**180**	**607**	**482**

Income tax expense for the three months ended December 31, 2014 and December 31, 2013 includes reversals (net of provisions) of $10 million and $3 million, pertaining to earlier periods.

Income tax expense for the nine months ended December 31, 2014 and December 31, 2013 includes reversals (net of provisions) of $18 million and $5 million, respectively pertaining to earlier periods.

The revision in the useful life of assets held at April 1, 2014 has resulted in a decrease in deferred tax credit by $7 million and $21 million for the three months and nine months ended December 31, 2014, respectively and will result in a decrease in deferred tax credit by $29 million for the year ended March 31, 2015. (Refer to Note 2.5)

Entire deferred income tax for the three months and nine months ended December 31, 2014 and December 31, 2013 relates to origination and reversal of temporary differences.

A deferred tax liability of $1 million relating to available-for-sale financial assets has been recognized in other comprehensive income for the three months ended December 31, 2014. For the nine months ended December 31, 2014, a deferred tax liability of $1 million and a reversal of deferred tax asset of $2 million, relating to available-for-sale financial assets has been recognized in other comprehensive income.

For the three months and nine months ended December 31, 2013, a reversal of deferred tax liability of less than $1 million and $1 million, respectively, relating to available-for-sale financial assets has been recognized in other comprehensive income.

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

(Dollars in millions)

	Three months ended December 31,		**Nine months ended December 31,**	
	2014	**2013**	**2014**	**2013**
Profit before income taxes	728	643	2,122	1,746
Enacted tax rates in India	33.99%	33.99%	33.99%	33.99%
Computed expected tax expense	247	219	721	593
Tax effect due to non-taxable income for Indian tax purposes	(69)	(63)	(203)	(189)
Overseas taxes	38	24	102	69
Tax reversals, overseas and domestic	(10)	(3)	(18)	(5)
Effect of differential overseas tax rates	(3)	(2)	(5)	(2)
Effect of exempt non-operating income	(3)	(3)	(12)	(9)
Effect of unrecognized deferred tax assets	1	8	4	12
Branch profit tax	–	–	–	(8)
Effect of non-deductible expenses	6	1	24	30
Additional deduction on research and development expense	(2)	(1)	(7)	(9)
Others	1	–	1	–
Income tax expense	**206**	**180**	**607**	**482**

The applicable Indian statutory tax rate for fiscal 2015 and fiscal 2014 is 33.99%.

During the nine months ended December 31, 2014 and December 31, 2013, the company received weighted tax deduction on eligible research and development expenditures based on the approval received from Department of Scientific and Industrial Research (DSIR) on November 23, 2011 which has been renewed up to March 31, 2017 with effect from April 1, 2014. The weighted tax deduction is equal to 200% of such expenditures incurred.

The foreign tax expense is due to income taxes payable overseas, principally in the United States. In India, the company has benefited from certain tax incentives that the Government of India had provided to the export of software from the units registered under the Software Technology Parks Scheme (STP) and the company continues to benefit from certain tax incentives for the units registered under the Special Economic Zones Act, 2005 (SEZ). However, the income tax incentives provided by the Government of India for STP units have expired, and all the STP units are now taxable. SEZ units which began providing services on or after April 1, 2005 are eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from the financial year in which the unit commenced the provision of services and 50 percent of such profits or gains for a further five years. Certain tax benefits are also available for a further period of five years subject to the unit meeting defined conditions.

As of December 31, 2014, claims against the Group not acknowledged as debts from the Indian Income tax authorities, net of amount paid to the authorities of $272 million (1,714 crore), amounted to $1 million (8 crore). As of March 31, 2014, claims against the Group not acknowledged as debts from the Indian Income tax authorities, net of amount paid to the authorities of $286 million (1,716 crore), amounted to $3 million (19 crore).

Demands from the Indian Income tax authorities include payment of additional tax of $246 million (1,548 crore), including interest of $68 million (430 crore) upon completion of their tax review for fiscal 2006, fiscal 2007, fiscal 2008 and fiscal 2009. These income tax demands are mainly on account of disallowance of a portion of the deduction claimed by the company under Section 10A of the Income Tax Act. The deductible amount is determined by the ratio of export turnover to total turnover. The disallowance arose from certain expenses incurred in foreign currency being reduced from export turnover but not reduced from total turnover. The tax demand for fiscal 2007, fiscal 2008 and fiscal 2009 also includes disallowance of portion of profit earned outside India from the STP units and disallowance of profits earned from SEZ units. The matter for fiscal 2006, fiscal 2007, fiscal 2008 and fiscal 2009 are pending before the Commissioner of Income tax (Appeals), Bangalore. The company is contesting the demand and the management including its tax advisors believes that its position will likely be upheld in the appellate process. The management believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company's financial position and results of operations.

2.13 Earnings per equity share

The following is a reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share:

	Three months ended December 31,		**Nine months ended December 31,**	
	2014	**2013**	**2014**	**2013**
Basic earnings per equity share - weighted average number of equity shares outstanding*(1)(2)*	1,142,805,132	1,142,805,132	1,142,805,132	1,142,805,132
Effect of dilutive common equivalent shares	22,264	–	10,291	–
Diluted earnings per equity share - weighted average number of equity shares and common equivalent shares outstanding	1,142,827,396	1,142,805,132	1,142,815,423	1,142,805,132

(1) Excludes treasury shares
(2) Adjusted for bonus issue. Refer Note 2.19

For the three months and nine months ended December 31, 2014 and December 31, 2013, there were no outstanding options to purchase equity shares which had an anti-dilutive effect.

2.14 Related party transactions

Infosys has provided guarantee for performance of certain contracts entered into by its subsidiaries.

Transactions with key management personnel

The table below describes the compensation to key management personnel which comprise directors and members of the executive council:

(Dollars in millions)

	Three months ended December 31,		Nine months ended December 31,	
	2014	**2013**	**2014**	**2013**
Salaries and other employee benefits to whole-time directors and members of executive council [(1)(2)]	1	2	4	6
Commission and other benefits to non-executive / independent directors	1	–	1	1
Total	**2**	**2**	**5**	**7**

(1) *Executive Council dissolved effective April 1, 2014 and Executive officers have been appointed with effect from that date.*
(2) *Includes stock compensation expense of less than $ 1 million.*

2.15 Segment reporting

IFRS 8 establishes standards for the way that public business enterprises report information about operating segments and related disclosures about products and services, geographic areas, and major customers. The Company's operations predominantly relate to providing end-to-end business solutions to enable clients to enhance business performance. During the year ended March 31, 2014, the Company reorganized its segments to strengthen its focus on growing existing client relationships and increasing market share through service differentiation and operational agility. Consequent to the internal reorganization there were changes effected in the reportable business segments based on the "management approach" as defined in IFRS 8, Operating Segments. The Chief Operating Decision Maker evaluates the Company's performance and allocates resources based on an analysis of various performance indicators by business segments and geographic segments. Accordingly, information has been presented both along business segments and geographic segments. The accounting principles used in the preparation of the financial statements are consistently applied to record revenue and expenditure in individual segments, and are as set out in the significant accounting policies.

Business segments of the Company is determined based on (i) industry class of the customers (outside of the growth markets) and; (ii) presence of customers in growth markets across industry classes. Business segments of the Company are primarily enterprises in Financial Services and Insurance (FSI), enterprises in Manufacturing (MFG), enterprises in the Energy & utilities, Communication and Services (ECS), enterprises in Retail, Consumer packaged goods and Logistics (RCL), enterprises in Life Sciences and Healthcare (LSH) and enterprises in Growth Markets (GMU) comprising enterprises in APAC (Asia Pacific) and Africa. The FSI reportable segments have been aggregated to include the Financial Services operating segment and Insurance operating segment and the ECS reportable segment has been aggregated to include Energy, Communication and Services operating segment and Resources & Utilities operating segments. Geographic segmentation is based on business sourced from that geographic region and delivered from both on-site and off-shore. North America comprises the United States of America, Canada and Mexico, Europe includes continental Europe (both the east and the west), Ireland and the United Kingdom, and the Rest of the World comprising all other places except those mentioned above and India. Consequent to the above change in the composition of reportable business segments, the prior year comparatives have been restated.

Revenue and identifiable operating expenses in relation to segments are categorized based on items that are individually identifiable to that segment. Allocated expenses of segments include expenses incurred for rendering services from the Company's offshore software Development Centers and on-site expenses, which are categorized in relation to the associated turnover of the segment. Certain expenses such as depreciation, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying assets are used interchangeably. Management believes that it is not practical to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and adjusted against the total income of the Company.

Assets and liabilities used in the Company's business are not identified to any of the reportable segments, as these are used interchangeably between segments. Management believes that it is currently not practical to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Geographical information on revenue and business segment revenue information is collated based on individual customers invoiced or in relation to which the revenue is otherwise recognized.

2.15.1 Business segments

Three months ended December 31, 2014 and *December 31, 2013*

(Dollars in millions)

	FSI	MFG	ECS	RCL	LSH	GMU	Total
Revenues	**648**	**488**	**360**	**351**	**158**	**213**	**2,218**
	615	***453***	***330***	***356***	***144***	***202***	***2,100***

Identifiable operating expenses	301	247	166	157	74	102	1,047
	282	*229*	*153*	*160*	*75*	*91*	*990*
Allocated expenses	152	120	87	86	39	52	536
	147	*115*	*85*	*91*	*37*	*51*	*526*
Segment profit	**195**	**121**	**107**	**108**	**45**	**59**	**635**
	186	***109***	***92***	***105***	***32***	***60***	***584***
Unallocable expenses							43
							58
Operating profit							**592**
							526
Other income, net							136
							117
Profit before income taxes							**728**
							643
Income tax expense							206
							180
Net profit							**522**
							463
Depreciation and amortization							43
							58
Non-cash expenses other than depreciation and amortization							–
							–

Nine months ended December 31, 2014 and *December 31, 2013*

(Dollars in millions)

	FSI	**MFG**	**ECS**	**RCL**	**LSH**	**GMU**	**Total**
Revenues	**1,895**	**1,433**	**1,061**	**1,072**	**439**	**652**	**6,552**
	1,809	***1,329***	***968***	***1,027***	***422***	***602***	***6,157***
Identifiable operating expenses	899	731	512	486	222	315	3,165
	833	*682*	*438*	*488*	*221*	*281*	*2,943*
Allocated expenses	436	345	254	258	106	156	1,555
	451	*351*	*256*	*271*	*112*	*160*	*1,601*
Segment profit	**560**	**357**	**295**	**328**	**111**	**181**	**1,832**
	525	***296***	***274***	***268***	***89***	***161***	***1,613***
Unallocable expenses							129
							168
Operating profit							**1,703**
							1,445
Other income, net							419
							301
Profit before income taxes							**2,122**
							1,746
Income tax expense							607
							482
Net profit							**1,515**
							1,264
Depreciation and amortization							129
							168

Non-cash expenses other than depreciation and amortization	–
	–

2.15.2 Geographic Segments

Three months ended December 31, 2014 and *December 31, 2013*

(Dollars in millions)

	North America	Europe	India	Rest of the World	Total
Revenues	**1,366**	**532**	**56**	**264**	**2,218**
	1,260	***522***	***56***	***262***	***2,100***
Identifiable operating expenses	645	255	25	122	1,047
	597	*247*	*35*	*111*	990
Allocated expenses	335	130	11	60	536
	322	*132*	*12*	60	526
Segment profit	**386**	**147**	**20**	**82**	**635**
	341	***143***	***9***	***91***	***584***
Unallocable expenses					43
					58
Operating profit					**592**
					526
Other income, net					136
					117
Profit before income taxes					**728**
					643
Income tax expense					206
					180
Net profit					**522**
					463
Depreciation and amortization					43
					58
Non-cash expenses other than depreciation and amortization					–
					–

Nine months ended December 31, 2014 and December 31*, 2013*

(Dollars in millions)

	North America	Europe	India	Rest of the World	Total
Revenues	**4,001**	**1,597**	**156**	**798**	**6,552**
	3,754	***1,487***	***158***	***758***	***6,157***
Identifiable operating expenses	1,922	779	92	372	3,165
	1,811	*713*	*79*	*340*	*2,943*
Allocated expenses	962	382	32	179	1,555
	1,006	*382*	*34*	*179*	*1,601*
Segment profit	**1,117**	**436**	**32**	**247**	**1,832**

	937	***392***	***45***	***239***	***1,613***
Unallocable expenses					129 *168*
Operating profit					**1,703** ***1,445***
Other income, net					419 *301*
Profit before income taxes					**2,122** ***1,746***
Income tax expense					607 *482*
Net profit					**1,515** ***1,264***
Depreciation and amortization					129 *168*
Non-cash expenses other than depreciation and amortization					– –

2.15.3 Significant clients

No client individually accounted for more than 10% of the revenues for the three months and nine months ended December 31, 2014 and December 31, 2013.

