

Dear shareholders:

I welcome you to the 20<sup>th</sup> Annual General Meeting of your company. Your presence here is a clear indication of the goodwill and trust that you have placed in us. We want to use this opportunity to discuss ways of making Infosys a better company and welcome your suggestions in this regard. Please note that what I have to say may include certain forward-looking statements – I request you to not place undue reliance on them and weigh them in the light of the risk factors detailed in our shareholder reports and our filings with the SEC.

Fiscal 2001 has seen a good performance by us. Under Indian GAAP, revenues grew by 113% over FY2000 while net profits from ordinary activities witnessed an increase of 118%. My colleagues and I are available to answer any queries that you may have on the details of our performance. Presently, I want to briefly dwell on how the Indian IT industry in general and Infosys in particular can cope with the current worldwide economic situation.

We meet here at another turning point in the IT industry. In the US, high-tech manufacturing capacity increased rapidly in the past four years resulting in a huge pile-up of inventories. The dot-com bubble has burst and companies that excessively depended on this segment have been adversely affected. These factors have contributed to a meltdown in the technology sector. The consequent slowdown in the US has affected technology spending by established corporations across industries. Growth rates for many companies in the US have slackened and, consequently, their appetite for new initiatives has diminished.

Clearly, these are challenging times for the IT services sector. Nevertheless, while short-term considerations continue to evoke pessimism from various quarters, technology will remain a key driver of business practices across the globe. In this context, I see four trends that will continue to impact the global IT services industry in the years to come.

Firstly, I firmly believe that demand for IT services will continue to increase in the coming years despite occasional short-term fluctuations. The recent events do not herald the end of the technology boom; they are just the initial hiccups encountered while a new technology order falls in place. Given that the pressure on large companies to join the online bandwagon has subsided, technology initiatives will be driven more by the need to establish a competitive edge and also by integration imperatives. The main reason for my belief is that for every organization, strategy is all about becoming unique in the marketplace and is a requisite for success. Every corporation needs to build this uniqueness into its business rules and models, which then become embedded in the information systems of the company. Thus, considerable opportunities will continue to exist in creating customized software. A Gartner-Dataquest study, concluded in January 2001, forecasts that the worldwide IT services market will grow to about \$1.3 trillion by 2004.

This brings me to the second trend. I believe that corporations will increasingly resort to sophisticated methodologies in order to measure the worth of an IT project before venturing into it – valuing quantifiable data instead of being driven by hype. A key lesson from the dot-com crash is the need to use rigorous methodologies and reliable metrics for project evaluation. The ongoing reduction in technology spending will be uneven – with a steep drop in investments in areas where payoffs are uncertain. As we all know, technology initiatives by companies try to achieve one or more of the following: improve customer satisfaction, reduce cost, reduce cycle time, improve productivity, increase customer base, or improve comfort level of customers. In order to help their clients make intelligent decisions, IT service companies need to understand the context of their clients' businesses, refine their project evaluation skills and advise their clients on which initiatives to invest in. Thus, project management skills need to expand beyond the estimation of time and budget to include the ability to suggest appropriate choices of technologies and to quantify payoffs to the client in terms of ROI and NPV. The traditional client-vendor partnership will soon change to include a greater share by the IT services partner in the client's risks and in the benefits arising from these initiatives. Clients will look for increased value-for-money proposition from the vendors of IT projects. From a service provider's perspective, the value-for-money proposition to the client can be improved either by increasing value delivered or by reducing costs. As a result, IT service companies will improve value by developing extensive client domain knowledge in addition to maintaining a strong foundation in technology. The second imperative here is to manage costs. It is well understood that keeping expenses down in this business is possible by hiring high-quality talent wherever it is available at competitive costs.

Another trend I see is that IT service companies that combine the advantage of global delivery capabilities with the ability to provide end-to-end solutions will emerge as winners. End-to-end solution providers can increase value by having greater control over the entire software life cycle. This facilitates greater coordination among the consulting, the analysis and design, and the implementation teams, especially in the initial stages of the project, leading to better value for the client. Further, an end-to-end solution provider reduces costs by better program management and also eases the client's burden of managing different vendors. An extension of this trend would be corporations outsourcing their entire IT departments.

A related trend is the increasing importance of India in the IT world. Traditional IT consulting companies are changing their business model by setting up bases in India. In fact, in the last one year more than 30 overseas companies have setup IT bases in India. As on 31 December 2000, over 185 of the *Fortune 500* companies outsourced their software requirements to Indian software houses. These companies have leveraged global delivery capability and thereby derived the benefits of high-quality solutions at competitive costs and with compressed cycle times. As a result of the performance of the Indian software industry, there is now tremendous respect for India in the global technology arena – reflected in a 63% compounded growth in software exports from 1995 to 2000 and also in an increase in the offshore component of these revenues by over 4 percentage points. India, with 410,000 IT professionals as on 31 December 2000, has a strong advantage in its vast pool of English-speaking, analytically strong technical talent having an excellent work ethic. However, the long-term sustainability of Indian competitive advantage is contingent on an adequate supply of human resources, an area where the Government, through its education-related initiatives, has a big role to play.