2.16 Litigation

On May 23, 2011, the company received a subpoena from a grand jury in the United States District Court for the Eastern District of Texas. The subpoena required that the company provide to the grand jury certain documents and records related to its sponsorships for, and uses of, B1 business visas.

In addition, the U.S. Department of Homeland Security ("DHS") has reviewed the company's employer eligibility verifications on Form I-9 with respect to its employees working in the United States. In connection with this review, the company was advised that the DHS has found errors in a significant percentage of its Forms I-9 that the DHS has reviewed, and may impose fines and penalties on the company related to such alleged errors.

On October 30, 2013, the company settled the foregoing matters and entered into a Settlement Agreement ("Settlement Agreement") with the U.S. Attorney, the DHS and the United States Department of State ("State," and collectively with the U.S. Attorney and the DHS, the "United States").

In the Settlement Agreement, the company denied and disputed all allegations made by the United States, except for the allegation that the company failed to maintain accurate Forms I-9 records for many of its foreign nationals in the United States in 2010 and 2011 as required by law, and that such failure constituted civil violations of certain laws.

During the year ended March 31, 2014 the Company recorded a charge related to the Settlement Agreement (including legal costs) of $35 million related to the matters that were the subject of the Settlement agreement. The said amount was paid prior to December 31, 2013.

In addition, the company is subject to legal proceedings and claims, which have arisen in the ordinary course of business. The company’s management does not reasonably expect that these legal actions, when ultimately concluded and determined, will have a material and adverse effect on the company’s results of operations or financial condition.

2.17 Corporate Social Responsibility (CSR)

Administrative expenses for three months and nine months ended December 31, 2014 includes contribution to Infosys Foundation towards CSR. Consequent to the requirements of the Companies Act, 2013, a CSR committee has been formed by the company to formulate and monitor the CSR policy of the company. The proposed areas for CSR activities are, eradication of hunger, poverty and malnutrition and the promotion of education and healthcare and rural development projects. The funds will be allocated to a corpus and utilised through the year on these activities which are specified in Schedule VII of the Indian Companies Act, 2013.

2.18 Dividends

The Board of Directors, in their meeting on October 10, 2014, declared an interim dividend of approximately $0.49 per equity share (30 per equity share), which has resulted in a cash outflow of $336 million, inclusive of corporate dividend tax.

2.19 Share capital and share premium

The Company has only one class of shares, referred to as equity shares, having a par value of 5. The Company has allotted 574,236,166 fully paid up equity shares of face value 5/- each during the quarter ended December 31, 2014 pursuant to a bonus issue approved by the shareholders through postal ballot. The record date fixed by the Board of Directors was December 3, 2014. A bonus share of one equity share for every equity share held, and a bonus issue, viz., a stock dividend of one American Depositary Share (ADS) for every ADS held, respectively, has been allotted. Consequently, the ratio of equity shares underlying the ADSs held by an American Depositary Receipt holder remains unchanged. Options granted under the stock option plan have been adjusted for bonus shares. 5,667,200 and 2,833,600 shares were held by controlled trust, as of December 31, 2014 and March 31, 2014, respectively.

The amount received in excess of the par value has been classified as share premium. Additionally, share-based compensation recognized in net profit in the condensed consolidated interim statement of comprehensive income is credited to share premium. Amounts have been utilised for bonus issue from the Company's share premium account.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, this discussion contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," "intend," "project," "seek," "sl "will" and other similar expressions as they relate to us or our business are intended to identify such forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such differences include but are not limited to, those discussed in the section entitled "Risk Factors" in our Annual Report on Form 20-F for the year ended March 31, 2014, in our Quarterly Report on Form 6-K for the quarters ended June 30, 2014 and September 30, 2014 and updates, if any, in the section entitled "Risk Factors" and elsewhere in this Quarterly Report on Form 6-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Quarterly Report on Form 6-K. The following discussion and analysis should be read in conjunction with our condensed interim financial statements included herein and the notes thereto. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Overview

We are a leading global services company that provides business consulting, technology, engineering and outsourcing services. In addition, we offer products, platforms and solutions to clients in different industries.

Our professionals deliver high quality solutions by leveraging our Global Delivery Model through which we divide projects into components that we execute simultaneously at client sites and at our Development Centers in India and around the world. We seek to optimize our cost structure by maintaining the flexibility to execute project components where it is most cost effective. Our Global Delivery Model also allows us to provide clients with high quality solutions in reduced time-frames enabling them to achieve efficiencies. Our sales, marketing and business development teams are organized to focus on specific geographies and business segments and this helps us customize our service offerings to our client's needs. Our primary geographic markets are North America, Europe and the Asia Pacific region. We serve clients in financial services and insurance, manufacturing, energy, communications and services, resources and utilities, retail, consumer packaged goods and logistics, life sciences and healthcare and various other segments.

There is an increasing need for highly skilled technology professionals in the markets in which we operate and in the industries to which we provide services. At the same time, companies are reluctant to expand their internal IT departments and increase costs. These factors have increased the reliance of companies on their outsourcing service providers and are expected to continue to drive future growth for outsourcing services. We believe that because the effective use of offshore technology services offers lower total costs of ownership of IT infrastructure, lower labor costs, improved quality and innovation and faster delivery of technology solutions, companies are increasingly turning to offshore technology service providers. India, in particular, has become a premier destination for offshore technology services. The key factors contributing to the growth of IT and IT enabled services in India include high quality delivery, significant cost benefits and the availability of a large and growing skilled and English speaking IT professionals. Our proven Global Delivery Model, our comprehensive end-to-end solutions, our commitment to superior quality and process execution, our long standing client relationships, our ability to service clients across industries and our ability to scale, make us one of the leading offshore service providers in India.

There are numerous risks and challenges affecting the business. These risks and challenges are discussed in detail in the section entitled 'Risk Factors' in our Annual Report on Form 20-F for the year ended March 31, 2014, in our Quarterly Report on Form 6-K for the quarters ended June 30, 2014 and September 30, 2014 and updates, if any, in the section entitled “Risk Factors” and elsewhere in this Quarterly Report on Form 6-K.

We were founded in 1981 and are headquartered in Bangalore, India. We completed our initial public offering of equity shares in India in 1993 and our initial public offering of ADSs in the United States in 1999. We completed three sponsored secondary ADS offerings in the United States in August 2003, June 2005 and November 2006. We did not receive any of the proceeds from any of our sponsored secondary offerings.

On October 22, 2012, we acquired 100% of the voting interests in Lodestone Holding AG, a global management consultancy firm headquartered in Zurich, Switzerland.

The Hon’ble High Court of Karnataka sanctioned the scheme of amalgamation of Infosys Consulting India Limited (ICIL) with Infosys Limited with an effective date of August 23, 2013. Accordingly, during fiscal 2014, all the assets and liabilities of ICIL were transferred to Infosys Limited on a going concern basis. As ICIL was a wholly owned subsidiary of Infosys Limited, no shares have been allocated to the shareholders upon the scheme becoming effective.

We incorporated wholly owned subsidiary, Infosys Americas Inc., on June 25, 2013.

On February 14, 2014, wholly owned subsidiary, Edgeverve Systems Limited (Edgeverve) was incorporated. Edgeverve was set up to focus on developing and selling products and platforms. On April 15, 2014, the Board of Directors of Infosys has authorized the Company to execute a Business Transfer Agreement and related documents with Edgeverve, subject to securing the requisite approval from shareholders in the Annual General Meeting (AGM).

Subsequently, at the AGM held on June 14, 2014, the shareholders have authorised the Board to enter into a Business Transfer Agreement and related documents with Edgeverve, with effect from July 1, 2014 or such other date as may be decided by the Board of Directors. The Company has undertaken an enterprise valuation by an independent valuer and accordingly the business has been transferred to the Company's wholly owned subsidiary for a consideration of $70 million with effect from July 1, 2014 which is settled through the issue of fully paid up equity shares of such subsidiary. The transfer of assets and liabilities is accounted for at carrying values and does not have any impact on the consolidated financial statements.

Effective fiscal 2014, the Board decided to increase the dividend pay-out from up to 30% of post-tax profits to up to 40% of post-tax profits. At our AGM held on June 14, 2014, our shareholders approved a final dividend of 43.00 per equity share (approximately $0.72 per equity share), which in aggregate, resulted in a cash outflow of $479 million, inclusive of corporate dividend tax.

On October 10, 2014, our board of directors declared an interim dividend of 30.00 (approximately $0.49) per equity share which resulted in a cash outflow of $336 million, inclusive of corporate dividend tax.

The Company has allotted 574,236,166 fully paid up equity shares of par value 5/- each during the quarter ended December 31, 2014 pursuant to a bonus issue approved by the shareholders through postal ballot. The record date fixed by the Board of Directors was December 3, 2014. A bonus share of one equity share for every equity share held, and a bonus issue, viz., a stock dividend of one American Depositary Share (ADS) for every ADS held, respectively, has been allotted. Consequently, the ratio of equity shares underlying the ADSs held by an American Depositary Receipt holder remains unchanged. Amounts have been utilised for bonus issue from the Company's share premium account.

The following table sets forth our revenues, net profit, earnings per equity share for the nine months ended December 31, 2014 and December 31, 2013, and number of employees as at December 31, 2014 and December 31, 2013:

(Dollars in millions except per share and employee data)

	Nine months ended December 31,	
	2014	**2013**
Revenues	6,552	6,157
Net profit	1,515	1,264
Earnings per equity share (Basic)	1.33	1.11
Earnings per equity share (Diluted)	1.33	1.11
Number of employees at the end of the period	169,638	158,404

Our revenue growth was attributable to a number of factors, including an increase in the volume and number of projects executed for clients, as well as an expansion in the solutions that we provide to our clients. We added 169 new customers (gross) during the nine months ended December 31, 2014 as compared to 188 new customers (gross) during the nine months ended December 31, 2013. For the nine months ended December 31, 2014 and December 31, 2013, 98.1% and 98.2% of our revenues, respectively came from repeat business, which we define as revenues from a client that also contributed to our revenues during the prior fiscal year.

Over the last fiscal year, the company has started the following key initiatives to achieve its aspirations of superior financial performance:

1. Cost optimisation:

We are focusing on location optimisation, increasing offshore effort ratios, putting right people in the right jobs and eliminating unnecessary costs.

2. Sales effectiveness:

We are focusing on winning large revenue yielding multi-year outsourcing projects. We are looking to reinvigorate our sales teams and enable them with better systems, training, processes and metrics. We are incentivizing our sales team for delivering growth at acceptable margins.

3. Delivery effectiveness:

We are developing intellectual property-based solutions to delink revenues from efforts and focusing on improving individual work productivity.

Results for the three months ended December 31, 2014 compared to the three months ended December 31, 2013

Revenues

Our revenues are generated principally from services provided on either a time-and-materials or a fixed-price, fixed-timeframe basis. Most of our client contracts, including those that are on a fixed-price, fixed-timeframe basis can be terminated by clients with or without cause, without penalties and with short notice periods of between 0 and 90 days. Since we collect revenues as portions of the contracts are completed, terminated contracts are only subject to collection for portions of the contract completed through the time of termination. Most of our contracts do not contain specific termination-related penalty provisions. In order to manage and anticipate the risk of early or abrupt contract terminations, we monitor the progress on all contracts and change orders according to their characteristics and the circumstances in which they occur. This includes a focused review of our ability and our client's ability to perform on the contract, a review of extraordinary conditions that may lead to a contract termination and a review of the historical client performance considerations. Since we also bear the risk of cost overruns and inflation with respect to fixed-price, fixed-timeframe projects, our operating results could be adversely affected by inaccurate estimates of contract completion costs and dates, including wage inflation rates and currency exchange rates that may affect cost projections. Although we revise our project completion estimates from time to time, such revisions have not, to date, had a material adverse effect on our operating results or financial condition.

We experience from time to time, pricing pressure from our clients. For example, clients often expect that as we do more business with them, they will receive volume discounts. Additionally, clients may ask for fixed-price, fixed-timeframe arrangements or reduced rates. We attempt to use fixed-price arrangements for engagements where the specifications are complete, so individual rates are not negotiated.

The following table sets forth the growth in our revenues for the three months ended December 31, 2014 over the corresponding period in 2013:

(Dollars in millions)

	Three months ended December 31,		**Change**	**Percentage Change**
	2014	**2013**		
Revenues	2,218	2,100	118	5.6%

The increase in revenues was attributable to an increase in volumes from most of the segments.

During the year ended March 31, 2014, we reorganized segments to strengthen our focus on growing existing client relationships and increasing market share through service differentiation and operational agility. Consequent to this internal reorganization, there were changes effected in the reportable business segments based on the "management approach" as defined in IFRS 8, Operating Segments.

Business segments of the Company are primarily enterprises in Financial Services and Insurance (FSI), Manufacturing (MFG), Energy & utilities, Communication and Services (ECS), Retail, Consumer packaged goods and Logistics (RCL), Life Sciences and Healthcare (LSH) and Growth Markets (GMU) sectors. Consequent to the above change in the composition of reportable business segments, the prior period comparatives have been restated. (Refer to Note 2.15, Segment reporting, of item 1 of this Quarterly Report).

The following table sets forth our revenues by business segments for the three months ended December 31, 2014 and December 31, 2013:

Business Segments	Percentage of Revenues Three months ended December 31,	
	2014	2013
Financial Services and Insurance (FSI)	29.2%	29.3%
Manufacturing (MFG)	22.0%	21.6%
Energy & utilities, Communication and Services (ECS)	16.3%	15.7%
Retail, Consumer packaged goods and Logistics (RCL)	15.8%	16.9%
Life Sciences and Healthcare (LSH)	7.1%	6.9%
Growth Markets (GMU)	9.6%	9.6%

There were significant currency movements during three months ended December 31, 2014 as compared to three months ended December 31, 2013. During three months ended December 31, 2014 as compared to three months ended December 31, 2013, the U.S. dollar appreciated by 8.8%, 2.5% and 7.6% against the Euro, the United Kingdom Pound Sterling and the Australian dollar, respectively.

Had the average exchange rate between various currencies and the U.S. dollar remained constant, during three months ended December 31, 2014 in comparison to three months ended December 31, 2013, our revenues in constant currency terms for the three months December 31, 2014, would have been higher by $47 million at $2,265 million as against our reported revenues of $2,218 million, resulting in a growth of 7.9% as against a reported growth of 5.6%.

The following table sets forth our business segment profit (revenues less identifiable operating expenses and allocated expenses) as a percentage of business segment revenue for three months ended December 31, 2014 and three months ended December 31, 2013 (Refer to Note 2.15.1 of item 1 of this Quarterly Report):

Business Segments	Three months ended December 31,	
	2014	2013
Financial services and insurance (FSI)	30.1%	30.3%
Manufacturing (MFG)	24.7%	23.9%
Energy & utilities, Communication and Services (ECS)	29.7%	28.0%
Retail, Consumer packaged goods and Logistics (RCL)	30.7%	29.5%

Life Sciences and Healthcare (LSH)	29.2%	22.8%
Growth Markets (GMU)	27.6%	29.4%

Profitability across segments has improved by 0.8% primarily on account of savings from cost optimization initiatives including improved utilization and improved offshore mix across some of the segments, which is partially offset by the compensation increase given during last 12 months, promotions, increases in variable payout and adverse cross currency movements. Profitability in LSH for the three months ended December 2013 was affected by lower margins on certain large complex system integration projects. Significant adverse cross currency movement has affected the profitability in GMU.

Our revenues are also segmented into onsite and offshore revenues. The table below sets forth the percentage of our revenues by location for three months ended December 31, 2014 and December 31, 2013:

	Three months ended December 31,	
	2014	**2013**
Onsite	51.3%	51.1%
Offshore	48.7%	48.9%

We typically assume full project management responsibility for each project that we undertake. Using our Global Delivery Model, we divide projects into components that we execute simultaneously at client sites and our Development Centers located outside India ('onsite') and at our Global Development Centers in India ('offshore'). The proportion of work performed at our facilities and at client sites varies from quarter-to-quarter. We charge higher rates and incur higher compensation and other expenses for work performed onsite. Services performed onsite typically generate higher revenues per-capita at a lower gross margin than the same services performed offshore. As a result, our total revenues, cost of sales and gross profit in absolute terms and as a percentage of revenues fluctuate from quarter-to-quarter.

The table below sets forth details of billable hours expended for onsite and offshore for three months ended December 31, 2014 and December 31, 2013:

	Three months ended December 31,	
	2014	**2013**
Onsite	23.9%	24.6%

Offshore	76.1%	75.4%

Revenues from services represented 97.1% of total revenues for three months ended December 31, 2014 as compared to 96.2% for three months ended December 31, 2013. We also generate revenue from software application products, including banking software. Sales of our software products represented 2.9% of our total revenues for three months ended December 31, 2014 as compared to 3.8% for three months ended December 31, 2013.

The following table sets forth the revenues from fixed-price, fixed-timeframe contracts and time-and-materials contracts as a percentage of services revenues for three months ended December 31, 2014 and three months ended December 31, 2013:

	Three months ended December 31,	
	2014	**2013**
Fixed-price, fixed-timeframe contracts	42.9%	41.0%
Time-and-materials contracts	57.1%	59.0%

Revenues and gross profits are also affected by employee utilization rates. We define employee utilization as the proportion of total billed person months to total available person months, excluding sales, administrative and support personnel. We manage utilization by monitoring project requirements and timetables. The number of software professionals that we assign to a project will vary according to the size, complexity, duration, and demands of the project. An unanticipated termination of a significant project could also cause lower utilization of technology professionals. In addition, we do not utilize our technology professionals when they are enrolled in training programs, particularly during our training course for new employees.

The following table sets forth the utilization rates of billable employees for IT services professionals:

	Three months ended December 31,	
	2014	**2013**
Including trainees	75.7%	72.5%
Excluding trainees	82.7%	76.9%

The following table sets forth our revenues by geographic segments for three months ended December 31, 2014 and three months ended December 31, 2013:

Geographic Segments	**Percentage of revenues Three months ended December 31, 2014**	**2013**
North America	61.6%	60.0%
Europe	24.0%	24.9%
India	2.5%	2.6%
Rest of the World	11.9%	12.5%

The following table sets forth our geographic segment profit (revenues less identifiable operating expenses and allocated expenses) as a percentage of geographic segment revenue for three months ended December 31, 2014 and three months ended December 31, 2013 (refer to Note 2.15.2 under Item 1 of this Quarterly Report):

Geographic Segments	**Three months ended December 31, 2014**	**2013**
North America	28.2%	27.0%
Europe	27.8%	27.3%
India	35.2%	16.3%
Rest of the World	31.1%	34.8%

Profitability across most of the segments has improved by 0.8% on account of savings from cost optimization initiatives including improved utilization and improved offshore mix which is partially offset by the compensation increase given during last 12 months, promotions, increases in variable payout and adverse cross currency movements. Significant adverse cross currency movement has affected the profitability in ROW.

During the three months ended December 31, 2014, the total billed person-months for our IT services professionals grew by 11.0% compared to the three months ended December 31, 2013. The onsite billed person-months for our IT services professionals increases by 5.8% and offshore billed person-months for our IT services professionals grew by 13.2%, during the three months ended December 31, 2014. During the three months ended December 31, 2014, there was a 0.2% increase in the onsite revenue productivity and a 5.2% decrease in offshore revenue productivity when compared to the three months ended December 31, 2013. On a blended basis, the revenue productivity decreased by 4.0% during the three months ended December 31, 2014 when compared to the three months ended December 31, 2013.

Cost of sales

The following table sets forth our cost of sales for the three months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Three months ended December 31,		**Change**	**Percentage Change**
	2014	**2013**		
Cost of sales	1,360	1,341	19	1.4%
As a percentage of revenues	61.3%	63.9%		

(Dollars in millions)

	Three months ended December 31,		**Change**
	2014	**2013**	
Employee benefit costs	1,072	1,058	14
Deferred purchase price pertaining to acquisition	10	8	2
Depreciation and amortization	43	58	(15)
Travelling costs	54	56	(2)
Cost of technical sub-contractors	94	86	8
Cost of software packages for own use	44	36	8
Third party items bought for service delivery to clients	6	10	(4)
Operating lease payments	9	9	–
Communication costs	12	6	6
Repairs and maintenance	8	5	3
Provision for post-sales client support	3	4	(1)
Other expenses	5	5	–
Total	**1,360**	**1,341**	**19**

The increase in cost of sales during the three months ended December 31, 2014 from the three months ended December 31, 2013 was attributable primarily to an increase in our employee benefit costs, cost of software packages for own use, cost of technical sub-contractors partially offset by decrease in depreciation. The increase in employee benefit costs during the three months ended December 31, 2014 from the three months ended December 31, 2013 was primarily due to compensation increases given to employees during last 12 months, promotions, increase in variable payout and increase in the number of employees partially offset by increase in offshore effort mix. The increase in cost of software packages for own use was due to increase in software bought for internal use. The decrease in depreciation is primarily on account of change in the estimated useful life of buildings and computer equipment. During the three months ended June 30, 2014, the management based on internal and external technical evaluation reassessed the remaining useful life of assets primarily consisting of buildings and computer equipment with effect from April 1, 2014. Accordingly, the useful lives of certain assets required a change from the previous estimates. Had the group continued with the previously assessed useful lives, charge for depreciation and cost of sales for the three months ended December 31, 2014 would have been higher by $16 million for assets held at April 1, 2014 (Refer to note 2.5 in Item 1 of this quarterly report).