Let me now talk about how Infosys plans to cope with the challenges that lie ahead.

A crucial factor in winning a client's confidence is to deliver on time, within budget and yet maintain the highest quality. More than ever, the margin for error for our clients and, therefore, for us has diminished. In these times, corporations opt for technology solutions from companies with whom they have had a history of fruitful experiences. Consequently, your company continues to focus on building strong relationships by maintaining an impeccable record in customer satisfaction. This is reflected in our repeat business rate of 85%. We continued our focus on quality processes, obtaining SEI CMM Level 5 accreditation last year. In addition, we have launched the Infosys Excellence Initiative (IEI) as a single umbrella for all quality initiatives within the organization. During the year, Infosys became the first IT company to win the IMC Ramkrishna Bajaj National Quality Award. As I mentioned earlier, companies that have deep domain expertise have the capability to add greater value to their clients. Our Domain Consulting Group (DCG) builds competencies in various verticals and thus supplements our production teams.

The key asset in our business is people. During the year, we added 4,442 employees, net of separations, taking the total strength to 9,831 – up from 5,389 at the end of the previous year. Motivated and competent people innovate, more so in a highly charged environment. Given that Infosys operates in a context that requires continuous innovation, our future is dependent on attracting and retaining the best and brightest. Our attrition rate, at 11.2% for the year, is a testimony to our commitment to our workforce. You may be aware that Infosys was ranked No. 1 in a survey by Hewitt Associates and *Business Today* on the best companies to work for in India. Leadership is another key imperative – we understand that it is a critical ingredient for continued success. Consequently, the Infosys Leadership Institute has been established at Mysore, Karnataka to nurture next-generation leaders within the organization. We have also implemented InStep, a global internship program that has top-ranking students from academic institutions such as Wharton, MIT and Stanford.

Strong risk management processes are essential to the survival of any company. Our Predictability, Sustainability, Profitability and De-risking (PSPD) model embodies this. The PSPD model reduces our dependence on any industry, technology or geography. Thus, we have been able to successfully reduce our exposure to dot-com clients. Your company has a well-diversified revenue stream and its top management is actively involved in monitoring and controlling risks.

Historically, upheavals in any industry have been accompanied by new opportunities for those who are prepared. We intend take advantage of any promising opportunities that may arise. To this end, Infosys plans to have all the ingredients of growth in place – infrastructure, people, processes and systems. Consequently, we anticipate \$ 80 million in capital expenditure and intend to add between 1,500 and 2,000 people to our workforce during FY2002. This would enable your company to take advantage of the upturn in the economy as and when it occurs.

During the year, we inducted Prof. Jitendra Vir Singh, Vice Dean, International Academic Affairs at the Wharton School; Dr. Omkar Goswami, Chief Economist to the Confederation of Indian Industry; Senator Larry Pressler, Former Senator, US Senate and presently Attorney and Senior Partner, O'Connor and Hannan LLP; Rama Bijapurkar, a well-known management consultant; and T. V. Mohandas Pai, Phaneesh Murthy and Srinath Batni, senior officers in the company, onto the board of directors. Also, during the year, S.M. Datta retired from the board of directors. During the year, V. Balakrishnan, Vice President – Finance, took up additional responsibilities as Company Secretary. I thank V. Viswanathan for his contribution to Infosys as Company Secretary. On your behalf, we wish them the very best.

As in the past, our performance this year has been driven by the commitment of our fellow Infoscions. On your behalf and on behalf of the board of directors, I salute them on yet another year of sterling achievements. We also place on record our appreciation of our clients, vendor-partners, investors and bankers for their unwavering trust and support. We are also grateful to various departments of the Government of India – in particular, the Ministry of Information Technology, STPI, RBI, VSNL, the Ministry of Commerce, the Ministry of Finance, and the Customs and Excise departments. We thank various departments of the Government of Karnataka – in particular, the Department of Industries and Commerce, the police department and KEONICS. We are thankful to the trustees of the Infosys Foundation for sparing their valuable time and energy for its activities.

The *Far Eastern Economic Review* rated Infosys as the No. 1 company in India in the *Review 2000*. For the sixth year in succession, we received the Silver Shield from the Institute of Chartered Accountants of India for the Best Presented Accounts, among the entries received from non-financial, private sector companies. The *Asiamoney* poll of financial analysts voted us the best in management among listed companies in India for the fifth time in a row. The BankAway product from Infosys won the CSI-Wipro Award for the Best Packaged Application for the year 2000. Your company was judged by *Financial Technology Asia* as the Best Regional Software House.

Infosys has witnessed a consistent increase in revenues and net income from operations 32 quarters in a row, since it went public in India in 1993. We will endeavor to keep up this tradition and are enthusiastic of scaling greater heights. On behalf of all Infoscions, I thank you for the confidence you have reposed in us and look forward to your continued encouragement in the years to come.

Bangalore  
June 2, 2001

N. R. Narayana Murthy  
Chairman and Chief Executive Officer

(This document does not purport to be a record of the proceedings of the Annual General Meeting.)