We hire subcontractors on a limited basis from time to time for client requirements and we generally do not perform subcontracted work for other technology service providers. For three months ended December 31, 2014 and December 31, 2013, 6.9% and 6.4%, respectively, of our cost of sales was attributable to cost of technical subcontractors.

Gross profit

The following table sets forth our gross profit for the three months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Three months ended December 31,		**Change**	**Percentage Change**
	2014	**2013**		
Gross profit	858	759	99	13.0%
As a percentage of revenues	38.7%	36.1%		

The increase in gross profit as a percentage of revenue during the three months ended December 31, 2014 from the three months ended December 31, 2013 was attributable to a decrease in cost of sales as a percentage of revenue, during the same period.

Selling and marketing expenses

The following table sets forth our selling and marketing expenses for the three months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Three months ended December 31, 2014	2013	Change	Percentage Change
Selling and marketing expenses	124	104	20	19.2%
As a percentage of revenues	5.6%	5.0%		

(Dollars in millions)

	Three months ended December 31, 2014	2013	Change
Employee benefit costs	100	84	16
Travelling costs	11	8	3
Branding and marketing	7	6	1
Operating lease payments	2	2	–
Communication costs	1	1	–
Other expenses	3	3	–
Total	**124**	**104**	**20**

The increase in selling and marketing expenses during the three months ended December 31, 2014 from the three months ended December 31, 2013 was primarily due to increase in the number of employees, compensation increases given to employees during last 12 months, promotions and increases in variable payout.

Administrative expenses

The following table sets forth our administrative expenses for the three months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Three months ended December 31, 2014	2013	Change	Percentage Change
Administrative expenses	142	129	13	10.1%
As a percentage of revenues	6.4%	6.1%		

(Dollars in millions)

	Three months ended December 31, 2014	2013	Change
Employee benefit costs	42	42	–
Consultancy and professional charges	18	25	(7)
Repairs and maintenance	27	20	7
Power and fuel	9	9	–
Communication costs	12	11	1
Travelling costs	10	5	5
Rates and taxes	7	3	4
Operating lease payments	2	3	(1)
Insurance charges	3	2	1
Provisions for doubtful trade receivables	(6)	3	(9)
Contributions towards CSR	10	-	10
Other expenses	8	6	2
Total	**142**	**129**	**13**

The increase in administrative expenses during the three months ended December 31, 2014 from the three months ended December 31, 2013 was attributable primarily to increase in repair and maintenance, contribution towards CSR, partially offset by a decrease in provision for doubtful trade receivables and consultancy and professional charges. Administrative expenses for the three months ended December 31, 2014 includes contribution towards CSR. Consequent to the requirements of the Companies Act, 2013, a CSR committee has been formed by the Company to formulate and monitor the CSR policy of the Company and $10 million was contributed towards CSR activities during the three months ended December 31, 2014. The proposed areas for CSR activities are eradication of hunger, poverty and malnutrition and the promotion of education, healthcare and rural development projects. The funds will be allocated to a corpus and utilised through the year on these activities.

Operating profit

The following table sets forth our operating profit for the three months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Three months ended December 31, 2014	2013	Change	Percentage Change
Operating profit	592	526	66	12.5%

As a percentage of revenues	26.7%	25.0%

The increase in operating profit as a percentage of revenues for the three months ended December 31, 2014 from the three months ended December 31, 2013, was primarily attributable to an increase of 2.6% in gross profit as a percentage of revenue partially offset by an increase of 0.6% and 0.3% in Selling and marketing expenses and administrative expenses as a percentage of revenue, respectively.

Other income

The following table sets forth our other income for the three months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Three months ended December 31,		**Change**	**Percentage Change**
	2014	**2013**		
Other income, net	136	117	19	16.2%

Other income for the three months ended December 31, 2014 primarily includes interest income on deposits and certificates of deposit of $109 million, income from available-for-sale financial assets of $9 million, foreign exchange gain of $5 million on translation of other assets and liabilities and a foreign exchange gain of $9 million on forward and option contracts.

Other income for the three months ended December 31, 2013 primarily includes interest income of $87 million on deposits and certificates of deposit, income of $9 million from available-for-sale financial assets and a foreign exchange gain of $39 million on forward and options contracts, partially offset by a foreign exchange loss of $20 million on translation of other assets and liabilities.

The increase in interest income for the three months ended December 31, 2014 over the three months ended December 31, 2013 is primarily on account of an increase in investible surplus.

Functional Currency and Foreign Exchange

The condensed consolidated interim financial statements included in this Quarterly Report are presented in U.S. dollars (rounded off to the nearest million) to facilitate global comparability.

Generally, Indian law requires residents of India to repatriate any foreign currency earnings to India to control the exchange of foreign currency. More specifically, Section 8 of the Foreign Exchange Management Act, or FEMA, requires an Indian company to take all reasonable steps to realize and repatriate into India all foreign currency earned by the company outside India, within such time periods and in the manner specified by the Reserve Bank of India, or RBI. The RBI has promulgated guidelines that require the company to repatriate any realized foreign currency back to a foreign currency account such as an Exchange Earners Foreign Currency, or EEFC account with an authorized dealer in India, subject to the condition that the sum total of the accruals in the account during a calendar month should be converted into rupees on or before the last day of the succeeding calendar month, after adjusting for utilization of the balances for approved purposes or forward commitments.

We typically collect our earnings denominated in foreign currencies using a dedicated foreign currency account located in the local country of operation. In order to do this, we are required to obtain, and have obtained, approval from an authorized dealer, on behalf of the RBI, to maintain a foreign currency account in overseas countries.

Our failure to comply with RBI regulations could result in RBI enforcement actions against us.

We generate substantially all of our revenues in foreign currencies, particularly the U.S. dollar, the United Kingdom Pound Sterling, Euro and the Australian dollar, whereas we incur a significant portion of our expenses in Indian rupees. The exchange rate between the Indian rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of our operations are adversely affected as the Indian rupee appreciates against the U.S. dollar. Foreign exchange gains and losses arise from the depreciation and appreciation of the Indian rupee against other currencies in which we transact business and from foreign exchange forward and option contracts.

The following table sets forth the currencies in which our revenues for the three months ended December 31, 2014 and December 31, 2013 were denominated:

Currency	**Percentage of Revenues Three months ended December 31,**	
	2014	**2013**
U.S. dollar	68.9%	68.5%

United Kingdom Pound Sterling	5.8%	6.0%
Euro	10.3%	10.4%
Australian dollar	7.4%	7.9%
Others	7.6%	7.2%

The following table sets forth information on the foreign exchange rates in rupees per U.S. dollar, United Kingdom Pound Sterling, Euro and Australian dollar for the three months ended December 31, 2014 and December 31, 2013:

	Three months ended December 31, 2014 ()	**2013 ()**	**Appreciation / (Depreciation) in percentage**
Average exchange rate during the period:			
U.S. dollar	62.16	62.03	(0.2%)
United Kingdom Pound Sterling	97.99	100.72	2.7%
Euro	77.50	84.69	8.5%
Australian dollar	52.76	56.77	7.1%

	Three months ended December 31, 2014 ()	**2013 ()**
Exchange rate at the beginning of the period:(a)		
U.S. dollar	61.75	62.61
United Kingdom Pound Sterling	99.92	101.18
Euro	77.69	84.52
Australian dollar	53.76	58.43
Exchange rate at the end of the period:(b)		
U.S. dollar	63.04	61.81
United Kingdom Pound Sterling	98.31	102.14
Euro	76.59	85.10
Australian dollar	51.68	55.09
Appreciation / (Depreciation) of the Indian rupee against the relevant currency:((b)/(a) - as a percentage)		
U.S. dollar	(2.1)%	1.3%
United Kingdom Pound Sterling	1.6%	(0.9)%
Euro	1.4%	(0.7)%
Australian dollar	3.9%	5.7%

The following table sets forth information on the foreign exchange rates in U.S. dollar per United Kingdom Pound Sterling, Euro and Australian dollar for the three months ended December 31, 2014 and December 31, 2013:

	Three months ended December 31, 2014 ($)	2013 ($)	Appreciation / (Depreciation) in percentage
Average exchange rate during the period:			
United Kingdom Pound Sterling	1.58	1.62	2.5%
Euro	1.25	1.37	8.8%
Australian dollar	0.85	0.92	7.6%

	Three months ended December 31, 2014 ($)	2013 ($)
Exchange rate at the beginning of the period:(a)		
United Kingdom Pound Sterling	1.62	1.62
Euro	1.26	1.35
Australian dollars	0.87	0.93
Exchange rate at the end of the period:(b)		
United Kingdom Pound Sterling	1.56	1.65
Euro	1.21	1.38
Australian dollar	0.82	0.89
Appreciation / (Depreciation) of U.S. dollar against the relevant currency:((b)/(a) – as a percentage)		
United Kingdom Pound Sterling	3.7%	(1.9)%
Euro	4.0%	(2.2)%
Australian dollar	5.7%	4.3%

For the three months ended December 31, 2014 and December 31, 2013, every percentage point depreciation/appreciation in the exchange rate between the Indian rupee and the U.S. dollar has affected our incremental operating margins by approximately 0.52% and 0.46%, respectively. The exchange rate between the Indian rupee and the U.S. dollar has fluctuated substantially in recent years and may continue to do so in the future. We are unable to predict the impact that future fluctuations may have on our operating margins.

We have recorded a net gain of $9 million and $39 million for the three months ended December 31, 2014 and the three months ended December 31, 2013, respectively, on account of foreign exchange forward and option contracts. Our accounting policy requires us to mark to market and recognize the effect in statement of comprehensive income immediately of any derivative that is either not designated as a hedge, or is so designated but is ineffective as per IAS 39.

Income tax expense

Our net profit earned from providing software development and other services outside India is subject to tax in the country where we perform the work. Most of our taxes paid in countries other than India, can be applied as a credit against our Indian tax liability, to the extent that the same income is subject to tax in India.

We, being a resident in India as per the provisions of the Income Tax Act, 1961, are required to pay taxes in India on the entire global income in accordance with the provisions of Section 5 of the Indian Income Tax Act, 1961, which is reflected as domestic taxes. The geographical segment disclosures on revenue in note 2.15.2 of item 1 of this Quarterly Report are based on the location of customers and do not reflect the geographies where the actual delivery or revenue-related efforts occur. The income on which domestic taxes are imposed are not restricted to the income generated from the “India” geographic segment. As such, amounts applicable to domestic income taxes and foreign income taxes will not necessarily correlate to the proportion of revenue generated from India and other geographical segments.

We have benefited from certain tax incentives that the Government of India had provided for the export of software from the units registered under the Software Technology Parks Scheme (‘STP’) in India and we continue to benefit from certain tax incentives for the units registered under the Special Economic Zones Act, 2005 (SEZ). However, the income tax incentives provided by the Government of India for STP units have expired, and the income from all our STP units are now taxable. SEZ units which began providing services on or after April 1, 2005 are eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from the financial year in which the unit has commenced the provision of services and 50 percent of such profits or gains for the five years thereafter. Certain tax benefits are also available for a further five years subject to the unit meeting defined conditions.

As a result of these tax incentives, a portion of our pre-tax income has not been subject to tax in recent years. These tax incentives resulted in a decrease in our income tax expense of $69 million and $63 million for three months ended December 31, 2014 and December 31, 2013, respectively, compared to the effective tax amounts that we estimate we would have been required to pay if these incentives had not been available. The per share effect of these tax incentives computed based on both basic and diluted weighted average number of equity shares for three months ended December 31, 2014 and December 31, 2013 was $0.06 each and $0.06 each, respectively. The basic and diluted weighted average number of equity shares have been adjusted for bonus issue. (Refer to Note 2.19, Share capital and share premium, Item 1 of this Quarterly Report).

The following table sets forth our income tax expense and effective tax rate for the three months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

Three months ended December 31,		Change	Percentage Change
2014	**2013**		

Income tax expense	206	180	26	14.4%
Effective tax rate	28.3%	28.0%		

Our effective tax rate for the three months ended December 31, 2014 was 28.3% compared to 28.0% for the three months ended December 31, 2013.

Net profit

The following table sets forth our net profit for the three months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Three months ended December 31,		**Change**	**Percentage Change**
	2014	**2013**		
Net profit	522	463	59	12.7%
As a percentage of revenues	23.5%	22.0%		

The increase in net profit as a percentage of revenues for the three months ended December 31, 2014 as compared to the three months ended December 31, 2013 was primarily attributable to a 1.7% increase in operating profit as a percentage of revenues, increase in other income partially offset by an increase in the effective tax rate.

Results for the nine months ended December 31, 2014 compared to the nine months ended December 31, 2013

Revenues

Our revenues are generated principally from services provided on either a time-and-materials or a fixed-price, fixed-timeframe basis. Most of our client contracts, including those that are on a fixed-price, fixed-timeframe basis can be terminated by clients with or without cause, without penalties and with short notice periods of between 0 and 90 days. Since we collect revenues as portions of the contracts are completed, terminated contracts are only subject to collection for portions of the contract completed through the time of termination. Most of our contracts do not contain specific termination-related penalty provisions. In order to manage and anticipate the risk of early or abrupt contract terminations, we monitor the progress on all contracts and change orders according to their characteristics and the circumstances in which they occur. This includes a focused review of our ability and our client's ability to perform on the contract, a review of extraordinary conditions that may lead to a contract termination and a review of the historical client performance considerations. Since we also bear the risk of cost overruns and inflation with respect to fixed-price, fixed-timeframe projects, our operating results could be adversely affected by inaccurate estimates of contract completion costs and dates, including wage inflation rates and currency exchange rates that may affect cost projections. Although we revise our project completion estimates from time to time, such revisions have not, to date, had a material adverse effect on our operating results or financial condition.

We experience from time to time, pricing pressure from our clients. For example, clients often expect that as we do more business with them, they will receive volume discounts. Additionally, clients may ask for fixed-price, fixed-timeframe arrangements or reduced rates. We attempt to use fixed-price arrangements for engagements where the specifications are complete, so individual rates are not negotiated.

The following table sets forth the growth in our revenues for the nine months ended December 31, 2014 over the corresponding period in 2013:

(Dollars in millions)

	Nine months ended December 31,		**Change**	**Percentage Change**
	2014	**2013**		
Revenues	6,552	6,157	395	6.4%

The increase in revenues was attributable to an increase in volumes from all the segments.

During the year ended March 31, 2014, we reorganized segments to strengthen our focus on growing existing client relationships and increasing market share through service differentiation and operational agility. Consequent to this internal reorganization, there were changes effected in the reportable business segments based on the "management approach" as defined in IFRS 8, Operating Segments.

Business segments of the Company are primarily enterprises in Financial Services and Insurance (FSI), Manufacturing (MFG), Energy & utilities, Communication and Services (ECS), Retail, Consumer packaged goods and Logistics (RCL), Life Sciences and Healthcare (LSH) and Growth Markets (GMU) sectors. Consequent to the above change in the composition of reportable business segments, the prior period comparatives have been restated. (Refer to Note 2.15, Segment reporting, of item 1 of this Quarterly Report).

The following table sets forth our revenues by business segments for the nine months ended December 31, 2014 and December 31, 2013:

Business Segments	Percentage of Revenues Nine months ended December 31,	
	2014	2013
Financial Services and Insurance (FSI)	28.9%	29.4%
Manufacturing (MFG)	21.9%	21.6%
Energy & utilities, Communication and Services (ECS)	16.2%	15.7%
Retail, Consumer packaged goods and Logistics (RCL)	16.4%	16.7%
Life Sciences and Healthcare (LSH)	6.7%	6.8%
Growth Markets (GMU)	9.9%	9.8%

There were significant currency movements during nine months ended December 31, 2014 as compared to nine months ended December 31, 2013. During nine months ended December 31, 2014 as compared to nine months ended December 31, 2013, the U.S. dollar appreciated by 4.3% and 2.2% against the Australian dollar and Euro, respectively, and depreciated by 3.8% against the United Kingdom Pound Sterling.

Had the average exchange rate between various currencies and the U.S. dollar remained constant, during nine months ended December 31, 2014 in comparison to nine months ended December 31, 2013, our revenues in constant currency terms for the nine months ended December 31, 2014, would have been higher by $30 million at $6,582 million as against our reported revenues of $6,552 million, resulting in a growth of 6.9% as against a reported growth of 6.4%.

The following table sets forth our business segment profit (revenues less identifiable operating expenses and allocated expenses) as a percentage of business segment revenue for nine months ended December 31, 2014 and nine months ended December 31, 2013 (refer to Note 2.15.1 of item 1 this Quarterly Report):

Business Segments	Nine months ended December 31,	
	2014	2013
Financial services and insurance (FSI)	29.6%	29.1%
Manufacturing (MFG)	24.9%	22.2%
Energy & utilities, Communication and Services (ECS)	27.8%	28.3%
Retail, Consumer packaged goods and Logistics (RCL)	30.6%	26.0%
Life Sciences and Healthcare (LSH)	25.4%	21.5%
Growth Markets (GMU)	27.7%	26.8%

Profitability across most of the segments has improved by 1.8% primarily on account of savings from cost optimization initiatives including improved utilization and improved offshore mix across most of the segments which is partially offset by the compensation increase given to employees during the last 12 months, promotions and increase in variable payout. The segment profitability for the nine months ended December 31, 2013 included a provision of $35 million towards visa related matters. ECS is affected by lower margins on certain large complex system integration projects.

Our revenues are also segmented into onsite and offshore revenues. The table below sets forth the percentage of our revenues by location for nine months ended December 31, 2014 and December 31, 2013:

	Nine months ended December 31,	
	2014	**2013**
Onsite	51.2%	52.3%
Offshore	48.8%	47.7%

We typically assume full project management responsibility for each project that we undertake. Using our Global Delivery Model, we divide projects into components that we execute simultaneously at client sites and our Development Centers located outside India (‘onsite’) and at our Global Development Centers in India (‘offshore’). The proportion of work performed at our facilities and at client sites varies from quarter-to-quarter. We charge higher rates and incur higher compensation and other expenses for work performed onsite. Services performed onsite typically generate higher revenues per-capita at a lower gross margin than the same services performed offshore. As a result, our total revenues, cost of sales and gross profit in absolute terms and as a percentage of revenues fluctuate from quarter-to-quarter.

The table below sets forth details of billable hours expended for onsite and offshore for nine months ended December 31, 2014 and December 31, 2013:

	Nine months ended December 31,	
	2014	**2013**
Onsite	24.1%	25.4%
Offshore	75.9%	74.6%

Revenues from services represented 97.0% of total revenues for nine months ended December 31, 2014 as compared to 96.3% for nine months ended December 31, 2013. We also generate revenue from software application products, including banking software. Sales of our software products represented 3.0% of our total revenues for nine months ended December 31, 2014 as compared to 3.7% for nine months ended December 31, 2013.

The following table sets forth the revenues from fixed-price, fixed-timeframe contracts and time-and-materials contracts as a percentage of services revenues for nine months ended December 31, 2014 and nine months ended December 31, 2013:

	Nine months ended December 31,	
	2014	**2013**
Fixed-price, fixed-timeframe contracts	41.5%	40.5%
Time-and-materials contracts	58.5%	59.5%

Revenues and gross profits are also affected by employee utilization rates. We define employee utilization as the proportion of total billed person months to total available person months, excluding sales, administrative and support personnel. We manage utilization by monitoring project requirements and timetables. The number of software professionals that we assign to a project will vary according to the size, complexity, duration, and demands of the project. An unanticipated termination of a significant project could also cause lower utilization of technology professionals. In addition, we do not utilize our technology professionals when they are enrolled in training programs, particularly during our training course for new employees.

The following table sets forth the utilization rates of billable employees for IT services professionals:

	Nine months ended December 31,	
	2014	**2013**
Including trainees	75.2%	72.1%
Excluding trainees	81.7%	76.2%

The following table sets forth our revenues by geographic segments for nine months ended December 31, 2014 and nine months ended December 31, 2013:

Geographic Segments	Percentage of revenues Nine months ended December 31, 2014	2013
North America	61.0%	61.0%
Europe	24.4%	24.1%
India	2.4%	2.6%
Rest of the World	12.2%	12.3%

The following table sets forth our geographic segment profit (revenues less identifiable operating expenses and allocated expenses) as a percentage of geographic segment revenue for nine months ended December 31, 2014 and nine months ended December 31, 2013 (Refer to Note 2.15.2 under Item 1 of this Quarterly Report):

Geographic Segments	Nine months ended December 31, 2014	2013
North America	27.9%	25.0%
Europe	27.3%	26.4%
India	20.4%	28.4%
Rest of the World	31.0%	31.5%

Profitability across most of the segments has improved by 1.8% on account of savings from cost optimization initiatives including improved utilization and improved offshore mix which is partially offset by the compensation increase given during the last 12 months, promotions and increase in variable payout. The segment profitability of North America for the nine months ended December 31, 2013 included a provision of $35 million towards visa related matters.

During the nine months ended December 31, 2014, the total billed person-months for our IT services professionals grew by 8.5% compared to the nine months ended December 31, 2013. The onsite billed person-months for our IT services professionals increased by 0.8% and offshore billed person-months for our IT services professionals grew by 12.0%, during the nine months ended December 31, 2014. During the nine months ended December 31, 2014, there was a 3.0% increase in the onsite revenue productivity and a 0.6% decrease in offshore revenue productivity when compared to the nine months ended December 31, 2013. On a blended basis, the revenue productivity decreased by 1.3% during the nine months ended December 31, 2014 when compared to the nine months ended December 31, 2013.

Cost of sales

The following table sets forth our cost of sales for the nine months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Nine months ended December 31, 2014	**2013**	**Change**	**Percentage Change**
Cost of sales	4,057	3,974	83	2.1%
As a percentage of revenues	61.9%	64.5%		

(Dollars in millions)

	Nine months ended December 31, 2014	**2013**	**Change**
Employee benefit costs	3,255	3,169	86
Deferred purchase price pertaining to acquisition	29	22	7
Depreciation and amortization	129	168	(39)
Travelling costs	170	178	(8)
Cost of technical sub-contractors	253	254	(1)
Cost of Software packages for own use	111	86	25
Third party items bought for service delivery to clients	21	23	(2)
Operating lease payments	27	26	1
Communication costs	25	19	6
Repairs and maintenance	18	14	4
Provision for post-sales client support	7	1	6
Other expenses	12	14	(2)
Total	**4,057**	**3,974**	**83**

The increase in cost of sales during the nine months ended December 31, 2014 from the nine months ended December 31, 2013 was attributable primarily to an increase in our employee benefit costs, cost of software packages for own use partially offset by decrease in depreciation. The increase in employee benefit costs during the nine months ended December 31, 2014 from the nine months ended December 31, 2013 was primarily due to compensation increases given to employees during the last 12 months, promotions, increase in variable payout and an increase in the number of employees. The increase in cost of software packages for own use was due to increase in software bought for internal use. The decrease in depreciation is primarily on account of changes in the estimated useful life of buildings and computer equipment. During the three months ended June 30, 2014, the management based on internal and external technical evaluation reassessed the remaining useful life of assets primarily consisting of buildings and computer equipment with effect from April 1, 2014. Accordingly, the useful lives of certain assets required a change from the previous estimates. Had the group continued with the previously assessed useful lives, charge for depreciation and cost of sales for the nine months ended December 31, 2014 would have been higher by $59 million for assets held at April 1, 2014 (Refer to note 2.5 in Item 1 of this quarterly report).

We hire subcontractors on a limited basis from time to time for client requirements and we generally do not perform subcontracted work for other technology service providers. For nine months ended December 31, 2014 and December 31, 2013, 6.2% and 6.4%, respectively, of our cost of sales was attributable to cost of technical subcontractors.

Gross profit

The following table sets forth our gross profit for the nine months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Nine months ended December 31,		**Change**	**Percentage Change**
	2014	**2013**		
Gross profit	2,495	2,183	312	14.3%
As a percentage of revenues	38.1%	35.5%		

The increase in gross profit as a percentage of revenue during the nine months ended December 31, 2014 from the nine months ended December 31, 2013 was attributable to a decrease in cost of sales as a percentage of revenue, during the same period.

Selling and marketing expenses

The following table sets forth our selling and marketing expenses for the nine months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

			Change	**Percentage Change**

	Nine months ended December 31, 2014	2013		
Selling and marketing expenses	362	327	35	10.7%
As a percentage of revenues	5.5%	5.3%		

(Dollars in millions)

	Nine months ended December 31, 2014	2013	Change
Employee benefit costs	296	269	27
Travelling costs	32	23	9
Branding and marketing	19	18	1
Operating lease payments	5	5	–
Consultancy and professional charges	2	3	(1)
Communication costs	3	3	–
Other expenses	5	6	(1)
Total	**362**	**327**	**35**

The increase in selling and marketing expenses during the nine months ended December 31, 2014 from the nine months ended December 31, 2013 was attributable primarily to an increase in the employee benefit costs on account of increase in the number of employees, compensation increases given to sales and marketing personnel during the last 12 months, promotions and increase in variable payout. The increase in travelling cost was on account of an overall increase in business.

Administrative expenses

The following table sets forth our administrative expenses for the nine months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

Nine months ended December 31,	Change	Percentage Change

	2014	2013		
Administrative expenses	430	411	19	4.6%
As a percentage of revenues	6.6%	6.7%		

(Dollars in millions)

	Nine months ended December 31,		Change
	2014	2013	
Employee benefit costs	132	127	5
Consultancy and professional charges	39	57	(18)
Repairs and maintenance	68	56	12
Power and fuel	28	28	-
Communication costs	34	32	2
Travelling costs	26	17	9
Rates and taxes	16	11	5
Operating lease payments	7	9	(2)
Insurance charges	7	6	1
Provisions for doubtful trade receivables	22	16	6
Contributions towards CSR	31	–	31
Other expenses	20	52	(32)
Total	**430**	**411**	**19**

The increase in administrative expenses for the nine months ended December 31, 2014 compared to the nine months ended December 31, 2013 was primarily due to increase in repairs and maintenance, contribution towards CSR, partially offset by a decrease in consultancy and professional charges and other expenses. Consequent to the requirements of the Companies Act, 2013, a CSR committee has been formed by the company to formulate and monitor the CSR policy of the company and $31 million was contributed to towards CSR activities during the nine months ended December 31, 2014. The proposed areas for CSR activities are eradication of hunger, poverty and malnutrition and the promotion of education and healthcare and rural development projects. The funds will be allocated to a corpus and utilised through the year on these activities. Other expenses for the nine months ended December 31, 2013 include a charge of $35 million towards visa related matters. Refer note 2.16 under Item 1 of this Quarterly Report.

Operating profit

The following table sets forth our operating profit for the nine months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Nine months ended December 31, 2014	2013	Change	Percentage Change
Operating profit	1,703	1,445	258	17.9%
As a percentage of revenues	26.0%	23.5%		

The increase in operating profit as a percentage of revenues for the nine months ended December 31, 2014 from the nine months ended December 31, 2013, was primarily attributable to an increase of 2.6% in gross profit as a percentage of revenue and 0.1% decrease in administrative expenses, partially offset by 0.2% increase in selling and marketing expenses as a percentage of revenue, during the same period.

Other income

The following table sets forth our other income for the nine months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Nine months ended December 31, 2014	2013	Change	Percentage Change
Other income, net	419	301	118	39.2%

Other income for the nine months ended December 31, 2014 primarily includes interest income on deposits and certificates of deposit of $318 million, income from available-for-sale financial assets of $34 million, foreign exchange gain of $24 million on translation of other assets and liabilities and a foreign exchange gain of $36 million on forward and option contracts.

Other income for the nine months ended December 31, 2013 primarily includes interest income of $261 million on deposits and certificates of deposit, income of $27 million from available-for-sale financial assets and a foreign exchange gain of $97 million on translation of other assets and liabilities, partially offset by a foreign exchange loss of $89 million on forward and options contracts.

The increase in interest income, including income from available-for-sale financial assets, for the nine months ended December 31, 2014 over the nine months ended December 31, 2013 is primarily on account of an increase in investible surplus.

Functional Currency and Foreign Exchange

The condensed consolidated interim financial statements included in this Quarterly Report are presented in U.S. dollars (rounded off to the nearest million) to facilitate global comparability.

Generally, Indian law requires residents of India to repatriate any foreign currency earnings to India to control the exchange of foreign currency. More specifically, Section 8 of the Foreign Exchange Management Act, or FEMA, requires an Indian company to take all reasonable steps to realize and repatriate into India all foreign currency earned by the company outside India, within such time periods and in the manner specified by the Reserve Bank of India, or RBI. The RBI has promulgated guidelines that require the company to repatriate any realized foreign currency back to a foreign currency account such as an Exchange Earners Foreign Currency, or EEFC account with an authorized dealer in India, subject to the condition that the sum total of the accruals in the account during a calendar month should be converted into rupees on or before the last day of the succeeding calendar month, after adjusting for utilization of the balances for approved purposes or forward commitments.

We typically collect our earnings denominated in foreign currencies using a dedicated foreign currency account located in the local country of operation. In order to do this, we are required to obtain, and have obtained, approval from an authorized dealer, on behalf of the RBI, to maintain a foreign currency account in overseas countries.

Our failure to comply with RBI regulations could result in RBI enforcement actions against us.

We generate substantially all of our revenues in foreign currencies, particularly the U.S. dollar, the United Kingdom Pound Sterling, Euro and the Australian dollar, whereas we incur a significant portion of our expenses in Indian rupees. The exchange rate between the Indian rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of our operations are adversely affected as the Indian rupee appreciates against the U.S. dollar. Foreign exchange gains and losses arise from the depreciation and appreciation of the Indian rupee against other currencies in which we transact business and from foreign exchange forward and option contracts.

The following table sets forth the currencies in which our revenues for the nine months ended December 31, 2014 and December 31, 2013 were denominated:

Currency

	Percentage of Revenues Nine months ended December 31,	
	2014	**2013**
U.S. dollar	68.4%	69.1%
United Kingdom Pound Sterling	5.8%	5.8%
Euro	10.4%	10.1%
Australian dollar	7.9%	7.8%
Others	7.5%	7.2%

The following table sets forth information on the foreign exchange rates in rupees per U.S. dollar, United Kingdom Pound Sterling, Euro and Australian dollar for the nine months ended December 31, 2014 and December 31, 2013:

	Nine months ended December 31,		**Appreciation / (Depreciation) in percentage**
	2014 ()	**2013 ()**	
Average exchange rate during the period:			
U.S. dollar	60.88	60.45	(0.7)%
United Kingdom Pound Sterling	99.92	95.24	(4.9)%
Euro	79.72	80.86	1.4%
Australian dollar	54.74	56.59	3.3%

	Nine months ended December 31,	
	2014 ()	**2013 ()**
Exchange rate at the beginning of the period:(a)		
U.S. dollar	59.92	54.29
United Kingdom Pound Sterling	99.77	82.23
Euro	82.69	69.50
Australian dollar	55.30	56.63
Exchange rate at the end of the period:(b)		
U.S. dollar	63.04	61.81
United Kingdom Pound Sterling	98.31	102.14
Euro	76.59	85.10
Australian dollar	51.68	55.09
Appreciation / (Depreciation) of the Indian rupee against the relevant currency:((b)/(a) - as a percentage)		
U.S. dollar	(5.2)%	(13.9)%
United Kingdom Pound Sterling	1.5%	(24.2)%
Euro	7.4%	(22.4)%
Australian dollar	6.5%	2.7%

The following table sets forth information on the foreign exchange rates in U.S. dollar per United Kingdom Pound Sterling, Euro and Australian dollar for the nine months ended December 31, 2014 and December 31, 2013:

	Nine months ended December 31, 2014 ($)	2013 ($)	Appreciation / (Depreciation) in percentage
Average exchange rate during the period:			
United Kingdom Pound Sterling	1.64	1.58	(3.8)%
Euro	1.31	1.34	2.2%
Australian dollar	0.90	0.94	4.3%

	Nine months ended December 31, 2014 ($)	2013 ($)
Exchange rate at the beginning of the period:(a)		
United Kingdom Pound Sterling	1.67	1.51
Euro	1.38	1.28
Australian dollars	0.92	1.04
Exchange rate at the end of the period:(b)		
United Kingdom Pound Sterling	1.56	1.65
Euro	1.21	1.38
Australian dollar	0.82	0.89
Appreciation / (Depreciation) of U.S. dollar against the relevant currency:((b)/(a) – as a percentage)		
United Kingdom Pound Sterling	6.6%	(9.3)%
Euro	12.3%	(7.8)%
Australian dollar	10.9%	14.4%

For the nine months ended December 31, 2014 and December 31, 2013, every percentage point depreciation/appreciation in the exchange rate between the Indian rupee and the U.S. dollar has affected our incremental operating margins by approximately 0.53% and 0.46%, respectively. The exchange rate between the Indian rupee and the U.S. dollar has fluctuated substantially in recent years and may continue to do so in the future. We are unable to predict the impact that future fluctuations may have on our operating margins.

We have recorded a net gain of $36 million and loss of $89 million for the nine months ended December 31, 2014 and the nine months ended December 31, 2013, respectively, on account of foreign exchange forward and option contracts. Our accounting policy requires us to mark to market and recognize the effect in statement of comprehensive income immediately of any derivative that is either not designated as a hedge, or is so designated but is ineffective as per IAS 39.

Income tax expense

Our net profit earned from providing software development and other services outside India is subject to tax in the country where we perform the work. Most of our taxes paid in countries other than India, can be applied as a credit against our Indian tax liability, to the extent that the same income is subject to tax in India.

We, being a resident in India as per the provisions of the Income Tax Act, 1961, are required to pay taxes in India on the entire global income in accordance with the provisions of Section 5 of the Indian Income Tax Act, 1961, which is reflected as domestic taxes. The geographical segment disclosures on revenue in note 2.15.2 of item 1 of this Quarterly Report are based on the location of customers and do not reflect the geographies where the actual delivery or revenue-related efforts occur. The income on which domestic taxes are imposed are not restricted to the income generated from the "India" geographic segment. As such, amounts applicable to domestic income taxes and foreign income taxes will not necessarily correlate to the proportion of revenue generated from India and other geographical segments.

We have benefited from certain tax incentives that the Government of India had provided for the export of software from the units registered under the Software Technology Parks Scheme ('STP') in India and we continue to benefit from certain tax incentives for the units registered under the Special Economic Zones Act, 2005 (SEZ). However, the income tax incentives provided by the Government of India for STP units have expired, and the income from all STP units are now taxable. SEZ units which began providing services on or after April 1, 2005 are eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from the financial year in which the unit has commenced the provision of services and 50 percent of such profits or gains for the five years thereafter. Certain tax benefits are also available for a further five years subject to the unit meeting defined conditions.

As a result of these tax incentives, a portion of our pre-tax income has not been subject to tax in recent years. These tax incentives resulted in a decrease in our income tax expense of $203 million and $189 million for nine months ended December 31, 2014 and December 31, 2013, respectively, compared to the effective tax amounts that we estimate we would have been required to pay if these incentives had not been available. The per share effect of these tax incentives computed based on both basic and diluted weighted average number of equity shares for nine months ended December 31, 2014 and December 31, 2013 was $0.18 each and $0.17 each, respectively. The basic and diluted weighted average number of equity shares have been adjusted for bonus issue. (Refer to Note 2.19, Share capital and share premium, Item 1 of this Quarterly Report).

The following table sets forth our income tax expense and effective tax rate for the nine months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Change	Percentage Change

	Nine months ended December 31,			
	2014	**2013**		
Income tax expense	607	482	125	25.9%
Effective tax rate	28.6%	27.6%		

Our effective tax rate for the nine months ended December 31, 2014 was 28.6% compared to 27.6% for the nine months ended December 31, 2013. Effective tax rate is generally influenced by various factors including non-deductible expenses, exempt non-operating income, overseas taxes, benefits from SEZ units and other tax deductions. The increase in the effective tax rate to 28.6% for the nine months ended December 31, 2014, as compared to the nine months ended December 31, 2013, was mainly due to an increase in overseas taxes, decrease in benefits from SEZ units as a percentage of profit before income taxes, partially offset by increase in tax reversals and decrease in non-deductible expenses. (Refer to Note 2.12 of Item 1 of this Quarterly Report for a reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to the income before income taxes).

Net profit

The following table sets forth our net profit for the nine months ended December 31, 2014 and December 31, 2013:

(Dollars in millions)

	Nine months ended December 31,		**Change**	**Percentage Change**
	2014	**2013**		
Net profit	1,515	1,264	251	19.9%
As a percentage of revenues	23.1%	20.5%		

The increase in net profit as a percentage of revenues for the nine months ended December 31, 2014 as compared to the nine months ended December 31, 2013 was primarily attributable to a 2.5% increase in operating profit as a percentage of revenues, increase in other income partially offset by an increase in the effective tax rate.

Liquidity and capital resources

In 1993, we raised approximately $4.4 million in gross aggregate proceeds from our initial public offering of equity shares in India. In 1994, we raised an additional $7.7 million through private placements of our equity shares with foreign institutional investors, mutual funds, Indian domestic financial institutions and corporations. On March 11, 1999, we raised $70.4 million in gross aggregate proceeds from our initial public offering of ADSs in the United States. Our growth in recent years has been financed largely by cash generated from operations.

As of December 31, 2014 and March 31, 2014, we had $5,869 million and $5,656 million in working capital, respectively. The working capital as of December 31, 2014, includes $5,080 million in cash and cash equivalents, $239 million in available-for-sale financial assets. The working capital as of March 31, 2014, includes $4,331 million in cash and cash equivalents, $367 million in available-for-sale financial assets and $143 million in investments in certificates of deposit. We have no outstanding bank borrowings. We believe that our current working capital is sufficient to meet our requirements for the next 12 months. We believe that a sustained reduction in IT spending, a longer sales cycle, or a continued economic downturn in any of the various geographic locations or business segments in which we operate, could result in a decline in our revenue and negatively impact our liquidity and cash resources.

Our principal sources of liquidity are cash and cash equivalents and the cash flow that we generate from operations. Our cash and cash equivalents are comprised of deposits with banks and corporations with high credit-ratings assigned by international and domestic credit-rating agencies which can be withdrawn at any point of time without prior notice or penalty on principal. Cash and cash equivalents are primarily held in Indian Rupees. These cash and cash equivalents included a restricted cash balance of $57 million and $53 million as of December 31, 2014 and March 31, 2014, respectively. These restrictions are primarily on account of balances held in unpaid dividend bank accounts, bank balances held as margin money deposit and cash balances held by irrevocable trusts controlled by us. Our investments in available for sale financial assets comprising mutual fund units and quoted debt securities represent funds deposited at a bank or other eligible financial institution for a specified time period and are highly credit-rated by domestic credit rating agencies.

In summary, our cash flows were:

(Dollars in millions)

	Nine months ended December 31,	
	2014	**2013**
Net cash provided (used) by operating activities	1,780	1,410
Net cash provided (used) by investing activities	35	(723)
Net cash provided (used) by financing activities	(815)	(519)

Net cash provided by operations consisted primarily of net profit adjusted for depreciation and amortization, deferred purchase price, income taxes, income on available-for-sale financial assets and certificates of deposit, provisions for doubtful trade receivable and changes in working capital.

Trade receivables increased by $138 million during the nine months ended December 31, 2014 compared to $323 million during the nine months ended December 31, 2013, respectively. Trade receivables as a percentage of last 12 months revenues were 16.6% and 17.9%, respectively. Day's sales outstanding on the basis of last 12 months revenues were 61 days and 65 days as of December 31, 2014 and December 31, 2013, respectively.

Increase in other liabilities and provisions is primarily on account of increase in accrued compensation to employees towards salaries and bonuses and increase in withholding taxes, partially offset by decrease in premiums held trust.

Unearned revenues increased by $36 million during the nine months ended December 31, 2014, compared to an increase of $9 million during the nine months ended December 31, 2013. Unearned revenue resulted primarily from advance client billings on fixed-price, fixed-time frame contracts for which related efforts had not been expended.

There was an increase in income taxes paid during the nine months ended December 31, 2014 by $67 million, as compared to an increase of $10 million during the nine months ended December 31, 2013.

Based on the assumptions as of December 31, 2014, we expect to contribute $2 million to gratuity trusts during the remainder of fiscal 2015.

Net cash provided / used in investing activities, relating to acquisition of additional property, plant and equipment for nine months ended December 31, 2014 and December 31, 2013 was $261 million and $322 million, respectively for our software Development Centers. During nine months ended December 31, 2014, we invested $2,756 million in liquid mutual funds, $5 million in fixed maturity plan securities, and redeemed liquid mutual funds of $2,870 million, fixed maturity plan of $5 million and $136 million of certificates of deposit. During the nine months ended December 31, 2013, we invested $2,788 million in liquid mutual fund units, $181 million in certificates of deposit, $155 million in quoted debt securities, $5 million in fixed maturity plan securities and redeemed liquid mutual fund units of $2,654 million and certificates of deposit of $74 million. The proceeds realized from the redemption of available-for-sale financial assets and certificates of deposit were used in our day to day business activities.

On October 22, 2012, we acquired 100% of the voting interests in Lodestone Holding AG, a global management consultancy firm headquartered in Zurich, Switzerland. The business acquisition was conducted by entering into a share purchase agreement for cash consideration of $219 million and additional consideration of up to $112 million, which we refer to as deferred purchase price, payable to the selling shareholders of Lodestone Holding AG who are continuously employed or otherwise engaged by us or our subsidiaries during the three year period following the date of the acquisition.

We have allocated $500 million to support the creation of a global eco-system of strategic partners.

We provide personal loans and salary advances to employees who are not executive officers or directors.

The annual rates of interest for these loans vary between 0% and 7%. Loans and advances aggregating $38 million and $41 million were outstanding as of December 31, 2014 and March 31, 2014, respectively.

The timing of required repayments/recovery of employee loans and advances outstanding as of December 31, 2014 are as detailed below:

(Dollars in millions)

12 months ending December 31,	**Repayment**
2015	33
2016	5
	38

Net cash used in financing activities for the nine months ended December 31, 2014 was $815 million towards dividend payments, including corporate dividend tax. Net cash used in financing activities for the nine months ended December 31, 2013 was $519 million towards dividend payments, including corporate dividend tax. Effective fiscal 2014, the Board has decided to increase the dividend pay-out from up to 30% of post-tax profits to up to 40% of post-tax profits.

As of December 31, 2014, we had contractual commitments for capital expenditure of $241 million, as compared to $227 million of contractual commitments as of March 31, 2014. These commitments include $175 million in commitments for domestic purchases as of December 31, 2014, as compared to $129 million as of March 31, 2014 and $66 million in commitments for imports of hardware, supplies and services to support our operations generally as of December 31, 2014, as compared to $98 million as of March 31, 2014. All our capital commitments will be financed out of cash generated from operations. We expect our outstanding contractual commitments as of December 31, 2014 to be significantly completed in a year.

OFF BALANCE SHEET ARRANGEMENTS

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

General

Market risk is attributable to all market sensitive financial instruments including foreign currency receivables and payables. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments.

Our exposure to market risk is a function of our revenue generating activities and any future borrowing activities in foreign currency. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. Most of our exposure to market risk arises out of our foreign currency trade receivables.

We have chosen alternative 1 provided by Item 305 of Regulation S-K to disclose quantitative information about market risk. All the required information under alternative 1 has been either included in components of market risk as given below or in note 2.7 under Item 1 of this Quarterly Report and such information has been incorporated herein by reference.

The following table provides the cross references to notes under Item 1 of this Quarterly Report, which contains disclosures required under alternative 1 of Item 305 of Regulation S-K.

Sl. No.	**Requirements of Alternative 1 of Item 305**	**Cross reference to notes in the financial statements for instruments held for trading (Derivative financial instruments)**	**Cross reference to notes in the financial statements for instruments other than for trading purposes (All other financial instruments)**
1.	Fair values of market risk sensitive instruments	Table: The carrying value and fair value of financial instruments by categories under Note 2.7, Financial Instruments, of Item 1 of this Quarterly Report.	Table: The carrying value and fair value of financial instruments by categories under Note 2.7, Financial Instruments, of Item 1 of this Quarterly Report.
2.	Contract terms to determine future cash flows, categorized by expected maturity terms	Section: Derivative Financial Instruments under Note 2.7, Financial Instruments, of Item 1 of this Quarterly Report describing the terms of forward and options contracts and the table depicting the relevant maturity groupings based on the remaining	Current Financial Assets: The expected maturity of these assets falls within one year, hence no additional disclosures are required. Non-Current Financial Assets:

		period as of December 31, 2014 and March 31, 2014. We have provided the outstanding contract amounts in Note 2.7, Financial Instruments, of Item 1 of this Quarterly Report, table giving details in respect of outstanding foreign exchange forward and option contracts.	Prepayments and Other Assets - Primarily consist of deposit held with corporation to settle certain employee-related obligations as and when they arise during the normal course of business, rental deposits and security deposits with service providers. Consequently, the period of maturity could not be estimated. (Refer to Note 2.4, Prepayments and Other Assets, of Item 1 of this Quarterly Report). Hence we have not made any additional disclosures for the maturity of non-current financial assets. Financial Liabilities: Refer to Section “Liquidity Risk” under Note 2.7 of Item 1 of this Quarterly Report, table containing the details regarding the contractual maturities of significant financial liabilities as of December 31, 2014 and March 31, 2014.
3.	Contract terms to determine cash flows for each of the next five years and aggregate amount for remaining years.	Same table as above however as all our forward and option contracts mature within 12 months, we do not require further classification.	Refer to Section “Liquidity Risk” under Note 2.7 of Item 1 of this Quarterly Report, table containing the details regarding the contractual maturities of significant financial liabilities as of December 31, 2014 and March 31, 2014.
4.	Categorization of market risk sensitive instruments	We have categorized the forwards and option contracts based on the currency in which the forwards and option contracts were denominated in accordance with instruction to Item 305 (a) 2 B (v). Refer to section entitled: Derivative Financial Instruments under Note 2.7, Financial Instruments, of Item 1 of this Quarterly Report; table giving details in respect of outstanding foreign exchange forward and option contracts.	We have categorized the financial assets and financial liabilities based on the currency in which the financial instruments were denominated in accordance with instruction to Item 305 (a) 2 B (v). Refer to section entitled: Financial Risk Management under Note 2.7, Financial Instruments, under Item 1 of this Quarterly Report; table analyzing the foreign currency risk from financial instruments as of December 31, 2014 and March 31, 2014.
5.	Descriptions and assumptions to understand the	All the tables given under Note 2.7, Financial Instruments, under Item 1 of this Quarterly Report have explanatory	All the tables given under Note 2.7, Financial Instruments, under Item 1 of this Quarterly Report have explanatory headings and the

above disclosures	headings and the necessary details to understand the information contained in the tables.	necessary details to understand the information contained in the tables.

Risk Management Procedures

We manage market risk through treasury operations. Our treasury operations' objectives and policies are approved by senior management and our Audit Committee. The activities of treasury operations include management of cash resources, implementing hedging strategies for foreign currency exposures, borrowing strategies, if any, and ensuring compliance with market risk limits and policies.

Components of Market Risk

(1) Exchange rate risk. Our exposure to market risk arises principally from exchange rate risk. Even though our functional currency is the Indian rupee, we generate a major portion of our revenues in foreign currencies, particularly the U.S. dollar, the United Kingdom Pound Sterling, Euro and the Australian dollar, whereas we incur a significant portion of our expenses in Indian rupees. The exchange rate between the Indian rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of our operations are adversely affected as the Indian rupee appreciates against the U.S. dollar. For the nine months ended December 31, 2014 and December 31, 2013, U.S. dollar denominated revenues represented 68.4% and 69.1% of total revenues, respectively. For the same periods, revenues denominated in the Euro represented 10.4% and 10.1% of total revenues, respectively, while revenues denominated in the Australian dollar represented 7.9% and 7.8% of total revenues, respectively. For each of the same periods, revenues denominated in United Kingdom Pound Sterling represented 5.8% of total revenues. Our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables.

We use derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in exchange rates on foreign currency exposures. The counterparty for these contracts is generally a bank.

As of December 31, 2014, we had outstanding forward contracts of $741 million, Euro 68 million, United Kingdom Pound Sterling 73 million and Australian dollar 90 million and option contracts of $ 65 million. As of March 31, 2014, we had outstanding forward contracts of $751 million, Euro 64 million, United Kingdom Pound Sterling 77 million and Australian dollar 75 million and option contracts of $20 million. The forward contracts typically mature within twelve months, must be settled on the day of maturity and may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these derivative instruments only as a hedging mechanism and not for speculative purposes. We may not purchase adequate instruments to insulate ourselves from foreign exchange currency risks. In addition, any such instruments may not perform adequately as a hedging mechanism. The policies of the Reserve Bank of India may change from time to time which may limit our ability to hedge our foreign currency exposures adequately. We may, in the future, adopt more active hedging policies, and have done so in the past.

(2) Fair value. The fair value of our market rate risk sensitive instruments approximates their carrying value.

Recent Accounting Pronouncements

IFRS 9 Financial Instruments: In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to changes in the fair value of an entity’s own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity’s own credit risk in the other comprehensive income. The effective date for adoption of IFRS 9 is annual periods beginning on or after January 1, 2018, though early adoption is permitted. The Group is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the condensed consolidated interim financial statements.

IFRS 15 Revenue from Contracts with Customers: In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers. The core principle of the new standard is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Further the new standard requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. The standard permits the use of either the retrospective or cumulative effect transition method. The effective date for adoption of IFRS 15 is annual periods beginning on or after January 1, 2017, though early adoption is permitted. The Group has not yet selected a transition method and has not yet evaluated the impact of IFRS 15 on the condensed consolidated interim financial statements.

Critical Accounting Policies

We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

Estimates

We prepare financial statements in conformity with IFRS, which requires us to make estimates, judgments and assumptions. These estimates, judgements and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Application of accounting policies which require critical accounting estimates involving complex and subjective judgments and the use of assumptions in the consolidated financial statements have been disclosed below. However, accounting estimates could change from period to period and actual results could differ from those estimates. Appropriate changes in estimates are made as and when we become aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the period in which changes are made and, if material, their effects are disclosed in the notes to the condensed consolidated interim financial statements.

a. Revenue recognition

We use the percentage-of-completion method in accounting for fixed-price contracts. Use of the percentage-of-completion method requires us to estimate the efforts or costs expended to date as a proportion of the total efforts or costs to be expended. Efforts or costs expended have been used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the expected contract estimates at the reporting date.

b. Income taxes

Our two major tax jurisdictions are India and the U.S., though we also file tax returns in other foreign jurisdictions. Significant judgments are involved in determining the provision for income taxes, including the amount expected to be paid/recovered for uncertain tax positions.

c. Business combinations and Intangible assets

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

d. Property, plant and equipment

Property, plant and equipment represent a significant proportion of the asset base of the Group. The charge in respect of periodic depreciation is derived after determining an estimate of an asset’s expected useful life and the expected residual value at the end of its life. The useful lives and residual values of Group's assets are determined by management at the time the asset is acquired and reviewed periodically, including at each financial year end. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology.

Revenue Recognition

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

We recognize revenue on time-and-material contracts as the related services are performed. Revenue from the end of the last billing to the balance sheet date is recognized as unbilled revenues. Revenue from fixed-price, fixed-timeframe contracts, where there is no uncertainty as to measurement or collectability of consideration, is recognized as per the percentage-of-completion method. When there is uncertainty as to measurement or ultimate collectability, revenue recognition is postponed until such uncertainty is resolved. Efforts or costs expended have been used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. Costs and earnings in excess of billings have been classified as unbilled revenue while billings in excess of costs and earnings have been classified as unearned revenue.

At the end of every reporting period, we evaluate each project for estimated revenue and estimated efforts or costs. Any revisions or updates to existing estimates are made wherever required by obtaining approvals from officers having the requisite authority. Management regularly reviews and evaluates the status of each contract in progress to estimate the profit or loss. As part of the review, detailed actual efforts or costs and a realistic estimate of efforts or costs to complete all phases of the project are compared with the details of the original estimate and the total contract price. To date, we have not had any fixed-price, fixed-timeframe contracts that resulted in a material loss. We evaluate change orders according to their characteristics and the circumstances in which they occur. If such change orders are considered by the parties to be a normal element within the original scope of the contract, no change in the contract price is made. Otherwise, the adjustment to the contract price may be routinely negotiated. Contract revenue and costs are adjusted to reflect change orders approved by the client and us, regarding both scope and price. Changes are reflected in revenue recognition only after the change order has been approved by both parties. The same principle is also followed for escalation clauses.

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

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

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

We account for volume discounts and pricing incentives to customers by reducing the amount of discount from the amount of revenue recognized at the time of sale. In some arrangements, the level of discount varies with increases in the levels of revenue transactions. The discounts are passed on to the customer either as direct payments or as a reduction of payments due from the customer. Further, we recognize discount obligations as a reduction of revenue based on the rateable allocation of the discount to each of the underlying revenue transactions that result in progress by the customer toward earning the discount. We recognize the liability based on an estimate of the customer's future purchases. If it is probable that the criteria for the discount will not be met, or if the amount thereof cannot be estimated reliably, then discount is not recognized until the payment is probable and the amount can be estimated reliably. We recognize changes in the estimated amount of obligations for discounts using a cumulative catch-up adjustment. We present revenues net of sales and value-added taxes in our condensed consolidated statement of comprehensive income.

Income Tax

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

Deferred income tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred income tax assets and liabilities is recognized as income or expense in the period that includes the enactment or the substantive enactment date. A deferred income tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized. Deferred income taxes are not provided on the undistributed earnings of subsidiaries and branches outside India where it is expected that the earnings of the foreign subsidiary or branch will not be distributed in the foreseeable future. The income tax provision for the interim period is made based on the best estimate of the annual average tax rate expected to be applicable for the full financial year. We offset current tax assets and current tax liabilities, where we have a legally enforceable right to set off the recognized amounts and where we intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. We offset deferred tax assets and deferred tax liabilities wherever we have a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority. Tax benefits of deductions earned on exercise of employee share options in excess of compensation charged to income are credited to share premium.

Business Combinations, Goodwill and Intangible Assets

Business combinations have been accounted for using the acquisition method under the provisions of IFRS 3 (Revised), Business Combinations. The cost of an acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The cost of acquisition also includes the fair value of any contingent consideration. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition. Business combinations between entities under common control by formation of a new company is outside the scope of IFRS 3 (Revised), Business Combinations and is accounted for at carrying value. Transaction costs that we incur in connection with a business combination such as finders’ fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Goodwill represents the cost of business acquisition in excess of our interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceed the cost of the business acquisition, we recognize a gain immediately in net profit in the statement of comprehensive income. Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the fair value of the net assets acquired at the acquisition date and is measured at cost less accumulated impairment losses.

Intangible assets are stated at cost less accumulated amortization and impairments. They are amortized over their respective individual estimated useful lives on a straight-line basis, from the date that they are available for use. The estimated useful life of an identifiable intangible asset is based on a number of factors including the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, and known technological advances), and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

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

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 6-K, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has carried out an evaluation of the effectiveness of our disclosure controls and procedures. The term "disclosure controls and procedures" means controls and other procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well conceived and operated, can only provide reasonable assurance that the objectives of the disclosure controls and procedures are met.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 6-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that material information related to us and our consolidated subsidiaries is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

There has been no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

Part II - Other Information

Item 1 - Legal Proceedings

The company is subject to legal proceedings and claims, which have arisen in the ordinary course of business. The company's management does not reasonably expect that these legal actions, when ultimately concluded and determined, will have a material and adverse effect on the company's results of operations or financial condition.

Item 1 A. Risk Factors

Risk Factors

Investing in our American Depositary Shares, or ADSs, involves a high degree of risk. You should carefully consider the risks and uncertainties described in our Annual Report on Form 20-F for the fiscal year ended March 31, 2014 and in our Quarterly Report on Form 6-K for the quarters ended June 30, 2014 and September 30, 2014, together with all of the other information in this Quarterly Report on Form 6-K, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated interim financial statements and related notes, before making a decision to invest in our ADSs. The risks and uncertainties described in our prior Annual and Quarterly Reports may not be the only ones we face. There were no material changes to the risk factors as previously discussed in our Annual Report on Form 20-F for the fiscal year ended March 31, 2014 and in our Quarterly Report on Form 6-K for the quarters ended June 30, 2014 and September 30, 2014, which risk factors are incorporated herein by reference. If any of the risks actually occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the market price of our ADSs could decline, and you could lose part or all of your investment.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The Exhibit Index attached hereto is incorporated by reference to this Item.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Infosys Limited

/s/ Dr. Vishal Sikka

Dr. Vishal Sikka

Date: January 28, 2015

Chief Executive Officer

EXHIBIT INDEX

Exhibit Number	Description of Document
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
99.1	Independent Auditors' Report on Review of Unaudited Condensed Consolidated Interim Financial Statements.